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If you have sold or transferred all your shares in Honbridge Holdings Limited (the “Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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HONBRIDGE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8137)

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION DEEMED DISPOSAL OF EQUITY INTEREST IN A SUBSIDIARY

Independent Financial Adviser to the Company



Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed “Definitions” in this circular.

A letter from the Board is set out on pages 5 to 18 of this circular.

A notice convening the EGM to be held at Unit 5402, 54th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Wednesday, 11 March 2020, at 10:00 a.m. is set out on page EGM-1 to EGM-2 of this circular. Whether or not you intend to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company’s branch share registrar in Hong Kong, Union Registrars Limited at Suites 3301-04, 33rd Floor, Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong as soon as possible but in any event not less than 48 hours before the time scheduled for the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending or voting in person at the EGM or adjourned meeting thereof should you so wish.

24 February 2020

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Amended and Restated Joint Investment Agreement”	the amended and restated joint investment agreement dated 20 January 2020 entered into among Triumphant Glory, Geely Auto and Jiangsu Tiankai in relation to the conversion of Shandong Forever New Energy into a Sino-foreign equity joint venture
“associate(s)”	the meaning ascribed to it in the GEM Listing Rules
“Board”	the board of Directors
“Capital Contribution Sum”	US\$20,408,100 (or its equivalent in RMB), being the sum of the Capital Increase
“Capital Increase”	the proposed capital contribution in Shandong Forever New Energy by Jiangsu Tiankai, subject to and in accordance with the terms and conditions of the Reorganisation Agreement and the Amended and Restated Joint Investment Agreement
“Company”	Honbridge Holdings Limited (洪橋集團有限公司), an exempted company incorporated in the Cayman Islands, the shares of which are listed on GEM of the Stock Exchange
“Completion”	the completion of the Capital Increase pursuant to the terms and conditions contained in the Reorganisation Agreement and the Amended and Restated Joint Investment Agreement
“connected person”	has the meaning ascribed to it under the GEM Listing Rules
“Deemed Disposal”	the reduction of the Group’s equity interest in Shandong Forever New Energy from 49% to 24.5% upon Completion
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Shareholders to be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the transactions contemplated thereunder

DEFINITIONS

“Geely Auto”	浙江吉利汽車有限公司 (Zhejiang Geely Automobile Co., Ltd.*), a limited liability company established in the PRC and owned as to 71.05% by Zhejiang Geely
“Geely International”	Geely International (Hong Kong) Limited (吉利國際(香港)有限公司), a company incorporated in Hong Kong and is a substantial shareholder of the Company
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM of the Stock Exchange
“Group”	the Company and its subsidiaries
“HKFRS”	Hong Kong Financial Reporting Standards
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, established for the purpose of advising Independent Shareholders on the terms of the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the transactions contemplated therein
“Independent Financial Adviser”	Halcyon Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the entering into of the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the transactions contemplated thereunder
“Independent Third Party(ies)”	any individual(s) or company(ies) who or which is/are independent and not connected with (within the meaning of the GEM Listing Rules) any of the Directors, chief executive and substantial shareholders of the Company or any of its subsidiaries, or any of their respective associates
“Independent Shareholders”	Shareholders other than Zhejiang Geely, Geely International, Mr. Li and their associates
“Jiangsu Tiankai”	江蘇天開能源技術有限公司 (Jiangsu Tiankai Energy Co., Ltd.*), a limited liability company established in the PRC
“kWh”	kilowatt-hour

DEFINITIONS

“Latest Practicable Date”	18 February 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contain herein
“Mr. Li”	Mr. Li Shufu, a substantial shareholder of the Company
“PRC”	the People’s Republic of China, excluding, for the purpose of this circular, Hong Kong, Macau and Taiwan
“Reorganisation Agreement”	the reorganisation agreement dated 20 January 2020 entered into among Jiangsu Tiankai, Geely Auto and Triumphant Glory in relation to the introduction of Jiangsu Tiankai into the joint venture in Shandong Forever New Energy and the Capital Increase
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Shandong Forever New Energy”	山東衡遠新能源科技有限公司 (Shandong Forever New Energy Co., Ltd.*), a Sino-foreign equity joint venture established in the PRC and an indirect non-wholly owned subsidiary of the Company as at the Latest Practicable Date and prior to the Completion
“Share(s)”	ordinary share(s) of HK\$0.001 each in the share capital the Company
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it under the GEM Listing Rules
“substantial shareholder”	has the meaning ascribed to it under the GEM Listing Rules
“Triumphant Glory”	Triumphant Glory Investments Limited (凱榮投資有限公司), a company incorporated in the British Virgin Islands with limited liability, and a direct non-wholly owned subsidiary of the Company

DEFINITIONS

“US\$”	United States dollars, the lawful currency of the United States
“Zhejiang Geely”	浙江吉利控股集團有限公司 (Zhejiang Geely Holding Group Co., Ltd.*), a limited liability company established in the PRC, which indirectly owns 18.78% shareholding interest in the Company, and is a connected person of the Company
“%”	per cent

* *The English translation of the Chinese name is for identification purposes only, and should not be regarded as the official English translation of such name.*

If there is any inconsistency in this circular between the Chinese and English versions, the English version shall prevail.

LETTER FROM THE BOARD



HONBRIDGE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8137)

Executive Directors:

Mr. HE Xuechu (*Chairman*)

Mr. LIU Jian (*Vice Chairman and Joint Chief Executive Officer*)

Mr. LIU Wei, William (*Joint 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

Registered Office:

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Hibiscus Way
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Grand Cayman, KY1-1205
Cayman Islands

*Principal Place of Business
in Hong Kong:*

Unit 5402, 54th Floor
Central Plaza
18 Harbour Road
Wanchai, Hong Kong

24 February 2020

To the Shareholders and for information only

Dear Sir/Madam,

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION DEEMED DISPOSAL OF EQUITY INTEREST IN A SUBSIDIARY

INTRODUCTION

Reference is made to the announcement of the Company dated 20 January 2020 in relation to the Deemed Disposal.

In June 2018, Ms. Lyu Hui Yuan, one of the ultimate shareholders of Jiangsu Tiankai, was introduced to the board of director of Shandong Forever New Energy through a friend of Mr. Jin Jigang, a director of Shandong Forever New Energy and it was known that Jiangsu Tiankai is engaged in the lithium-ion battery industry. In 2019, Shandong Forever New Energy decided to look for new strategic investor to increase the overall competitiveness of the lithium-ion battery plant and Jiangsu Tiankai was also looking for investment and co-operation opportunity so Jiangsu Tiankai was identified by Shandong Forever New Energy as a potential strategic investor.

LETTER FROM THE BOARD

On 20 January 2020 (after trading hours), Triumphant Glory, a direct non-wholly owned subsidiary of the Company, entered into the Reorganisation Agreement with Geely Auto and Jiangsu Tiankai, pursuant to which Jiangsu Tiankai agreed to make capital contribution in the amount of US\$20,408,100 (or its equivalent in RMB) into Shandong Forever New Energy, an indirect non-wholly owned subsidiary of the Company.

Upon completion of the Capital Increase in accordance with the Reorganisation Agreement, Jiangsu Tiankai will own 50% equity interest in Shandong Forever New Energy, whereas Triumphant Glory's equity interest in Shandong Forever New Energy will be diluted from 49% to 24.5%. As a result of the Capital Increase and the termination of the Company's right to appoint a majority of the board of directors of Shandong Forever New Energy, Shandong Forever New Energy will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the consolidated financial statements of the Company. Shandong Forever will be accounted for an associate of the Company.

The purpose of this circular is to provide, among other things, (i) information on the Capital Increase; (ii) the recommendation of the Independent Board Committee in respect of the Capital Increase; (iii) the advice of the Independent Financial Adviser regarding the terms of the Reorganisation Agreement and the Amended and Restated Joint Investment Agreement; and (iv) other information as required under the GEM Listing Rules, together with the notice of the EGM and the form of proxy.

THE REORGANISATION AGREEMENT

Set out below are the principal terms of the Reorganisation Agreement:

Date

20 January 2020 (after trading hours)

Parties

- (1) Jiangsu Tiankai;
- (2) Geely Auto; and
- (3) Triumphant Glory.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquires, Jiangsu Tiankai and its ultimate beneficial owners are Independent Third Parties.

Event prior to the Capital Increase

On 19 January 2020, Geely Auto completed acquisition of 3% equity interest in Shandong Forever New Energy from 嘉興嘉樂投資合作企業(有限合伙) (Jiaying Jiale Investment Partnership Corporation (Limited Partnership)), an Independent Third Party (other than its interest in Shandong Forever New Energy), resulting in an increase of its equity

LETTER FROM THE BOARD

interest in Shandong Forever New Energy from 48% to 51%. The Company (through its direct non-wholly owned subsidiary, Triumphant Glory) continued to hold 49% equity interest in Shandong Forever New Energy.

Shandong Forever New Energy remained as an indirect non-wholly-owned subsidiary of the Company and its financial performance and results continued to be consolidated into the financial results of the Group due to the subsistence of the Company's right to appoint the majority of the members of the board of directors of Shandong Forever New Energy after the abovementioned acquisition.

Capital Increase

As at the Latest Practicable Date, the registered capital of Shandong Forever New Energy is US\$20,408,100, and Shandong Forever New Energy is owned as to 49% by Triumphant Glory and 51% by Geely Auto.

Pursuant to the Reorganisation Agreement, Jiangsu Tiankai was introduced to the joint venture in Shandong Forever New Energy and shall make capital contribution in the amount of the Capital Contribution Sum, of which the entirety will be included in the registered capital of Shandong Forever New Energy.

Upon completion of the Capital Increase in accordance with the Reorganisation Agreement, the registered capital of Shandong Forever New Energy will be increased from US\$20,408,100 to US\$40,816,200. Jiangsu Tiankai, Geely Auto and Triumphant Glory will hold 50%, 25.5% and 24.5% equity interest in Shandong Forever New Energy, respectively. As a result of the Capital Increase and the termination of the Company's right to appoint a majority of the board of directors of Shandong Forever New Energy, Shandong Forever New Energy will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the consolidated financial statements of the Company. For changes in Shandong Forever New Energy's board composition after the Capital Increase, please refer to the paragraph headed "Board of directors — Board composition" below.

The Capital Increase is subject to having obtained all relevant consents and approvals from governmental authorities (if applicable), Shandong Forever New Energy and other third parties, including but not limited to the resolutions of the board of directors and shareholders of Shandong Forever New Energy approving the Capital Increase and the amended articles of association of Shandong Forever New Energy or its any subsequent amendment.

Payment terms

Jiangsu Tiankai shall complete the Capital Increase by payment of the Capital Contribution Sum in cash into a designated account of Shandong Forever New Energy within 30 days after the Industrial and Commercial Administration Bureau has completed the registration of increase in share capital of Shandong Forever New Energy and issued the corresponding Business License for Enterprises as Legal Persons.

LETTER FROM THE BOARD

Technical co-operation

To promote the use of advanced technology and improve the product line of Shandong Forever New Energy, pursuant to the Reorganisation Agreement, Jiangsu Tiankai agreed to introduce its own NCM 622 and NCM 811 battery formula and technology to Shandong Forever New Energy for nil consideration which Shandong Forever New Energy is allowed to use for free indefinitely.

The NCM lithium battery to be introduced into Shandong Forever New Energy is designed for pure electric vehicles. The battery research and development is led by technical experts from China and Japan. It is a safety, high-energy density (higher than 240 wh/kg), long cycle life (can fulfill 1500+ charging cycle), fast charge compatible (2C charging >90%), excellent low-temperature and reliable high-temperature performance high-performance power lithium battery. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the NCM lithium battery has completed all the initial research and development phase and according to Jiangsu Tiankai, the battery has already passed the matching and testing procedures of certain vehicle models. Therefore, the NCM lithium battery can enter into mass production once the new 300,000 kWh production line is installed.

Basis of the Capital Contribution Sum

The Capital Contribution Sum was determined among the parties to the Reorganisation Agreement after arm's length negotiations with reference to the appraised value of Shandong Forever New Energy based upon its registered capital amount.

THE AMENDED AND RESTATED JOINT INVESTMENT AGREEMENT

On 20 January 2020 (after trading hours), Triumphant Glory, Geely Auto and Jiangsu Tiankai also entered into the Amended and Restated Joint Investment Agreement to govern the operation and management, and the rights and obligations of the shareholders of Shandong Forever New Energy. The principal terms of the Amended and Restated Joint Investment Agreement are as follows:

Date

20 January 2020 (after trading hours)

Parties

- (1) Jiangsu Tiankai;
- (2) Geely Auto; and
- (3) Triumphant Glory.

Term of operation of Shandong Forever New Energy

The term of operation of the Shandong Forever New Energy is 30 years.

LETTER FROM THE BOARD

Total investment and registered capital

Shandong Forever New Energy's total investment and registered capital is US\$55 million and approximately US\$40.82 million respectively.

Conditions precedent

Completion shall be subject to and conditional upon the fulfillment of the following conditions:

- (a) Triumphant Glory and the Company having complied with all necessary internal procedures (including shareholders' and/or directors' approvals as required by laws, regulations and the GEM Listing Rules), and obtained all necessary approvals and consents for the Amended and Restated Joint Investment Agreement and the transactions contemplated thereunder from the Stock Exchange and other third parties (including the relevant regulatory and governmental authorities (if applicable));
- (b) having obtained all necessary approvals, authorizations and consents from the relevant governmental and regulatory authorities (including without limitation the relevant branch office of the Ministry of Commerce of the PRC and the Industrial and Commercial Administration Bureau), and complied with all necessary applications, valuations, registrations and filings (if applicable); and
- (c) the warranties given by each of the parties to the Amended and Restated Joint Investment Agreement remain true and accurate, there be no event which causes material breach of the obligations or representations and warranties of the parties.

As at the Latest Practicable Date, for condition (a) above, resolutions of the directors of Triumphant Glory and the Company approving the Amended and Restated Joint Investment Agreement and the transactions contemplated thereunder have been obtained; condition (b) above has not been fulfilled and the necessary administrative procedures in fulfillment of condition (b) above will set off after the required approvals from Independent Shareholders at the EGM are obtained; and for condition (c) above, the warranties given by each of the parties to the Amended and Restated Joint Investment Agreement remain true and accurate.

Capital Increase and payment terms

Details of the Capital Contribution Sum and payment terms are set out in the section headed "The Reorganisation Agreement" above.

Approval of share transfer

Any party to the Amended and Restated Joint Investment Agreement may transfer, sell or dispose of any shares of Shandong Forever New Energy in any way to a third party subject to the approval of the board of directors and the completion of necessary registration with relevant regulatory authorities.

LETTER FROM THE BOARD

Board of directors

Board composition

The board of the Shandong Forever New Energy will consist of four directors, with two directors nominated by Jiangsu Tiankai, one director nominated by Geely Auto and one nominated by Triumphant Glory. The chairman will be appointed from the two directors nominated by Jiangsu Tiankai. The deputy chairman will be appointed from the one director nominated by Geely Auto.

Matters to be passed by unanimous consent by the directors of Shandong Forever New Energy

The following matters of Shandong Forever New Energy shall require unanimous consent in the board meeting of Shandong Forever New Energy:

- (1) amendments to the articles of association (including but not limited to change of business scope);
- (2) suspension, winding up, dissolution or liquidation of Shandong Forever New Energy;
- (3) increase or decrease of registered capital;
- (4) division, change of legal form or merger of Shandong Forever New Energy;
- (5) investments, provision of guarantees, major assets purchase or disposal and major connected transactions; and
- (6) other matters which require approval of the board in the articles of associations.

Profit distribution

Profits of Shandong Forever New Energy shall be distributed annually following the profit distribution plan proposed by the general manager and person in charge of finance subject to the board of directors' approval. Under the articles of association of Shandong Forever New Energy, appropriations from net profit should be made to the Reserve Fund, the Enterprise Expansion Fund and the Staff and Workers' Bonus and Welfare Fund, after offsetting accumulated losses from prior year, and before profit distributions to the shareholder.

Pursuant to the articles of association of Shandong Forever New Energy, each of its shareholders shall share the profit in accordance with their respective proportion in the registered capital. Following the Completion, Jiangsu Tiankai, Geely Auto and Triumphant Glory will share the profits of Shandong Forever New Energy as to 50.0%, 25.5% and 24.5% respectively.

Taking into consideration that (i) appropriations from net profit should be made after offsetting accumulated losses from prior year and Shandong Forever New Energy recorded accumulated losses in its PRC statutory accounts; (ii) if working capital is required, Geely

LETTER FROM THE BOARD

Auto is required to increase its capital in Shandong New Energy and in any event it shall make the capital contribution amount in full to Shandong New Energy no later than 31 October 2022; and (iii) subject to the Completion, the new production line for the NCM lithium batteries is expected to be installed on or before the first quarter 2021 and the Directors believe that it will not generate substantial profit from Shandong New Energy before the fourth quarter of 2022, the Directors consider that the profit distribution arrangement is fair and reasonable and in the interests of the Company and the Shareholder as a whole.

Applicable laws and dispute resolution

The formation, effectiveness, interpretation, performance and dispute resolution resulting from the Amended and Restated Joint Investment Agreement are governed by applicable PRC laws and regulations.

In case of any dispute arising from or in connection with the Amended and Restated Joint Investment Agreement, the parties shall first resolve such dispute by friendly negotiations. In the event that no settlement can be reached through negotiations within one month after the other parties are first informed in writing of such dispute, any party may submit to the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會) for arbitration in Beijing.

FINANCIAL EFFECT OF THE CAPITAL INCREASE

As a result of the Capital Increase, Shandong Forever New Energy will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the consolidated financial statements of the Company. Shandong Forever New Energy will be accounted for an associate of the Company.

Based on (i) the unaudited net asset value of Shandong Forever New Energy as at 30 June 2019; and (ii) the Capital Contribution Sum, the consolidated total assets of the Group is expected to decrease by approximately HK\$358.4 million, the consolidated total liabilities of the Group is expected to decrease by approximately HK\$86.6 million, the non-controlling interests of the Group is expected to decrease by approximately HK\$194.1 million upon closing and investment in associate of the Group is expected to increase by approximately HK\$105.4 million. It is estimated that the Company will recognise a one-off gain of approximately HK\$27.7 million as a result of the Capital Increase. However, the actual financial effect of the Capital Increase to be recognised by the Group will be subject to the then financial position of Shandong Forever New Energy and subject to review by the auditors of the Company.

Use of net proceeds

The net proceeds arising from the Capital Increase will be mainly utilised to increase the annual production capacity of Shandong Forever New Energy, to improve its research and development capability, to conduct research on new products and also for general working capital.

LETTER FROM THE BOARD

The proposed use of the net proceeds are summarised as follows:

	Proposed use of net proceeds <i>US\$ million</i>
— Installation of a new 300,000 kWh production line	14.2
— General working capital	5.2
— Research and development of lithium-ion batteries	<u>1.0</u>
	<u><u>20.4</u></u>

The new production line is expected to be installed on or before the first quarter of 2021 and US\$14.2 million proceeds is expected to be utilised accordingly. For the general working capital and research and development expense, it is expected to be utilised in 2020 and 2021. No substantial expense on research and development is expected because Jiangsu Tiankai will introduce its own battery into Shandong Forever New Energy.

INFORMATION OF SHANDONG FOREVER NEW ENERGY

Shandong Forever New Energy is a Sino-foreign equity joint venture established and validly existing under the laws of the PRC, and is principally engaged in the research, production and sales of lithium-ion batteries in the PRC.

Currently, the production plant of Shandong Forever New Energy has a total floor area of approximately 130,000 square meters and its factory and office facilities cover a floor area of approximately 70,000 square meters. The annual 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.

During the year ended 31 December 2018, Shandong Forever New Energy recorded a revenue of approximately HK\$18.2 million (equivalent to approximately RMB16.0 million), which was at the same level when compared to the revenue of approximately HK\$18.8 million (equivalent to approximately RMB16.5 million) recognised in 2017. However, the overall gross profit margin has deteriorated from -0.7% in 2017 to -27.9% in 2018. It was mainly due to the over-supply of similar products in the market which led to decrease in unit selling price of the products. On the other hand, raw material costs increased in 2018 when compared to 2017. Set out below is the consolidated financial information of Shandong Forever New Energy for the periods indicated prepared in accordance with HKFRS. It reflects the financial impact of Shandong Forever New Energy on the Group which is considered to be important information for Independent Shareholders to form a view on the Capital Increase.

LETTER FROM THE BOARD

	For the period ended 30 June 2019 HK\$'000	For the year ended 31 December 2018 HK\$'000	For the year ended 31 December 2017 HK\$'000
Current Assets (<i>Note 1</i>)	10,072	28,729	101,750
Non-current assets (<i>Note 2</i>)	<u>348,292</u>	<u>344,023</u>	<u>334,397</u>
Total Assets	358,364	372,752	436,147
Current Liabilities	15,629	28,057	21,360
Non-current liabilities	<u>70,976</u>	<u>71,085</u>	<u>75,195</u>
Total liabilities	<u>86,605</u>	<u>99,142</u>	<u>96,555</u>
Net Assets	<u><u>271,759</u></u>	<u><u>273,610</u></u>	<u><u>339,592</u></u>
Revenue	2,930	18,183	18,804
Cost of sales	<u>(4,145)</u>	<u>(23,260)</u>	<u>(18,940)</u>
Gross Loss	(1,215)	(5,077)	(136)
Loss before tax	(1,984)	(64,511)	(43,737)
Income tax credit	<u>—</u>	<u>—</u>	<u>17,736</u>
Loss for the period/year	<u><u>(1,984)</u></u>	<u><u>(64,511)</u></u>	<u><u>(26,001)</u></u>

Note:

1. Compared to the year ended 31 December 2017, the amount of current assets decreased substantially for the year ended 31 December 2018. It was mainly because of the recognition of HK\$38.8 million and HK\$16.3 million impairment of trade receivables and impairment on inventories respectively.
2. The non-current assets were mainly composed of the present value of unpaid capital contribution due from Geely Auto and Jiaying Jiale Investment Partnership Corporation (Limited Partnership), the non-controlling interests of Shandong Forever New Energy. The balance as at 30 June 2019, 31 December 2018 and 31 December 2017 were approximately HK\$305 million, HK\$299 million and HK\$286 million respectively.

According to the payment terms of the capital contribution agreement dated 9 May 2016 (the “Capital Contribution Agreement”) and supplemental agreement dated 14 June 2016 (the “Supplemental Agreement”) entered into between Triumphant Glory, Geely Auto and Jiaying Jiale Investment Partnership Corporation (Limited Partnership), Geely Auto and Jiaying Jiale Investment Partnership Corporation (Limited Partnership) shall make the capital contribution amount in full to Shandong Forever New Energy no later than 31 October 2022. The prolonged payment term of the capital contribution is legal and is allowed under the PRC laws and regulations. Triumphant Glory, Geely

LETTER FROM THE BOARD

Auto and Jiaying Jiale Investment Partnership Corporation (Limited Partnership) has always complied with the terms of the Capital Contribution Agreement and Supplemental Agreement. After 19 January 2020, Geely Auto completed acquisition of 3% interest in Shandong Forever New Energy from Jiaying Jiale Investment Partnership Corporation (Limited Partnership), capital payment obligation of Jiaying Jiale Investment Partnership Corporation (Limited Partnership) was also transferred to Geely Auto.

The board of directors of Shandong Forever New Energy has constantly reviewed and monitored the business plan and working capital level of Shandong Forever New Energy in the past. The main difficulties faced by Shandong Forever New Energy is summarised in the “Reasons for and Benefits of the Capital Increase” paragraph. It is considered that capital injection alone cannot increase the overall competitiveness of Shandong Forever New Energy, so new strategic investor (Jiangsu Tiankai) is introduced. There is currently no payment schedule for the unpaid capital contribution due from the non-controlling interests of Shandong Forever New Energy.

INFORMATION OF THE GROUP AND THE PARTIES INVOLVED

The Group is principally engaged in research and development and production of lithium-ion powered batteries for new energy vehicles and investment in mineral resources exploration and development.

Jiangsu Tiankai is a limited liability company established in the PRC and is principally engaged in the research, production and sales of lithium batteries and automobile parts in the PRC. Jiangsu Tiankai is a wholly-owned subsidiary of 余姚天開能源技術有限公司 (Yuyao Tiankai Energy Co., Ltd.*) (“Yuyao Tiankai”) whose principal business also included research, production and sales of lithium batteries and automobile parts in the PRC and had registered patents in relation to lithium batteries with registered capital of approximately RMB166.67 million. As advised by the Company, Yuyao Tiankai is owned as to 40% by 上海天開新能源技術有限公司 (Shanghai Tiankai New Energy Co., Ltd.*) (“Shanghai Tiankai”), 30% by 上海磊軼實業有限公司 (Shanghai Leiye Co., Ltd.*), 25% by 無錫邦絲投資有限公司 (Wuxi Bangsi Investment Co., Ltd.*) and 5% by 中意寧波生態園控股有限公司 (Sino-Italy Ningbo Ecological Park Holdings Ltd.*). Shanghai Tiankai is owned as to 80% by 天開能源技術有限公司 (T.K. Energy Technology Limited) whose ultimate beneficial owners are Lyu Hui Yuan, Kitano Ryoko and Cheng Yuehua. To the best of the Directors’ knowledge, information and belief and having made all reasonable enquires, Jiangsu Tiankai and its ultimate beneficial owners are Independent Third Party.

Geely Auto is a limited liability company established in the PRC and is a subsidiary of Zhejiang Geely. Zhejiang Geely and its subsidiaries are principally engaged in the sale of automobiles and related parts and components wholesale and retail business.

Triumphant Glory is an investment holding company incorporated in the British Virgin Islands. It is directly owned as to 90.68% by the Company.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE CAPITAL INCREASE

The revenue of Shandong Forever New Energy has been decreasing in the past few years. It was mainly due to the change in government policy such as general decrease in central government subsidies on new energy vehicles by 20% or above every year since 2017, it was a great challenge for new energy vehicles industry, especially for those new energy vehicles manufacturers which produce small-sized vehicles, and they are the key customer target of Shandong Forever New Energy. Because of the fierce competition from peer competitors and traditional petrol powered vehicles in the market, upward adjustment in selling price was impractical, to net-off the impact of the decrease in government subsidies, new energy vehicles manufacturers have to reduce the production costs. Lithium-ion battery is always a major part of new energy vehicles, so the selling price of lithium-ion batteries has been decreasing in the past few years. On the other hand, the price for essential lithium-ion battery raw materials including lithium and cobalt increased significantly in 2017 and 2018. Decrease in bulk purchase of raw material due to the decrease in sales order also diminished the bargaining power of Shandong Forever New Energy against suppliers. As a result, the gross loss ratio for Shandong Forever New Energy has been deteriorating.

The central government of China also encouraged the use of ternary battery (mainly NCM) for new energy vehicles because of its higher energy density. This has put Shandong Forever New Energy in a worse position because its major product line is lithium iron phosphate batteries which were used by most of the electric vehicles in the early stage of development of electric vehicles in the PRC, but due to the chemical nature of elements used, they cannot achieve energy density as high as NCM battery. The products of Zhejiang Forever New Energy Company Limited, the new lithium-ion battery plant of the Group, were pouch type NCM battery. The advanced techniques used in the pouch type NCM battery is a different path from lithium iron phosphate battery so the techniques are not exchangeable and there is few synergy between the two factories in respect of battery technology.

Some of the key customers of Shandong Forever New Energy could not cope with the change and faced significant financial difficulties. As a result, purchase order received from the major customers decreased. It was also very hard for Shandong Forever New Energy to develop new customers because of the small scale, ageing production line as well as obsolete products. Shandong Forever New Energy has also tried to upgrade its products but there was no breakthrough in the research and development process. Product and technology innovation has become the top priority of Shandong Forever New Energy, as such, Triumphant Glory as well as other shareholder decided to introduce new strategic investor to increase the overall competitiveness of the lithium-ion battery plant. Jiangsu Tiankai which is also engaged in research, production and sales of lithium batteries was identified as a promising investor.

The Directors consider that the Capital Increase contemplated under the Reorganisation Agreement and the Amended and Restated Joint Investment Agreement would not only strengthen the financial resources but also improve the lithium-ion battery technological level of Shandong Forever New Energy. The Capital Contribution Sum will be mainly utilised to install new production line which can enhance business growth and competitiveness of Shandong Forever New Energy while technical co-operation with Jiangsu Tiankai can improve its products.

LETTER FROM THE BOARD

The NCM lithium battery to be introduced into Shandong Forever New Energy is designed for pure electric vehicles. The battery research and development is led by well-known technical experts from China and Japan. It is a safety, high-energy density (higher than 240 wh/kg), long cycle life (can fulfill 1500+ charging cycle), fast charge compatible (2C charging >90%), excellent low-temperature and reliable high-temperature performance high-performance power lithium battery. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the NCM lithium battery has completed all the initial research and development phase and according to Jiangsu Tiankai, the battery has already passed the matching and testing procedures of certain vehicle models. Therefore, the NCM lithium battery can enter into mass production once the new 300,000 kWh production line is installed.

Except the Capital Contribution Sum, more importantly, the Directors consider Jiangsu Tiankai can also bring new battery technology, management skills as well as new customers to Shandong Forever New Energy, which are very important to solve the problems faced by Shandong Forever New Energy.

The terms of the Reorganisation Agreement and the Amended and Restated Joint Investment Agreement have been agreed after arm's length negotiations among the parties thereto. Having considered the above, the Board is of the view that the Reorganisation Agreement and the Amended and Restated Joint Investment Agreement is on normal commercial terms and such terms are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE GEM LISTING RULES

Following the Completion, the Group's equity interest in Shandong Forever New Energy will be diluted from 49% to 24.5%, which constitutes a deemed disposal of the interest in a subsidiary of the Company pursuant to Rule 19.29 of the GEM Listing Rules. As the highest of the applicable percentage ratios in respect of the Capital Increase exceeds 5% but is less than 25%, the Capital Increase gives rise to a discloseable transaction on the part of the Company under Chapter 19 of the GEM Listing Rules.

As Geely Auto owns 51% equity interest in Shandong Forever New Energy immediately prior to the Completion and is therefore a substantial shareholder of Shandong Forever New Energy. Geely Auto, which is a 71.05% owned subsidiary of Zhejiang Geely, is a connected person of the Company. The Capital Increase constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. Thus, the Capital Increase is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

GENERAL

As of the Latest Practicable Date, given Zhejiang Geely indirectly holds and is entitled to exercise control of 18.78% of the voting rights in respect of the total issued shares of the Company through Geely International and Mr. Li holds 91.08% equity interest in Zhejiang Geely, Zhejiang Geely, Geely International, Mr. Li and their associates will be required to

LETTER FROM THE BOARD

abstain from voting at the EGM to be convened, and if thought fit, to approve the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the transactions contemplated thereunder.

Save for Zhejiang Geely, Geely International, Mr. Li and their associates, no Shareholder has any material interest in the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the transaction contemplated thereunder. Save for the foregoing, no other Shareholders will be required to abstain from voting on the resolutions in respect of the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the transactions contemplated thereunder at the EGM.

Mr. Liu Jian and Mr. Ang Siu Lun, Lawrence, an executive Director and a non-executive Director of the Company respectively, are currently taking position in companies which Mr. Li has controlling interests. In order to avoid the perception of a conflict of interest, Mr. Liu Jian and Mr. Ang Siu Lun, Lawrence have abstained from voting on the board resolutions in relation to the Reorganisation Agreement and the Amended and Restated Joint Investment Agreement. To the best of the Director's knowledge, information and belief, having made all reasonable enquires, except for Mr. Liu Jian and Mr. Ang Siu Lun, Lawrence, none of the Directors is materially interested in the Reorganisation Agreement and the Amended and Restated Joint Investment Agreement, and therefore none of the Directors is required to abstain from voting on the Board resolutions to approve the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the transactions contemplated thereunder.

EGM

The EGM will be held at Unit 5402, 54th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Wednesday, 11 March 2020, at 10:00 a.m. to consider and if thought fit approve, among other matter (if any), the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the transaction contemplated thereunder.

To the best of the Director's knowledge, information and belief, having made all reasonable enquires, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

A notice convening the EGM is set out on pages EGM-1 to EGM-2 of this circular. A proxy form for use at the EGM is enclosed herewith. If you are not able to attend the EGM, you are requested to complete the proxy form and return it to the Company's share registrar, Union Registrars Limited at Suites 3301-04, 33rd Floor, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

LETTER FROM THE BOARD

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chan Chun Wai, Tony, Mr. Ma Gang and Mr. Ha Chun, will be formed to advise the Independent Shareholders as to whether the Reorganisation Agreement, and the Amended and Restated Joint Investment Agreement and the transaction contemplated thereunder are entered into on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Halcyon Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Reorganisation Agreement, and the Amended and Restated Joint Investment Agreement, the Capital Increase and the transaction contemplated thereunder, in accordance with the Listing Rules. Such appointment has been approved by the Independent Board Committee.

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 19 to 20 of this circular which contains its recommendation to the Independent Shareholders as to voting at the EGM.

Your attention is also drawn to the letter from Independent Financial Adviser as set out on pages 21 to 41 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the transactions contemplated thereunder.

RECOMMENDATION

Having considered the above, the Directors consider that the terms of the Reorganisation Agreement and the Amended and Restated Joint Investment Agreement are fair and reasonable and the entering into of the Reorganisation Agreement and the Amended and Restated Joint Investment Agreement are in the interests of the Company and the Shareholders as a whole, and recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information contained in the appendices to this circular.

Yours faithfully,
On behalf of the Board
Honbridge Holdings Limited
Liu Wei, William
Director and Joint Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the transactions contemplated thereunder.



HONBRIDGE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8137)

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION DEEMED DISPOSAL OF EQUITY INTEREST IN A SUBSIDIARY

We refer to the circular of the Company dated 24 February 2020 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as members of the Independent Board Committee to consider the terms of the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the transactions contemplated thereunder, to advise you as to whether such terms are fair and reasonable so far as the Company and the Independent Shareholders are concerned, and the Capital Increase is in the interests of the Company and the Shareholders as a whole, and to recommend whether or not the Independent Shareholders should approve the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the transactions contemplated therein. Halcyon Capital Limited has been appointed as the Independent Financial Adviser to advise us and you in this regard.

We wish to draw your attention to the letter from the Board set out on pages 5 to 18 of this circular and the letter from the Independent Financial Adviser set out on pages 21 to 41 of this Circular which contains its advice to us and Independent Shareholders in respect of the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement, the Capital Increase and the transactions contemplated thereunder, and the additional information set out in the appendices to this Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taking into account, among other things, the principal factors and reasons considered by and the opinion of Halcyon Capital Limited as stated in its letter of advice, we consider that the Capital Increase is in the ordinary and usual course of business and the terms of the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and the Capital Increase is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement, the Capital Increase and the transactions completed thereunder.

Yours faithfully,

Mr. CHAN Chun Wai, Tony Mr. MA Gang Mr. HA Chun
Independent Board Committee

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from the Independent Financial Adviser setting out the advice to the Independent Board Committee and the Shareholders in relation to the entering into of the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.



HALCYON CAPITAL LIMITED
11TH FLOOR
8 WYNDHAM STREET
CENTRAL
HONG KONG

24 February 2020

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO DEEMED DISPOSAL OF EQUITY INTEREST IN A SUBSIDIARY

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee in respect of the terms of the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the respective transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in a circular of the Company (the “**Circular**”) to the Shareholders dated 24 February 2020, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 20 January 2020 (after trading hours), Triumphant Glory, a direct non-wholly owned subsidiary of the Company, entered into the Reorganisation Agreement with Geely Auto and Jiangsu Tiankai, pursuant to which Jiangsu Tiankai agreed to make capital contribution in the amount of US\$20,408,100 (or its equivalent in RMB) into Shandong Forever New Energy, an indirect non-wholly owned subsidiary of the Company. On 20 January 2020 (after trading hours), Triumphant Glory, Geely Auto and Jiangsu Tiankai also entered into the Amended and Restated Joint Investment Agreement to govern the operation and management, and the rights and obligations of the shareholders of Shandong Forever New Energy. As at the Latest Practicable Date, the Company indirectly held 49% of the equity interest in Shandong Forever New Energy, and Shandong Forever New Energy was being accounted for as a subsidiary of the Company due to Company’s right to appoint the majority of the members of the board of directors of Shandong Forever New Energy. Following the Completion and the termination of

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the Company's right to appoint a majority of the board of directors of Shandong Forever New Energy, the Group's equity interest in Shandong Forever New Energy will be diluted from 49% to 24.5%, and Shandong Forever New Energy will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the financial statements of the Company.

As Zhejiang Geely indirectly holds 18.78% of the total issued shares of the Company, Zhejiang Geely is a substantial Shareholder and therefore a connected person of the Company. Given Geely Auto is a non-wholly owned subsidiary of Zhejiang Geely, Geely Auto is a close associate of a connected person of the Company. Therefore, the Capital Increase constitutes a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. Thus, the Capital Increase is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The Independent Board Committee, comprising Mr. Chan Chun Wai, Tony, Mr. Ma Gang and Mr. Ha Chun, being all the independent non-executive Directors, has been formed to advise the Independent Shareholders as to (i) whether the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the respective transactions contemplated thereunder are conducted in ordinary and usual course of business of the Company, are on normal commercial terms which are fair and reasonable, and are in the interests of the Company and the Independent Shareholders as a whole; and (ii) how the Independent Shareholders should vote on the relevant resolution(s) regarding the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the respective transactions contemplated thereunder at the EGM.

Our role, as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the respective transactions contemplated thereunder, is to (i) provide the Independent Board Committee and the Independent Shareholders an independent opinion and recommendation as to whether the Reorganisation Agreement and the Amended and Restated Joint Investment Agreement are entered into on normal and commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Group and the Independent Shareholders as a whole, and whether the terms thereof are fair and reasonable so far as the Company and the Independent Shareholders are concerned; and (ii) advise the Independent Shareholders on how to vote on the relevant resolution(s) regarding the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the respective transaction contemplated thereunder at the EGM.

We are not associated with the Company, Geely Auto or their respective core connected persons, close associates or associates and accordingly are considered eligible to give independent advice on the terms of the Reorganisation Agreement and the Amended and Restated Joint Investment Agreement. Apart from normal professional fees payable to us in connection with this appointment, no other arrangement exists whereby we will receive any fees or benefits from the Company, Geely Auto or their respective core connected persons, close associates or associates. Meanwhile, there was no past engagement between the Group and Halcyon Capital in last two years from the date of this letter and, hence, we are independent from the Company pursuant to the GEM Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee, we have relied on the information, financial information and the facts supplied to us and representations expressed by the Directors and/or management of the Group and have assumed that all such information, financial information and facts and any representations made to us, or referred to in the Circular, in all material aspects, are true, accurate and complete as at the time they were made and continue to be so as at the date of the Circular, has been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by the Directors and/or the management of the Group. The Directors have confirmed in the Circular that, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular 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 circular misleading and we have further been confirmed by the Company that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

Our review and analysis were based upon, among others, the information provided by the Group including the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement, the annual report of the Company for the year ended 31 December 2018 (the “**2018 Annual Report**”), the interim report of the Company for the six months ended 30 June 2019, the quarterly report of the Company for the nine months ended 30 September 2019 (the “**2019 Third Quarter Report**”), the Circular, the unaudited combined management account of the Shandong Forever New Energy for the year ended 31 December 2018 and six months ended 30 June 2019 and certain published information from the public domain.

We have also discussed with the Directors and/or the management of the Group with respect to the terms of and reasons for the entering into of the Reorganisation Agreement and the Amended and Restated Joint Investment Agreement, and considered that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted an independent verification or appraisal of the information nor have we conducted any form of in-depth investigation into the businesses, affairs, financial position, profitability or the prospects of the Group, Geely Auto, Shandong Forever New Energy, Jiangsu Tiankai or any of their respective subsidiaries or associates. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy and shares or any other securities of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion for the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the respective transactions contemplated thereunder, we have considered the following principal factors and reasons:

1. Information on the Group

1.1 Principal business of the Group

As stated in the 2018 Annual Report, the Group operated in two segments, namely (i) mineral resources exploration and trading segment which involves research and exploration of mineral resources; and (ii) lithium battery production segment which involves production and sale of lithium battery, while all revenue for the year ended 31 December 2018 was derived from the lithium battery production segment.

As further stated in the 2018 Annual Report, under the lithium battery production segment, the Group had two production plants, one of which is located in Zhejiang province (the “**Zhejiang Plant**”) and the other is located in Shandong province, the PRC (the “**Shandong Plant**”). The Zhejiang Plant was designed to operate a maximum production capacity of approximately 2,000,000 kWh ternary lithium-ion battery annually and the first 500,000 kWh production line has commenced mass production since the second quarter of 2018. On the other hand, the production capacity of the Shandong Plant amounted to 150,000 kWh of lithium iron phosphate battery or 225,000 kWh of ternary lithium battery annually. The Zhejiang Plant is owned and operated under Zhejiang Forever New Energy Company Limited (“**Zhejiang Forever New Energy**”) and the Shandong Plant is owned and operated under Shandong Forever New Energy.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1.2 Financial highlights

Set out below is a summary of key financial information of the Group for each of the two years ended 31 December 2018 as extracted from the 2018 Annual Report and nine months ended 30 September 2018 and 2019 as extracted from the 2019 Third Quarter Report:

	For the year ended		Nine months ended	
	31 December		30 September	
	2017	2018	2018	2019
	<i>HK\$'mil</i>	<i>HK\$'mil</i>	<i>HK\$'mil</i>	<i>HK\$'mil</i>
Revenue	17	239	85	196
Cost of sales	<u>(17)</u>	<u>(286)</u>	<u>(111)</u>	<u>(196)</u>
Gross loss	(0)	(47)	(26)	(0)
	<i>(Note)</i>			<i>(Note)</i>
Profit/(Loss) before income tax	1,023	1,591	(434)	(37)
Income tax expense	<u>(367)</u>	<u>(736)</u>	<u>—</u>	<u>—</u>
Profit/(Loss) for the year/period	<u>656</u>	<u>855</u>	<u>(434)</u>	<u>(37)</u>

Note: The Group recorded marginal gross loss for each of the year ended 31 December 2017 and nine months ended 30 September 2019.

For the years ended 31 December 2017 and 2018 and the nine months ended 30 September 2018 and 2019, except for the revenue derived from battery swapping service income of approximately HK\$0.2 million for the nine months ended 30 September 2019, all of the revenue of the Group was derived from the sale of lithium batteries.

For the year ended 31 December 2018, the revenue of the Group increased substantially due to the commencement of mass production of new factory plant in Zhejiang in the second quarter of 2018. The customers of the Zhejiang Plant included Volvo Car and Lynk & Co.

For the nine months ended 30 September 2019, given the Zhejiang Plant has completed its initial ramp-up trial run in 2018 with sales in the first quarter of 2019 (while no sales was recognised in the first quarter of 2018 for the Zhejiang Plant), the Group recorded a revenue of approximately HK\$196 million, which represented a 130.6% increase as compared to that of the corresponding period in 2018. In addition, as referred to in the 2019 Third Quarter Report, new car models were launched by customers of the Group in 2019. In addition, under the brand “GETI”, the Company has launched a new battery sharing business which target electric bicycles which include self-operation and franchising in the PRC and HK\$0.2 million revenue was recognised during the period.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As illustrated above, the Group recorded gross loss for each of the year ended 31 December 2017 and 2018 and the nine months ended 30 September 2018 and 2019. As stated in the 2018 Annual Report, 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 whilst only the first 500,000 kWh production line was installed and in production at present. In addition, the factory plant merely commenced mass production in the second quarter in 2018 and more time is required for initial ramp up. While as a result of the recording of significant amounts of reversal of impairment of exploration and evaluation assets in each of the years ended 31 December 2017 and 2018, the Group was able to record profit before income tax for each of the years ended 31 December 2017 and 2018. As further stated in the 2019 Third Quarter Report, the substantial improvement in gross loss margin was mainly because of the lower average raw material costs as key suppliers agreed to lower the price, more optimised human resources structure and the higher capacity utilisation rate of the Zhejiang Plant as compared to the last corresponding period.

Financial position

Set out below is the highlight of financial position of the Group as at 30 June 2019 as extracted from the 2019 Interim Report:

	As at 30 June 2019 <i>HK\$' mil</i>
Total assets	7,796
— Non-current assets	6,731
— Current assets	1,065
 Total liabilities	 3,136
— Non-current liabilities	2,212
— Current liabilities	924
 Net assets	 4,660
Net assets attributable to owners of the Company	<u><u>4,512</u></u>

The Group recorded total assets of approximately HK\$7,796 million as at 30 June 2019 and over 85% of which were non-current assets. As at 30 June 2019, the non-current assets of the Group principally comprised exploration and evaluation assets of approximately HK\$5,722 million, property, plant and equipment of approximately HK\$547 million and amount due from non-controlling interest of a subsidiary of approximately HK\$305 million. The current assets of the Group principally comprised cash and cash equivalents of approximately HK\$473 million, inventories of approximately HK\$281 million and prepayments, deposits and other receivables of approximately HK\$266 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Information on Shandong Forever New Energy

2.1 Background and principal businesses

As stated in the Letter from the Board, On 19 January 2020, Geely Auto completed the acquisition of 3% equity interest in Shandong Forever New Energy from 嘉興嘉樂投資合夥企業(有限合夥) (Jiaying Jiale Investment Partnership Corporation (Limited Partnership)), an Independent Third Party (other than its interest in Shandong Forever New Energy), resulting in an increase of its equity interest in Shandong Forever New Energy from 48% to 51%. Subsequent to such transfer, Shandong Forever New Energy remained as an indirect non-wholly-owned subsidiary of the Company. As at the Latest Practicable Date, Shandong Forever New Energy was owned as to 49% by Triumphant Glory and 51% by Geely Auto.

Shandong Forever New Energy is a Sino-foreign equity joint venture established and validly existing under the laws of the PRC, and is principally engaged in the research, production and sales of lithium-ion batteries in the PRC. The production plant of Shandong Forever New Energy covers a total area of approximately 130,000 square meters and its current factory and office facilities cover a floor area of about 70,000 square meters. The current 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. The major customers of Shandong Forever New Energy are the manufacturers of the electric vehicles under Kandi and Zhidou brands.

2.2 Financial information

Set out below is a summary of key financial information of Shandong Forever New Energy for the two years ended 31 December 2018 and the six months ended 30 June 2019 provided by the Company:

	For the year ended		Six months
	31 December		ended
	2017	2018	30 June
	<i>HK\$' mil</i>	<i>HK\$' mil</i>	<i>HK\$' mil</i>
Revenue	19	18	3
Cost of sales	(19)	(23)	(4)
Gross loss	(0)	(5)	(1)
	<i>(Note)</i>		
Operating loss	(44)	(24)	(10)
Loss before tax	(44)	(65)	(2)
Income tax credit	18	—	—
Loss for the year/period	(26)	(65)	(2)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Note: Shandong Forever New Energy recorded marginal gross loss for the year ended 31 December 2017.

Based on the information provided by the Company, Shandong Forever New Energy did not record significant amount of revenue while recorded gross loss during the past two financial years ended 31 December 2018 and six months ended 30 September 2019. As stated in the Letter from the Board, the deterioration of gross margin of Shandong Forever New Energy for the year ended 31 December 2018 was mainly due to the over-supply of similar products in the market which led to decrease in unit selling price of the products. The operating loss of Shandong Forever New Energy was approximately HK\$45 million, HK\$24 million and HK\$10 million for the year ended 31 December 2017 and 2018 and six months ended 30 September 2019, respectively. As stated in the Letter from the Board, the revenue of Shandong Forever New Energy had been affected by the general decrease in central government subsidies on new energy vehicles by 20% or above every year since 2017.

During the year ended 31 December 2017, Shandong Forever New Energy recorded significant non-operating income and expenses which mainly included government grant income of approximately HK\$104 million in relation to the construction of the factory building and purchases of production facilities of lithium batteries in Shandong Province, the PRC and imputed interest income of approximately HK\$13 million in relation to the amounts due from non-controlling interests of Shandong Forever New Energy and aggregate impairment losses on patent and property, plant and equipment of approximately HK\$110 million and impairment loss on inventory of approximately HK\$8 million.

During the year ended 31 December 2018, Shandong Forever New Energy also recorded non-operating income of approximately HK\$15 million and expenses of approximately HK\$56 million which mainly included imputed interest income of approximately HK\$13 million in relation to the amounts due from non-controlling interests of Shandong Forever New Energy, impairment of trade receivables of approximately HK\$37 million and impairment of inventory of approximately HK\$16 million. As advised by the Company, the impairment of trade receivables was primarily due to the financial difficulties encountered by certain major customers, which also drove down the sales of Shandong Forever New Energy.

During the six months ended 30 June 2019, Shandong Forever New Energy recorded non-operating income which mainly represented the imputed interest income of approximately HK\$7 million in relation to the amounts due from non-controlling interests of Shandong Forever New Energy.

As a result of the aforesaid, Shandong Forever New Energy recorded unsatisfactory financial results and the net loss for the year ended 31 December 2017 and 2018 and six months ended 30 June 2019 amounted to approximately HK\$20 million, HK\$65 million and HK\$2 million, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As further advised by the Company, the Shandong Plant maintained a very low utilisation rate for the year ended 31 December 2017 and 2018 which was approximately 4% and 9%, respectively, and the production of the Shandong Plant was generally halted during the six months ended 30 June 2019 with a utilisation rate of below 1%.

Set out below is the breakdown of net assets value of Shandong Forever New Energy as at 30 June 2019 based on the management accounts provided by the Company:

	As at 30 June 2019 <i>HK\$'mil</i>
Non-current assets	348
Current assets	10
Current liabilities	16
Non-current liabilities	71
Non-controlling interest	194

As at 30 June 2019, Shandong Forever New Energy had aggregate net assets attributable to the Group of approximately HK\$78 million, principally comprising amount due from non-controlling interest of Shandong Forever New Energy of approximately HK\$305 million, prepaid land lease payments of approximately HK\$43 million, amount due to the Company of approximately HK\$70 million, trade payable of approximately HK\$12 million and non-controlling interest of approximately HK\$194 million. According to the capital contribution agreement for Shandong Forever New Energy on 9 May 2016 and the Amended and Restated Joint Investment Agreement, the non-controlling interests of Shandong Forever agreed to contribute capital of US\$44.77 million to Shandong Forever New Energy and US\$4.215 million was paid while the remaining balances will be paid on demand by the board of directors of Shandong Forever New Energy but not later than 31 October 2022. The amount due from non-controlling interest of Shandong Forever New Energy principally represent the unpaid capital contribution pursuant to such capital contribution agreement.

2.3 Outlook

As stated in the Letter from the Board, the use of ternary battery for new energy vehicles is encouraged by the central government of China due to its higher energy density, while the major product line of Shandong Forever New Energy is lithium iron phosphate batteries, which is not ternary battery. On the other hand, products of Zhejiang Plant are ternary batteries while the techniques used in production of ternary batteries and lithium iron phosphate batteries are not exchangeable and there are limited synergies between the Zhejiang Plant and Shandong Plant in respect of battery technology. As advised by the Group, no new customers with significant orders have been secured by Shandong Forever New Energy subsequent to 30 June 2019 and up to the Latest Practicable Date, and no significant improvement in financial performance in Shandong Forever New Energy prior to the Completion can be foreseen based on information currently available.

3. Information of Jiangsu Tiankai

Jiangsu Tiankai is a limited liability company established in the PRC and is principally engaged in the research, production and sales of lithium batteries and automobile parts in the PRC with registered capital of RMB200 million, and is an Independent Third Party. Jiangsu Tiankai is a wholly-owned subsidiary of 余姚天開能源技術有限公司 (Yuyao Tiankai Energy Co., Ltd.*) (“**Yuyao Tiankai**”) whose principally business also included research, production and sales of lithium batteries and automobile parts in the PRC and had registered patents in relation to lithium batteries with registered capital of approximately RMB166.67 million. As advised by the Company, Yuyao Tiankai is owned as to 40% by 上海天開新能源技術有限公司 (Shanghai Tiankai New Energy Co., Ltd.*) (“**Shanghai Tiankai**”), 30% by 上海磊軼實業有限公司 (Shanghai Leiyi Co., Ltd.*), 25% by 無錫邦絲投資有限公司 (Wuxi Bangsi Investment Co., Ltd.*) and 5% by 中意寧波生態園控股有限公司 (Sino-Italy Ningbo Ecological Park Holdings Ltd.*). Shanghai Tiankai is owned as to 80% by 天開能源技術有限公司 (Tiankai Energy Company Limited*) (together with its subsidiaries, the “**Tiankai Group**”) which is then owned by three individuals who are Independent Third Parties. As advised by the Company, the management team of the Tiankai Group is experienced in motor vehicle and lithium battery industries, and the affiliated Japanese companies of the Tiankai Group has registered a number of patents that are related to electric motor vehicles in different countries.

4. Background of the Reasons for the Capital Increase

As stated in the Letter from the Board, the revenue of Shandong Forever New Energy has been decreasing in the past few years. It was mainly due to the change in government policy such as general decrease in central government subsidies on new energy vehicles by 20% or above every year since 2017, it was a great challenge for new energy vehicles industry, especially for those new energy vehicles manufacturers which produce small-sized vehicles, and they are the key customer target of Shandong Forever New Energy. Because of the fierce competition from peer competitors and traditional petrol powered vehicles in the market, upward adjustment in selling price was impractical, to net-off the impact of the decrease in government subsidies, new energy vehicles manufacturers have to reduce the production costs. Lithium-ion battery is always a major part of new energy vehicles, so the selling price of lithium-ion batteries has been decreasing in the past few years. On the other hand, the price for essential lithiumion battery raw materials including lithium and cobalt increased significantly in 2017 and 2018. Decrease in bulk purchase of raw material due to the decrease in sales order also diminished the bargaining power of Shandong Forever New Energy against suppliers. As a result, the gross loss ratio for Shandong Forever New Energy has been deteriorating.

The central government of China also encouraged the use of ternary battery (mainly NCM) for new energy vehicles because of its higher energy density. This has put Shandong Forever New Energy in a non-favourable position because its major product line is lithium iron phosphate batteries which due to the chemical nature of elements used, cannot achieve energy density as high as NCM battery. We understand from the Company that the main product lines of Zhejiang Forever New Energy, the new lithium-ion battery plant of the

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Group, was pouch type NCM battery. The advanced technology used in the pouch type NCM batteries are different from those for the manufacturing of lithium iron phosphate battery and such production techniques are not exchangeable.

As advised by the Company, some of the key customers of Shandong Forever New Energy could not cope with the technology change and therefore purchase orders from those major customers have been decreased. It was also difficult for Shandong Forever New Energy to develop new customers owing to its relatively small scale and ageing production line as well as obsolete products. In consideration of the above, Shandong Forever New Energy has tried to upgrade its products but no breakthrough in the research and development process was achieved and Shandong Forever New Energy has put product and technology innovation to be its top priority, Triumphant Glory as well as other shareholder then decided to introduce new strategic investor with an aim to increase the overall competitiveness of the lithium-ion battery plant. Jiangsu Tiankai which is also engaged in research, production and sales of lithium batteries was identified as a promising investor.

According to the Reorganisation Agreement, to promote the use of advanced technology and improve the product line of Shandong Forever New Energy, Jiangsu Tiankai has agreed to introduce its own NCM 622 and NCM 811 battery formula and technology to Shandong Forever New Energy for nil consideration which Shandong Forever New Energy is allowed to use for free indefinitely. As further stated in the Letter from the Board, the NCM lithium battery to be introduced into Shandong Forever New Energy is designed for pure electric vehicles, with energy density higher than 240 wh/kg, cycle life that can fulfill 1500+ charging cycle and fast charge compatible (2C charging >90%). To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the NCM lithium battery has completed all the initial research and development phase and according to Jiangsu Tiankai, the battery has already passed the matching and testing procedures of certain vehicle models, and, therefore, the NCM lithium battery can enter into mass production once the new 300,000 kWh production line is installed.

Our view

According to the Reorganisation Agreement, Jiangsu Tiankai will make capital contribution amounted to approximately US\$20.4 million (or equivalent amount of RMB) to Shandong Forever New Energy. As discussed above, Shandong Forever New Energy had been operating with gross loss for the each of the two years ended 31 December 2018 and six months ended 30 June 2019 and was in net current liabilities position as at 30 June 2019. According to the 2018 Annual Report and the 2019 Third Quarter Report, the considerable growth in revenue of the Group was mainly attributable to the commencement of mass production of the Zhejiang Plant in the second quarter of 2018 and the Group has secured customers in relation to the production of battery packs for Volvo Car and Lynk & Co in its Zhejiang Plant.

As further stated in the 2019 Third Quarter Report, the battery packs produced by Zhejiang Forever New Energy were provided to Volvo Car and Zhejiang Geely Components and assembled in certain premium car models since 2018. The strategy of Zhejiang Forever New Energy is getting an advantage from the relations and cooperation

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with the world-famous enterprise Zhejiang Geely, aiming to become the main powered battery supplier of different vehicle brands under Zhejiang Geely, as and when appropriate opportunities arise, get orders from the other world's mainstream automobile manufacturers. As advised by the management of the Company, the Group currently intends to obtain more orders and develop new customers and to enhance the utilisation rate of the Zhejiang Plant, while has no intention to devote additional resources to the Shandong Plant in view of efficient resources allocation. Although Shandong Forever New Energy recorded net assets attributable to the Company of approximately HK\$78 million as at 30 June 2019, it is noted that over 95% of its total assets are amount due from its non-controlling shareholder and prepaid land lease payment, which are non-current assets. As advised by the Company, although the amount due from the non-controlling shareholder of Shandong Forever New Energy is payable on demand by the board of directors of Shandong Forever New Energy, while it is considered that Shandong Forever New Energy has no urgent need of working capital, and the low utilisation rate of the Shandong Plant was principally attributable to the continuous technological improvement of the industry which Shandong Forever New Energy was unable to catch up with. As further stated in the Letter from the Board, the board of directors of Shandong Forever New Energy has constantly reviewed and monitored the business plan and working capital level of Shandong Forever New Energy in the past, while it is considered that capital injection alone cannot increase the overall competitiveness of Shandong Forever New Energy. As a result, there is currently no payment schedule for the unpaid capital contribution due from the non-controlling interests of Shandong Forever New Energy. In this regard, we concur with the Capital Increase would not only strengthen the financial resources but may also improve the lithium-ion battery technology level of Shandong Forever New Energy and the introduction of new investor, namely Jiangsu Tiankai, may potentially facilitate the business development of Shandong Forever New Energy, while the demanding for the repayment of amount due from the non-controlling interests of Shandong Forever New Energy may only improve the cash position and net current liabilities position of Shandong Forever New Energy but may not help Shandong Forever New Energy to overcome the technological hurdle faced by the Shandong Plant.

On the other hand, the major production facilities of Shandong Forever New Energy have been in production since 2011 without significant enhancement, and the property, plant and equipment of Shandong Forever New Energy had been fully impaired prior to 2017. As further advised by the management of the Company, in light of the industry development and the current status of the production facilities in the Shandong Plant, Shandong Forever New Energy has been facing challenges in securing and sourcing new major customers during the years. Pursuant to the Reorganisation Agreement, Jiangsu Tiankai will make capital contribution amounted to approximately US\$20.4 million to Shandong Forever New Energy which will replenish the working capital, finance the potential capital expenditures of Shandong Forever New Energy, increase the annual production capacity of Shandong Forever New Energy, improve its research and development capability and finance the conducting of research on new products. Pursuant to the Reorganisation Agreement, Jiangsu Tiankai will provide the technical knowhow of two NCM lithium batteries models to Shandong Forever New Energy at nil consideration which Shandong Forever New Energy is allowed to use such technical

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knowhow for free. Meanwhile, Shandong Forever New Energy is expected to be benefited from the experience, technical expertise and support from the management team of the Tiankai Group.

Moreover, as advised by the Company, the NCM lithium battery to be introduced by Jiangsu Tiankai to Shandong Forever New Energy is designed for pure electric vehicles and has already passed the matching and testing procedures of certain vehicle models. According to the article “Overcoming Nickel-rich Ternary Material for Extending Battery Life of Electric Vehicles* (攻克高鎳三元材料 給電動汽車續航)” published on the website of the National Energy Administration of the PRC on 28 November 2018, commercialised lithium battery materials include lithium cobaltate, lithium manganate, lithium iron phosphate, and NCM (nickel-cobalt-manganese) ternary materials. Power batteries were dominated by batteries using lithium iron phosphate materials in the early stage of development of electric vehicles in the PRC. Although the battery made of such material has a better cycle life, the energy density is relatively low, which results in a relatively short mileage of electric vehicles. On the other hand, according to the article, nickel-rich ternary materials can significantly increase the energy density of lithium batteries, and more power can be stored in a unit volume or unit weight battery, thus gradually becoming the mainstream of the passenger car power battery market. As stated above, the current major product line of Shandong Forever New Energy is lithium iron phosphate batteries, which was considered to have relatively lower energy density that resulted in a relatively short mileage of electric vehicles, while the battery to be introduced by Jiangsu Tiankai are nickel-rich NCM lithium batteries models which the Company considers to be able to meet the current market demand on the technological specifications of batteries for pure electric vehicles. The Company currently expects that approximately US\$14.2 million of the Capital Increase will be utilised for installation of a new production line in relation to such NCM lithium battery products and the production of NCM lithium battery products by Shandong Forever New Energy may commence by first half of 2021. Given the operation level of Shandong Forever New Energy is currently very low with its existing technology and its financial performance in the past few years were not satisfactory, we consider that Shandong Forever New Energy needs to revitalise its operation, and taking into account of the aforesaid, we concur with the Company that the introduction of Jiangsu Tiankai through the Capital Increase, apart from bringing new capital for Shandong Forever New Energy, may also enhance the business development of Shandong Forever New Energy through its NCM lithium battery technology, which represents a technological enhancement as compared to the current lithium iron phosphate battery technology used by the Shandong Factory, to be provided to Shandong Forever New Energy under the Reorganisation Agreement, and may potentially improve the financial performance of Shandong Forever New Energy, and therefore is in the interests of the Company and its Shareholders as a whole.

5. Information on the Capital Increase

5.1 Principal terms of the Capital Increase

The principal terms of the Reorganisation Agreement are set out below:

(1) Date

20 January 2020

(2) Parties

Jiangsu Tiankai;
Geely Auto; and
Triumphant Glory.

(3) Capital Increase

Jiangsu Tiankai shall make capital contribution in the amount of the Capital Contribution Sum, of which the entirety will be included in the registered capital of Shandong Forever New Energy.

The Capital Increase is subject to having obtained all relevant consents and approvals from governmental authorities (if applicable), Shandong Forever New Energy and other third parties, including but not limited to the resolutions of the board of directors and shareholders of Shandong Forever New Energy approving the Capital Increase and the amended articles of association of Shandong Forever New Energy or its any subsequent amendment.

(4) Payment terms

Jiangsu Tiankai shall complete the Capital Increase by payment of the Capital Contribution Sum in cash into a designated account of Shandong Forever New Energy within 30 days after the relevant authorities update the registration and issue the corresponding Business License for Enterprises as Legal Persons.

(5) Technical co-operation

To promote the use of advanced technology and improve the product line of Shandong Forever New Energy, pursuant to the Reorganisation Agreement, Jiangsu Tiankai agreed to introduce its own NCM 622 and NCM 811 battery formula and technology to Shandong Forever New Energy for nil consideration which Shandong Forever New Energy is allowed to use for free indefinitely.

5.2 Consideration

Pursuant to the Reorganisation Agreement, the consideration is determined among the parties to the Reorganisation Agreement after arm's length negotiations with reference to the appraised value of Shandong Forever New Energy based upon its registered capital amount.

5.3 Our analysis on consideration

Although Shandong Forever New Energy recorded net assets attributable to owners of Shandong Forever New Energy as at 30 June 2019, we noted that (i) approximately 85% of its total assets was amount due from non-controlling interest of Shandong Forever New Energy; (ii) the property, plant and equipment of Shandong Forever New Energy had been fully impaired; (iii) the net assets of Shandong Forever New Energy attributable to the Company as at 30 June 2019 of approximately HK\$78 million was approximately equal to the registered capital amount of Shandong Forever New Energy contributed by the Group of US\$10 million; (iv) the Group has no current intention to devote additional resources to the Shandong Plant in view of efficient resources allocation; (v) Shandong Forever New Energy was loss-making and recorded gross loss over the two years ended 31 December 2017 and 2018 and six months ended 30 June 2019 with relatively low level of revenue recorded; (vi) it is currently expected that a gain on the Deemed Disposal might be recorded by the Group as a result of the Capital Increase; and (vii) as further advised by the management of the Company, in light of the industry development and the current status of the production facilities in the Shandong Plant, Shandong Forever New Energy has been facing challenges in securing and sourcing new major customers during the years.

Taking into account the aforesaid, we consider that it is unlikely for Shandong Forever New Energy to generate operating profit to the Group without carrying significant restructuring with technological advancement and the registered capital amount of Shandong Forever New Energy contributed by the Group represented the cost of investment of the Group in Shandong Forever New Energy, we concur with the Company that determining the amount of Capital Increase according to the registered capital amount of Shandong Forever New Energy is fair and reasonable.

5.4 The principal terms of the Amended and Restated Joint Investment Agreement are set out below:

(1) Date

20 January 2020 (after trading hours)

(2) Parties

Jiangsu Tiankai;
Geely Auto; and
Triumphant Glory.

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(3) Term of operation of Shandong Forever New Energy

The term of operation of the Shandong Forever New Energy is 30 years.

(4) Total investment and registered capital

Shandong Forever New Energy's total investment and registered capital is US\$55 million and approximately US\$40.82 million respectively.

(5) Conditions precedent

Completion shall be subject to and conditional upon the fulfillment of the following conditions:

- (a) Triumphant Glory and the Company having complied with all necessary internal procedures (including shareholders' and/or directors' approvals as required by laws, regulations and the GEM Listing Rules), and obtained all necessary approvals and consents for the Amended and Restated Joint Investment Agreement and the transactions contemplated thereunder from the Stock Exchange and other third parties (including the relevant regulatory and governmental authorities (if applicable));
- (b) having obtained all necessary approvals, authorizations and consents from the relevant governmental and regulatory authorities (including without limitation the relevant branch office of the Ministry of Commerce of the PRC and the Industrial and Commercial Administration Bureau), and complied with all necessary applications, valuations, registrations and filings (if applicable); and
- (c) the warranties given by each of the parties to the Amended and Restated Joint Investment Agreement remain true and accurate, there be no event which causes material breach of the obligations or representations and warranties of the parties.

(6) Capital Increase and payment terms

Details of the Capital Contribution Sum and payment terms are set out in the Reorganisation Agreement above.

(7) Approval of share transfer

Any party to the Amended and Restated Joint Investment Agreement may transfer, sell or dispose of any shares of Shandong Forever New Energy in any way to a third party subject to the approval of the board of directors and the completion of necessary registration with relevant regulatory authorities.

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(8) Board of directors

The board of the Shandong Forever New Energy will consist of four directors, with two directors nominated by Jiangsu Tiankai, one director nominated by Geely Auto and one nominated by Triumphant Glory. The chairman will be appointed from the two directors nominated by Jiangsu Tiankai. The deputy chairman will be appointed from the one director nominated by Geely Auto.

Matters to be passed by unanimous consent by the directors of Shandong Forever New Energy

The following matters of Shandong Forever New Energy shall require unanimous consent in the board meeting of Shandong Forever New Energy:

- (i) amendments to the articles of association (including but not limited to change of business scope);
- (ii) suspension, winding up, dissolution or liquidation of Shandong Forever New Energy;
- (iii) increase or decrease of registered capital;
- (iv) division, change of legal form or merger of Shandong Forever New Energy;
- (v) investments, provision of guarantees, major assets purchase or disposal and major connected transactions; and
- (vi) other matters which require approval of the board in the articles of associations.

(9) Profit distribution

Profits of Shandong Forever New Energy shall be distributed annually following the profit distribution plan proposed by the general manager and person in charge of finance subject to the board of directors' approval. Under the articles of association of Shandong Forever New Energy, appropriations from net profit should be made to the Reserve Fund, the Enterprise Expansion Fund and the Staff and Workers' Bonus and Welfare Fund, after offsetting accumulated losses from prior year, and before profit distributions to the shareholder.

Pursuant to the articles of association of Shandong Forever New Energy, each of its shareholders shall share the profit in accordance with their respective proportion in the registered capital. Following the Completion, Jiangsu Tiankai, Geely Auto and Triumphant Glory will share the profits of Shandong Forever New Energy as to 50.0%, 25.5% and 24.5% respectively.

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(10) Applicable laws and dispute resolution

The formation, effectiveness, interpretation, performance and dispute resolution resulting from the Amended and Restated Joint Investment Agreement are governed by applicable PRC laws and regulations.

In case of any dispute arising from or in connection with the Amended and Restated Joint Investment Agreement, the parties shall first resolve such dispute by friendly negotiations. In the event that no settlement can be reached through negotiations within one month after the other parties are first informed in writing of such dispute, any party may submit to the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會) for arbitration in Beijing.

Our view

Upon our review on the principal terms of the Amended and Restated Joint Investment Agreement, it did not come to our attention that any terms of Amended and Restated Joint Investment Agreement are unusual and not normal commercial terms. According to the articles of association of Shandong Forever New Energy, each of the shareholders shall share the profit in proportion to their respective contributions to the registered capital. As stated in the Letter from the Board, appropriations from net profit should be made to the Reserve Fund, the Enterprise Expansion Fund and the Staff and Workers' Bonus and Welfare Fund, after offsetting accumulated losses from prior year, and before profit distributions to the shareholder. Given the terms of the Amended and Restated Joint Investment Agreement were arrived at after arm's length negotiations among the parties to the agreement, Triumphant Glory will be entitled to share the profit of Shandong Forever New Energy in proportion to its contribution to the registered capital and Triumphant Glory has the right to nominate one director out of all four directors of Shandong Forever New Energy, which is in proportion to the percentage of equity interest of Triumphant Glory in Shandong Forever New Energy subsequent to the Capital Increase, and although Geely Auto is entitled to share the profit for its unpaid capital contribution, while (i) as stated above, appropriations from net profit should be made after offsetting accumulated losses from prior year and Shandong Forever New Energy recorded accumulated losses in its PRC statutory accounts; (ii) Geely Auto shall make the capital contribution amount in full no later than 31 October 2022; (iii) subject to the Completion, the new production line for the NCM lithium batteries is expected to be installed on or before the first quarter 2021; (iv) according to the 2019 Third Quarter Report, the first 500,000 kWh production line of the Zhejiang Plant has commenced mass production since the second quarter of 2018, while as advised by the Company, the Zhejiang Plant has still yet to generate operating profit for the nine months ended 30 September 2019; and (v) as stated in the Letter from the Board, the Directors believe that Shandong New Energy will not generate substantial profit before the fourth quarter of 2022, which indicated that the chance for Shandong Forever New Energy to generate net profits that can fully offset its accumulated losses prior to the 31 October 2022 (when Geely Auto is required to make the capital contribution amount in full) is remote, and further taking into account that the Capital Increase is considered to be in the interests of the Company and its Shareholders as a whole as analysed above, we are of the view that

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the terms of the Amended and Restated Joint Investment Agreement are normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

6. Financial effects of the Capital Increase

a. Earnings

Upon Completion, Shandong Forever New Energy will cease to be a subsidiary of the Company and the results of Shandong Forever New Energy will no longer be consolidated into the income statement of the Group while it will be accounted for as an associate of the Group and being equity accounted for. As stated in the Letter from the Board, the Company might record a one-off gain on the Deemed Disposal upon Completion. On the other hand, based on the financial information on Shandong Forever New Energy as set out above, Shandong Forever New Energy recorded net loss of approximately HK\$65 million for the year ended 31 December 2018 of which approximately HK\$15 million was attributable to the Group.

b. Net assets value attributable to the Company

As stated above, Shandong Forever New Energy recorded net assets attributable to owners of Shandong Forever New Energy as at 30 June 2019. Given the Capital Increase will enhance the net assets of Shandong Forever New Energy by the amount of capital contribution and the Company's share of net assets, after taking into account of the effect of non-controlling interest, will decrease to approximately 24.5%. On the other hand, as stated in the Letter from the Board, it is currently expected that the Group might record a gain on the Deemed Disposal as a result of the Capital Increase. As a result of which the net assets value attributable to the Company might be enhanced accordingly, while the actual impact of the owner's equity in the financial statements will be determined based on the book value of Shandong Forever New Energy at Completion.

c. Gearing

As at 30 June 2019, the capital-to-overall financing ratio, calculated based on dividing total equity of the Group by borrowings of the Group, was approximately 5.51 times. As advised by the Company, Shandong Forever New Energy did not have any external borrowings as at 30 June 2019. Therefore, the capital-to-overall financing ratio is expected to be improved as a result of the expected gain on the Deemed Disposal as a result of the Capital Increase based on information currently available, while the actual impact of the owner's equity in the financial statements will be determined based on the book value of Shandong Forever New Energy at Completion.

d. Working capital

Based on the 2019 Interim Report, the Group had cash and cash equivalents of approximately HK\$473 million as at 30 June 2019, among which approximately HK\$3 million was attributable to Shandong Forever New Energy.

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Given the assets and liabilities of Shandong Forever New Energy will no longer be consolidated into the financial statements of the Company, based on the aforesaid, the cash level of the Group would have been reduced by approximately HK\$3 million if the Capital Increase had completed on 30 June 2019, while such reduction only represented approximately 0.6% of the Group's total cash and cash equivalents as at 30 June 2019 and we concur with the management of the Company that such impact is not significant to the Group.

7. Our view

Taking into account of the aforesaid, in particular,

- (i) Shandong Forever New Energy was loss-making and recorded gross loss for the years ended 31 December 2017 and 2018 and the six months ended 30 June 2019 with utilisation rates below 10%;
- (ii) the Capital Increase would not only strengthen the financial resources of Shandong Forever New Energy but may also improve the lithium-ion battery technology level of Shandong Forever New Energy and the introduction of new investor, namely Jiangsu Tiankai, may potentially facilitate the business development of Shandong Forever New Energy;
- (iii) the total consideration of the Capital Increase based on the registered capital of Shandong Forever New Energy is acceptable given Shandong Forever New Energy was loss-making and has been facing challenges in securing and sourcing new major customers, and over 95% of its total assets as at 30 June 2019 was non-current assets that are not expected to generate or be converted into working capital in the coming twelve months;
- (iv) the improvement in revenue and gross profit margin of the Group was principally attributable to the Zhejiang Plant and the Group currently intends to expand its battery production business through Zhejiang Forever New Energy and to enhance its utilisation rate by increasing orders, while has no current intention to devote additional resources to the Shandong Plant in view of efficient resources allocation;
- (v) it is currently expected that the net assets attributable to the Group might be enhanced as a result of the Capital Increase and the financial results of Shandong Forever New Energy, which had been loss-making over the past two years ended 31 December 2018 and six months ended 30 June 2019, will no longer be consolidated to the financial statements of the Company; and
- (vi) the cessation of Shandong Forever New Energy to be a subsidiary of the Company as a result of the Capital Increase will facilitate the Group' resources allocation,

we are of the view that the terms of the Reorganisation Agreement and the Amended and Restated Joint Investment Agreement are fair and reasonable and the entering in to the Reorganisation Agreement and the Amended and Restated Joint Investment Agreement are in the interests of the Company and the Independent Shareholders as a whole.

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RECOMMENDATION

Having considered the factors and analyses above, we consider that (i) Capital Increase is not part of the ordinary and usual course of business of the Group while it will potentially allow the Group to devote more resources on Zhejiang Forever New Energy which was the key driver of the recent improvement in revenue and gross profit margin; (ii) the terms of the Reorganisation Agreement and the Amended and Restated Joint Investment Agreement are on normal commercial terms; (iii) the entering into of Reorganisation Agreement and the Amended and Restated Joint Investment Agreement is fair and reasonable so far as the Company and the Independent Shareholders are concerned; and (iv) the entering into of the Reorganisation Agreement and the Amended and Restated Joint Investment Agreement is in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we advise (i) the Independent Board Committee to recommend the Independent Shareholders and (ii) the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the respective transaction contemplated thereunder.

Yours faithfully,
for and on behalf of
HALCYON CAPITAL LIMITED

April Chan
Director

Barton Lai
Director

Ms. Chan is a licensed person registered with the Securities and Futures Commission and a responsible officer of Halcyon Capital Limited, which is licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activities. Mr. Chan has participated in the provision of independent financial advisory services for various transactions involving companies listed on the Stock Exchange.

Mr. Lai is a licensed person registered with the Securities and Futures Commission and a responsible officer of Halcyon Capital Limited, which is licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activities. Mr. Lai has participated in the provision of independent financial advisory services for various transactions involving companies listed on the Stock Exchange.

* For identification purposes only

1. FINANCIAL INFORMATION OF THE GROUP FOR THE THREE FINANCIAL YEARS ENDED 31 DECEMBER 2018

Financial information of the Group for the three years ended 31 December 2016, 2017 and 2018 are disclosed on pages 57 to 126 of the annual report of the Company for the year ended 31 December 2016 released on 29 March 2017, pages 63 to 138 of the annual report of the Company for the year ended 31 December 2017 released on 28 March 2018 and pages 70 to 158 of the annual report of the Company for the year ended 31 December 2018 released on 28 March 2019, all of which are published on the website of the Stock exchange at <http://www.hkexnews.hk>., and the website of the Company at www.8137.hk. Quick links to the annual reports of the Company are set out below:

Annual report of the Company for the year ended 31 December 2016:

<https://www1.hkexnews.hk/listedco/listconews/gem/2017/0329/gln20170329165.pdf>

Annual report of the Company for the year ended 31 December 2017:

<https://www1.hkexnews.hk/listedco/listconews/gem/2018/0328/gln20180328571.pdf>

Annual report of the Company for the year ended 31 December 2018:

<https://www1.hkexnews.hk/listedco/listconews/gem/2019/0328/gln20190328367.pdf>

2. INDEBTEDNESS

Borrowings

At the close of business on 31 December 2019, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had outstanding secured bank borrowings of approximately RMB190 million (equivalent to approximately HK\$214.7 million), unsecured loan of approximately RMB33.6 million (equivalent to approximate HK\$38.0 million) from a non-controlling interests of a subsidiary, unsecured loan of approximately RMB252.8 million (equivalent to approximate HK\$285.7 million) from Zhejiang Geely and unsecured government loan of approximately RMB300 million (equivalent to approximately HK\$339 million).

Pledge of assets

At the close of business on 31 December 2019, the Group's prepaid land lease payments and properties plants and equipment with an aggregate carrying value of approximately HK\$32.1 million and HK\$7.6 million respectively were pledged to banks to secure for bank borrowings with outstanding amount of approximately RMB190 million (equivalent to approximately HK\$214.7 million).

Corporate guarantee

Regarding the RMB190 million (equivalent to approximately HK\$214.7 million) bank borrowings, the Company entered into the corporate guarantee in respect of the guaranteed indebtedness which is in proportion to the Company's 52% equity interest in Zhejiang Forever New Energy, the Borrower.

Contingent consideration payables

Reference is made to the Company's announcements dated 16 April 2010, 1 December 2010, 24 December 2010, 20 January 2011, 4 April 2011, 11 May 2011, 31 May 2011, 23 April 2012, 4 July 2012, 18 July 2012, 12 September 2012, 14 January 2013, 7 February 2013, 28 March 2013, 8 September 2014, 4 November 2014, 19 January 2015, 11 June 2015, 13 May 2016 and 16 June 2016, as well as the Company's circular dated 5 November 2010.

Pursuant to the Share Purchase Agreement in relation to the acquisition of Sul Americana de Metais S.A. ("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. The first and the second instalment payment amount to US\$75 million were settled before the date of Settlement Agreement. The third, fourth and fifth instalment payment amount to US\$115 million, US\$100 million and US\$100 million were required to be settled according to certain milestones.

After execution of the Settlement Agreement in June 2016 (details set out in the announcement of the Company dated 13 May 2016), the Group shall no longer be liable to pay third, fourth and fifth instalment payment with the total amount of US\$315 million under the SPA.

Conditional additional payment

If, however:

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

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

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

Conditional mining production payment to Votorantim

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

As at 31 December 2018, the contingent consideration payable was approximately HK\$156.5 million (equivalent to approximately US\$20.0 million). Saved as disclosed above the Group did not have any significant contingent liabilities.

3. WORKING CAPITAL

After taking into account the Group's internal resources, the presently available banking facilities and in the absence of unforeseen circumstances, the Directors are of the opinion that the Group will have sufficient working capital to meet its present requirements for the next twelve months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

The Directors were not aware of any material adverse change to the financial or trading position of the Group since 31 December 2018, being the date to which the latest audited consolidated financial statement of the Company were published.

5. FINANCIAL AND TRADING PROSPECT

The Group is principally engaged in manufacturing and trading of lithium-ion battery, investment in new energy and resource sector and exploration of mineral resources.

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

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.

The Group has recently launched the battery sharing business branded "GETI" in the PPC and has set up over a hundred of battery swapping stations in the Jiangsu Province and Zhejiang Province. The Group will initially focus on serving the customers in the two Province and expand the service to other region in the PRC based on the future business strategy. Ultimately, it is the vision of the Group to provide safety, convenient and reliable battery swapping service to customers all over China.

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 addition, in the post-subsidy period new energy vehicle manufacturers and customers are going to put more focus on the overall quality of the car models. This could be positive for premium and high-end car models, which are the target customer segment of our Group.

Nevertheless, the global economy continues to be weakened by rising trade barriers, increasing geopolitical tensions and the spreading of novel coronavirus. The economic uncertainty may significantly decrease the sales of the Group in the coming months.

Since 2018, the battery packs produced by Zhejiang Forever New Energy 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.

On 16 January 2019, the Company entered into a 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. As at 30 September 2019, the Company has settled USD12 million and Luokung Technology Corp. has issued 2 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.

Honbridge Technology Limited ("Honbridge Tech"), a wholly-owned subsidiary of the Company, has set up a 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 service was launched in Paris in early January 2020.

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.

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 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.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular 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 circular misleading.

2. DISCLOSURE OF INTERESTS

Directors' interests

As at the Latest Practicable Date, 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 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

Number 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 or their associates had, as at the Latest Practicable Date, 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) which are 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 are taken or deemed to have under the provisions of the SFO), or which are 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 to be notified to the Company and the Stock Exchange.

Substantial Shareholders' interests

As at the Latest Practicable Date, 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 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 Part XV of the SFO:

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

Name of shareholder	Number of shares in the Company			Total number of shares held	Approximate percentage of shareholding (%)
	Beneficial owner	Interest of spouse	Interest of controlled corporation		
Hong Bridge <i>(Note 1)</i>	4,065,000,000	—	—	4,065,000,000	41.25
HE Xuechu <i>(Note 2)</i>	57,939,189	22,460,000	4,065,000,000 <i>(Note 1)</i>	4,145,399,189	42.07
FOO Yatyan <i>(Note 2)</i>	22,460,000	4,122,939,189	—	4,145,399,189	42.07
LI Xing Xing	—	—	4,065,000,000 <i>(Note 3)</i>	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. <i>(Note 4)</i>	—	—	1,850,675,675	1,850,675,675	18.78
LI Shufu <i>(Note 5)</i>	103,064,000	—	1,850,675,675	1,953,739,675	19.83

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 91.08% equity interest of Zhejiang Geely Holding Group Co., Ltd.

Save as disclosed above, as at the Latest Practicable Date, 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.

Share Option Scheme

Particulars of the outstanding share options granted under the share option scheme adopted by the Company on 21 May 2012 were as follows:

Category of participant	Number of share options			Exercise price per share option HK\$	Price immediately preceding the grant date of share options (Note a) HK\$
	Outstanding as at the Latest Practicable Date	Date of grant of share options	Exercise period of share option		
Employee	5,000,000	28/05/2012	28/05/2012 — 27/05/2020	0.95	0.91
	8,750,000	14/05/2015	15/05/2015 — 14/05/2023	2.61	2.55
Total	<u>13,750,000</u>				

Notes:

- (a) The price of the Shares disclosed as immediately preceding the grant date of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at the Latest Practicable Date, 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.

3. INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which is significant in relation to the businesses of any member of the Group.

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which has been, since 31 December 2018, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group.

4. INTERESTS IN CONTRACTS

As at the Latest Practicable Date, no contracts or arrangements were subsisting in which a Director was materially interested and which were significant in relation to the business of the Group.

5. INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, in so far as the Directors were aware of, none of the Directors, controlling Shareholders and their respective close associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has any existing or proposed service contract with any member of the Group which is not expiring or terminable by the Group within one year without payment of compensation (other than statutory compensation).

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

8. EXPERTS AND CONSENT

The following are the qualifications of the expert who has given opinions in this circular:

Name	Qualification
Halcyon Capital Limited	A corporation licensed to carry out type 6 (advising on corporate finance) regulated activities under the SFO

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, the above expert was not beneficially interested in the share capital of any member of the Group, nor did it have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Up to the Latest Practicable Date, the above expert had no direct or indirect interest in any assets which had since 31 December 2018, the date to which the latest published audited accounts of the Group were made up, been acquired or disposed of by, or leased to any member of the Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

9. MATERIAL CONTRACTS

Set out below are the material contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Group within the two years immediately preceding the date of this circular:

- (a) the securities purchase agreement dated 16 January 2019 entered into between the Company and Luokung Technology Corp. (the “Luokung”) (NASDAQ stock symbol: LKCO), pursuant to which, among other things, the Company has agreed to purchase and Luokung has agreed to issue and sell 2,000,000 ordinary shares of Luokung for an aggregate consideration of USD12 million;
- (b) the joint venture agreement dated 16 April 2019 entered into between Honbridge Technology Limited, a wholly-owned subsidiary of the Company, 杭州優行科技有限公司 (Hangzhou UGO Tech Co., Ltd.) and 杭州禾曦嬌科技有限公司 (Hangzhou Hexijiao Technology Co., Ltd) to establish a joint venture. The joint venture will be principally engaged in the business of online car-hailing services and related services in Europe. The joint venture has a registered capital of RMB80 million which 20%, which was also the percentage equity interests owned, was contributed by Honbridge Technology Limited;

- (c) the Reorganisation Agreement; and
- (d) the Amended and Restated Joint Investment Agreement.

10. DOCUMENT AVAILABLE FOR INSPECTION

Copy of the following documents will be available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Unit 5402, 54th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong from the date of this circular, up to and including the date of the EGM:

- a. the memorandum and articles of association of the Company;
- b. the annual reports of the Company for the two financial years ended 31 December 2017 and 2018;
- c. the interim report of the Company for the six months ended 30 June 2019 and the quarterly report of the Company for the three months and nine months ended 30 September 2019;
- d. the letter of advice from the Independent Financial Adviser to the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" of this circular;
- e. the written consents referred to under the paragraph headed "Experts and consent" in this appendix;
- f. the Directors' service contracts referred to under the paragraph headed "Directors' Service Contracts" in this appendix;
- g. the material contracts referred to under the paragraph headed "Material Contracts" in this appendix; and
- h. this circular.

11. GENERAL

- (a) The registered office of the Company is situated at P.O. Box 31119 Grand Pavilion Hibiscus Way 802 West Bay Road Grand Cayman, KY1-1205, Cayman Islands.
- (b) The head office and principal place of business of the Company in Hong Kong is situated at Unit 5402, 54th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.
- (c) The secretary of the Company is Mr. Yeung Ho Ming, who is a Certified Public Accountant in Hong Kong and is a fellow member of the Hong Kong Institute of Certified Public Accountants.

- (d) The compliance officer of the Company is Mr. Liu Wei, William, an executive Director and joint chief executive officer of the Company.
- (e) The principal share registrar and transfer office of the Company is Union Registrars Limited, Suites 3301–04, 33rd Floor, Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong.
- (f) The Company had established an audit committee with written terms of reference in compliance with Rule 5.28 and corporate governance code C.3.3 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting, internal control procedures and risk management system of the Group. Other duties of the audit committee are set out in its specific terms of reference, which are posted on the website of the Company and the Stock Exchange respectively. The audit committee comprises Mr. Chan Chun Wai, Tony (Committee Chairman), Mr. Ma Gang and Mr. Ha Chun, who are independent non-executive Directors. Set out below are their background and directorships (present and past) of other companies listed on GEM, the main board of the Stock Exchange or other stock exchanges.

Mr. Chan Chun Wai, Tony, aged 48, joined the Company as independent non-executive Director in October 2007. Mr. Chan is a Certified Public Accountant and owns a CPA practice. He has extensive experience in general assurance and business advisory services in both Hong Kong and the PRC. Moreover, Mr. Chan has extensive experience in public listings in Hong Kong and Singapore, mergers and acquisitions as well as corporate finance. He holds a Master degree in Business Administration from the Manchester Business School. Mr. Chan is now the independent non-executive director of Hans Energy Company Limited and Wai Chun Mining Industry Group Company Limited, the shares of which are listed on the Hong Kong Stock Exchange.

Mr. Ma Gang, aged 63, graduated from Anhui Finance and Trade College, the PRC in 1983 with a Bachelor degree in Economics. Between 2004 and 2006, Mr. Ma was employed as the vice managing director of Shanghai HongYe Real Estate Development Co. Ltd. which is principally engaged in properties development business.

Mr. Ha Chun, aged 49, graduated from the University of Hong Kong in 1994 with a bachelor degree in law and was admitted as the solicitor of the High Court of the Hong Kong Special Administrative Region and the Supreme Court of England and Wales. He has extensive experience in corporate finance, cross-border merger and acquisitions as well as general commercial transactions. Mr. Ha is one of the founding partners of Messrs. Ha and Ho Solicitors and also the China-Appointed Attesting Officer.

- (g) This circular is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.

NOTICE OF EXTRAORDINARY GENERAL MEETING



HONBRIDGE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8137)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Honbridge Holdings Limited (the “**Company**”) will be held at Unit 5402, 54th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Wednesday, 11 March 2020, at 10:00 a.m. (the “**EGM**”) for the purpose of considering and, if thought fit, pass each of the following resolutions as an ordinary resolution of the Company. Capitalised terms defined in the circular dated 24 February 2020 issued by the Company (the “**Circular**”) shall have the same meanings when used herein unless otherwise specified:

ORDINARY RESOLUTIONS

“**THAT:**

- (a) the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the board of directors of the Company be and is hereby generally and unconditionally authorised to do all such acts and things and execute all such documents and to take all such steps as it considers necessary or expedient or desirable in connection with or to give effect to paragraph (a) of this resolution and to implement the transactions contemplated thereunder and to agree to such variation, amendments or waivers of matters relating thereto as are, in the opinion of the board of directors of the Company, in the interest of the Company; and
- (c) all previous acts done and documents executed by any director of the Company to give effect to or in connection with the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified.”

By order of the Board
Honbridge Holdings Limited
Liu Wei, William
Director and Joint Chief Executive Officer

Hong Kong, 24 February 2020

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. For the purpose of determining shareholders' eligibility to attend and vote at the extraordinary general meeting, the register of members of the Company will be closed from Friday, 6 March 2020 to Wednesday, 11 March 2020, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the extraordinary general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Union Registrars Limited, at Suites 3301-04, 33rd Floor, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Thursday, 5 March 2020.
2. Any shareholder of the Company entitled to attend and vote at the EGM is entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A shareholder who is the holder of two or more Shares may appoint more than one proxy to attend on the same occasion. A proxy needs not be a shareholder of the Company.
3. In order to be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited with the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33rd Floor, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude any member from attending and voting in person at the meeting or any adjourned meeting thereof should he so wishes.
4. In case of joint shareholdings, the vote of the senior joint shareholder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint shareholder(s) and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint shareholdings.
5. If Typhoon Signal No. 8 or above, or a "black" rainstorm warning is in effect any time after 7: 00 a.m. on the date of the extraordinary general meeting, the meeting will be postponed. The Company will post an announcement on the website of Company at www.8137.hk and on the HKExnews website of the Stock Exchange at www.hkexnews.hk to notify shareholders of the date, time and place of the rescheduled meeting.

As at the date of this notice, the Board consists of three executive Directors, Mr. He Xuechu, Mr. Liu Jian and Mr. Liu Wei, William, two non-executive Directors Mr. Yan Weimin and Mr. Ang Siu Lun, Lawrence and three independent non-executive Directors, Mr. Chan Chun Wai, Tony, Mr. Ma Gang and Mr. Ha Chun.