



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



NEW ENERGY AND DIVERSIFIED BUSINESS

HALF YEAR REPORT **2019**

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

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

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. He Xuechu (*Chairman*)
Mr. Liu Jian (*Vice Chairman and
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

Compliance Officer

Mr. Liu Wei, William

Company Secretary

Mr. Yeung Ho Ming, CPA (HK)

Authorised Representatives

Mr. Liu Wei, William
Mr. Yeung Ho Ming

Audit Committee

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

Remuneration Committee

Mr. Ha Chun (*Committee Chairman*)
Mr. Ma Gang
Mr. Chan Chun Wai, Tony
Mr. He Xuechu
Mr. Liu Wei, William

Nomination Committee

Mr. Chan Chun Wai, Tony (*Committee Chairman*)
Mr. Liu Wei, William
Mr. Ang Siu Lun, Lawrence
Mr. Ma Gang
Mr. Ha Chun

Auditor

BDO Limited

Principal Bankers

Standard Chartered Bank (Hong Kong) Limited
Nanyang Commercial Bank, Limited

Registered Office

P.O. Box 31119 Grand Pavilion
Hibiscus Way, 802 West Bay Road
Grand Cayman
KY1-1205 Cayman Islands

Head Office and Principal Place of Business

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

Share Registrar and Transfer Office

Union Registrars Limited
Suites 3301-04, 33/F.
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

Stock Code

8137

Company Website

www.8137.hk

UNAUDITED CONSOLIDATED HALF YEAR 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 six months ended 30 June 2019, together with the comparative unaudited figures for the corresponding period in 2018, as follows:

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

	Notes	Three months ended 30 June		Six months ended 30 June	
		2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Revenue	3	26,990	30,349	125,518	34,384
Cost of sales		(22,551)	(41,249)	(125,017)	(45,640)
Gross profit/(loss)		4,439	(10,900)	501	(11,256)
Other operating income	5	14,493	12,205	29,326	22,725
Selling and distribution costs		(969)	(525)	(1,757)	(1,249)
Administrative expenses		(58,404)	(26,602)	(89,073)	(60,776)
Reverse of impairment/(impairment) of prepayments, deposits and other receivables	6	20,497	(272,429)	20,497	(272,429)
Finance costs	7	(5,850)	(2,630)	(8,501)	(4,519)
Loss before income tax	8	(25,794)	(300,881)	(49,007)	(327,504)
Income tax credit	9	–	–	–	–
Loss for the period		(25,794)	(300,881)	(49,007)	(327,504)
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Exchange gain/(loss) on translation of financial statements of foreign operations		47,482	(416,083)	22,265	(386,671)
Equity investments at fair value through other comprehensive income		(9,336)	–	1,945	–
Other comprehensive income for the period, net of tax		38,146	(416,083)	24,210	(386,671)
Total comprehensive income for the period		12,352	(716,964)	(24,797)	(714,175)
Loss for the period attributable to:					
Owners of the Company		(2,354)	(286,006)	(12,702)	(300,493)
Non-controlling interests		(23,440)	(14,875)	(36,305)	(27,011)
		(25,794)	(300,881)	(49,007)	(327,504)
Total comprehensive income attributable to:					
Owners of the Company		36,986	(695,366)	10,483	(684,525)
Non-controlling interests		(24,634)	(21,598)	(35,280)	(29,650)
		12,352	(716,964)	(24,797)	(714,175)
Loss per share	11				
— Basic		HK(0.02) cent	HK(2.94) cents	HK(0.13) cent	HK(3.09) cents
— Diluted		N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		547,065	546,999
Exploration and evaluation assets	12	5,721,554	5,684,855
Prepaid land lease payments		81,767	82,630
Amount due from non-controlling interest of a subsidiary	13	305,263	298,720
Equity investment measured at fair value through other comprehensive income	14	49,076	–
Interest in an associate	15	18,272	–
Right-of-use assets	16	7,693	–
		6,730,690	6,613,204
Current assets			
Inventories		281,363	154,136
Trade and bill receivables	17	35,508	116,586
Prepayments, deposits and other receivables		265,579	206,967
Tax recoverable		328	185
Restricted Bank deposits		9,992	26,019
Cash and cash equivalents		472,663	577,259
		1,065,433	1,081,152
Current liabilities			
Trade and bill payables	18	192,264	306,420
Other payables, accrued expenses, deposits received and receipts in advance		100,955	146,169
Borrowings	19	629,240	455,366
Lease liabilities		1,406	–
Total current liabilities		923,865	907,955
Net current assets		141,568	173,197
Total assets less current liabilities		6,872,258	6,786,401
Non-current liabilities			
Borrowings	19	216,273	113,842
Deferred income		1,152	1,253
Deferred tax liabilities	20	1,831,538	1,819,051
Contingent consideration payables	21	156,496	156,496
Lease liabilities		6,408	–
		2,211,867	2,090,642
Net assets		4,660,391	4,695,759
EQUITY			
Equity attributable to the owners of the Company			
Share capital		9,855	9,855
Reserves		4,501,961	4,505,575
		4,511,816	4,515,430
Non-controlling interests		148,575	180,329
Total equity		4,660,391	4,695,759

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY — UNAUDITED

	Attributable to owners of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares reserve	Share-based payment reserve	Translation reserve	Fair value reserve	Retained earnings	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
2019										
At 1 January 2019	9,855	3,563,686	(142,864)	12,170	(4,910,983)	-	5,983,566	4,515,430	180,329	4,695,759
Acquisition of interests in a subsidiary	-	-	-	-	145	-	(7,396)	(7,251)	(3,320)	(10,571)
Capital contribution to a non-wholly owned subsidiary	-	-	-	-	-	-	(6,846)	(6,846)	6,846	-
	-	-	-	-	145	-	(14,242)	(14,097)	3,526	(10,571)
Loss for the period	-	-	-	-	-	-	(12,702)	(12,702)	(36,305)	(49,007)
Other comprehensive income										
Currency translation	-	-	-	-	21,240	-	-	21,240	1,025	22,265
Equity investments at fair value through other comprehensive income	-	-	-	-	-	1,945	-	1,945	-	1,945
Total comprehensive income	-	-	-	-	21,240	1,945	(12,702)	10,483	(35,280)	(24,797)
At 30 June 2019	9,855	3,563,686	(142,864)	12,170	(4,889,598)	1,945	5,956,622	4,511,816	148,575	4,660,391
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	-	-	-	-	-	-	(300,493)	(300,493)	(27,011)	(327,504)
Other comprehensive income										
Currency translation	-	-	-	-	(384,032)	-	-	(384,032)	(2,639)	(386,671)
Total comprehensive income	-	-	-	-	(384,032)	-	(300,493)	(684,525)	(29,650)	(714,175)
At 30 June 2018	9,855	3,563,686	(142,864)	136,741	(4,895,294)	-	4,608,872	3,280,996	268,786	3,549,782

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS — UNAUDITED

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Net cash used in operating activities	(292,439)	(71,602)
Net cash used in investing activities:		
Purchases of property, plant and equipment	(21,447)	(137,273)
Interests received	2,757	11,610
Acquisition of equity investments measured at fair value through other comprehensive income	(47,131)	–
Investment in an associate	(18,272)	–
Acquisition of interests in a non-wholly owned subsidiary	(10,571)	–
Decrease in loan receivables	–	5,851
Decrease in restricted bank deposits	16,027	9,694
Other investing cash flows	(350)	523
	(78,987)	(109,595)
Net cash from financing activities:		
Drawdown of borrowings	390,106	118,220
Repayment of borrowings	(113,800)	–
Other financing cash flows	(8,501)	(4,519)
	267,805	113,701
Net decrease in cash and cash equivalents	(103,621)	(67,496)
Cash and cash equivalents, at beginning of period	577,259	583,492
Effect of foreign exchange rate changes	(975)	(2,921)
Cash and cash equivalents, at end of period	472,663	513,075
Analysis of the balance of cash and cash equivalents		
Cash at banks and in hand	472,663	513,075

Notes:

1. BASIS OF PRESENTATION

The unaudited consolidated financial statements for the three months and six months ended 30 June 2019 have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.

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

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

The accounting policies adopted in the 2018 annual financial statements have been consistently applied to these financial statements except that in the current period, the Group has applied for the first time certain new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2019. Except as disclosed in note 2, 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. APPLICATION OF NEW HKFRSs

The Group has applied HKFRS 16 "Leases", for the first time in the current reporting period.

HKFRS 16 Leases

The Group has applied the standard from 1 January 2019. HKFRS 16 superseded HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

2. APPLICATION OF NEW HKFRSs — CONTINUED

IFRS 16 Leases — CONTINUED

The Group applied the modified retrospective approach as permitted by HKFRS 16 and did not restate comparative amounts for the year prior to first-time adoption. On the first day of implementation, the Group measured the leasing liabilities on the basis of the present value of the remaining lease payment at the interest rate of the lessee's incremental borrowing for the first day of implementation and the right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements.

3. REVENUE

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

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Sale of lithium batteries	125,518	34,384

4. SEGMENT INFORMATION

The Group has identified its operating segment and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation and review of performance.

The Group's operating businesses are organised and managed separately according to the nature of product and service, with each segment representing a strategic business segment that offers different products and services in the PRC and Brazil.

The Company is an investment holding company. Principal places of the Group's operations are Hong Kong, the PRC and Brazil. For the purpose of segment information disclosures under HKFRS 8, the Group regarded Hong Kong as its country of domicile.

4. SEGMENT INFORMATION — CONTINUED

Information regarding the Group's reportable segments provided to the Group's most senior management (i.e. the executive directors) is set out below:

	Mineral resources exploration and trading HK\$'000	Lithium battery production HK\$'000	Total HK\$'000
Six months ended 30 June 2019			
Reportable segment revenue (external customers)	–	125,518	125,518
Reportable segment losses	(3,789)	(74,067)	(77,856)
Reportable segment assets	5,728,129	1,593,123	7,321,252
Reportable segment liabilities	164,039	1,130,854	1,294,893
Capital expenditure	–	21,447	21,447
Depreciation	56	20,597	20,653
Six months ended 30 June 2018			
Reportable segment revenue (external customers)	–	34,384	34,384
Reportable segment losses	(6,667)	(52,177)	(58,844)
Reportable segment assets	3,529,879	1,206,718	4,736,597
Reportable segment liabilities	162,901	639,987	802,888
Capital expenditure	23	137,250	137,273
Depreciation	112	5,349	5,461

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the financial statements as follows:

	Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Reportable segment revenue	125,518	34,384
Reportable segment loss	(77,856)	(58,844)
Other operating income	17,428	12,698
Administrative expenses	(8,853)	(8,929)
Reverse of impairment/(impairment) of other financial assets	20,497	(268,438)
Impairment of other receivables	–	(3,991)
Finance costs	(223)	–
Loss before income tax	(49,007)	(327,504)

4. SEGMENT INFORMATION — CONTINUED

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Reportable segment assets	7,321,252	7,172,812
Property, plant and equipment	372	389
Prepayments, deposits and other receivables	171,468	135,232
Equity investment measured at fair value through other comprehensive income	49,076	—
Right-of-use assets	7,693	—
Investment in an associate	18,272	—
Cash and cash equivalents	227,990	385,923
	7,796,123	7,694,356
Reportable segment liabilities	1,294,893	1,176,050
Other payables and accrued expenses	1,498	3,436
Lease liabilities	7,813	—
Deferred tax liabilities	1,831,528	1,819,051
	3,135,732	2,998,597

The Group's revenue from external customers and its non-current assets are divided into the following geographical areas:

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Revenue from external customers		
PRC	121,240	233,752
Belgium	2,170	3,920
Sweden	2,108	938
Reportable segment revenue	125,518	238,610
Non-current assets (excluding amount due from non-controlling interest of a subsidiary)		
Hong Kong	372	389
PRC	703,130	628,816
Brazil	5,721,925	5,685,279
Reportable segment non-current assets	6,425,427	6,314,484

4. SEGMENT INFORMATION — CONTINUED

Geographical location of customers is based on the location at which the goods are delivered whilst geographical location of non-current assets is determined based on (1) the physical location of the asset (for property, plant and equipment and prepaid land lease payments) and (2) location of operations (for exploration and evaluation assets).

5. OTHER OPERATING INCOME

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Bank interest income	2,757	2,184
Loan interest income	16,148	10,614
Government grant	1,951	1,909
Rental income	372	372
Imputed interest income of amounts due from non-controlling interests of a subsidiary	6,544	6,544
(Loss)/Gain on financial assets at fair value through profit or loss	(350)	546
Sundry income	1,904	556
	29,326	22,725

6. IMPAIRMENT OF PREPAYMENTS, DEPOSITS 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.

During the period, the borrower has defaulted in repaying the full amount of the loan receivables and the outstanding accrued interests. A default interest rate of 6% per annum was applied. As at 30 June 2019, the fair values of the underlying securities of the loan receivables, which mainly comprising 450,357,200 shares of Yuxing Infotech Investment Holdings Limited, a company listed on the GEM, was approximately HK\$170.8 million, reverse of impairment of HK\$20,497,000 was recognised in profit or loss during the period.

7. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Interest charges on other borrowings wholly repayable within five years	8,277	4,519
Finance costs on lease liabilities	224	–
	8,501	4,519

8. LOSS BEFORE INCOME TAX

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Loss before income tax are arrived at after charging:		
Research and development costs	54,398	21,871
Cost of inventories recognised as expense	125,017	45,640
Depreciation and amortisation	22,859	6,047

9. INCOME TAX CREDIT

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Overseas tax		
Current period	–	–
Deferred tax	–	–
Income tax credit	–	–

During the six months ended 30 June 2018 and 2019, no provision for Hong Kong profits tax has been provided by the Group as the Group had no estimated assessable profit arising in or derived from Hong Kong. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

During the period, corporate income tax rates in Brazil of 34% (2018: 34%) is applicable to Sul Americana de Metais S.A. ("SAM"), being the Group's subsidiary established in Brazil.

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

10. DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

11. LOSS PER SHARE

The calculation of basic loss per share for the three months and six months ended 30 June 2019 are based on the loss attributable to the owners of the Company of approximately HK\$2,354,000 and HK\$12,702,000 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 six months ended 30 June 2018, loss attributable to the owners of the Company was HK\$286,006,000 and HK\$300,493,000 respectively and on 9,737,433,606 weighted average number of shares respectively, after adjusting the effect of treasury share held by the Company.)

No diluted loss per share figure was presented for the three months and six months ended 30 June 2018 and 2019 because the impact of the share options and convertible bonds was anti-dilutive.

12. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets represented the rights to explore and identify prospective deposits of mineral resources in the states of Minas Gerais and Bahia, Brazil and the expenditures incurred in the search for mineral resources.

13. AMOUNT DUE FROM NON-CONTROLLING INTEREST OF A SUBSIDIARY

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
<u>Non-current</u>		
— Amounts due from non-controlling interests of a subsidiary (note (a))	305,263	298,720

Note:

- (a) According to the capital contribution agreement for Shandong Forever New Energy on 9 May 2016, 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 transaction was completed on 26 July 2016.

As at 30 June 2019, the unpaid capital contribution is not expected to be realised within twelve months after the reporting period. Accordingly, such balance is classified as non-current assets. The non-controlling interests undertake that, pending full payment of their respective capital contribution, they shall use all dividend, distribution and payment received from Shandong Forever New Energy to satisfy their capital contribution obligation.

14. EQUITY INVESTMENT MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

On 16 January 2019, the Company entered into an security purchase agreement with Luokung Technology Corp. (Nasdaq: LKCO) and agreed to subscribe 2,000,000 ordinary shares of LKCO shares with a total consideration of USD12 million. On 21 January 2019, the Company has settled USD6 million and Luokung Technology Corp. has issued 1,000,000 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 equity investment represents 1,000,000 shares in Luokung Technology Corp. (Nasdaq: LKCO). The group designated its investment in Luokung Technology Corp. at fair value through other comprehensive income, as the investment is held for strategic purposes. No dividends were received on this investment during the period.

15. INTEREST IN AN ASSOCIATE

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

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

The registered capital of the Joint Venture is RMB80 million, Honbridge Tech has contributed RMB16 million and control 20% interests of the Joint Venture while Hangzhou UGO and Hangzhou Hexijiao has each contributed RMB32 million and control 40% interests of the joint venture.

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

The associate, an unlisted corporate entities, is accounted for using the equity method in the consolidated financial statements.

16. RIGHT-OF-USE ASSETS

	HK\$'000 (Unaudited)
As at 1 January 2019 — Recognition upon initial application of HKFRS 16 ("Cost")	9,092
Additions	–
Depreciation provided during the period	(1,399)
At 30 June 2019	7,693
At 30 June 2019:	
Cost	9,092
Accumulated depreciation	(1,399)
Net carrying amount	7,693

The right-of-use assets represent the Group's rights to use underlying leased premises under operating lease arrangements over the lease terms, which are stated at cost less accumulated depreciation and accumulated impairment losses, and adjusted for any remeasurement of the lease liabilities.

17. TRADE AND BILL RECEIVABLES

The following is the breakdown and ageing analysis of net trade and bill receivables at the reporting dates.

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Trade receivable – Gross	65,707	154,858
Less: Impairment losses and expected credit loss	(38,836)	(38,841)
Trade receivables – Net	26,871	116,017
Bill receivables	8,637	569
Trade and bill receivables	35,508	116,586
0 to 30 days	17,212	88,557
31 to 90 days	12,464	19,379
91 to 180 days	3,771	3,802
Over 180 days	40,897	43,689
	74,344	155,427

18. TRADE AND BILL PAYABLES

The following is ageing analysis of trade and bills payables at the reporting dates:

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Trade payables	181,562	280,401
Bill payables	10,702	26,019
	192,264	306,420
0–30 days	140,444	245,642
31–60 days	12,746	20,198
61–90 days	7,917	6,331
91–180 days	9,632	25,252
Over 180 days	21,525	8,997
	192,264	306,420

19. BORROWINGS

	As at 30 June 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Government loans (Note (a))	341,483	341,525
Other loan (Note (b))	287,757	277,683
Bank loan (Note (c))	216,273	–
	845,513	569,208
Represented by:		
Current liabilities	629,240	455,366
Non-current liabilities	216,273	113,842
	845,513	569,208

- (a) The balance represented the unsecured and interest free loans granted by the local government in the PRC in relation to the establishment of the manufacturing plant of lithium-ion battery in Zhejiang, the PRC. The loans were repayable within two years after the drawdown.
- (b) The loans from Zhejiang Geely Holding Group Co., Ltd. is unsecured, interest bearing at 4.35% and 4.75% per annum respectively and repayable within one year from the withdrawal date. Accordingly, it is classified as current liabilities.
- (c) The RMB190 million bank loan was granted to our lithium-ion battery plant in Zhejiang in June 2019 at 4.9% interest per annum. The bank loan is secured by the corporate guarantee of the shareholders of the lithium-ion battery plant in Zhejiang.

20. DEFERRED TAX LIABILITIES

Deferred taxation is calculated in full on temporary differences under liability method using the tax rates applicable in the tax jurisdiction concerned. The amount was mainly arising from the fair value adjustment of exploration and evaluation assets and other intangible assets.

21. CONTINGENT CONSIDERATION PAYABLES

After the completion of the acquisition of SAM on 28 March 2013, the Group is committed to pay Votorantim, the vendor of SAM, the consideration outstanding i.e. third instalment of US\$115 million, fourth instalment of US\$100 million and fifth instalment of US\$100 million upon completion of approvals of required licenses and permits, commencement of port operation and commencement of mining production respectively. The HK\$1,215,829,000 contingent consideration payables represent the fair value of the outstanding consideration payable in accordance with the SAM share purchase agreement (the "SAM SPA").

On 12 May 2016 (Brazil time), the Company, Infinite Sky Investments Limited, New Trinity Holdings Limited, SAM, Votorantim entered into a settlement agreement (the "Settlement Agreement").

Pursuant to the Settlement Agreement, the Company paid Votorantim a settlement payment of US\$3,000,000 (equivalent to approximately HK\$23,320,000) (the "Settlement Payment") and Votorantim transferred the preferred shares to Infinite Sky. After the transfer of the preferred shares, SAM become a wholly owned subsidiary of the Group.

Under the Settlement Agreement, the Company is no longer liable to pay the third, fourth and fifth instalment payment with the total amount of US\$315 million under the SAM SPA but the Company is committed to pay a maximum aggregate amount of US\$60,000,000 contingent additional payment and conditional mining production payment to Votorantim upon occurrence of certain events.

The contingent consideration payables represent the fair value of the obligation for the contingent payable in accordance with the Settlement Agreement.

FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The Group use the following hierarchy for determining and disclosing the fair value of financial instruments that are measured at fair value in the statements of financial position:

- Level 1: fair value measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: fair value measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial assets or liabilities are categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

Financial assets/liabilities measured at fair value through profit or loss

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 30 June 2019				
<u>Liabilities:</u>				
Contingent consideration payables	–	–	156,496	156,496
As at 31 December 2018				
<u>Liabilities:</u>				
Contingent consideration payables	–	–	156,496	156,496

During the six months ended 30 June 2019, there was no transfer between different levels of fair value hierarchy.

MANAGEMENT DISCUSSION AND ANALYSIS

New Energy Vehicles-Related Business

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

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



Lynk 01 PHEV powered by Zhejiang Forever New Energy battery pack

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

New Energy Vehicles-Related Business — Continued

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

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

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

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

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.

To increase the overall competitiveness of Shandong Forever New Energy, the Company is currently working on a number of proposals, including introduction of new investor.

Business Review

For the period ended 30 June 2019, the Group recorded a revenue of HK\$125.5 million, representing a significant 265% increase when compared to revenue of HK\$34.4 million recognised in the last corresponding period. The loss for the period ended 30 June 2019 attributable to owners of the Company was approximately HK\$12.7 million (30 June 2018: HK\$300.5 million).

The revenue of the Group increased explosively because the mass production of our factory plant in Zhejiang only commenced in the second quarter of 2018. However, revenue recognised for the three months ended 30 June 2019 was approximately HK\$27.0 million, decreased by 72.6% when compared to the HK\$98.5 million revenue recognised for the three months ended 31 March 2019. The decrease was mainly due to the implementation of “China VI” vehicle emission standards in the PRC in the second half of 2019, and thus major customers of the Group proactively reduce the aggregate inventories of its dealers in the second quarter of 2019, resulting in a slower production of new energy vehicle models. In addition, a revised subsidy policy for new energy vehicles was introduced in late March 2019 with a transition period ended in late June. Generally, under the new policy, the total government subsidies enjoyed by a new energy vehicle will be decreased by more than 50%. This policy change is expected to bring some uncertainty to the new energy vehicle market in the second half of 2019 and new energy vehicle manufacturers may be under pressure to increase the selling price of their car models after the subsidy is reduced. The potential adjustment of the selling price may negatively affect the atmosphere of the new energy vehicle market in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Business Review — Continued

The customers of our Zhejiang factory are Volvo Car and the Lynk & Co brand under Zhejiang Geely Holding Group Company Limited (“Zhejiang Geely Group”). On 23 October 2017 Zhejiang Forever New Energy entered into a three years sales agreement with Volvo Car Corporation (“Volvo Car”) in relation to the sales of ternary lithium-ion powered battery packs for the hybrid models of Volvo Car planning to be manufactured in the PRC. Another three years sales agreement with Zhejiang Geely Automobile Parts & Components Stock Co., Ltd. 浙江吉利汽車零部件採購有限公司 was secured on 25 October 2017, in relation to the sales of ternary lithium-ion powered battery packs for vehicle models including Lynk & Co and other models under Zhejiang Geely Group. The total annual caps (excluding VAT) in respect of the above two sales agreements for year 2019 and 2020 are RMB1,017 million and RMB1,202 million respectively. The two sales agreements offer a strong foundation for our factory plant in Zhejiang. The total revenue recognised under the two agreements was approximately HK\$122.0 million during the period.

The Group recorded a gross profit of approximately HK\$0.5 million (gross profit ratio: 0.4%) for the period ended 30 June 2019 as compared with the gross loss of approximately HK\$11.3 million (gross profit ratio: -32.7%) in the last corresponding period. The gross margin improved substantially during the period, it was because of the lower average raw material costs as key suppliers agreed to lower the price, more optimise human resources structure and the higher capacity utilisation rate of the new battery plant in Zhejiang when compared to the last corresponding period. The Group will continue to control and improve the costs structure of lithium-ion battery products by negotiating with key suppliers to obtain more beneficial terms, increasing the energy density and decreasing the failure rate of our products, strengthening the management skill and promoting effective use of materials, etc.

Other operating income of approximately HK\$29.3 million (30 June 2018: HK\$22.7 million) was recognised during the current period. It consists of interest income from loan receivable of HK\$16.1 million (30 June 2018: HK\$10.6 million), imputed interest income of amounts due from non-controlling interests of a subsidiary of HK\$6.5 million (30 June 2018: 6.5 million) and bank interest income of HK\$2.8 million (30 June 2018: \$2.2 million). The increase in other operating income was mainly due to the increase in interest income from loan receivable because the loan was charged with a default interest rate of 6% per annum since the second quarter of 2018.

The administrative expenses for the period ended 30 June 2019 mainly consists of research and development expenses of approximately HK\$54.4 million (30 June 2018: HK\$21.9 million) and staff costs of approximately HK\$15.1 million (30 June 2018: HK\$28.1 million). The research and development expenses increased during the period because intensive testing have been conducted on our new batteries product.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Business Review — Continued

The finance costs of HK\$8.5 million recognised during the period ended 30 June 2019 (30 June 2018: HK\$4.5 million) were mainly interest expense related to the loans from Zhejiang Geely and a loan from a commercial bank in the PRC. The total interest bearing borrowings as at 30 June 2019 were HK\$504 million (30 June 2018: HK\$277.7 million), the overall increased in borrowings have increased the finance costs of the Group during the period.

For the period ended 30 June 2019, the loss attributable to the owners of the Company was HK\$12.7 million (30 June 2018: HK\$300.5 million). The decrease in loss was mainly due to the one-off HK\$272.4 million impairment of other receivable during the period ended 30 June 2018.

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

As at 30 June 2019, the cash and cash equivalent balance of the Group was approximately HK\$472.7 million with a net current assets of HK\$141.6 million. The current ratio of the Group which is measured by current assets to current liabilities was 1.15 (31 December 2018: 1.19).

During the period ended 30 June 2019, the operation of the Group was mainly financed by the proceeds received from the Placing and Share Subscription completed in June 2015.

The Joint Venture Agreement

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

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

The registered capital of the Joint Venture is RMB80 million, Honbridge has contributed RMB16 million and control 20% interests of the Joint Venture while Hangzhou UGO and Hangzhou Hexijiao has each contributed RMB32 million and control 40% interests of the joint venture.

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

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

The Joint Venture Agreement — Continued

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

Progress of SAM

As of the date of this report, the Group has provided funding with principal amount of approximately US\$73.4 million to the iron ore project in Brazil (“Block 8 Project” or “SAM Project”), through shareholders’ loans and increase of registered capital in Sul Americana de Metais S.A. (“SAM”), an indirect wholly owned subsidiary of the Company in Brazil.

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

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

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

On 7 January 2019, SAM submitted the EIA/RIMA of Block 8 Project to Superintendency of Priority Projects (“SUPPRI”).

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

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Progress of SAM — Continued

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

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

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

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

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

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

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

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

After Vale's dam-break disaster, some regulations, resolutions, bills regarding tailings dams are coming out for public opinion. SAM has been following them closely and making suggestions through the channel of some government institutions.

On 29 April 2019, SAM applied for an extension of 45 days of the suspension of the licensing process in order to wait for the release of new regulation, resolution, policy that were in discussion.

On 13 June 2019, the National Mining Agency (ANM) published a draft resolution about the safety of dams for public opinion on its website. SAM's project is totally compliance with this resolution.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Progress of SAM — Continued

On 17 June 2019, SAM applied for an extension of another 45 days of the suspension of the licensing process. SAM could cancel the suspension at any time depending on the actual progress of the regulation, resolution, policy about tailing dams.

On 25 June 2019, the Plenary of the Chamber of Deputies approved the Bill 2791/19, which changes several rules of the National Dams Policy (Law No. 12.334/10) and the Mining Code (Decree 227/67) to make mining projects safer, increase fines, specify obligations of entrepreneurs and prohibit the type of dam “upstream dam” that caused the Brumadinho disaster. This matter will be sent to the Senate for further approval. SAM’s project is also compliance with this Bill 2791/19.

Once those new regulations, resolutions, laws come into force, SAM will assess the final impacts on Block 8 project and see if any further complementary work is necessary.

SAM has been communicating and having meetings with government institutions, environmental organs, State and Federal deputies, municipals to present SAM’s new tailings disposal technology. SAM has resumed the licensing process in August as there are no major impacts from the new regulations, resolutions and laws of tailings dams on the SAM Project.

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

On 7 December 2018, Lotus Brasil submitted the FCA to IBAMA and thus initiated the process. In the future, Lotus Brasil will provide SAM with services of logistics, dewatering, trading and contracting for the use of Porto Sul. SAM will pay Lotus Brasil for such services. The Group believes that the cooperation with Lotus Brasil will promote the exploitation of Block 8 Project and will be mutually beneficial. In this way, SAM could focus more on the development of the mine, beneficiation plant and other facilities.

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

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Loan Agreement Entered Into With Cloudrider Limited

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

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

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 since the six months ended 30 June 2018.

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

As at 30 June 2019, the Borrower has defaulted in repaying the Tranche A Loan and the Tranche B Loan in the outstanding principal amounts in a sum of approximately HK\$523,800,000 (the “Loan Receivables”) and the outstanding accrued interests in the sum of approximately HK\$20,000,000 (the “Interest Receivables”).

The Tranche A Loan and the Tranche B Loan share the same security package (the “Security”) comprising (i) a share charge granted by Bronze Pony Investments Limited relating to its shares in the Borrower; (ii) a share charge granted by Capital Melody Limited relating to its shares in the Borrower; and (iii) a debenture consisting of a fixed and floating charge over all of the assets of the Borrower, mainly comprising an equity interest in approximately 21.72% of Yuxing Infotech Investment Holdings Ltd (“Yuxing Infotech”), a company listed on the GEM (Stock code: 8005) with a net asset value of approximately HK\$1,988 million as at 31 December 2018.

Despite numerous communication between the Company and the Borrower, the Company did not receive any repayment since 6 November 2018 and the Borrower also failed to propose a proper repayment plan. On 15 July 2019, the Company issued a notice letter to notify the Borrower that the Company decided to exercise its right under the Loan Agreement and would start the procedures for the enforcement of the Security, including the enforcement of 450,357,200 shares of Yuxing InfoTech. According to the latest number of issued shares of Yuxing InfoTech, 450,357,200 shares represents approximately 21.72% of the issued shares of Yuxing InfoTech.

The Company will continue to reserve all its rights under the Loan Agreement and update the Shareholders on any material development as and when appropriate.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Prospects

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

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

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

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

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.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Prospects — Continued

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

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. To achieve the aim, the Group has been prudently investigating the possibility and appropriate time of massive expansion in other cities in China.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Prospects — Continued

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Subsequent event

In relation to the Loan Agreement entered into between the Company and Cloudrider Limited. On 15 July 2019, the Company has exercised its right under the Loan Agreement and started the procedures for the enforcement of the security, including the enforcement of 450,357,200 shares of Yuxing InfoTech Investment Holdings Limited (stock code: 8005). Details of the Loan Agreement was set out in the Management Discussion and Analysis section of this interim report.

The Use of Proceeds from Placing and Share Subscription

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

As at 30 June 2019, out of the HK\$1,336 million net proceeds that have been raised from the Placing and the Share Subscription, HK\$540.0 million has been lent to the Borrower, HK\$109.1 million has been utilised to repay the loans from the ultimate holding company, approximately HK\$325.7 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\$104.5 million has been utilised in the iron ore project in Brazil. For the remaining amount of approximately HK\$216.7 million, HK\$84.2 million will be invested into the new energy vehicle related business, HK\$95.5 million will be used as the preliminary working expenses of the iron ore project in Brazil, and HK\$37.0 million will be used as working capital or/and the supplementary funding to the two investments mentioned above. Once the Loan is repaid by the Borrower, the whole amount will continue to be invested into the new energy vehicle related business or other identified business at that time.

Contingent Consideration and Liabilities

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

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

As at 30 June 2019, 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.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Corporate Governance

Throughout the six months ended 30 June 2019, the Company has complied with all Code Provisions as set out in Appendix 15 of the GEM Listing Rules.

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

As at 30 June 2019, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules, relating to the required standards of dealing by directors of listed issuers, to be notified to the Company and the Stock Exchange were as follows:

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

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

Note:

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

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 30 June 2019, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules.

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

Long positions in the underlying shares of the Company

Details of options granted

Particulars 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 01/01/2019 and 30/06/2019	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>				

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 June 2019, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules.

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

As at 30 June 2019, the following persons, other than the Directors or chief executives of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO:

Name of Shareholder	Number of Shares in the Company			Total number of shares held	Approximate percentage of shareholding (%)
	Beneficial owner	Interest of spouse	Interests of controlled corporation		
Hong Bridge	4,065,000,000 (Note 1)	–	–	4,065,000,000	41.25
HE Xuechu (Note 2)	57,939,189	22,460,000	4,065,000,000 (Note 1)	4,145,399,189	42.07
FOO 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

Notes:

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

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

Save as disclosed above, as at 30 June 2019, the Company had not been notified by any other persons (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

CONNECTED TRANSACTIONS

On 20 November 2017, for the working capital requirement of Zhejiang Forever New Energy, Zhejiang Geely Holding Group Co., Ltd. ("Zhejiang Geely"), one of the substantial shareholders of the Company, provided a loan with the principal amount of RMB100 million (approximately HK\$114 million) to Zhejiang Forever New Energy. The loan is not secured by the assets of the Company, repayable 6 months after the drawdown date and has a fixed interest rate of 4.35% per annum. The loan agreement was extended on 16 November 2018 with a repayment date on 20 May 2019. The loan was fully repaid during the period ended 30 June 2019.

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

On 27 March 2019 and 16 May 2019, for the working capital requirement of Zhejiang Forever New Energy, Zhejiang Geely provided loans with the principal amount of RMB52.8 million (approximately HK\$60.1 million) and RMB100 million (approximately HK\$114 million) to Zhejiang Forever New Energy respectively. The loans are not secured by the assets of the Company, repayable 12 months after the drawdown date and have a fixed interest rate of 4.35% per annum.

During the period ended 30 June 2019, a finance costs of HK\$5.9 million was recognised by the Company in relation to the above short term loans. The Board considers the above loan arrangements were conducted on normal commercial terms or better.

For the period ended 30 June 2019, the Group has sold approximately HK\$63.1 million and HK\$58.9 million lithium-ion batteries to Volvo Car and Zhejiang Geely Components respectively.

CONTINUING CONNECTED TRANSACTIONS

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

Volvo Car Sales Agreement

Parties	:	Zhejiang Forever New Energy (as the vendor) Volvo Car (as the purchaser)
Date	:	23 October 2017
Term	:	From 23 October 2017 to 22 October 2020
Nature of transaction	:	Sale and purchase of high performance ternary lithium-ion battery packs
Pricing basis	:	The price of goods under the Volvo Car Sales Agreement will be negotiated on an arm's length basis and determined in the ordinary course of business on normal commercial terms or on terms no less favourable to the Company than those provided to independent third parties and will be specified in individual purchase orders.
Payment term	:	All transactions contemplated in the under the Volvo Car Sales Agreement are satisfied in cash. A credit period of 75 days are given after delivery of product. Such credit period was determined on normal commercial terms and in the ordinary course of business of the Company.
2019 annual cap	:	RMB278 million
2020 cap for the period from 1 January 2020 to 22 October 2020	:	RMB251 million
Sales for the period ended 30 June 2019	:	approximately RMB54.6 million (HK\$63.1 million)

CONTINUING CONNECTED TRANSACTIONS — CONTINUED

Zhejiang Geely Components Sales Agreement

Parties	:	Zhejiang Forever New Energy (as the vendor) Zhejiang Geely Components (as the purchaser)
Date	:	25 October 2017
Term	:	From 25 October 2017 to 24 October 2020
Nature of transaction	:	Sale and purchase of high performance ternary lithium-ion battery packs
Pricing basis	:	The price of goods under the Zhejiang Geely Components Sales Agreement will be negotiated on an arm's length basis and determined in the ordinary course of business on normal commercial terms or on terms no less favourable to the Company than those provided to independent third parties and will be specified in individual purchase orders.
Payment term	:	All transactions contemplated in the under the Zhejiang Geely Components Sales Agreement are satisfied in cash. A credit period of 75 days are given after delivery of product. Such credit period was determined on normal commercial terms and in the ordinary course of business of the Company.
2019 annual cap	:	RMB739 million
2020 cap for the period from 1 January 2020 to 25 October 2020	:	RMB951 million
Sales for the period ended 30 June 2019	:	approximately RMB51 million (HK\$58.9 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.

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 six months ended 30 June 2019.

DIRECTORS' INTERESTS IN CONTRACTS

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standards of dealings and its code of conduct regarding the directors' securities transaction throughout the six months ended 30 June 2019.

AUDIT COMMITTEE

The Group's unaudited results for the six months ended 30 June 2019 were reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

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

During the six months ended 30 June 2019, 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, 8 August 2019