HONBRIDGE HOLDINGS LIMITED
洪 橋 集 團 有 限 公 司
(Stock Code: 8137)

NEW ENERGY AND DIVERSIFIED BUSINESS

THIRD QUARTERLY REPORT
2018

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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 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.

UNAUDITED CONSOLIDATED QUARTERLY RESULTS

The board of directors (the "Board") of the Company hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and nine months ended 30 September 2018, together with the comparative unaudited figures for the corresponding periods in 2017, as follows:

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

	Notes	Three months ended 30 September 2018 HK$'000	Three months ended 30 September 2017 HK$'000	Nine months ended 30 September 2018 HK$'000	Nine months ended 30 September 2017 HK$'000
Turnover	2	**51,111**	4,956	**85,495**	16,996
Cost of sales		**(66,025)**	(5,205)	**(111,665)**	(18,160)
Gross loss		**(14,914)**	(249)	**(26,170)**	(1,164)
Other operating income	3	**19,278**	13,842	**42,003**	38,356
Selling and distribution costs		**(753)**	(924)	**(2,002)**	(2,518)
Administrative expenses		**(18,808)**	(22,800)	**(79,584)**	(69,967)
Impairment of other financial assets	4	**(92,119)**	–	**(360,557)**	–
Reversal of impairment of other receivable	4	**3,991**	–	**–**	–
Finance costs	5	**(2,921)**	(20,385)	**(7,440)**	(59,514)
Loss before income tax	6	**(106,246)**	(30,516)	**(433,750)**	(94,807)
Income tax credit	7	**–**	382	**–**	1,145
Loss for the period		**(106,246)**	(30,134)	**(433,750)**	(93,662)
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Exchange (loss)/gain on translation of financial statements of foreign operations		**(114,632)**	119,084	**(501,303)**	160,613
Total comprehensive income for the period		**(220,878)**	88,950	**(935,053)**	66,951
Loss for the period attributable to:					
Owners of the Company		**(95,223)**	(25,270)	**(395,716)**	(78,019)
Non-controlling interests		**(11,023)**	(4,864)	**(38,034)**	(15,643)
		(106,246)	(30,134)	**(433,750)**	(93,662)
Total comprehensive income attributable to:					
Owners of the Company		**(205,448)**	89,541	**(889,973)**	77,136
Non-controlling interests		**(15,430)**	(591)	**(45,080)**	(10,185)
		(220,878)	88,950	**(935,053)**	66,951
Losses per share	9				
— Basic		**HK(0.98) cent**	HK(0.33) cent	**HK(4.06) cents**	HK(1.01) cents
— Diluted		**N/A**	N/A	**N/A**	N/A

Notes:

1. BASIS OF PRESENTATION

The unaudited consolidated financial statements for the three months and nine months ended 30 September 2018 have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.

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

These financial statements should be read, where relevant, in conjunction with the 2017 annual report.

The accounting policies adopted in the 2017 annual financial statements have been consistently applied to these financial statements except that in the current period, the Group has applied for the first time certain new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2018. The adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

2. TURNOVER

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

	Nine months ended 30 September	
	2018	2017
	HK$'000	HK$'000
Sale of lithium batteries	**85,495**	16,996

3. OTHER OPERATING INCOME

	Nine months ended 30 September	
	2018	2017
	HK$'000	HK$'000
Bank Interest income	**3,401**	5,057
Loan interest income	**18,907**	12,287
Government grant	**7,272**	8,171
Rental income	**558**	450
Imputed interest income of amounts due form non-controlling interests of a subsidiary	**9,816**	10,016
Gain on financial assets at fair value through profit or loss	**564**	1,713
Sundry income	**1,485**	662
	42,003	38,356

4. IMPAIRMENT OF OTHER FINANCIAL ASSETS AND OTHER RECEIVABLES

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

On 20 April 2018, the Company received a notice from the Borrower that the Tranche A Loan, the Tranche B Loan and the outstanding accrued interests could not be repaid on time (the "**Default**") because of difficulties encountered in the transfer of fund across borders in a short time. Default interests at a rate of 6% per annum have been accrued on the unpaid sum in accordance with the Loan Agreement. On 20 April 2018, the Company sent a letter to the Borrower demanding for repayment of the Loan and asserted the rights of the Company under the Loan Agreement. During the period from 30 April 2018 to 20 June 2018, the Borrower repaid an aggregate amount of HK$15,277,240 to the Company (the "**Repaid Amount**").

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

As at 30 September 2018, the Borrower has defaulted in repaying the Tranche A Loan and the Tranche B Loan in the outstanding principal amounts in a sum of approximately HK$534,000,000 (the "Loan Receivables") and the outstanding accrued interests in the sum of approximately HK$12,000,000 (the "Interest Receivables").

On 6 November 2018, the Borrower repaid HK$26,000,000 to the Company, covered all the outstanding interests and part of the principal so the impairment provisions for the interest receivables and part of the impairment provisions for the loan receivables made were reversed.

Impairment provision for HK$360,557,000 was provided on the Loan Receivables for the nine months ended 30 September 2018.

5. FINANCE COSTS

	Nine months ended 30 September	
	2018	2017
	HK$'000	HK$'000
Interest charges on bank and other borrowings wholly repayable within five years	**7,440**	293
Imputed interest on convertible bonds	**–**	59,221
	7,440	59,514

6. LOSS BEFORE INCOME TAX

	Nine months ended 30 September	
	2018	2017
	HK$'000	HK$'000
Loss before income tax are arrived at after charging:		
Rental expenses	**2,922**	3,332
Amortisation of other intangible assets	**–**	7,633
Cost of inventories recognised as expense	**111,665**	19,336
Depreciation and amortisation	**18,074**	7,048

7. INCOME TAX CREDIT

	Nine months ended 30 September	
	2018	2017
	HK$'000	HK$'000
Overseas tax:		
Current period	**–**	–
Deferred tax:	**–**	1,145
Income tax credit	**–**	1,145

During the nine months ended 30 September 2017 and 2018, no provision for Hong Kong profits tax has been provided by the Group as the Group had no estimated assessable profit arising in or derived from Hong Kong. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

The PRC corporate income tax rate of 25% is applicable to the Group's PRC subsidiaries except that Shandong Forever New Energy is granted the tax benefit for the National High-Tech Enterprise for three years starting from the year ended 31 December 2015. It is subject to income tax rate of 15%.

During the period, corporate income tax rates in Brazil of 34% (2017: 34%) is applicable to Sul Americana de Metais S.A. ("SAM"), being the Group's subsidiary established in Brazil.

8. DIVIDEND

The Board has resolved not to declare the payment of a dividend for the nine months ended 30 September 2018 (nine months ended 30 September 2017: Nil).

9. LOSSES PER SHARE

The calculation of basic loss per share for the three months and nine months ended 30 September 2018 are based on the loss attributable to the owners of the Company of approximately HK$95,223,000 and HK$395,716,000 respectively and on 9,737,433,606 weighted average number of shares respectively, after adjusting the effect of treasury share held by the Company. (For the three months and nine months ended 30 September 2017, loss attributable to the owners of the Company was HK$25,270,000 and HK$78,019,000 respectively and basic loss per share in the period was calculated based on 7,744,722,000 weighted average number of shares respectively, after adjusting the effect of treasury share held by the Company.)

No diluted earnings per share was presented for the three months and nine months ended 30 September 2018 and 30 September 2017 respectively because the impact of the share options and convertible bonds was anti-dilutive.

10. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY — UNAUDITED

	Equity attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Treasury shares reserve HK$'000	Share-based payment reserve HK$'000	Translation reserve HK$'000	Convertible bonds equity reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
2018										
At 1 January 2018	9,855	3,563,686	(142,864)	136,741	(4,511,262)	–	4,909,365	3,965,521	298,436	4,263,957
Loss for the period	–	–	–	–	–	–	(395,716)	(395,716)	(38,034)	(433,750)
Other comprehensive income										
Currency translation	–	–	–	–	(494,257)	–	–	(494,257)	(7,046)	(501,303)
Total comprehensive income	–	–	–	–	(494,257)	–	(395,716)	(889,973)	(45,080)	(935,053)
At 30 September 2018	9,855	3,563,686	(142,864)	136,741	(5,005,519)	–	4,513,649	3,075,548	253,356	3,328,904
2017										
At 1 January 2017	7,862	2,627,306	(142,864)	136,741	(4,533,024)	258,836	4,233,302	2,588,159	222,463	2,810,622
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	87,500	87,500
Transactions with owners	–	–	–	–	–	–	–	–	87,500	87,500
Loss for the period	–	–	–	–	–	–	(78,019)	(78,019)	(15,643)	(93,662)
Other comprehensive income										
Currency translation	–	–	–	–	155,155	–	–	155,155	5,458	160,613
Total comprehensive income	–	–	–	–	155,155	–	(78,019)	77,136	(10,185)	66,951
At 30 September 2017	7,862	2,627,306	(142,864)	136,741	(4,377,869)	258,836	4,155,283	2,665,295	299,778	2,965,073

MANAGEMENT DISCUSSION AND ANALYSIS

New Energy Vehicles-Related Business

Following the procurement arrangement with Volvo Car, a famous brand in the world and also with the CMA platform vehicle models including Lynk & Co under Zhejiang Geely Holding Group Company Limited ("Zhejiang Geely"), the Group is also promoting the product matching with Volvo XC40 PHEV, Geely Emgrand EC7, Geely Yuan Cheng Commercial Vehicle, London Electric Vehicle Company, 山東豐沃 and 珠海億華 and also exploring new customers including major automobile enterprises and new energy vehicle enterprises. The Group has been constantly negotiating and conducting products matching with major and new automobile manufacturers and potential new customers in the energy storage field. The Group is going to seize the historic opportunity of the development of new energy vehicle industries and is committed to develop in the powered battery industry.

Lynk 01 PHEV powered by Zhejiang Forever New Energy battery pack

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

Zhejiang Forever New Energy Company Limited ("Zhejiang Forever New Energy")

Zhejiang Forever New Energy is a modern lithium-ion battery enterprise in Jinhua New Energy Automobile Industrial Park which includes functions such as research and development, production, testing and inspection, demonstration and service, sales of lithium-ion battery and battery system. Zhejiang Forever New Energy occupies an area of approximately 130,000 square meters and the plant is designed to possess a maximum production capacity of approximately 2,000,000 kWh ternary lithium-ion battery annually. All of the major construction works have been completed and the first 500,000 kWh production line was installed. The fully automatic production line adopts a state-of-the-art design and technologies for producing pouch type cells. The second 700,000 kWh production line which will be used to produce pouch type cell is scheduled to be installed in 2019. The time for installation of the third production line will be decided based on the market demand.

Shandong Forever New Energy

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

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Progress of SAM

As of the date of this report, the Group has provided funding with principal amount of approximately US$71.6 million to the iron ore project in Brazil ("Block 8 Project" or "SAM Project"), through shareholders' loans and increase of registered capital in Sul Americana de Metais S.A. ("SAM"), an indirect wholly owned subsidiary of the Company in Brazil.

SAM is devoted to develop Block 8 Project as phase I operation with an annual production capacity of 27.5 million tons with an average grading of 66.4% Fe in the first 18 years' operation. The project will have an integrated system comprised an open-pit mine, a beneficiation plant, tailings disposal facilities, a power transmission line, water supply pipelines, and a Vacaria water dam.

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

In November and December 2017, SAM had meetings with Superintendency of Priority Projects' ("SUPPRI") technical team to understand their requirements for the LP application. SUPPRI is an environmental licensing organisation for priority projects under SEMAD.

In the end of December 2017, SAM hired consultancy firm Brandt to undertake the environmental studies required by SUPPRI and prepare a new EIA-RIMA for SAM to apply LP at SUPPRI.

Aiming to reduce tailings volume and environmental impact, SAM`s mining consulting companies, Veturini Consultoria and NCL had jointly finished a new mining plan with significant reduction of tailings volume by the end of August 2018.

In the beginning of January 2018, SAM hired engineering firm WALM to optimize the engineering parameters of tailings and waste disposal, and update the hydro-geologic model and water availability studies considering extreme dry weather. By the date of this report, WALM is concluding the preparation of all reports. The tailings dams have been totally redesigned with safer operational parameters.

In mid-August 2018, Brandt finished all rainy and dry seasons field works/surveys necessary for LP, such as speleological survey, flora and fauna survey, water quality, air quality, noise and vibration, socioeconomic surveys etc. According to the complementary field works/surveys, no major environmental change and associated risks were found.

By the end of October 2018, Brandt finished the final version of diagnostic reports such as physical environment, biotic environment, speleology, socioeconomic environment. Now Brandt is assessing the environmental impact of the project based on the updated engineering works, and new mitigation measures and environmental programs will be set up subsequently.

SAM expects to submit the new EIA-RIMA for the Block 8 Project to SUPPRI in late November of 2018.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Progress of SAM — Continued

Since the end of 2017, the company has been considering the introduction of strategic investors to develop the SAM Project. On 16 October 2018, SAM and an independent third party Lotus Fortune Holdings Limited ("Lotus Fortune") established a Company called Lotus Brasil comércio e Logistica Ltda ("Lotus Brasil") in Brazil which is 95% owned by Lotus Fortune and 5% by SAM. On 9 November 2018, SAM reached a Preliminary Contract with Lotus Brasil. Based on the Preliminary Contract, Lotus Brasil will license, construct and operate the logistic system of the SAM Project. The logistic system consists of an underground pipeline of approximately 480km (involves 9 municipalities in the state of Minas Gerais and 12 municipalities in Bahia), a dewatering station and an ore storage yard located in Porto Sul (the "Port") in Ilhéus of Bahia State.

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

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

Loan Agreement Entered into with Cloudrider Limited

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

On 20 April 2018, the Company received a notice from the Borrower that the Tranche A Loan, the Tranche B Loan and the outstanding accrued interests could not be repaid on time (the "Default") because of difficulties encountered in the transfer of fund across borders in a short time. Default interests at a rate of 6% per annum have been accrued on the unpaid sum in accordance with the Loan Agreement. On 20 April 2018, the Company sent a letter to the Borrower demanding for repayment of the Loan and asserted the rights of the Company under the Loan Agreement. During the period from 30 April 2018 to 20 June 2018, the Borrower repaid an aggregate amount of HK$15,277,240 to the Company (the "Repaid Amount").

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

As at 30 September 2018, the Borrower has defaulted in repaying the Tranche A Loan and the Tranche B Loan in the outstanding principal amounts in a sum of approximately HK$534,000,000 (the "Loan Receivables") and the outstanding accrued interests in the sum of approximately HK$12,000,000 (the "Interest Receivables").

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Loan Agreement Entered into with Cloudrider Limited — Continued

On 6 November 2018, the Borrower repaid HK$26,000,000 to the Company, covered all the outstanding interests and part of the principal so the impairment provisions for the interest receivables and part of the impairment provisions for the loan receivables made were reversed.

The Tranche A Loan and the Tranche B Loan share the same security package (the "Security") comprising (i) a share charge granted by Bronze Pony Investments Limited relating to its shares in the Borrower; (ii) a share charge granted by Capital Melody Limited relating to its shares in the Borrower; and (iii) a debenture consisting of a fixed and floating charge over all of the assets of the Borrower, mainly comprising an equity interest in approximately 24.98% of Yuxing Infotech Investment Holdings Ltd ("Yuxing Infotech"), a company listed on the GEM (Stock code: 8005) with a net asset value of approximately HK$2,420,000,000 as at 31 December 2017. The market value of 24.98% of the equity interest in Yuxing Infotech, based on the closing price of the last trading date in September 2018, was approximately HK$160,000,000. If Tranche A Loan and the Tranche B Loan could not be recovered in full eventually, the Company intends to enforce the Security. Non-cash impairment provision for HK$360,557,000 was made on the Loan Receivables for the nine months ended 30 September 2018.

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

Business Review

For the three months ended 30 September 2018, the Group recorded approximately HK$51.1 million turnover from the sale of lithium-ion batteries, which increased substantially by more than ten times when compared to approximately HK$5.0 million revenue recognised in the last corresponding period. On the other hand, the total turnover of the Group recognised was HK$85.5 million for the nine months ended 30 September 2018, representing a five times increase when compared to the HK$17.0 million turnover recognised for the nine months ended 30 September 2017.

The increase was mainly because our new plant in Zhejiang has generated sales after mass production. Volvo's XC60 PHEV, S90 PHEV and Lynk & Co's Lynk 01 PHEV became the first batch of model using battery packs produced by Zhejiang Forever New Energy. On 23 October 2017 Zhejiang Forever New Energy entered into a three-year sales agreement with Volvo Car Corporation ("Volvo Car") in relation to the sales of high performance ternary lithium-ion powered battery packs for the hybrid models of Volvo Car planning to be manufactured in the PRC. Another three-year sales agreement with Zhejiang Geely Automobile Parts & Components Stock Co., Ltd. 浙江吉利汽車零部件採購有限公司 was secured on 25 October 2017, in relation to the sales of high performance ternary lithium-ion powered battery packs for vehicle models including Lynk & Co and other models manufactured under the CMA platform of Zhejiang Geely. The combined total annual caps (excluding VAT) in respect of the above two sales agreements are RMB385 million, RMB1,017 million and RMB1,202 million for the year ending 31 December 2018, 2019 and for the period ended October 2020 respectively.

The Group recorded a gross loss of approximately HK$26.2 million (gross profit ratio: -30.6%) for the period ended 30 September 2018 as compared with the gross loss of approximately HK$1.16 million (gross profit ratio: -6.8%) in the last corresponding period. Gross loss was recorded because of the sales of higher costs long ageing inventories by Shandong Forever New Energy during the period and for both Zhejiang Forever New Energy and Shandong Forever New Energy it is also challenging to decrease the unit cost of battery cells under the current low production level. In addition, the lithium-ion battery industry has been affected by the high average cost of raw materials and the decrease in average selling price of batteries. The Group will continue to control and improve the costs structure of lithium-ion battery products by negotiating with key suppliers to obtain more beneficial terms, increasing the energy density and decreasing the failure rate of our products, strengthening the management skill and promoting effective use of materials, etc.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Business Review — Continued

The administrative expenses were increased by HK$9.6 million mainly because of the increase in research and development expenses of approximately HK$8.4 million in the current period. Expenses such as staff costs, utilities costs and depreciation expenses were also increased after Zhejiang Forever New Energy completed its construction in the end of 2017.

Non-cash impairment provision of HK$360.6 million has been provided on other financial assets during the nine months ended 30 September 2018. Details have been set out in the Loan Agreement Entered into with Cloudrider Limited section in the Management Discussion and Analysis.

In November 2017, the Company allotted and issued 2,000,000,000 Conversion Shares in relation to the convertible bonds issued in June 2013. After that, Geely International (Hong Kong) Limited became one of the substantial shareholders of the Company. This not only greatly improved the financial position of the Group, the early conversion of convertible bonds is also a vote of confidence for the future development of the Group. Because of this early conversion, no imputed interests on convertible bonds were recorded in the current period (30 September 2017: HK$59.2 million).

For the period ended 30 September 2018, the loss attributable to the owners of the Company was HK$395.7 million (30 September 2017: HK$78.0 million). The increase in loss was mainly due to the non-cash impairment provision provided for other financial assets in relation to the Loan to Cloudrider Limited. If such non-cash impairment provisions were excluded, the loss attributable to the owners of the Company during the period would be HK$35.2 million, decreased by approximately HK$42.9 million when compared to the last corresponding period. The decrease was mainly due to the conversion of convertible bonds in November 2017 so no imputed interest on convertible bonds (30 June 2017: HK$59.2 million) was recognised during the current period.

On 16 March 2018, for the short term working capital requirement of Zhejiang Forever New Energy, Zhejiang Geely, a substantial shareholder of the Company, provided a loan with the principal amount of RMB100 million (approximately HK$118 million) to Zhejiang Forever New Energy. The loan is not secured by the assets of the Company, is repayable 12 months after the drawdown date and has a fixed interest rate of 4.75% per annum.

As at 30 September 2018, the cash and cash equivalent balance of the Group was approximately HK557.9 million with a net current assets of HK$220.3 million. The current ratio of the Group which is measured by current assets to current liabilities was 1.32 (31 December 2017: 3.7). Despite the decrease in current ratio mainly due to the impairment on other financial assets and other receivables, the Company will continue to invest in new energy vehicles related business.

During the period ended 30 September 2018, the operation of the Group was mainly financed by the proceeds received from the Placing and Share Subscription completed in June 2015 as well as by the loan interests received from Cloudrider Limited.

The use of proceeds from placing and share subscription

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

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Business Review — Continued

The use of proceeds from placing and share subscription — Continued

As at 30 September 2018, out of the HK$1,336 million net proceeds that have been raised from the Placing and the Share Subscription, HK$540.0 million has been lent to the Borrower, HK$109.1 million has been utilised to repay the loans from the ultimate holding company, approximately HK$113.1 million has been used for new energy vehicle related business, approximately HK$40.0 million has been used for general working capital and approximately HK$90.4 million has been utilised in the iron ore project in Brazil. For the remaining amount of approximately HK$443.4 million, HK$296.8 million will be invested into the new energy vehicle related business, HK$109.6 million will be used as the preliminary working expenses of the iron ore project in Brazil, and HK$37.0 million will be used as working capital or/and the supplementary funding to the two investments mentioned above. Once the Loan is repaid by the Borrower, the whole amount will continue to be invested into the new energy vehicle related business or other identified business at that time.

Prospect

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 2017 the government of china released a Medium and Long Term Development plan of the Automobile Industry《汽車產業中長期發展規劃》, one of the key plans mentioned is the promotion and development of new energy vehicles and its related industries. In September 2017, the Ministry of Industry and Information Technology officially released the dual-credit system "Parallel Administrative Measures for Passenger Vehicle Corporate Average Fuel Consumption (CAFC) and New Energy Vehicle (NEV) Credits"《乘用車企業平均燃料消耗量與新能源汽車積分並行管理辦法》and the system became effective on 1 April 2018. The combination of credits and dis-incentives in this system are designed to improve the fuel efficiency of vehicles on the road, as well as to promote the usage of NEVs in China. For vehicle enterprises, their required NEV output ratio in 2019 is equivalent to 10% of the vehicles they produce in China while the ratio increased to 12% in 2020. Under the dual-credit system, traditional vehicle enterprises are more motivated to develop and produce NEVs. In December 2017, the government of China announced that it will continue to waive purchase taxes on NEVs for the next three years. Since 1994, foreign automobile manufacturers have been restricted to a 50 percent share so that they are required to link up with local partner before building a factory in China. In April 2018, the PRC central government announced that by the end of 2018, any cap on foreign-invested shares for electric and hybrid vehicles are to be lifted. By 2020, restrictions will lift on commercial vehicles and by 2022 foreign entities will encounter no ownership rules for passenger vehicles. Such measures will further attract foreign automobile manufacturers to invest into new energy vehicles industry in the PRC and it could be beneficial for the upstream industry such as lithium-ion battery industry. Last but not least, government of several European countries have announced that laws will be enacted to establish a schedule to ban the sales of petrol-only vehicles. Ministry of Industry and Information Technology of the PRC has also stated that it has been exploring a schedule to ban the sales of petrol-only vehicles in China. Therefore the market size of NEVs and related industries is expected to expand substantially in the coming years. Lithium-ion battery is deemed as the most critical component in NEVs so this sector will continue to be the focal point in this industry. Although there are a lot of lithium-ion battery supply in the market, there is a lack of high quality lithium-ion battery available. In order to secure the supply of high quality batteries in the future, many major automobile enterprises have set up joint investment companies or signed long term supply agreement with leading lithium-ion battery enterprises. On the other hand, only lithium-ion battery enterprises which secured large orders are able to expand its production capacity, reduce costs and invest in research and development to strengthen its position in the lithium-ion battery industry.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Prospect — Continued

Volvo XC60, S90 PHEV, LYNK 01 PHEV models equipped with Zhejiang forever New Energy battery packs were successfully launched to the market and LYNK 02, 03 PHEV which will be launched in the coming months were listed in the Catalogue of Recommended Models for the Popularization and Application of New Energy Automobiles《新能源汽車推廣應用推薦車型目錄》released by the Ministry of Industry and Information Technology. 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 mainstream automobile manufacturers. To achieve the aim, other than the second 700,000 kWh production line pending installation in 2019, the Group also has been investigating the possibility of massive expansion in other cities in China.

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 battery charging and swapping, electric motor, electrical controlling, Internet of Vehicle, autonomous driving, shared mobility, high definition map and light-weighting of vehicles.

For the resource sector, the latest progress of SAM's Block 8 Project was covered in the Progress of SAM section in this report and the Company will continue to push forward the project and review its status and development continuously in order to make the best decision for the shareholders of the Company. With the updated version of EIA-RIMA scheduled to submit in late November 2018 and the introduction of Lotus Fortune as a partner for the underground pipeline, the introduction of other strategic investors for joint development or collective sale cannot be ruled out should suitable opportunities arise in a suitable time. However, we are currently not taking any actions regarding the introduction of other strategic investors or collective sale. 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 and resources, creating value for our shareholders. Meanwhile, ensure the idle cash is properly utilised to provide return to the Company.

Contingent Consideration and Liabilities

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

After execution of the Settlement Agreement in June 2016 (details set out in the announcement of the Company dated 13 May 2016), the Group shall no longer be liable to pay third, fourth and fifth instalment payment with the total amount of US$315 million under the SPA. For the details of the Conditional Additional Payment and Conditional Mining Production Payment to Votorantim, please refer to the announcement of the Company dated 13 May 2016 and the 2017 annual report.

As at 30 September 2018, the contingent consideration payable was approximately HK$159.1 million (equivalent to approximately US$20.5 million). Saved as disclosed above the Group did not have any significant contingent liabilities.

Corporate Governance

Throughout the nine months ended 30 September 2018, the Company has complied with all Code Provisions as set out in Appendix 15 of the GEM Listing Rules.

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

As at 30 September 2018, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules, relating to the required standards of dealing by directors of listed issuers, to be notified to the Company and the Stock Exchange were as follows:

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

	Number of shares in the Company				
Name of director	Beneficial owner	Interest of spouse	Interest of controlled corporation	Total	Approximate percentage of shareholding (%)
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:

1. The 4,065,000,000 shares were held by Hong Bridge Capital Limited ("Hong Bridge"), Mr. HE Xuechu is the controlling shareholder and director holding 68% equity interest of Hong Bridge.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 30 September 2018, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules.

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

Long positions in the underlying shares of the Company

Details of options granted

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

	Number of share options				
Category of participant	Outstanding as at 01/01/2018 and 30/09/2018	Date of grant of share options	Exercise period of share option	Exercise price per share option	Price immediately preceding the grant date of share options (Note a)
				HK$	HK$
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	13,750,000				

Note:

(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 30 September 2018, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules.

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

As at 30 September 2018, the following persons, other than the Directors or chief executives of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO:

Name of Shareholder	Number of Shares in the Company				Approximate percentage of shareholding (%)
	Beneficial owner	Interest of spouse	Interests of controlled corporation	Total number of shares held	
Hong Bridge	4,065,000,000 (Note 1)	–	–	4,065,000,000	41.25
HE Xuechu (Note 2)	57,939,189	22,460,000	4,065,000,000 (Note 1)	4,145,399,189	42.07
FOO Yatyan (Note 2)	22,460,000	4,122,939,189	–	4,145,399,189	42.07
LI Xing Xing	–	–	4,065,000,000 (Note 3)	4,065,000,000	41.25
Geely International (Hong Kong) Limited	1,850,675,675	–	–	1,850,675,675	18.78%
Zhejiang Geely Holding Group Co., Ltd. (Note 4)	–	–	1,850,675,675	1,850,675,675	18.78%
LI Shufu (Note 5)	103,064,000	–	1,850,675,675	1,953,739,675	19.83%
Shagang International (Hong Kong) Co., Ltd.	446,000,000	–	–	446,000,000	4.53%
Jiangsu Shagang Group Co., Ltd. (Note 6)	–	–	446,000,000	446,000,000	4.53%
Shen Wenrong (Note 7)	–	–	446,000,000	446,000,000	4.53%
Maxwealth Great China Fixed Income Fund II LP (Note 8)	662,186,000	–	–	662,186,000	6.72%
Pan Shangcong (Note 8)	–	–	662,186,000	662,186,000	6.72%
Jifu Financial Investment Company Limited (Note 8)	–	–	662,186,000	662,186,000	6.72%
Maxwealth Investment Management Limited (Note 8)	–	–	662,186,000	662,186,000	6.72%

Notes:

1. The 4,065,000,000 shares were held by Hong Bridge. Mr. HE Xuechu is the controlling shareholder and director holding 68% equity interest of Hong Bridge.

2. Ms. FOO Yatyan is the spouse of Mr. HE Xuechu.

3. Mr. LI Xing Xing holds 32% equity interest of Hong Bridge.

4. Zhejiang Geely Holding Group Co., Ltd. holds 100% equity interest of Geely International (Hong Kong) Limited.

5. Mr. LI Shufu is the controlling shareholder holding 90% equity interest of Zhejiang Geely Holding Group Co., Ltd.

6. Jiangsu Shagang Group Co., Ltd. holds 100% equity interest of Shagang International (Hong Kong) Co., Ltd.

7. Mr. Shen Wenrong is the controlling shareholder holding 46.99% equity interest of Jiangsu Shagang Group Co., Ltd.

8. Maxwealth Investment Management Limited was wholly owned by Jifu Financial Investment Company Limited, which is in turn wholly owned by Mr. Pan Shangcong. Maxwealth Investment Management Limited has indirect interest of 694,000,000 shares through its interest in Maxwealth Great China Fixed Income Fund II LP.

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

Save as disclosed above, as at 30 September 2018, the Company had not been notified by any other persons (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

CONNECTED TRANSACTIONS

On 20 November 2017, for the short term working capital requirement of Zhejiang Forever New Energy, Zhejiang Geely Holding Group Co., Ltd. ("Zhejiang Geely"), one of the substantial shareholders of the Company, provided a loan with the principal amount of RMB100 million (approximately HK$118 million) to Zhejiang Forever New Energy. The loan is not secured by the assets of the Company, repayable 12 months after the drawdown date and has a fixed interest rate of 4.35% per annum.

On 16 March 2018, for the short term working capital requirement of Zhejiang Forever New Energy, Zhejiang Geely, a substantial shareholder of the Company, provided a loan with the principal amount of RMB100 million (approximately HK$118 million) to Zhejiang Forever New Energy. The loan is not secured by the assets of the Company, repayable 12 months after the drawdown date and has a fixed interest rate of 4.75% per annum.

During the period ended 30 September 2018, a finance costs of HK$7.29 million was recognised by the Company in relation to the two short term loans. The Board considers the above two loan arrangements were conducted on normal commercial terms or better.

CONTINUING CONNECTED TRANSACTIONS

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

Volvo Car Sales Agreement

Parties	:	Zhejiang Forever New Energy (as the vendor) Volvo Car (as the purchaser)
Date	:	23 October 2017
Term	:	From 23 October 2017 to 22 October 2020
Nature of transaction	:	Sale and purchase of high performance ternary lithium-ion battery packs
Pricing basis	:	The price of goods under the Volvo Car Sales Agreement will be negotiated on an arm's length basis and determined in the ordinary course of business on normal commercial terms or on terms no less favourable to the Company than those provided to independent third parties and will be specified in individual purchase orders.

CONTINUING CONNECTED TRANSACTIONS — CONTINUED

Volvo Car Sales Agreement — Continued

Payment term	:	All transactions contemplated in the under the Volvo Car Sales Agreement are satisfied in cash. A credit period of 75 days are given after delivery of product. Such credit period was determined on normal commercial terms and in the ordinary course of business of the Company.
2018 annual cap	:	RMB178 million
2019 annual cap	:	RMB278 million
2020 cap for the period from 1 January 2020 to 22 October 2020	:	RMB251 million
Sales for the period ended 30 September 2018	:	approximately RMB38.17 million (HK$45.95 million)

Zhejiang Geely Components Sales Agreement

Parties	:	Zhejiang Forever New Energy (as the vendor) Zhejiang Geely Components (as the purchaser)
Date	:	25 October 2017
Term	:	From 25 October 2017 to 24 October 2020
Nature of transaction	:	Sale and purchase of high performance ternary lithium-ion battery packs
Pricing basis	:	The price of goods under the Zhejiang Geely Components Sales Agreement will be negotiated on an arm's length basis and determined in the ordinary course of business on normal commercial terms or on terms no less favourable to the Company than those provided to independent third parties and will be specified in individual purchase orders.
Payment term	:	All transactions contemplated in the under the Zhejiang Geely Components Sales Agreement are satisfied in cash. A credit period of 75 days are given after delivery of product. Such credit period was determined on normal commercial terms and in the ordinary course of business of the Company.
2018 annual cap	:	RMB207 million
2019 annual cap	:	RMB739 million

CONTINUING CONNECTED TRANSACTIONS — CONTINUED

Zhejiang Geely Components Sales Agreement — Continued

2020 cap for the period from 1 January 2020 to 25 October 2020	:	RMB951 million
Sales for the period ended 30 September 2018	:	approximately RMB23.43 million (HK$28.21 million)

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

(a) in the ordinary and usual course of business of the Company;

(b) either on normal commercial terms or better; and

(c) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders as whole.

On 29 June 2018, independent Shareholders of the Company approved the revision on annual caps of the Volvo Car Sales Agreement and the Zhejiang Geely Components Sales Agreement in an extraordinary general meeting (the "EGM"). Further details of the EGM are disclosed in the circular of the Company dated 13 June 2018.

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

INTERESTS IN COMPETING BUSINESS

None of the Directors or the controlling shareholders (as defined under the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete or had any conflicts of interest with the business of the Group for the nine months ended 30 September 2018.

DIRECTORS' INTERESTS IN CONTRACTS

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standards of dealings and its code of conduct regarding the directors' securities transaction throughout the nine months ended 30 September 2018.

AUDIT COMMITTEE

The Group's unaudited results for the nine months ended 30 September 2018 were reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

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

During the nine months ended 30 September 2018, neither the Company, its ultimate holding company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

On behalf of the Board
LIU Wei, William
Director and Joint Chief Executive Officer

Hong Kong, 13 November 2018