

If you are in any doubt as to any aspect of the Offer, this Response Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in the Company, you should at once hand this Response Document to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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**FDG Kinetic Limited**

**五龍動力有限公司**

*(Receivers and Managers Appointed)*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 378)**

**RESPONSE DOCUMENT IN RELATION TO VOLUNTARY  
CONDITIONAL CASH OFFER BY  
YU MING INVESTMENT MANAGEMENT LIMITED  
ON BEHALF OF VICTORY SUMMIT GLOBAL LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
FDG KINETIC LIMITED  
(OTHER THAN THOSE SHARES ALREADY OWNED OR  
AGREED TO BE ACQUIRED BY  
VICTORY SUMMIT GLOBAL LIMITED AND  
PARTIES ACTING IN CONCERT WITH IT)**

**INDEPENDENT FINANCIAL ADVISER  
TO THE INDEPENDENT BOARD COMMITTEE**

**ALTUS CAPITAL LIMITED**

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Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Response Document.

A letter from the Board is set out on pages 5 to 14 of this Response Document.

A letter from the Independent Board Committee is set out on pages 15 to 16 of this Response Document.

A letter from the IFA containing its advice to the Independent Board Committee in respect of the Offer is set out on pages 17 to 38 of this Response Document.

The Response Document will remain on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on the website of the Company at [www.fdgkinetic.com](http://www.fdgkinetic.com) as long as the Offer remains open.

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## DEFINITIONS

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*In this Response Document, unless the context otherwise requires, the following expressions shall have the following meanings:*

“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“associate(s)”	has the meaning ascribed to it in the Takeovers Code
“Board”	the board of Directors
“Business Day(s)”	a day(s) on which the Stock Exchange is open for transaction of business
“Company”	FDG Kinetic Limited, a company incorporated in Bermuda with limited liability and its issued Shares are listed on the Stock Exchange (stock code: 378)
“Concert Parties”	parties acting in concert with the person or party as specified and as determined in accordance with the Takeovers Code
“Directors”	directors of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the SFC and any of his delegates
“FDG Kinetic Chongqing”	FDG Kinetic (Chongqing) Lithium Ion Battery Materials Co., Ltd.* (五龍動力(重慶)鋰電材料有限公司), a wholly-owned subsidiary of the Company
“Final Closing Date”	the date which is the 14th day after (i) the date on which the Offer is declared unconditional as to acceptances or (ii) the First Closing Date, whichever is the later, provided that the Offer will be open for acceptance for at least 28 days following the despatch of the Offer Document
“First Closing Date”	23 August 2021, being the first closing date of the Offer or any subsequent closing date as may be announced by the Offeror and approved by the Executive
“Form of Acceptance”	the form of acceptance and transfer in respect of the Offer accompanying the Offer Document
“Group”	the Company and its subsidiaries

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## DEFINITIONS

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“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“IFA” or “Altus Capital”	Altus Capital Limited, a corporation licensed to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and the independent financial adviser appointed by the Company to advise the Independent Board Committee in respect of the Offer
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in respect of the Offer
“Independent Shareholders”	Shareholders other than the Offeror and parties acting in concert with it
“Last Trading Day”	30 June 2021, being the last trading day immediately prior to the publication of the Offer Announcement and the last trading day prior to the Latest Practicable Date
“Latest Practicable Date”	6 August 2021, being the latest practicable date prior to the printing of this Response Document for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MOU”	the memorandum of understanding dated 17 May 2021 and entered into among the Company, the Offeror and the Receivers
“Offer”	the voluntary conditional cash offer made by Yu Ming on behalf of the Offeror to acquire all of the Offer Shares in accordance with terms and conditions set out in the Offer Document
“Offer Announcement”	the announcement dated 5 July 2021 made by the Offeror setting out details of the Offer
“Offer Document”	the offer document dated 26 July 2021 and issued by the Offeror to all Shareholders in connection with the Offer

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## DEFINITIONS

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“Offer Period”	the period commencing from 16 April 2020, and will end on the later of (i) the First Closing Date or the Final Closing Date; and (ii) for the purpose of the Offer, the date when the Offer lapses
“Offer Price”	the price of HK\$0.0043 per Offer Share payable by the Offeror to the Shareholders for each Offer Share tendered under the Offer
“Offer Share(s)”	issued Shares other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it
“Offeror” or “Investor”	Victory Summit Global Limited, a company incorporated in the British Virgin Islands with limited liability
“PRC”	the People’s Republic of China, which for the purpose of this Response Document shall exclude Hong Kong Special Administrative Region of the PRC, Macau and Taiwan
“Receivers”	the receivers and managers of the Company, namely Tang Chung Wah, Hou Chung Man and Kan Lap Kee all of SHINEWING Specialist Advisory Services Limited
“Relevant Period”	the period from 16 October 2019, being the date falling six months before the commencement of the Offer Period, up to and including the Latest Practicable Date
“Response Document”	this response document in response to the Offer Document issued by the Offeror to the Shareholders in accordance with the Takeovers Code
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary share(s) of HK\$0.20 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers published by the SFC
“Yu Ming”	Yu Ming Investment Management Limited, a company incorporated in Hong Kong with limited liability and a licensed corporation under the SFO authorised to carry out regulated activities of type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) and the financial adviser to the Offeror
“HK\$”	Hong Kong dollars, lawful currency of Hong Kong
“%”	per cent.

\* *The English name is translated for identification purpose only*

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LETTER FROM THE BOARD

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**FDG Kinetic Limited**

**五龍動力有限公司**

*(Receivers and Managers Appointed)*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 378)**

**Board of Directors**

*Executive Directors:*

Mr. Jaime Che (*Chief Executive Officer*)

Mr. Wong Siu Hung Patrick (*executive function suspended*)

*Independent non-executive Directors:*

Dr. Chang Sun Bun Benson

Mr. Hung Chi Yuen Andrew

Mr. Lo Kon Ki

**Registered office:**

Victoria Place, 5th Floor  
31 Victoria Street  
Hamilton HM 10  
Bermuda

**Principal place of business  
in Hong Kong:**

43/F, Lee Garden One,  
33 Hysan Avenue,  
Causeway Bay,  
Hong Kong

9 August 2021

*To the Independent Shareholders*

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL CASH OFFER BY  
YU MING INVESTMENT MANAGEMENT LIMITED  
ON BEHALF OF VICTORY SUMMIT GLOBAL LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
FDG KINETIC LIMITED  
(OTHER THAN THOSE SHARES ALREADY OWNED OR  
AGREED TO BE ACQUIRED BY  
VICTORY SUMMIT GLOBAL LIMITED AND  
PARTIES ACTING IN CONCERT WITH IT)**

**INTRODUCTION**

The Board received a letter from Yu Ming on 24 June 2021 after trading hours notifying the Board that Yu Ming, on behalf of the Offeror, intended to make a voluntary conditional cash offer to acquire all the Offer Shares (other than those Shares already

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## LETTER FROM THE BOARD

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owned or agreed to be acquired by the Offeror and its Concert Parties). On 5 July 2021, the Offeror published the Offer 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 is made by Yu Ming for and on behalf of the Offeror, on and subject to the terms to be set out in the Offer Document and the Form of Acceptance accompanied therewith to acquire all the Shares 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.

On 26 July 2021, the Offeror despatched the Offer Document setting out further details of the Offer, accompanied with the Form of Acceptance.

The purpose of this Response Document is to provide you with, among other things, information relating to the Group, details of the Offer, the recommendation from the Independent Board Committee and the recommendation and advice from the IFA in respect of the Offer.

**You are advised to read this Response Document, the letter from the Independent Board Committee and the letter from the IFA in conjunction with the Offer Document carefully before taking any action in respect of the Offer.**

### THE OFFER

The terms of the Offer as set out in the Offer Document are extracted below. You are recommended to refer to the Offer Document and the Form of Acceptance for further details. Yu Ming is making the Offer for and on behalf of the Offeror on the following basis:

For each Offer Share . . . . . HK\$0.0043 in cash

### Conditions to the Offer

The Offer is conditional on the satisfaction or waiver of the following conditions:

1. valid acceptances of the Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the First Closing Date (or such later time or date as the Offeror may, subject to the Takeovers Code, decide) in respect of such number of Shares which, together with Shares acquired or agreed to be acquired before or during the Offer, will result in the Offeror and its Concert Parties together holding not less than 50% of the voting rights of the Company;
2. the Shares remaining listed and traded on the Stock Exchange on the First Closing Date and no indication being received on or before the First Closing Date from the SFC and/or the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange is or is likely to be withdrawn; and
3. the Company not being ordered to be wound up by the High Court of Hong Kong or the court of Bermuda before the First Closing Date.



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## LETTER FROM THE BOARD

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Save for conditions 2 and 3 above which are waivable by the Offeror, other condition cannot be waived. In the event that conditions 2 and 3 are not satisfied on the First Closing Date, the Offeror will determine whether it will waive such conditions on the same date.

The Offeror reserves the right to revise the terms of the Offer in accordance with the Takeovers Code.

**The Offer may or may not become unconditional. Shareholders and investors should exercise caution when dealing in the securities of the Company, and if they are in any doubt about their position, they should consult their professional advisers.**

### Further details of the Offer

Further details of the Offer, including, among other things, the expected timetable, the terms and procedures of acceptance and settlement of the Offer, are set out in the Offer Document and the Form of Acceptance.

The Offer Price represents:

- (1) a discount of approximately 76.11% to the closing price of HK\$0.018 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (2) a discount of approximately 64.17% to the closing price of HK\$0.012 per Share as quoted on the Stock Exchange on 24 June 2021, being the date of the Offeror making the Offer;
- (3) a discount of approximately 76.11% to the average of the closing prices of the Shares of HK\$0.018 per Share as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day;
- (4) a discount of approximately 73.13% to the average of the closing prices of the Shares of approximately HK\$0.016 per Share as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day;
- (5) a discount of approximately 77.37% to the average of the closing prices of the Shares of approximately HK\$0.019 per Share as quoted on the Stock Exchange for the thirty (30) consecutive trading days up to and including the Last Trading Day; and
- (6) a premium of approximately HK\$0.0433 over the audited consolidated net liabilities per Share as at 31 March 2021 of approximately HK\$0.039 (which was calculated by dividing the sum of the audited consolidated net liabilities of the Group as at 31 March 2021 of approximately HK\$262,435,000 by 6,753,293,913 Shares in issue as at the Latest Practicable Date).

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## LETTER FROM THE BOARD

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### Further details of the Offer

Further details of the Offer, including, among other things, its extension to the overseas Shareholders, information on taxation, the terms and conditions and the procedures for acceptance and settlement and acceptance period can be found in the Offer Document and the Form of Acceptance.

### SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Company had a total of 6,753,293,913 Shares in issue. Save for the aforesaid, there are no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in issue. Set out below is the shareholding structure of the Company as the Latest Practicable Date:

	Number of Shares	Approximate %
Sinopoly Strategic Investment Limited ( <i>Note</i> )	3,318,770,490	49.14
Union Grace Holdings Limited ( <i>Note</i> )	<u>1,395,081,294</u>	<u>20.66</u>
Subtotal	4,713,851,784	69.80
Public Shareholders	<u>2,039,442,129</u>	<u>30.20</u>
Total	<u><u>6,753,293,913</u></u>	<u><u>100</u></u>

*Note:* FDG Electric Vehicles Limited (provisional liquidators appointed) (“FDG EV”) is deemed or taken to be interested in (i) 3,318,770,490 shares held by Sinopoly Strategic Investment Limited which is a direct wholly-owned subsidiary of FDG EV; and (ii) 1,395,081,294 shares held by Union Grace Holdings Limited which is an indirect wholly-owned subsidiary of FDG EV.

### INFORMATION ON THE GROUP

The Company is a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the main board of the Stock Exchange. The Company is an investment holding company. The principal activities of the Group are research and development, manufacturing and trading of cathode materials for lithium-ion batteries, and direct investments, including securities trading, loan financing and asset investment.

As disclosed in the announcements of the Company dated 29 April 2020, 15 May 2020, 19 October 2020, 22 December 2020, 25 January 2021, 11 June 2021, 21 June 2021 and 29 June 2021, a creditor of the Company has appointed receivers and managers over all of the assets, property and undertaking of the Company and another creditor of the Company had filed a winding-up petition (the “**Petition**”) against the Company in the Hong Kong Court. The adjourned hearing of the Petition was held before the High Court on 29 June 2021. At the 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

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## LETTER FROM THE BOARD

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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.

Trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 2 July 2021.

On 6 July 2021, the Company was informed that FDG Kinetic 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, it was revealed that: (i) on 9 April 2021, 重慶投促人力資源服務有限公司 applied to the Chongqing Court for the bankruptcy liquidation\* (破產清算) of FDG Kinetic Chongqing for a purported debt of approximately RMB442,692.79 based on a purported settlement agreement (the "**Purported Settlement Agreement**") dated 23 July 2020 (the "**Bankruptcy Application**"); (ii) a written submission consenting to the Bankruptcy Application purportedly by FDG Kinetic Chongqing dated 28 April 2021 was undersigned by Miao Zhenguo ("**Miao**"), a former director of the Company and former legal representative of FDG Kinetic Chongqing, and chopped by an alleged company stamp (公章) of FDG Kinetic Chongqing; (iii) on 8 May 2021, a substantive hearing of the Bankruptcy Application was held in the Chongqing Court in which FDG Kinetic 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; and (iv) on 21 June 2021, the Chongqing Court made its ruling (the "**Ruling**") that the Bankruptcy Application be approved.

On 7 July 2021, the Company's PRC legal advisers informed the Chongqing Court, inter alia, that neither Miao nor ZY Law is duly authorized to represent FDG Kinetic Chongqing in the Bankruptcy Application and have applied to the Chongqing Court to revoke the Ruling and allow FDG Kinetic Chongqing to legally oppose to the Bankruptcy Application.

On 19 July 2021, the Company was notified by the Stock Exchange of the following guidance for resumption of trading in the Shares (the "**Resumption Guidance**"):

- (a) publish all outstanding financial results required under the Listing Rules and address any audit modifications;
- (b) demonstrate the Company's compliance with Rule 13.24 of the Listing Rules; and
- (c) inform the market of all material information for the Shareholders and investors to appraise the Company's position.

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## LETTER FROM THE BOARD

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If the Company fails to remedy the issue causing its trading suspension, fulfill the Resumption Guidance and fully comply with the Listing Rules to the Stock Exchange's satisfaction and resume trading in its shares by 1 January 2023, the Listing Division of the Stock Exchange will recommend the Listing Committee of the Stock Exchange to proceed with the cancellation of the Company's listing. As at the Latest Practicable Date, the Company has published all outstanding financial results required under the Listing Rules and the Company will take the necessary steps to fulfil the remaining conditions of the Resumption Guidance and will communicate with the Stock Exchange on the resumption progress of the Company. However, the fulfilment of the Resumption Guidance is still subject to various other factors and as such there are still uncertainties as to whether trading in the Shares will resume.

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 administrator (管理人) and Xiong Chun\* (熊春) as the administrator in charge (管理人負責人) of FDG Kinetic 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. Since the appointment of the administrator in charge, the operation of FDG Kinetic Chongqing has been temporarily suspended.

Financial and general information in relation to the Group are set out in Appendices I and II to this Response Document.

### INFORMATION ON THE OFFEROR

As stated in the Offer Document, the Offeror is a company incorporated in the British Virgin Islands with limited liability. The Offeror is an investment holding company wholly-owned by Mr. Xu Haohao. For further information regarding the Offeror, please refer to the Offer Document.

### THE MOU

On 17 May 2021, the Company entered into the MOU with the Offeror (as the investor) and the Receivers which involves the implementation of a proposal (the "**Proposal**") containing, among others, (i) capital reorganisation of the share capital of the Company ("**Capital Reorganisation**"); (ii) placing of Shares under specific mandate to the Investor ("**Placing**"); (iii) a fully underwritten rights issue ("**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 ("**Creditors' Scheme**"). A formal agreement for the implementation of the Proposal and the MOU is expected to be signed on the expiry of a 2 weeks' period after the Final Closing Date or if the Offer does not become unconditional, 2 weeks after First Closing Date.

For details of the MOU, please refer to the announcements of the Company dated 12 May 2021, 20 May 2021, 4 June 2021, 22 June 2021 and 5 July 2021.

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## LETTER FROM THE BOARD

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The MOU is non-legally binding save as for certain terms regarding confidentiality, termination, costs, governing law and the following provisions:

### Conditions Precedent

Implementation of the Proposal is conditional upon, among other conditions:

- (a) payment by the Investor (or by such other entity as procured by the Investor) of earnest money in the sum of HK\$5,000,000 (the “**Earnest Money**”) within 3 business days from the date of the MOU to a bank account to be designated and controlled by the Receivers or their solicitors and shall only be released to the Company (in parts as appropriate to be determined by the Receivers) after the execution of the formal agreement;
- (b) all relevant approvals for the Creditors’ Scheme having been obtained; and
- (c) all relevant approvals for the Capital Reorganisation, the Placing and the Rights Issue having been obtained.

As at the Latest Practicable Date, condition (a) above has been satisfied by the Investor.

### Right of First Refusal

- (a) Upon payment of the Earnest Money by the Investor, the Company and the Receivers shall enter into the formal agreement with the Investor within 14 days or such longer period (the “**Prescribed Period**”) as may be agreed in writing among the parties. On 30 June 2021, the parties agreed to extend the Prescribed Period to the date falling on the expiry of 2 weeks’ period after the Final Closing Date or if the Offer does not become unconditional, 2 weeks after First Closing Date.
- (b) In the event that during the Prescribed Period, the Company and/or the Receivers receive(s) any other offer from an independent third party with funding proof on better or more competitive terms than the terms offered by the Investor (the “**Competing Offer**”), the Company and the Receivers undertake to inform the Investor within 3 business days of receiving the Competing Offer.
- (c) Upon receipt of notice of the Competing Offer as informed by the Company and/or the Receivers, the Investor shall have 10 days to respond to the Company and/or the Receivers to match the Competing Offer (the “**Matching Offer**”) and the parties shall enter into the formal agreement based on the terms of the Matching Offer and the terms and conditions as set out in the MOU within 5 days of receiving the Matching Offer (the “**Right of First Refusal**”).

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## LETTER FROM THE BOARD

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- (d) If the Investor elects not to exercise the Right of First Refusal, the Company and the Receivers shall terminate the MOU and the Earnest Money shall be refunded in full by the Receivers or their solicitors, acting on behalf of the Company, to the Investor without interest.
- (e) Unless the terms of the formal agreement as proposed by the Company contain material deviations from the terms of the MOU or new material terms which have not been stipulated in the MOU, the Company shall be entitled to forfeit the Earnest Money if no formal agreement has been entered into between the parties prior to the expiry of the Prescribed Period due to the reason of the Investor. In all other circumstances where no formal agreement has been entered into during the Prescribed Period, the Earnest Money shall be refunded in full by the Receivers or their solicitors, acting on behalf of the Company, to the Investor without interest.
- (f) In the event that, following the execution of the MOU, the Proposed Capital Enlargement and Creditors' Scheme could not be completed as a result of the Company's failure to enter into the formal agreement, the Receivers or their solicitors, acting on behalf of the Company, (but not the Receivers) shall forthwith refund the Earnest Money in full to the Investor without interest.

### INTENTION OF THE OFFEROR IN RELATION TO THE GROUP

As stated in the Offer Document, the Offeror intends to continue the existing businesses of the Group. As at the date of the Offer Document and as stated in the Offer Document, the Offeror has no plan to inject any assets or businesses into the Group or to procure the Group to acquire or dispose of any assets.

Immediately after the close of the Offer, the Offeror will conduct a review of the financial position and operations of the Group in order to formulate a long-term strategy for the Group and explore other business/investment opportunities for enhancing its future development and strengthening its revenue bases.

As stated in the Offer Document, the Offeror has not identified such investment or business opportunities. As stated in the Offer Document, the Offeror has no intention to terminate the employment of any employees of the Group or to make significant changes to any employment or to dispose of or re-allocate the Group's assets which are not in the ordinary and usual course of business of the Group. The Offeror will determine the constitution of the Board after the close of the Offer. Further announcement will be made by the Offeror and/or the Company in compliance with the Listing Rules and Takeovers Code in this regard.

On 17 May 2021, the Offeror, the Company and the Receivers entered into the MOU, pursuant to which, among other matters, the Offeror, the Company and the Receivers shall, subject to applicable conditions precedent, enter into a formal agreement for the Proposed Capital Enlargement by the end of 2 weeks' period following the result of the

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## LETTER FROM THE BOARD

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Offer. In the event that the Offer becomes or is declared unconditional, the Offeror intends to proceed with the Proposed Capital Enlargement after the close of the Offer.

In the event that the Offer does not become or is not declared unconditional, under Rule 31.1(a) of the Takeovers Code, the Offeror may not acquire Shares that would trigger another offer of the Company within 12 months from the date on which the Offer lapses. Therefore, the Offeror may not be able to proceed with the Proposed Capital Enlargement if the Offer does not become unconditional and lapses.

As stated in the Offer Document, in the event that the Resumption Guidance is not fulfilled and trading in the Shares on the Stock Exchange remains suspended on the First Closing Date, the Offeror will determine whether it will waive condition 2 as set out in the paragraph headed “Conditions to the Offer” above on the same date.

The Board noted that the Offeror intends to, among other things, (i) continue with the existing businesses of the Group; and (ii) proceed with the Proposed Capital Enlargement after the close of the Offer. The Board believes the existing businesses of the Group can operate on a going concern basis subject to capital injection and debt restructuring. Hence, the Proposed Capital Enlargement is essential and beneficial to the Group, which not only enables the Group to dismiss the current threats of liquidation and receivership but also enhances the financial resources available to support the Group’s existing business. However, if the Offer is successful, the Proposed Capital Enlargement might become a connected transaction under the Listing Rules and the Company will be required to comply with the relevant regulations and potentially prolong the completion of the Proposed Capital Enlargement.

### **MAINTAINING THE LISTING STATUS OF THE COMPANY**

As stated in the Offer Document, the Offeror has no intention to privatise the Group and intends to maintain the listing of the Shares on the Stock Exchange. The Offeror has undertaken to the Stock Exchange to take appropriate steps to ensure that not less than 25% of the entire issued share capital of the Company will continue to be held by the public following the close of the Offer.

The Stock Exchange has stated that if, upon closing of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares are held by the public Shareholders or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, then the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares.

Independent Shareholders are advised to refer to the Offer Document for the Offeror’s intention regarding maintaining the listing status of the Company.



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## LETTER FROM THE BOARD

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### ADVICE AND RECOMMENDATIONS

Pursuant to Rule 2.1 of the Takeovers Code, the Independent Board Committee comprising all the independent non-executive Directors, namely Dr. Chang Sun Bun Benson, Mr. Hung Chi Yuen Andrew and Mr. Lo Kon Ki, has been established to make a recommendation to the Independent Shareholders as to whether the Offer is fair and reasonable and as to acceptance of the Offer. Altus Capital has been appointed the independent financial adviser to the Independent Board Committee, with the approval of the Independent Board Committee, to advise the Independent Board Committee in respect of the Offer.

Your attention is drawn to the letter from the Independent Board Committee and the letter from Altus Capital contained in this Response Document setting out their respective advice and recommendations to the Independent Board Committee or the Independent Shareholders (as the case may be) in respect of the Offer, and the principal factors and reasons they have considered before arriving at their respective recommendations and advice. Independent Shareholders should read these letters in conjunction with the Offer Document carefully before taking any action in respect of the Offer.

### ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this Response Document. You are also recommended to read carefully the Offer as set out in the Offer Document and the Form of Acceptance which contain details of the Offer before deciding whether or not to accept the Offer.

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





**FDG Kinetic Limited**

**五龍動力有限公司**

*(Receivers and Managers Appointed)*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 378)**

9 August 2021

*To the Independent Shareholders*

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL CASH OFFER BY  
YU MING INVESTMENT MANAGEMENT LIMITED  
ON BEHALF OF VICTORY SUMMIT GLOBAL LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
FDG KINETIC LIMITED  
(OTHER THAN THOSE SHARES ALREADY OWNED OR  
AGREED TO BE ACQUIRED BY  
VICTORY SUMMIT GLOBAL LIMITED AND  
PARTIES ACTING IN CONCERT WITH IT)**

**INTRODUCTION**

We refer to the Offer Document issued by the Offeror dated 26 July 2021 and the response document (the “**Response Document**”) issued by the Company dated 9 August 2021 which this letter forms part of. Terms used herein shall have the same meanings as defined in the Response Document unless the context requires otherwise.

We have been appointed to form the Independent Board Committee to consider the terms of the Offer and to advise you as to whether or not, in our opinion, the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and as to acceptance of the Offer.

Altus Capital Limited has been appointed as the independent financial adviser with our approval to advise us in respect of the terms of the Offer and as to acceptance thereof. Details of its advice and the principal factors taken into consideration in arriving at its recommendation are set out in the “Letter from the independent financial adviser” on pages 17 to 38 of the Response Document.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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We also wish to draw your attention to the section headed “Letter from the Board” and the additional information set out in the Response Document including the appendices and the Offer Document and the accompanying Form of Acceptance in respect of the terms of the Offer and the acceptance and settlement procedures for the Offer.

### RECOMMENDATION

Having taken into account the terms of the Offer, together with the advice and recommendation from the IFA, we are of the opinion that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and therefore we recommend the Independent Shareholders to accept the Offer.

Yours faithfully,  
*Independent Board Committee*  
**FDG Kinetic Limited**

**Dr. Chang Sun Bun Benson**  
*Independent non-executive  
Director*

**Mr. Hung Chi Yuen Andrew**  
*Independent non-executive  
Director*

**Mr. Lo Kon Ki**  
*Independent non-executive  
Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Set out below is the text of a letter received from Altus Capital, the independent financial adviser to the Independent Board Committee in respect of the Offer for the purpose of inclusion in this Response Document.*

# ALTUS.

**Altus Capital Limited**  
21 Wing Wo Street  
Central  
Hong Kong

9 August 2021

*To the Independent Board Committee*

**FDG Kinetic Limited**  
43/F, Lee Garden One  
33 Hysan Avenue  
Causeway Bay, Hong Kong

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL CASH OFFER  
BY YU MING ON BEHALF OF THE OFFEROR TO  
ACQUIRE ALL THE ISSUED SHARES OF THE COMPANY  
(OTHER THAN THOSE SHARES ALREADY OWNED  
OR AGREED TO BE ACQUIRED BY THE OFFEROR AND  
PARTIES ACTING IN CONCERT WITH IT)**

### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the Offer. Details of the Offer are set out in the “Letter from the Board” contained in the Response Document dated 9 August 2021 issued by the Company to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Response Document unless the context requires otherwise.

On 24 June 2021 (after trading hours), the Board received a letter from Yu Ming notifying the Board that Yu Ming, on behalf of the Offeror, intended to make a voluntary conditional cash offer to acquire all the Offer Shares (other than those Shares already owned or agreed to be acquired by the Offeror and its Concert Parties). On 5 July 2021, the Offeror published the Offer Announcement setting out details of the Offer, including the Offer Price and the information and intention of the Offeror. On 26 July 2021, the Offeror published the Offer Document setting out further details of the Offer, accompanied with the Form of Acceptance. According to Rule 8.4 of the Takeovers Code, the Company is

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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required to respond within 14 days from the posting of the Offer Document unless the Executive consents to a later date.

### THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all the independent non-executive Directors, namely, Dr. Chang Sun Bun Benson, Mr. Hung Chi Yuen Andrew and Mr. Lo Kon Ki, has been established to make a recommendation to the Independent Shareholders as to whether the terms of the Offer are, or are not, fair and reasonable as far as the Independent Shareholders are concerned, and whether the Independent Shareholders should, or should not, accept the Offer.

As the independent financial adviser with respect to the Offer, our role is to provide the Independent Board Committee with an independent opinion and recommendation as to whether the terms of the Offer are, or are not, fair and reasonable as far as the Independent Shareholders are concerned, and whether the Independent Shareholders should, or should not, accept the Offer.

Pursuant to Rule 2.1 of the Takeovers Code, our appointment as the independent financial adviser has been approved by the Independent Board Committee. We are not associated or connected with the Company or the Offeror, their respective controlling shareholders or any parties acting in concert with any of them. Save for acting as the independent financial adviser to the independent board committee of the Company for the proposed rights issue, details of which are set out in the circular of the Company dated 10 February 2021, we have not acted as the independent financial adviser in relation to any transaction of the Company in the last two years prior to the date of the Response Document. Pursuant to Rule 13.84 of the Listing Rules and Rule 2 of the Takeovers Code, and given that (i) remuneration for our engagement to opine on the Offer is at market level and not conditional upon the outcome of the Offer; (ii) no arrangement exists whereby we shall receive any fees or benefits from the Company or the Offeror (other than our said remuneration), their respective controlling shareholders or any parties acting in concert with any of them; and (iii) our engagement is on normal commercial terms, we are independent of the Company and the Offeror and can act as the independent financial adviser to the Independent Board Committee in respect of the Offer.

### BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others (i) the Offer Document and the Offer Announcement; (ii) the Response Document; (iii) the annual report of the Company for the year ended 31 March 2020 ("**2020 Annual Report**"); (iv) the annual results announcement of the Company for the year ended 31 March 2021 ("**2021 Annual Results Announcement**"); and (v) announcements made by the Company during the two years up to the Latest Practicable Date, including the announcement of the Company regarding guidance for resumption of trading in the Shares ("**Resumption Guidance**") dated 20 July 2021 (the "**Resumption Guidance Announcement**").

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have relied on the statements, information, opinions and representations contained or referred to in the Offer Document, the Response Document and/or provided to us by the Company, the Directors and the management of the Company (the “**Management**”). We have assumed that all the statements, information, opinions and representations contained or referred to in the Offer Document, the Response Document and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the date of the Response Document. The Company will notify the Independent Shareholders of any material changes to information contained or referred to in the Response Document as soon as practicable in accordance with Rule 9.1 of the Takeovers Code. Independent Shareholders will also be informed as soon as practicable when there are any material changes to the information contained or referred to herein as well as changes to our opinion after the Latest Practicable Date and throughout the Offer Period.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Response Document and/or provided to us by the Company, the Directors and the Management have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations and consider that we have been provided with and have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

We have not considered the taxation implications on the Independent Shareholders arising from acceptance or non-acceptance of the Offer, if any, and therefore we will not accept responsibility for any tax effect or liability that may potentially be incurred by the Independent Shareholders as a result of the Offer. In particular, the Independent Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

### **PRINCIPAL TERMS OF THE OFFER**

#### **The Offer**

The Offer, which is conditional on the satisfactory or waiver of the conditions as set out in the paragraph headed “Conditions to the Offer” below, is made by Yu Ming for and on behalf of the Offeror in compliance with the Takeovers Code. The Offer Price is HK\$0.0043 per Share in cash.

The Offer is extended to all Shares in issue on the date of which the Offer is made, being the date of the Offer Document, other than those Shares already owned or agreed to be acquired by the Offeror and its Concert Parties. According to the Offer Document, as at 23 July 2021 (being the latest practicable date for the Offer Document), the Offeror and its Concert Parties are not interested in any Shares.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### Conditions to the Offer

The Offer is conditional on the satisfaction or waiver of the following conditions:

1. valid acceptances of the Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the First Closing Date (or such later time or date as the Offeror may, subject to the Takeovers Code, decide) in respect of such number of Shares which, together with Shares acquired or agreed to be acquired before or during the Offer, will result in the Offeror and its Concert Parties together holding not less than 50% of the voting rights of the Company;
2. the Shares remaining listed and traded on the Stock Exchange on the First Closing Date and no indication being received on or before the First Closing Date from the SFC and/or the Stock Exchange to the effect that the listing of the Shares on the Stock Exchange is or is likely to be withdrawn; and
3. the Company not being ordered to be wound up by the High Court of Hong Kong or the court of Bermuda before the First Closing Date.

Conditions 2 and 3 above are waivable by the Offeror. Condition 1 cannot be waived. In the event that Conditions 2 and 3 are not satisfied on the First Closing Date, the Offeror will determine whether it will waive such Conditions on the same date.

In accordance with Rule 15.3 of the Takeovers Code, the Offeror must publish an announcement when the Offer becomes unconditional as to acceptances and when the Offer become unconditional in all respects. The Offer must also remain open for acceptance for at least 14 days after the Offer become unconditional in all respects.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

#### 1. Background information of the Group

The Company is an investment holding company. The principal activities of the Group are research and development, manufacturing and trading of cathode materials for lithium-ion batteries, and direct investments, including securities, trading, loan financing and asset investment. The Company is an indirect non-wholly owned subsidiary of FDG Electric Vehicles Limited (“**FDG EV**”, stock code: 729), the ordinary shares of which are listed on the Stock Exchange.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Group focuses on developing its core cathode materials business, which accounted for approximately 86.3% of the total revenue of the Group for the year ended 31 March 2020 (“FY2020”) and approximately 99.7% for that of the year ended 31 March 2021 (“FY2021”). Under this cathode materials business, the Group manufactures and sells cathode materials for battery production, which can be sold to customers in batteries manufacturing, telecommunication and energy storage industries (“**Manufacturing and Sale**”). The Group also provides, under the cathode materials business, processing services of cathode materials for its customers where the Group provide staff and production facilities for the production process (“**Processing Services**”) whilst raw materials are provided by its customers. Due to the Group’s deteriorating financial position in recent years, the scale of Manufacturing and Sale business had substantially decreased in FY2020 and FY2021 as compared to the year ended 31 March 2019 (“FY2019”). This was also partially due to the fact that Manufacturing and Sale business requires credit terms of over 90 days to customers, which would tie up the cash flows of the Group. Furthermore, Manufacturing and Sale business requires the Group to make purchases of raw materials, which would further impact its cash flows. On the back of this, the Group had instead increased its Processing Services during FY2020 and FY2021. Processing Services require lower working capital from the Group as raw materials are provided by its customers, and customer credit terms are typically shorter.

In addition to the above, the Group operates a direct investment business, which includes loan financing, securities trading and asset investment. The Group invests in areas of energy conservation, environmental protection and clean energy, owning 45% of equity interests in Huaneng Shouguang Wind Power Co., Ltd. The Group also holds 25% equity interest in Synergy Dragon Limited and 15.47% equity interest in Advanced Lithium Electrochemistry (Cayman) Co., Ltd, which are engaged in the businesses of research and development, manufacturing and sales of batteries and new energy battery materials respectively.

Interest income from the Group’s direct investments make up approximately 13.7% of total revenue for FY2020 and less than 1% for FY2021. As the Group’s ability to make direct investments had diminished along with its deteriorating financial position over the past few years, interest income had declined from approximately HK\$5.7 million in FY2020 to approximately HK\$80,000 in FY2021.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 1.1 Financial Information of the Group

Set out below is a summary of the key financial information of the Group for each of the three years ended 31 March 2019, 2020 and 2021 as extracted from the 2020 Annual Report and the 2021 Annual Results Announcement:

	For the year ended		
	31 Mar 2021	31 Mar 2020	31 Mar 2019
	("FY2021")	("FY2020")	("FY2019")
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
	HK\$'000	HK\$'000	HK\$'000
Revenue	30,788	41,977	123,760
– Battery materials production	30,708	36,230	112,280
– Sales of cathode materials for battery production	7,228	33,646	102,680
– Provision of processing services	23,480	2,584	9,600
– Direct investments	80	5,747	11,480
Cost of sales	(32,589)	(38,737)	(106,492)
Gross profit <sup>Note</sup>	(1,801)	3,240	17,268
Finance costs	(90,229)	(46,804)	(46,422)
Impairment loss, net of reversal on financial assets at amortised cost	(9,904)	(75,926)	(31,219)
Impairment loss on goodwill	–	(6,514)	(307,000)
Impairment loss on property, plant and equipment	(115,619)	(40,333)	–
Loss for the year	(311,870)	(357,418)	(628,582)

*Note:* Being total revenue minus cost of sales.

#### *FY2020 compared to FY2019*

Revenue of the Group declined sharply by approximately 66.1% from approximately HK\$123.8 million in FY2019 to approximately HK\$42.0 million in FY2020, mainly due to the decline in revenue from the battery materials production segment from approximately HK\$112.3 million in FY2019 to approximately HK\$36.2 million in FY2020. The Management advised that such decline was mainly attributable to lower Manufacturing and Sale activities as (i) there was a change in business model from direct sales to OEM sales; and (ii) the Group's financial position and gearing ratio have limited its cash flow to ramp up the production. In line with the decline in revenue, the Group's gross profit decreased from approximately HK\$17.3 million to HK\$3.2 million during the period.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Finance costs incurred by the Group remained relatively stable at approximately HK\$46.4 million and HK\$46.8 million for FY2019 and FY2020 respectively. The Company recorded an increase in impairment loss, net of reversal on financial assets at amortised cost of approximately HK\$75.9 million in FY2020 as compared to HK\$31.2 million in FY2019, which was due to an increase in impairment loss on amount due from an associate.

The Group recorded a loss for the year of approximately HK\$357.4 million in FY2020, which was an improvement of 43.1% from the loss of HK\$628.6 million in FY2019. During FY2019, the Group recorded an impairment loss on goodwill amounting to approximately HK\$307.0 million relating to FDG Kinetic Chongqing. This loss on goodwill was primarily due to a decrease of expected future cash flows resulting from the deferral of new product launches, which was a managerial decision made given the unfavourable market conditions in 2018 and 2019 in light of the Sino-US trade war and the tightening of subsidy standards in the PRC electric vehicle industry.

### *FY2021 compared to FY2020*

Revenue of the Group further decreased by approximately 26.7% from approximately HK\$42.0 million in FY2020 to approximately HK\$30.8 million in FY2021. This was partly also due to the decrease in revenue from its direct investment segment from approximately HK\$5.7 million in FY2020 to approximately HK\$80,000 in FY2021 as the Group has had to scale down its investment activities. Given its working capital constraints, the Group had dedicated most of its production capacity for the provision of Processing Services during this period. Revenue from sales of cathode materials for battery production decreased from approximately HK\$33.6 million in FY2020 to approximately HK\$7.2 million in FY2021, while revenue from Processing Services increased from approximately HK\$2.6 million in FY2020 to approximately HK\$23.5 million in FY2021.

Finance costs incurred by the Group increased from approximately HK\$46.8 million for FY2020 to approximately HK\$90.2 million for FY2021, which was mainly due to the accrual of overdue and default interests arising from the loans overdue of the Group. The Company recorded an increase in impairment loss on property, plant and equipment of approximately HK\$115.6 million in FY2021 as compared to HK\$40.3 million in FY2020, which was due to a decrease in future expected cash flows from the cash generating unit of Chongqing factory under FDG Kinetic Chongqing. As a result, the Group recorded gross loss and net loss of approximately HK\$1.8 million and HK\$311.9 million in FY2021.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Set out below is a summary of the financial position of the Group as at 31 March 2019, 31 March 2020, and 31 March 2021, as extracted from the 2020 Annual Report and the 2021 Annual Results Announcement.

	<b>As at 31 March</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
	<i>(audited)</i> HK\$'000	<i>(audited)</i> HK\$'000	<i>(audited)</i> HK\$'000
Current assets	195,683	246,392	321,395
– Cash and cash equivalents	2,940	34,461	6,587
– Frozen bank balances	29,180	–	–
Non-current assets	156,822	305,096	749,220
Current liabilities	(614,328)	(493,319)	(646,984)
– Bank and other borrowings	(236,338)	(232,901)	(219,933)
– Lease liability	(39,963)	(37,200)	(41,255)
Non-current liabilities	(612)	(7,635)	(10,048)
Total assets	352,505	551,488	1,070,615
Total liabilities	(614,940)	(500,954)	(657,032)
Total equity/(deficit)	(262,435)	50,534	413,583
Gearing ratio <sup>Note</sup>	N/A	534.9%	63.2%

*Note:* Calculated on the basis of bank and other borrowings plus lease liability to total equity of the Company.

The Group recorded deficit of approximately HK\$262.4 million as at 31 March 2021, compared to net asset positions of approximately HK\$50.5 million as at 31 March 2020 and approximately HK\$413.6 million as at 31 March 2019 following its continued losses in FY2020 and FY2021. Gearing ratio also deteriorated from approximately 63.2% as at 31 March 2019 to 534.9% as at 31 March 2020, and worsened as at 31 March 2021 where the Group's financial position became a deficit as its bank and other borrowings continued to increase amidst an erosion of its shareholder's equity.

As at 31 March 2021, the Group's current liabilities amounted to HK\$614.3 million, which included bank and other borrowings of approximately HK\$236.3 million. Meanwhile, it only maintained cash and cash equivalents of approximately HK\$2.9 million as at 31 March 2021 and frozen bank balances of approximately HK\$29.2 million. Its cash and cash equivalents level can therefore only cover a nominal fraction of its current liabilities.

### *Disclaimer of opinion on the Group's financial statement*

The financial statements for FY2021 contained a disclaimer of opinion from the auditors of the Company due to various uncertainties relating to going concern including the overdue indebtedness and the Petition. Pursuant to the Resumption

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Guidance, the Stock Exchange requires the Company to publish all outstanding financial results required under the Listing Rules and address any audit modifications. As such, condition 2 to the Offer may not be fulfilled during the Offer Period, if the Shares remain suspended. Nevertheless, condition 2 to the Offer is waivable by the Offeror. For details, please refer to the paragraph headed “Conditions to the Offer” in this letter above.

### 1.2 *Outlook of the Group*

#### 1.2.1 *Industry outlook*

The Group focuses on developing its core cathode materials business, which includes, among others, manufacturing and sales of cathode materials for batteries for electric vehicles. This segment accounted for approximately 86.3% and 99.7% of the total revenue of the Group for FY2020 and FY2021 respectively. The uncertainties brought about by the prolonged COVID-19 pandemic have continued to affect the overall economy worldwide and the new energy vehicle (“NEV”) industry<sup>1</sup>. On a more positive note, the PRC government’s new development plan for the NEV industry from 2021 to 2035 (the “NEV Development Plan”)<sup>2</sup> published in November 2020 has named power battery as one of the key development sectors, which shows its support to this industry.

#### 1.2.2 *Outlook of trading of Shares*

##### *The Offeror’s intention of maintaining the listing status of the Company*

As stated in the Offer Document, the Offeror has no intention to privatise the Company and intended to maintain the listing of the Shares on the Stock Exchange.

The trading of the Shares is currently suspended pending fulfilment of requirements under the Resumption Guidance (as defined below). Further, the Stock Exchange has stated that if, upon closing of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, it will also consider exercising its discretion to suspend dealings in the Shares.

Shareholders should therefore note that while it is the Offeror’s intention to maintain the listing status of the Company, whether the listing status of the Company can be maintained is subject to, among others, the outcome of the Petition and the resumption of trading of the Shares as further elaborated below. It may also be dependent on the Offeror taking appropriate steps to ensure that not less than 25% of the entire issued share capital of the Company will continue to be held by the public following the close of the Offer.

<sup>1</sup> Page 13 of the 2020 Annual Report and pages 29 and 30 of the 2021 Annual Results Announcement.

<sup>2</sup> [http://www.gov.cn/zhengce/content/2020-11/02/content\\_5556716.htm](http://www.gov.cn/zhengce/content/2020-11/02/content_5556716.htm)

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Suspension of trading of the Shares*

According to the Resumption Guidance Announcement, the Stock Exchange has on 19 July 2021 provided the following Resumption Guidance:

- (i) publish all outstanding financial results required under the Listing Rules and address any audit modifications;
- (ii) demonstrate the Company's compliance with Rule 13.24 of the Listing Rules; and
- (iii) inform the market of all material information for the Company's shareholders and investors to appraise the Company's position.

On condition (i), while the Company has belatedly published its financial results for FY2021, such results contained disclaimer of opinions due to various uncertainties relating to going concern including the overdue indebtedness and the Petition.

On condition (ii), the Company has to demonstrate it has sufficient level of business operations and assets of sufficient value to support its operation to warrant the continued listing of the Shares.

If the Company fails to fulfil the above conditions, the trading of Shares may continue to be suspended. The Stock Exchange may cancel the listing of the Shares if the Shares have been suspended for a continuous period of 18 months. In the case of the Company, the 18-month period expires on 1 January 2023. If the listing of the Shares is cancelled, the then shareholders will be holding the Shares which are of an unlisted public company, where trading of the Shares may no longer be easily accessible and there may be less information transparency.

In respect of the above, as stated in the Response Document, as at the Latest Practicable Date, the Company has published all outstanding financial results required under the Listing Rules as required under condition (i) of the Resumption Guidance and the Company will take necessary steps to fulfil the remaining conditions of the Resumption Guidance and will communicate with the Stock Exchange on the resumption progress of the Company. However, the fulfilment of the Resumption Guidance is still subject to various other factors which is beyond the control of the Company, as such there is still uncertainties as to whether trading in the Shares will resume.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 1.2.3 Business outlook

#### *Petition against the Company*

The Company is facing the Petition. According to the announcement of the Company dated 29 June 2021, the High Court of Hong Kong has ordered that unless written consent of all parties to further adjourn the hearing is submitted on or before 1 September 2021, the court will make the usual winding-up order against the Company on 6 September 2021 without further hearing. Given the net liabilities position of the Company, the Shareholders may not receive any residual value in the event of winding-up.

We noted that the Petition is cited as one of the going concern issues which is the basis for the disclaimer of opinion for the financial statements for FY2020 and FY2021.

#### *Bankruptcy liquidation application against a principal subsidiary of the Company*

According to the Company's announcement on 8 July 2021, the bankruptcy application against one of the Company's subsidiaries, FDG Kinetic Chongqing, had been approved by a local court in Chongqing (the "**Bankruptcy Ruling**") in June 2021. According to the Company's announcement on 23 July 2021, the local court in Chongqing has appointed the administrator in charge of FDG Kinetic Chongqing and the Company has applied to the local court in Chongqing to revoke the Bankruptcy Ruling.

We understand from the Management that FDG Kinetic Chongqing is one of the major subsidiaries of the Company which is operating the primary revenue generating production facilities of the Group. If the Bankruptcy Ruling is not revoked and/or the debts owed by FDG Kinetic Chongqing cannot be paid off or reorganised, the Company will likely lose a principal revenue source. As stated in the Response Document, since the appointment of the administrator in charge, the operation of FDG Kinetic Chongqing has been temporarily suspended.

#### *Future funding needs and the MOU*

According to the 2021 Annual Results Announcement, the Group was in a net liabilities position as at 31 March 2021. We noted that the Group recorded significant losses in FY2019, FY2020 and FY2021, and currently has unpaid loans outstanding. As set out in the paragraph headed "3. Indebtedness" in Appendix I to the Response Document, the Group had outstanding borrowings and lease liability of approximately HK\$327.8 million as at 30 June 2021.

As advised by the Management, due to deteriorating financial position and insufficient working capital, the Group has had to switch its focus from Manufacturing and Sale to Processing Services, which demands less working capital while normally experiences lower profit margin. Therefore, the Company is in need of substantial amount of funding to repay its outstanding debts and at the same time revive its business operations.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Management advised that the Company's assets have been primarily pledged or charged, and with the Company's net liabilities position, it has not been possible for the Company to pledge any of its assets as security for obtaining any further debt financing from banks or financial institutions. The solution, if any, shall be raising of equity capital.

To this end, pursuant to the MOU, the Offeror, the Company and the Receivers have agreed, subject to applicable conditions precedent, to enter into a formal agreement for the Proposed Capital Enlargement on the expiry of a two weeks' period after the final closing date of the Offer or if the Offer does not become unconditional, two weeks after First Closing Date. The Proposed Capital Enlargement comprises (i) capital reorganisation of the share capital of the Company; (ii) placing of shares under specific mandate to the Offeror; and (iii) a fully underwritten rights issue of Shares.

It can therefore be understood that in the event that the Offer becomes or is declared unconditional, the Offeror intends to proceed with the Proposed Capital Enlargement after the close of the Offer. If so, the then Shareholders may be requested to make further equity contribution to the Company by subscribing to the right shares and/or be subjected to dilution in their shareholding interests in the Company as a result of placing of Shares. In the event that the Offer does not become or is not declared unconditional, the Offeror may not proceed with the Proposed Capital Enlargement.

### *1.2.4 Section summary*

The NEV industry generally has a positive outlook over the long term despite more precarious short term situations. Notwithstanding this, given the Company's specific circumstance, our focus on the Group's immediate outlook shall be on its prevailing financial position and its ability to operate its businesses as a going concern, as well as its listing status and trading on the Stock Exchange.

To this end, we noted (i) the imminent risk of the Company being wound up; (ii) the uncertainty arising from the Bankruptcy Ruling against the Company's operating subsidiary; (iii) the potential further contribution requirement or dilution faced by the Shareholder going forward; and (iv) the resumption of trading of the Shares is subject to the Company's ability to meet the requirements set out in the Resumption Guidance and it is currently uncertain whether and when it is able to do so. We are of the view the above, in aggregate, constitute immense uncertainties to the value of the Shareholders' shareholding in the Company, if there remains any.

Meanwhile, the trading of the Shares is currently suspended and will continue to be suspended until the Stock Exchange is satisfied with the Company meeting the conditions to the Resumption Guidance. In the absence of a trading market, the Shareholders may not be able to monetise their investments in the Company. Under such circumstance, we are of the view that the Offer, if it becomes or is declared unconditional, provides the Shareholders with an assured opportunity to materialise their investments in the Shares if they choose to do so, and to, for example, reallocate such sale proceeds to other investment opportunities which they consider more attractive.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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According to the Response Document, as at the Latest Practicable Date, FDG EV, through its wholly owned subsidiaries, being Sinopoly Strategic Investment Limited and Union Grace Holdings Limited, is deemed or taken to be interested in approximately 69.80% of the issued Shares of the Company. As such, condition 1 to the Offer, which is not waivable, will only be fulfilled upon FDG EV's acceptance of the Offer. As at the Latest Practicable Date, we are not aware of whether FDG EV intends to accept the Offer or not.

For the analysis on the Offer Price, please refer to the paragraph headed "3.1 Offer Price" in this letter below.

### **2. Background information of the Offeror**

#### **2.1 *The Offeror and its controlling shareholders***

The Offeror is a company incorporated in the British Virgin Islands with limited liability. The Offeror is an investment holding company wholly-owned by Mr. Xu, its sole director.

#### **2.2 *The Offeror's intention in relation to the Company***

As at the Latest Practicable Date, the Offeror intends to continue the existing businesses of the Group. As at the Latest Practicable Date, the Offeror has no plan to inject any assets or businesses into the Group or to procure the Group to acquire or dispose of any assets.

Immediately after the close of the Offer, the Offeror will conduct a review of the financial position and operations of the Group in order to formulate a long-term strategy for the Group and explore other business/investment opportunities for enhancing its future development and strengthening its revenue bases. As at the Latest Practicable Date, the Offeror has not identified such investment or business opportunities.

As at the Latest Practicable Date, the Offeror has no intention to terminate the employment of any employees of the Group or to make significant changes to any employment or to dispose of or re-allocate the Group's assets which are not in the ordinary and usual course of business of the Group. The Offeror will determine the constitution of the board of directors of the Company after the close of the Offer. Further announcement will be made by the Offeror and/or the Company in compliance with the Listing Rules and Takeovers Code in this regard.

We note that the Offeror intends to maintain the listing status of the Shares, details of which are set out in the paragraph headed "Maintaining the listing status of FDG Kinetic" in the Offer Document.

We also note that the Offeror intends to proceed with the Proposed Capital Enlargement if the Offer becomes or is declared unconditional. Please refer to the paragraph headed "Future funding needs and the MOU" in this letter above.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 3. Offer Price

#### 3.1 Offer Price comparison

The Offer Price of HK\$0.0043 per Offer Share represents:

- (i) a discount of approximately 64.17% to the closing price of HK\$0.012 per Share as quoted on the Stock Exchange on the date of the offer letter received by the Company from Yu Ming in respect of the Offer (the “**Offer Letter**”);
- (ii) a discount of approximately 64.17% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the five (5) consecutive trading days prior to the date of the Offer Letter of approximately HK\$0.012 per Share;
- (iii) a discount of approximately 69.29% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the ten (10) consecutive trading days prior to the date of the Offer Letter of approximately HK\$0.012 per Share;
- (iv) a discount of approximately 77.37% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the thirty (30) consecutive trading days prior to the date of the Offer Letter of approximately HK\$0.012 per Share;
- (v) a discount of approximately 76.11% to the closing price of HK\$0.018 per Share as quoted on the Stock Exchange on the Last Trading Day and the Latest Practicable Date;
- (vi) a discount of approximately 76.11% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the five (5) consecutive trading days up to and including the Last Trading Day of HK\$0.018 per Share;
- (vii) a discount of approximately 73.13% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the ten (10) consecutive trading days up to and including the Last Trading Day of approximately HK\$0.016 per Share;
- (viii) a discount of approximately 77.37% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the thirty (30) consecutive trading days up to and including the Last Trading Day of approximately HK\$0.019 per Share;
- (ix) a discount of approximately 81.30% to the closing price of HK\$0.023 per Share as quoted on the Stock Exchange on 14 April 2020, being the last trading day immediately preceding the commencement of the Offer Period;



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- (x) a premium compared to the unaudited consolidated net liabilities per Share as at 30 September 2020 of approximately HK\$0.0006 (which was calculated by dividing the sum of the unaudited consolidated net liabilities of the Group as at 30 September 2020 of approximately HK\$4.0 million by 6,753,293,913 Shares in issue as at the Latest Practicable Date);
- (xi) a premium compared to the audited consolidated net liabilities per Share as at 31 March 2021 of approximately HK\$0.0389 (which was calculated by dividing the sum of the audited consolidated net liabilities of the Group as at 31 March 2021 of approximately HK\$262,435,000 by 6,753,293,913 Shares in issue as at the Latest Practicable Date);

### 3.2 Historical price performance of the Shares

The graph below illustrates the historical closing prices of the Shares as quoted on the Stock Exchange during the period from 26 June 2020 (being one year prior to the date of the announcement of the Company regarding the receipt of the Offer Letter) and up to and including the Last Trading Date, being the date immediately prior to the suspension of trading of the Shares (the “**Review Period**”). We note the occurrence of several events after the Review Period which could have material impact on the Group’s business operations, financial positions as well as its listing status on the Stock Exchange. These events are further elaborated below and the price of Shares on the Last Trading Day would not have reflected their effects. The analysis of price performance of the Shares below only reflects events during the Review Period but is nevertheless a reasonable reference of the market’s perception on the Company leading up to the various events after the Review Period.



Source: The Stock Exchange website ([www.hkexnews.hk](http://www.hkexnews.hk))

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### 3.2.1 Shares trading price

Over the Review Period, the highest and lowest closing price of the Shares were HK\$0.0770 on 15 October 2020 and HK\$0.0110 on 23 June 2021, respectively. The average closing price of the Shares over the Review Period was approximately HK\$0.315. The Offer Price is HK\$0.0043 per Offer Share.

#### *From 26 June 2020 to 24 September 2020*

The trading of the Shares was suspended from 9:00 a.m. on 2 July 2020 due to delay in publication of annual results and annual report for the year ended 31 March 2020 as there were difficulties in obtaining the required information from certain subsidiaries to complete the audit work. The trading of the Shares was resumed from 9:00 a.m. on 25 September 2020 subsequent to the publication of the announcement on annual results for the year ended 31 March 2020.

#### *From 25 September 2020 to 27 November 2020*

The closing prices of the Shares fluctuated between HK\$0.019 and HK\$0.077 since the issuance of annual results for FY2020 on 24 September 2020 and the resumption of trading on 25 September 2020. The approximately 43.1% decrease in loss for FY2020 as compared to the previous year may have contributed to the increase in Share price up to November 2020.

#### *From 27 November 2020 up to 24 June 2021*

The closing prices of the Shares experienced a downward trend during this period. The following events may have contributed to the downward trend: (i) on 27 November 2020, the Company announced its interim results for the six months ended 30 September 2020, where the net loss was similar to the previous period; (ii) on 22 December 2020, the Company announced a proposed capital reorganisation and rights issue, where the Stock Exchange was satisfied that there were exceptional circumstances for the company to conduct a rights issue which would result in a theoretical dilution effect of over 25%; and (iii) on 10 March 2021, the Company announced that the proposed capital reorganisation and rights issue were not approved by the Shareholders.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*From 25 June 2021 to the Last Trading Day, being the last trading date before suspension of trading of the Shares*

On 25 June 2021, the Company announced receipt of the Offer Letter. On 29 June 2021, the Company announced that the court ordered that unless written consent of all parties is submitted to further adjourn the hearing of the Petition on or before 1 September 2021, the court will make the usual winding-up order against the Company on 6 September 2021 without any further hearing. The closing price of the Shares increased from HK\$0.012 to HK\$0.027 per Share and subsequently decreased back to HK\$0.018 per Share on 30 June 2021, being the Last Trading Day.

*Events subsequent to the Review Period which may be material*

On 8 July 2021, the Company announced the Bankruptcy Ruling of FDG Kinetic Chongqing. As stated in the Response Document, FDG Kinetic Chongqing has temporarily suspended operation after the appointment of administrator under the Enterprise Bankruptcy Law by the Chongqing Court. For details, please refer to the paragraph headed “Bankruptcy liquidation application against a principal subsidiary of the Company” in this letter above. On 20 July 2021, the Company announced receipt of the Resumption Guidance from the Stock Exchange setting out, among others, the concerns on the Company’s compliance with Rule 13.24 of the Listing Rules.

As the trading of the Shares had been suspended since 9:00 a.m. on 2 July 2021, the Share Price has not reflected the market’s perception of these events. For details of the Bankruptcy Application and the Resumption Guidance, please refer to the paragraphs headed “Bankruptcy liquidation application against a principal subsidiary of the Company” and “Suspension of trading of the Shares” in this letter above.

*Section summary*

The prices of Shares had generally been on a downward trend during the Review Period, possibly reflecting the series of adverse events that occurred during that period. The Offer Price of HK\$0.0043 per Offer Share represents a substantial discount to the closing prices of the Shares during the Review Period, but such closing prices do not reflect the further adverse events which occurred subsequently and which may have material adverse effects on the Group. Shareholders should also take note of the recent financial performance and outlook of the Group, and the trading liquidity of the Shares. For details, please refer to the paragraphs headed “1. Background information of the Group” and “3.2.2 Shares trading volume” in this letter.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 3.2.2 Shares trading volume

Apart from the Share price analysis above, we have also conducted a review on the trading liquidity of the Shares. The table below sets out the average daily trading volume of the Shares on a monthly basis during the Review Period and the respective percentages of the average daily trading volume of the Shares as compared to the total number of issued Shares and Shares held by the public.

Month	Average daily trading volume (Shares)	Approximate % of average daily trading volume to total issued Shares (Note 1)	Approximate % of average daily trading volume to total number of Shares held by the public as at the Latest Practicable Date
<b>2020</b>			
June and July (starting from 26 June) (Note 2)	37,368,000	0.6%	1.8%
August (Note 2)	N/A	N/A	N/A
September (Note 2)	63,967,000	0.9%	3.1%
October	40,443,556	0.6%	2.0%
November	20,105,405	0.3%	1.0%
December	54,685,818	0.8%	2.7%
<b>2021</b>			
January	27,138,775	0.4%	1.3%
February	12,438,556	0.2%	0.6%
March	17,116,870	0.3%	0.8%
April	8,266,947	0.1%	0.4%
May	9,324,988	0.1%	0.5%
June up to the Last Trading Day (30 June 2021)	67,564,466	1.0%	3.3%

Source: The Stock Exchange website ([www.hkexnews.hk](http://www.hkexnews.hk))

Notes:

1. Based on the total number of issued Shares as at each month end.
2. The trading of the Shares was suspended from 9:00 a.m. on 2 July 2020 until 9:00 a.m. on 25 September 2020.

As illustrated in the above table, during the Review Period, the liquidity of Shares was generally low with the percentage of the average daily trading volume to the total number of issued Shares ranging from approximately 0.1% to 1.0%. The percentage of the average daily trading volume to the Shares held by public ranged from approximately 0.4% to 3.3%. Such liquidity would suggest that any sale of large number of Shares on the market over a short period of time may be difficult without exerting downward pressure on the price of the Shares.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We noted that trading volume increased significantly in December 2020 and June 2021 respectively which may be due to (i) the announcement on the proposed capital reorganisation and rights issue; and (ii) the announcements on the Offer Letter and the MOU respectively.

From a trading liquidity standpoint and even without regard to the fact that trading of the Shares is currently suspended, we consider that the Offer is fair and reasonable as the Offer provides an assured exit alternative for the Independent Shareholders to realise their investments in the Shares at the Offer Price of HK\$0.0043 per Share.

### 3.3 Market comparable analysis

For completeness of our analysis and to assess the fairness and reasonableness of the Offer Price where information is available, we have conducted a comparable analysis through identifying listed companies on the Stock Exchange engaging in similar business of the Group with a similar scale (the “Comparable Companies”).

In the selection of the Comparable Companies, our selection criteria focused on companies that (i) are listed on the Main Board of the Stock Exchange; and (ii) with over 50% revenue contribution attributable to manufacturing and sale of batteries or battery materials applicable to electric vehicles. The Comparable Companies below have been selected based on the above criteria, and have been identified through our research using public information. We believe it is an exhaustive list based on these criteria.

Stock Code	Company name	Starting date of suspension of trading and reason	Percentage of revenue contribution attributable to batteries or battery materials applicable to electric vehicles (%)	Market capitalisation as at the Last Trading Date or the latest date available prior to the Last Trading Date HK\$'000	Latest available annual revenue HK\$'000	Latest available annual net profit/(loss) HK\$'000	Latest available net asset value HK\$'000
1043	Coslight Technology International Group Limited (Note 1)	1 September 2020  Delay in publication of financial results, and the Stock Exchange's concerns over sufficient level of business operation and directors' competence, etc.	93.9	195,142	1,975,794	(32,210)	3,021,134
8265	China Trustful Group Limited (Note 2)	18 May 2020  Delay in publication of financial results, and the Stock Exchange's concerns over sufficient level of business operation, etc.	N/A	39,471	Nil	(600,602)	(12,475)
1188	Hybrid Kinetic Group Limited (Note 3)	1 April 2021  Auditor's disclaimer of opinion and the Stock Exchange's concerns over sufficient level of business operation, etc.	100.0	814,115	21,825	(59,678)	507,798

Source: The Stock Exchange website ([www.hkexnews.hk](http://www.hkexnews.hk))

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Notes:*

1. The latest available unaudited annual revenue and net loss of Coslight Technology International Limited are for the year ended 31 December 2019. The latest available unaudited net asset value is as at 31 December 2019.
2. According to the annual report for the year ended 31 December 2020 of China Trustful Group Limited, the company had nil revenue due to loss of control of its principal subsidiaries. The latest available unaudited net asset value is as at 31 March 2021.
3. The latest available audited annual revenue and net loss of Hybrid Kinetic Group Limited are for the year ended 31 December 2020. The latest available audited net asset value is as at 31 December 2020.

We note that trading in the shares of all three Comparable Companies has been suspended for various reasons, rendering commonly used benchmark ratios for valuation of companies such as price-to-earnings ratio, price-to-books ratio and price-to-sale ratio (“**Commonly Used Benchmark Ratios**”) not applicable. All the three Comparable Companies are also loss making based on their latest published financial statements.

Given (i) that each Comparable Company has its unique circumstances leading to suspension of trading of its shares; and (ii) that analysis cannot be performed as the Commonly Used Benchmark Ratios are not applicable, we are of the view that no meaningful results can be drawn on the fairness and reasonableness of the Offer Price in this regard.

### RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular,

- (i) the Company recorded net loss for the past five consecutive financial years and the business operation has been affected by lack of working capital;
- (ii) the substantial net liabilities position and the indebtedness of the Group;
- (iii) the immense uncertainties to the value of the Shareholders’ shareholding in the Company arising from the Petition, the Bankruptcy Ruling, the Resumption Guidance and other factors as discussed in the paragraph headed “1.2 Outlook of the Group” in this letter above;
- (iv) the Company is in need of substantial equity capital if it is to repay its outstanding debts and revive its business operations; and as part of the Proposed Capital Enlargement, Shareholders may have to make further equity contribution and/or be subjected to shareholding dilution;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (v) the trading of the Shares is currently suspended. As stated in the Response Document, the Company has published all outstanding financial results required under the Listing Rules as required under condition (i) of the Resumption Guidance and the Company will take necessary steps to fulfil the remaining conditions of the Resumption Guidance and will communicate with the Stock Exchange on the resumption progress of the Company. However, the fulfilment of the Resumption Guidance is still subject to various other factors which is beyond the control of the Company, as such there is still uncertainties as to whether trading in the Shares will resume;
- (vi) while the Offer Price of HK\$0.0043 represents a substantial discount to the closing prices of the Shares during the Review Period, such closing prices do not reflect the adverse events that occurred subsequently and which may have material adverse effects on the Group; and
- (vii) the trading liquidity of the Shares was thin throughout the Review Period and in light of the current trading suspension, the Offer, if and when declared unconditional, represents an assured exit alternative for Independent Shareholders to realise their investments in the Shares,

we consider that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to recommend the Independent Shareholders to accept the Offer.

**The Offer is subject to conditions as set out in the paragraph headed “Conditions to the Offer” in this letter above. Shareholders and investors should note that condition 1 to the Offer, which is not waivable, will only be fulfilled upon FDG EV’s acceptance of the Offer. As at the Latest Practicable Date, we are not aware of whether FDG EV intends to accept the Offer or not.**

As different Shareholders and investors of the Company would have different investment criteria, objectives or risk appetite and profiles, we recommend any Shareholders and investors of the Company who may require advice in relation to any aspect of the Offer and the Response Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional advisers.

Yours faithfully,  
For and on behalf of  
**Altus Capital Limited**

**Chang Sean Pey**  
*Executive Director*

**Leo Tam**  
*Executive Director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Mr. Chang Sean Pey (“Mr. Chang”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and permitted to undertake work as a sponsor. He is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Mr. Chang has over 20 years of experience in banking, corporate finance advisory and investment management. In particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.*

*Mr. Leo Tam (“Mr. Tam”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. He has over six years of experience in corporate finance and advisory in Hong Kong, in particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions. Mr. Tam is a certified public accountant of the Hong Kong Institute of Certified Public Accountants.*



## 1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the financial information of the Group for each of the financial years ended 31 March 2019, 2020 and 2021 as extracted from the annual reports or the results announcement of the Company for the financial years ended 31 March 2019, 2020 and 2021. Deloitte Touche Tohmatsu was the auditors of the Company for the year ended 31 March 2019 and Crowe (HK) CPA Limited was the auditors of the Company for the two years ended 31 March 2020 and 2021. As stated in the independent auditor's report contained in the 2020 Annual Report, for the year ended 31 March 2020, Crowe (HK) CPA Limited indicated, among others, the existence of multiple uncertainties relating to the ability of the Group to continue as a going concern. Set out below is the relevant extract:

"We draw attention to Note 1 to the consolidated financial statements, which indicates that the Group incurred a net loss of approximately HK\$357,418,000 for the year ended 31 March 2020 and, as of that date, the Group had net current liabilities of approximately HK\$246,927,000. As at the same date, the Group's aggregate bank and other borrowings and lease liability amounted to approximately HK\$232,901,000 and HK\$37,200,000, respectively, while its cash and cash equivalents amounted to approximately HK\$34,461,000.

As at 31 March 2020, the Group's aggregate other borrowings and lease liability amounted to approximately HK\$181,300,000 and HK\$37,200,000, respectively, were overdue and became immediately repayable. Subsequent to 31 March 2020, with effect on 19 April 2020, the Company has been put into receivership by a secured lender, SHK Finance Limited ("**SHK Finance**") to which the Company owed a loan with a principal of approximately HK\$60,000,000 and accrued interests of approximately HK\$2,852,000 at 31 March 2020 and, on 14 May 2020, another lender, Join View Development Limited ("**Join View**") to which the Company owed a loan with a principal of approximately HK\$65,000,000 and accrued interests of approximately HK\$4,000,000 at 31 March 2020, 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 19 October 2020. In addition, there were outstanding litigations brought by creditors and a lease creditor against a subsidiary of the Company for the repayment of the outstanding trade payable, other borrowings and lease liability, amounting to approximately HK\$5,136,000, HK\$72,199,000 and HK\$37,200,000, respectively, for which the respective court hearings are still in progress. The Group is currently reviewing the legal documents and considering various alternatives and negotiations to resolve the litigations with the plaintiffs. 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."

As stated in the independent auditor's report contained in the audited results of the Company for the year ended 31 March 2021, Crowe (HK) CPA Limited indicated, among others, the existence of multiple uncertainties relating to the ability of the Group to continue as a going concern. Set out below is the relevant extract:

#### **"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 March 2021 and its financial performance and cash flows for the year then ended."

Save for the aforesaid, there is no modified or qualified opinion, emphasis of matter or material uncertainty related to going concern had been issued by the auditors of the Company in respect of the consolidated financial statements of the Group for each of the three years ended 31 March 2019, 2020 and 2021.

For each of the years ended 31 March 2019, 2020 and 2021, no dividend was declared or paid.

## Summary consolidated statement of profit or loss and other comprehensive income

	2021 <i>HK\$'000</i> (audited)	2020 <i>HK\$'000</i> (audited)	2019 <i>HK\$'000</i> (audited)
<b>Revenue</b>			
Sales of goods and services	30,708	36,230	112,280
Interest income	80	5,747	11,480
	<u>30,788</u>	<u>41,977</u>	<u>123,760</u>
Total revenue	30,788	41,977	123,760
Cost of sales	(32,589)	(38,737)	(106,492)
	<u>(1,801)</u>	<u>3,240</u>	<u>17,268</u>
Other income	1,603	236	591
Other losses	(6,087)	(32,404)	(4,170)
Selling and distribution costs	(1,099)	(1,744)	(4,556)
General and administrative expenses	(39,717)	(45,027)	(60,829)
Research and development expenses	(6,046)	(6,807)	(11,585)
Finance costs	(90,229)	(46,804)	(46,422)
Other operating expenses	(7,671)	(15,111)	–
Net loss on financial assets at fair value through profit or loss	(27,129)	(67,630)	(7,257)
Impairment loss on financial assets at amortised costs, net	(9,904)	(75,926)	(31,219)
Impairment loss on goodwill	–	(6,514)	(307,000)
Impairment loss on property, plant and equipment	(115,619)	(40,333)	–
Impairment loss on intangible assets	(18,854)	(7,283)	–
Impairment losses on interest in an associate	–	(6,418)	(15,920)
Share of results of associates	–	(14,113)	(164,666)
Share of results of a joint venture	3,297	3,373	5,263
	<u>(319,256)</u>	<u>(359,265)</u>	<u>(630,502)</u>
<b>Loss before taxation</b>	<b>(319,256)</b>	<b>(359,265)</b>	<b>(630,502)</b>
Income tax credit	7,386	1,847	1,920
	<u>(311,870)</u>	<u>(357,418)</u>	<u>(628,582)</u>
<b>Loss for the year</b>	<b>(311,870)</b>	<b>(357,418)</b>	<b>(628,582)</b>



	2021 <i>HK\$'000</i> (audited)	2020 <i>HK\$'000</i> (audited)	2019 <i>HK\$'000</i> (audited)
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
– Exchange differences arising from translation of foreign operations	3,598	(60)	(23,903)
– Share of other comprehensive income of associates	–	(8,465)	(18,634)
– Release of other comprehensive income upon derecognition of associates	–	9,414	–
– Share of other comprehensive income of a joint venture	(4,697)	(6,520)	(11,290)
Other comprehensive income for the year	<u>(1,099)</u>	<u>(5,631)</u>	<u>(53,827)</u>
<b>Total comprehensive income for the year</b>	<u>(312,969)</u>	<u>(363,049)</u>	<u>(682,409)</u>
<b>Loss for the year attributable to owners of the Company</b>	(311,870)	(357,418)	(628,582)
<b>Other comprehensive income for the year attributable to owners of the Company</b>	<u>(1,099)</u>	<u>(5,631)</u>	<u>(53,827)</u>
<b>Total comprehensive income for the year attributable to owners of the Company</b>	<u><u>(312,969)</u></u>	<u><u>(363,049)</u></u>	<u><u>(682,409)</u></u>
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
<b>Loss per share</b>			
Basic and diluted	(4.62)	(5.29)	(9.31)

**Summary consolidated statement of financial position**

	<b>2021</b> <i>HK\$'000</i> (audited)	<b>2020</b> <i>HK\$'000</i> (audited)	<b>2019</b> <i>HK\$'000</i> (audited)
Non-current assets	156,822	305,096	749,220
Current assets	<u>195,683</u>	<u>246,392</u>	<u>321,395</u>
Current liabilities	<u>614,328</u>	<u>493,319</u>	<u>646,984</u>
<b>Net current liabilities</b>	<b><u>(418,645)</u></b>	<b><u>(246,927)</u></b>	<b><u>(325,589)</u></b>
<b>Total assets less current liabilities</b>	<b>(261,823)</b>	<b>58,169</b>	<b>423,631</b>
Non-current liabilities	612	7,635	10,048
<b>NET (LIABILITIES)/ASSETS</b>	<b><u>(262,435)</u></b>	<b><u>50,534</u></b>	<b><u>413,583</u></b>
<b>CAPITAL AND RESERVES</b>			
Share capital	1,350,659	1,350,659	1,350,659
Reserves	<u>(1,613,094)</u>	<u>(1,300,125)</u>	<u>(937,076)</u>
<b>TOTAL (DEFICIT)/EQUITY</b>	<b><u>(262,435)</u></b>	<b><u>50,534</u></b>	<b><u>413,583</u></b>

Saved as disclosed above, there are no other items of income or expenses which are material for the three years ended 31 March 2021.

**2. AUDITED/UNAUDITED CONSOLIDATED FINANCIAL INFORMATION**

The Company is required to set out or refer to in this Response Document the consolidated statement of financial position, consolidated statement of cash flows and any other primary statement as shown in (i) the audited consolidated financial statements of the Group for the year ended 31 March 2018 (the “**2018 Financial Statements**”); (ii) the audited consolidated financial statements of the Group for the year ended 31 March 2019 (the “**2019 Financial Statements**”); (iii) the audited consolidated financial statements of the Group for the year ended 31 March 2020 (the “**2020 Financial Statements**”); and (iv) the audited consolidated financial statements of the Group for the year ended 31 March 2021 (the “**2021 Financial Statements**”) and, together with the notes to the relevant published financial statements and significant accounting policies which are of major relevance to the appreciation of the above financial information.



The 2018 Financial Statements are set out on pages 37 to 116 of the annual report of the Company for the year ended 31 March 2018, which was published on 27 July 2018. The annual report of the Company for the year ended 31 March 2018 is posted on the websites of the Stock Exchange and the Company. Please also see below a direct link:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0727/ltn20180727403.pdf>

The 2019 Financial Statements are set out on pages 36 to 123 of the annual report of the Company for the year ended 31 March 2019, which was published on 30 July 2019. The annual report of the Company for the year ended 31 March 2019 is posted on the websites of the Stock Exchange and the Company. Please also see below a direct link:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0730/ltn20190730167.pdf>

The 2020 Financial Statements are set out on pages 34 to 125 of the annual report of the Company for the year ended 31 March 2020, which was published on 24 June 2020. The annual report of the Company for the year ended 31 March 2020 is posted on the websites of the Stock Exchange and the Company. Please also see below a direct link:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1228/2020122800461.pdf>

The 2021 Financial Statements are set out in the announcement of the Company dated 30 July 2021. The audited financial statements of the Company for the year ended 31 March 2021 is posted on the websites of the Stock Exchange and the Company. Please also see below a direct link:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0730/2021073001914.pdf>

### 3. INDEBTEDNESS

As at 30 June 2021, the Group had outstanding borrowings and lease liability as follows:

	<i>HK\$'000</i>
Bank loan	38,629
Other borrowings	199,458
Lease liability	40,591
Loan from FDG Electric Vehicles Limited ("FDG EV")	49,100
	<hr/>
<b>Total</b>	<b>327,778</b>
	<hr/> <hr/>

Analysed as:

	Secured HK\$'000	Unsecured HK\$'000	Total secured and unsecured HK\$'000	Guaranteed HK\$'000	Non- guaranteed HK\$'000	Total guaranteed and non- guaranteed HK\$'000
Bank loan	38,629	–	38,629	–	38,629	38,629
Other borrowings	109,232	90,226	199,458	139,458	60,000	199,458
Lease liability	40,591	–	40,591	40,591	–	40,591
Loan from FDG EV	–	49,100	49,100	–	49,100	49,100
	<u>188,452</u>	<u>139,326</u>	<u>327,778</u>	<u>180,049</u>	<u>147,729</u>	<u>327,778</u>

Notes:

- (i) As at 30 June 2021, the bank loan of the Group was secured by a pledge over land and buildings of the Group. As the Group was unable to make certain interest repayments on this bank loan, the lender has requested for the immediate repayment of full outstanding amounts. The enforcement order that issued by Chongqing Number One Intermediate People's Court dated 16 October 2020 was received by the subsidiary of the Group, to enforce the immediate repayment of such full outstanding amounts of bank loan and relevant interest. As the subsidiary of the Company 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 the subsidiary of the Company, to enforce the frozen of land and building of the subsidiary of the Company for three years with effect from 12 November 2020.
- (ii) At 30 June 2021, the secured other borrowings were as follows:
- (a) HK\$60 million was secured by way of fixed and floating charges over all of the assets, property and undertaking of the Company under a debenture from an independent third party, and repayable in September 2020. As the Group was unable to make certain interest payments, the Company has been put into receivership since 29 April 2020.
- (b) HK\$49.2 million was secured by a pledge over the Group's plant and machinery and was guaranteed by an indirect wholly-owned subsidiary of an associate. The Group failed to repay the principal and interest payments of these other borrowings. The creditor has commenced litigation against the subsidiary of the Company. According to the judgement orders dated 11 April 2021 issued by Chongqing Number One Intermediate People's Court, the subsidiary of the Company need to repay within ten days from the date of the orders, all amounts due including overdue amounts, unmatured principal, compensations, legal cost and plus all relevant overdue interests. The Group will negotiate with the lease creditor and find different alternative to solve the issue.
- (iii) As at 30 June 2021, the lease liability was secured by the lessor's charge over the leased plant and machinery of the Group and guaranteed by an indirect wholly-owned subsidiary of an associate, the creditor has commenced litigation against the subsidiary of the Company. According to the judgement orders dated 11 April 2021 issued by Chongqing Number One Intermediate People's Court, the subsidiary of the Company need to repay within ten days from the date of the orders, all amounts due including overdue amounts, unmatured principal, compensations, legal cost and plus all relevant overdue interests.

- (iv) As at 30 June 2021, the guaranteed other borrowings were as follows:
- (a) HK\$65 million was guaranteed by FDG EV. The Group was unable to make certain interest repayments on this unsecured other borrowing, for which the lender has requested for the immediate repayment of full outstanding amounts. The Creditor has filed a winding-up petition against the Company. The Receivers of the Company is in the process of negotiating with the creditor for a scheme of arrangement.
  - (b) HK\$74.5 million was guaranteed by an indirect wholly-owned subsidiary of an associate. The Group failed to repay the principal and interest payments of these other borrowings. The creditor has commenced litigation against the subsidiary of the Company. According to the judgement orders dated 11 April 2021 issued by Chongqing Number One Intermediate People's Court, the subsidiary of the Company need to repay within ten days from the date of the orders, all amounts due including overdue amounts, unmatured principal, compensations, legal cost and plus all relevant overdue interests.
- (v) As at 30 June 2021, the loan from FDG EV is unsecured, interest-free and repayable on demand. FDG EV demanded the immediate payment of HK\$30 million on 28 April 2020. According to information available to the Company, this loan has been assigned by FDG EV to Fortune Team Investment Limited.

The Group was unable to make certain principal and/or interest repayments relating to all bank loans, and other borrowings and lease liability and loan from FDG EV with carrying amounts as at 30 June 2021 of approximately HK\$308.7 million for which the lenders/lessor were entitled to request for the immediate repayment of full amounts owed, including bank loans, other borrowings and lease liability and loan from FDG EV for which the respective lenders/lessor have commenced litigations/request immediate payment against the Group to repay the outstanding balances due of approximately HK\$308.7 million.

### Contingent liabilities

The Group had the following material outstanding litigations as at 30 June 2021:

On 14 May 2020, Join View Development Limited filed a petition for winding-up against the Company in the High Court (the "**Hong Kong Court**") of Hong Kong, details of which are disclosed in the announcements of the Company dated 29 April 2020, 15 May 2020, 19 October 2020, 22 December 2020, 25 January 2021, 11 June 2021, 21 June 2021 and 29 June 2021. The adjourned hearing of the Petition was held before the High Court on 29 June 2021. At the 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.

There were outstanding litigations brought by trade and other creditors against a subsidiary of the Company, FDG Kinetic Chongqing requesting FDG Kinetic Chongqing to repay the outstanding trade and other payables, amounting to approximately HK\$13,976,000. The court hearings are still in progress as at 30 June 2021. The Group is currently reviewing the legal documents and considering various alternatives and negotiation to resolve the litigations.

The bank borrowing with amount of approximately HK\$38,629,000 as at 30 June 2021, for which the lender has raised litigation against FDG Kinetic Chongqing to request for the immediate repayment of full outstanding amounts as FDG Kinetic 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 Kinetic 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 Kinetic 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 Kinetic Chongqing, to enforce the frozen of land and building of FDG Kinetic Chongqing for three years with effect from 12 November 2020.

There were litigations brought by a lease creditor against FDG Kinetic 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 Kinetic Chongqing, as guarantor, requesting FDG Kinetic Chongqing and Tianjin Sinopoly to repay the outstanding other borrowings and lease liability, amounting to approximately HK\$74,458,000 and HK\$40,591,000 as at 30 June 2021. According to the judgement dated 11 April 2021 issued by Chongqing Number One Intermediate People's Court, FDG Kinetic 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 Kinetic Chongqing will negotiate with the lease creditor and explore different alternatives to resolve the issue.

On 25 February 2021, the Company and its wholly-owned subsidiary, FDG Kinetic Investment Limited (“**FDGKI**”) received a temporary injunction order under an ex parte application by Advanced Lithium Electrochemistry (Cayman) Co., Ltd. (“**ALEEEES**”) in connection with FDGKI's shareholding in ALEEEES, forbidding the Company and FDGKI to sell or dispose its shareholding in ALEEEES. FDGKI currently holds 14,249,581 shares of ALEEEES, represents approximately 15.47% of the total issued shares of ALEEEES (the “**ALEEEES Shares**”). On 17 May 2021, the Company and FDGKI received a letter from legal advisor acting for ALEEEES, informing the Company and FDGKI that ALEEEES had initiated an arbitration proceeding against the Company and FDGKI pursuant to the share subscription agreement entered into among ALEEEES, FDGKI (as subscriber) and the Company (as guarantor) for the ALEEEES Shares on 14 April 2016. ALEEEES requested FDGKI to return all the ALEEEES Shares because, inter alia, FDG EV has failed to repay an overdue convertible bond (the “**Overdue CB**”) issued by FDG EV to ALEEEES. The Group (including FDGKI) is not a party to the Overdue CB and based on legal advice, the Company does not believe that there is any merit in ALEEEES'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 ALEEEES for an alternative solution to resolve the dispute. In regardless of the above-mentioned disputes, the ALEEEES 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.

On 6 July 2021, the Company was informed that FDG Kinetic Chongqing is the subject of a bankruptcy liquidation application (the “**Bankruptcy 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, it was revealed that a written submission consenting to the Bankruptcy Application purportedly by FDG Kinetic Chongqing dated 28 April 2021 was undersigned by Miao Zhenguo (“**Miao**”), a former director of the Company and former legal representative of FDG Kinetic Chongqing, and chopped by an alleged company stamp of FDG Kinetic Chongqing. On 8 May 2021, a substantive hearing of the Bankruptcy Application was held in the Chongqing Court in which FDG Kinetic 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 Kinetic Chongqing in the Bankruptcy Application and have applied to the Chongqing Court to revoke the Ruling and allow FDG Kinetic 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 administrator (管理人) and Xiong Chun\* (熊春) as the administrator in charge (管理人負責人) of FDG Kinetic 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.

Save as aforesaid and apart from intra-group liabilities, as at 30 June 2021, the Group did not have debt securities issued and outstanding, and authorised or otherwise created but unissued, or term loans, or other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, or mortgages and charges, or contingent liabilities or guarantees.

#### 4. MATERIAL CHANGE

The Directors confirm that as at the Latest Practicable Date, save as disclosed below, there had been no material change in the financial or trading position or outlook of the Group since 31 March 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date:

##### 1. *Disclaimer of opinion*

According to the 2021 annual results announcement of the Company (the “**2021 Annual Results Announcement**”) issued by the Company on 30 July 2021, the auditors of the Company issued a disclaimer of opinion for the financial year ended 31 March 2021. For further details, please refer to the paragraphs headed “1. Summary of financial information of the Group” under the Appendix I to this Response Document.

##### 2. *Suspension of trading*

The trading of the Shares was suspended from 9:00 a.m. on 2 July 2021. On 19 July 2021, the Company was notified by the Stock Exchange of the Resumption Guidance. For details, please refer to the announcement of the Company dated 20 July 2021.

##### 3. *Legal proceeding against FDG Chongqing and Tianjin Sinopoly*

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 Kinetic Chongqing, as guarantor, requesting FDG Kinetic 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 Kinetic 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 Kinetic Chongqing will negotiate with the lease creditor and explore different alternatives to resolve the issue.

For details, please refer to the 2021 Annual Results Announcement.

#### 4. *Arbitration proceeding against FDG Kinetic Investment Limited*

On 25 February 2021, the Company and its wholly-owned subsidiary, FDG Kinetic Investment Limited (“**FDGKI**”) received a temporary injunction order under an ex parte application by Advanced Lithium Electrochemistry (Cayman) Co., Ltd. (“**ALEEEES**”) in connection with FDGKI’s shareholding in ALEEEES, forbidding the Company and FDGKI to sell or dispose its shareholding in ALEEEES.

On 17 May 2021, the Company and FDGKI received a letter from a legal advisor acting for ALEEEES, informing the Company and FDGKI that ALEEEES had initiated an arbitration proceeding against the Company and FDGKI pursuant to the share subscription agreement entered into among ALEEEES, FDGKI (as subscriber) and the Company (as guarantor) for the ALEEEES Shares on 14 April 2016. ALEEEES requested FDGKI to return all the ALEEEES Shares because, inter alia, FDG Electric Vehicles Limited (“**FDG EV**”, a controlling shareholder of the Company) has failed to repay an overdue convertible bond (the “**Overdue CB**”) issued by FDG EV to ALEEEES. 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 ALEEEES’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 ALEEEES for an alternative solution to resolve the dispute.

For details, please refer to the 2021 Annual Results Announcement.

#### 5. *The Petition*

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 High 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. For details, please refer to the Company’s announcement on 29 June 2021.

#### 6. *Bankruptcy Application against FDG Kinetic Chongqing*

FDG Kinetic Chongqing is subject to a bankruptcy liquidation application. The Company is applying to revoke the bankruptcy ruling against FDG Kinetic Chongqing. For details, please refer to the Company’s announcements on 8 July 2021 and 23 July 2021.



7. *Temporary Suspension of operation of FDG Kinetic Chongqing*

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 administrator (管理人) and Xiong Chun\* (熊春) as the administrator in charge (管理人負責人) of FDG Kinetic Chongqing. Since the appointment of the administrator in charge, the operation of FDG Kinetic Chongqing has been temporarily suspended. For the year ended 31 March 2021, FDG Kinetic Chongqing is the principal revenue generating subsidiary of the Company.



## 1. RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Response Document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Response Document have been arrived at after due and careful consideration and there are no other facts not contained in this Response Document, the omission of which would make any statement in this Response Document misleading.

The information contained in this Response Document relating to the Offer, the Offeror and parties acting in concert with it has been extracted from or based on the Offer Document. The only responsibility accepted by the Directors in respect of such information is for the correctness and fairness of the extraction of such information and/or its reproduction or presentation

## 2. SHARE CAPITAL

As at the Latest Practicable Date, there were 6,753,293,913 Shares in issue. No Shares had been issued since 31 March 2021. As at the Latest Practicable Date, the Company had no other outstanding warrants, derivatives, options or other securities which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into Shares, and save for the MOU, the Company had not entered into any agreement for the issue of any Shares or any warrants, derivatives, options or other securities which may confer any rights to the holder(s) thereof to subscribe for, convert or exchange into Shares.

All Shares in issue rank pari passu in all respects with each other including as to rights to dividends, voting and return of capital.

## 3. DISCLOSURE OF INTERESTS

### **Directors' and chief executives' interests and short positions in the Shares, underlying Shares and debentures**

As at the Latest Practicable Date, none of the Directors nor chief executive of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to the Company and the Stock Exchange; or (d) required to be disclosed under the Takeovers Code. As at the Latest Practicable Date, none of the directors nor chief executive of the Company is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### Directors' and chief executive's interests in associated corporations of the Company

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executives of the Company and their respective close associates in the shares, underlying shares or debentures of any associated corporations (within the meaning of Part XV of the SFO) of the Company which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to the Company and the Stock Exchange are set out as follows:

#### FDG Electric Vehicles Limited ("FDG EV")

Name of Director	Nature of interest	Number of ordinary shares of the associated corporation	Number of underlying shares (unlisted and physically settled equity derivatives) of the associated corporation <i>(Note 1)</i>	Total number of ordinary shares and underlying shares of the associated corporation	Approximate percentage or attributable percentage of shareholding in the associated corporation <i>(Note 2)</i>
Mr. Jaime Che	Beneficial owner	50,000	8,327,483	8,377,483	0.33% (L)

(L) denotes long position

#### Notes:

- The interests in the underlying shares of FDG EV represent interests in options granted to the director named above by FDG EV to subscribe for shares of FDG EV under a share option scheme of FDG EV.
- These percentages are calculated on the basis of 2,504,750,675 issued shares of FDG EV as at the Latest Practicable Date.

**Substantial Shareholders' interests in the Company**

As at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of the SFO, the following person(s) (other than the Directors and the chief executive of the Company) has, or is deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, details of which are set out as follows:

Name of Shareholder	Nature of interest	Number of Shares held in long position (L)/short position (S)	Approximate percentage or attributable percentage of shareholding
Sinopoly Strategic Investment Limited	Beneficial owner	3,320,530,490 (L)	49.17% (L)
		3,320,530,490 (S)	49.17% (S)
Union Grace Holdings Limited	Beneficial owner	1,397,717,294 (L)	20.70% (L)
		1,397,717,294 (S)	20.70% (S)
FDG EV	Interest of controlled corporations ( <i>Note 1</i> )	4,718,247,784 (L)	69.87% (L)
		4,718,247,784 (S)	69.87% (S)
Sino Power Resources Inc.	Person having a security interest in shares ( <i>Note 2</i> )	4,717,407,784 (L)	69.85% (L)
China Orient Asset Management (International) Holding Limited	Interest of controlled corporation ( <i>Note 2</i> )	4,717,407,784 (L)	69.85% (L)
Wise Leader Assets Ltd.	Interest of controlled corporations ( <i>Note 2</i> )	4,717,407,784 (L)	69.85% (L)
Dong Yin Development (Holdings) Limited	Interest of controlled corporations ( <i>Note 2</i> )	4,717,407,784 (L)	69.85% (L)
China Orient Asset Management Co., Ltd.	Interest of controlled corporations ( <i>Note 2</i> )	4,717,407,784 (L)	69.85% (L)

*Notes:*

- FDG EV is deemed or taken to be interested in (i) 3,320,530,490 shares held by Sinopoly Strategic Investment Limited which is a direct wholly-owned subsidiary of FDG EV; and (ii) 1,397,717,294 shares held by Union Grace Holdings Limited which is an indirect wholly-owned subsidiary of FDG EV.

2. Sino Power Resources Inc. is a wholly-owned subsidiary of China Orient Asset Management (International) Holding Limited (“COAMI”). COAMI is held as to 50% by Wise Leader Assets Ltd. (“Wise Leader”) and as to 50% by Dong Yin Development (Holdings) Limited (“Dong Yin”). Wise Leader is a wholly-owned subsidiary of Dong Yin, which in turn is a wholly-owned subsidiary of China Orient Asset Management Co., Ltd. (“COAMC”). Accordingly, COAMI, Wise Leader, Dong Yin and COAMC are deemed to have the same long position as Sino Power Resources Inc.
3. These percentages are calculated on the basis of 6,753,293,913 issued shares of the Company as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date the Company had not been notified by any persons (other than the Directors and chief executive of the Company) who had an interest or short position in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

#### 4. INTERESTS IN AND DEALINGS IN SECURITIES OF THE OFFEROR

As at the Latest Practicable Date, neither the Company nor any of the Directors had any interest in the equity share capital of the Offeror or convertible securities, warrants, options or derivatives in respect of the equity share capital of the Offeror. During the Relevant Period, neither the Company nor any of the Directors, in respect of their own beneficial shareholdings had dealt in the equity share capital of the Offeror or convertible securities, warrants, options or derivatives in respect of the equity share capital of the Offeror.

#### 5. HOLDINGS AND DEALINGS IN SECURITIES OF THE COMPANY

As at the Latest Practicable Date,

- (i) none of the Directors had any interests in any Shares or any convertible securities, warrants, options or derivatives issued by the Company and no Directors had dealt in any Shares or any convertible securities, warrants, options or derivatives issued by the Company during the Relevant Period;
- (ii) no Shares or any convertible securities, warrants, options or derivatives issued by the Company were owned or controlled by a subsidiary of the Company or by a pension fund (if any) of any member of the Group or by a person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of “acting in concert” or an associate of the Company by virtue of class (2) of the definition of “associate” under the Takeovers Code and none of them had dealt for value in any Shares or any convertible securities, warrants, options or derivatives issued by the Company since the commencement of the Offer Period and up to and including the Latest Practicable Date;

- (iii) no Shares or any convertible securities, warrants, options or derivatives issued by the Company were owned or controlled by a person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between the Company, or person who is presumed to be acting in concert with the Company by virtue of class (1), (2), (3) and (5) of the definition of “acting in concert” or an associate of the Company by virtue of class (2), (3) and (4) of the definition of “associate” under the Takeovers Code and none of them had dealt for value in any Shares or any convertible securities, warrants, options or derivatives issued by the Company since the commencement of the Offer Period and up to and including the Latest Practicable Date;
- (iv) no Shares or any convertible securities, warrants, options or derivatives issued by the Company were managed on a discretionary basis by fund managers (other than exempted fund managers) (if any) connected with the Company and none of them had dealt for value in any Shares or any convertible securities, warrants, options or derivatives issued by the Company since the commencement of the Offer Period and up to and including the Latest Practicable Date; and
- (v) none of the Company nor any of the Directors had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives issued by the Company during the Relevant Period.

## 6. MATERIAL CONTRACT

Save for the placing agreement dated 22 December 2020 and entered into between the Company and the Yu Ming in relation to the placing of unsubscribed rights shares of the proposed rights issue of the Company as detailed in the circular of the Company dated 10 February 2021, there were no material contracts (not being contracts entered into in the ordinary course of business) which had been entered into by any member of the Group within the two years immediately preceding the date of the commencement of the Offer Period and up to the Latest Practicable Date.

## 7. MATERIAL LITIGATION

Save as disclosed below, no member of the Group is or may become a party to any material litigation.

- (i) On 14 May 2020, Join View Development Limited filed a petition for winding-up against the Company in the High Court (the “**Hong Kong Court**”) of Hong Kong, details of which are disclosed in the announcements of the Company dated 29 April 2020, 15 May 2020, 19 October 2020, 22 December 2020, 25 January 2021, 11 June 2021, 21 June 2021 and 29 June 2021. The adjourned hearing of the Petition was held before the High Court on 29 June 2021. At the 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.

- (ii) On 28 April 2021, the Company has made an application to the Hong Kong Court for a declaration as to which of Sinopoly Strategic Investments Limited, Union Grace Holdings Limited and Sino Power Resources Inc. may be entitled to exercise their rights and/or powers purportedly as beneficial shareholders of the Company.
- (iii) There were outstanding litigations brought by trade and other creditors, and a lease creditor against a subsidiary of the Company, FDG Kinetic Chongqing requesting FDG Kinetic Chongqing to repay the outstanding trade and other payables amounting to approximately HK\$13,976,000. The court hearings are still in progress. The Group is currently reviewing the legal documents and considering various alternatives and negotiation to resolve the litigations.
- (iv) 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 Kinetic Chongqing to request for the immediate repayment of full outstanding amounts as FDG Kinetic 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 Kinetic 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 Kinetic 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 Kinetic Chongqing, to enforce the frozen of land and building of FDG Kinetic Chongqing for three years with effect from 12 November 2020.
- (v) There were litigations brought by a lease creditor against FDG Kinetic 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 Kinetic Chongqing, as guarantor, requesting FDG Kinetic 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 as at 31 March 2021. According to the judgement dated 11 April 2021 issued by Chongqing Number One Intermediate People's Court, FDG Kinetic Chongqing is required to repay within ten days from the date of the orders, all amounts due including overdue amounts, unmaturing 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 Kinetic Chongqing will negotiate with the lease creditor and explore different alternatives to resolve the issue.

- (vi) On 25 February 2021, the Company and its wholly-owned subsidiary, FDG Kinetic Investment Limited (“**FDGKI**”) received a temporary injunction order under an ex parte application by Advanced Lithium Electrochemistry (Cayman) Co., Ltd. (“**ALEEEES**”) in connection with FDGKI’s shareholding in ALEEEES, forbidding the Company and FDGKI to sell or dispose its shareholding in ALEEEES. FDGKI currently holds 14,249,581 shares of ALEEEES, represents approximately 15.47% of the total issued shares of ALEEEES (the “**ALEEEES Shares**”). On 17 May 2021, the Company and FDGKI received a letter from a legal advisor acting for ALEEEES, informing the Company and FDGKI that ALEEEES had initiated an arbitration proceeding against the Company and FDGKI pursuant to the share subscription agreement entered into among ALEEEES, FDGKI (as subscriber) and the Company (as guarantor) for the ALEEEES Shares on 14 April 2016. ALEEEES requested FDGKI to return all the ALEEEES Shares because, inter alia, FDG EV has failed to repay an overdue convertible bond (the “**Overdue CB**”) issued by FDG EV to ALEEEES. 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 ALEEEES’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 ALEEEES for an alternative solution to resolve the dispute. In regardless of the above-mentioned disputes, the ALEEEES 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.
- (vii) On 6 July 2021, the Company was informed that FDG Kinetic Chongqing is the subject of a bankruptcy liquidation application (the “**Bankruptcy 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, it was revealed that a written submission consenting to the Bankruptcy Application purportedly by FDG Kinetic Chongqing dated 28 April 2021 was undersigned by Miao Zhenguo (“**Miao**”), a former director of the Company and former legal representative of FDG Kinetic Chongqing, and chopped by an alleged company stamp of FDG Kinetic Chongqing. On 8 May 2021, a substantive hearing of the Bankruptcy Application was held in the Chongqing Court in which FDG Kinetic 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 Kinetic Chongqing in the Bankruptcy Application and have applied to the Chongqing Court to revoke the Ruling and allow FDG Kinetic 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 administrator (管理人) and Xiong Chun\* (熊春) as the administrator in charge (管理人負責人) of FDG Kinetic 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.

#### 8. ARRANGEMENTS AFFECTING DIRECTORS

As at the Latest Practicable Date, (i) none of the Directors had been or was to be given any benefit as compensation for loss of office or otherwise in connection with the Offer; (ii) there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer; and (iii) there was no material contract entered into by the Offeror in which any Director had a material personal interest.

#### 9. DIRECTORS' SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors had any service contracts (including both continuous and fixed term contracts) with the Company or any of its subsidiaries or associated companies in force which (a) have been entered into or amended with during the Relevant Period; (b) were continuous contracts with a notice period of 12 months or more; or (c) were fixed term contracts with more than 12 months to run irrespective of the notice period.

#### 10. EXPERT AND CONSENT

The following are the qualifications of the expert who has given an opinion or advice contained in this Response Document:

<b>Name</b>	<b>Qualification</b>
Altus Capital Limited	a corporation licensed to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

Altus Capital Limited has given and has not withdrawn its written consent to the issue of this Response Document with the inclusion herein of the text of its letter, and references to its name in the form and context in which they are included.



**11. MISCELLANEOUS**

(i) The registered office of the Company is at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM10, Bermuda, and the head office and principal place of business of the Company is at 43/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong; (ii) The company secretary of the Company is Ms. Man Yuet Lin. Ms. Man is a solicitor qualified to practice in Hong Kong. (iii) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited located at Shops 1712–1716, 17th Floor Hopewell Centre 183 Queen’s Road East Wanchai, Hong Kong; (iv) The registered office of Altus Capital is at 21 Wing Wo Street, Central, Hong Kong; and (v) The English text of this Response Document shall prevail over the Chinese text, in case of any inconsistency.

**12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection (i) during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) at the principal place of business of the Company in Hong Kong at 43/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong; (ii) on the website of the SFC ([www.sfc.hk](http://www.sfc.hk)); and (iii) on the website of the Company (<http://www.fdgkinetic.com>) from the date of this Response Document for so long as the Offer remains open for acceptance:

- (i) the bye-laws of the Company;
- (ii) the annual reports of the Company for each of the two financial years ended 31 March 2019 and 2020 and the result announcement of the Company for the year ended 31 March 2021;
- (iii) the letter from the Board, the text of which is set out in this Response Document;
- (iv) the letter from the Independent Board Committee, the text of which is set out in this Response Document;
- (v) the letter from IFA, the text of which is set out in this Response Document;
- (vi) the material contract referred to in the section headed “Material contract” in this appendix;
- (vii) the written consent referred to in the section headed “Expert and consent” in this appendix; and
- (viii) this Response Document.