



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

THIRD QUARTERLY REPORT

2023



» NEW ENERGY AND
DIVERSIFIED
BUSINESSES



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

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 2023, together with the comparative unaudited figures for the corresponding periods in 2022, as follows:

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

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000
Revenue	2	51,600	60,065	187,521	97,297
Cost of sales		(42,768)	(44,570)	(157,216)	(68,271)
Gross profit		8,832	15,495	30,305	29,026
Other operating (expenses)/income	3	(6,488)	2,151	(7,834)	(50,787)
Selling and distribution costs		(2,265)	(1,831)	(5,376)	(5,632)
Administrative expenses		(20,507)	(29,876)	(79,512)	(72,730)
Share of results of associates		132	(44)	(327)	(1,043)
Gain on re-measurement of pre-existing interests in an associate		–	30,877	–	30,877
Finance costs	4	(2,365)	(1,813)	(7,273)	(5,888)
Profit/(Loss) before income tax	5	(22,661)	14,959	(70,017)	(76,177)
Income tax	6	–	–	–	–
Profit/(Loss) for the period		(22,661)	14,959	(70,017)	(76,177)
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Exchange gain/(loss) on translation of financial statements of foreign operations		(214,968)	(165,164)	243,767	145,272
Exchange reserves released upon deemed disposal of an associate		–	(894)	–	(894)
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		(471)	(3,364)	(4,164)	(6,518)
Total comprehensive income for the period		(238,100)	(154,463)	169,586	61,683
Profit/(Loss) for the period attributable to:					
Owners of the Company		(18,912)	18,604	(57,671)	(71,017)
Non-controlling interests		(3,749)	(3,645)	(12,346)	(5,160)
		(22,661)	14,959	(70,017)	(76,177)
Total comprehensive income attributable to:					
Owners of the Company		(231,640)	(143,150)	182,227	76,029
Non-controlling interests		(6,460)	(11,313)	(12,641)	(14,346)
		(238,100)	(154,463)	169,586	61,683
Earnings/(loss) per share attributable to the owners of the Company during the period	8				
— Basic		HK(0.19) cent	HK0.19 cent	HK(0.59) cent	HK(0.73) cent
— Diluted		HK(0.19) cent	HK0.19 cent	HK(0.59) cent	HK(0.73) cent

Notes:

1. BASIS OF PRESENTATION AND CHANGES IN ACCOUNTING POLICIES

The unaudited consolidated financial statements for the nine months ended 30 September 2023 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 2022 annual report.

The accounting policies adopted in the 2022 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 the following new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2023:

Amendments to HKAS 1 and HKFRS Practice Statement 2, Disclosure of Accounting Policies
Amendments to HKAS 8, Definition of Accounting Estimates
Amendments to HKAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The new or amended HKFRSs that are effective from 1 January 2023 did not have any significant impact on the Group's accounting policies. The Group has not applied any new or amended HKFRSs that are not yet effective.

2. REVENUE

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

	Nine months ended 30 September	
	2023 HK\$'000	2022 HK\$'000
Sale of lithium batteries	138,435	83,791
Battery testing service income	8,728	2,063
Online car-hailing service income	37,820	6,925
Battery swapping service income	2,538	4,518
	187,521	97,297

3. OTHER OPERATING (EXPENSES)/INCOME

	Nine months ended 30 September	
	2023	2022
	HK\$'000	HK\$'000
Bank interest income	3,459	6,999
Government grant	1,687	6,575
Rental income	–	135
Loss on financial assets at fair value through profit or loss	(32,020)	(70,373)
Exchange gain/(loss)	7,911	(1,043)
Sundry income	11,129	6,920
	(7,834)	(50,787)

4. FINANCE COSTS

	Nine months ended 30 September	
	2023	2022
	HK\$'000	HK\$'000
Interest charges on bank borrowings wholly repayable within five years	5,133	5,646
Finance cost on lease liabilities	749	242
Imputed interest on other financial liabilities	1,391	–
	7,273	5,888

5. PROFIT/(LOSS) BEFORE INCOME TAX

	Nine months ended 30 September	
	2023	2022
	HK\$'000	HK\$'000
Profit/(Loss) before income tax are arrived at after charging: Depreciation and amortisation	21,647	12,069

6. INCOME TAX

	Nine months ended 30 September	
	2023 HK\$'000	2022 HK\$'000
Overseas tax:		
Current period	–	–
Deferred tax:	–	–
Income tax credit	–	–

During the nine months ended 30 September 2022 and 2023, no provision for Hong Kong profits tax has been provided by the Group as the Group had no estimated assessable profit arising in or derived from Hong Kong. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

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

Corporate income tax rate in France of 25% is applicable to the Company's subsidiaries in France during the period.

7. DIVIDEND

The Board has resolved not to declare the payment of a dividend for the nine months ended 30 September 2023 (nine months ended 30 September 2022: Nil).

8. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share for the three months and nine months ended 30 September 2023 are based on the loss attributable to the owners of the Company of approximately HK\$18,912,000 and HK\$57,671,000 respectively and on 9,737,788,445 and 9,737,554,044 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 2022, profit attributable to the owners of the Company was HK\$18,604,000 and loss of HK\$71,017,000 respectively and on 9,737,433,606 weighted average number of shares respectively, after adjusting the effect of treasury share held by the Company.)

Diluted earnings (loss) per share figure are the same as basic earnings per share for the three months and nine months ended 30 September 2022 and 2023 because the impact of the exercise of share options was anti-dilutive.

9. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY — UNAUDITED

	Attributable to owners of the Company									Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Treasury shares reserve HK\$'000	Share-based payment reserve HK\$'000	Translation reserve HK\$'000	Fair value through other comprehensive income reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	
2023										
At 1 January 2023	9,855	3,563,686	(142,864)	9,958	(6,033,945)	(98,913)	7,363,781	4,671,558	35,449	4,707,007
Lapse of share options	-	-	-	(9,958)	-	-	9,958	-	-	-
Sales of treasury shares	-	-	1,220	-	-	-	(777)	443	-	443
	-	-	1,220	(9,958)	-	-	9,181	443	-	443
Loss for the period	-	-	-	-	-	-	(57,671)	(57,671)	(12,346)	(70,017)
Other comprehensive income										
Currency translation	-	-	-	-	244,062	-	-	244,062	(295)	243,767
Changes of fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	(4,164)	-	(4,164)	-	(4,164)
Total comprehensive income	-	-	-	-	244,062	(4,164)	(57,671)	182,227	(12,641)	169,586
At 30 September 2023	9,855	3,563,686	(141,644)	-	(5,789,883)	(103,077)	7,315,291	4,854,228	22,808	4,877,036
2022										
At 1 January 2022	9,855	3,563,686	(142,864)	9,958	(6,264,838)	(84,688)	7,562,937	4,654,046	31,745	4,685,791
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	108,238	108,238
Transaction with owner	-	-	-	-	-	-	-	-	108,238	108,238
Loss for the period	-	-	-	-	-	-	(71,017)	(71,017)	(5,160)	(76,177)
Other comprehensive income										
Currency translation	-	-	-	-	154,458	-	-	154,458	(9,186)	145,272
Changes of fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	(6,518)	-	(6,518)	-	(6,518)
Deemed disposal of an associate	-	-	-	-	(894)	-	-	(894)	-	(894)
Total comprehensive income	-	-	-	-	153,564	(6,518)	(71,017)	76,029	(14,346)	61,683
At 30 September 2022	9,855	3,563,686	(142,864)	9,958	(6,111,274)	(91,206)	7,491,920	4,730,075	125,637	4,855,712

MANAGEMENT DISCUSSION AND ANALYSIS

Lithium-ion Battery Business

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

Although the Group has full research and development ability (including lithium battery and battery management system design) and the batteries produced are top quality, reliable and safe technically, large vehicle manufacturers are not willing to place large orders due to the small production capacity which results in low utilisation rate of the battery plant and lead to a higher average costs when compared to the other competitors. In the PRC, the top ten powered battery manufacturers accounted for over 90% of the market share. As batteries for new energy vehicles are products that typically require long term development and testing to cater for a vehicle manufacturer’s specific requirements for specific vehicle model, it is not easy to break off an established relationship between a battery manufacturer (supplier) and new energy vehicle manufacturer (customer), given the efforts and resources required by both the supplier and customer to develop a compatible battery product. Customer exploration remains a huge challenge but the Group has been constantly negotiating and promoting products matching with automobile, commercial vehicle or electric bicycle manufacturers and also with potential new customers in the energy storage field and manufacturers which are planning to make a switch from lead acid battery to lithium battery for their vehicles. Expect for lithium ion battery for PHEVs, the Group also has 12V, 48V batteries and portable power station in the product list.

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

Zhejiang Forever New Energy, a 52% owned subsidiary of the Group, is a modern lithium-ion battery enterprise in Jinhua New Energy Automobile Industrial Park. Zhejiang Forever New Energy occupies an area of approximately 130,000 square meters and the plant is designed to possess a maximum production capacity of approximately 2,000,000 kWh ternary lithium-ion battery annually. The first 500,000 kWh production line which produce pouch type cells has commenced mass production since 2018.

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

The production plant of Shandong Forever New Energy, 24.5% owned associate of the Company, covers a total area of approximately 130,000 square meters and its current factory and office facilities cover a floor area of about 70,000 square meters. The current production capacity of Shandong Forever New Energy amounts to 150,000 kWh of lithium iron phosphate battery or 225,000 kWh of ternary lithium battery annually.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Online Car-hailing Business

On 10 August 2022, the Group closed the acquisition of controlling interests of Jixing International Technology Co. Ltd (“Jixing International”), which engaged in online car-hailing services in France under the brand Caocao. The service was launched in Paris in January 2020. Despite the COVID pandemic posed severe challenges, Caocao has received positive feedback from the market and has established both B2C and B2B business models. By September 2023, there were approximately 500,000 downloaded users and 150,000 registered users respectively.

Battery Sharing Business

Under the brand “GETI”, the Company is running a battery sharing business which target electric bicycles with business model include self-operation and franchising in the PRC. “GETI” has set up battery swapping stations in the Jiangsu Province and Zhejiang Province. GETI faced keen competition and the number of users has been decreasing in the past few months. By September 2023, GETI has 448 battery swapping stations and 165 package users.

Disposal of Battery Sharing Business

Reference is made to the announcement and circular of the Company dated 22 September 2023 and 27 October 2023 respectively and in relation to, among others, the equity transfer agreements dated 22 September 2023, pursuant to which GETI Energy Sharing Technology Company Limited, a direct non-wholly owned subsidiary of the Company, has conditionally agreed to transfer, and Zhejiang Geely Farizon New Energy Commercial Vehicle Group Co., Ltd. (a connected person of the Company) has conditionally agreed to acquire, the 100% equity interests in GETI (China) Energy Technology Co., Ltd. and Hangzhou GETI Industrial Co., Ltd. at the total consideration of RMB20.0 million (the “Equity Transfer Agreements”).

The Company initially established GETI (China) Energy and Hangzhou GETI Industrial in 2019 for purposes of the provision of battery swapping services to the riders of electric bicycles. However, despite four years have elapsed since the establishment of such companies and the diminished effects of COVID-19 on the market, the sales of GETI (China) Energy have been unsatisfactory and the businesses of GETI (China) Energy and Hangzhou GETI Industrial have been unprofitable since they were launched. It is not optimistic to turn the business around due to, among others high level of competition in the market. Furthermore, the businesses of GETI (China) Energy and Hangzhou GETI Industrial are capital intensive and currently facing financial difficulties with only limited available working capital. Accordingly, the Directors considered that the business prospects of GETI (China) Energy and Hangzhou GETI Industrial are uncertain and that further allocation of capital resources to GETI (China) Energy and Hangzhou GETI Industrial may no longer serve the best interests of the Group.

In light of the aforesaid particularly the time already given to explore the potential of these companies, the high level of competition in the market and financial conditions of these companies, the Directors considered the Disposals at this stage would be a good opportunity for the Group to recover its earlier investments in GETI (China) Energy which would enable the Group to better reallocate its resources and also to simplify its corporate structure.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Progress of SAM

Background

As of 30 September 2023, the Group had accumulatively provided US\$80.96 million to Sul Americana de Metais S.A. (“SAM”), an indirect wholly owned subsidiary of the Company in Brazil, for preliminary work of the iron ore project in Brazil (“Block 8 Project” or “SAM Project”). In addition to the acquisition consideration of US\$78.42 million, the cumulative investment had reached approximately US\$159.27 million.

There has been no exploration activity during the period under review and the measured and indicated resources for Block 8 Project are 3,583 million tonnes (16.63%) and 1,556 million tonnes (16.05%) respectively.

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

Capex and Opex

The total investment of Block 8 Project is estimated to be US\$3.01 billion, excluding the pipeline project led by Lotus Brasil and the port project led by Bahia State Government. The Opex per ton of pellet feed for the first 18 years is approximately US\$18.9 and thereafter will rise to approximately US\$24.4. Taking into account the pipeline transportation and concentrate dewatering service fees payable to Lotus Brasil, as well as fees payable to the port, FOB costs are expected to be approximately US\$32.2 per ton for the first 18 years and then increase to US\$37.7 per ton.

Environmental License

The environmental license of the Block 8 project in Brazil involves three types of licenses: Preliminary License (“LP”), Installation License (“LI”) and Operation License (“LO”). Among them, the LP is the most important to the project as it confirms environmental feasibility and approves the location and design of the project, and establishes basic requirements and conditions to be met in the next phases of the implementation of the project. The LP is also a prerequisite for obtaining the LI, LO, and other necessary approvals or implementing the project.

When and after the Group was notified of the pending granting of the LP for the first time in 2015, two tailings dam failures occurred at mines operated by other companies in Brazil, resulting in a severe delay in the granting LP for the SAM project. Only recently have there been some positive progress in the environmental licensing process.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Progress of SAM — Continued

Environmental License — Continued

On 10 and 11 May 2022, the Superintendence of Priority Projects (SUPPRI) of the Secretariat of Environment and Sustainable Development (SEMAD), the licensing organisation responsible for SAM's project, held two public hearings for the environmental licensing process for Block 8 Project in the cities of Grão Mogol and Fruta de Leite. The public hearing is a fundamental instrument of an environmental licensing process, whose purpose is to present the results of environmental studies to the public, resolve doubts and collect criticisms and suggestions from those present. Around 1,150 people in total registered and attended the two public hearings. Those present including representatives of important institutions in the northern region of Minas Gerais, the mayors and councillors of the municipalities in the project area, people from the communities, all manifested their support for Block 8 project and made it clear that they are looking forward to the installation of the project in the region.



Over a thousand of people has attended the two public hearings regarding the Block 8 Project.

From 18 to 22 July 2022, SUPPRI's technical team made a field technical inspection of the area of the Block 8 project.

In February 2023, SAM received the technical report from SUPPRI. The technical report requests some gap studies because of the change of the project and the updating of the laws and regulations. Since February 2023, SAM and consultants have been analysing the details of technical report from SUPPRI, addressing SUPPRI's comments and offer counter proposals regarding the gap studies requested based on the applicable rules and laws.

For more details regarding the SAM project, please refer to annual report 2022 of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Potential Lithium Brine Project Investment

Entering into a Letter of Intent Regarding the Investment in Lithium Brine Project

On 6 April 2023, the Company has entered into a letter of intent (the “Letter of Intent”) with Tibet Summit Resources Co., Ltd. (西藏珠峰資源股份有限公司) (“Tibet Summit”) (Shanghai Stock Exchange stock code: 600338).

According to the Letter of Intent, the Company intends to acquire approximately 38.75% equity interests of Tibet Summit Resources Hongkong Limited (西藏珠峰資源(香港)有限公司) (“Tibet Summit Hong Kong”) at a total consideration of approximately US\$350 million through acquisition of existing shares and/or subscription of new shares, and Tibet Summit owns the remaining 61.25%. Tibet Summit Hong Kong indirectly holds 100% interest in POTASIO Y LITIO DE ARGENTINA S.A. (“PLASA”) (controlling the Sal de Los Angeles lithium brine project (“Angeles Project”)) and TORTUGA DE ORO S.A. (“TOSA”) (controlling the Arizaro lithium brine project (“Arizaro Project”)).

In order to develop the Angeles Project with an annual capacity of 50,000 tons of battery-grade lithium carbonate equivalent (“LCE”), Tibet Summit is responsible to obtain the environmental and all other licenses and approvals in relation to the installation, mining, production and sales of products of the Angeles Project, and secure the supply of brine in the cooperation period. The Company intends to provide an additional interest-bearing loans of with a maximum amount of US\$600 million for project construction and operation (the “Project Loans”). The positive cash flow generated after the Angeles Project commenced production will be used to repay the principal and interest of the Project Loans first. Afterwards, Tibet Summit and the Company will distribute the profits or products generated by the Angeles Project through Tibet Summit Hong Kong in proportions of 50.1% and 49.9%, respectively.

Exclusivity

Tibet Summit agrees to grant the Company an exclusivity period of 4.5 months unconditionally and irrevocably from the date of the Letter of Intent (“Exclusivity Period”). During the Exclusivity Period, Tibet Summit guarantees that it will not directly or indirectly make an investment, development or other cooperation offer for the proposed cooperation under the Letter of Intent with anyone other than the Company, and will not sign or enter into any agreement related to the cooperation arrangement under the Letter of Intent.

Priority Right

After the completion of the detailed exploration of the Arizaro Project, if Tibet Summit intends to cooperate with a third party to develop the project, the Company has the priority of cooperation under the same terms.

The Angeles Project

The Angeles Project is owned by PLASA, a wholly-owned subsidiary of Tibet Summit Hong Kong. Angeles Project holds a total of 39 mining concessions. The project exploration work has been completed, and the NI43-101 resource report has been submitted, the lithium resource is 2.05 million tons of LCE, which is a world-class lithium resources. The average lithium concentration of the deposit is about 490mg/L, and the average magnesium-lithium ratio is 3.8:1. The resource is better than average brine resources. PLASA is preparing to set up a 50,000-ton LCE project in the Sal de Los Angeles lithium brine, and is in a stage of preparing supplementary information in relation to the environmental licensing (“EIA”) application. According to the feasibility study report of a consulting company, the total investment of the project is about US\$700 million, and the cost per ton of lithium carbonate is approximately US\$5,000. The actual cost can only be estimated more accurately depending on the process route and related costs.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Potential Lithium Brine Project Investment — Continued

The Arizaro Project

The Arizaro Project is owned by TOSA, a wholly-owned subsidiary of Tibet Summit Hong Kong, is located in the core area of the “Lithium Triangle” in South America, which is rich in lithium ore. Covering an area of 1970 square kilometers, the Arizaro brine is one of the largest lithium brines in South America. Arizaro Project has 12 mining concessions in the lake, covering an area of 365.78 square kilometers. At present, Arizaro Project is still in the preliminary exploration stage, and the environmental impact assessment report for in-depth exploration has recently been approved by the local approval agency in Argentina. According to the preliminary research of a consulting company, the resource of the Arizaro Project may reach more than 10 million tons of LCE. TOSA is preparing to implement the detailed exploration of the Arizaro Project, as well as preparing for the construction of a project with an annual production capacity of 100,000 tons of LCE.

The Exclusivity Period in the Letter of Intent has expired on 22 August 2023, no formal agreement has been entered into between the Company and Tibet Summit regarding the investment and cooperation arrangement in Tibet Summit Hong Kong yet, but both parties are still in the negotiation process. In addition, the Company has basically completed the business and financial due diligence of Tibet Summit Hong Kong and its subsidiaries and is finalising the legal due diligence in Argentina.

In addition, according to the announcement of Tibet Summit dated 2 August 2023, PLASA has submitted supplemental information to relevant organisation in Argentina regarding the environmental license application of the project with annual production capacity of 50,000 tonnes LCE. If environmental license is granted, the means of direct financing will increase for the project and the Company may not be required to provide US\$600 million shareholder’s loan to the project separately. The Company is negotiating a new proposal with Tibet Summit for the acquisition of 49.9% equity interests of Tibet Summit Hong Kong through acquisition of existing shares and subscription of new shares under an appropriate valuation. Under this arrangement, Tibet Summit Hong Kong may have enough internal resources for the CAPEX of partial production capacity, the CAPEX for the remaining production capacity can be fulfilled by bank loans or other financing facilities or can be built later as a second phase of the project.

Continuing Connected Transactions

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

Zhejiang Geely indirectly holds 18.78% of the total issued shares of the Company through Geely International (Hong Kong) Limited. Zhejiang Geely is therefore a substantial shareholder and a connected person of the Company.

On 11 September 2023, the Company entered into a sales framework agreement (the “2023 Sales Agreement”) with Zhejiang Geely, pursuant to which the Group will supply lithium-ion battery pack and related products to Zhejiang Geely Group in accordance with the terms and conditions thereunder.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Continuing Connected Transactions — Continued

Reasons for and Benefits of the Continuing Connected Transactions

The Group has been engaged by Zhejiang Geely Group to supply lithium-ion battery pack and related products since 2017. It is expected that the Group will continue to do so in its ordinary and usual course of business upon expiry of the 2023 Sales Agreement. The Directors are of the view that securing such renowned customers can effectively improve the Group's financial performance and deliver a stable income to the Group given there will be different vehicle brands under Zhejiang Geely Group using the powered batteries. Furthermore, the Directors consider that entering into the 2023 Sales Agreement which sets out the proposed Sales Annual Caps is constructive for the Group to sell the products and services thereunder, thereby benefiting the Group.

For other details in relation to the 2023 Sales Agreement, please refer to the circular of the Company dated 19 October 2023.

Sales Annual Caps for the 2023 Sales Agreement

An extraordinary general meeting of the Company was held on 6 November 2023 and passed the resolution in relation to the Sales Framework Agreement with the following annual caps.

	For the period from 23 October 2023 to 31 December 2023 <i>RMB'000</i>	For the year ending 31 December 2024 <i>RMB'000</i>	For the year ending 31 December 2025 <i>RMB'000</i>	For the period from 1 January 2026 to 22 October 2026 <i>RMB'000</i>
Sales Annual Caps	50,000	235,000	155,000	97,000

Should the actual annual sales amount exceed the above annual caps, the Company will revise the annual caps in compliance with the relevant requirements under Chapter 20 of the GEM Listing Rules.

The Purchase Framework Agreement with Zhejiang Yaoning Technology Co. Ltd. ("Zhejiang Yaoning")

Mr. Li Xingxing is indirectly interested in 85% of the equity interests in Zhejiang Yaoning and is also the son of Mr. Li Shufu, the controlling shareholder of the Company. Thus, Zhejiang Yaoning is an associate of Mr. Li Shufu and is a connected person of the Company.

On 11 September 2023, the Company entered into the Purchase Framework Agreement with Zhejiang Yaoning, pursuant to which the Group will purchase lithium-ion battery cells, modules and related products from Zhejiang Yaoning Group.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Continuing Connected Transactions — Continued

The Purchase Framework Agreement with Zhejiang Yaoning Technology Co. Ltd. (“Zhejiang Yaoning”) — Continued

The transactions contemplated under the Purchase Framework Agreement between the Group and Zhejiang Yaoning Group will be conducted in the ordinary and usual course of business of the Group. The products purchased from Zhejiang Yaoning Group are a component part of the lithium-ion battery pack, and through the Purchase Framework Agreement, the Group will be able to leverage on this advantage and utilise these supply chain resources to secure a sizable and stable supply of lithium-ion battery cells, modules and related products. The Purchase Framework Agreements will also allow the Group to capture the synergy between Zhejiang Yaoning Group and the Group, and contribute to the operational and business development of the Group.

For other details in relation to the Purchase Framework Agreement, please refer to the circular of the Company dated 19 October 2023.

Purchase Annual Caps for the Purchase Framework Agreement

An extraordinary general meeting of the Company was held on 6 November 2023 and passed the resolution in relation to the Purchase Framework Agreement with the following annual caps.

	For the period from 11 September 2023 to 31 December 2023 <i>RMB'000</i>	For the year ending 31 December 2024 <i>RMB'000</i>	For the year ending 31 December 2025 <i>RMB'000</i>	For the period from 1 January 2026 to 10 September 2026 <i>RMB'000</i>
Purchase Annual Caps	42,000	103,000	129,000	72,000

Should the actual annual purchase amount exceed the above annual caps, the Company will revise the annual caps in compliance with the relevant requirements under Chapter 20 of the GEM Listing Rules.

Business Review

For the period ended 30 September 2023, the Group recognised HK\$187.5 million in revenue, representing over 90% increase when compared to HK\$97.3 million revenue recognised in the last corresponding period. The loss for the period ended 30 September 2023 attributable to owners of the Company was approximately HK\$57.7 million (30 September 2022: loss of HK\$71.0 million).

Approximately 78.5% revenue of the Group were contributed by our Zhejiang lithium-ion battery plant. The remaining revenue were mainly generated by the online car-hailing service acquired by the Group in August 2022 in France (20.2% of revenue) and our electric bicycle battery swapping service in China (1.3% of revenue). The substantial increase in revenue of the Group was due to the substantial increase in lithium-ion batteries orders for our major product which only commenced mass production in mid-June 2022. In addition, there was less than two months' online car-hailing service income in the last corresponding period.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Business Review — Continued

On 10 August 2022, the Group closed the acquisition of controlling interests of Jixing International Technology Co. Ltd (“Jixing International”), which engaged in online car-hailing services in France under the brand Caocao. The service was launched in Paris in January 2020. Despite COVID pandemic posed severe challenges, Caocao has received positive feedback from the market and has established both B2C and B2B business models. By September 2023, there were approximately 500,000 downloaded users and 150,000 registered users respectively. For the period ended 30 September 2023, the revenue recognised by Caocao was approximately HK\$37.8 million. However, war in Europe and strikes in France (some countries have issued safety alert for travellers in France in mid-2023) are affecting the economy and tourism industry of Paris (tourist is one of the key target customer group) during the period.

The Group is running the battery sharing business focusing on food delivery electric bicycle branded “GETI” in the PRC in Jiangsu Province. By September 2023, GETI has 448 battery swapping stations (December 2022: 448) and 165 package users (December 2022: 960). The sharp decline in package users was mainly due to the keen competition in the industry. Despite various efforts, the prospect of this business is highly uncertain and the Company considered that further allocation of capital resources to GETI may no longer serve the best interests of the Company. As such, equity transfer agreements have been entered into with Zhejiang Farizon Intelligent Transportation Technology Co., Ltd. on 22 September 2023 to dispose the battery sharing business. For the period ended 30 September 2023, GETI has recognised approximately HK\$2.5 million revenue (30 September 2022: HK\$4.5 million).

The Group recorded a gross profit of approximately HK\$30.3 million (gross profit ratio: 16.2%) for the period ended 30 September 2023 as compared with the gross profit of approximately HK\$29.0 million (gross profit ratio: 29.8%) last corresponding period. Gross profit ratio was lower in the current period mainly because low gross profit was recognised by the online-car hailing service segment acquired in August 2022, attributed by the high depreciation expense of vehicles and drivers salaries. On the other hand, gross profit ratio for the period ended 30 September 2022 was exceptionally high because certain long ageing inventories which were written-down previously were sold.

Other operating expenses of approximately HK\$7.8 million (30 September 2022: expense of HK\$50.8 million) was recognised during the period. The significant decrease in expenses was mainly due to the net loss recognised on financial assets at fair value through profit or loss decreased significantly during the current period to approximately HK\$32.0 million (30 September 2022: HK\$70.4 million) as the share price of Yuxing InfoTech Investment Holdings Limited (“Yuxing InfoTech”), a listed equity investments listed in the GEM of Hong Kong Stock Exchange Limited was relatively stable. The Group owned 351,867,200 shares of Yuxing InfoTech, representing 14.14% equity interests in Yuxing InfoTech during the period.

The maintenance and repairment cost for the battery products decreased during the current period so the selling and distribution costs during the period ended 30 September 2023 was decreased to approximately HK\$5.4 million (30 September 2022: HK\$5.6 million).

The administrative expenses increased by approximately HK\$6.8 million or 9.3% when compared to last corresponding period. The increase was mainly contributed by increase in depreciation expense and staff costs.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Business Review — Continued

Approximately HK\$7.3 million finance costs were recognised during the period ended 30 September 2023 (30 September 2022: HK\$5.9 million) which were mainly interest expense related to the bank borrowings from a commercial bank in the PRC.

For the period ended 30 September 2023, the loss attributable to the owners of the Company was approximately HK\$57.7 million (30 September 2022: loss of HK\$71.0 million). Loss was significantly reduced mainly because the share price of the listed investments owned by the Group are relatively stable during the current period. For the last period ended 30 September 2022, loss on financial assets at fair value through profit or loss was HK\$70.4 million mainly attributed by the decrease in share price of Yuxing InfoTech. On the other hand, loss on financial assets at fair value through profit or loss was reduced to HK\$32.0 million in the current period.

Since 19 March 2020, Shandong Forever New Energy became an associate of the Company. In accordance with the Reorganisation Agreement and the Amended and Restated Joint Investment Agreement, Jiangsu Tiankai shall complete the Capital Increase by payment of the Capital Contribution Sum in cash into a designated account of Shandong Forever New Energy. However, despite repeated demands from the Company, Jiangsu Tiankai has not yet settled the unpaid capital contribution up to the date of this report. The Group is exploring the feasibility of retrieving equity or reverting the transaction through negotiation or legal proceedings. Shandong Forever New Energy has temporarily stopped production and approximately HK\$0.3 million share of loss was recognised by the Company during the period. In 2023, it will focus on downsizing and operation simplification while sale cannot be ruled out should suitable opportunities arise.

As at 30 September 2023, the cash and cash equivalent balance of the Group was approximately HK\$153.5 million (31 December 2022: HK\$165.5 million). The Group will continue to prudently control its costs and monitor its expenditure under current challenging and uncertain economic situation.

As at 30 September 2023, the gearing ratio of the Group which is measured by total loans and borrowings to total equity was 3.1% (31 December 2022: 3.2%).

Prospects

The world is undergoing an evolution of the replacement of combustion-engine cars by electric vehicles with low and even zero emission as several countries in Europe, certain provinces in China and certain states in the USA have set out their timetable to gradually phase out sales of combustion-engine vehicles.

Meanwhile in China, the General Office of the State Council of the PRC released the long term “New Energy Vehicle Industry Development Plan (2021-2035)” (《新能源汽车产业高质量发展规划(2021–2035年)》) in November 2020, which aims to guide the development of the new energy vehicle industry in the next fifteen years. The new car sales of new energy vehicles is expected to account for about 20% of the overall new car sales, which is expected to reach 5 million units in 2025. The new energy vehicle industry in China has grown robustly under the support of the PRC government and sales have already reached 6.9 million units for the year ended 31 December 2022, accounted for about 25.6% of the overall new car sales. In June 2023, the Chinese government continued to promote new energy vehicles industry and announced certain tax benefits for purchasing new energy vehicles will be extended until the end of 2027. The Company expects the new energy vehicle industry will continue to maintain a high growth trend in the next few years.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Prospects — Continued

Our Zhejiang lithium-ion manufacturing plant has been focusing on producing lithium-ion batteries for PHEV models in the past few years. Nevertheless, PHEV is only a niche market for the battery segment in new energy vehicles, accounting for approximately 20% of the total new energy vehicles sales in the PRC, which more than half of the total sales were derived by a single manufacturer which is also a battery manufacturer. Also, the electric powered range for PHEV has been increasing, while 50–70KM range was the mainstream in the past few years, PHEV models with over 80–100KM range has become the norm from 2022 onwards. The keen competition and the new industry norm poses a challenge for the Group. Since 2022, the Group has also put efforts to explore customers in electric bicycle and commercial vehicle sectors and has achieved positive progress. The Group also aware that a switch from lead acid battery to lithium battery in vehicles is an unavoidable trend and the Group will launch products for this market.

On 10 August 2022, the Company has closed the acquisition of controlling interests of Jixing International Technology Co., Ltd., which is providing online car-hailing service in Paris, France. After closing of the acquisition, Jixing International Technology Co., Ltd. will expand its service and promote its core values (safe, reliable, low carbon, etc.) to other cities in France and other countries in Europe in a suitable time and the online car-hailing business will become an important revenue stream of the Company.

For the battery sharing business focusing on food delivery electric bicycle branded “GETI”, the Directors considered that the business prospects of GETI is uncertain and that further allocation of capital resources to GETI may no longer serve the best interests of the Group. On 22 September 2023, equity transfer agreements have been entered to dispose the business. The Directors considered disposals at this stage would be a good opportunity for the Group to recover its earlier investments in GETI (China) Energy which would enable the Group to better reallocate its resources and also to simplify its corporate structure.

For the iron ore project in Brazil, despite the exceptional time and efforts spent for the SAM iron ore project, it is mainly due the two tailing dam disasters in Brazil in November 2015 and January 2019 that all the licensing process of other projects with tailing dam has been badly affected, therefore the Company was still unable to obtain the Preliminary License (LP) in relation to the environmental feasibility. The Company will continue to review its status and development continuously in order to make the best decision for the shareholders of the Company. While the iron ore project is currently progressing in the direction of self-development, the introduction of strategic investors for joint development or collective sale cannot be ruled out should suitable opportunities arise in a suitable time.

The Company has identified an investment opportunity in relation to two lithium brine projects in Argentina and has entered into a letter of intent with potential transaction party, Tibet Summit Resources Co., Ltd., on 6 April 2023. The Company has basically completed the business and financial due diligence and is finalising the legal due diligence process in Argentina. Save for the aforesaid, the Group is also reviewing certain lepidolite and spodumene projects in Africa and Brazil to explore the possibility of mining subcontracting or cooperation, and at the same time look for long-term users of lithium carbonate and front-end lithium raw material products. As these potential projects may also have a sizable funding requirement, the Group is exploring the possibility of securing various financing facilities. The overall business strategy of the Group is the dual development of new energy vehicles related business and resources, creating value for shareholders.

Corporate Governance

Throughout the nine months ended 30 September 2023, 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 2023, 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	–	80,399,189	0.82
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

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 30 September 2023, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules.

SHARE OPTION SCHEME

The Company's existing share option scheme (the "Scheme") was adopted on 26 May 2022 and became effective on the same date.

Details of the principal terms of the Scheme are summarised under the sub-section headed "SUMMARY OF THE PRINCIPAL TERMS OF THE NEW SHARE OPTION SCHEME" in Appendix III to the Circular of the Company dated 3 May 2022.

SHARE OPTION SCHEME — CONTINUED

Details of options granted

Particulars of the outstanding share options granted under the share option scheme adopted by the Company on 21 May 2012 (“Share Option Scheme 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 HK\$	Price immediately preceding the grant date of share options (Note a) HK\$
	Outstanding as at 01/01/2023	Granted, exercised, and cancelled during the period	Lapsed during the period	Outstanding as at 30/09/2023				
Employee	8,750,000	-	(8,750,000)	-	14/05/2015	15/05/2015 – 14/05/2023	2.61	2.55
Total	8,750,000	-	(8,750,000)	-				

Note:

- (a) The price of the Shares disclosed as immediately preceding the grant date of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options.

As at 30 September 2023, no share options were outstanding under the Scheme and Share Option Scheme 2012.

CHANGE OF CONTROLLING SHAREHOLDER AND THE OFFER

On 12 January 2023, Geely Group Limited (“Offeror”), wholly-owned by Mr. Li Shufu, as the purchaser and Mr. He Xuechu and Mr. Li Xingxing (“Vendors”) as the vendors entered into a sale and purchase agreement, pursuant to which (i) Mr. He Xuechu and Mr. Li Xingxing conditionally agreed to sell 38.09% and 30.77%, respectively, of the total issued share capital of Hong Bridge Capital Limited (the “Target Company”), which is the controlling shareholder of the Company, and (ii) the Offeror conditionally agreed to acquire from Mr. He Xuechu and Mr. Li Xingxing an aggregate of 68.86% of the total issued share capital of the Target Company as at the date of the sale and purchase agreement (the “Sale and Purchase Agreement”).

Following the completion of the Sale and Purchase Agreement which took place on 16 January 2023, the Offeror has acquired a statutory control (as referred to under the Takeovers Code) over the Target Company, and the Offeror and the Offeror concert parties are interested in approximately 62.40% in the Company. The Offeror is required to make an unconditional mandatory general offer for all the issued shares of the Company (other than those already owned or agreed to be acquired by the Offeror and the Offeror concert parties) pursuant to Note 8 to Rule 26.1 of the Takeovers Code and Practice Note 19 to the Takeovers Code at HK\$0.08 per offer share. The Offer was closed on 16 March 2023.

Details of the change of controlling shareholder of the Company and the Offer were set out in the joint announcements dated 12 January 2023, 16 January 2023, 2 February 2023, 16 March 2023 and the composite document dated 22 February 2023 jointly issued by the Company and the Offeror.

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

As at 30 September 2023, the following persons, other than the Directors or chief executives of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO:

Name of Shareholder	Number of Shares in the Company			Total number of shares held	Approximate percentage of shareholding
	Beneficial owner	Interest of spouse	Interests of controlled corporation		
Li Shufu (<i>Note 1</i>)	103,064,000	50,000,000	5,918,504,675	6,071,568,675	61.61%
Geely Group Limited (<i>Note 2</i>)	2,829,000	–	4,065,000,000	4,067,829,000	41.28%
Hong Bridge Capital Limited	4,065,000,000	–	–	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 Company Limited (<i>Note 3</i>)	–	–	1,850,675,675	1,850,675,675	18.78%

Notes:

1. Mr. Li Shufu holds 91.08% equity interest of Zhejiang Geely Holding Group Company Limited and 100% equity interest of Geely Group Limited.
2. Geely Group Limited is the controlling shareholder holding 68.86% equity interest of Hong Bridge Capital Limited.
3. Zhejiang Geely Holding Group Company Limited holds 100% equity interest of Geely International (Hong Kong) Limited.

Save as disclosed above, as at 30 September 2023, 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.

CONSTITUTIONAL DOCUMENTS OF THE COMPANY

Reference is made to the Company's circular dated 9 May 2023, the Board proposed to amend the Company's memorandum and articles of association ("Memorandum and Articles of Association") in order to (i) bring them in line with the latest legal and regulatory requirements, including the applicable laws of the Cayman Islands and those relating to the amendments to the GEM Listing Rules, which took effect on 1 January 2022; and (ii) incorporate certain housekeeping improvements. At the Company's annual general meeting held on 2 June 2023, the amendments to the Memorandum and Articles of Association and the adoption of the amended and restated Memorandum and Articles of Association have been passed by the Shareholders as a special resolution.

The amended and restated Memorandum and Articles of Association is maintained on the Company's website (<http://www.8137.hk>) and on the website of the Stock Exchange (<http://www.hkexnews.hk>) for Shareholders' inspection.

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 period ended 30 September 2023.

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 2023.

AUDIT COMMITTEE

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

The Group's unaudited results for the nine months ended 30 September 2023 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 2023, neither the Company, its ultimate holding company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

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

Executive Director:

Mr. He Xuechu (*Chairman*)

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

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

Non-Executive Director:

Mr. Yan Weimin

Independent Non-Executive Director:

Mr. Chan Chun Wai, Tony

Mr. Ma Gang

Mr. Ha Chun

On behalf of the Board

LIU Wei, William

Director and Joint Chief Executive Officer

Hong Kong, 9 November 2023