FDG Kinetic Limited

五龍動力有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 378)

FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2018

The board of directors (the "Board") of FDG Kinetic Limited (the "Company") presents the audited consolidated final results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2018 together with the comparative figures for the year ended 31 March 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2018

	Notes	**2018** **HK$'000**	2017 *HK$'000*
Revenue	3	**262,303**	280,233
Cost of sales		**(218,895)**	(224,635)
		43,408	55,598
Other income		**3,042**	856
Other gains and losses	5	**(29,612)**	5,514
Selling and distribution costs		**(3,829)**	(2,693)
General and administrative expenses		**(61,490)**	(62,425)
Research and development expenses		**(11,739)**	(11,348)
Finance costs	6	**(96,555)**	(122,019)
Impairment loss on goodwill	8	**(152,969)**	—
Impairment losses on interests in associates	8	**(533,184)**	—
Share of results of associates		**(189,154)**	(72,111)
Share of results of a joint venture		**3,493**	543
Loss before taxation		**(1,028,589)**	(208,085)
Income tax credit	7	**1,936**	1,894
Loss for the year	8	**(1,026,653)**	(206,191)
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
— Exchange differences on translation of foreign operations		**74,908**	(51,008)
— Share of investment revaluation reserve of an associate		**16,209**	(16,209)
— Share of other comprehensive income/(expense) of associates		**62,031**	(45,043)
— Share of other comprehensive income/(expense) of a joint venture		**10,837**	(6,277)
Other comprehensive income/(expense) for the year		**163,985**	(118,537)
Total comprehensive expense for the year		**(862,668)**	(324,728)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(continued)*

For the year ended 31 March 2018

	Note	**2018**	2017
		HK$'000	*HK$'000*
Loss for the year attributable to owners of the Company		**(1,026,653)**	(206,191)
Other comprehensive income/(expense) for the year attributable to owners of the Company		**163,985**	(118,537)
Total comprehensive expense for the year attributable to owners of the Company		**(862,668)**	(324,728)
		HK cents	*HK cents*
Loss per share	9		
Basic and diluted		**(17.64)**	(4.01)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2018

	Notes	**2018**	2017
		HK$'000	*HK$'000*
Non-current assets			
Goodwill		**335,878**	441,216
Intangible assets		**72,012**	78,953
Property, plant and equipment		**181,008**	180,736
Interests in leasehold land held for own use under operating lease		**18,836**	17,378
Interests in associates		**524,120**	1,009,098
Interest in a joint venture		**112,591**	98,261
Loan receivables	12	**360**	398
Deposits paid for non-current assets		**66,772**	—
Other non-current assets		**367**	367
		1,311,944	1,826,407
Current assets			
Inventories		**45,028**	74,841
Trade and other receivables	11	**122,847**	176,604
Loan receivables	12	**159,963**	154,122
Financial assets at fair value through profit or loss		**22,500**	46,406
Investment in a secured bond		—	370,000
Amount due from an associate		**69,699**	65,719
Pledged bank deposits		**11,375**	24,296
Cash and cash equivalents		**74,101**	65,893
		505,513	977,881
Current liabilities			
Bank and other borrowings		**84,960**	47,193
Trade and bills payables	13	**43,089**	68,411
Accruals and other payables		**127,289**	126,759
Loan from the ultimate holding company		—	320,400
Obligations under finance leases		**33,389**	28,394
Liability component of convertible bonds		**192,561**	—
Amount due to an associate		**159,120**	—
Tax payables		**4,556**	4,132
		644,964	595,289
Net current (liabilities)/assets		**(139,451)**	382,592
Total assets less current liabilities		**1,172,493**	2,208,999

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

At 31 March 2018

	2018	2017
	HK$'000	*HK$'000*
Non-current liabilities		
Bank and other borrowings	**51,107**	46,115
Obligations under finance leases	**12,588**	41,497
Liability component of convertible bonds	**—**	659,510
Deferred tax liabilities	**12,806**	13,409
	76,501	760,531
NET ASSETS	**1,095,992**	1,448,468
CAPITAL AND RESERVES		
Share capital	**1,350,659**	1,027,129
Reserves	**(254,667)**	421,339
TOTAL EQUITY	**1,095,992**	1,448,468

NOTES TO THE AUDITED CONSOLIDATED FINAL RESULTS

1. Basis of preparation

In preparing the consolidated financial statements, the directors of the Company (the "Directors") have given careful consideration to the future liquidity of the Group. While recognising that the Group had net current liabilities of approximately HK$139,451,000 as at 31 March 2018 and incurred a net loss of approximately HK$1,026,653,000 for the year then ended, the Directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future, the appropriateness of which depends on the financial support from the Company's ultimate holdings company, FDG Electric Vehicles Limited ("FDG"), who has agreed to provide adequate funds to enable the Group to meet in full its obligations as they fall due for a period of twelve months from the date the consolidated financial statements are approved by the Directors.

As further described in FDG's consolidated financial statements for the year ended 31 March 2018, FDG is also implementing measures to improve its own liquidity position, the ultimate success of which cannot be determined at this stage. The Directors believe that FDG would be able to provide adequate funds to enable the Group to meet in full its obligation as they fall due for a period of twelve months from the date the consolidated financial statements are approved by the Directors.

The Directors also consider that the Group will be able to manage the timing of the payment of investment cost in an associate to ensure the Group will have sufficient working capital to meet its obligations in the foreseeable future.

Accordingly, the Directors consider that it is appropriate to prepare these consolidated financial statements on a going concern basis.

2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

The Group has applied the following amendments to HKFRSs (which include all applicable Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants for the first time in the current year:

Amendments to HKFRS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's consolidated financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The Group has not applied any new amended or interpretation that is not yet effective for the current accounting period.

3. Revenue

An analysis of the Group's revenue is as follows:

	2018	2017
	HK$'000	*HK$'000*
Sales of cathode materials for battery production	**219,180**	234,201
Interest income	**43,123**	46,032
Total	**262,303**	280,233

4. Segment Information

The segment information reported to the executive directors of the Company, being the chief operating decision makers for the purposes of resource allocation and assessment of segment performance focuses on type of goods delivered or services provided.

The Group's reportable and operating segments are as follows:

(i) Battery materials production segment, which includes research and development, manufacture and sales of cathode materials for (1) nickel-cobalt-manganese lithium-ion batteries; and (2) lithium ferrous phosphate batteries representing the Group's interest in an associate, ALEEES (as defined in Note 8), which the Group subscribed its approximately 21.85% equity interest in August 2016; and

(ii) Direct investments segment, which includes loan financing, securities trading and asset investment.

4. Segment Information *(continued)*

The following is an analysis of the Group's revenue and results by reportable and operating segments:

	Battery Materials Production		**Direct Investments**		**Total**	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment revenue from external customers	**219,180**	234,201	**43,123**	46,032	**262,303**	280,233
Reportable segment results	**(326,648)**	(61,192)	**(637,993)**	(118,715)	**(964,641)**	(179,907)
Unallocated corporate income					**1,588**	14
Central administrative costs, write-down of inventories and directors' remuneration					**(65,536)**	(28,192)
Loss before taxation					**(1,028,589)**	(208,085)

Segment results represent profit or loss attributable to the segment without allocation of corporation income, central administrative costs, write-down of inventories and directors' remuneration. This is the measure reported to the executive directors of the Company for the purposes of resources allocation and performance assessment.

4. Segment Information *(continued)*

Other segment information:

	Battery Materials Production		Direct Investments		Unallocated		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Amounts included in the measure of segment results or segment assets:								
Bank interest income	**(325)**	(712)	**—**	—	**—**	—	**(325)**	(712)
Loss on disposal of property, plant and equipment	**673**	639	**—**	—	**—**	—	**673**	639
Depreciation and Amortisation	**19,898**	19,271	**—**	—	**17**	14	**19,915**	19,285
Interest expenses	**10,805**	7,516	**85,750**	114,503	**—**	—	**96,555**	122,019
Impairment loss on goodwil	**152,969**	—	**—**	—	**—**	—	**152,969**	—
Impairment losses on interests in associates	**61,000**	—	**472,184**	—	**—**	—	**533,184**	—
Impairment losses on trade receivables	**7,553**	1,225	**—**	—	**—**	—	**7,553**	1,225
Reversal of impairment losses on trade receivables	**(607)**	—	**—**	—	**—**	—	**(607)**	—
Share of results of associates	**49,667**	17,309	**139,487**	54,802	**—**	—	**189,154**	72,111
Share of results of a joint venture	**—**	—	**(3,493)**	(543)	**—**	—	**(3,493)**	(543)
Write-down of inventories	**—**	1,574	**—**	—	**37,743**	—	**37,743**	1,574
Reversal of write-down of inventories	**(2,520)**	—	**—**	—	**—**	—	**(2,520)**	—
Interest in associates	**433,353**	369,292	**90,767**	639,806	**—**	—	**524,120**	1,009,098
Interest in a joint venture	**—**	—	**112,591**	98,261	**—**	—	**112,591**	98,261
Addition to non-current assets (Note)	**222,721**	395,380	**—**	—	**—**	28	**222,721**	395,408

Note: Non-current assets excluded financial instruments.

4. **Segment Information** *(continued)*

(a) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	2018	2017
	HK$'000	*HK$'000*
Segment assets		
Battery materials production	**1,274,307**	1,305,797
Direct investments	**467,377**	1,387,910
Total segment assets	**1,741,684**	2,693,707
Unallocated assets	**75,773**	110,581
Consolidated assets	**1,817,457**	2,804,288
Segment liabilities		
Battery materials production	**410,013**	246,524
Direct investments	**288,440**	1,087,760
Total segment liabilities	**698,453**	1,334,284
Unallocated liabilities	**23,012**	21,536
Consolidated liabilities	**721,465**	1,355,820

For the purposes of monitoring segment performance and allocating resources to segments:

(i) All assets are allocated to reportable segments other than those assets which are centrally managed by the Group's management, including certain property, plant and equipment, other non-current assets, certain inventories, certain other receivables and cash and cash equivalents; and

(ii) All liabilities are allocated to reportable segments other than those liabilities which are centrally managed by the Group's management, including certain accruals and other payables.

4. **Segment Information** *(continued)*

(b) Geographical Information

The Group's operations are mainly located in Hong Kong, the People's Republic of China (the "PRC") and Taiwan.

Information about the Group's revenue is presented based on the location of the operations of the respective group companies. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue		**Non-current assets (Note)**	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**43,123**	45,573	**46**	63
The PRC	**219,180**	234,660	**1,037,277**	1,456,654
Taiwan	**—**	—	**274,261**	369,292
	262,303	280,233	**1,311,584**	1,826,009

Note: Non-current assets excluded financial instruments.

(c) Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group are as follows:

	2018	2017
	HK$'000	*HK$'000*
Customer A – revenue from battery materials production	**104,203**	59,871
Customer B – revenue from battery materials production	**57,735**	156,125
Customer C – revenue from direct investments	**26,924**	29,539

(d) Revenue from major products and services

The Group's revenue from its major products and services is disclosed in Note 3.

5. Other Gains and Losses

	2018	2017
	HK$'000	*HK$'000*
Impairment losses on trade receivables	**7,553**	1,225
Loss on disposal of property, plant and equipment	**673**	639
Net foreign exchange (gain)/loss	**(60)**	432
Net gain on held-for-trading investments	**(13,170)**	(8,318)
Net gain on financial assets designated at fair value through profit or loss	**—**	(1,066)
Reversal of write-down of inventories	**(2,520)**	—
Reversal of impairment losses on trade receivables	**(607)**	—
Write-down of inventories	**37,743**	1,574
	29,612	(5,514)

6. Finance Costs

	2018	2017
	HK$'000	*HK$'000*
Interest on convertible bonds	**84,614**	114,503
Interest on finance leases	**3,855**	2,975
Interest on bank and other borrowings	**8,086**	4,541
	96,555	122,019

7. Income Tax Credit

	2018	2017
	HK$'000	*HK$'000*
Deferred tax	**(1,936)**	(1,894)
Total income tax credit for the year	**(1,936)**	(1,894)

No provision for the Hong Kong Profits Tax has been made for the year as the Group does not have any assessable profits in Hong Kong.

Under the Law of People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%, except for a subsidiary in the PRC, which is subject to a preferential tax rate of 15% until 2020. No PRC income tax has been made for both years as the Group does not have any assessable profits in the PRC.

The deferred tax of approximately HK$1,936,000 (2017: approximately HK$1,894,000) that has been credited to the consolidated statement of profit or loss and other comprehensive income arose from origination and reversal of temporary differences in respect of fair value adjustment on business combination.

8. Loss for the Year

Loss for the year is arrived at after charging/(crediting):

	2018	2017
	HK$'000	*HK$'000*
Contributions to defined contribution retirement plan	**1,842**	1,698
Salaries and other benefits	**27,922**	27,562
Less: Amounts capitalised in inventories	**(4,668)**	(4,610)
Staff costs, including directors' remuneration	**25,096**	24,650
Auditors' remuneration		
- audit service	**2,397**	2,347
- non-audit service	**564**	1,001
Cost of inventories recognised as expenses	**218,895**	224,635
Amortisation of intangible assets	**14,604**	14,288
Amortisation of interests in leasehold land held for own use under operating lease	**395**	387
Depreciation of property, plant and equipment	**18,021**	17,531
Less: Amounts capitalised in inventories	**(13,105)**	(12,921)
	4,916	4,610
Impairment loss on goodwill (Note (i))	**152,969**	—
Impairment losses on interests in associates (Note (ii))	**533,184**	—
Impairment losses on trade receivables	**7,553**	1,225
Write-down of inventories	**37,743**	1,574
Operating lease charges in respect of property rentals	**1,115**	1,130
Bank interest income	**(325)**	(712)

Notes:

(i) The impairment loss on goodwill of the battery material production business as a result of the decrease in the expected future cash flows from this business caused by the completion of construction of new production lines and launch of new products is longer than expected time and the impact on fixed selling price to a customer with a steady gross margin.

(ii) The impairment losses on interests in two associates, Synergy Dragon Limited and Advanced Lithium Electrochemistry (Cayman) Co., Ltd. ("ALEEES") with the changes of the business prospects, as a result of the decrease in the expected future cash flows caused by the decrease in demand of battery products under the new energy in subsidy policies which in return influence the demand of cathode material for battery.

9. Loss per Share

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	2018	2017
	HK$'000	*HK$'000*
Loss:		
Loss for the year attributable to owners of the Company for the purpose of basic and diluted loss per share	**1,026,653**	206,191

	2018	2017
Number of shares:		
Issued ordinary shares at 1 April	**5,135,646,855**	5,135,646,855
Effect on issuance of new shares pursuant to conversion of convertible bonds	**684,850,926**	—
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**5,820,497,781**	5,135,646,855

The computation of diluted loss per share for the years ended 31 March 2018 and 2017 does not assume the conversion of the Company's outstanding convertible bonds since their assumed exercise would result in a decrease in loss per share.

10. Dividends

No dividend had been paid or declared during the year. The Board does not recommend the payment of a dividend for the year ended 31 March 2018 (2017: Nil).

11. Trade and Other Receivables

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**77,182**	131,927
Bills receivables	**3,779**	592
	80,961	132,519
Less: allowance for doubtful debts	**(11,307)**	(3,566)
	69,654	128,953
Other receivables	**53,193**	47,651
	122,847	176,604

An ageing analysis of trade and bills receivables, based on the invoice date (or date of revenue recognition, if earlier), is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within one month	**3,582**	31,431
Between one and three months	**10,888**	44,519
Over three months	**55,184**	53,003
	69,654	128,953

Trading terms with customers are either on a cash basis or on credit. For those customers who trade on credit, a credit period generally ranging from 30 days to 90 days is allowed. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by the senior management. The carrying amounts of the receivables approximate their fair values.

At 31 March 2018, included in the trade receivables are discounted trade receivables with recourse of approximately HK$54,012,000.

12. Loan Receivables

	2018	2017
	HK$'000	*HK$'000*
Fixed-rate loan receivables	**168,073**	162,270
Less: allowance for doubtful debts	**(7,750)**	(7,750)
Net fixed-rate loan receivables	**160,323**	154,520
Presented by:		
Non-current assets	**360**	398
Current assets	**159,963**	154,122
	160,323	154,520

An analysis of the net fixed-rate loan receivables, based on the maturity date, is as follows:

	2018	2017
	HK$'000	*HK$'000*
On demand and due within one year	**159,963**	154,122
Over five years	**360**	398
	160,323	154,520

13. Trade and Bills Payables

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**31,714**	44,115
Bills payables	**11,375**	24,296
	43,089	68,411

An ageing analysis of trade and bills payables, based on the invoice date, is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within one month	**5,471**	12,323
Between one and three months	**13,217**	31,792
Over three months	**24,401**	24,296
	43,089	68,411

The carrying amounts of trade and bills payables approximate their fair values and all bills payables were secured by pledged bank deposits as at 31 March 2018 and 2017.

14. Capital Commitments

	2018	2017
	HK$'000	*HK$'000*
Capital expenditures contracted for but not provide in the consolidated financial statements in respect of acquisition of property, plant and equipment	**37,373**	—

15. Comparative Figures

During the year, the Group modified the presentation of the consolidated statement of financial position such that the interest receivables, value-added tax receivables, prepayments, deposits and other receivables, which were included in loan and other receivables in the consolidated statement of financial position as at 31 March 2017, are reclassified to trade and other receivables in the current year. Comparative figures have been restated to conform to the presentation in the current year.

The changes in the above presentation have no impact on the Group's consolidated statement of financial position as at 31 March 2017. Accordingly, the consolidated statement of financial position as at 1 April 2016 is not re-presented.

EXTRACT FROM THE INDEPENDENT AUDITOR'S REPORT

The Company's independent auditor's report for the year ended 31 March 2018 has included a separate section under the heading "Material uncertainty related to going concern" but without affecting the audit opinion, an extract of which is as follows:

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the consolidated financial statements which indicates that the Group incurred a net loss of approximately HK$1,026,653,000 during the year ended 31 March 2018 and, as of that date, had net current liabilities of approximately HK$139,451,000. The consolidated financial statements have been prepared on the assumption that the Group will be able to operate as a going concern in the foreseeable future, the appropriateness of which depends on the ongoing availability of financial support from the Company's ultimate holding company, FDG Electric Vehicles Limited ("FDG"), who has agreed to provide adequate funds to enable the Group to meet in full its financial obligations as they fall due for a period of twelve months from the date the consolidated financial statements are approved by the directors of the Company. As further described in FDG's consolidated financial statements for the year ended 31 March 2018, FDG is also implementing measures to improve its own liquidity position, the ultimate success of which cannot be determined at this stage. Should the above financing be unavailable, the Group may be unable to operate on a going concern, in which case adjustments might have to be made to the carrying values of the Group's assets to state them at their recoverable amounts, to provide for any further liabilities which might arise and to reclassify its non-current assets and non-current liabilities to current assets and current liabilities, respectively. These conditions, along with other matters as set forth in Note 1 to the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

MANAGEMENT DISCUSSION AND ANALYSIS

FDG Kinetic Limited ("FKL" or the "Company", stock code: 378) adheres to a philosophy of "Green and Growth", gradually establishing and improving its lithium-ion batteries industry chain. The Company and its subsidiaries (the "Group") are principally engaged in research and development, manufacturing and trading of cathode materials for lithium-ion batteries and direct investments, including securities trading, loan financing and asset investment. FKL also holds equity interests in Advanced Lithium Electrochemistry (Cayman) Co., Ltd. ("ALEEES", listed on the Taipei Exchange, stock code: 5227) and Sinopoly Battery Limited. FKL strategically positions ourselves in the cathode materials and lithium-ion battery segment. FKL is an indirect non-wholly owned subsidiary of FDG Electric Vehicles Limited ("FDG", stock code: 729).

MARKET OVERVIEW

Matching Batteries' Supply and Demand and the Discussion regarding the After Life of Batteries

The global demand for batteries remained steady during the year ended 31 March 2018 (the "Year"). The market trend for batteries was largely impelled by the demand in electric vehicles as the battery was the most essential component of an electric vehicle. Other uses of batteries such as in electric cycles, digital devices and energy storage account for the rest of the demand. According to Bloomberg, approximately 55% of global lithium-ion battery production plants are already based in China, compared with only 10% in the United States. By 2021, China's share of battery production plants is forecasted to grow to 65%.

According to the data compiled by Gaogong Industrial Research Institute (GGII), China's battery output was 44.5GWh in 2017, a significant increase of 44% compared to 2016. The battery market in China has grown by 12% to an approximate worth of RMB72.5bn, an increase of 12% year-on-year. The mismatched supply and demand was primarily due to the adjustments in government policies in 2017, decreased government subsidies and the shift of costs from OEMs (Original Equipment Manufacturers) to battery makers. In 2017, batteries installed by OEMs for new energy vehicles totalled 36.2GWh, an increase of 29% compared to 2016's 28.0GWh. Most of the batteries were installed in the second half of 2017, as most OEMs accelerated electric vehicles production after adopting to the change in policies in the beginning of the year.

As batteries produced previously were expected to last for around 6 – 10 years, since the launch of new energy vehicles in 2010, there is an increasing need to recycle these batteries. Batteries could either be reused in other segments or be broken down to extract raw materials, thus the consideration of the echelon use of the batteries after their first life in the electric vehicles has been becoming more imminent. The Chinese Government views batteries as a strategic industry for the 2020s and beyond. A series of regulations on power battery size, standardisation in sequencing and numbering and the discussion on echelon recycling of batteries have been released by the National Technical Committee of Auto Standardization (NTCAS) in 2017, such as the *Interim Measures for the Management of the Utilisation of Power Batteries for New Energy Vehicles* (*「新能源汽車動力蓄電池回收利用管理暫行辦法」*) and the *Specification of Lithium-ion Battery Enterprise Safety Production* (*「鋰電子電池企業安全生產規範」*).

Downstream Demand Propelled Upstream Cathode Materials Supply in Volume and Prices on a Combined Basis

In 2017, GGII's data showed that China increased its total production of cathode materials by 28% to 208,000 tonnes. In particular, Lithium-Nickel-Manganese-Cobalt-Oxide ("NCM") materials accounted for 86,100 tonnes, an increase of 59% year-on-year. Among all NCM materials produced in 2017, NCM523 accounted for 65%, with a production volume of 55,296 tonnes. In the past year, Chinese corporates have shown an increasing appetite for NCM materials instead of Lithium-Iron-Phosphates ("LFP") materials, primarily due to vast demand for small-size electric vehicles such as electric cars. Such unprecedented demand have pushed up prices as well as total production volume available in market. The price of NCM523 cathode material peaked to over RMB230,000 per tonne, setting a high water mark over the last decade.

BUSINESS REVIEW

2017 was one of the most challenging years as macro factors impacted the electric vehicle industry. However, this was also a year of considerable progress for FKL as it once again delivered a solid set of results by consolidating our strategic plan to build the electric vehicle manufacturing chain for the parent company FDG. We made our first step into the province of Guizhou and Sichuan to build a new battery production base and a new cathode material production base; and, we have guaranteed revenue coming from the cathode materials segment by having most of our NCM cathode materials production capacity allocated for carrying out subcontractor works for a customer until the end of December 2018.

FKL would like to report Group revenue of HK$262.3 million for the financial year ended 31 March 2018. Net loss attributable to shareholders was approximately HK$1 billion, including HK$694 million of one off impairment. Management is focused on rigorously managing all costs, without adversely impacting the product's quality and safety standards.

Battery Business

2017 has been a challenging year for the battery making business in China. The end users of batteries have been demanding higher energy density batteries from battery makers. As subsidies for electric vehicles reduces further, some of the costs have been shifted from electric vehicle OEMs to battery makers, which makes it more competitive for battery manufacturers. While considerable challenges persist in 2017, FDG's business model enabled FKL & FDG to better control the quality of the heart of the electric vehicles, the batteries. This also allowed us to mitigate the supplier risk as well as empowered us to produce quality-on-par with the market's batteries for own consumption and third party uses.

Adjusting for seasonality, the bestselling batteries in the second half of 2017 for our Jilin battery production base were the 200Ah batteries, 215Ah batteries and the 100Ah batteries accordingly. In line with the Group-wide cost reduction programme, management for our battery production bases managed to reduce direct raw material cost while increase per unit of labour productivity. The Group was also able to bargain for lower costs and pass on the pressure from downstream to our upstream suppliers in the purchasing of LFP materials, electrolytes, battery covers and separators. As a result, direct material cost has been cut by almost 10% year-on-year. Other management measures such as advanced production planning, scaled up production and maximised utilisation rate during seasonality fluctuations to control the costs in the production lines have also been proven effective.

In November 2017, FDG announced a plan to construct a whole new electric vehicle and battery production base in Jianyang, in the province of Sichuan. The completion of the battery factory could support FKL's parent company, FDG, in its future ramp up of the imminent electric vehicle demand. When the construction of the Group's planned gigafactories is fully ramped, the Group would have achieved a maximum battery production capacity of 6.3GWh.

LFP batteries still excel in its chemical stability compared to other chemistries. It has a higher melting point, higher lifespan and, most importantly, safer. As space is far less of an issue in larger commercial vehicles, emphasis on safety is of paramount importance because people is taken in them. LFP is therefore the expected choice of batteries for these passenger-taking buses which puts the welfare of individuals' safety first. These batteries are also not impacted directly by the increase in prices of the oligopolized supply of cobalt.

Our proprietary research and development efforts in battery development includes the continuous development in electric vehicle power batteries and energy storage system batteries. Our battery arm also develops our own modules such as building an LFP system of higher energy density, researching on a high density NCM811 system for passenger vehicles, building a Si-C negative electrode system, as well as building a high level of safety composite separators' development. The Group has also upgraded the 200Ah battery to become the 215Ah battery, with energy density improving from 114Wh/kg to 120Wh/kg. Lifespan of our batteries have also increased by 30% so that they can charge and discharge more times before concluding their first lives as batteries in electric vehicles.

Cathode Material Business

FKL's two existing production lines A1 and A2 in Chongqing has been in full-on production in the Year, with a maximum annual designed capacity of 2,400 tonnes. Production lines A3 & A4 are expected to be completed in 2018 which would enable the Chongqing cathode materials factory to produce a maximum of 4,800 tonnes annually. In October 2017, FKL expanded upstream by partnering with Guizhou Guian Asset Investment Co., Ltd.(「貴州貴安產業投資有限公司」) and ALEEES to build a production base to manufacture cathode materials with a maximum annual production of 30,000 tonnes of both LFP and NCM materials.

FKL's cathode materials production in Chongqing fluctuated with the increase in asking price for NCM cathode materials in China. NCM523 price rose to a new peak for the past decade, and is expected to rise further due to propelled demand from downstream electric vehicles segment. The structural shift towards higher energy density requirements in electric cars contributed to the increase in NCM prices. Adjusted for seasonality, the overall gross margin for the segment was at 0.1%. The fluctuation was caused by the change in raw material prices.

On 26 March 2018, FKL announced that most of the Chongqing's production capacity in all production lines have been allocated for carrying out subcontracting work for a customer until 31 December 2018. As a result, the Group is expecting a guaranteed revenue stream at a steady gross margin from the cathode materials segment going forward at least until the end of December 2018.

The research and development department of FKL's cathode materials segment was led by a group of experts from Korea and Japan. The team developed proprietary expertise, patents and intellectual properties to improve cathode materials manufacturing. Currently the Group has already been granted with 9 patents while 2 additional applications are in progress. The Group operates our own physical and chemical laboratories with imported testing equipment which could analyse main elements, impurities, particle size and perform electron testing so that the performance and reliability of each batch of materials is guaranteed. The group's engineers and technical managers imposed strict quality control during the production process.

FINANCIAL REVIEW

During the year under review, the Group recorded a revenue of approximately HK$262.3 million, representing a slight decrease of approximately 6.4% as compared with the revenue of approximately HK$280.2 million of the year ended 31 March 2017. Such decrease was mainly due to slight decreasing sales of cathode material of the battery materials production business segment.

The Group's loss attributable to equity shareholders of the Company for the year ended 31 March 2018 amounted to approximately HK$1,026.7 million, representing a substantial increase of approximately HK$820.5 million as comparing with the loss of approximately HK$206.2 million for the year ended 31 March 2017. The increase was mainly attributable to the combination effects of the followings:

(i) impairment losses on interests in two associates, Synergy Dragon Limited ("SDL") and Advanced Lithium Electrochemistry (Cayman) Co., Ltd. ("ALEEES"), amounted to approximately HK$472.2 million and HK$61.0 million, respectively, caused by the decrease in demand of battery products under the new energy subsidy policies which in return influence the demand of cathode material for battery, with the changes of the business prospects of these businesses, the expected future cash flows decreased and impairment losses were recognised;

(ii) impairment loss on goodwill of the cathode materials for battery materials production business amounted to approximately HK$153.0 million as a result of the completion of construction of new production lines and launch of new products is longer than expected, and the impact on fixed selling price to a customer with a steady gross margin. The carrying amount of this business is higher than its recoverable amount;

(iii) other net loss of approximately HK$29.6 million for the year under review (year ended 31 March 2017: net gain of approximately HK$5.5 million), mainly attributable from write-down of inventories of approximately HK$37.7 million due to decrease in market price of certain inventories;

(iv) the finance costs amounted to approximately HK$96.6 million were comprised of the interest expenses on the convertible bonds, finance leases and bank and other borrowings, which representing a decrease of approximately HK$25.4 million as comparing with approximately HK$122.0 million for the year ended 31 March 2017. Such decrease was mainly due to partial repayment of bank and other borrowings and finance leases during the year under review; and

(v) the share of loss of associates amounted to approximately HK$189.2 million (year ended 31 March 2017: share of loss of approximately HK$72.1 million) which was mainly attributable from two associates, SDL and ALEEES, amounted to approximately HK$139.6 million (year ended 31 March 2017: approximately HK$54.8 million) and approximately HK$49.6 million (year ended 31 March 2017: approximately HK$17.3 million), respectively, the substantial increase in share of loss of associates was caused by the increase in losses of these associates following changes in subsidy policies for batteries and electric vehicles in China.

Segment Information

Battery Materials Production Business

During the year under review, this battery materials production business segment contributed the Group's revenue of approximately HK$219.2 million from the sales of cathode materials for NCM lithium-ion batteries, representing a slight decrease of approximately 6.4% as compared with the revenue of approximately HK$234.2 million for the year ended 31 March 2017. Such decrease was mainly due to tightening of credit control on existing customers which limited our sales.

This battery materials production business segment brought a loss before tax of approximately HK$326.6 million to the Group during the year under review, which included share the loss of an associate, ALEEES, of approximately HK$49.6 million, the non-recurring impairment loss on ALEEES, of approximately HK$61.0 million, and impairment loss on goodwill of the battery materials production business amounted to approximately HK$153.0 million. Following the cooperation agreement signed on 26 March 2018 by the Group with a customer, the Group's capacity was nearly full, which achieve a steady gross profit margin to the Group. With the construction of new production lines requiring longer than expected time schedules and the longer time to launch the new products, impairment loss on goodwill of approximately HK$153.0 million was recognised. The Group holds approximately 21.85% of total issued ALEEES shares. ALEEES is principally engaged in the business of production, research and development and sales and marketing of cathode materials for lithium ferrous phosphate batteries. Most of the customers of ALEEES were from China, which was influenced by the new energy subsidy policies and keen competition in the market.

Without taking into account of share of loss of ALEEES of approximately HK$49.6 million, the one-off impairment loss on ALEEES of approximately HK$61.0 million and impairment loss on goodwill of approximately HK$153.0 million for the year ended 31 March 2018, the battery material production business of Chongqing factory incurred a loss before tax of approximately HK$63.0 million during the year under review, which is nearly the same as corresponding year as comparing with the loss before tax of approximately HK$61.2 million for the year ended 31 March 2017.

In order to further strive for efficiency, the Group will expand the production capacity of Chongqing factory by the use of other new borrowings facility obtained in June 2017, in a bid to satisfy the growing needs of customers and increase the scale of economies. The NCM lithium-ion batteries can be widely used in the telecommunication devices, electric vehicles and energy storage systems. The demand for cathode materials are expected to remain strong in the future to cope with the favorable government policies in the development of new energy vehicle industry.

Direct Investments Business

During the year under review, interest income of approximately HK$43.1 million (year ended 31 March 2017: approximately HK$46.0 million) mainly comprised of approximately HK$26.9 million (year ended 31 March 2017: approximately HK$29.5 million) of the interest accrued for the secured bond issued by FDG Electric Vehicles Limited ("FDG") to the Company.

The Group's investments measured at fair value recorded a net gain of approximately HK$13.2 million for year ended 31 March 2018 (year ended 31 March 2017: net gain of approximately HK$9.4 million).

During the year under review, the interest expenses on the convertible bonds amounted to approximately HK$84.6 million (year ended 31 March 2017: approximately HK$114.5 million).

The Group shared the gain of a joint venture, 華能壽光風力發電有限公司 ("Huaneng Shouguang") of approximately HK$3.5 million for the year ended 31 March 2018 (year ended 31 March 2017: share of gain of approximately HK$0.5 million). Huaneng Shouguang is a wind power electricity developer and operator in the PRC. It generated electricity of 77.0 million kWh and revenue of approximately Renminbi ("RMB") 37.7 million during the year under review.

During the year under review, the Group shared the loss of an associate of approximately HK$139.6 million (year ended 31 March 2017: share of loss of approximately HK$72.1 million) and impairment loss of approximately HK$472.2 million, which represented 25% interest in an associate, SDL. Share of loss increased mainly due to the decreased demand and selling price of batteries following changes in subsidies for batteries and electric vehicles in China. SDL is an investment holding company. Its wholly-owned subsidiary, Sinopoly Battery Limited is an integrated high-tech enterprise which specialises in production, sales and research and development of high capacity lithium-ion battery and its related products. Due to decrease in sales and the decrease in gross profit margin with decreased production outputs, SDL wider it losses in the current financial year, further, the impairment loss on interest in SDL was recongised as its carrying amounts was higher than the recoverable amounts. The impairment loss of approximately HK$472.2 million was recognised, which mainly represent the goodwill and intangible assets recognised by the Group at initial acquisition in 2015.

Geographical Analysis of Revenue

During the year ended 31 March 2018, Hong Kong and the PRC contributed approximately 16.4% (year ended 31 March 2017: 16.3%) and 83.6% (year ended 31 March 2017: 83.7%) to the Group's total revenue respectively.

Liquidity and Financial Resources

As at 31 March 2018, the Group's net assets attributable to equity shareholders of the Company amounted to approximately HK$1,096.0 million (31 March 2017: approximately HK$1,448.5 million). Net assets attributable to equity shareholders of the Company per share were approximately HK$0.16 (31 March 2017: approximately HK$0.28). The Group's total assets of approximately HK$1,817.5 million (31 March 2017: approximately HK$2,804.3 million) mainly consisted of goodwill of approximately HK$335.9 million (31 March 2017: approximately HK$441.2 million), intangible assets of approximately HK$72.0 million (31 March 2017: approximately HK$79.0 million), property, plant and equipment and interests in leasehold land held for own use under operating lease of approximately HK$199.8 million (31 March 2017:

approximately HK$198.1 million), interests in associates of approximately HK$524.1 million (31 March 2017: approximately HK$1,009.1 million), interest in a joint venture of approximately HK$112.6 million (31 March 2017: approximately HK$98.3 million), loan receivables of approximately HK$160.3 million (31 March 2017: approximately HK$154.5 million) and cash and cash equivalents of approximately HK$74.1 million (31 March 2017: approximately HK$65.9 million). The decrease of the total assets for the current year compared with last year amounted to approximately HK$986.8 million was mainly due to (i) the goodwill of approximately HK$335.9 million as at 31 March 2018, decreased by approximately HK$105.3 million as compared with approximately HK$441.2 million as at 31 March 2017; (ii) the interests in associates of approximately HK$524.1 million as at 31 March 2018, decreased by approximately HK$485.0 million as compared with approximately HK$1,009.1 million as at 31 March 2017; and (iii) investment in a secured bond of HK$370 million has been settled during the year.

As at 31 March 2018, the non-current assets of approximately HK$1,311.9 million, comparing with the amount of approximately HK$1,826.4 million as at 31 March 2017, representing a decrease of approximately HK$514.5 million. Such decrease are mainly due to the impairment losses incurred by interests in associates, SDL and ALEEES, amounting to approximately HK$472.2 million and HK$61.0 million respectively and impairment loss on goodwill amounting to approximately HK$153.0 million, netting off with the increase of deposits paid for non-current assets amounting to approximately HK$66.8 million during the year under review.

As at 31 March 2018, the current assets amounted to approximately HK$505.5 million, representing a decrease of approximately 48.3% as compare with the current assets of approximately HK$977.9 million as at 31 March 2017. Such decrease was mainly attributable to (i) the pledged bank deposits and cash and cash equivalents of approximately HK$85.5 million as at 31 March 2018, decreased by approximately HK$4.8 million as compared with approximately HK$90.3 million as at 31 March 2017; (ii) the trade receivables of approximately HK$65.9 million as at 31 March 2018, decreased by approximately HK$62.5 million as compared with approximately HK$128.4 million as at 31 March 2017, resulting from tightening of credit control on our customers and the impairment loss incurred amounted to approximately HK$7.6 million; and (iii) the inventories of approximately HK$45.0 million as at 31 March 2018, decreased by approximately HK$29.8 million as compared with approximately HK$74.8 million as at 31 March 2017, resulting from the written down incurred amounting to approximately HK$37.7 million. A credit period generally ranging from 30 days to 90 days is generally allowed to the customers, the Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk.

As at 31 March 2018, the bank and other borrowings included (i) bank borrowings of approximately HK$49.9 million (31 March 2017: approximately HK$60.8 million), denominated in RMB, were secured, interest bearing at floating rates and repayable within one years. Such bank borrowings were granted under a general banking facilities by a bank in the People's Republic of China (the "PRC"). The general banking facilities were secured by, inter alia, certain land and buildings of the Group with carrying amounts of approximately HK$121.8 million (31 March 2017: approximately HK$116.4 million) in favour of the lender by way of the fixed charges and floating charges over all the plant and machinery and inventories of FDG Kinetic (Chongqing) Lithium Ion Battery Materials Co. Ltd.; (ii) the other borrowings of approximately HK$32.6 million as at 31 March 2017 is denominated in United States dollars, were unsecured, guaranteed by the Company and interest bearing at a fixed rate, which has been fully repaid during the year under review; and (iii) the other borrowings of approximately HK$86.2 million (31 March 2017: Nil), out of which approximately HK$35.1 million, approximately HK$37.3 million and approximately HK$13.8 million were repayable within one year, within one to two years and within two to five years, respectively. The other borrowings is denominated in RMB, was secured, bear fixed interest rate and guaranteed by an indirect wholly-owned subsidiary of an associate. The Group's bank and other borrowings are mostly event driven, with little seasonality.

As at 31 March 2018, the Group's obligations under finance leases amounted to approximately HK$46.0 million (31 March 2017: approximately HK$69.9 million), out of which approximately HK$33.4 million (31 March 2017: approximately HK$28.4 million), approximately HK$12.6 million (31 March 2017: approximately HK$30.1 million) and nil (31 March 2017: approximately HK$11.4 million) were repayable within one year, within one to two years and within two to five years, respectively. The obligations under finance leases were secured by certain machineries of the Group with carrying amounts of approximately HK$74.6 million (31 March 2017: approximately HK$78.3 million) and guaranteed by an indirect wholly-owned subsidiary of an associate. Loan from the ultimate holding company as at 31 March 2017 amounted to approximately HK$320.4 million is unsecure, interest-free and repayable on demand has been fully settled during the year under review.

As at 31 March 2018, the current liabilities of approximately HK$645.0 million representing an increase of approximately HK$49.7 million comparing with the amount of approximately HK$595.3 million as at 31 March 2017. Such increase was mainly due to the reclassification of the liability component of the convertible bonds of approximately HK$192.6 million from non-current liabilities to current liabilities as the convertible bonds to be due on August 2018, the increase of amount due to an associate amounted to approximately HK$159.1 million for the payable of investment cost in an associate and net off by the decrease of loan from the ultimate holding company amounting to approximately HK$320.4 million during the year under review.

As at 31 March 2018, non-current liabilities of approximately HK$76.5 million representing a decrease of approximately HK$684.0 million comparing with the amount of approximately HK$760.5 million as at 31 March 2017, which mainly representing the exercise of convertible bonds by FDG in the aggregate principal amount of HK$540,000,000 and an independent third party of HK$10,000,000, respectively.

As at 31 March 2018, the Group's non-current liabilities comprised mainly the long term portion of bank and other borrowings of approximately HK$51.1 million (31 March 2017: approximately HK$46.1 million) and long term portion of obligations under finance leases of approximately HK$12.6 million (31 March 2017: approximately HK$41.5 million).

As at 31 March 2018, the Group's gearing ratio, without taking into account of the liability component of convertible bonds of approximately HK$192.6 million (31 March 2017: approximately HK$659.5 million), was approximately 16.6% (31 March 2017: approximately 11.3%) calculated on the basis of bank and other borrowings of approximately HK$136.1 million (31 March 2017: approximately HK$93.3 million) and obligations under finance lease of approximately HK$46.0 million (31 March 2017: approximately HK$69.9 million) to total equity of the Company of approximately HK$1,096.0 million (31 March 2017: approximately HK$1,448.5 million).

Foreign Exchange Exposure

The Group's transactions were mainly denominated in RMB, Hong Kong dollars and United States dollars. Exchange rates between United States dollars and Hong Kong dollars were pegged with fixed rates and relatively stable during the year under review. The Group has transactional currency exposures in RMB. The Group has not entered into any foreign currency exchange forward contracts for hedging purposes during the year. The Board will closely monitor the foreign exchange exposure and consider appropriate hedging instruments when necessary.

Capital Structure

During the year ended 31 March 2018, a total of 1,617,647,058 new shares of the Company were issued and allotted upon the conversion of the convertible bonds due 2018 which are convertible into new shares of the Company at an initial conversion price of HK$0.34.

As a result, the number of shares of the Company in issue increased from 5,135,646,855 as at 1 April 2017 to 6,753,293,913 as at 31 March 2018.

Save as disclosed above, the Group had no other debt securities or other capital instruments as at 31 March 2018.

Material Acquisitions and Disposals

During the year ended 31 March 2018, the Group had no material acquisitions or disposals of subsidiaries, associates and joint ventures.

Contingent Liabilities and Pledge of Assets

There were pledge of assets as at 31 March 2018 and 31 March 2017 with details disclosed under the section headed "Liquidity and Financial Resources". In addition, certain bank deposits of approximately HK$11.4 million (31 March 2017: approximately HK$24.3 million) were pledged for bills payable.

The Group had no significant contingent liabilities as at 31 March 2018 (31 March 2017: Nil).

Capital Commitments

Details of the capital commitments of the Group are set out in Note 14 of this announcement.

Human Resources

As of 31 March 2018, the Group had 18 employees in Hong Kong (31 March 2017: 19 employees) and 86 employees in the PRC (31 March 2017: 85 employees). Total staff costs (including directors' remunerations) during the year ended 31 March 2018 amounted to approximately HK$25.1 million (year ended 31 March 2017: approximately HK$24.7 million). The remuneration policies are determined with reference to market conditions and individual performance of staff. The Group participates in Mandatory Provident Fund Scheme in Hong Kong and state managed retirement benefit schemes in the PRC.

The Group has share option scheme, share award scheme and employee benefit trusts for the benefit of its directors and eligible participants.

There were no material changes in human resources structure and compensation approach during the year ended 31 March 2018. No share option was granted, exercised, cancelled or lapsed under the share option scheme during the year under review.

FUTURE DEVELOPMENT

FKL performed fairly in the Year considering the challenging market conditions. FKL could complement our parent company FDG to plan production of batteries and cathode materials based on the demand for electric vehicles. The accurate production planning helps both FDG and FKL to benefit from economies of scale, minimise wastage during the production processes as well as reduce supplier risk from price or quality perspective. In a similar manner, we could capture the margin from head to toe in addition to planning for production ahead as market demand transforms. Resources such as cathode materials and batteries would be in huge demand as the new energy vehicle market evolves, as such, competition for high quality batteries and cathodes would only intensify in the future. FKL has already intentionally premediated such risks well ahead of competition. Over time, we believe our tactical strategy could bring long-term competitive advantages to the Group.

We have also persisted to place accentuation on bettering our battery qualities for the LFP batteries used in production of our electric vehicles, as well as improving the quality of the NCM cathode materials that we manufacture. The Group understands that the market trend going forward would be to attain higher energy density batteries to support the evermore rigid requirements in the electric vehicle industry and the energy storage industry. We are constantly remodelling our existing LFP batteries, such as developing a whole new lithium-based casing to push energy densities higher. This improvement benefits from the safer chemistry in LFP batteries and turns our products into a golden standard in this class of LFP batteries. In our cathode materials segment, the Group's research and development team has been working on reconstructing the existing NCM523 cathode materials, and has been advancing with NCM622, NCM811 and other non-conventional chemistries for Chinese customers such as Nickel Cobalt Aluminium ("NCA") materials.

FKL will strive to become a battery and cathode materials manufacturer who cares for the environment. We fully understand that as more electric vehicles are deployed to the market, eventually, batteries used in these electric vehicles would have to retire. The mere battery disposal is considered hazardous for the environment, and thus it is prohibited to dispose them to landfills nor taken to incineration as corrosive liquids may leak. Since LFP batteries excel in its number of cycles recharged, it is worthwhile to consider for a second life of these batteries with its echelon use. Batteries in electric vehicles today, especially LFP batteries, do not necessarily need to be torn down into parts for recycling. Instead, they could be used for valuable energy storage. On the other hand, considering that cobalt is an expensive raw material, ternary batteries could be recycled by breaking down its contents. Adhering to the Group's "Green and Growth" strategy, FKL will grasp these valuable business opportunities we will not only aim to be a socially responsible corporate, but also enter into a venture that is profitable and sustainable for the long term.

FKL will focus on the battery and cathode materials businesses while FKL's parent company, FDG, will focus on building the best quality commercial electric vehicles as their core business. While we used to be strategically vertically-integrated, FKL and FDG as a whole may consider focusing on the core business only, excel in that business and then progress onwards. As both listed companies each specialises in our respective strengths, it may be worthwhile for FKL and FDG to structure in a way that allows FKL to concentrate on our competitive advantage. At this point, we may consider consolidating FKL and FDG's business to put resources to the core, ramp up production, generate revenue and move forward.

While it is too early to call an absolute stabilisation in the battery and cathode materials segments, supportive policies from the Chinese Government in these industries, sequential growth in the electric vehicle segment in China, greater clarity on the structural shift of the subsidies towards a more market-oriented approach, confirmed revenue from our Chongqing's cathode materials production base until the end of 2018 should be viewed positively. FKL has already complemented FDG and has already had a full strategic blueprint in place in anticipation of future orders. Nevertheless, we expect the global economy to experience a wide range of challenges which may result in less predictive trends and greater volatility in the shorter term.

We believe that together, we will transform mobility for tomorrow into a greener and a more economical one for all, segment by segment.

CORPORATE GOVERNANCE

The Company applied the principles of and complied with all the code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited throughout the year ended 31 March 2018 and up to the date of this announcement, except for the following deviations.

Code provision A.4.1

Pursuant to code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. The non-executive directors of the Company are not appointed for a specific term but they are subject to retirement by rotation at least once every three years and are eligible for re-election at the annual general meetings in accordance with the Bye-laws of the Company. The Board believes that retirement by rotation every three years achieves the intended aims of the Code. Therefore, there is no formal letter of appointment governing the terms of appointment of the directors who are all subject to the same terms under the Bye-laws of the Company.

Code provision F.1.2

Pursuant to code provision F.1.2 of the Code, a board meeting should be held to discuss the appointment of the company secretary and the matter should be dealt with by a physical board meeting rather than a written resolution. The appointments of company secretaries of the Company were dealt with by written resolutions in April 2017 and October 2017. As all directors were individually consulted on the matters without any dissenting opinion prior to the execution of the relevant written resolutions, it was considered that there was no need to approve the matters by physical board meetings.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code for securities transactions by directors (the "Securities Code"), which is largely based on the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. The Securities Code is on terms no less exacting than the required standard set out in the Model Code. All directors of the Company have confirmed, following specific enquiry by the Company, their compliance with the required standard set out in the Model Code and the Securities Code throughout the year ended 31 March 2018.

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

During the year ended 31 March 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

REVIEW OF FINAL RESULTS

The Audit Committee of the Company has reviewed with the management and the Company's independent auditor the audited results of the Group for the year ended 31 March 2018.

On behalf of the Board
FDG Kinetic Limited
Cao Zhong
Chairman

Hong Kong, 28 June 2018

As at the date of this announcement, the Board comprises Mr. Cao Zhong (Chairman), Mr. Sun Ziqiang (Vice Chairman), Mr. Miao Zhenguo (Chief Executive Officer) and Mr. Jaime Che as executive directors; Dr. Chen Yanping as non-executive director; Mr. Hung Chi Yuen Andrew, Professor Sit Fung Shuen Victor and Mr. Toh Hock Ghim as independent non-executive directors.

Website: http://www.fdgkinetic.com

** For identification purpose only*