



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

NEW ENERGY AND DIVERSIFIED BUSINESSES

FIRST QUARTERLY REPORT
2022



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 Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

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

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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 Director

Mr. Yan Weimin

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. 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 QUARTERLY RESULTS

The board of directors (the "Board") of the Company hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 31 March 2022, together with the comparative unaudited figures for the corresponding period in 2021, as follows:

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

	Notes	Three months ended 31 March	
		2022 HK\$'000	2021 HK\$'000
Revenue	2	11,865	94,346
Cost of sales		(4,437)	(65,168)
Gross profit		7,428	29,178
Other operating expenses/income	3	(42,939)	115,800
Selling and distribution costs		(2,639)	(3,450)
Administrative expenses		(15,405)	(18,807)
Share of results of associates		(732)	(2,992)
Gain on disposal of financial assets		–	45,400
Finance costs	4	(2,091)	(3,325)
(Loss)/profit before tax		(56,378)	161,804
Income tax	5	–	–
(Loss)/profit for the period		(56,378)	161,804
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange gain/(loss) on translation of financial statements of foreign operations		787,893	(369,261)
Items that will not reclassified subsequently to profit or loss:			
Changes in fair value of equity investments at fair value through other comprehensive income		(1,386)	9,734
Other comprehensive income, net of tax		786,507	(359,527)
Total comprehensive income for the period		730,129	(197,723)
(Loss)/profit for the period attributable to:			
Owners of the Company		(56,806)	154,992
Non-controlling interests		428	6,812
		(56,378)	161,804
Total comprehensive income attributable to:			
Owners of the Company		729,106	(201,070)
Non-controlling interests		(1,305)	3,347
		727,801	(197,723)
(Loss)/earnings per share attributable to the owners of the Company during the period	7		
— Basic		HK(0.58) cent	HK1.59 cents
— Diluted		HK(0.58) cent	HK1.59 cents

Notes:

1. BASIS OF PRESENTATION

The unaudited consolidated financial statements for the three months ended 31 March 2022 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 2021 annual report.

The accounting policies adopted in the 2021 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 ("HKICPA"), which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2022.

The new or amended HKFRSs that are effective from 1 January 2022 did not have any significant impact on the Group's accounting policies. The Group has not applied any new or amended HKFRSs that are not yet effective.

2. REVENUE

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

	For the three months ended 31 March	
	2022 HK\$'000	2021 HK\$'000
Sale of lithium batteries	10,575	92,714
Battery swapping service income	1,290	1,632
	11,865	94,346

3. OTHER OPERATING EXPENSES/INCOME

	For the three months ended 31 March	
	2022 HK\$'000	2021 HK\$'000
Bank interest income	2,025	853
Government grants	1,118	544
Rental income	45	30
Sundry income and exchange gain	3,134	5,149
(Loss)/gain on financial assets at fair value through profit or loss	(49,261)	109,224
	(42,939)	115,800

4. FINANCE COSTS

	For the three months ended 31 March	
	2022	2021
	HK\$'000	HK\$'000
Interest charges on bank and other borrowings	2,009	3,278
Others	82	47
	2,091	3,325

5. INCOME TAX

	For the three months ended 31 March	
	2022	2021
	HK\$'000	HK\$'000
Overseas tax		
Current period	–	–
Deferred tax	–	–
Income tax credit	–	–

During the period ended 31 March 2021 and 2022, no provision for Hong Kong profits tax has been provided by the Group as the Group had no estimated assessable profit arising in or derived from Hong Kong. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

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

6. DIVIDEND

The Board has resolved not to declare the payment of a dividend for the three months ended 31 March 2022 (three months ended 31 March 2021: Nil).

7. (LOSS)/EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2022 is based on the loss attributable to the owners of the Company of approximately HK\$56,806,000 (profit for the three months ended 31 March 2021: HK\$154,992,000) and on 9,737,433,606 (31 March 2021: 9,737,433,606) weighted average number of shares (after adjusting the effect of treasury shares held by the Company).

Diluted loss/earnings per share for the three months ended 31 March 2021 and 2022 is the same as basic loss/earnings per share because the impact of the exercise of share options was anti-dilutive.

8. MOVEMENT OF RESERVES

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

	Share capital HK\$'000	Share premium HK\$'000	Treasury shares reserve HK\$'000	Share based payment reserve HK\$'000	Translation reserve HK\$'000	Fair value through other comprehensive income reserve HK\$'000	Retained earnings HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2022	9,855	3,563,686	(142,864)	9,958	(6,264,838)	(84,688)	7,562,937	31,745	4,685,791
(Loss)/profit for the period	-	-	-	-	-	-	(56,806)	428	(56,378)
Other comprehensive income									
Currency translation	-	-	-	-	787,306	-	-	587	787,893
Changes of fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	(1,386)	-	-	(1,386)
Total comprehensive income	-	-	-	-	787,306	(1,386)	(56,806)	1,015	730,129
At 31 March 2022	9,855	3,563,686	(142,864)	9,958	(5,477,532)	(86,074)	7,506,131	32,760	5,415,920

	Share capital HK\$'000	Share premium HK\$'000	Treasury shares reserve HK\$'000	Share based payment reserve HK\$'000	Translation reserve HK\$'000	Fair value through other comprehensive income reserve HK\$'000	Retained earnings HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2021	9,855	3,563,686	(142,864)	9,958	(5,976,822)	(83,450)	7,489,983	(71,324)	4,799,022
Capital Contribution from non-controlling interests	-	-	-	-	-	-	-	89,103	89,103
Transactions with owners	-	-	-	-	-	-	-	89,103	89,103
Profit for the period	-	-	-	-	-	-	154,992	6,812	161,804
Other comprehensive income									
Currency translation	-	-	-	-	(365,796)	-	-	(3,465)	(369,261)
Changes of fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	9,734	-	-	9,734
Total comprehensive income	-	-	-	-	(365,796)	9,734	154,992	3,347	(197,723)
At 31 March 2021	9,855	3,563,686	(142,864)	9,958	(6,342,618)	(73,716)	7,644,975	21,126	4,690,402

MANAGEMENT DISCUSSION AND ANALYSIS

LITHIUM-ION BATTERY BUSINESS

Since its mass production in 2018, our lithium-ion battery plant has supplied batteries to several premium car models, the car models installed with battery packs of the Group include the PHEV model “XC90”, “XC60”, “S60” and “S90” of Volvo and “Lynk 01 PHEV”, “Lynk 02 PHEV” and “Lynk 03 PHEV” model of Lynk & Co. Besides the sale of battery packs, the battery modules produced by the Group are also used in the battery packs of “Polestar 01 PHEV” of Volvo.

Although the batteries produced by the Group are top quality, reliable and safe technically, the small production capacity and low utilisation rate of the battery plant lead to a higher average costs when compared to the other competitors. Lynk & Co. did not purchase the battery packs of the Group for their PHEV models since 2021, which was mainly due to the cost factor. In the PRC, the top ten powered battery manufacturers accounted for over 90% of the market share. The business relationship between the powered battery manufacturer and the NEV manufacturers is stable, making it not easy for the companies in the industry to break off reliance on a major supplier or customer. Customer exploration remains a huge challenge but the Group has been constantly negotiating and promoting products matching with automobile manufacturers and potential new customers in the energy storage field. Expect for lithium ion battery for PHEVs, the Group also has 12V and 48V batteries in the product list.

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

Zhejiang Forever New Energy, a 52% owned subsidiary of the Group, is a modern lithium-ion battery enterprise in Jinhua New Energy Automobile Industrial Park. 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 which produce pouch type cells has commenced mass production since 2018.

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

The production plant of Shandong Forever New Energy, 24.5% owned associate 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

Battery Sharing Business

Under the brand “GETI”, the Company has launched a battery sharing business in mid-2019 which target electric bicycles with business model include self-operation and franchising in the PRC. “GETI” has set up battery swapping stations in the Jiangsu Province and Zhejiang Province. By March 2022, GETI has approximately 676 battery swapping stations and 2,233 package users.

Battery Swapping Station



Standardised Battery Modules

- Unified connector
- 10000+ plug-in number guarantee
- Safer and more worry-free
- multiple charge and discharge protection functions
- Intelligent charge and discharge matrix management
- Battery status real-time monitoring
- Troubleshooting and remote maintenance
- Historical data recording and traceability system
- Battery positioning recovery (Beidou positioning)
- Multi-mode communication component network coverage
- Isolated communication, safety management power channel
- Online OTA upgrade, update hardware features

Progress of SAM

Background

As of 31 March 2022, the Group had accumulatively provided US\$78.6 million to Sul Americana de Metais S.A. (“SAM”), an indirect wholly owned subsidiary of the Company in Brazil, for preliminary work of the iron ore project in Brazil (“Block 8 Project” or “SAM Project”). In addition to the acquisition consideration of US\$78.42 million, the cumulative investment had reached approximately US\$157.0 million.

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

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Progress of SAM — Continued

Job Opportunities

The project is expected to create approximately 6,200 direct jobs during construction and approximately 1,100 direct jobs and 5,600 indirect jobs during operation.

Expected Timetable

Assuming that the LP (preliminary license) is obtained between the fourth quarter of 2022 and the first quarter of 2023, there is a chance to obtain the LI in the second quarter of 2024 and start trial production in the second half of 2027. Many uncertainties, however, may affect the timetable.

Capex and Opex

The total investment of Block 8 Project is estimated to be US\$2.78 billion, excluding the pipeline project led by Lotus Brasil and the port project led by Bahia State Government. The Opex per ton of pellet feed for the first 18 years is approximately US\$27.6 and thereafter will rise to approximately US\$33.8. Taking into account the pipeline transportation and concentrate dewatering service fees payable to Lotus Brasil, as well as fees payable to the port, FOB costs are expected to be approximately US\$40.9 per ton for the first 18 years and then increase to US\$47.1 per ton.

LP Application

SAM remained committed to applying for the LP in compliance with laws and regulations in Brazil over the past few years. When and after the Group was notified of the pending granting of the LP for the first time in 2015, two tailings dam failures occurred in November 2015 and in January 2019 respectively at mines operated by other companies in Brazil, resulting in a severe delay in the granting LP for the SAM project. Although being aware of many mines worldwide that were put into operation or even failed after more than one or two decades of preliminary work, the delay in SAM's obtaining necessary licenses for the construction is still frustrating.

The project has not only been affected by the aforementioned two dam failures but also by litigations.

In March 2011, public prosecutors from the Public Ministry of the Minas Gerais State ("MPMG") issued a "letter of advice" to the Brazilian Institute of Environment and Renewable Natural Resources ("IBAMA"). The letter of advice recommends IBAMA: a) promote the interruption of the environmental licensing process of the "mining complex" of the then SAM's project and hand over the licensing process of the "mining complex" to the environmental licensing authority of the state of Minas Gerais; b) refrain from granting any authorization or license regarding the analysis of the environmental feasibility of the pipeline project, until the possible granting of the LP for the "mining complex" by the State before the environment policy committee of the state grants the LP for the mine Council for Environmental Policy (COPAM/MG). In other words, MPMG requests SAM to apply environmental license for the mine and the pipeline separately in the state of Minas Gerais and at IBAMA. In April 2011, IBAMA rejected the public prosecutors' advice as it thought environmental licensing process for the then SAM's project was legally compliant.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Progress of SAM — Continued

LP Application — Continued

In May 2014, the public prosecutor of MPMG filed a public civil action (ACP) against SAM and IBAMA, alleging that SAM should apply environmental license for SAM's mining rights of Block 7 and Block 8 together as one project and should complement and submit environmental impact studies related to the area of Block 7. IBAMA defended and affirmed that environmental licensing process conducted for the SAM project complied with Brazilian environment legislation. In August 2015, at the first instance, the court judged that it was illegitimate for the public prosecutors of MPMG to file the lawsuit for affairs within the federal jurisdiction and declared to extinguish the ACP process without having ruled on the merits of the discussion. The public prosecutors of MPMG did not revoke the case until May 2016.

In December 2019, public prosecutors of MPMG and the Federal Public Ministry (MPF) jointly filed a public civil action ("ACP") against the Government of the State of Minas Gerais, IBAMA, Lotus Brasil and SAM. The ACP claimed that SAM's mine project and the pipeline project of Lotus Brasil are dependent, and shall be licensed jointly in IBAMA. In January 2020, the judge granted a temporary injunction for the environmental licensing processes of the SAM project and the pipeline project of Lotus Brasil until the final decision was made to ACP. In July 2020, the judge repealed the temporary injunction and provisionally establish IBAMA as the competent organ for the environmental licensing of the SAM project, and allowed IBAMA to delegate its competency to the State of Minas Gerais so that the Government of the State of Minas Gerais can continue with the analysis of the LP application of the SAM project. IBAMA and SEMAD has entered into a technical co-operation agreement on 26 March 2021 and all the delegation procedure was completed in April 2021, SAM has resumed the environmental licensing process in SEMAD.

In order to ensure that public prosecutors have a better understanding of Block 8 Project, SAM and MPMG signed an agreement on 24 May 2021, with the Governor of the State of Minas Gerais attended the signing ceremony. The signing of the agreement fully demonstrated SAM's confidence in the sustainable development model and environmental feasibility of the project.

In April 2017, the strategic affairs committee of the state of Minas Gerais made a decision to include SAM's iron ore project as the priority project of the state. Therefore, the SAM project would enjoy a faster LP application procedure than other projects. The Superintendence of Priority Projects (SUPPRI), a division of SEMAD which is responsible for reviewing the LP application of priority project of the Minas Gerais State, is analysing the EIA-RIMA of SAM. SUPPRI has agreed to complete the analysis of EIA-RIMA in the coming months.

Despite unexpected challenges, the Group still proactively move the SAM project forward and the project was widely supported locally.

After learning that SAM's environmental licensing process was affected by the ACP filed in December 2019, many institutions and associations voiced their support to SAM. SAM received letters of support from 5 mayors of municipalities in the area directly influenced by SAM's project and other 15 local institutions/associations.

According to previous records, most large scale projects in Brazil were challenged by the Public Ministries. SAM will strengthen communication with the Public Ministries and continue to advance the project in accordance with local laws and regulations.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Business Review

For the period ended 31 March 2022, the Group recognised HK\$11.9 million in revenue, representing a 87.4% decrease when compared to HK\$94.3 million revenue recognised in the last corresponding period. The loss for the period ended 31 March 2022 attributable to owners of the Company was approximately HK\$56.8 million (31 March 2021: profit of HK\$155.0 million).

Near 90% revenue of the Group were contributed by our Zhejiang lithium-ion battery plant. The remaining revenue were mainly generated by our electric bicycle battery swapping service in China. The substantial decrease in revenue of the Group was due to the decrease in demand of lithium-ion batteries from our major customer Volvo Car while new battery product is not expected to deliver to our new customer until mid-2022.

The Group is running the battery sharing business focusing on food delivery electric bicycle branded “GETI” in the PRC. By March 2022, GETI has approximately 676 battery swapping stations and 2,233 package users. The Group is currently one of the leading service providers in Jiangsu Province and is planning expand the service to other region in the PRC. It is the vision of the Group to provide safe, convenient and reliable battery swapping service to customers all over China. For the period ended 31 March 2022, GETI has recognised approximately HK\$1.3 million revenue (31 March 2021: HK\$1.6 million). Revenue decreased because of the keen competition in the industry.

The Group recorded a gross profit of approximately HK\$7.4 million (gross profit ratio: 62.6%) for the period ended 31 March 2022 as compared with the gross profit of approximately HK\$29.2 million (gross profit ratio: 30.9%) in the last corresponding period. Gross profit ratio was high because certain long ageing inventories which were written-down previously were sold in the current period.

Other operating expenses of approximately HK\$42.9 million (31 March 2021: income of HK\$115.8 million) was recognised during the current period. The change from income to expense was mainly because approximately net loss of HK\$49.3 million (31 March 2021: gain of HK\$109.2 million) was recognised on financial assets at fair value through profit or loss mainly due to the decrease in share price of Yuxing InfoTech, a listed equity investments listed in the GEM of Hong Kong Stock Exchange Limited during the current period.

Because of the improved quality control, the maintenance cost for the battery products decreased during the current period and the selling and distribution costs during the period ended 31 March 2022 was approximately HK\$2.6 million (31 March 2021: HK\$3.5 million).

The administrative expenses decreased by approximately HK\$3.4 million or 18.1% when compared to the last corresponding period. The decrease was mainly contributed by the decreased in staff costs and research and development costs.

Approximately HK\$2.1 million finance costs were recognised during the period ended 31 March 2022 (31 March 2021: HK\$3.3 million) which were mainly interest expense related to the bank borrowings from a commercial bank in the PRC. The decrease in borrowings and loans of the Group has led to a lower finance costs during the current period.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Business Review — CONTINUED

For the period ended 31 March 2022, the loss attributable to the owners of the Company was approximately HK\$56.8 million (31 March 2021: profit of HK\$155.0 million). The decrease in profit was mainly because there was a net loss of HK\$49.3 million on financial assets at fair value through profit or loss (31 March 2021: net gain of HK\$109.2 million) and decrease in gross profit to HK\$7.4 million during the period (31 March 2021: HK\$29.2 million).

For the associate (20% owned by the Group) which engaged in online car-hailing services in Paris, France under the brand Caocao, the service was launched in Paris in January 2020 and although Caocao has received positive feedback from the market and its revenue has surged since second quarter of 2021 as worries about the COVID-19 pandemic have eased amid rising vaccinations, COVID-19 control measures such as quarantine requirement imposed by Asia countries for returning citizens are still affecting the tourism industry in Paris and a loss was still recognised by the associate during the period. The Group has discontinued the recognition of its share of losses of the associate because the share of loss of the associate exceeded the Group's interests in the associates.

Since 19 March 2020, Shandong Forever New Energy became an associate of the Company. In accordance with the Reorganisation Agreement and the Amended and Restated Joint Investment Agreement, Jiangsu Tiankai shall complete the Capital Increase by payment of the Capital Contribution Sum in cash into a designated account of Shandong Forever New Energy. However, despite repeated demands from the Company, Jiangsu Tiankai has not yet settled the unpaid capital contribution up to the date of this report. In 2020, Shandong Forever New Energy has made an impairment loss on such receivable in view of its long overdue status and the existence of uncertainty to receive the capital contribution sum from Jiangsu Tiankai. Approximately HK\$0.7 million share of loss was recognised by the Company during the period. The Group is exploring the feasibility of retrieving equity or reverting the transaction through negotiation or legal proceedings, and is also constantly exploring the possibility of finding other partners or further developing equity structure and business.

As at 31 March 2022, the cash and cash equivalent balance of the Group was approximately HK\$426.4 million (31 December 2021: HK\$396.4 million). The Group will continue to prudently control its costs and monitor its expenditure under current challenging and uncertain economic situation.

As at 31 March 2022, the gearing ratio of the Group which is measured by total loans and borrowings to total equity was 5.3% (31 December 2021: 6.1%). The gearing ratio of the Group has improved because the net assets value of the Group increased during the period ended 31 March 2022.

Prospects

The world is undergoing an evolution of the replacement of traditional petrol cars by low emission and electric vehicles as several countries in Europe have set out their timetable to phase out combustion-engine vehicles.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Prospects — CONTINUED

Meanwhile, the General Office of the State Council of the PRC released the “New Energy Vehicle Industry Development Plan (2021-2035)” (《新能源汽车产业规划(2021-2035年)》) in November 2020, which aims to guide the development of the new energy vehicle industry in the next fifteen years. The new car sales of new energy vehicles is expected to account for about 20% of the overall new car sales, which is expected to reach 5 million units in 2025. The Company expected that with the launch of the policies, the new energy vehicle industry will continue to maintain a high growth trend in the next few years.

Our Zhejiang lithium-ion manufacturing plant has been focusing on producing lithium-ion batteries for PHEV models in the past few years. Nevertheless, PHEV is only a niche market for the battery segment in new energy vehicles, accounting for approximately 20% of the total new energy vehicles sales in the PRC, which around half of the total sales were derived by a single manufacturer which is also a battery manufacturer. Also, the electric powered range for PHEV has been increasing, while 50-70KM range was the mainstream in the past few years, it is expected PHEV models with over 80-100KM range will become the norm from 2022 onwards. The keen competition and the new industry norm poses a challenge for the Group and revenue of the Group is expected to decrease substantially in the first half of 2022, which was mainly attributable to the substantial decrease in PHEV battery orders from Volvo Car. On the other hand, to obtain new orders and meet the requirements of the new orders, new production facilities have been installed in the Zhejiang manufacturing plant and it is the target of the Company to deliver its new product to the new customer in mid-2022.

Since October 2021, the Company has been working on the potential acquisition of controlling interests of Jixing International Technology Co., Ltd., which is providing online car-hailing service in Paris, France. 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 continue to consider seeking opportunities of merger and acquisition, investment and collaboration in areas such as smart car cockpit, chips and parts for automobile, 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 Brazil SAM iron ore project was covered in the Progress of SAM section in this report. Despite the exceptional time and efforts spent for the SAM iron ore project, it is mainly due the two tailing dam disasters in Brazil in November 2015 and January 2019 that all the licensing process of other projects with tailing dam has been badly affected, therefore the Company was still unable to obtain the Preliminary License (LP) in relation to the environmental feasibility. Despite unexpected challenges and tests, the Group still proactively promoted the SAM project which was widely supported locally. 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.

The overall business strategy of the Group is the dual development of new energy vehicles related business and resources, creating value for shareholders.

Corporate Governance

Throughout the three months ended 31 March 2022, the Company has complied with all Code Provisions as set out in Appendix 15 of the GEM Listing Rules.

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

As at 31 March 2022, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules, relating to the required standards of dealing by directors of listed issuers, to be notified to the Company and the Stock Exchange were as follows:

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

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

Note:

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

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 31 March 2022, 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.

SHARE OPTION SCHEME

The Company's existing share option scheme (the "Scheme") was adopted on 21 May 2012 and became effective on the same date.

Details of the principal terms of the Scheme are summarised under the sub-section headed "SUMMARY OF THE PRINCIPAL TERMS OF THE NEW SHARE OPTION SCHEME" in Appendix III to the Circular of the Company dated 16 April 2012.

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 01/01/2022 and 31/03/2022	Date of grant of share options	Exercise period of share option		
Employee	8,750,000	14/05/2015	15/05/2015 – 14/05/2023	2.61	2.55
Total	8,750,000				

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.

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

As at 31 March 2022, 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
Geely International (Hong Kong) Limited	1,850,675,675	–	–	1,850,675,675	18.78
Zhejiang Geely Holding Group Co., Ltd. (Note 3)	–	–	1,850,675,675	1,850,675,675	18.78
LI Shufu (Note 4)	103,064,000	–	1,850,675,675	1,953,739,675	19.83

Notes:

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

Save as disclosed above, as at 31 March 2022, 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

For the three months ended 31 March 2022, the Group has sold approximately HK\$2.4 million lithium-ion batteries to Zhejiang Geely which is an associate of a substantial shareholder of the Company.

There was no other connected transaction entered into by the Company during the period ended 31 March 2022.

INTERESTS IN COMPETING BUSINESS

None of the Directors or the controlling shareholders (as defined under the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete or had any conflicts of interest with the business of the Group for the three months ended 31 March 2022.

DIRECTORS' INTERESTS IN CONTRACTS

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standards of dealings and its code of conduct regarding the directors' securities transaction throughout the three months ended 31 March 2022.

AUDIT COMMITTEE

The Company had established an audit committee with written terms of reference in compliance with Rule 5.28 and corporate governance code C.3.3 of the GEM Listing Rules.

The Group's unaudited results for the three months ended 31 March 2022 were reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

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

During the three months ended 31 March 2022, neither the Company, its ultimate holding company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

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

Executive Director:

Mr. He Xuechu (*Chairman*)

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

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

Non-Executive Director:

Mr. Yan Weimin

Independent Non-Executive Director:

Mr. Chan Chun Wai, Tony

Mr. Ma Gang

Mr. Ha Chun

On behalf of the Board

LIU Wei, William

Director and Joint Chief Executive Officer

Hong Kong, 10 May 2022