FDG Kinetic Limited

五龍動力有限公司

(Receivers and Managers Appointed)
(Incorporated in Bermuda with limited liability)

(Stock Code: 378)

FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2021

The board of directors (the "Board") of FDG Kinetic Limited (Receivers and Managers Appointed) (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 2021 together with the comparative information for the year ended 31 March 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2021

	Notes	**2021**	2020
		HK$'000	*HK$'000*
Revenue	3		
Sales of goods and services		**30,708**	36,230
Interest income		**80**	5,747
Total revenue		**30,788**	41,977
Cost of sales		**(32,589)**	(38,737)
		(1,801)	3,240
Other income		**1,603**	236
Other losses	5	**(6,087)**	(32,404)
Selling and distribution costs		**(1,099)**	(1,744)
General and administrative expenses		**(39,717)**	(45,027)
Research and development expenses		**(6,046)**	(6,807)
Finance costs	6	**(90,229)**	(46,804)
Other operating expenses	9	**(7,671)**	(15,111)
Net loss on financial assets at fair value through profit or loss	9	**(27,129)**	(67,630)
Impairment loss on financial assets at amortised costs, net	7	**(9,904)**	(75,926)
Impairment loss on goodwill	9	**—**	(6,514)
Impairment loss on property, plant and equipment	9	**(115,619)**	(40,333)
Impairment loss on intangible assets	9	**(18,854)**	(7,283)
Impairment losses on interest in an associate	9	**—**	(6,418)
Share of results of associates		**—**	(14,113)
Share of results of a joint venture		**3,297**	3,373
Loss before taxation		**(319,256)**	(359,265)
Income tax credit	8	**7,386**	1,847
Loss for the year	9	**(311,870)**	(357,418)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
— Exchange differences arising from translation of foreign operations		**3,598**	(60)
— Share of other comprehensive income of associates		**—**	(8,465)
— Release of other comprehensive income upon derecognition of associates		**—**	9,414
— Share of other comprehensive income of a joint venture		**(4,697)**	(6,520)
Other comprehensive income for the year		**(1,099)**	(5,631)
Total comprehensive income for the year		**(312,969)**	(363,049)

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

For the year ended 31 March 2021

	Note	**2021** **_HK$'000_**	2020 *HK$'000*
Loss for the year attributable to owners of the Company		**(311,870)**	(357,418)
Other comprehensive income for the year attributable to owners of the Company		**(1,099)**	(5,631)
Total comprehensive income for the year attributable to owners of the Company		**(312,969)**	(363,049)
		HK cents	*HK cents*
Loss per share	10		
Basic and diluted		**(4.62)**	(5.29)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2021

	Notes	**2021**	2020
		HK$'000	*HK$'000*
Non-current assets			
Goodwill		**—**	—
Intangible assets		**—**	28,940
Property, plant and equipment		**33,744**	161,587
Right-of-use asset		**16,667**	15,785
Interest in a joint venture		**106,411**	98,417
Other non-current assets		**—**	367
		156,822	305,096
Current assets			
Assets held-for-sales		**—**	—
Inventories		**210**	9,421
Trade and other receivables	12	**67,904**	49,798
Loan receivables	13	**56,814**	52,555
Financial assets at fair value through profit or loss	17(b)	**67,815**	94,944
Amount due from an associate		**—**	5,213
Cash and cash equivalents		**2,940**	34,461
		195,683	246,392
Current liabilities			
Bank and other borrowings		**236,338**	232,901
Trade payables	14	**17,729**	17,865
Accruals and other payables		**266,779**	151,814
Contract liabilities		**89**	419
Loan from the ultimate holding company		**49,100**	49,100
Lease liability		**39,963**	37,200
Tax payables		**4,330**	4,020
		614,328	493,319
Net current liabilities		**(418,645)**	(246,927)
Total assets less current liabilities		**(261,823)**	58,169
Non-current liabilities			
Deferred tax liabilities		**612**	7,635
NET (LIABILITIES)/ASSETS		**(262,435)**	50,534
CAPITAL AND RESERVES			
Share capital		**1,350,659**	1,350,659
Reserves		**(1,613,094)**	(1,300,125)
TOTAL (DEFICIT)/EQUITY		**(262,435)**	50,534

NOTES TO THE AUDITED CONSOLIDATED FINAL RESULTS

1. Basis of preparation

During the year ended 31 March 2021, the Group incurred a net loss attributable to owners of the Company of approximately HK$311,870,000 and, as of that date, the Group had net current liabilities of approximately HK$418,645,000 and net liabilities of approximately HK$262,435,000. As at the same date, the Group's aggregate bank and other borrowings and lease liability amounted to approximately HK$236,338,000 and HK$39,963,000, respectively, while its cash and cash equivalents amounted to approximately HK$2,940,000. As at 31 March 2021, repayments in respect of the Group's aggregate bank and other borrowings and lease liability were overdue but the Group has not been able to obtain extension for the repayment of these bank and other borrowings and lease liability from the bank, the financial institutions and the lease creditor. These total outstanding borrowings amounts are therefore immediately repayable.

On 29 April 2020, the Company has been put into receivership by SHK Finance Limited ("SHK Finance") to which the Group owed debts of approximately HK$60,000,000 plus relevant overdue interests, which amounts are secured by way of fixed and floating charges over the assets and whole undertakings of the Company under a debenture dated 5 September 2019 executed by the Company in favour of the creditor. SHK Finance has appointed Tang Chung Wah, Hou Chung Man and Kan Lap Kee, all of SHINEWING Specialist Advisory Services Limited as receivers and managers (the "Receivers") over all of the undertaking, property and assets of the Company.

On 14 May 2020, Join View Development Limited ("Join View"), to which the Company owed outstanding debt of HK$65,000,000 plus relevant overdue interests, filed a petition to the High Court of the Hong Kong Special Administrative Region (the "HK Court") for an order for the compulsory winding up of the Company. FDG Electric Vehicles Limited (Joint Provisional Liquidators Appointed) ("FDG EV"), the ultimate holding company, joined as a party opposing the petition, and the petition was heard before the HK Court on 5 August 2020, 10 August 2020, 19 October 2020, 25 January 2021, 11 June 2021, 21 June 2021, and 29 June 2021. At the 29 June 2021 hearing, the Honourable Mr. Justice Harris ordered that unless written consent of all parties is submitted to the Court to further adjourn the hearing of the Petition on or before Wednesday, 1 September 2021, his Lordship will make the usual winding-up order against the Company on Monday, 6 September 2021 without any further hearing.

On 28 April 2020, FDG EV demanded the Company to repay the outstanding loan with a principal of HK$30,000,000 (the "Demanded Loan") by giving one business day's prior written notice pursuant to a loan agreement entered into between the Company and FDG EV. On 23 October 2020, FDG EV again demanded the Company to repay the Demanded Loan and the Company reiterated that the Company is not in a position to make any disposition of its assets and properties as the Company was still under receivership and subject to a winding-up petition.

1. **Basis of preparation** *(continued)*

As disclosed in the Company's announcement dated 17 June 2021, the board of directors of the Company (the "Board") came across four contracts (the "Dubious Contracts") purportedly entered into between FDG Kinetic Chongqing, a wholly-owned subsidiary of the Company, and a company named 五龍能源科技(重慶)有限公司 (the "Purported Customer"). These Dubious Contracts were stamped with the official company stamp (公章) or contract stamp (合同專用章) (collectively, the "Company Stamps") The Dubious Contracts were stamped with Company Stamps without legitimate authorisation and was made during the period when the Company Stamps were under the escrow of Dentons (Chongqing) Law Firm* (北京大成(重慶)律師事務所). During the process of investigation of the transactions related to the Dubious Contracts, the Group find that some of the books and records of the relevant documentation were missing. These Dubious Contracts were neither authorised nor approved by the legal representative and general manager of FDG Chongqing nor management of the Company and Premier Property Management Limited.

Revenue from provision of processing services and sales of materials rendered to the third-party end customer recognised under these Dubious Contracts amounted to approximately HK$13,263,000 (equivalent to approximately RMB11,599,000) for the year ended 31 March 2021. Despite no acknowledgement receipts signed by the third-party end customer for the acceptance of the processed goods were available, based on the information available to the Company after making its preliminary investigation including the verbal confirmation from representative of the third party end customer, these revenue under the Dubious Contracts were recognised as revenue for the year ended 31 March 2021.

In addition, during the year ended 31 March 2021, there were goods and materials with aggregate carrying amounts of approximately HK$1,902,000 (equivalent to approximately RMB1,663,000) and HK$1,471,000 (equivalent to approximately RMB1,286,000) respectively transferred to 五龍能源科技(重慶)有限公司, which were recognised as loss arising from stolen inventories in the consolidated statement of profit or loss for the year ended 31 March 2021 because, after its preliminary investigation, management of the Company noted that there was no end customer(s) for these goods and materials transferred to 五龍能源科技(重慶)有限公司, which were considered by management of the Company as stolen and the Company is seriously considering to taking legal actions against the relevant parties involved in transferring these goods and materials to 五龍能源科技(重慶)有限公司.

On 6 July 2021, the Company was informed that FDG Kinetic (Chongqing) Lithium-ion Battery Materials Co,. Ltd. ("FDG Chongqing"), an indirect wholly owned subsidiary of the Company, is the subject of a bankruptcy liquidation application in the Chongqing Fifth Intermediate People's Court (重慶市第五中級人民法院) (the "Chongqing Court"). On 7 July 2021, the Company's PRC legal advisers have applied to the Chongqing Court to revoke the ruling and allow FDG Chongqing to legally oppose to the bankruptcy application. On 23 July 2021, the Company was informed that the Chongqing Court has appointed Chongqing Gongming Law Firm* (重慶公鳴律師事務所) as the manager (管理人) and Xiong Chun* (熊春) as the manager in charge (管理人負責人) of FDG Chongqing. The Company will categorically defend and use all possible means to revoke the ruling and to legally oppose to the bankruptcy application. If the Chongqing Court does not accept the application by the Company to revoke the ruling, the Company will apply for appeal and protest to higher courts and prosecution institution requesting for cancellation of the ruling.

In addition, as of the date of approval of the consolidated financial statements, the court hearings brought by a lease creditor against FDG Chongqing to make payment of other borrowings and lease liability of approximately HK$73,306,000 and HK$39,963,000, are completed and the enforcement orders are issued on 11 April 2021 to request the subsidiary to make payment of the outstanding amounts and overdue interests.

1. Basis of preparation *(continued)*

In view of such circumstances, the directors of the Company (the "Directors") have given careful consideration to the future liquidity and financial position of the Group and its available sources of finances in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain plans and measures have been taken or formulated to mitigate the liquidity pressure and to improve the Group's financial position which include, but are not limited to, the followings:

(i) On 12 May 2021, the Board received the proposal from the potential investor (the "Investor") and the Receivers which involves, among others, (i) capital reorganisation involving reduction in the share capital of the Company (the "Capital Reorganisation"); (ii) placing of shares of the Company to the Investor (the "Placing"); (iii) a fully underwritten rights issue (which together with the Capital Reorganisation and the Placing, the "Proposed Capital Enlargement"); and (iv) a scheme of arrangement to compromise with all creditors their claims against the Company. The Board, having considered the terms of the proposal, is of the opinion that it would be in the best interest of the Company and the shareholders of the Company as a whole to proceed with the proposal and on 17 May 2021, entered into a memorandum of understanding (the "MOU") with the Investor and the Receivers. The Board anticipates that if the Proposed Capital Enlargement as envisaged in the MOU materialises, the amount of gross proceeds raised would be approximately HK$218 million;

(ii) Compromise with all creditors of their claims under the scheme of arrangement;

(iii) Compromise with SHK Finance for the amounts due under the scheme of arrangement and removal of receivership; and

(iv) Compromise with Join View for the amounts due under the scheme of arrangement and withdrawal of winding up petition.

The Board has reviewed the Group's cash flow projections prepared by the management of the Group. The cash flow projections cover a period of not less than twelve months from the date of this announcement. The Board is of the opinion that, taking into accounts the successful implementation of the above-mentioned plans and measures, the Group will have sufficient working capital to finance its obligations and to meet its financial obligations as they fall due for not less than twelve months from the date of this announcement. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, since the execution of the plans and measures are at a preliminary stage, significant uncertainties exist as to whether the management of the Group will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing and operating cash flows through the following plans and measures which are not yet completed at the date of the approval of the consolidated financial statements:

1. Basis of preparation *(continued)*

(i) Successful implementation of the Proposed Capital Enlargement of the Company;

(ii) Successful scheme of arrangement to compromise with all creditors their claims against the Company;

(iii) Successful compromise with SHK Finance through scheme of arrangement and removal of receivership of the Company;

(iv) Successful compromise with Join View through scheme of arrangement and withdrawal of the winding up petition against the Company; and

(v) Successful revocation of court order for liquidation of FDG Chongqing and successful negotiations and standstill agreements to be entered into by FDG Chongqing and its lenders and creditors.

Should the Group fail to achieve the intended effects resulting from the above mentioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to reclassify the Group's non-current assets and non-current liabilities as current assets and current liabilities respectively, to write down the carrying amounts of the Group's assets to their net realisable amounts and to provide for any further liabilities which might arise. The effects of these adjustments have not been reflected in the consolidated financial statements.

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the Group's annual period beginning on or after 1 April 2020 for the preparation of the consolidated financial statements:

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

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments[5]
Amendments to HKFRS 3	Reference to the Conceptual Framework[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[6]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions[1]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[5]

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

New and amendments to HKFRSs in issue but not yet effective *(continued)*

Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[5]
Amendments to HKAS 8	Definition of Accounting Estimates[5]
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[4]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020[4]

[1] Effective for annual periods beginning on or after 1 June 2020
[2] Effective for annual periods beginning on or after 1 January 2021
[3] Effective for annual periods beginning on or after 1 April 2021
[4] Effective for annual periods beginning on or after 1 January 2022
[5] Effective for annual periods beginning on or after 1 January 2023
[6] Effective for annual periods beginning on or after a date to be determined

The Directors anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. Revenue

Disaggregation of revenue

	Notes	**2021** *HK$'000*	2020 *HK$'000*
Revenue from contracts with customers			
- Sales of cathode materials for battery production	(a)	**7,228**	33,646
- Provision of processing services	(a)	**23,480**	2,584
		30,708	36,230
Interest income	(b)	**80**	5,747
		30,788	41,977
Geographical markets and revenue from contracts with customers			
The PRC		**30,708**	36,230
Hong Kong		**—**	—
		30,708	36,230

Notes:

(a) Sales of cathode materials for battery production and revenue from the provision of processing services are classified as revenue under battery materials production segment in the segment information. Both types of revenue are recognised at a point in time.

(b) Interest income is classified as revenue under direct investments in the segment information.

4. Segment Information

The segment information reported to the Directors, being the chief operating decision makers ("CODM") 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 nickel-cobalt-manganese lithium-ion batteries, lithium ferrous phosphate batteries representing the Group's interest in Advanced Lithium Electrochemistry (Cayman) Co., Ltd. ("ALEEES") and provision of processing services; 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	
	2021	2020	**2021**	2020	**2021**	2020
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment revenue from external customers	**30,708**	36,230	**80**	5,747	**30,788**	41,977
Reportable segment results	**(253,928)**	(252,976)	**(53,279)**	(77,372)	**(307,207)**	(330,348)
Unallocated corporate income					**216**	—
Central administrative cost, and directors' emoluments					**(12,265)**	(28,917)
Loss before taxation					**(319,256)**	(359,265)

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

4. Segment Information *(continued)*

Other segment information:

	Battery Materials Production		Direct Investments		Unallocated		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
	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	**(1)**	(1)	**(10)**	(44)	**—**	—	**(11)**	(45)
Depreciation and amortisation	**29,830**	33,857	**—**	—	**8**	17	**29,838**	33,874
Interest expenses	**42,923**	24,902	**47,306**	21,902	**—**	—	**90,229**	46,804
Income tax credit	**(7,386)**	(1,847)	**—**	—	**—**	—	**(7,386)**	(1,847)
Net loss on financial assets at fair value through profit or loss	**25,948**	66,670	**1,181**	960	**—**	—	**27,129**	67,630
Impairment loss on goodwill	**—**	6,514	**—**	—	**—**	—	**—**	6,514
Impairment loss on interest in an associate	**—**	6,418	**—**	—	**—**	—	**—**	6,418
Impairment loss on property, plant and equipment	**115,619**	40,333	**—**	—	**—**	—	**115,619**	40,333
Impairment loss on intangible assets	**18,854**	7,283	**—**	—	**—**	—	**18,854**	7,283
Impairment loss on trade & other receivables	**4,780**	13,412	**—**	—	**—**	—	**4,780**	13,412
Impairment loss on amount due from an associate	**—**	—	**5,260**	81,426	**—**	—	**5,260**	81,426
Reversal of impairment losses on trade receivables	**(136)**	(1,109)	**—**	—	**—**	—	**(136)**	(1,109)
Reversal of impairment loss on loan receivable	**—**	—	**—**	(12,844)	**—**	—	**—**	(12,844)
Reversal of impairment loss on interest receivable	**—**	—	**—**	(4,959)	**—**	—	**—**	(4,959)
Share of results of associates	**—**	14,113	**—**	—	**—**	—	**—**	14,113
Share of results of a joint venture	**—**	—	**(3,297)**	(3,373)	**—**	—	**(3,297)**	(3,373)
Write-down of inventories	**2,683**	7,080	**—**	—	**—**	11,232	**2,683**	18,312
Loss from stolen inventories	**3,373**	—	**—**	—	**—**	—	**3,373**	—
Interest in a joint venture	**—**	—	**106,411**	98,417	**—**	—	**106,411**	98,417
Addition to non-current assets (Note)	**205**	15	**—**	—	**—**	—	**205**	15

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:

	2021	2020
	HK$'000	*HK$'000*
Segment assets		
Battery materials production	**142,858**	345,582
Direct investments	**176,733**	170,166
Total segment assets	**319,591**	515,748
Unallocated assets	**32,914**	35,740
Consolidated assets	**352,505**	551,488
Segment liabilities		
Battery materials production	**269,206**	221,266
Direct investments	**250,566**	245,245
Total segment liabilities	**519,772**	466,511
Unallocated liabilities	**95,168**	34,443
Consolidated liabilities	**614,940**	500,954

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 and the PRC.

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**	
	2021	2020	**2021**	2020
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC	**30,708**	36,230	**156,819**	305,085
Hong Kong	**80**	5,747	**3**	11
	30,788	41,977	**156,822**	305,096

(c) Information about major customers

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

	2021	2020
	HK$'000	*HK$'000*
Customer A – revenue from battery materials production	**12,055**	N/A#
Customer B – revenue from battery materials production	**11,425**	N/A#
Customer C – revenue from battery materials production	**5,197**	N/A#
Customer D – revenue from battery materials production	**N/A#**	24,340
Customer E – revenue from battery materials production	**N/A#**	5,674
Customer F – revenue from direct investments	**N/A#**	5,659

No revenue was contributed by these customers during the year ended 31 March 2021 or 2020, respectively.

(d) Revenue from major products and services

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

5. Other Losses

	2021	2020
	HK$'000	*HK$'000*
Net foreign exchange loss	**31**	4,678
Write-down of inventories	**2,683**	18,312
Loss from stolen inventories	**3,373**	—
Net loss on derecognition of associates	**—**	9,414
	6,087	32,404

6. Finance Costs

	2021	2020
	HK$'000	*HK$'000*
Interest on lease liability	**13,764**	10,662
Interest on bank and other borrowings	**76,465**	36,142
	90,229	46,804

7. Impairment Losses on Financial Assets at Amortised Costs, Net

	2021	2020
	HK$'000	*HK$'000*
Impairment loss on trade and other receivables	**4,780**	13,412
Impairment loss on amount due from an associate	**5,260**	81,426
Reversal of impairment losses on trade receivables		
- included in loss allowance	**(136)**	(583)
- already written off against cost in prior years	**—**	(526)
Reversal of impairment loss on loan receivable, net of write off	**—**	(12,844)
Reversal of impairment loss on interest receivable	**—**	(4,959)
	9,904	75,926

8. Income Tax Credit

	2021	2020
	HK$'000	*HK$'000*
Deferred tax and total income tax credit for the year	**(7,386)**	(1,847)

8. **Income Tax Credit** *(continued)*

No provision for the Hong Kong Profits Tax has been made for both years as the Group did 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 of 15% until 31 December 2020. No PRC income tax has been made for both years as the Group did not have any assessable profits in the PRC.

The deferred tax of approximately HK$7,386,000 (2020: approximately HK$1,847,000) 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 and the release of deferred tax during the year ended 31 March 2021.

9. **Loss for the Year**

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

	2021	2020
	HK$'000	*HK$'000*
Salaries and other benefits	**15,775**	20,577
Contributions to defined contribution retirement plan	**455**	1,556
Less: Amounts capitalised in inventories	**(4,554)**	(6,054)
Staff costs, including directors' emoluments	**11,676**	16,079
Auditor's remuneration		
Charge for the year :		
- audit service	**1,000**	1,700
- non-audit service	**163**	841
Cost of inventories recognised as expenses	**32,589**	38,737
Amortisation of intangible assets	**11,381**	13,929
Amortisation of right-of-use asset	**383**	377
Depreciation of property, plant and equipment	**20,793**	25,418
Less: Amounts capitalised in inventories	**(2,719)**	(5,850)
	18,074	19,568
Other operating expenses (Note (i))	**7,671**	15,111
Impairment loss on goodwill (Note (ii))	**—**	6,514
Impairment loss on property, plant and equipment (Note (ii))	**115,619**	40,333
Impairment loss on intangible assets (Note (ii))	**18,854**	7,283
Net loss on financial assets at fair value through profit or loss (Note (iii))	**27,129**	67,630
Impairment losses on interest in an associate (Note (iii))	**—**	6,418
Impairment losses on trade and other receivables	**4,780**	13,412
Write-down of inventories	**2,683**	18,312
Loss from stolen inventories	**3,373**	—
Operating lease charges in respect of property rentals	**505**	1,097
Bank interest income	**(11)**	(45)

9. Loss for the Year *(continued)*

Notes:

(i) The other operating expenses represent certain indirect operating expenses arising from the under-utilisation of production capacity of the battery materials production in Chongqing.

(ii) Affected by COVID-19 pandemic and the keen competition in the industry and low gross profit margin which resulted in a decrease of the expected future cash flows which further resulted in an impairment loss on property, plant and equipment amounting to approximately HK$115,619,000 (2020: approximately HK$40,333,000) and impairment loss on intangible assets of approximately HK$18,854,000 (2020: approximately HK$7,283,000) being recognised in the current year. The impairment loss on goodwill amounting to approximately HK$6,514,000 was recognized for the year ended 31 March 2020.

(iii) For the interest in ALEEES, the Group changed the accounting treatment from interest in an associate to the financial assets at fair value through profit and loss with effect from October 2019.

10. 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:

	2021	2020
	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	**311,870**	357,418

	2021	2020
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**6,753,293,913**	6,753,293,913

The diluted loss per share for the years ended 31 March 2021 and 2020 was equal to the basic loss per share as there were no potential dilutive shares outstanding.

11. 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 2021 (2020: Nil).

12. Trade and Other Receivables

	2021	2020
	HK$'000	*HK$'000*
Trade receivables	**17,369**	19,214
Bills receivables	**—**	109
	17,369	19,323
Less: allowance for expected credit losses ("ECLs")	**(17,369)**	(13,308)
	—	6,015
Value-added tax recoverable	**28,129**	27,459
Interest receivables	**9,445**	8,737
Frozen bank balances (Note)	**29,180**	—
Other receivables	**49**	346
Other deposits and prepayments	**1,101**	7,241
	67,904	49,798

Note: During the year ended 31 March 2021, at the requests of the Receivers of the Company and certain creditors/lenders of the Group, certain bank accounts have been frozen and accordingly, their balances have been reclassified from cash and cash equivalents to other receivables.

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

	2021	2020
	HK$'000	*HK$'000*
Within one month	**—**	—
Between one and three months	**—**	—
Over three months	**—**	6,015
	—	6,015

Trading terms with customers are either on a cash basis or on credit. For those customers who trade on credit, a credit period of 30 to 90 days (2020: 30 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 management of the Group. The carrying amounts of the receivables approximate their fair values.

13. Loan Receivables

	2021	2020
	HK$'000	*HK$'000*
Fixed-rate loan receivables	**56,814**	52,555
Less: allowance for ECL	**—**	—
Net fixed-rate loan receivables	**56,814**	52,555
Presented by:		
Non-current assets	**—**	—
Current assets	**56,814**	52,555
	56,814	52,555

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

	2021	2020
	HK$'000	*HK$'000*
On demand and due within one year	**56,814**	52,555
Over five years	**—**	—
	56,814	52,555

14. Trade Payables

	2021	2020
	HK$'000	*HK$'000*
Trade payables	**17,729**	17,865

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

	2021	2020
	HK$'000	*HK$'000*
Between one and three months	**690**	—
Over three months	**17,039**	17,865
	17,729	17,865

The carrying amounts of trade payables approximate their fair values.

15. Comparative Figures

Certain comparative figures have been reclassified to conform to current year's presentation.

16. Litigations

(a) WINDING UP PETITION AGAINST THE COMPANY

On 14 May 2020, Join View Development Limited ("Join View"), a creditor of the Company, filed a petition (the "Petition") with the High Court of the Hong Kong Special Administrative Region (the "HK Court") for an order that the Company be wound up by the HK Court. The Petition was filed against the Company for failure to pay Join View an outstanding debt and the accrued interest pursuant to a loan agreement entered into among Join View as lender, the Company as borrower and FDG EV as guarantor. As at 31 March 2021, the outstanding principal of the Loan is HK$65,000,000 and the accrued interest is approximately HK$32,562,000. FDG EV and the Receivers joined as parties opposing the Petition, and the Petition was heard before the HK Court on 5 August 2020, 10 August 2020, 19 October 2020, and 25 January 2021.

(b) LITIGATIONS COMMENCED BY CREDITORS AGAINST FDG CHONGQING

(i) As at 31 March 2021, there were outstanding litigations brought by trade and other creditors, and a lease creditor against a subsidiary of the Company, FDG Kinetic (Chongqing) Lithium-ion Battery Materials Co,. Ltd. ("FDG Chongqing") requesting FDG Chongqing to repay the outstanding trade and other payables, other borrowings and lease liability, amounting to approximately HK$13,760,000, HK$73,306,000 and HK$39,963,000, respectively. The court hearings are still in progress as at 31 March 2021. The Group is currently reviewing the legal documents and considering various alternatives and negotiation to resolve the litigations; and

(ii) The bank borrowing with amount of approximately HK$38,032,000 as at 31 March 2021, for which the lender has raised litigation against FDG Chongqing to request for the immediate repayment of full outstanding amounts as FDG Chongqing unable to make certain interest repayments on this bank borrowing. The enforcement order that issued by Chongqing Number One Intermediate People's Court dated 16 October 2020 was received by FDG Chongqing, to enforce the immediate repayment of such full outstanding amounts of bank borrowing with total amount of RMB32,142,918.74 and relevant interest. As FDG Chongqing cannot make immediate repayment of all such amounts, the enforcement order that issued by Chongqing Number One Intermediate People's Court dated 5 November 2020 was received by FDG Chongqing, to enforce the frozen of land and building of FDG Chongqing for three years with effect from 12 November 2020.

17. Events After the Reporting Period

(a) As at 31 March 2021, there were litigations brought by a lease creditor against FDG Chongqing and 天津中聚新能源科技有限公司("Tianjin Sinopoly"), an indirect wholly-owned subsidiary of an associate of FDG Chongqing, as guarantor, requesting FDG Chongqing and Tianjin Sinopoly to repay the outstanding other borrowings and lease liability, amounting to approximately HK$73,306,000 and HK$39,963,000. According to the judgement dated 11 April 2021 issued by Chongqing Number One Intermediate People's Court, FDG Chongqing is required to repay within ten days from the date of the orders, all amounts due including overdue amounts, unmatured principal, compensations, legal cost with total amount of approximately RMB102 million and plus all relevant overdue interests, and Tianjin Sinopoly is held jointly liable. FDG Chongqing will negotiate with the lease creditor and explore different alternatives to resolve the issue.

17. Events After the Reporting Period *(continued)*

(b) On 25 February 2021, the Company and its wholly-owned subsidiary, FDG Kinetic Investment Limited ("FDGKI") received a temporary injunction order under an exparte application by Advanced Lithium Electrochemistry (Cayman) Co., Ltd. ("ALEEES") in connection with FDGKI's shareholding in ALEEES, forbidding the Company and FDGKI to sell or dispose its shareholding in ALEEES. FDGKI currently holds 14,249,581 shares of ALEEES, represents approximately 15.47% of the total issued shares of ALEEES (the "ALEEES Shares").

On 17 May 2021, the Company and FDGKI received a letter from a legal advisor acting for ALEEES, informing the Company and FDGKI that ALEEES had initiated an arbitration proceeding against the Company and FDGKI pursuant to the share subscription agreement entered into among ALEEES, FDGKI (as subscriber) and the Company (as guarantor) for the ALEEES Shares on 14 April 2016. ALEEES requested FDGKI to return all the ALEEES Shares because, inter alia, FDG Electric Vehicles Limited ("FDG EV", a controlling shareholder of the Company) has failed to repay an overdue convertible bond ("Overdue CB") issued by FDG EV to ALEEES. The Group (including FDGKI) is not a party to the overdue CB and based on a legal advice, the Company does not believe that there is any merit in ALEEES's claim. The Company and FDGKI have appointed their legal advisor to handle the arbitration proceeding and is also in the process of negotiation with ALEEES for an alternative solution to resolve the dispute.

In regardless of the above mentioned disputes, the ALEEES Shares is booked as "financial assets at fair value through profit and loss" in the consolidated financial statements of the Company and no provision has been made thereof.

(c) The Board received a letter from Yu Ming Investment Management Limited (the "Yu Ming") on 24 June 2021 after trading hours notifying the Board that Yu Ming, on behalf of Victory Summit Global Limited, a company incorporated in the British Virgin Islands with limited liability (the "Offeror"), intended to make a voluntary conditional cash offer to acquire all the issued shares of the Company (the "Offer Shares") (other than those shares already owned or agreed to be acquired by the Offeror and its parties acting in concert with the person or party as specified and as determined in accordance with the Takeovers Code). On 5 July 2021, the Offeror published the announcement setting out details of the Offer, including the Offer price, conditions to the offer and the information and intention of the Offeror (the "Offer"). The Offer is made by Yu Ming for and on behalf of the Offeror, on and subject to the terms set out in the Offer document dated 26 July 2021 and the forms of acceptance and transfer accompanied therewith to acquire all the shares of the Company not already owned by the Offeror and parties acting in concert with it at the Offer price of HK$0.0043 per share in cash.

(d) Regarding Note 16(a), the adjourned hearing of the Petition was held before the Court on 21 June 2021 and further adjourned to 28 June 2021 and 29 June 2021. On 29 June 2021 hearing, the Honourable Mr. Justice Harris ordered that unless written consent of all parties is submitted to the Court to further adjourn the hearing of the Petition on or before Wednesday, 1 September 2021, his Lordship will make the usual winding-up order against the Company on Monday, 6 September 2021 without any further hearing.

17. Events After the Reporting Period *(continued)*

(e) On 6 July 2021, the Company was informed that FDG Kinetic (Chongqing) Lithium-ion Battery Materials Co,. Ltd. (“FDG Chongqing”), an indirect wholly owned subsidiary of the Company, is the subject of a bankruptcy liquidation application in the Chongqing Fifth Intermediate People's Court (重慶市第五中級人民法院) (the “Chongqing Court”). Upon conducting searches on the National Enterprise Bankruptcy Information Disclosure Platform and enquiring with the Chongqing Court by the Company’s PRC legal advisors and based on the information currently available to the board (the “Board”) of directors of the Company, it was revealed that a written submission consenting to the Bankruptcy Application purportedly by FDG Chongqing dated 28 April 2021 was undersigned by Miao Zhenguo (“Miao”), a former director of the Company and former legal representative of FDG Chongqing, and chopped by an alleged company stamp of FDG Chongqing. On 8 May 2021, a substantive hearing of the Bankruptcy Application was held in the Chongqing Court in which FDG Chongqing was purportedly represented by two solicitors from Chongqing Zhen Yun Law Firm* (重慶振云律師事務所) (“ZY Law”) and they consented to the Bankruptcy Application. On 7 July 2021, the Company’s PRC legal advisers have informed the Chongqing Court, inter alia, that neither Miao nor ZY Law is duly authorized to represent FDG Chongqing in the Bankruptcy Application and have applied to the Chongqing Court to revoke the Ruling and allow FDG Chongqing to legally oppose to the Bankruptcy Application. On 23 July 2021, the Company was informed that the Chongqing Court has appointed Chongqing Gongming Law Firm* (重慶公鳴律師事務所) as the manager (管理人) and Xiong Chun* (熊春) as the manager in charge (管理人負責人) of FDG Chongqing. The Company will categorically defend and use all possible means to revoke the ruling and to legally oppose to the bankruptcy application. If the Chongqing Court does not accept the application by the Company to revoke the ruling, the Company will apply for appeal and protest to higher courts and prosecution institution requesting for cancellation of the ruling.

* *For indentification purpose only*

EXTRACT FROM THE INDEPENDENT AUDITOR'S REPORT

The section below sets out an extract of the independent auditor's report regarding the consolidated financial statements of the Group for the year ended 31 March 2021:

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of FDG Kinetic Limited (the "Company") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 March 2021, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the multiple uncertainties relating to going concern as described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

Multiple uncertainties relating to going concern

We draw attention to Note 1 to the consolidated financial statements, which indicates that the Group incurred a net loss attributable to owners of the Company of approximately HK$311,870,000 for the year ended 31 March 2021 and, as of that date, the Group had net current liabilities of approximately HK$418,645,000 and net liabilities of approximately HK$262,435,000. As at the same date, the Group's aggregate bank and other borrowings and lease liability amounted to approximately HK$236,338,000 and HK$39,963,000, respectively, while its cash and cash equivalents amounted to approximately HK$2,940,000.

As at 31 March 2021, repayments in respect of the Group's aggregate bank borrowing, other borrowings and lease liability amounted to HK$38,032,000, HK$73,306,000 and HK$39,963,000, respectively, were overdue and became immediately repayable. On 29 April 2020, the Company has been put into receivership by a secured lender to which the Company owed a loan principal of approximately HK$60,000,000 and accrued interests of approximately HK$21,653,000 at 31 March 2021 and, on 14 May 2020, another lender, to which the Company owed a loan principal of approximately HK$65,000,000 and accrued interests of approximately HK$32,562,000 at 31 March 2021, submitted a petition to the Hong Kong High Court for the compulsory winding up of the Company for which the latest hearing was adjourned to 6 September 2021. In addition, there were outstanding litigations brought by creditors, a bank and a lease creditor against a subsidiary of the Company for the repayment of the outstanding trade and other payable, bank borrowing, other borrowings and lease liability, amounting to approximately HK$13,760,000, HK$38,032,000, HK$73,306,000 and HK$39,963,000, respectively, for which some of the respective court hearings are not yet completed. The Group is currently reviewing the legal documents and considering various alternatives and negotiation to resolve the litigations.

On 6 July 2021, the Company was informed that FDG Kinetic (Chongqing) Lithium-ion Battery Materials Co,. Ltd. (“FDG Chongqing”), an indirect wholly owned subsidiary of the Company, is the subject of a bankruptcy liquidation application in the Chongqing Fifth Intermediate People's Court (重慶市第五中級人民法院) (the “Chongqing Court”). On 7 July 2021, the Company’s PRC legal advisers have applied to the Chongqing Court to revoke the ruling and allow FDG Chongqing to legally oppose to the bankruptcy application. On 23 July 2021, the Company was informed that the Chongqing Court has appointed Chongqing Gongming Law Firm* (重慶公鳴律師事務所) as the manager (管理人) and Xiong Chun* (熊春) as the manager in charge (管理人負責人) of FDG Chongqing. The Company will categorically defend and use all possible means to revoke the ruling and to legally oppose to the bankruptcy application. If the Chongqing Court does not accept the application by the Company to revoke the ruling, the Company will apply for appeal and protest to higher courts and prosecution institution requesting for cancellation of the ruling.

These conditions, together with others described in Note 1 to the consolidated financial statements, indicate the existence of material uncertainties that may cast significant doubt on the Group’s ability to continue as a going concern.

Notwithstanding the abovementioned, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful implementation of the Group’s plans and measures as set out in Note 1 to the consolidated financial statements to meet its financial obligations and to satisfy its future working capital and other financial commitments, including but not limited to: (i) successful implementation of the Proposed Capital Enlargement of the Company; (ii) successful scheme of arrangement to compromise with all creditors their claims against the Company; (iii)Successful compromise with SHK Finance through scheme of arrangement and removal of receivership of the Company; (iv) Successful compromise with Join View through scheme of arrangement and withdrawal of the winding up petition against the Company; and (v) Successful revocation of court order for liquidation of FDG Chongqing and successful negotiations and standstill agreements to be entered into by FDG Chongqing and its lenders and creditors. The successful outcomes of the abovementioned plans and measures are subject to multiple uncertainties and are not yet completed at the date of approval of the consolidated financial statements.

Should the Group fail to achieve the intended effects resulting from the plans and measures as mentioned in Note 1 to the consolidated financial statements, it might not be able to continue to operate as a going concern, and adjustments would have to be made to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively, to write down the carrying amounts of the Group’s assets to their net realisable amounts, to provide for any further liabilities that may arise. The effects of these adjustments have not been reflected in the consolidated financial statements.

In addition, we also encountered the following scope limitation:

SCOPE LIMITATION ON TRANSACTIONS AND BALANCE WITH 五龍能源科技（重慶）有限公司

On 30 April 2020, FDG Chongqing and 五龍能源科技（重慶）有限公司 entered into an agency agreement under which 五龍能源科技(重慶)有限公司 shall primarily act as an agent for collecting the sales receipts from the customers and making payments for expenditure/expenses of FDG Chongqing for a period from 1 May 2020 to 30 April 2021 at a monthly agency fee of RMB50,000. Based on the official records of State Administration for Market Regulation, the supervisor of 五龍能源科技(重慶)有限公司 is the sales director of FDG Chongqing. Due to disputes on the validity of the new appointment of the legal representative of FDG Chongqing, on 10 July 2020, an escrow agreement was entered by FDG Chongqing and its lawyer at Chongqing, based on which, the company chops/stamps of FDG Chongqing shall be placed under the custody of the lawyer of FDG Chongqing and the application of any of the company chops/stamps of FDG Chongqing shall be agreed by FDG Chongqing and Premier Property Management Limited, being the immediate holding company of FDG Chongqing. During the material time of the period from 14 September 2020 to 15 October 2020, there were contracts for provision of processing services of approximately RMB10,542,000, sales of goods of approximately RMB3,339,000 and sales of materials of approximately RMB1,057,000 entered into by 五龍能源科技（重慶）有限公司 and FDG Chongqing (“Dubious Contracts”) which were neither authorised and approved by the legal representative and general manager of FDG Chongqing nor management of the Company and Premier Property Management Limited. Included in the consolidated financial statements, revenue from provision of processing services and sales of materials rendered to the third end customer recognised under these Dubious Contracts was approximately HK$13,263,000 (equivalent to approximately RMB11,599,000) for the year ended 31 March 2021, for which, acknowledgement receipts signed by the third party end customer for the acceptance of the processed goods were not available for our examination. In addition, during the year ended 31 March 2021, there were goods and materials with aggregate carrying amounts of approximately HK$1,902,000 (equivalent to approximately RMB1,663,000) and HK$1,471,000 (equivalent to approximately RMB1,287,000) respectively transferred to 五龍能源科技（重慶）有限公司, which were recognised as loss arising from stolen inventories in the consolidated statement of profit or loss for the year ended 31 March 2021 because, after its preliminary investigation, management of the Company noted that there was no end customer(s) for these goods and materials transferred to 五龍能源科技（重慶）有限公司, which were considered by management of the Company as stolen and the Company is seriously considering to taking legal actions against the relevant parties involved in transferring these goods materials to 五龍能源科技（重慶）有限公司. There were no documentary evidences available for supporting the reasonableness and rationale as to why the relevant goods and materials were transferred from Chongqing FDG to 五龍能源科技（重慶）有限公司 which did not acknowledge its receipts of such goods and materials.

The Company assessed the recoverability of the account receivable from 五龍能源科技（重慶）有限公司 from which there was no subsequent settlements received up to the date of approval of the consolidated financial statements. Full provision for impairment of the account balance of approximately HK$758,000 (equivalent to approximately RMB640,000) receivable from 五龍能源科技（重慶）有限公司 had been recognised and charged to the consolidated profit or loss for the year ended 31 March 2021.

Management of the Company also advised us that some of the relevant documents of FDG Chongqing were unlawfully and inappropriately taken away by certain former management of FDG Chongqing and, in consequence, were unavailable for our examination. Regarding the revenue from provision of processing services under the above Dubious Contracts, we only sighted the invoices issued by Chongqing FDG to 五龍能源科技（重慶）有限公司 but we were not provided with the documentary evidence for the physical flow of the processed goods collected by 五龍能源科技（重慶）有限公司 and the end customer. There was no financial information regarding the financial position of 五龍能源科技（重慶）有限公司 such that we cannot verify the appropriateness of the full provision for impairment on the year end balance receivable from it. We did not receive direct confirmations from 五龍能源科技（重慶）有限公司 and the end customer of the processed goods.

There were no alternative audit procedures that we could adopt to verify the genuineness, accuracy and completeness of revenue from provision of services of approximately HK$12,055,000 (equivalent to approximately RMB10,542,000), sales of materials of approximately HK$1,209,000 (equivalent to approximately RMB1,057,000), loss on stolen inventories of approximately HK$3,373,000 (equivalent to RMB2,950,000, and the year end account balance receivable from 五龍能源科技（重慶）有限公司 of approximately HK$758,000 (equivalent to approximately RMB640,000), for which full provision for impairment was recognised, at 31 March 2021.

We have been unable to satisfy ourselves whether or not revenue from provision of processing services, sales of materials, loss on the stolen inventories and provision for impairment loss on the account receivable from 五龍能源科技(重慶)有限公司 were free from material misstatement. Any adjustments in respect of these matters would have a significant, but not pervasive, impact on the Group's net liabilities at 31 Mach 2021 and its financial performance and cash flows for the year then ended.

MANAGEMENT DISCUSSION AND ANALYSIS

FDG Kinetic Limited (Receivers and Managers Appointed) ("FKL" or the "Company", stock code: 378) adheres to a philosophy of "Green and Growth", gradually establishing in its lithium-ion ("Li-ion") battery industry. The Company and its subsidiaries (collectively the "Group") are principally engaged in research and development, manufacturing and trading of cathode materials for Li-ion batteries and direct investment. FKL strategically positions in the Li-ion battery and cathode materials segment. Furthermore, FKL also currently holds 25% and 15.47% equity interests in Synergy Dragon Limited and Advanced Lithium Electrochemistry (Cayman) Co., Ltd. ("ALEEES", listed on the Taipei Exchange, stock code: 5227) respectively and they are engaged in the business of research and development, manufacturing and sales of batteries and new energy battery materials respectively. FKL is an indirect non-wholly-owned subisidary of FDG Electric Vehicles Limited (provisional Liquidators Appointed)("FDG EV", stock code: 729).

Appointment of receivers and managers of the Company

As disclosed in the joint announcement of FKL and FDG EV dated 29 April 2020, the Company received a notification that SHK Finance Limited ("SHK Finance") has appointed Tang Chung Wah, Hou Chung Man and Kan Lap Kee, all of SHINEWING Specialist Advisory Services Limited as receivers and managers over all of the undertaking, property and assets of FKL and to, amongst others, exercise all of the powers of a receiver and manager given by the terms of a debenture executed by FKL in favour of SHK Finance on 5 September 2019, to secure the loan facilities granted by SHK Finance to FKL pursuant to a loan agreement entered into between FKL and SHK Finance on 5 September 2019. The Company is still under receivership since then.

Winding-up petition against the Company

As disclosed in the joint announcement of FKL and FDG EV dated 15 May 2020, the Company received a petition filed by Join View Development Limited on 14 May 2020 against FKL in the High Court of the Hong Kong Special Administrative Region (the "HK Court") for an order that FKL be wound up by the HK Court. FDG EV joined as a party opposing the petition. The last adjourned hearing was held on 29 June 2021 and the Court ordered that unless written consent of all parties is submitted to the Court to further adjourn the hearing of the Petition on or before Wednesday, 1 September 2021, his Lordship will make the usual winding-up order against the Company on Monday, 6 September 2021 without any further hearing.

MARKET OVERVIEW

During the year under review, affected by the outbreak of the COVID-19 pandemic worldwide, both the PRC and global financial markets faced lots of challenges, hence a rising risk of uncertainty on global economy. According to the economic data from the National Bureau of Statistics of China (the "NBS"), China's gross domestic product expanded 2.3% year on year in 2020, exceeding the 100-trillion-yuan (15.42 trillion U.S. dollars) threshold to 101.5986 trillion yuan. The Chinese economy advanced 18.3% year-on-year in the first quarter 2021, accelerating sharply from a 6.5% growth in the fourth quarter and compared with market consensus of 19%. This was the strongest pace of expansion since the series began in 1992, boosted by strengthening domestic and global demand, strict virus containment measures, and continued fiscal and monetary support. The latest reading reflected a low comparison base in 2020 when activity plunged due to the COVID-19 shocks. For 2021, according to NBS, China expects the economy to grow by more than 6%. However, the services sector and smaller firms still faced challenges, while consumer inflation was likely to remain moderate.

Battery Business

According to the "New Energy Vehicle Industry Development Plan (2021-2035)" (draft for comments) issued by the Ministry of Industry and Information Technology of China in December 2019, the planned sales of emerging energy vehicles will account for about 20% over the total vehicle sales by 2025. According to data from the China Association of Automobile Manufacturers, the sales volume of new energy vehicles in 2020 is approximately 1.3 million, a year-on-year increase of 10.9%. Furthermore, most of countries like Norway, Germany, Sweden, the United Kingdom and France are going to ban the sales of fuel vehicles successively from the years 2030 to 2040. Driven by the speedy growth of the global new energy vehicle industry, the power battery markets will have huge development potential in the future.

Power battery can also be used in the energy storage system, which can effectively improve power generation efficiency and reduce electricity costs. The energy storage system is gradually matured and widely-use in various applications. According to statistics from SNE Research, global energy storage battery shipments in 2020 will be 20GWh, an increase of 82% year-on-year. With the gradual decline in the cost of lithium batteries and the increase in its cycle life, the acceleration of clean power will bring about continuous rapid growth in the demand for energy storage.

Cathode Materials Business

The ternary material is a multi-element metal composite oxide represented by lithium nickel cobalt manganese oxide and lithium nickel cobalt aluminate. It is one of the main cathode materials for power batteries and is mainly used in passenger cars and most logistics vehicles. With the strong support of national policies, new energy vehicles have been developed, which stimulates power batteries and its related supplementary materials industries have developed rapidly in recent years. From 2016 to 2020, the ternary material output in PRC market shows a rapid growth trend. According to the statistics of GGII, the total output of ternary cathode materials in 2020 was 234,600 tons, a year-on-year increase of 22.19%.

BUSINESS REVIEW

The Group has been focusing on developing its cathode materials business and actively exploring the PRC and overseas markets in order to seek new business opportunities and looks forward to bringing positive cash flows to the Group. However, the Group faced lots of challenges during the year under review, such as the tight financial position of the Group, the global outbreak of the COVID-19 and the keen competition in the cathode material market.

During the year under review, revenue from cathode materials business amounted to approximately HK$30.7 million, representing a decrease of approximately 15.2% as compared with that of the last corresponding year, as most of the production capacity is used for the provision of processing services by the Group with low profit margin during the year under review. Looking forward, the Group will continue to proactively looking for various cooperation opportunities with business partners, exploring new customers and markets, and diversify its income sources.

FINANCIAL REVIEW

During the year under review, the Group recorded total revenue of approximately HK$30.8 million, representing a decrease of approximately 26.7% as compared with the revenue of approximately HK$42.0 million for the year ended 31 March 2020. As sales of cathode materials for nickel-cobalt manganese ("NCM") lithium-ion batteries, provision of processing income and interest income decreased, gross profit decreased from gross profit of approximately HK$3.2 million for the year ended 31 March 2020 to gross loss of approximately HK$1.8 million for the year ended 31 March 2021.

The Group's loss attributable to equity shareholders of the Company for the year ended 31 March 2021 amounted to approximately HK$311.9 million, representing a decrease in loss of approximately HK$45.5 million as compared with the loss of approximately HK$357.4 million for the year ended 31 March 2020. The decrease was mainly attributable to the net effects of the followings:

(i) the increase in finance costs of approximately HK$43.4 million from approximately HK$46.8 million of last year to approximately HK$90.2 million of current year, mainly due to the accrual of overdue and default interests arising from the loans overdue of the Group;

(ii) the decrease in net loss on financial assets at fair value through profit or loss of approximately HK$40.5 million comparing with that of last year of approximately HK$67.6 million, mainly arising from the market price changes of investment in ALEEES;

(iii) the decrease in net impairment losses on financial assets at amortised cost of approximately HK$66.0 million to approximately HK$9.9 million for the year ended 31 March 2021 (2020: approximately HK$75.9 million), mainly due to the substantial decrease of the impairment loss on amount due from an associate of approximately HK$76.1 million comparing with last year; and

(iv) the increase of approximately HK$86.9 million on impairment of property, plant and equipment, and intangible assets in the current year, comparing with that of last year, resulted from the decrease in future expected cashflows from the cash generating unit of Chongqing factory.

Segment Information

Battery Materials Production Business

During the year under review, the battery materials production business segment contributed to the Group's revenue of approximately HK$30.7 million from the sales of cathode materials for NCM lithium-ion batteries and provision of processing services, representing a decrease of approximately 15.2% as compared with the revenue of approximately HK$36.2 million for the year ended 31 March 2020. Such decrease was mainly due to (i) the decrease in orders from the customers during the current year resulted from the general slow-down of the new energy market and the outbreak of the COVID-19; and (ii) the Group was put more efforts on the provision of processing services with low profit margin.

The battery materials production business segment brought a loss before tax of approximately HK$253.9 million (2020: approximately HK$253.0 million) to the Group during the year. The battery material production business segment mainly comprise of (i) Chongqing factory that engaged in battery material production; and (ii) the holding of investment in ALEEES.

The loss from the battery material production business segment was mainly includes (a) the impairment losses on property, plant and equipment, intangible assets and goodwill of approximately HK$134.5 million (2020: approximately HK$54.1 million); (b) the finance costs of approximately HK$42.9 million (2020: approximately HK$24.9 million); and (c) the net loss from financial assets at fair value through profit or loss of approximately HK$25.9 million (2020: approximately HK$66.7 million).

The Group holds approximately 15.47% (2020: approximately 19.04%) of total issued shares of ALEEES as at 31 March 2021. ALEEES is classified as financial assets at fair value through profit or loss, and is principally engaged in the business of production, research and development and sales and marketing of cathode materials for Lithium-Ferrous-Phosphate batteries. During the current year, the Group has a net loss of approximately HK$25.9 million from the market price changes of ALEEES.

Direct Investments Business

During the year, interest income amounted to approximately HK$0.1 million (2020: approximately HK$5.7 million).

The Group's investments measured at fair value recorded a net loss of approximately HK$1.2 million for year ended 31 March 2021 (2020: approximately HK$1.0 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$3.3 million for the year ended 31 March 2021 (2020: approximately HK$3.4 million). Huaneng Shouguang is a wind power electricity developer and operator in the PRC. It generated electricity of approximately 80.5 million kWh (2020: approximately 80.9 million kWh) and recorded revenue of approximately HK$46.2 million (2020: approximately HK$45.0 million) during the year ended 31 March 2021.

Geographical Analysis of Revenue

During the year ended 31 March 2021, revenue from Hong Kong and the PRC contributed approximately 0.3% (2020: 13.7%) and 99.7% (2020: 86.3%) to the Group's total revenue, respectively.

Liquidity and Financial Resources

As at 31 March 2021, the Group's net liabilities attributable to equity owners of the Company amounted to approximately HK$262.4 million (2020: net assets of approximately HK$50.5 million). The Group's total assets of approximately HK$352.5 million (2020: approximately HK$551.5 million) mainly consisted of property, plant and equipment, and right-of-use asset in aggregate of approximately HK$50.4 million (2020: approximately HK$177.4 million), interest in a joint venture of approximately HK$106.4 million (2020: approximately HK$98.4 million), trade and other receivables of HK$67.9 million (2020: approximately HK$49.8 million), loan receivables of approximately HK$56.8 million (2020: approximately HK$52.6 million), financial assets at fair value through profit or loss of approximately HK$67.8 million (2020: approximately HK$94.9 million) and cash and cash equivalents of approximately HK$2.9 million (2020: approximately HK$34.5 million).

As at 31 March 2021, the current assets amounted to approximately HK$195.7 million, representing a decrease of approximately 20.6% as compare with the current assets of approximately HK$246.4 million as at 31 March 2020. Such decrease was mainly attributable to the net loss from the financial assets at fair value through profit or loss comparing with that of last year.

As at 31 March 2021, bank and other borrowings included:

(i) bank borrowings of approximately HK$38.0 million (2020: approximately HK$35.7 million), denominated in RMB, were secured, interest bearing at floating rates and were overdue. Such bank borrowings were secured by, inter alia, certain land and buildings of the Group with carrying amounts of approximately HK$30.6 million (2020: approximately HK$79.9 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 ("FDG Chongqing"), a wholly-owned subsidiary of the Company. The lender has raised litigation against FDG Chongqing with details stated in Note 16(b)(ii);

(ii) the other borrowing of HK$65.0 million (2020: HK$65.0 million) is denominated in Hong Kong dollars, were unsecured, guaranteed by FDG EV and were overdue, the lender has raised wind-up petition against the Company with details stated in Note 16(a);

(iii) other borrowing of HK$60.0 million from an independent third party (2020: HK$60.0 million), secured by first fixed and floating charge over the undertaking, property and assets of the Company and were overdue, the lender has appointed the Receivers over all of the undertaking, property and assets of the Company; and

(iv) the other borrowings of approximately HK$73.3 million (2020: approximately HK$72.2 million in total), for which approximately HK$73.3 million (2020: approximately HK$56.3 million) were overdue, denominated in RMB and out of which approximately HK$48.5 million (2020: approximately HK$47.8 million) was secured by certain machineries of the Group with carrying amounts of approximately HK$9.4 million (2020: approximately HK$41.2 million) and guaranteed by an indirect wholly-owned subsidiary of an associate of

FDG Chonqing. The lender has raised litigations against FDG Chongqing with details stated in Notes 16(b)(i) and 17(a).

As at 31 March 2021, the Group's lease liability amounted to approximately HK$40.0 million (2020: approximately HK$37.2 million) were overdue. The lease liability was secured by certain machineries of the Group with carrying amounts of approximately HK$6.3 million (2020: approximately HK$35.3 million) and guaranteed by an indirect wholly-owned subsidiary of an associate. Litigation was raised by the lease creditor with details stated in Notes 16(b)(i) and 17(a).

As at 31 March 2021, the current liabilities amounted to approximately HK$614.3 million, representing an increase of approximately HK$121.0 million comparing with the amount of approximately HK$493.3 million as at 31 March 2020. Such increase was mainly due to the accrual of overdue and default interests payable during the current year.

As at 31 March 2021, non-current liabilities being deferred tax amounted to approximately HK$0.6 million, representing a decrease of approximately HK$7.0 million comparing with the amount of approximately HK$7.6 million as at 31 March 2020.

As at 31 March 2021, the gearing ratio was inappropriate to calculate given the net liabilities status of the Group. As at 31 March 2020, the Group's gearing ratio was approximately 534.9%, calculated on the basis of bank and other borrowings of approximately HK$232.9 million plus lease liability of approximately HK$37.2 million, to total equity of the Company of approximately HK$50.5 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.

Material Acquisitions and Disposals

During the year ended 31 March 2021, the Group had no material acquisitions or disposals of subsidiaries, associates and joint ventures.

Contingent Liabilities and Pledge of Assets

The details of the Group's pledge of assets as at 31 March 2021 and 2020 are disclosed under the section headed "Liquidity and Financial Resources".

The Group had no significant contingent liabilities as at 31 March 2021 (2020: Nil).

Human Resources

As of 31 March 2021, the Group had 7 employees in Hong Kong (2020: 5 employees) and 57 employees in the PRC (2020: 80 employees). Total staff costs (including directors' remunerations) during the year ended 31 March 2021 amounted to approximately HK$11.7 million (2020: approximately HK$16.1 million). The remuneration policies are determined with reference to market conditions and individual performance of staff. The Group participates in the Mandatory Provident Fund Scheme in Hong Kong and state managed retirement benefit schemes in the PRC.

The Group has a share option scheme, an employees' share award scheme and an employee benefit trust for the benefit of its directors and eligible participants. No share option was granted, exercised, cancelled or lapsed under the share option scheme and no share award was granted to employees under the employees' share award scheme during the year under review.

There were no material changes in human resources structure and compensation approach during the year ended 31 March 2021.

FUTURE DEVELOPMENT

With the continuous national support policies, technological improvements and gradual cost reduction, the demand in battery industry is at a high speedy growth as well as the cathode material industry. Tthe Group strived to export its products beyond the domestic market and has signed cooperation agreement with an affiliate company of Advanced Lithium Electrochemistry (Cayman) Co., Ltd, one of the pioneers and experts in the cathode materials production, in assisting the Chongqing factory to promote its products and related services to potential customers in Japan and South Korea.

However, the Group has a high gearing ratio and numerous defaulted loans, it needs to focus its short term effort in capital reorganisation, fund raising and debt restructuring in order to position itself for the potential growth.

CORPORATE GOVERNANCE

The Company applied the principles of and complied with all the code provisions of the Corporate Governance Code (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 March 2021 and up to the date of this announcement, except for the following deviations.

Code provision A.2.1 to A.2.9

On 24 October 2020, Professor Sit Fung Shuen ("Professor Sit") resigned as an independent non-executive director and chairman of the Board. Since then, the Company has no chairman and this constitutes a deviation from the code provisions A.2.1 to A.2.9 of the Code. The Company is in the process of identifying a suitable candidate to fill the vacancy for the chairman in order to meet the requirement of the Code.

Code provision A.5.1

Pursuant to code provision A.5.1 of the Code, the nomination committee should be chaired by the chairman of the board or an independent non-executive director and comprise a majority of independent non-executive directors.

On 19 March 2020, Mr. Cao Zhong ("Mr. Cao") ceased to be the chairman of the Board due to suspension of his duties as the chairman and executive director of the Board, but he remained as an executive director of the Company and the chairman of the nomination committee of the Company (the "Nomination Committee"), thus constituting a deviation from code provision A.5.1 of the Code. As the Company was focusing on its internal affairs at that time, the Board required reasonable time to consider the composition of the Nomination Committee. At the Board meeting held on 30 June 2020, Professor Sit, the then chairman of the Board and independent non-executive director of the Company, was appointed as the chairman of the Nomination Committee and such deviation was rectified on 30 June 2020.

On 24 October 2020, Professor Sit resigned as an independent non-executive director of the Company. Hence, the Company did not have a chairman of the Nomination Committee and the number of independent non-executive directors of the Nomination Committee fell below a majority, thus constituting deviations from code provision A.5.1 of the Code. On 15 April 2021, Ms. Vera Yue was appointed as an independent non-executive director of the Company and a member of the Nomination Committee and Mr. Toh Hock Ghim was appointed as the chairman of the Nomination Committee. The above deviations were rectified on 15 April 2021.

On 30 April 2021, Mr. Toh Hock Ghim and Ms. Vera Yue retired as independent non-executive directors of the Company at the adjourned annual general meeting of the Company. As the Company was using all its time and resources to liaise with the creditors for any possible forbearance of overdue debts, meet with potential investors for any possible rescue plan and deal with the issues of the subsidiary in Chongqing (as disclosed in certain announcements of the Company) at that time, the Company had not confirmed the composition of the Nomination Committee after the above mentioned retirement, thus constituting deviation from code provision A.5.1 of the Code.

On 22 July 2021, Dr. Chang Sun Bun Benson and Mr. Lo Kon Ki were appointed as members of the Nomination Committee and Mr. Hung Chi Yuen Andrew was appointed as the chairman of the Nomination Committee. The above deviations have since been rectified.

Code provision E.1.2

Pursuant to code provision E.1.2 of the Code, the chairman of the board should attend the annual general meeting. The Company has not complied with such provision as no chairman of the Board was appointed at that time. Mr. Jaime Che, an executive director and Chief Executive Officer of the Company, took the chair of the annual general meeting and the adjourned annual general meeting of the Company held on 17 March 2021 and 30 April 2021 respectively pursuant to the Company's Bye-laws.

Further, following the resignation of Professor Sit on 24 October 2020, the number of independent non-executive directors of the Board were less than three as required under Rule 3.10(1) of the Listing Rules. On 15 April 2021, Ms. Vera Yue was appointed as an independent non-executive director of the Company, the Company has been in compliance with the requirement under Rule 3.10(1) of the Listing Rules. Following the retirement of Mr. Toh Hock Ghim and Ms. Vera Yue and the appointment of Dr. Chang Sun Bun Benson and Mr. Lo Kon Ki as independent non-executive directors of the Company at the adjourned annual general meeting on 30 April 2021, the number of independent non-executive directors of the Board remained as three in compliance with the requirement under Rule 3.10(1) of the Listing Rules. However, as stated in the announcement of the Company dated 30 April 2021, there are certain litigations the outcome of which may fundamentally affect the voting results of the adjourned annual general meeting, and all rights of the Company and all of the directors of the Company in office before the conclusion of the adjourned annual general meeting regarding the adjourned annual general meeting and otherwise generally are reserved.

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. Following specific enquiries the Company has been making, all directors of the Company, save as Mr. Cao, have confirmed their compliance with the required standard set out in the Model Code and the Securities Code throughout the year ended 31 March 2021.

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

During the year ended 31 March 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

EVENTS AFTER THE REPORTING PERIOD

Events occurred after the reporting period are detailed in Note 17 to this announcement.

REVIEW OF AUDITED 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 2021.

CONTINUED SUSPENSION OF TRADING

Trading in the shares of the Company on the Stock Exchange was suspended with effect from 9:00 a.m. on 2 July 2021 pending satisfaction of the resumption guidance as disclosed in the announcement of the Company dated 20 July 2021.

On behalf of the Board
FDG Kinetic Limited
(Receivers and Managers Appointed)
Jaime Che
Chief Executive Officer

Hong Kong, 30 July 2021

As at the date of this announcement, the Board comprises Mr. Jaime Che (Chief Executive Officer) and Mr. Wong Siu Hung Patrick (executive function suspended) as executive directors; and Dr. Chang Sun Bun Benson, Mr. Hung Chi Yuen Andrew and Mr. Lo Kon Ki as independent non-executive directors (and with the Company reserving its rights and position as stated in the announcement on 30 April 2021).

Website: http://www.fdgkinetic.com