



HONBRIDGE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8137)

THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2020

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UNAUDITED CONSOLIDATED QUARTERLY RESULTS

The board of directors (the "Board") of the Company hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and nine months ended 30 September 2020, together with the comparative unaudited figures for the corresponding periods in 2019, as follows:

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

		Three months ended 30 September		Nine months ended 30 September	
		2020	2019	2020	2019
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	3	85,602	70,564	177,435	196,082
Cost of sales		(65,028)	(71,079)	(139,838)	(196,096)
Gross profit/(loss)		20,574	(515)	37,597	(14)
Other operating income		5,030	28,522	27,863	57,848
Selling and distribution costs		(8,777)	(861)	(15,020)	(2,618)
Administrative expenses		(12,307)	(10,563)	(51,556)	(99,636)
Share of loss of an associate		(4,558)	(7)	(48,770)	(7)
Reverse of impairment of prepayments, deposits and other receivables		—	—	—	20,497
Loss on deemed disposal of a subsidiary	4	—	—	(58,767)	—
Loss on changes in fair value of financial assets at fair value through profit or loss	5	(36,929)	—	(45,936)	—
Finance costs	6	(3,672)	(4,468)	(13,578)	(12,969)
Profit/(Loss) before income tax	7	(40,639)	12,108	(168,167)	(36,899)
Income tax credit	8	—	—	—	—
Profit/(Loss) for the period		(40,639)	12,108	(168,167)	(36,899)
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Exchange loss on translation of financial statements of foreign operations		(67,250)	(271,940)	(1,230,772)	(249,675)
Items that will not be reclassified subsequently to profit or loss:					
Changes in fair value of equity investments at fair value through other comprehensive income		(2,672)	(7,837)	(17,854)	(5,892)
Release of translation reserve upon disposal of a subsidiary		—	—	32,024	—
Total comprehensive income for the period		(110,561)	(267,669)	(1,384,769)	(292,466)
Profit/(Loss) for the period attributable to:					
Owners of the Company		(43,726)	(6,172)	(163,021)	(18,874)
Non-controlling interests		3,087	18,280	(5,146)	(18,025)
		(40,639)	12,108	(168,167)	(36,899)
Total comprehensive income attributable to:					
Owners of the Company		(116,258)	(283,565)	(1,380,827)	(273,082)
Non-controlling interests		5,697	15,896	(3,942)	(19,384)
		(110,561)	(267,669)	(1,384,769)	(292,466)
Losses per share					
— Basic	10	HK(0.44) cent	HK(0.06) cent	HK(1.67) cents	HK(0.19) cent
— Diluted		N/A	N/A	N/A	N/A

Notes:

1. BASIS OF PRESENTATION

The unaudited consolidated financial statements for the three months and nine months ended 30 September 2020 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 2019 annual report.

The accounting policies adopted in the 2019 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 2020.

2. ADOPTION OF NEW OR AMENDED HKFRSS

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

Amendments to HKFRS 3	Definition of a business
Amendments to HKAS 1 and HKAS 8	Definition of material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The new or amended HKFRSs that are effective from 1 January 2020 did not have any significant impact on the Group's accounting policies.

3. REVENUE

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

	Nine months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
Sale of lithium batteries	172,997	195,875
Battery swapping service income	4,438	207
	177,435	196,082

4. LOSS ON DEEMED DISPOSAL OF A SUBSIDIARY

On 20 January 2020, Triumphant Glory Investments Limited, a direct non-wholly owned subsidiary of the Company, entered into a reorganisation agreement with Zhejiang Geely Automobile Co., Ltd. (浙江吉利汽車有限公司) and Jiangsu Tiankai Energy Co., Ltd. (江蘇天開能源技術有限公司) ("Jiangsu Tiankai"), pursuant to which Jiangsu Tiankai agreed to make capital contribution in the amount of US\$20,408,100 (or its equivalent in RMB) into Shandong Forever New Energy Company Limited, a 49% owned subsidiary of the Company (the "Deemed Disposal").

The Deemed Disposal was completed on 19 March 2020 and Triumphant Glory's equity interest in Shandong Forever New Energy has been diluted from 49% to 24.5% and Shandong Forever New Energy was accounted for as an associate of the Company. Net assets of Shandong Forever New Energy Company Limited at the date of Deemed Disposal were as follows:

	HK\$'000
Amount due from non-controlling interest	315,079
Right-of-use assets	41,726
Trade and bills receivables	119
Other receivables	1,416
Cash and cash equivalents	7,332
Trade payables	(2,692)
Other payables and receipts in advance	(1,518)
Borrowings	(67,155)
Deferred income	(1,004)
	293,303
Non-controlling interests	(155,638)
Release of translation reserve upon disposals	32,024
Recognition of interests in associate	(110,922)
Loss on Deemed Disposal	58,767

4. LOSS ON DEEMED DISPOSAL OF A SUBSIDIARY — CONTINUED

An analysis of net outflow of cash and cash equivalents in respect of the Deemed Disposal was as follows:

	HK\$'000
Cash consideration received	—
Cash and cash equivalents disposed of	(7,332)
Net outflow of cash and cash equivalents in respect of the Deemed Disposal	(7,332)

5. LOSS ON CHANGES IN FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The loss represented the changes in fair value of 450,357,200 shares, or 21.72% equity interests in Yuxing InfoTech Investment Holdings Limited ("Yuxing InfoTech"), a company listed in the GEM of Hong Kong Stock Exchange Limited (the "Shares"). The Yuxing InfoTech is not accounted for an equity method as the Group does not have the power to participate in its operating and financial policies, evidenced by the lack of any direct or indirect involvement at board level. The Company has owned the Shares since December 2019 and there was no addition or disposal during the period ended 30 September 2020.

The fair value of the Group's investment in listed securities has been determined by reference to their quoted bid prices on the reporting dates.

6. FINANCE COSTS

	Nine months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
Interest charges on bank and other borrowings wholly repayable within five years	13,338	12,634
Finance cost on lease liabilities	240	335
	13,578	12,969

7. PROFIT/(LOSS) BEFORE INCOME TAX

	Nine months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
Profit/(Loss) before income tax are arrived at after charging:		
Depreciation and amortisation	16,822	33,475

8. INCOME TAX CREDIT

	Nine months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
Overseas tax:		
Current period	–	–
Deferred tax:	–	–
Income tax credit	–	–

During the nine months ended 30 September 2019 and 2020, 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.

9. DIVIDEND

The Board has resolved not to declare the payment of a dividend for the nine months ended 30 September 2020 (nine months ended 30 September 2019: Nil).

10. LOSSES PER SHARE

The calculation of basic loss per share for the three months and nine months ended 30 September 2020 are based on the loss attributable to the owners of the Company of approximately HK\$43,726,000 and HK\$163,021,000 respectively and on 9,737,433,606 weighted average number of shares respectively, after adjusting the effect of treasury share held by the Company. (For the three months and nine months ended 30 September 2019, loss attributable to the owners of the Company was HK\$6,172,000 and HK\$18,874,000 respectively and basic loss per share in the period was calculated based on 9,737,433,606 weighted average number of shares respectively, after adjusting the effect of treasury share held by the Company.)

No diluted earnings per share was presented for the three months and nine months ended 30 September 2020 and 30 September 2019 respectively because the impact of the share options and convertible bonds was anti-dilutive.

11. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY — UNAUDITED

	Attributable to owners of the Company										
	Share capital	Share premium	Treasury shares reserve	Share-based payment reserve	Translation reserve	Fair value reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2020											
At 1 January 2020	9,855	3,563,686	(142,864)	12,170	(5,065,260)	(68,535)	-	6,391,778	4,700,830	65,765	4,766,595
Capital contribution from a non-controlling interests to a non-wholly owned subsidiary	-	-	-	-	-	-	-	-	-	95,910	95,910
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	(155,638)	(155,638)
Share options expired	-	-	-	(4,424)	-	-	-	4,424	-	-	-
Share of equity reduction of an associate	-	-	-	-	-	-	(60,600)	-	(60,600)	(6,228)	(66,828)
	-	-	-	(4,424)	-	-	(60,600)	4,424	(60,600)	(65,956)	(126,556)
Loss for the period	-	-	-	-	-	-	-	(163,021)	(163,021)	(5,146)	(168,167)
Other comprehensive income											
Currency translation	-	-	-	-	(1,231,976)	-	-	-	(1,231,976)	1,204	(1,230,772)
Changes of fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	(17,854)	-	-	(17,854)	-	(17,854)
Release of translation reserve upon disposal of a subsidiary	-	-	-	-	32,024	-	-	-	32,024	-	32,024
Total comprehensive income	-	-	-	-	(1,199,952)	(17,854)	-	(163,021)	(1,380,827)	(3,942)	(1,384,769)
At 30 September 2020	9,855	3,563,686	(142,864)	7,746	(6,265,212)	(86,389)	(60,600)	6,233,181	3,259,403	(4,133)	3,255,270
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	-	-	-	-	-	-	-	(18,874)	(18,874)	(18,025)	(36,899)
Other comprehensive income											
Currency translation	-	-	-	-	(248,316)	-	-	-	(248,316)	(1,359)	(249,675)
Equity investments at fair value through other comprehensive income	-	-	-	-	-	(5,892)	-	-	(5,892)	-	(5,892)
Total comprehensive income	-	-	-	-	(248,316)	(5,892)	-	(18,874)	(273,082)	(19,384)	(292,466)
At 30 September 2019	9,855	3,563,686	(142,864)	12,170	(5,159,154)	(5,892)	-	5,950,450	4,228,251	164,471	4,392,722

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), London Electric Vehicle Company etc. 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. Besides the sale of battery packs, the battery modules produced by the Group are also used in the battery packs of "Polestar 01 PHEV" and "XC90 PHEV" of Volvo.

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 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.



Lynk 01 PHEV battery pack produced by Zhejiang Forever New Energy



Lynk 02 PHEV



Lynk 03 PHEV

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

New Energy Vehicles-Related Business — Continued

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

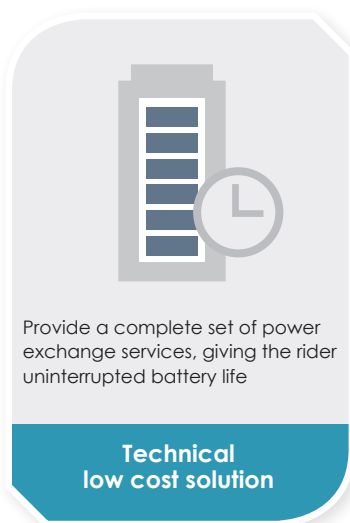
On 20 January 2020, Triumphant Glory, a direct non-wholly owned subsidiary of the Company, entered into a reorganisation agreement with Zhejiang Geely Automobile Co., Ltd. (浙江吉利汽車有限公司) and Jiangsu Tiankai Energy Co., Ltd. (江蘇天開能源技術有限公司) (“Jiangsu Tiankai”), pursuant to which Jiangsu Tiankai agreed to make capital contribution in the amount of US\$20,408,100 (or its equivalent in RMB) into Shandong Forever New Energy a lithium-ion battery enterprise.

The transaction was completed on 19 March 2020, since then Jiangsu Tiankai controls 50% equity interest in Shandong Forever New Energy, whereas Triumphant Glory’s equity interest in Shandong Forever New Energy was diluted from 49% to 24.5%. Shandong Forever New Energy is accounted for an associate of the Company.

Lithium-Ion Battery Business

Battery Sharing Business

Under the brand “GETI”, the Company has launched a battery sharing business in mid-2019 which target electric motorcycles 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 September 2020, GETI has approximately 229 battery swapping stations and around 2,600 package users. The revenue for the segment was approximately HK\$4.4 million for the period ended 30 September 2020. GETI’s major features are set out below:



MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

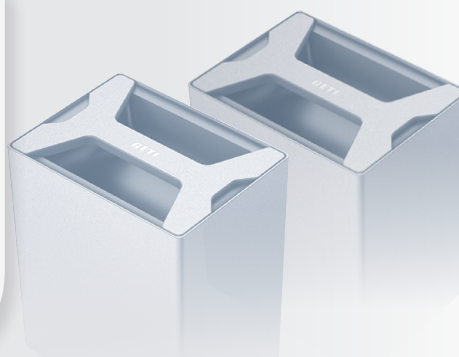
Lithium-Ion Battery Business — Continued

Battery Swapping Station



- Constant temperature control system
- Intelligent charging strategy
- Fireproof and explosionproof and waterproof
- Intelligent fault management

Standardised Battery Modules



- Standard 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

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Lithium-Ion Battery Business — Continued

The Sales Framework Agreement with Zhejiang Geely Holding Group Co. Ltd. (“Zhejiang Geely”)

On 28 September 2020 (after trading hours), the Company entered into a sales framework agreement with Zhejiang Geely, pursuant to which the Group will supply high-performance ternary lithium-ion battery pack to Zhejiang Geely Group in accordance with the terms and conditions thereunder (the “Sales Framework Agreement”). Principal terms of the Sales Framework Agreement are set out below:

Term:	From 23 October 2020 or the date on which the Independent Shareholders approve the Sales Framework Agreement, the annual caps and the transactions contemplated therein (whichever is later) to 22 October 2023
Subject matters:	Pursuant to the Sales Framework Agreement, the Group shall supply high-performance ternary lithium-ion battery pack and related products to Zhejiang Geely and its subsidiaries but excluding Geely Automobile Holdings Limited and its subsidiaries. The exact model and volume of goods purchased by Zhejiang Geely from the Group and the dates of delivery will be provided in separate purchase orders.
Pricing basis:	The price of goods under the Sales Framework 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 separate purchase orders.
Payment terms:	All transactions contemplated under the Sales Framework Agreement are satisfied in cash.

Proposed Annual Caps for the Sales Framework Agreement

It is expected that for the period ending 31 December 2020, for the year ending 31 December 2021 and 2022 and for the period ending 22 October 2023, the Group supplying high performance ternary lithium-ion battery pack and related products to Zhejiang Geely will not exceed the following respective amounts and such amounts have been set as the proposed caps for the relevant continuing connected transactions contemplated under the Sales Framework Agreement accordingly:

	For the period from 23 October 2020 to 31 December 2020 RMB	For the year ending 31 December 2021 RMB	For the year ending 31 December 2022 RMB	For the period from 1 January 2023 to 22 October 2023 RMB
Proposed annual caps	76,000,000	250,000,000	300,000,000	350,000,000

Should the actual annual purchase amount exceed the above proposed annual caps, the Company will revise the annual caps in compliance with the relevant requirements under Chapter 20 of the GEM Listing Rules. The annual caps after the period ending 22 October 2023 will be proposed at the suitable time in compliance with the relevant requirements under Chapter 20 of the GEM Listing Rules.

An extraordinary general meeting of the Company will be held on 16 November 2020 to pass resolutions in relation to the Sales Framework Agreement.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Business Review

For the nine months ended 30 September 2020, the Group recorded a revenue of approximately HK\$177.4 million, representing a 9.5% decrease when compared to revenue of HK\$196.1 million recognised in the last corresponding period. The loss for the nine months ended 30 September 2020 attributable to owners of the Company was approximately HK\$163 million (30 September 2019: HK\$18.9 million). Approximately 97.5% revenue of the Group were contributed by our Zhejiang Forever New Energy lithium-ion battery plant.

Due to the pandemic of COVID-19, the worldwide economic activities are substantially disrupted, and new energy vehicle and lithium-ion battery industry are no exception. Despite the market in the PRC has substantially recovered in the second and third quarter of 2020, according to the data released by China Association of Automobile Manufactures (中國汽車工業協會), the production and sales number of new energy vehicles in the PRC were only 738,000 and 734,000 respectively for the first nine months of 2020, decreased by approximately 18.7% and 17.7% when compared to the corresponding period in 2019. Despite of all the difficulties in the industry, the revenue of the Company was decreased only by 9.5%.

The Group recorded a gross profit of approximately HK\$37.6 million (gross profit ratio: 21.2%) for the nine months ended 30 September 2020 as compared with the gross loss of approximately HK\$14,000 (gross profit ratio: -0.007%) in the last corresponding period. Gross profit ratio improved because the upgraded product of our Zhejiang battery plant has a better profit margin. On the other hand, the Group has improved the overall operating efficiency of the plant, overhead costs such as depreciation expenses also decreased after impairment provision on property, plant and equipment during the last financial year. Without compromise of the battery quality, the Group also optimised the human resources structure of the battery plant. 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.

The compulsory “Technical Specifications for Safety of Electric Bicycles” 《電動自行車安全技術規範》 national standard (the “New National Standard”) was effective since April 2019 in the PRC. It regulates electric bicycles’ safety performance, speed limit, production quality and pedal riding performance, etc., these policies has accelerated the transition of lead-acid battery in electric bicycles to lithium battery. To seize this opportunity, in mid-2019 the Group has launched the battery sharing business branded “GETI” focusing on food delivery electric motorcycle in the PRC in Jiangsu Province and Zhejiang Province. In September 2020, GETI has approximately 229 battery swapping stations and around 2,600 package users. The Group will initially focus on serving the customers in the two Provinces and expand the service to other region in the PRC based on the future business strategy. Ultimately, it is the vision of the Group to provide safety, convenient and reliable battery swapping service to customers all over China. For the period ended 30 September 2020, GETI has recognised approximately HK\$4.4 million revenue.

Other operating income of approximately HK\$27.9 million (30 September 2019: HK\$57.8 million) was recognised during the current period. It consists of government grants of HK\$18.5 million (30 September 2019: HK\$38.5 million), imputed interest income of amounts due from non-controlling interests of HK\$3.3 million (30 September 2019: HK\$9.8 million) and bank interest income of HK\$1.5 million (30 September 2019: \$4.3 million). The selling and distribution costs during the period ended 30 September 2020 was approximately HK\$15.0 million (30 September 2019: HK\$2.6 million). The increase was mainly due to increase in product maintenance costs.

The administrative expenses decreased substantially when compared to the last corresponding period. The decreased was mainly due to the decrease in research and development expenses by approximately HK\$45.3 million compared to the last corresponding period as more testings were conducted on new battery product in the last corresponding period.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Business Review — Continued

The finance costs of approximately HK\$13.6 million recognised during the nine months ended 30 September 2020 (30 September 2019: HK\$13.0 million) were mainly interest expense related to the bank borrowings from a commercial bank in the PRC and loans from Zhejiang Geely Holding Group Co., Ltd and its subsidiary.

For the period ended 30 September 2020, the loss attributable to the owners of the Company was approximately HK\$163.0 million (30 September 2019: HK\$18.9 million). The increase in loss was mainly due to the share of loss of associates of HK\$48.8 million, HK\$58.8 million non-recurring, non-cash loss on disposal of a subsidiary (Shandong Forever New Energy) HK\$45.9 million loss on changes in fair value of financial assets (450,357,200 shares of Yuxing Infotech Investment Holdings Limited — stock code: 8005) during the current period.

Compared to the loss attributable to owners of the Company for the period ended 30 June 2020 of approximately HK\$119.3 million, the loss attributable to owners of the Company for the period ended 30 September 2020 increased by approximately HK\$43.7 million. It was mainly due to the HK\$36.9 million loss on changes in fair value of financial assets during the three months ended 30 September 2020.

In 2019, Honbridge Technology Limited (“Honbridge Tech”), a wholly-owned subsidiary of the Company, set up a Joint Venture with 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, 20% owned by Honbridge Tech, is initially engaged in online car-hailing services in Paris, France under the brand Caocao and related services and will gradually extend its online car-hailing services to other cities in Europe depending on its business development progress. The service was launched in Paris in January 2020 and although its business operation has been affected by the pandemic of COVID-19, Caocao has received positive feedback from the market.

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 within 30 days after the Industrial and Commercial Administration Bureau has completed the registration of increase in share capital of Shandong Forever New Energy and issued the corresponding Business License (issued on 19 March 2020). However, despite repeated demands from the Company, Jiangsu Tiankai has not fulfilled the obligations under Reorganisation Agreement and the Amended and Restated Joint Investment Agreement to pay the Capital Contribution Sum. Shandong Forever New Energy has made an asset impairment provisions because of the material uncertainty to receive the capital contribution sum from Jiangsu Tiankai and approximately HK\$38.8 million share of loss was recognised by the Company during the period.

As at 30 September 2020, the cash and cash equivalent balance of the Group was approximately HK\$277 million. The Group will continue to prudently control its costs and monitor its expenditure under current challenging and difficult economic situation.

Progress of SAM

As at 30 September 2020, the Group has provided funding with principal amount of approximately US\$74.6 million to the iron ore project in Brazil (“Block 8 Project” or “SAM Project”), through shareholders’ loans and increase of registered capital in Sul Americana de Metais S.A. (“SAM”), an indirect wholly owned subsidiary of the Company in Brazil.

SAM is devoted to develop Block 8 Project as phase I operation in the state of Minas Gerais 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.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Progress of SAM — Continued

On 2 December 2019, SAM learned from the media that a Minas State Public Ministry (“MPMG”) and a Federal Public Ministry (“MPF”) jointly initiated a public civil action (“ACP”) against the Minas Gerais State Government, Brazilian Institute of Environment and Renewable Resource (“IBAMA”), LOTUS BRASIL, and SAM. The ACP claimed that SAM’s Block 8 mine project and the pipeline project of LOTUS BRASIL are dependent, and shall be licensed jointly in IBAMA. In another word, the ACP concerns if the Minas Gerais State Government is the legitimate authority to analyse and approve the LP application and whether Block 8 Project and Lotus Brasil should be licensed jointly in IBAMA, it does not involve environmental feasibility of the Block 8 Project.

On 14 January 2020, the Federal Judge of the 3rd Federal Court of the Judicial Subsection of Montes Claros made a provisional decision about the ACP (the “Provisional Decision”). The Provisional Decision temporarily suspended SAM’s and LOTUS BRASIL’s licensing processes until the judge himself can hear the parties’ reasons and decide the ACP. Again, this decision does not deal with the environmental feasibility of the project.

On 21 January 2020, SAM appealed in the Fifth Panel of the Federal Regional Court of the 1st Region (TRF1) in Brasília, requested to cancel the Provisional Decision. Beside the aforementioned arguments, we believe this Provisional Decision is unreasonable for this case considering Block 8 Project is still at the status of environmental licensing, which does not offer risk of direct impacts on the environment immediately.

In March 2020, Minas Gerais State Government, IBAMA and LOTUS BRASIL all made interlocutory appeals to the ACP respectively, and their arguments are consistent with SAM’s. Additionally, the Minas Gerais State Government and IBAMA emphasised that the Provisional Decision violated the Art 2 of the Law no. 8.437 (i.e. without hearing the opinion from public authorities) and should be withdrawn as soon as possible.

On 7 July 2020, the judge made an interlocutory decision. The judge determined to exclude the MPMG from the parties of the ACP, and repeal the provisional decision of suspension of the licensing process and provisionally establish IBAMA as the competent organ for the environmental licensing of the mine project. With this decision, the continuation of the environmental studies and analyzes referring to the mine and pipeline projects is authorized.

On 21 July 2020, IBAMA submitted contestation, IBAMA mentioned that the present ACP case is not the first case of debate about mine and pipeline under Brazilian law, in all other cases the Public Ministries has agreed that mine and pipeline are separate projects for the purposes of environmental licensing. The mine is a project located only in the State of Minas Gerais and IBAMA’s is not responsible for its licensing. On the other hand, the pipeline comprises more than one State, so the pipeline would be the responsibility of IBAMA. Otherwise, there is a direct violation of Complementary Law no.140.

On 21 August 2020, the Minas State government made an interlocutory appeal stating that, the contested decision of the judge on 7 July 2020, without the prior hearing of the State of Minas Gerais, establishes IBAMA as the only competent body to process environmental licensing of the two projects (mine and pipeline), preventing state environmental agencies from analyzing the administrative environmental licensing process within their competence, is clear offense to the rules that determine the allocation of powers in the context of environmental licensing; the analysis of the environmental licensing of the mining project is the responsibility of the state environmental agency; the contested decision, based on a revoked legal provision and a manifest offense to Complementary Law No. 140/11, prevents the exercise of its own function to state environmental agencies, preventing them from exercising legal competence, which cannot be accepted.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Progress of SAM — Continued

On 24 August 2020, the judge made a new decision and clarified that temporarily establishing IBAMA as the competent body for the licensing of the projects does not prevent IBAMA from delegating its competency to the State of Minas Gerais, i.e. it does not prevent IBAMA from exercising the delegation power conferred by law; furthermore, this determination of competence in favor of IBAMA does not imply the interruption of the activities and studies that are being carried out by environmental organs of the State of Minas Gerais, their continuation was even expressly authorized by the interlocutory decision.

Although the decision of suspension of the licensing process was repealed, SAM is taking all available measures and legal options to defend the company aiming to resume the licensing process in Minas State and to conclude the ACP as soon as possible.

Significant Law Update Relating to the Mining Industry in Brazil

On 11 May 2020, the National Mining Agency (ANM) published a new resolution No.32 to alter Ordinance N° 70.389 on 17 May 2017 which is about the safety of dams of mining industry. Resolution.32 totally changed the criteria and method for dam-breach study. In order to comply with this new resolution of ANM, in the end of September, SAM hired WALM to redo its dam-breach study, and redesign the “Tailings Flood Wave Containment Structure”(a type of “dike”)based on the new result of the new dam-breach study. WALM predicts that it will take five months to finish the aforementioned engineering work.

On 1 October 2020, a new Law No. 14.066 of 30 September 2020 was published in Brazil to amend Law No. 12.334 of 20 September 2010, which establishes the National Dam Safety Policy (PNSB).

Based on the analysis of SAM’s technical team and its consultants, this new law has no material adverse impact on SAM’s project.

SAM has been communicating and having meetings with government institutions, environmental organs, State and Federal deputies, senators, municipals and associations to present SAM’s new tailings disposal technology. After learning that SAM’s environmental licensing process was suspended, lots of institutions and associations are manifesting their support to SAM. SAM has received support letters from 5 Mayors of the municipalities in the area directly influenced by SAM’s project and other 15 local institutions/associations.

COVID-19 has been spreading fast worldwide. For SAM, life comes first. Since the pandemic broke out in Brasil, SAM have followed all WHO guidelines to take care of the health of our employees and the community where we operate. The company donated 70,000 medical surgical masks to 6 municipalities in the north region of Minas Gerais State to combat the COVID-19 at the early stage of pandemic when Brazilian market was severely short of masks. In June, SAM received a letter of thanks from the Governor of Minas Gerais State because of SAM’s donation.

On 8 July 2020, SAM signed a non legal binding Memorandum of Understanding (“MOU”) with HUAWEI BRAZIL to cooperate in developing unmanned mining technology and effectively applying 5G in mining operation of Block 8 Project. SAM and HUAWEI also commit to cooperate in carrying out social responsibility actions in the region where SAM operates. The parties will cooperate in human resources training at technical level in 5G, artificial intelligence and Cloud solutions, creating more opportunity for the people of the region to learn and access high technology, and promoting educational cooperation with the local universities and schools. Once Block 8 Project goes into operation, SAM and HUAWEI will co-found and implement a Technology Innovation Center in the North region of Minas Gerais.

COVID-19 pandemic has widely affected the normal business and operation of government in Brazil. If there is any breakthrough in the SAM Project, announcement will be made in accordance with the GEM Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Shareholding in Yuxing InfoTech

On 19 June 2020 (after trading hours), the Company and Bronze Pony Investments Limited (the “Purchaser”) entered into an agreement in relation to the disposal of 400,000,000 shares (the “Sale Shares”) of Yuxing InfoTech Investment Holdings Ltd. (“Yuxing InfoTech”) (the “Agreement”).

The principal terms of the Agreement are set out below:

Consideration

The consideration for the Sale Shares is HK\$240,000,000, which represents HK\$0.6 per Target Share subject to the adjustment as set out in the paragraph headed “Adjustment to the number of the Sale Shares” below. The consideration shall be payable in cash, check or cashier order in the following manner.

	Date	Amount payable (HK\$)
First instalment	Before 20 July 2020	25,000,000
Second instalment	On or before 30 September 2020	95,000,000
Third instalment	On or before 30 June 2021	120,000,000

Adjustment to the number of the Sale Shares

If the Purchaser defaults in the payment of the second instalment, the Company may elect to forfeit the first instalment or increase the consideration per share from HK\$0.6 per Sale Share to HK\$0.66 per Sale Share, such that the number of shares to be transferred to the Purchaser upon completion of the disposal will be reduced to the number equal to the consideration received by the Company divided by HK\$0.66 per share.

If the Purchaser defaults in the payment of the third instalment, the Company will increase the consideration per share from HK\$0.6 per Sale Share to HK\$0.66 per Sale Share, such that the number of shares to be transferred to the Purchaser upon completion will be reduced to the number equal to the consideration received by the Company divided by HK\$0.66 per share.

So the final number of Sale Shares may be lower than the expected 400,000,000 shares of Yuxing InfoTech. The actual amount of gain or loss as a result of the disposals to be recognised by the Company will be subject to the book value of the Sales Shares as at the date of completion, any potential adjustment to the number and the per share price of the Sale Shares.

As the Company has already received approximately HK\$15.6 million from the Purchaser up to the date of this announcement, the Company has agreed to grant more time for the Purchaser to arrange the consideration.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Prospects

On 2 November 2020, the General Office of the State Council of the PRC released the “New Energy Vehicle Industry Development Plan (2021-2035)” (《新能源汽車產業發展規劃(2021—2035年)》), which aims to guide the development of the new energy vehicle industry in the next fifteen years. By 2025, the competitiveness of new energy vehicle market in the PRC will improve significantly with major breakthroughs achieved in terms of key technologies such as powered batteries, electric motors and vehicle operating systems, as well as comprehensively enhanced safety level. The new car sales of new energy vehicles will account for about 20% of the overall new car sales, which is expected to reach 5 million units in 2025. The PRC government will also deepen the research and development layout of “three-vertical-three-horizontal” (三縱三橫), under which pure electric vehicles, plug-in hybrid electric vehicles (including extended range models) and fuel cell electric vehicles serve as “three-vertical”, which is the layout for vehicle technology innovation chain; while powered batteries and management systems, electric motors and power electronics, networking and intelligent technologies serve as “three-horizontal”, which is the supply system for critical parts, components and technologies. The Company expected that with the launch of the latest policies, the new energy vehicle industry will continue to maintain a high growth trend in the next few years.

Nevertheless, the global economy continues to be weakened by rising trade barriers and increasing geopolitical tensions. The novel coronavirus (COVID-19) outbreak since the end of 2019 adds another significant challenge to the world economy, the economic uncertainty is expected to possibly affect the sales of the Group. COVID-19 pandemic is also likely to accelerate the elimination and reorganisation in the new energy vehicle and lithium-ion battery industry. The Group will take a more prudent approach in business operation and development.

For the resource sector, the latest progress of the SAM Project was covered in the Progress of SAM section in this announcement and 2019 annual report. Despite the exceptional time and efforts spent for the SAM iron ore project, it is disappointing and helpless that the Company was still unable to obtain the Preliminary License (LP) in relation to the environmental feasibility, however, 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.

Corporate Governance

Throughout the nine months ended 30 September 2020, the Company has complied with all Code Provisions as set out in Appendix 15 of the GEM Listing Rules.

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

As at 30 September 2020, 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:

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

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 30 September 2020, 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			Date of grant of share options	Exercise period of share option	Exercise price per share option	Price immediately preceding the grant date of share options
	Outstanding as at 01/01/2020	Lapsed during the period	Outstanding as at 30/09/2020				(Note a) HK\$
Employee	5,000,000	(5,000,000)	–	28/05/2012	28/05/2012 – 27/05/2020	0.95	0.91
	8,750,000	–	8,750,000	14/05/2015	15/05/2015 – 14/05/2023	2.61	2.55
Total	<u>13,750,000</u>	<u>(5,000,000)</u>	<u>8,750,000</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 September 2020, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules.

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

As at 30 September 2020, the following persons, other than the Directors or chief executives of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO:

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

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 September 2020, 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 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 and has a fixed interest rate of 4.75% per annum. The loan was fully repaid during the period ended 30 September 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 and have a fixed interest rate of 4.35% per annum. The loans were fully repaid during the period ended 30 September 2020.

On 20 September 2019, for the working capital requirement of Zhejiang Forever New Energy, Shanghai Maple Automobile Company Limited provided a loan with the principal amount of RMB33.6 million (approximately HK\$36.85 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 20 March 2020 with a new repayment date on 20 March 2021.

On 13 May 2020, for the working capital requirement of Zhejiang Forever New Energy, Shanghai Maple Automobile Company Limited provided a loan with the principal amount of RMB52.8 million (approximately HK\$57.9 million) to Zhejiang Forever New Energy. The loan is not secured by the assets of the Company, repayable 12 months after the drawdown date and has a fixed interest rate of 4.35% per annum.

During the period ended 30 September 2020, a finance costs of HK\$5.6 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 September 2020, the Group has sold approximately HK\$137.6 million and HK\$34.7 million lithium-ion batteries to Volvo Car and Zhejiang Geely Components respectively.

INTERESTS IN COMPETING BUSINESS

None of the Directors or the controlling shareholders (as defined under the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete or had any conflicts of interest with the business of the Group for the nine months ended 30 September 2020.

DIRECTORS' INTERESTS IN CONTRACTS

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standards of dealings and its code of conduct regarding the directors' securities transaction throughout the nine months ended 30 September 2020.

AUDIT COMMITTEE

The Group's unaudited results for the nine months ended 30 September 2020 were reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

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

During the nine months ended 30 September 2020, 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 announcement, 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, 10 November 2020