



Burwill Holdings Limited

寶威控股有限公司

(incorporated in Bermuda with limited liability)

Stock code : 24



Interim Report **2019**



The Directors of Burwill Holdings Limited (the “Company”) hereby present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2019 as follows:

Condensed Consolidated Income Statement

		Unaudited	
		Six months ended 30 June	
		2019	2018
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Continuing operations			
Revenue	2	932,797	1,014,126
Cost of sales		(927,508)	(989,349)
		<hr/>	<hr/>
Gross profit		5,289	24,777
Other income and net losses	3	(51,459)	(2,263)
Selling and distribution expenses		(15,029)	(16,329)
General and administrative expenses		(24,449)	(36,465)
Net impairment losses on financial assets		(30,000)	–
Share option expenses		(21,002)	–
		<hr/>	<hr/>
Operating loss	4	(136,650)	(30,280)
Finance costs	5	(35,482)	(22,631)
Share of profits of associates		1,173	2,990
Share of losses of joint ventures		(11,985)	(262)
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Loss before income tax		(182,944)	(50,183)
Income tax credit/(expense)	6	1,061	(1,742)
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Loss for the period from continuing operations		(181,883)	(51,925)
Discontinued operations			
Profit for the period from discontinued operations		–	94,451
		<hr/>	<hr/>
(Loss)/Profit for the period		(181,883)	42,526
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Condensed Consolidated Income Statement (continued)

	Unaudited	
	Six months ended 30 June	
	2019	2018
<i>Notes</i>	HK\$'000	HK\$'000
(Loss)/Profit attributable to:		
Owners of the Company	(181,883)	42,792
Non-controlling interests	-	(266)
	(181,883)	42,526
(Loss)/Profit attributable to owners of the Company arises from:		
Continuing operations	(181,883)	(51,925)
Discontinued operations	-	94,717
	(181,883)	42,792
(Loss)/Earnings per share from continuing and discontinued operations attributable to owners of the Company for the period	(3.56)	(1.04)
	(3.56)	(1.04)
Basic (loss)/earnings per share		
From continuing operations (HK cents)	(3.56)	(1.04)
From discontinued operations (HK cents)	-	1.89
	(3.56)	0.85
Diluted (loss)/earnings per share		
From continuing operations (HK cents)	(3.56)	(1.04)
From discontinued operations (HK cents)	-	1.89
	(3.56)	0.85

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Condensed Consolidated Statement of Comprehensive Income

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
(Loss)/Profit for the period	(181,883)	42,526
Other comprehensive income/(expense):		
<i>Items that may be reclassified to profit or loss</i>		
Share of other comprehensive income/(expense) of associates	478	(1,741)
Release of translation adjustments upon disposal of subsidiaries	–	(55,515)
Currency translation differences	(4,904)	(432)
<i>Items that will not be reclassified to profit or loss</i>		
Changes in the fair value of financial assets at fair value through other comprehensive income	(117)	(8,012)
Other comprehensive expense for the period, net of tax	(4,543)	(65,700)
Total comprehensive expense for the period	(186,426)	(23,174)
Total comprehensive expense for the period attributable to:		
Owners of the Company	(186,426)	(22,908)
Non-controlling interests	–	(266)
	(186,426)	(23,174)
Total comprehensive expense attributable to owners of the Company arising from:		
Continuing operations	(186,426)	(62,110)
Discontinued operations	–	39,202
	(186,426)	(22,908)

Condensed Consolidated Balance Sheet

	Unaudited	Audited
	30 June	31 December
	2019	2018
<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
ASSETS		
Non-current assets		
Property, plant and equipment	1,322	1,869
Right-of-use assets	7,252	–
Investments in associates	204,734	208,026
Investments in joint ventures	37,710	49,695
Financial assets at fair value through other comprehensive income	21,484	21,601
Club debentures	1,473	1,473
Deferred income tax assets	15,238	14,206
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Total non-current assets	289,213	296,870
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Current assets		
Inventories	7,792	86,024
Financial assets at fair value through profit or loss	78,283	133,937
Bills and accounts receivable	637,016	699,462
Deposits, prepayments and other receivables	381,447	402,315
Due from associates	98,394	129,062
Due from joint ventures	58	58
Income tax refundable	649	649
Cash and bank balances	64,040	70,251
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Total current assets	1,267,679	1,521,758
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Total assets	1,556,892	1,818,628
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Condensed Consolidated Balance Sheet (continued)

		Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
	<i>Notes</i>		
EQUITY			
Share capital	9	511,162	510,962
Other reserves		1,012,509	1,004,943
Accumulated losses		(872,776)	(691,187)
Capital and reserves attributable to owners of the Company		650,895	824,718
Non-controlling interests		–	(8,670)
Total equity		650,895	816,048
LIABILITIES			
Non-current liabilities			
Borrowings		19,834	71,301
Deferred income tax liabilities		4	4
Total non-current liabilities		19,838	71,305
Current liabilities			
Borrowings		607,886	593,871
Contract liabilities		10,388	32,179
Due to associates		17,559	516
Bills and accounts payable	10	15,326	88,000
Other payables and accruals		234,594	215,109
Income tax payable		406	1,600
Total current liabilities		886,159	931,275
Total liabilities		905,997	1,002,580
Total equity and liabilities		1,556,892	1,818,628
Net current assets		381,520	590,483
Total assets less current liabilities		670,733	887,353

Condensed Consolidated Statement of Changes in Equity

	Unaudited six months ended 30 June 2019				
	Attributable to owners of the Company				
	Share capital HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
Balance at 1 January 2019	510,962	1,004,943	(691,187)	(8,670)	816,048
Total comprehensive expense for the period	-	(4,543)	(181,883)	-	(186,426)
Share option scheme:					
– value of services	-	21,002	-	-	21,002
– share options exercised	200	71	-	-	271
Release upon lapse of share options	-	(294)	294	-	-
Changes in ownership interests in subsidiaries without change of control	-	(8,670)	-	8,670	-
Total transactions with owners	200	12,109	294	8,670	21,273
Balance at 30 June 2019	511,162	1,012,509	(872,776)	-	650,895
	Unaudited six months ended 30 June 2018				
	Attributable to owners of the Company				
	Share capital HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
Balance at 1 January 2018	497,283	1,010,532	(520,363)	(35,646)	951,806
Total comprehensive income/ (expense) for the period	-	(65,700)	42,792	(266)	(23,174)
Share option scheme:					
– share options exercised	16,740	19,569	-	-	36,309
– share options lapsed	-	(294)	294	-	-
Disposal of subsidiaries	-	50,027	(50,027)	27,242	27,242
Total transactions with owners	16,740	69,302	(49,733)	27,242	63,551
Balance at 30 June 2018	514,023	1,014,134	(527,304)	(8,670)	992,183

Condensed Consolidated Statement of Cash Flows

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	<i>HK\$'000</i>
Net cash generated from/(used in) operating activities	48,541	(185,740)
Net cash generated from/(used in) investing activities	5,582	(91,537)
Net cash (used in)/generated from financing activities	(78,324)	211,703
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Net decrease in cash and cash equivalents	(24,201)	(65,574)
Cash and cash equivalents at 1 January	65,628	121,530
Effect of exchange rate changes	(9)	(35)
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Cash and cash equivalents at 30 June	41,418	55,921
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Analysis of the balances of cash and cash equivalents		
Cash at bank and on hand	64,040	58,760
Less: Pledged bank balances	–	(2,839)
Bank overdrafts	(22,622)	–
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Cash and cash equivalents	41,418	55,921
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Notes:

(1) Basis of preparation and accounting policies

The unaudited condensed consolidated financial statements have been prepared in accordance with HKAS 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The unaudited condensed consolidated financial statements should be read in conjunction with the financial statements for the year ended 31 December 2018.

The accounting policies used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the financial statements for the year ended 31 December 2018, except that the Group has adopted the new standards and interpretations which are mandatory for financial year ending 31 December 2019. The adoption of the new standards and interpretations has no significant effect on these financial statements except for the adoption of HKFRS16 – Leases.

New standards and amendments to HKFRSs that are mandatorily effective for the current year, having significant effect on financial statements

The Group had to change its accounting policies following the adoption of HKFRS 16 and the effects arising from initial application of it is summarised below:

HKFRS 16 – Leases

(a) Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of HKAS 17 “Leases”. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.5%.

The measurement principles of HKFRS 16 are only applied after that date. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

	<i>HK\$'000</i>
Operating lease commitments disclosed as at 31 December 2018	12,620
Discounted using the lessee’s incremental borrowing rate at the date of initial application	(206)
Exemption for short-term leases	(711)
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Lease liabilities recognised as at 1 January 2019	11,703
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Of which are:	
Current lease liabilities	2,835
Non-current lease liabilities	8,868
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	11,703
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(1) Basis of preparation and accounting policies (continued)

(a) Adjustments recognised on adoption of HKFRS 16 (continued)

The associated right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets related to the following types of assets.

	As at 30 June 2019 HK\$'000	As at 1 January 2019 HK\$'000
Properties	7,252	11,703

The change in accounting policy affected the following items in the opening unaudited condensed consolidated balance sheet on 1 January 2019:

- right-of-use assets – increase by HK\$11,703,000
- lease liabilities – increase by HK\$11,703,000

Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease".

(1) Basis of preparation and accounting policies (continued)

(b) The Group's leasing activities and how these are accounted for

As a lessee, the Group's leases are mainly rentals of office. Rental contracts are typically made for fixed periods of 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment was classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as right-of-use assets and a corresponding liabilities at the date at which the leased assets are available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liabilities;
- any lease payments made at or before the commencement date less any lease incentives received; and
- any initial direct cost.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

The Group has not early applied any new or revised standards or interpretations that have been issued by the HKICPA but are not yet effective.

(2) Segment information

Revenue recognised during the six months period is as follows:

	Unaudited Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Continuing operations		
Sale of goods	932,797	1,014,126

(2) Segment information (continued)

The segment results are as follows:

	Unaudited Six months ended 30 June 2019			
	Continuing operations			
	Steel trading HK\$'000	Lithium business HK\$'000	Unallocated HK\$'000	Group HK\$'000
Total segment sales	932,797	-	-	932,797
Inter-segment sales	-	-	-	-
Sales to external customers	932,797	-	-	932,797
Operating profit/(loss) before below items	(10,214)	831	(21,165)	(30,548)
Fair value losses on financial assets at fair value through profit or loss	-	-	(55,100)	(55,100)
Net impairment losses on financial assets	-	-	(30,000)	(30,000)
Share option expenses	-	-	(21,002)	(21,002)
Operating profit/(loss)	(10,214)	831	(127,267)	(136,650)
Finance costs	(5,207)	(2,948)	(27,327)	(35,482)
Share of profits of associates	-	-	1,173	1,173
Share of (losses)/profits of joint ventures	-	(12,121)	136	(11,985)
Segment results	(15,421)	(14,238)	(153,285)	(182,944)
Income tax credit				1,061
Loss for the period from continuing operations				(181,883)
Profit for the period from discontinued operations				-
Loss for the period				(181,883)

(2) Segment information (continued)

	Unaudited Six months ended 30 June 2018			
	Continuing operations			
	Steel trading <i>HK\$'000</i>	Lithium business <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Group <i>HK\$'000</i>
Total segment sales	1,014,126	–	–	1,014,126
Inter-segment sales	–	–	–	–
Sales to external customers	1,014,126	–	–	1,014,126
Operating profit/(loss) before below items	10,195	(3,628)	(32,869)	(26,302)
Fair value losses on financial assets at fair value through profit or loss	–	(3,934)	(44)	(3,978)
Operating profit/(loss)	10,195	(7,562)	(32,913)	(30,280)
Finance costs	(4,865)	(144)	(17,622)	(22,631)
Share of profits of associates	–	–	2,990	2,990
Share of losses of joint ventures	–	(262)	–	(262)
Segment results	5,330	(7,968)	(47,545)	(50,183)
Income tax expense				(1,742)
Loss for the period from continuing operations				(51,925)
Profit for the period from discontinued operations				94,451
Profit for the period				42,526

(2) Segment information (continued)

The revenue by location of customers are as follows:

	Unaudited Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Continuing operations		
Mainland China	464,831	259,254
Europe	384,553	426,986
Asia (other than Mainland China and Hong Kong)	76,480	223,825
Hong Kong	4,896	94,336
Others	2,037	9,725
	932,797	1,014,126

(3) Other income and net losses

	Unaudited Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Fair value losses on financial assets at fair value through profit or loss	(55,100)	(3,978)
Interest income on:		
– bank deposits	37	21
– other receivables	79	79
– due from associates	1,170	1,170
Others	2,355	445
	(51,459)	(2,263)

(4) Operating loss

Operating loss is stated after (crediting)/charging the following:

	Unaudited Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	551	558
Depreciation of right-of-use assets	4,451	–
Operating lease rentals	526	4,544
Net exchange (gains)/losses	(2,856)	712

(5) Finance costs

	Unaudited Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Interest on:		
– bank borrowings	5,181	4,865
– finance lease liabilities	123	–
– convertible bonds	17,757	13,229
– notes payables	7,515	3,193
– other loans	4,906	1,344
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	35,482	22,631
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(6) Income tax (credit)/expense

The Company is exempted from taxation in Bermuda until 2035. The Company's subsidiaries established in the British Virgin Islands are exempted from British Virgin Islands income taxes. Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profit arising in or derived from Hong Kong for the six months period. Subsidiaries of the Group in Mainland China are subject to Mainland China enterprise income tax of 25% (2018: 25%) on their taxable income determined according to Mainland China tax laws. Taxation on other overseas profits has been calculated on the estimated assessable profit for the six months period at the rates of taxation prevailing in the countries in which the Group operates.

	Unaudited Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Adjustments in respect of prior years:		
– Hong Kong taxation	–	465
Deferred tax:		
– Origination and reversal of temporary differences	(1,061)	1,277
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Income tax (credit)/expense	(1,061)	1,742
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(7) (Loss)/Earnings per share

Basic and diluted (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited Six months ended 30 June 2019	2018
Loss from continuing operations attributable to owners of the Company (HK\$'000)	(181,883)	(51,925)
Profit from discontinued operations attributable to owners of the Company (HK\$'000)	–	94,717
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(Loss)/Profit attributable to owners of the Company (HK\$'000)	(181,883)	42,792
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Weighted average number of ordinary shares in issue (thousands)	5,110,628	5,005,953
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Basic and diluted (loss)/earnings per share (HK cents)		
From continuing operations	(3.56)	(1.04)
From discontinued operations	–	1.89
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	(3.56)	0.85
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The outstanding share options and convertible bonds during the period ended 30 June 2018 and 30 June 2019 have an anti-dilutive effect on the basic (loss)/earnings per share.

(8) Bills and accounts receivable

The Group normally grants to its customers credit periods for sale of goods ranging from 30 days to 180 days.

Ageing analysis of bills and accounts receivable is as follows:

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Within three months	299,588	435,669
Over three months but within six months	113,381	125,894
Over six months but within twelve months	216,132	137,246
Over twelve months	7,915	653
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	637,016	699,462
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(9) Share capital

	Unaudited	
	Number of shares	Nominal value
	<i>(thousands)</i>	<i>HK\$'000</i>
<i>Authorised</i>		
Ordinary shares of HK\$0.1 each		
At 1 January 2018, 30 June 2018 and 1 January 2019	6,800,000	680,000
Creation of additional new shares	2,000,000	200,000
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At 30 June 2019	8,800,000	880,000
	<hr/>	<hr/>
<i>Issued and fully paid</i>		
Ordinary shares of HK\$0.1 each		
At 1 January 2018	4,972,829	497,283
Share options exercised	167,400	16,740
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At 30 June 2018	5,140,229	514,023
Share options exercised	5,900	590
Repurchase of shares	(36,506)	(3,651)
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At 1 January 2019	5,109,623	510,962
Share options exercised	2,000	200
	<hr/>	<hr/>
At 30 June 2019	5,111,623	511,162
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(10) Bills and accounts payable

Ageing analysis of bills and accounts payable is as follows:

	Unaudited	Audited
	30 June	31 December
	2019	2018
	HK\$'000	HK\$'000
Within three months	15,326	87,643
Over twelve months	-	357
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	15,326	88,000
	<hr/>	<hr/>

(11) Related party transactions

The following transactions were carried out with related parties during the period:

	Unaudited Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Interest income received from associates	1,170	1,170
Key management compensation	7,552	9,444

(12) Events after the reporting period

As announced on 21 August 2019, the Company has failed to repay a loan of approximately HK\$70 million (together with the accrued interest) from Haitong International Financial Products (Singapore) Pte. Ltd. ("Haitong") and has received demand letters from Haitong for repayment. The default in the above repayment has triggered cross-defaults in certain borrowings and adversely affected the Group's business operations. For details, please refer to the Company's announcement dated 21 August 2019.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019 (2018: Nil).

REVIEW AND OUTLOOK

For the first half of 2019, the turnover of the Group decreased by 8% to approximately HK\$933 million and the gross profit decreased by 79% to approximately HK\$5 million as compared to the last corresponding period. The loss of the Group attributable to the shareholders for the first half was approximately HK\$182 million, including certain exceptional losses, namely an impairment loss on the security investment in a Singapore-listed lithium company of approximately HK\$55 million, net impairment losses on financial assets of approximately HK\$30 million and share option expenses of approximately HK\$21 million.

Lithium related business

During the first half of 2019, the New Energy Vehicles (“NEV”), the main demand driver for lithium compounds, has achieved 47.4% year-on-year sales growth to 1,120,000 units worldwide. Its share of total global auto sales volume climbed to 2.4%. In China, against the backdrop of auto sales declined by 12.4% year-on-year to 12,300,000 units, NEV sales growth to 617,000 units, representing an increase of 49.6% year-on-year. Accordingly, the installed lithium battery capacity rose by 93.1% year-on-year to 30.0GWh.

From the supply side perspective, lithium carbonate output grew by 29% year-on-year, to 67,500 tons. In fact, the growth rate came in below the market expectation. There are two reasons behind that: firstly, the bottleneck in converting raw material for most spodumene users. It usually took a longer-than-expected period for these new built capacities, from adapting the converters for the spodumene, to producing standards-compliant products of stable quality; secondly, for brine producers, the output from new projects fell behind the schedule, due to the solarizing process of brines and challenges in getting stable output of verified products.

REVIEW AND OUTLOOK (continued)

Lithium related business (continued)

Our operation in this area was impacted directly in a negative way by the change in the industry value chain from the upstream to the downstream. Although the Bald Hill Mine in western Australia produced 77,008 tons of lithium spodumene and shipped 58,000 tons to Jiangxi Baojiang Lithium Industrial Limited (“Baojiang”), it has suffered from high production costs that led to lower-than-expected profits and cash flow, which eventually triggered a debt default of Alita, its controlling company. Meanwhile, despite Baojiang has successfully revised the pricing of the off-take contract from the fixed-scheme to the floating-scheme, it still operated at losses during first half of 2019, due to the low price of industry-grade carbonate while the higher price, profitable battery-grade product was still not in mass production. In addition, the Group’s prepayment for the purchase of spodumene was tied up for a long time, which also negatively impacted the operating cash flow. These factors have contributed to the situation that the Group has insufficient cash to fulfill some of its outstanding debt obligations.

Look into the second half of 2019, as the transition period of NEV subsidy policy comes to an end, China’s NEV sales enter into a period of adjustment. The supply side of lithium compounds to respond accordingly, which will likely bring about limited growth in supply. Meanwhile, the processing costs, including depreciations and taxes etc., are likely to make pressure on the price of lithium carbonate.

REVIEW AND OUTLOOK (continued)

Steel trading

In the first half of this year, China's steel output continued to increase, up 11.4% year-on-year to 587 million tons, but thanks for real estate and infrastructure investments which drove the steel demand and effectively absorbed the new capacity, the overall market performance was therefore stable. During the period, iron ore prices rose all the way to a four-year high due to the dramatic reduction of shipments from Brazil and Australia. However, steel prices did not follow the rapid rise of iron ore price, so that the cost of steel companies has increased greatly and profit declined significantly.

During the period under review, as Chinese domestic steel prices were much higher than those of other exporting countries, Chinese Steel are not competitive and therefore lost its previous dominant position in international trade, resulting that export volume continued to decline. In the first half of 2019, China exported a total of 34.399 million tons of steel, which fell by 2.6% year-on-year, and the year-on-year decline in June expanded to 23.5%.

At the same time, protectionism in the major trading regions of the world has intensified, various methods such as anti-dumping, tariff increase, and import quota system have emerged endlessly, resulting cross-regional steel trade declining day by day, which has greatly affected the flow of international trade.

Under the above circumstances, the Group's trade volume and profit are inevitably affected seriously.

Looking forward to the second half of 2019, global steel demand, other than China, will continue to grow especially in Asia. It is expected that the demand for steel in the Asian region will increase by more than 6% in 2019. In addition, since February 2019, many countries have reduced its interest rate one after another, causing the global funds shifting to loosening from tightening which may benefit to the Group's trading activities in the second half of the year.

The Group will pay close attention to the development of Sino-US trade relations as well as changes of trade policies around the world, and prudently select and strengthen the business sectors with low risk and relatively high returns.

FINANCIAL POSITION

Reference is made to (i) a facility agreement dated 21 December 2017 (the “Facility Agreement”) entered into by the Company and Haitong International Financial Products (Singapore) Pte. Ltd. (the “Lender”) for the advancement of a loan in the total sum of HK\$70 million to the Company (the “Loan”), such Loan was used to invest in the shares of Alita Resources Limited (formerly known as Alliance Mineral Assets Limited) as pledged shares for the Loan; and (ii) the announcements of the Company dated 25 September 2017 and 20 March 2018 in relation to the subscription agreements entered into by the Company and Haitong International Financial Products (Singapore) Pte. Ltd. in relation to the issue of convertible bonds in the aggregate principal amount of not more than US\$20,000,000, and the Company and certain subscribers in relation to the issue of convertible bonds in the aggregate principal amount of not more than US\$13,000,000 respectively (collectively, the “Subscription Agreements”).

As at the date of this report, the Company has failed to repay the Loan together with the accrued interests which have become due and payable under the Facility Agreement, and has received demand letters from the Lender for repayment. The Group does not have sufficient cash available to fulfil its repayment obligations of the Loan which has resulted in an event of default under the Facility Agreement (the “Default”).

The Default has constituted breach of covenants under the Facility Agreement and triggered cross-defaults under the other loan facilities entered into between members of the Group and its other lenders, including without limitation, the Subscription Agreements, which contain covenants requiring the Group not to default any other loan facilities entered by the Group, having a material adverse effect. As at the date of this report, the Company has assessed that the potential demands for repayment of loans by the relevant lenders including those yet to fall due, the aggregate unfulfilled repayment obligations and possible breaches of the other loan facilities and notes amount to approximately over HK\$300 million.

FINANCIAL POSITION (continued)

Given that (i) the Group is going to dispose of substantial portion of its available assets to fulfill its repayment obligations under the Facility Agreement and other loan facilities; (ii) the market price of lithium concentrate and its downstream products, lithium carbonate, operated by the Group has dropped by more than 60% from the historical high, and the steel trade was also greatly reduced owing to the anti-dumping policies of various countries, resulting the very limited cash inflow of the Group; and (iii) the current financial difficulty and the series of defaults in its repayment obligations are likely to affect the availability of the existing and future credit lines granted by the relevant banks to the Company directly, the Board considers that the Group's business operations have been materially and adversely impacted. As at the date of this report, the Group's business operations are mostly suspended due to the aforesaid financial difficulties. The Group has not carried out any new sales activities since 21 August 2019.

The Company is considering all possible ways, including without limitation, asset and business restructuring as well as debt restructuring with its creditors and is looking for all feasible sources of financing to resume its business operations.

LIQUIDITY AND FINANCIAL RESOURCES

The Group had financial difficulties as announced on 21 August 2019. The Group is considering all possible ways, including without limitation, asset and business restructuring as well as debt restructuring with its creditors and is looking for all feasible sources of financing to resume its business operations. The Group's gearing ratio and current ratio increased to 0.90 (31 December 2018: 0.73) and decreased to 1.43 (31 December 2018: 1.63) respectively as at 30 June 2019.

LIQUIDITY AND FINANCIAL RESOURCES (continued)

The total borrowings of the Group decreased to approximately HK\$628 million (31 December 2018: HK\$665 million) as at 30 June 2019 and their maturity profile was as follows:

	<i>HK\$ million</i>
Within one year	608
Between one and two years	15
Between two and five years	5
	<hr/>
	628
	<hr/>

The Group's borrowings were denominated in US Dollar, Hong Kong Dollar, Euro and Singapore Dollar and were charged interest at prevailing market rates.

FOREIGN EXCHANGE RISK EXPOSURE

The Group's receipts, payments, assets and liabilities are principally denominated in US Dollar, Renminbi, Hong Kong Dollar, Euro and Singapore Dollar. The Group considers that its exposure to exchange rate risk is modest except for Euro. To minimise the exchange rate risk, forward exchange contracts are used when required.

CONTINGENT LIABILITIES

There has been no material change in the Group's contingent liabilities since 31 December 2018.

CAPITAL COMMITMENTS

As at 30 June 2019, the Group had no capital commitments (2018: Nil).

CHARGE ON ASSETS

As at 30 June 2019, the following assets of the Group were pledged: (i) certain inventories of approximately HK\$6,730,000 (2018: HK\$67,601,000); (ii) certain financial assets at fair value through profit or loss of approximately HK\$78,221,000 (2018: HK\$115,157,000); (iii) certain bills and accounts receivable of approximately HK\$44,420,000 (2018: HK\$38,655,000); and (iv) interest of shares in certain subsidiaries.

STAFF

As at 30 June 2019, the Group employed 258 staff. Staff remuneration packages are structured and reviewed by reference to market terms and individual merits. The Group also provides other staff benefits which include contributory provident fund and medical insurance. Share options and discretionary bonus may also be granted to eligible staff based on individual and Group performance. Training programmes for staff are provided as and when required.

SHARE OPTION SCHEMES

The share option scheme adopted by the Company on 8 June 2011 (“2011 Option Scheme”) was terminated after the adoption of a new share option scheme (“2018 Option Scheme”) approved by shareholders of the Company at the annual general meeting of the Company held on 7 June 2018. As at 30 June 2019, there were options for 243,500,000 shares and 510,800,000 shares granted by the Company pursuant to 2011 Option Scheme and 2018 Option Scheme respectively, which were outstanding and continue to be valid and exercisable.

Movements of option shares during the six months ended 30 June 2019 were as follows:

2011 Option Scheme

	Date of grant	Exercise price per share HK\$	Exercise period		Number of option shares						
					from	until	outstanding as at 01/01/2019	granted during the period	exercised during the period	cancelled during the period	lapsed during the period
(i) Directors											
SIT Hoi Tung	13/06/2017	0.217	14/07/2017	13/07/2019	7,000,000	-	-	-	-	7,000,000	
KWOK Wai Lam	13/06/2017	0.217	14/07/2017	13/07/2019	4,900,000	-	-	-	-	4,900,000	
TSANG Kwok Wa	13/06/2017	0.217	14/07/2017	13/07/2019	4,900,000	-	-	-	-	4,900,000	
CHEUNG Sing Din	13/06/2017	0.217	14/07/2017	13/07/2019	4,900,000	-	-	-	-	4,900,000	
HUANG Shenglan	13/06/2017	0.217	14/07/2017	13/07/2019	4,900,000	-	-	-	-	4,900,000	
(ii) Continuous contract employees											
	13/06/2017	0.217	14/07/2017	13/07/2019	221,800,000	-	-	-	(4,900,000)	216,900,000	
					Total:	248,400,000	-	-	-	(4,900,000)	243,500,000

SHARE OPTION SCHEMES (continued)

2018 Option Scheme

	Date of grant	Exercise price per share HK\$	Exercise period		Number of option shares					
			from	until	outstanding as at 01/01/2019	granted during the period (Note 1)	exercised during the period (Note 2)	cancelled during the period	lapsed during the period	balance as at 30/06/2019
(i) Directors										
CHAN Shing	03/05/2019	0.138	01/06/2019	31/05/2022	-	5,000,000	-	-	-	5,000,000
SIT Hoi Tung	03/05/2019	0.138	01/06/2019	31/05/2022	-	8,000,000	-	-	-	8,000,000
KWOK Wai Lam	03/05/2019	0.138	01/06/2019	31/05/2022	-	8,000,000	-	-	-	8,000,000
SHAM Kai Man	03/05/2019	0.138	01/06/2019	31/05/2022	-	8,000,000	-	-	-	8,000,000
CUI Shu Ming	03/05/2019	0.138	01/06/2019	31/05/2022	-	5,000,000	-	-	-	5,000,000
TSANG Kwok Wa	03/05/2019	0.138	01/06/2019	31/05/2022	-	5,000,000	-	-	-	5,000,000
CHEUNG Sing Din	03/05/2019	0.138	01/06/2019	31/05/2022	-	5,000,000	-	-	-	5,000,000
HUANG Shenglan	03/05/2019	0.138	01/06/2019	31/05/2022	-	5,000,000	-	-	-	5,000,000
(ii) Continuous contract employees										
	20/02/2019	0.140	01/04/2019	31/03/2022	-	463,800,000	(2,000,000)	-	-	461,800,000
				Total:	-	512,800,000	(2,000,000)	-	-	510,800,000

SHARE OPTION SCHEMES (continued)

Notes:

- The closing prices per share of the Company on 20 February 2019 and 3 May 2019, being the dates of grant of the options, were HK\$0.140 and HK\$0.138 respectively.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specific period of time).

According to Black-Scholes options pricing model, the fair values of options granted as at 20 February 2019 and 3 May 2019 were approximately HK\$18,552,000 and HK\$2,450,000 respectively of which the Group recognised a share option expenses of approximately HK\$21,002,000 for the six months ended 30 June 2019.

- Details of option shares exercised during the six months ended 30 June 2019 are as follows:

Exercise date	Exercise price per share <i>HK\$</i>	Weighted average closing price per share of the Company at exercise date <i>HK\$</i>	Number of option shares exercised
01/04/2019	0.140	0.144	2,000,000

- The outstanding option shares under 2011 Option Scheme was expired and lapsed on 14 July 2019.

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

As at 30 June 2019, the interests and short positions of the Directors and chief executive of the Company (including those interests and short positions which were taken or deemed to have interests and short positions under the provisions of the Securities and Futures Ordinance (the "SFO")) in shares, underlying shares and 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 by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Interests in Shares and Underlying Shares of the Company

Name of Director	Number of issued voting ordinary shares held				Approximate percentage in the Company's issued voting shares	Number of option shares personally held (Note 1)
	Personal Interests	Family Interests	Corporate Interests	Total		
CHAN Shing	170,772,521 (L)	104,042,601 (L)	1,091,486,149 (L) (Note 2)	1,366,301,271 (L)	26.73% (L)	5,000,000
SIT Hoi Tung	10,213,869 (L)	-	-	10,213,869 (L)	0.20% (L)	15,000,000
KWOK Wai Lam	-	-	-	-	0% (L)	12,900,000
SHAM Kai Man	10,900,000 (L)	-	-	10,900,000 (L)	0.21% (L)	8,000,000
CUI Shu Ming	7,150,000 (L)	-	-	7,150,000 (L)	0.14% (L)	5,000,000
TSANG Kwok Wa	-	-	-	-	0% (L)	9,900,000
CHEUNG Sing Din	-	-	-	-	0% (L)	9,900,000
HUANG Shenglan	2,250,000 (L)	-	-	2,250,000 (L)	0.04% (L)	9,900,000

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

Interests in Shares and Underlying Shares of the Company (continued)

Notes:

1. These underlying shares were unlisted option shares granted pursuant to the share option schemes of the Company. Particulars of which are set out in section "Share Option Schemes".
2. 879,119,336 shares were held by Glory Add Limited ("Glory Add"), a wholly-owned subsidiary of Favor King Limited ("Favor King"). 211,900,848 shares were held by Strong Purpose Corporation ("Strong Purpose"). Favor King and Strong Purpose are wholly-owned by Mr. CHAN Shing and Ms. LAU Ting, the spouse of Mr. CHAN Shing. 465,965 shares were held by Hang Sing Overseas Limited, a wholly-owned subsidiary of Orient Strength Limited (a company which is wholly-owned by Ms. LAU Ting).
3. The letter "L" denotes long position and the letter "S" denotes short position.

Save as otherwise disclosed above, as at 30 June 2019, none of the Directors or chief executive of the Company had, or were deemed under the SFO to have, any interests or short positions in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2019, according to the register required to be kept by the Company under Section 336 of the SFO, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in shares and underlying shares of the Company:

Interests in Shares and Underlying Shares

Name of shareholder	Nature of interest	Number of issued voting ordinary shares held	Approximate percentage in the Company's issued voting shares	Number of option shares held by family member(s)
LAU Ting	Personal, Family & Corporate	1,366,301,271 (L) (Note 1)	26.73% (L)	5,000,000 (Note 2)
Favor King	Corporate	879,119,336 (L) (Note 3)	17.20% (L)	–
CHEUNG Kwan	Personal & Corporate	662,110,000 (L) (Note 4)	12.95% (L)	–

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

Interests in Shares and Underlying Shares (continued)

Notes:

1. 104,042,601 shares were directly held by Ms. LAU Ting. 170,772,521 shares were directly held by Mr. CHAN Shing, the spouse of Ms. LAU Ting. 879,119,336 shares were held by Glory Add, a wholly-owned subsidiary of Favor King. 211,900,848 shares were held by Strong Purpose. Favor King and Strong Purpose are wholly-owned by Mr. CHAN Shing and Ms. LAU Ting. 465,965 shares were held by Hang Sing Overseas Limited, a wholly-owned subsidiary of Orient Strength Limited (a company which is wholly-owned by Ms. LAU Ting). As the interests of each of Mr. CHAN Shing and Ms. LAU Ting are deemed to be the interests of each other, the figures referred to the same shares.
2. These underlying shares were unlisted option shares held by Mr. CHAN Shing, the spouse of Ms. LAU Ting, granted pursuant to the share option schemes of the Company. Particulars of which are set out in section "Share Option Schemes". As the interests of each of Mr. CHAN Shing and Ms. LAU Ting are deemed to be the interests of each other, the figures referred to the same underlying shares.
3. These interests were held by Glory Add, a company which is wholly-owned by Favor King. Favor King is wholly-owned by Mr. CHAN Shing and Ms. LAU Ting.
4. 539,110,000 shares were directly held by Ms. CHEUNG Kwan. 123,000,000 shares were held by The Internet of Things Investment Ltd. which is wholly-owned by Ms. CHEUNG Kwan.
5. The letter "L" denotes long position and the letter "S" denotes short position.

Save as disclosed above, as at 30 June 2019, there was no person (other than the Directors and chief executive of the Company) who had an interest or short position in shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2019.

LITHIUM CONCENTRATE OFFTAKE CONTRACTS

Burwill Lithium Company Limited ("BLCL"), a wholly-owned subsidiary of the Company, principally engages in lithium concentrate procurement, lithium carbonate and lithium hydroxide processing and sales.

BLCL entered into exclusive lithium concentrate offtake contracts (as amended) (the "Contracts") with Alliance Mineral Assets Limited, Lithco No. 2 Pty Ltd and Tawana Resources NL (collectively, the "Sellers") respectively since 2017, pursuant to which, BLCL advanced HK\$86,298,000 to the Sellers as at 31 December 2018.

Following amendments made on the Contracts, the Company and BLCL respectively entered into new amended contracts (the "New Contracts") with the Sellers, Jiangxi Special Electric Motor Co., Ltd. and Jiangxi Bao Jiang Lithium Industrial Limited on 14 January 2019. The Company considered that entering into the New Contracts determines new main buying entity, offtake quantities and pricing mechanism etc. which greatly reduces the market price risk caused by volatile fluctuation and is in the best interests of the Company. Details of key terms of the New Contracts were set out in the Company's announcement dated 15 January 2019.

Alliance Mineral Assets Limited merged with Tawana Resources NL in December 2018 and changed its Company name to Alita Resources Limited in July 2019.

AUDIT COMMITTEE

Following the resignations of Mr. CHEUNG Sing Din and Mr. TSANG Kwok Wa, the Company currently has only one Independent Non-Executive Director, one member in the Audit Committee and not comprising a majority of independent non-executive directors in the Remuneration Committee of the Company. As such, the Company is temporarily not compliant with Rule 3.10(1), Rule 3.10A, Rule 3.21 and Rule 3.25 of the Listing Rules. The Company is in the process of identifying suitable candidates to act as Independent Non-Executive Director, member of the Audit Committee and Remuneration Committee of the Company and the appointments will be made as soon as practicable.

The Company has established an Audit Committee which currently comprises one Independent Non-Executive Director of the Company, Mr. CUI Shu Ming. Mr. CUI Shu Ming, chairman and the sole member of the Audit Committee, and the management have reviewed and assessed the management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters. The unaudited interim financial statements of the Group for the six months ended 30 June 2019 have been reviewed by Mr. CUI Shu Ming.

WINDING UP PETITION

Strong Petrochemical Limited (the “Petitioner”) has filed a petition (the “Petition”) to the High Court of Hong Kong Special Administrative Region (the “High Court”) for the winding up of the Company on 4 September 2019 and the Petition will be heard before the High Court on 30 October 2019 at 9:30 a.m.. The Company received the Petition on 4 September 2019 in the matter of the Companies (Winding Up and Miscellaneous Provision) Ordinance (Chapter 32 of the laws of Hong Kong) (the “Companies (WUMP) Ordinance”) that the Company may be wound up by the High Court under the provisions of the Companies (WUMP) Ordinance on the ground that the Company may be insolvent and unable to pay its debts. The Petition was filed against the Company for failure to settle its indebtedness to the Petitioner in the sum of HK\$21,050,000 (the “Indebtedness”) as at 30 August 2019. The Indebtedness is in relation a loan agreement dated 17 January 2019 made between, among others, the Petitioner (as lender), the Company (as corporate guarantor), Burwill Commercial Holdings Limited (a wholly owned subsidiary of the Company) (as borrower) for a loan in the principal amount of HK\$20,000,000.

The Company is actively seeking legal advice in relation to the Petition and is concurrently in the process of negotiating with the Petitioner for a settlement and an amicable disposal of the matter. As at the date of this report, no settlement agreement regarding the Petition has been reached.

CORPORATE GOVERNANCE

The Company has complied with all the applicable code provisions of the Corporate Governance Code (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) throughout the six months ended 30 June 2019, except for the following deviations:

- Code provision A.1.1 stipulates that the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals with active participation, either in person or through other electronic means of communication, of a majority of directors entitled to be present. As the Company did not announce its quarterly results, one regular Board meeting was held during the period for reviewing and approving the annual financial performance of the Group for the year 2018, which the relevant Code provision had not been fully complied with. Board meetings will be held on other occasions when Board decisions are required.
- Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Chairman and Managing Director of the Company, Mr. CHAN Shing, currently assumes the role of the chairman and also the chief executive. Given the nature of the Group’s businesses which require considerable market expertise, the Board believed that the vesting of the two roles provides the Group with stable and consistent leadership and allows for more effective planning and implementation of long term business strategies. The Board will continuously review the effectiveness of the structure to balance the power and authority of the Board and the management.

CORPORATE GOVERNANCE (continued)

- Code provision A.4.2 stipulates, inter alia, that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Directors have not been required by the Bye-laws of the Company (the “Bye-laws”) to retire by rotation at least once every three years. However, in accordance with Bye-law 85 of the Bye-laws, at each annual general meeting of the Company one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third), other than the Director holding office as Chairman or Managing Director, shall retire from office by rotation. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairman or Managing Director, by rotation at least once every three years in order to comply with Code provision A.4.2. The Board considered that the continuity of office of the Chairman provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group.

- Code provision A.5.1 stipulates, inter alia, that nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors.

Following the resignations of Mr. CHEUNG Sing Din and Mr. TSANG Kwok Wa, the Company currently has only one Independent Non-Executive Director, one member in the Nomination Committee and not comprising a majority of independent non-executive directors in the Nomination Committee of the Company. As such, the Company is temporarily not compliance with the relevant requirement. The Company is in the process of identifying suitable candidates to act as Independent Non-Executive Director as well as members of the Nomination Committee of the Company and the appointments will be made as soon as practicable.

CORPORATE GOVERNANCE (continued)

- The chairman of the board should attend the annual general meeting as stipulated in Code provision E.1.2. Mr. CHAN Shing, the Chairman of the Board, was unable to attend the Company's annual general meeting held on 12 June 2019. Nevertheless, he had arranged for Mr. SIT Hoi Tung, an Executive Director and Deputy General Manager of the Company, to take the chair of the meeting and answer shareholders' questions.

The Board reviews the corporate governance structure and practices from time to time and makes necessary arrangements when the Board considers appropriate.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its code of conduct for dealings in securities of the Company by the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2019.

On behalf of the Board

CHAN Shing

Chairman

Hong Kong, 18 September 2019

As at the date of this report, the Board of Directors of the Company comprises Mr. Chan Shing, Mr. Sit Hoi Tung, Mr. Sham Kai Man and Mr. Ng Man Fai, Matthew as executive directors; Mr. Cui Shu Ming as independent non-executive director; and Mr. Huang Shenglan as non-executive director.