FDG Electric Vehicles Limited
五龍電動車(集團)有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code : 729)

ANNUAL REPORT
2016/17

e ROAD FORWARD

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This annual report is printed on environmentally friendly paper

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors:

Mr. Cao Zhong *(Chairman and Chief Executive Officer)*
Mr. Miao Zhenguo *(Deputy Chairman)*
Mr. Tong Zhiyuan *(Chief Operating Officer)*
Dr. Chen Yanping *(Chief Technical Officer)*
Mr. Lo Wing Yat
Mr. Jaime Che *(Vice President)*

Non-executive director:

Mr. Wong Kwok Yiu

Independent non-executive directors:

Mr. Chan Yuk Tong
Mr. Fei Tai Hung
Mr. Tse Kam Fow
Mr. Xu Jingbin

AUDIT COMMITTEE

Mr. Chan Yuk Tong *(Chairman)*
Mr. Fei Tai Hung
Mr. Tse Kam Fow

REMUNERATION COMMITTEE

Mr. Chan Yuk Tong *(Chairman)*
Mr. Cao Zhong
Mr. Miao Zhenguo
Mr. Fei Tai Hung
Mr. Tse Kam Fow

NOMINATION COMMITTEE

Mr. Cao Zhong *(Chairman)*
Mr. Miao Zhenguo
Mr. Chan Yuk Tong
Mr. Fei Tai Hung
Mr. Tse Kam Fow

RISK COMMITTEE

Mr. Tse Kam Fow *(Chairman)*
Mr. Cao Zhong
Mr. Jaime Che
Mr. Chan Yuk Tong
Mr. Fei Tai Hung

EXECUTIVE COMMITTEE

Mr. Cao Zhong *(Chairman)*
Mr. Miao Zhenguo
Dr. Chen Yanping
Mr. Lo Wing Yat
Mr. Jaime Che

AUTHORISED REPRESENTATIVES

Mr. Jaime Che
Ms. Man Yu-Wing

COMPANY SECRETARY

Ms. Man Yu-Wing

INDEPENDENT AUDITOR

Crowe Horwath (HK) CPA Limited

LEGAL ADVISERS

As to Hong Kong law:

Sidley Austin LLP

As to Bermuda law:

Conyers Dill & Pearman

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
China Minsheng Bank
China Zheshang Bank
Shanghai Pudong Development Bank
Bank of China
Bank of Guizhou

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 3001-3005, 30th Floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Suites 3301-04, 33/F.
Two Chinachem Exchange Square
338 King's Road, North Point
Hong Kong

STOCK CODE

729

WEBSITE

www.fdgev.com

GROUP FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of FDG Electric Vehicles Limited (the "Company") and its subsidiaries (collectively the "Group") for the five financial years ended 31 March 2017, as extracted from the published audited consolidated financial statements and reclassified and restated as appropriate, is set out below:

	2017 **HK$'000**	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000
Loss attributable to owners of the Company	**(554,849)**	(228,154)	(409,759)	(906,389)	(324,447)
Total assets	**10,837,491**	8,689,001	6,024,455	3,876,804	1,628,244
Total liabilities	**(6,337,905)**	(4,597,192)	(3,710,250)	(1,813,965)	(1,288,053)
Net assets	**4,499,586**	4,091,809	2,314,205	2,062,839	340,191
Non-controlling interests	**1,550,961**	729,282	243,059	329,039	–
Total equity attributable to owners of the Company	**2,948,625**	3,362,527	2,071,146	1,733,800	340,191

CHAIRMAN'S STATEMENT

Dear Shareholders,

I hereby present the annual results of FDG Electric Vehicles Limited ("FDG" or the "Company") and its subsidiaries (collectively, the "Group") for the financial year ended 31 March 2017 on behalf of the Board of Directors of the Company.

Looking back at 2016, the occurrence of "Black Swan" events in the international political circles, such as the Brexit referendum and Trump's presidential victory, followed by the volatile political environment in Europe due to intensified sentiment of withdrawal from the European Union by members and the commencement of interest rate hikes cycle in the United States have all added uncertainties to the global economy, leading to a slow economic growth around the world. The economic development in the People's Republic of China (the "PRC") was relatively stable. In 2016, being the first year kicking off the "13th Five-Year Plan", the PRC government actively promoted its supply-side structural reforms, and highly optimized and upgraded its industrial structure, which achieved good effect.

In the field of new energy vehicles (the "NEVs"), benefited from the continuous promotion by the state and the enhanced environmental awareness among the public, the development of the industry was in a good shape. According to the statistics from the China Association of Automobile Manufacturers, 517,000 units of NEVs were produced and 507,000 units were sold in 2016, representing a growth of 51.7% and 53.0%, respectively compared with the same period last year. On the other hand, related ancillary infrastructures and facilities have also developed rapidly. In 2016, an additional 100,000 public charging piles have been installed in China, making its total number of more than 150,000 units at present. The percentage of private charging piles has increased to 80.0% or above. As a critical element in the promotion of electric vehicles (the "EVs") application, the popularity of charging piles was of utmost importance. Accordingly, the government has planned to add 800,000 charging piles in 2017, which will undoubtedly and significantly fuel the NEVs industry.

In addition, during the period under review, the PRC government has also promulgated a series of policies to continuously support the development of NEVs industry. For instance, the Ministry of Industry and Information Technology ("MIIT"), the National Development and Reform Commission ("NDRC") and the Ministry of Science and Technology ("MOST") have jointly issued "Medium and Long term Development Plan of the Automotive Industry" (《汽車產業中長期發展規劃》), which clearly pointed out that the PRC government shall continue to regard NEVs as one of the main directions of domestic industry development in the future, strengthen the technical research of automotive products and promote industrialization, and increase efforts in promoting the application to enlarge the proportion of NEVs usage in public service gradually. NEVs industry is expected to take first-mover advantages and make a breakthrough for the PRC to become a giant automotive country with a promising prospect.

To cope with the development of the NEVs market, during the period under review, FDG actively and orderly implemented the overall development of the businesses of EVs, lithium-ion batteries and cathode materials, and strengthened the strategic layout, achieving remarkable results. During the period under review, the Group recorded revenue of approximately HK$1.51 billion, representing approximately 3.2 times increase compared with the revenue of approximately HK$363 million in the same period of last year.

From the perspective of a segment, in respect of EVs business, for years, FDG has been working conscientiously, and focusing on research & development ("R&D"), with an aim to build its own brand and actively promote the innovative technologies and the product upgrades for producing high-quality EVs products to cope with the market demands. A production base in Hangzhou owned by Hangzhou Changjiang Automobile Co., Ltd. ("Changjiang Automobile") of the Group, has completed its construction and commenced operation in April 2016, marking an important milestone in the development history of the Group. It has witnessed the Group's solid performance of transforming itself from scratch to commencement of sale of EVs, and now becoming a vertically integrated EVs manufacturer. To cater the rapid growth of demand in the NEVs market, FDG has joined hands with Guian New Area Management Committee to jointly build a NEVs industrial park for a coordinated development in the Complete Buildup Unit and core components of pure EVs in Guian New Area. The annual design production capacity of the project is 150,000 units of pure EVs, the establishment of which will further expand the Group's production capacity and increase product offerings. Together with the production bases in Hangzhou and Yunnan, a solid foundation will be laid for the strategic layout of the Group in the PRC. Furthermore, to further enhance market competitiveness by enlarging scaled operation and management, strengthening sales strategies and building long-term brand, Mr. Tong Zhiyuan was appointed by FDG as the Chief Operating Officer of the Group and an executive director of the Company effective from February 2017. Mr. Tong has extensive experience and is well-recognized as a technical senior management by the industry. I hereby extend my warm welcome to Mr. Tong on behalf of the Group.

On the other hand, as always, the Group emphasizes on the core technology of manufacturing of NEVs, insists on an "Independent-Forward-Engineering" approach, keeps abreast of the leading technology in the industry and constantly seeks for a breakthrough. Its products are widely recognized in the society. In May 2016, the Group was successfully granted "Permission to Manufacture the New Energy Passenger Vehicles", being the first non-traditional vehicles manufacturer and second enterprise in the PRC to receive such approvals. EVs of the Group also gained numerous awards. In 2016, "eCOOL", a pure electric SUV, was awarded with "Most Anticipated SUV Model of the Year" in the 4th China Automobile Media Award; "eBOSS", a pure electric mid-size bus, was awarded with "2016 China Red Star Design Award" in China's top industrial design award. In addition, the Group's pure electric mid-size bus were successfully put into service in G20 summit. With its superb performance, it had proudly received two honours of "G20 Hangzhou Summit Super Sponsor" and "G20 Hangzhou Summit Designated Products" from the G20 Organising Committee. The same model has been even put into service in the Boao Forum for Asia for two consecutive years. Its excellent design and efficient functions are exceptional among the vehicle companies, thus received high compliments from the guests.

In respect of the batteries business, in order to cope better with the ever-changing market demands as a result of adjustments in policy, during the period under review, the Group actively expanded the production capacity, improved the functions and quality of the products and enriched the product portfolio. In respect of cathode material business, to conform with upgrade of technology and production capacity of the Group's EVs and batteries business, the Group will increase its efforts in the product R&D and keep launching new products to create a comprehensive and diversified product system, so as to provide high-quality raw materials for the Group's batteries business while facilitating its expansion of EVs business to enhance the overall competitiveness.

In 2016, the NEVs industry was unsteady as the competition intensified. The subsidy fraud in the NEVs industry has led to further reduction in subsidies and increased technology threshold. Such policy aimed to rectify and standardize the NEVs industry and promote upgrade of the industry. In this context, NEVs industry will reshuffle in the short term, but in the long term, the new policy will be beneficial to the healthy development of the industry through "survival of the fittest". The Group believes that there are still ample rooms for the development of NEVs market with a promising prospect. The Group will also actively respond to policy adjustments and control the costs strictly to improve the economic efficiency. We will establish a sound procurement system to unify the procurement of various raw materials. We will also optimize the industry chain, raise the level of R&D, production technology and operation capacity to ensure the efficient use of resources.

Looking forward, there are both challenges and opportunities for the development of NEVs industry. The industry generally believes that "Intelligence" and the "Internet" will become the upcoming direction for the development of NEVs. At the same time, the relevant government departments are also planning to set relevant technical standards. To chase the trend of market development, the Group will strive to develop an intelligent vehicle intranet management terminal, well-organized service management system and advanced technology such as intelligent driving. As the NEVs industry is entering the phase of rapid development, the Group will, in the coming year, continue to optimize the industry chain and improve the management team, actively and orderly develop, and strengthen the brand and marketing strategy of the Group. Recently, it released the "Changjiang Automobile Globalization Strategy" to quickly gain market share by better grasping the opportunities arise from market consolidation with the Group's own technology and management advantages to further optimize the product. Meanwhile, the Group will also actively expand its overseas markets. The Group is confident about the prospect of NEVs industry and the development of the Company, believing that the Group can stand out from its peers under fierce competition and become a pioneer in the industry.

Finally, on behalf of the Board of Directors, I would like to thank the shareholders, business partners and suppliers for their long-term supports and trusts, and express my sincere gratitude and high appreciations to the employees for their dedication and hard-working spirit during each step from R&D to mass production and sales. Under the guidance of the Group's globalization strategy, we will insist on substantial investment at initial stage, high-tech R&D and high standard production, with a view to become a leading integrated EVs manufacturer and create a better return on investment for shareholders.

BOARD OF DIRECTORS

Mr. Cao Zhong
Chairman, Executive Director & Chief Executive Officer

Mr. Cao, aged 57, is the Chairman, executive director and Chief Executive Officer of the Company. He was appointed as a non-executive director and Chairman of the Company on 11 March 2014 and re-designated as an executive director of the Company on 15 April 2014. On 28 May 2014, Mr. Cao was appointed as the Chief Executive Officer of the Company. He is also the chairman of the Nomination Committee and Executive Committee of the Company and a member of the Remuneration Committee and Risk Committee of the Company. He also holds directorships in various subsidiaries of the Company. Mr. Cao graduated from Zhejiang University and the Graduate School of the Chinese Academy of Social Sciences with a bachelor degree in engineering and a master degree in economics, respectively. Since 1988, Mr. Cao had served in various institutions, including the National Development and Reform Commission (the "NDRC") of the People's Republic of China (the "PRC"), Guangdong Province Huizhou Municipal People's Government, Beijing International Trust and Investment Company Limited, Shougang Corporation and the Development Research Centre of the State Council of China. Mr. Cao is currently an executive director and the chairman of China Resources and Transportation Group Limited (Stock Code: 269) and an executive director and the chairman of FDG Kinetic Limited ("FKL") (Stock Code: 378, a subsidiary of the Company in which the Company indirectly owns approximately 67.19% equity interest), companies whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Miao Zhenguo, the Deputy Chairman and executive director of the Company, is the brother-in-law of Mr. Cao. Mr. Cao was appointed to the board of directors of the Company (the "Board") on 11 March 2014.

Mr. Miao Zhenguo
Deputy Chairman & Executive Director

Mr. Miao, aged 57, is the Deputy Chairman and an executive director of the Company, and the authorised representative of the Company for accepting service of process and notices in Hong Kong on behalf of the Company under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). Mr. Miao has been appointed as Deputy Chairman of the Company with effect from 8 March 2011. He is also a member of the Executive Committee, Remuneration Committee and Nomination Committee of the Company. Mr. Miao was the Chief Operating Officer of the Company from May 2010 to March 2011 and the Chief Executive Officer of the Company from August 2010 to May 2014. He holds directorships in various subsidiaries of the Company. Mr. Miao is currently an executive director and the chief executive officer of FKL. Mr. Miao graduated from Zhejiang University with a 化學工程學士學位 (bachelor degree in chemical engineering*). He has over 10 years of experience in project management, sales and marketing and product development. He is the brother-in-law of Mr. Cao Zhong, the Chairman, executive director and Chief Executive Officer of the Company. Mr. Miao was appointed to the Board on 25 May 2010.

* *For identification purpose only*

Mr. Tong Zhiyuan
Chief Operating Officer & Executive Director

Mr. Tong, aged 54, is the Chief Operating Officer of the Group and an executive director of the Company. Mr. Tong also holds directorship in a subsidiary of the Company. He has 30 years' experience in the automobile industry. After having obtained a master degree in mechanical engineering of Beijing University of Technology in 1987, he joined Beijing Jeep Corporation* as an engineer and worked at various engineering and design departments over the following 10 years. Since 1997, Mr. Tong stepped into managerial role and was appointed as director and chief executive of Beijing Jeep Corporation*. He was promoted to director and executive vice president in 2000. In the same year, he also joined Beijing Automotive Group Co., Ltd. as vice president. Mr. Tong led the formation of Beijing Benz Automotive Co. Ltd. and became its director and senior executive vice president in 2004. He completed the introduction of various Mercedes-Benz platforms into the PRC. Simultaneously, Mr. Tong was the managing director and chief engineer of Beijing Automotive Industry Holding Co., Ltd. during the period from July 2000 to September 2008, and was in charge of and participated in the planning and designing of its own branding and the promotion of its self-development capability. In October 2009, Mr. Tong joined Geely Holding Group as vice president and was the chief operating officer in the acquisition of Volvo Car Corporation. He was appointed as the chief executive officer of Volvo Car Corporation China District in 2010, responsible for the daily operation and management, business development strategy, product development, sales and marketing, purchasing, manufacturing engineering and production team building in the PRC. Mr. Tong was appointed to the Board on 15 February 2017.

* *For identification purpose only*

Dr. Chen Yanping
Executive Director & Chief Technical Officer

Dr. Chen, aged 54, is an executive director and Chief Technical Officer of the Company. He was appointed as Chief Operating Officer of the Company on 28 May 2014 and re-designated as Chief Technical Officer of the Company on 15 February 2017. He is also a member of the Executive Committee of the Company and holds directorships in various subsidiaries of the Company. He is currently a non-executive director of FKL. Dr. Chen has over 30 years' vast experience in automobile design, development and manufacturing and is the special automobile technology expert of the China International Engineering Consulting Corporation of the NDRC of the PRC and the Ministry of Science and Technology of the PRC, respectively. Dr. Chen obtained a bachelor degree in engineering from Hefei University of Technology in 1983, a master degree in automobile engineering from Dalian University of Technology in 2002 and a doctorate degree in management science from Wuhan University of Technology in 2010. He was awarded with the second prize in Beijing science and technology award in 2003 and the third prize in the PRC automobile science technology award in 2004, and was a young technology expert receiving special subsidies from the State Council of the PRC. Dr. Chen had worked as an officer for the technical centre of the China National Heavy Duty Truck Group and a dean of the research institute and deputy technical general manager of Beiqi Foton Motor Co. Ltd of BAIC Group. He had also received training and studies at major international automobile brands including Steyr, Mercedes Benz and Volvo. Dr. Chen was appointed to the Board on 28 May 2014.

Mr. Lo Wing Yat
Executive Director

Mr. Lo, aged 58, is an executive director of the Company and a member of the Executive Committee of the Company. Mr. Lo also holds directorship in a subsidiary of the Company. He is currently an independent non-executive director of China Traditional Chinese Medicine Holdings Co. Limited (Stock Code: 570, formerly known as China Traditional Chinese Medicine Co. Limited), a company whose shares are listed on the Stock Exchange. He is also a director and the chief executive officer of CITIC International Assets Management Limited and a director and the chief executive officer of CITIC International Financial Holdings Limited. He was an executive director of FKL from April 2008 to March 2016. Mr. Lo graduated from the University of Hong Kong with a bachelor's degree in Laws. He was admitted as a solicitor of the Supreme Court of Hong Kong (as it was then known) in 1984 and a solicitor of the Supreme Court of England and Wales in 1989. He served as an in-house counsel of Bank of China Hong Kong-Macau Regional Office and was a partner of Linklaters. Mr. Lo was appointed to the Board on 22 November 2006.

Mr. Jaime Che
Executive Director & Vice President

Mr. Che, aged 36, is an executive director of the Company and a member of the Executive Committee and Risk Committee of the Company. He has been appointed as an authorised representative of the Company required under rule 3.05 of the Rules Governing the Listing of Securities on the Stock Exchange with effect from 15 April 2011. Mr. Che holds directorships in various subsidiaries of the Company. He joined the Company in June 2010 and is the Vice President of the Company responsible for strategic planning, investor relationship, corporate transaction and corporate finance work of the Company. Mr. Che is currently an executive director of FKL. He is also a director of Advanced Lithium Electrochemistry (Cayman) Co., Ltd., the shares of which are listed on the Taipei Exchange (Stock Code: 5227). Mr. Che has extensive experience in investor relations and corporate finance. Prior to joining the Company, he was the Assistant to Managing Director/Investor Relations Manager of Fushan International Energy Group Limited (Stock Code: 639, now renamed as Shougang Fushan Resources Group Limited), a company listed on the Stock Exchange, from November 2009 to June 2010, and was the Investment & Corporate Manager of APAC Resources Limited (Stock Code: 1104), another company listed on the Stock Exchange, from June 2007 to October 2009. He studied commerce at the University of New South Wales. Mr. Che was appointed to the Board on 8 March 2011.

Mr. Wong Kwok Yiu
Non-executive Director

Mr. Wong, aged 41, is a non-executive director of the Company. He joined CITIC Limited (Stock Code: 267, a company whose shares are listed on the Stock Exchange) in 1997. Since then, Mr. Wong has gained almost 20 years of experience in project investment and evaluation, financial modeling and analysis, project management and commercial negotiation. Mr. Wong is currently an assistant director of the business development department of CITIC Pacific Limited, being a wholly-owned subsidiary of CITIC Limited. He is also a director of various subsidiaries of CITIC Pacific Limited. He is currently a director of New Hong Kong Tunnel Company Limited since 2010, a director of Western Harbour Tunnel Company Limited since 2012, a director of CITIC Pacific Energy Co. Ltd. since 2016 and a director of Pacific Services Limited since 2016. Mr. Wong graduated from the Chinese University of Hong Kong with a bachelor degree in business administration (major in finance) in 1997 and obtained a master degree in professional accounting information systems from the City University of Hong Kong in 2004. He is also a chartered financial analyst of the Association for Investment Management and Research since 2002. Mr. Wong was appointed to the Board on 25 November 2016.

Mr. Chan Yuk Tong
Independent Non-executive Director

Mr. Chan, aged 55, is an independent non-executive director of the Company. He is also the chairman of the Audit Committee and Remuneration Committee of the Company and a member of the Nomination Committee and Risk Committee of the Company. He is currently an independent non-executive director of Ground International Development Limited (Stock Code: 989, formerly known as Ground Properties Company Limited) and Xinhua Winshare Publishing and Media Co., Ltd. (Stock Code: 811, the shares of which are also listed on the Shanghai Stock Exchange (Stock Code: 601811)), all being companies whose shares are listed on the Stock Exchange. He was a non-executive director of Golden Shield Holdings (Industrial) Limited (Stock Code: 2123) from June 2014 to December 2014, and an independent non-executive director of each of Ausnutria Dairy Corporation Ltd (Stock Code: 1717) from September 2009 to January 2015, Global Sweeteners Holdings Limited (Stock Code: 3889) from June 2008 to December 2015 and Kam Hing International Holdings Limited (Stock Code: 2307) from March 2004 to December 2016, all being companies whose shares are listed on the Stock Exchange. Mr. Chan obtained a bachelor's degree in Commerce from the University of Newcastle in Australia and a master's degree in Business Administration from the Chinese University of Hong Kong. He joined Ernst & Young in 1988 and was appointed as an audit principal in 1994. Mr. Chan is a practising fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. He has over 30 years of experience in auditing, accounting, management consultancy and financial advisory services. Mr. Chan was appointed to the Board on 22 November 2006.

Mr. Fei Tai Hung
Independent Non-executive Director

Mr. Fei, aged 69, is an independent non-executive director of the Company and a member of the Audit Committee, Remuneration Committee, Nomination Committee and Risk Committee of the Company. He obtained a bachelor's degree in Applied Science from the Queen's University in Canada and a master's degree from Imperial College London in the United Kingdom. Mr. Fei started his banking career at the Royal Bank of Canada in 1980. He has also worked for Bankers Trust Company and Credit Agricole Indosuez. Mr. Fei is also a co-founder of United Capital Ltd., a company specialising in providing financial advisory services to clients in both Hong Kong and the PRC. Mr. Fei has been appointed as a director of Vision Credit Limited, a privately-held company registered in Hong Kong and engaging in consumer financing business in the PRC. He has over 20 years of experience in investment and finance. Mr. Fei was appointed to the Board on 22 June 2007.

Mr. Tse Kam Fow
Independent Non-executive Director

Mr. Tse, aged 57, is an independent non-executive director of the Company. He is also the chairman of the Risk Committee of the Company and a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. Mr. Tse graduated from The Hong Kong Polytechnic University and is a fellow member of the Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and The Taxation Institute of Hong Kong. He is a certified public accountant and certified tax advisor practising in Hong Kong with wide experience in most areas of accounting, taxation and audit. Mr. Tse's practice also includes corporate consulting and investment advisory work, specialising in management consulting, business restructuring, corporate mergers and acquisitions, leveraged buyouts, direct investments and joint ventures and advising on projects throughout the PRC, Hong Kong, Taiwan and Singapore. He was an executive director of Grand Ocean Advanced Resources Company Limited (Stock Code: 65) from February 2015 to February 2016, a company whose shares are listed on the Stock Exchange. Mr. Tse has worked at senior positions for over 10 years in several Hong Kong-listed companies and was mainly responsible for the overall corporate management and control and the strategic formulation and implementation of corporate development and financing plan. Mr. Tse was appointed to the Board on 22 June 2007.

Mr. Xu Jingbin
Independent Non-executive Director

Mr. Xu, aged 67, is an independent non-executive director of the Company. He is currently an independent director of China Gezhouba Group Company Limited (a company listed on the Shanghai Stock Exchange, Stock Code: 600068). Mr. Xu graduated from Peking University with a bachelor degree in law in 1982. Since then, he joined the legal division of the Ministry of Land in the State Planning Commission (國家計劃委員會國土局) as a deputy commissioner. From May 1988 to May 1994, he acted as a deputy commissioner and commissioner in the legal division of the general department of a national transportation investment company. He was a deputy managing director and managing director of State Development Transportation Industrial Company* (國投交通實業公司) from May 1994 to June 2004, a chief legal consultant of State Development & Investment Corp. (國家開發投資公司) from June 2004 to June 2010 and an independent director of Hainan Landao Environmental Protection Industry Co., Ltd. (a company listed on the New Third Board on 17 November 2015, Stock Code: 834335) from August 2014 to April 2017. Mr. Xu was appointed to the Board on 15 February 2017.

* *For identification purpose only*

SENIOR MANAGEMENT

Ms. Ching Chi Kei
Chief Financial Officer

Ms. Ching is the Chief Financial Officer of the Company. She holds a Master of Business Administration degree from the University of Bradford and a degree of Bachelor of Arts in Accountancy from The Hong Kong Polytechnic University. She is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Ms. Ching has extensive experience in accounting, finance and auditing fields. She joined the Company in June 2006.

Ms. Man Yu-Wing
General Counsel and Company Secretary

Ms. Man is the General Counsel and Company Secretary of the Company. She was called to the Bar of England and Wales in 2005 and to the Bar of Hong Kong in 2007. She joined the Company in April 2016.

DIRECTORS' REPORT

The directors present their report and the audited consolidated financial statements of FDG Electric Vehicles Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 March 2017.

PRINCIPAL ACTIVITIES

The Group is principally engaged in (i) research and development, production and sale of lithium-ion batteries and related products; (ii) vehicle design and the design, manufacture and sale of electric vehicles; (iii) leasing of electric vehicles; (iv) research and development, manufacture and sale of cathode materials for lithium-ion batteries; and (v) direct investments.

The principal activities and particulars of the Company's principal subsidiaries as at 31 March 2017 are set out in Note 20 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year ended 31 March 2017 and further discussion and analysis as required by Schedule 5 to the Hong Kong Companies Ordinance are set out in the "Management Discussion and Analysis" section on pages 28 to 45 of this annual report and the "Environmental, Social and Governance Report" on pages 57 to 71 of this annual report. The discussions thereof form part of this Directors' Report.

SEGMENT INFORMATION

An analysis of the Group's revenue and contribution to the operating results for the year ended 31 March 2017 is set out in Note 7 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 March 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 79 to 80 of this annual report.

The directors of the Company do not recommend the payment of any dividend for the year ended 31 March 2017.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 4 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The largest supplier of the Group by itself and together with the other four largest suppliers accounted for approximately 11.0% and 34.4% of the Group's total purchases for the year respectively.

The largest customer of the Group by itself and together with the other four largest customers accounted for approximately 21.0% and 60.3% of the Group's total turnover for the year respectively.

Save as disclosed above and to the best of the directors' knowledge, none of the directors, their close associates, or any shareholder (which to the knowledge of the directors owned more than 5% of the number of issued shares of the Company) had beneficial interests in the Group's five largest suppliers or customers.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 41 to the consolidated financial statements.

ISSUANCE OF NEW SHARES

Details of the issuance of new shares are set out in "Capital Structure" under "Management Discussion and Analysis" section on page 43 of this annual report.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 83 of this annual report and Note 42 to the consolidated financial statements respectively.

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive Directors:

Mr. Cao Zhong *(Chairman and Chief Executive Officer)*
Mr. Miao Zhenguo *(Deputy Chairman)*
Mr. Tong Zhiyuan *(Chief Operating Officer)* *(appointed on 15 February 2017)*
Dr. Chen Yanping *(Chief Technical Officer)* *(re-designated from Chief Operating Officer to Chief Technical Officer on 15 February 2017)*
Mr. Lo Wing Yat
Mr. Jaime Che *(Vice President)*

Non-executive Director:

Mr. Wong Kwok Yiu *(appointed on 25 November 2016)*

Independent Non-executive Directors:

Mr. Chan Yuk Tong
Mr. Fei Tai Hung
Mr. Tse Kam Fow
Mr. Xu Jingbin *(appointed on 15 February 2017)*

In accordance with Bye-law 83(2) of the Company's Bye-laws, Mr. Tong Zhiyuan and Mr. Xu Jingbin will hold office until the forthcoming annual general meeting of the Company and, being eligible, have offered themselves for re-election.

In accordance with Bye-law 84 of the Company's Bye-laws, Mr. Cao Zhong, Dr. Chen Yanping, Mr. Jaime Che and Mr. Tse Kam Fow will retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, have offered themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

The Company has received from each of its independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers that all the independent non-executive directors are independent.

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

As at 31 March 2017, the interests and short positions of the directors and chief executive of the Company or their respective close associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

Name of directors	Capacity	Number of ordinary shares of the Company	Number of underlying shares (unlisted and physically settled equity derivatives) of the Company *(Note 6)*	Total number of ordinary shares and underlying shares of the Company	Approximate percentage of issued ordinary share capital of the Company *(Note 7)*
Mr. Cao Zhong	Beneficial owner	6,800,000	10,000,000	16,800,000	0.08%
	Interest of controlled corporations	2,651,059,998	–	2,651,059,998 *(Note 1)*	11.83%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	5,104,572,167	43,000,000	5,147,572,167 *(Notes 1 and 5)*	22.98%
Mr. Miao Zhenguo	Beneficial owner	–	15,000,000	15,000,000	0.07%
	Interest of controlled corporations	1,970,551,043	–	1,970,551,043 *(Note 2)*	8.79%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	5,791,881,122	38,000,000	5,829,881,122 *(Notes 2 and 5)*	26.03%
Dr. Chen Yanping	Beneficial owner	–	12,000,000	12,000,000	0.05%
	Interest of controlled corporations	658,125,000	–	658,125,000 *(Note 3)*	2.94%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	7,104,307,165	41,000,000	7,145,307,165 *(Notes 3 and 5)*	31.90%
Mr. Lo Wing Yat	Beneficial owner	6,579,000	42,800,000	49,379,000	0.22%

Name of directors	Capacity	Number of ordinary shares of the Company	Number of underlying shares (unlisted and physically settled equity derivatives) of the Company *(Note 6)*	Total number of ordinary shares and underlying shares of the Company	Approximate percentage of issued ordinary share capital of the Company *(Note 7)*
Mr. Jaime Che	Beneficial owner	1,000,000	16,000,000	17,000,000	0.08%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	7,761,432,165	37,000,000	7,798,432,165 *(Notes 4 and 5)*	34.81%
Mr. Chan Yuk Tong	Beneficial owner	–	12,900,000	12,900,000	0.06%
Mr. Fei Tai Hung	Beneficial owner	–	12,900,000	12,900,000	0.06%
Mr. Tse Kam Fow	Beneficial owner	–	12,900,000	12,900,000	0.06%

Notes:

1. Mr. Cao Zhong is interested or deemed to be interested in a total of 7,815,432,165 shares and underlying shares of the Company including: (i) 2,311,059,998 shares held by Long Hing International Limited which is wholly owned by Mr. Cao who is a director; (ii) 340,000,000 shares held by Champion Rise International Limited which is wholly owned by Mr. Cao who is a director; (iii) 6,800,000 shares and 10,000,000 share options*(note 6)* held by Mr. Cao; and (iv) 5,104,572,167 shares and 43,000,000 share options*(note 6)* held by the other parties to the Undertaking*(note 5)*.

2. Mr. Miao Zhenguo is interested or deemed to be interested in a total of 7,815,432,165 shares and underlying shares of the Company including: (i) 1,806,301,043 shares held by Union Ever Holdings Limited which is wholly owned by Mr. Miao who is a director; (ii) 164,250,000 shares held by Infinity Wealth International Limited which is wholly owned by Mr. Miao who is a director; (iii) 15,000,000 share options*(note 6)* held by Mr. Miao; and (iv) 5,791,881,122 shares and 38,000,000 share options*(note 6)* held by the other parties to the Undertaking*(note 5)*.

3. Dr. Chen Yanping is interested or deemed to be interested in a total of 7,815,432,165 shares and underlying shares of the Company including: (i) 658,125,000 shares held by Captain Century Limited which is owned as to 60% by Dr. Chen and 40% by his spouse, Ms. Zhang Lu; (ii) 12,000,000 share options*(note 6)* held by Dr. Chen; and (iii) 7,104,307,165 shares and 41,000,000 share options*(note 6)* held by the other parties to the Undertaking*(note 5)*.

4. Mr. Jaime Che is interested or deemed to be interested in a total of 7,815,432,165 shares and underlying shares of the Company including: (i) 1,000,000 shares and 16,000,000 share options*(note 6)* held by Mr. Che; and (ii) 7,761,432,165 shares and 37,000,000 share options*(note 6)* held by the other parties to the Undertaking*(note 5)*.

5. On 26 February 2016, CITIC International Assets Management Limited, Star Mercury Investments Ltd., Mr. Cao Zhong, Mr. Miao Zhenguo, Dr. Chen Yanping, Mr. Jaime Che and CITIC Pacific Limited entered into a concert party undertaking to regulate their dealings in the shares of the Company (the "Undertaking"). As such, each party to the Undertaking was deemed to have interests in the shares and/or underlying shares held by the other parties to the Undertaking under Section 317(1)(a) of the SFO.

6. The interests in the underlying shares of the Company represent interests in options granted to the directors named above to subscribe for shares of the Company, further details of which are set out in Note 43 to the consolidated financial statements.

7. These percentages are calculated on the basis of 22,398,477,108 shares of the Company as at 31 March 2017.

Save as disclosed above, as at 31 March 2017, none of the directors or chief executives of the Company or their respective close associates had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

Details of the share option scheme adopted by the Company on 28 February 2014 and movements of the options during the year are set out in Note 43 to the consolidated financial statements.

FDG Kinetic Limited ("FKL"), an indirect non-wholly owned subsidiary of the Company, operates a share option scheme (the "FKL Scheme") which was approved and adopted by its shareholders at the special general meeting on 12 October 2007 for the primary purpose of providing incentives or rewards to its directors, eligible employees and other participants for their contribution to FKL and its subsidiaries (collectively the "FKL Group"). The FKL Scheme will remain in force for 10 years from the date of its adoption, unless otherwise cancelled or amended.

Under the FKL Scheme, the board of directors of FKL (the "FKL Board") may, at their absolute discretion, grant options to the following classes of participants to subscribe for shares of FKL subject to the terms and conditions stipulated therein:

(i) any employees or proposed employees (whether full-time or part-time and including any executive directors), consultants or advisers of or to FKL, any of its subsidiaries or any entity in which the FKL Group holds an equity interest (the "Invested Entity");

(ii) any non-executive directors (including independent non-executive directors) of FKL, any of its subsidiaries or any Invested Entity;

(iii) any suppliers of goods or services to any members of the FKL Group or any Invested Entity;

(iv) any customers of the FKL Group or any Invested Entity;

(v) any person or entities that provides research, development, or other technological support to the FKL Group or any Invested Entity; and

(vi) any shareholders of any members of the FKL Group or any Invested Entity, or any holders of any securities issued by any members of the FKL Group or any Invested Entity.

The total number of shares which may be issued upon exercise of all share options to be granted under the FKL Scheme must not in aggregate exceed 10% of the total number of shares of FKL in issue as at the date of approval of the FKL Scheme. The total number of shares issued and to be issued upon exercise of all share options granted by FKL to each participant in any 12-month period shall not exceed 1% of the shares of FKL then in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval at a general meeting of FKL.

The period within which a share option may be exercised under the FKL Scheme will be determined by the FKL Board at its absolute discretion, such that it shall end in any event not later than 10 years from the date of grant of the share option (the "Offer Date") subject to the provisions for early termination.

The exercise price in respect of the share option shall be at the discretion of the FKL Board, save that it must be at least the highest of (i) the closing price of FKL's shares as stated in the Stock Exchange's daily quotations sheet on the Offer Date; (ii) the average closing price of FKL's shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the Offer Date; and (iii) the nominal value of FKL's share. A consideration of HK$1.00 is payable within 28 days from the Offer Date on acceptance of each offer of share options.

There were no share options outstanding under the FKL Scheme during the year ended 31 March 2017 nor were there any share options granted, exercised, cancelled or lapsed under the FKL Scheme during the year.

No share option expenses were recognised in the FKL Group's consolidated financial statements for the year ended 31 March 2017 (year ended 31 March 2016: nil).

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above and the section headed "Share Option Scheme" as set out in Note 43 to the consolidated financial statements, at no time during the year was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

Details of the emoluments of the directors and senior management and the five highest paid individuals are set out in Note 15 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 March 2017, the persons, other than the directors or chief executive of the Company, who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of substantial shareholders	Capacity	Number of ordinary shares of the Company	Number of underlying shares (unlisted and physically settled equity derivatives) of the Company *(Note 7)*	Total number of ordinary shares and underlying shares of the Company	Approximate percentage of issued ordinary share capital of the Company *(Note 8)*
CITIC International Assets Management Limited *(Notes 1 and 2)*	Beneficial owner	451,908,000	–	451,908,000	2.02%
	Interest of controlled corporations	1,022,988,124	–	1,022,988,124	4.56%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	6,287,536,041	53,000,000	6,340,536,041	28.31%
CITIC International Financial Holdings Limited *(Notes 1 and 2)*	Interest of controlled corporations	1,474,896,124	–	1,474,896,124	6.58%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	6,287,536,041	53,000,000	6,340,536,041	28.31%
China CITIC Bank Corporation Limited *(Notes 1 and 2)*	Interest of controlled corporations	1,474,896,124	–	1,474,896,124	6.58%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	6,287,536,041	53,000,000	6,340,536,041	28.31%

Name of substantial shareholders	Capacity	Number of ordinary shares of the Company	Number of underlying shares (unlisted and physically settled equity derivatives) of the Company *(Note 7)*	Total number of ordinary shares and underlying shares of the Company	Approximate percentage of issued ordinary share capital of the Company *(Note 8)*
Star Mercury Investments Ltd. *(Notes 1 and 3)*	Beneficial owner	1,000,000,000	–	1,000,000,000	4.46%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	6,762,432,165	53,000,000	6,815,432,165	30.43%
Smooth Way Holdings Inc. *(Notes 1 and 3)*	Interest of controlled corporations	1,000,000,000	–	1,000,000,000	4.46%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	6,762,432,165	53,000,000	6,815,432,165	30.43%
CITIC Pacific Limited *(Notes 1 and 3)*	Interest of controlled corporations	1,000,000,000	–	1,000,000,000	4.46%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	6,762,432,165	53,000,000	6,815,432,165	30.43%
CITIC Limited *(Notes 1 and 4)*	Interest of controlled corporations	2,474,896,124	–	2,474,896,124	11.05%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	5,287,536,041	53,000,000	5,340,536,041	23.84%
CITIC Group Corporation *(Notes 1 & 4)*	Interest of controlled corporations	2,474,896,124	–	2,474,896,124	11.05%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	5,287,536,041	53,000,000	5,340,536,041	23.84%
Long Hing International Limited *(Note 5)*	Beneficial owner	2,311,059,998	–	2,311,059,998	10.32%
Union Ever Holdings Limited *(Note 6)*	Beneficial owner	1,806,301,043	–	1,806,301,043	8.06%

Notes:

1. On 26 February 2016, an undertaking was made between CITIC International Assets Management Limited, Star Mercury Investments Ltd., Mr. Cao Zhong, Mr. Miao Zhenguo, Dr. Chen Yanping, Mr. Jaime Che and CITIC Pacific Limited (collectively referred to as "Concert Parties") to regulate their dealings in the shares of the Company (the "Undertaking") as a result of the whitewash waiver of the requirement under Rule 26.1(b) of the Code on Takeovers and Mergers upon completion of the subscription agreement dated 9 December 2015 made between the Company as issuer and Star Mercury Investments Ltd. as subscriber for the subscription of 1,000,000,000 shares of the Company, and the conversion of the convertible bonds due 2018 issued by the Company held by any of the Concert Parties and/or persons acting in concert with any of them. As such, each party to the Undertaking was deemed to have interests in the shares and/or underlying shares held by the other parties to the Undertaking under Section 317(1)(a) of the SFO. As at 31 March 2017, the parties to the Undertaking are deemed to be interested in a total of 7,815,432,165 shares and underlying shares.

2. For the purpose of the SFO, CITIC International Assets Management Limited is interested or deemed to be interested in (i) 1,474,896,124 shares of the Company including 451,908,000 shares held by it and 1,022,988,124 shares held by Right Precious Limited; and (ii) 6,340,536,041 shares and underlying shares of the Company held by other parties to the Undertaking[(Note 1)].

   Right Precious Limited is a wholly-owned subsidiary of CITIC International Assets Management Limited of which CITIC International Financial Holdings Limited owns 40%. CITIC International Financial Holdings Limited is wholly-owned by China CITIC Bank Corporation Limited.

   Mr. Lo Wing Yat, an executive director of the Company, is a director and chief executive officer of CITIC International Assets Management Limited and a director and chief executive officer of CITIC International Financial Holdings Limited.

3. For the purpose of the SFO, Star Mercury Investments Ltd. is interested or deemed to be interested in (i) 1,000,000,000 shares of the Company held by it; and (ii) 6,815,432,165 shares and underlying shares of the Company held by other parties to the Undertaking[(Note 1)].

   Star Mercury Investments Ltd. is a wholly-owned subsidiary of Smooth Way Holdings Inc. which, in turn, is a wholly-owned subsidiary of CITIC Pacific Limited.

4. For the purpose of the SFO, CITIC Limited is deemed to be interested in (i) 2,474,896,124 shares of the Company including 1,474,896,124 shares deemed interest of China CITIC Bank Corporation Limited[(Note 2)], which is over 60% owned by CITIC Limited through its wholly-owned subsidiaries, and 1,000,000,000 shares deemed interest of CITIC Pacific Limited[(Note 3)], which is a wholly-owned subsidiary of CITIC Limited; and (ii) 5,340,536,041 shares and underlying shares of the Company held by other parties to the Undertaking[(Note 1)].

   CITIC Limited is owned by CITIC Group Corporation as to 58.13% through its wholly-owned subsidiaries, CITIC Polaris Limited and CITIC Glory Limited.

   Mr. Wong Kwok Yiu, a non-executive director of the Company, joined CITIC Limited in 1997 and is currently an assistant director of the business development department of CITIC Pacific Limited.

5. Long Hing International Limited ("Long Hing") is wholly owned by Mr. Cao Zhong, an executive director of the Company. The 2,311,059,998 shares of the Company held by Long Hing are deemed to be owned by Mr. Cao who is also a director of Long Hing.

6. Union Ever Holdings Limited ("Union Ever") is wholly owned by Mr. Miao Zhenguo, an executive director of the Company. The 1,806,301,043 shares of the Company held by Union Ever are deemed to be owned by Mr. Miao who is also a director of Union Ever.

7. The interests in the underlying shares of the Company represent interests in options granted under the share option scheme of the Company to the directors of the Company who are also parties to the Undertaking[(Note 1)].

8. These percentages are calculated on the basis of 22,398,477,108 shares of the Company as at 31 March 2017.

Save as disclosed above, as at 31 March 2017, the Company had not been notified of any interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year ended 31 March 2017, none of the directors of the Company or their respective close associates was interested in any business, apart from the Group's businesses, which competes or is likely to compete, either directly or indirectly, with the Group's businesses pursuant to Rule 8.10(2) of the Listing Rules.

PERMITTED INDEMNITY PROVISIONS

During the year ended 31 March 2017, the Company has in force indemnity provisions as permitted under the relevant statutes for the benefit of the directors and officers of the Company and its subsidiaries. The permitted indemnity provisions are provided for in the Company's bye-laws and in the directors and officers liability insurance maintained for the Group in respect of potential liability and costs associated with legal proceedings that may be brought against such persons.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Apart from the agreements disclosed in the section headed "Connected Transactions" below, there were no contracts of significance to which the Company or any of its subsidiaries, holding companies or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts of significance concerning the management and administration of the whole or any substantial part of the business of the Company or any of its subsidiaries, holding companies or fellow subsidiaries were entered into or subsisted during the year.

CONNECTED TRANSACTIONS

Exempt Connected Transaction

On 4 November 2016, (i) a supplemental agreement to the cooperation agreement dated 8 May 2016 (the "Supplemental Agreement") in relation to the investment in and construction of pure electric vehicles production facilities in Guian New Area, Guizhou, the People's Republic of China (the "Project") was entered into between the Company and 貴安新區管理委員會 (Guian New Area Management Committee*, the "Guian Committee"); and (ii) an entrustment agreement (the "Entrustment Agreement") was entered into between 貴州貴安產業投資有限公司 (Guizhou Guian Asset Investment Co., Ltd.*, "Guizhou Guian Asset Investment"), 簡式國際汽車設計(北京)有限公司 (Jasmin International Auto R&D (Beijing) Co., Ltd.*, "Jasmin", an 80% subsidiary of the Company) and 貴州長江汽車有限公司 (Guizhou Changjiang Automobile Co., Ltd.*, the "Guizhou Subsidiary", a 51% subsidiary of the Company) pursuant to which Guizhou Guian Asset Investment has entrusted Jasmin to provide electric vehicles research, design and development related services to the Guizhou Subsidiary.

Pursuant to the Supplemental Agreement, during the entrustment period, Guizhou Guian Asset Investment will pay Jasmin a total of RMB1,000,000,000 as funding for the research, design and development of pure electric vehicles for the benefit of the Guizhou Subsidiary and is payable in two instalments: (i) first instalment in the amount of RMB500,000,000 shall be payable within 20 days after signing of the Entrustment Agreement; and (ii) the balance in the amount of RMB500,000,000 shall be payable within 30 days after commercial production of the corresponding new models of pure electric vehicles under the Entrustment Agreement.

* *For identification purpose only*

Pursuant to the Entrustment Agreement, during the entrustment period from 4 November 2016 to 31 December 2021, Guizhou Guian Asset Investment has entrusted Jasmin to provide electric vehicles research, design and development related services to the Guizhou Subsidiary in relation to the Project.

The Guizhou Subsidiary is an indirect non-wholly owned subsidiary of the Company of which 51% of its equity interest is owned by the Group, and the remaining 49% equity interest is owned by Guizhou Guian Asset Investment. As Guizhou Guian Asset Investment is a substantial shareholder of the Guizhou Subsidiary and hence a connected person of the Company at the subsidiary level, the Entrustment Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.101 of the Listing Rules, a connected transaction between the listed issuer's group and a connected person at the subsidiary level on normal commercial terms or better is exempt from the circular, independent financial advice and shareholders' approval requirements if: (1) the listed issuer's board of directors have approved the transactions; and (2) the independent non-executive directors have confirmed that the terms of the transaction are fair and reasonable, the transaction is on normal commercial terms or better and in the interests of the listed issuer and its shareholders as a whole.

As (1) the Company has obtained the approval from the board of directors of the Company (except Dr. Chen Yanping who had abstained from voting on the board resolutions) regarding the Supplemental Agreement, the Entrustment Agreement and the transactions contemplated thereunder respectively; and (2) the independent non-executive directors of the Company have confirmed that the terms of the Supplemental Agreement, the Entrustment Agreement and the transactions contemplated thereunder respectively are fair and reasonable, and that the aforementioned transactions are on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, the Supplemental Agreement, the Entrustment Agreement and the transactions contemplated thereunder are only subject to the reporting and announcement requirements, and are exempted from the circular, independent financial advice and independent shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

Continuing Connected Transactions

In March 2017, two of the Company's subsidiaries, 杭州長江汽車有限公司 (Hangzhou Changjiang Automobile Co., Ltd.*, the "Commercial Vehicle Subsidiary", a 50.17% owned subsidiary engaged in the production of electric commercial vehicles) and 杭州長江乘用車有限公司 (Hangzhou Changjiang Passenger Vehicles Co., Ltd.*, the "Passenger EV Subsidiary", a 67% owned subsidiary engaged in the production of electric passenger vehicles) became connected subsidiaries of the Company within the meaning of Rule 14A.16 of the Listing Rules upon completion of the recapitalisation of 北京紫荊聚龍科技投資有限公司 (Beijing Bauhinia Julong Technology and Investment Co. Ltd.*, the "Joint Venture Partner"), the joint venture partner for the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary.

The Joint Venture Partner was an independent third party of the Company before its recapitalisation. After the recapitalisation, the Joint Venture Partner was then held 49.834% by a group of affiliated limited liability partnerships in which each of Mr. Cao Zhong, Mr. Miao Zhenguo and Dr. Chen Yanping has an aggregate effective interest of 69.98%, 20.02% and 10% respectively. The Joint Venture Partner became an associate of Mr. Cao Zhong (a substantial shareholder of the Company) and as such, each of the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary became a connected subsidiary of the Company within the meaning of Rule 14A.16 of the Listing Rules and hence a connected person of the Company.

Further details of the recapitalisation and the Listing Rules implications are disclosed in the announcement of the Company dated 26 February 2017 and the circular of the Company dated 19 May 2017.

* *For identification purpose only*

Existing Continuing Connected Transactions

The following transactions between the subsidiaries of the Company and the Commercial Vehicle Subsidiary (the "Existing CCTs") constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules upon the Commercial Vehicle Subsidiary becoming a connected subsidiary of the Company and were subject to the reporting and announcement requirements under Rule 14A.60 of the Listing Rules.

(1) On 17 June 2015, a battery supply agreement (the "Existing Commercial Battery Supply Agreement") was entered into between Sinopoly Battery Limited ("Sinopoly Battery", which is 75% owned by the Company and 25% owned by FKL) and its subsidiaries and the Commercial Vehicle Subsidiary on the supply of lithium-ion battery packs by Sinopoly Battery and its subsidiaries to the Commercial Vehicle Subsidiary. The Existing Commercial Battery Supply Agreement was terminated on 14 June 2017 and was superseded by the Commercial Battery Supply Agreement as defined below.

(2) During the period from 19 May 2015 to 24 October 2016, facility agreements (the "Existing Five Dragons Facility Agreements") were entered into between Five Dragons Electric Vehicle Limited (a wholly-owned subsidiary of the Company), as lender, and the Commercial Vehicle Subsidiary, as borrower, in the aggregate principal amount of HK$295,810,000. The Existing Five Dragons Facility Agreements were terminated on 14 June 2017 and was superseded by the New Five Dragons Facility Agreements as defined below.

(3) On 26 April 2016, a finance lease agreement (the "Finance Lease Agreement") was entered into between 深圳前海中博融資租賃有限公司 (the "Lease Finance Company", a wholly-owned subsidiary of the Company) and the Commercial Vehicle Subsidiary pursuant to which the Lease Finance Company agreed to purchase from the Commercial Vehicle Subsidiary at the consideration of RMB200,000,000 certain equipment, production lines and facilities and leased them back to the Commercial Vehicle Subsidiary at an effective annualised average interest rate of approximately 8% during the period from 8 June 2016 to 5 May 2019. The Finance Lease Agreement is not expected to be renewed when it expires.

(4) On 12 December 2014, a facility agreement (the "Existing Five Dragons Facility Agreement (II)") was entered into between Five Dragons Electric Vehicle Limited, as lender, and the Commercial Vehicle Subsidiary, as borrower, in the principal amount of HK$696,000,000. The Existing Five Dragons Facility Agreement (II) is not expected to be renewed when it expires.

(5) During the period from 10 November 2015 to 2 March 2017, the Company and its subsidiary provided guarantees with an aggregate credit limit up to HK$2,906,112,000 in favour of several banks in respect of banking facilities to the Commercial Vehicle Subsidiary. The guarantees will expire two years after the final repayment of each respective loan under the facilities and are not expected to be renewed when they expire.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive directors have reviewed the Existing CCTs and confirmed that for the year ended 31 March 2017, the Existing CCTs were entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the auditor of the Company has provided a letter to the board of directors of the Company confirming the matters stated in Rule 14A.56 of the Listing Rules in respect of the Existing CCTs for the year ended 31 March 2017.

New Continuing Connected Transactions

On 17 March 2017, certain subsidiaries of the Company entered into the following agreements (the "New CCTs") with the Commercial Vehicle Subsidiary and/or the Passenger EV Subsidiary respectively to formalise and regulate the existing arrangements commencing from 1 April 2017 and ending on 31 March 2020 which constituted continuing connected transactions under Chapter 14A of the Listing Rules. As all the percentage ratios (other than the profits ratio) for the New CCTs exceeded 5%, the transactions contemplated under the new CCTs were subject to independent shareholders' approval, reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules. The New CCTs were approved by the independent shareholders at the special general meeting of the Company held on 14 June 2017.

(1) A supply agreement (the "Commercial Battery Supply Agreement") was entered into between Sinopoly Battery and its subsidiaries and the Commercial Vehicle Subsidiary in relation to the supply of lithium-ion battery packs by Sinopoly Battery and its subsidiaries to the Commercial Vehicle Subsidiary for a term of three years commencing from 1 April 2017 and ending on 31 March 2020. The maximum transaction amounts of the Commercial Battery Supply Agreement for the three years ending 31 March 2018, 2019 and 2020 are RMB1,728,000,000, RMB3,456,000,000 and RMB3,456,000,000 respectively.

(2) A supply agreement (the "Passenger Battery Supply Agreement") was entered into between Sinopoly Battery and its subsidiaries and the Passenger EV Subsidiary in relation to the supply of lithium-ion battery packs by Sinopoly Battery and its subsidiaries to the Passenger EV Subsidiary for a term of three years commencing from 1 April 2017 and ending on 31 March 2020. The maximum transaction amounts of the Passenger Battery Supply Agreement for the three years ending 31 March 2018, 2019 and 2020 are RMB460,800,000, RMB2,304,000,000 and RMB4,608,000,000 respectively.

(3) A supply agreement (the "CV Parts 1 Supply Agreement") was entered into between the Guizhou Subsidiary and the Commercial Vehicle Subsidiary in relation to the supply of auto parts and components (including mid-size bus components) by the Commercial Vehicle Subsidiary to the Guizhou Subsidiary for a term of three years commencing from 1 April 2017 and ending on 31 March 2020. The maximum transaction amounts of the CV Parts 1 Supply Agreement for the three years ending 31 March 2018, 2019 and 2020 are RMB358,749,000, RMB717,498,000 and RMB1,195,830,000 respectively.

(4) A supply agreement (the "CV Parts 2 Supply Agreement") was entered into between 雲南五龍汽車有限公司 (Yunnan FDG Automobile Co., Limited*, "Yunnan Five Dragons", a 50% subsidiary of the Company) and the Commercial Vehicle Subsidiary in relation to the supply of auto parts and components (including motor bridges and semi knock-down ("SKD") components) by the Commercial Vehicle Subsidiary to Yunnan Five Dragons for a term of three years commencing from 1 April 2017 and ending on 31 March 2020. The maximum transaction amounts of the CV Parts 2 Supply Agreement for the three years ending 31 March 2018, 2019 and 2020 are RMB299,792,000, RMB599,583,000 and RMB899,375,000 respectively.

(5) A procurement agreement (the "Bus Parts Procurement Agreement") was entered into between Yunnan Five Dragons and the Commercial Vehicle Subsidiary in relation to the supply of auto parts and components (including SKD components) for electric buses by Yunnan Five Dragons to the Commercial Vehicle Subsidiary for a term of three years commencing from 1 April 2017 and ending on 31 March 2020. The maximum transaction amounts of the Bus Parts Procurement Agreement for the three years ending 31 March 2018, 2019 and 2020 are RMB834,300,000, RMB1,668,600,000 and RMB2,502,900,000 respectively.

(6) A finance lease framework agreement (the "Commercial Vehicle Finance Lease Framework Agreement") was entered into between the Lease Finance Company and the Commercial Vehicle Subsidiary in relation to the provision of finance lease services by the Lease Finance Company by purchasing the assets at a price of not less than 75% and not more than 100% of the value of the assets from the Commercial Vehicle Subsidiary and then leasing back such leased assets to the Commercial Vehicle Subsidiary, which shall, in return, pay rent to the Lease Finance Company accordingly. The term of the Commercial Vehicle Finance Lease Framework Agreement is three years commencing from 1 April 2017 and ending on 31 March 2020. The maximum transaction amounts of the Commercial Vehicle Finance Lease Framework Agreement for the three years ending 31 March 2018, 2019 and 2020 are RMB972,000,000, RMB972,000,000 and RMB972,000,000 respectively.

* *For identification purpose only*

(7) A cooperation framework agreement (the "Cooperation Framework Agreement") was entered into between the Lease Finance Company and the Commercial Vehicle Subsidiary in relation to the provision of finance lease services by the Lease Finance Company, subject to entering into individual finance lease agreements, to the purchasers of electric vehicles manufactured by the Commercial Vehicle Subsidiary which has undertaken that if the lessee defaults in the payment of rent under relevant finance lease agreements to the Lease Finance Company, the Commercial Vehicle Subsidiary would be held responsible for such payments. The term of the Cooperation Framework Agreement is three years commencing from 1 April 2017 and ending on 31 March 2020. The maximum transaction amounts of the Cooperation Framework Agreement for the three years ending 31 March 2018, 2019 and 2020 are RMB2,100,000,000, RMB2,100,000,000 and RMB2,100,000,000 respectively.

(8) A finance lease framework agreement (the "Passenger EV Finance Lease Framework Agreement") was entered into between Lease Finance Company and the Passenger EV Subsidiary in relation to the provision of finance lease services by the Lease Finance Company by purchasing the assets at a price of not less than 75% and not more than 100% of the value of the assets from the Passenger EV Subsidiary and then leasing back such leased assets to the Passenger EV Subsidiary, which shall, in return, pay rent to the Lease Finance Company accordingly. The term of the Passenger EV Finance Lease Framework Agreement is three years commencing from 1 April 2017 and ending on 31 March 2020. The maximum transaction amounts of the Passenger EV Finance Lease Framework Agreement for the three years ending 31 March 2018, 2019 and 2020 are RMB432,000,000, RMB432,000,000 and RMB432,000,000 respectively.

(9) A services agreement (the "R&D Services Agreement") was entered into between Jasmin, the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary in relation to the provision of R&D services by Jasmin to the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary for a term of three years commencing from 1 April 2017 and ending on 31 March 2020. The maximum transaction amounts of the R&D Services Agreement for the three years ending 31 March 2018, 2019 and 2020 are RMB50,000,000, RMB50,000,000 and RMB50,000,000 respectively.

(10) A services sharing agreement (the "Administrative Services Sharing Agreement") was entered into between the Passenger EV Subsidiary and the Commercial Vehicle Subsidiary in relation to (i) the provision of administrative services, premises and factory space, and certain parts processing services by the Commercial Vehicle Subsidiary to the Passenger EV Subsidiary; and (ii) the provision of parts processing services by the Passenger EV Subsidiary to the Commercial Vehicle Subsidiary for a term of three years commencing from 1 April 2017 and ending on 31 March 2020. The maximum transaction amounts of the Administrative Services Sharing Agreement for the three years ending 31 March 2018, 2019 and 2020 in respect of (i) the amount paid by the Passenger EV Subsidiary to the Commercial Vehicle Subsidiary are RMB102,440,000, RMB423,160,000 and RMB823,880,000 respectively; and (ii) the amount paid by the Commercial Vehicle Subsidiary to the Passenger EV Subsidiary are RMB400,000,000, RMB800,000,000 and RMB800,000,000 respectively.

(11) A services agreement (the "Management Services Agreement") was entered into between 杭州長江汽車控股有限公司 (Hangzhou Changjiang Automobile Holdings Co., Ltd.*, "Hangzhou Holding Company", a wholly-owned subsidiary of the Company), the Commercial Vehicle Subsidiary, the Passenger EV Subsidiary, Yunnan Five Dragons and the Guizhou Subsidiary in relation to the provision of management services by the Hangzhou Holding Company to each of the other parties comprising manufacturing and operational guidance services and administrative services for a term of three years commencing from 1 April 2017 and ending on 31 March 2020. The maximum transaction amounts of the Management Services Agreement for the three years ending 31 March 2018, 2019 and 2020 for (i) the Commercial Vehicle Subsidiary are RMB27,000,000, RMB20,000,000 and RMB10,000,000 respectively; and (ii) the Passenger EV Subsidiary are RMB4,700,000, RMB8,400,000 and RMB8,200,000 respectively.

(12) Facility agreements (the "New Five Dragons Facility Agreements") were entered into between the Commercial Vehicle Subsidiary, as borrower, and Five Dragons Electric Vehicle Limited, as lender, for the lending of the aggregate principal amount of HK$295,810,000 with annual interest rate of 15% and maturing on 31 March 2020, which loans are non-revolving and unsecured. The maximum annual loans amount (principal plus interest) during the term of the New Five Dragons Facility Agreements will not exceed HK$429,000,000.

* *For identification purpose only*

The independent non-executive directors of the Company, having taken into account the opinion and advice of the independent financial adviser, considered that the New CCTs, including the annual caps of the New CCTs, have been entered into on normal commercial terms and are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Further details of the New CCTs are disclosed in the announcements of the Company dated 26 February 2017 and 17 March 2017 respectively, and the circular of the Company dated 19 May 2017.

Details of the related party transactions undertaken by the Group in the normal course of business during the year are set out in Note 46 to the consolidated financial statements. In relation to those related party transactions that constituted connected transactions under the Listing Rules, the Company has complied with disclosure requirements in accordance with Chapter 14A of the Listing Rules.

BORROWINGS AND CONVERTIBLE BONDS

Details of the Group's borrowings and convertible bonds as at the end of the reporting period are set out in Notes 32 and 38 to the consolidated financial statements.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is established by the executive directors of the Company on the basis of their performance, experience and prevailing industry practice.

The emolument of the directors of the Company is determined with reference to the duties and responsibilities of individual directors, the Company's performance and the prevailing market conditions and trends.

Each of the Company and FKL has adopted a share option scheme. The purpose of such scheme is to provide incentive to selected participants, including the directors and eligible employees of the respective companies. Details of the share option scheme of the Company are set out in Note 43 to the consolidated financial statements and details of the share option scheme of FKL are set out on page 17 of this report.

Each of the Company and FKL has adopted an employees' share award scheme. Employees, directors or advisors/consultants of the respective companies and their subsidiaries, or any employee of such advisor or consultant or any other person as determined by the board of directors of respective companies will be entitled to participate. Details of the employees' share award scheme of the Company are disclosed in the announcements of the Company dated 29 June 2015 and 28 November 2016 respectively and details of the share award scheme of FKL are disclosed in the announcement of FKL dated 10 February 2017.

Each of the Company and FKL has established an employee benefit trust for the employees of the respective companies and their subsidiaries and other persons as designated to receive awarded shares to be vested under the relevant employees' share award scheme, share options to be granted under the relevant share option scheme and other assets (if applicable). The objective is to provide a flexible means of attracting, retaining, incentivizing, rewarding, remunerating and compensating and/or providing benefits to the employees of the respective companies and their subsidiaries.

RETIREMENT BENEFIT SCHEMES

Information on the Group's retirement benefit schemes is set out in Note 11 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the applicable laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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

During the year ended 31 March 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DONATIONS

There were no charitable donations made by the Group during the year ended 31 March 2017.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the best knowledge of the directors of the Company, the Company maintained throughout the year a sufficient public float as required under the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

On 28 April 2017, the Company entered into a subscription agreement to conditionally allot and issue 1,500,000,000 new shares of the Company to IoT United Systems Limited at a subscription price of HK$0.33 per share. Pursuant to the Company and the subscriber agreeing, the date for completion of the subscription was extended to 30 June 2017.

The net proceeds of HK$494,700,000 were intended to be applied in supporting the development of the Group's electric vehicle business, repayment of some of the Group's debts and as general working capital of the Group.

Details of the above transaction are disclosed in the announcement of the Company dated 28 April 2017.

Details of the significant events occurring after the reporting period are set out in Note 47 to the consolidated financial statements.

AUDITOR

Crowe Horwath (HK) CPA Limited ("Crowe Horwath") will retire and a resolution to re-appoint Crowe Horwath as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

By order of the Board

Cao Zhong
Chairman and Chief Executive Officer

Hong Kong, 29 June 2017

e ROAD
FORWARD

FDG Electric Vehicles Limited ("FDG" or the "Company") and its subsidiaries (collectively the "Group") is an integrated electric vehicle manufacturer, the core businesses include: (i) research and development, design, manufacture and sale of electric vehicles; (ii) research and development, production and sale of lithium-ion batteries and related products; (iii) research and development, manufacture and sale of cathode materials for lithium-ion batteries; and (iv) direct investments. The Company also has an indirect non-wholly-owned subsidiary listed on the main board of The Stock Exchange of Hong Kong Limited, FDG Kinetic Limited ("FKL", stock code: 378).

MARKET OVERVIEW

Looking back at 2016, global economic growth slowed down, and international political and economic environment had become more complicated due to the increase of uncertainties. In addition, uncertainties such as the Brexit referendum, Trump's political and economic orientation following his presidency of the United States, and the fact that US Federal Reserve had entered an interest rate hikes cycle, all these shocked the international financial market and global trades, affecting the confidence of consumers and investors. In the face of such a challenging year, the PRC government actively promoted the supply-side structural reform, facilitated the optimization and upgrading of the industrial structure while implementing a proactive fiscal and sound monetary policy. The PRC's gross domestic product (the "GDP") recorded RMB74.4 trillion in 2016, representing a year-on-year increase of 6.7%. The GDP even recorded more than RMB18 trillion for the first quarter of 2017, representing a year-on-year increase of 6.9%. The steady growth of GDP also reflected the good development of automotive industry in the PRC for the same period. According to the statistics released by the China Association of Automobile Manufacturers, production and sales of automobiles in the PRC for 2016 were 28,120,000 units and 28,030,000 units, respectively, representing a year-on-year increase of 14.5% and 13.7%, respectively, placing the production and sales of automobiles in the PRC at number one in ranking for eight consecutive years across the globe.

In recent years, in response to the problems of energy reliance and environmental pollution, the global NEVs market has continued to expand, especially in the United States, Europe and the PRC. According to the statistics disclosed by the International Energy Agency, in 2016, the sales of electric passenger vehicles around the world was 750,000 units, representing a year-on-year increase of 40.0%, showing that the NEVs industry has attained a remarkable development under the emphasis and strong promotion in Europe, the United States and the PRC. As a big automotive country and in order to realize the transformation and upgrading of automotive industry, the PRC has already taken NEVs industry as one of the national development strategies. According to the statistics from the China Association of Automobile Manufacturers, 517,000 units of NEVs were produced and 507,000 units were sold in 2016, representing a growth of 51.7% and 53.0% respectively compared with the same period last year. Among them, the production and sales of pure EVs was 417,000 units and 409,000 units, respectively, representing a growth of 63.9% and 65.1% compared with the same period last year. Benefitted from such rapid growth, the percentage of NEVs sales in the total vehicle sales in the PRC is stepping up every year, which increased from 1.35% in 2015 to 1.81% in 2016. In terms of the vehicle population, NEVs in the PRC grew by 86.9% year-on-year in 2016, hitting 1,090,000 units, among which, 741,000 units were pure EVs, accounting for 68.0% of the total vehicle population of NEVs, representing a year-on-year increase of 223.2%. The PRC has now become the world's largest and fastest growing NEVs market. At the same time, the supporting infrastructure has also developed rapidly. In 2016, an additional 100,000 new public charging piles have been installed in the PRC, making the total number of charging piles over 150,000 units.

Sales of automobile and new energy vehicle in the PRC

	2016 Million	2015 Million	2014 Million	2013 Million
Automobile	**28.03**	24.60	23.49	21.98
New Energy Vehicle	**0.507**	0.331	0.075	0.0176
	1.81%	1.35%	0.32%	0.08%

Production of automobile and new energy vehicle in the PRC

	2016 Million	2015 Million	2014 Million	2013 Million
Automobile	**28.12**	24.50	23.72	22.12
New Energy Vehicle	**0.517**	0.340	0.078	0.0175
	1.84%	1.39%	0.33%	0.08%

In line with the general trend of encouraging the development of NEVs, the PRC government has promulgated a series of policies and measures that are in favor of industry development. In December 2016, the State Council announced "The Comprehensive Work Planning for Energy Conservation and Emissions Reduction in the 13th Five-Year", which expressly stated that it should accelerate the development of strategic emerging industries such as energy-saving and environmental protection and NEVs. In addition, In April 2017, the MIIT, the NDRC and the MOST jointly issued the "Medium and Long term Development Plan of the Automotive Industry", which also clearly pointed out that it would accelerate the automotive products development towards the four directions of new energy, light-weight, intelligent and internetization. Therefore, NEVs industry is expected to become the breakthrough to seize new opportunities and become a giant automotive industry for the PRC. At the same time, the plan also proposed that the state will support and cultivate certain NEVs enterprises that could enter the top 10 around the world by 2020 to build China-own brands that have strong international competitiveness. It can be seen that the PRC government will continue to support the development of NEVs industry, thus the market development potential is huge and the prospect is promising.

On the other hand, after the subsidies fraud last year, adjustment has been made to the subsidy policy for the NEVs industry. Four departments, namely MIIT, Ministry of Finance, MOST and NDRC, have jointly released the "Notice on Adjusting the Financial Subsidy Policies for the Promotion and Application of New Energy Vehicles" (《關於調整新能源汽車推廣應用財政補貼政策的通知》) in December 2016, which substantially reduced subsidies for NEVs industry and set a cap for central and local subsidies in order to rectify and regulate the NEVs industry. In addition, the notice has lifted up technology threshold for subsidies in various aspects including overall vehicle energy consumption, driving distance, battery performance, and safety requirement, which set stricter requirements on the quality of NEVs products. Accordingly, the NEVs industry has entered a new phase of adjustment period, which is a stage with less stability and more challenges. The industry generally considers that the new subsidy policy will increase the overall quality of NEVs and eliminate unqualified products and enterprises, thus promotes the healthy development of the industry and maintains the trend of benign competition in the industry. Currently, facing a new normal of higher technology threshold, each NEV enterprise has accommodated the policy trend and adjusted its development strategy, increased investment in R&D for a higher product quality, thereby strengthened its market competitiveness.

BUSINESS REVIEW

To cater the development of the NEVs market, FDG actively and orderly promoted overall development on EVs, lithium-ion batteries and cathode material businesses while strengthening its strategic planning, which achieved remarkable results. During the period under review, the Group recorded revenue of approximately HK$1.51 billion, representing approximately 3.2 times year-on-year growth. Such significant increase was mainly attributable to the strong growth in sales of EVs and cathode materials, demonstrating that the Group's technical skills and management & operation are maturing and all business segments have shown further developments. However, since the NEVs industry is in the initial stage of its development, coupled with the ever-adjusting subsidy policy, the corresponding trade receivables of the Group increased sharply during the period under review which resulted from longer payback period. At the same time, with the rapid growth in the Group's all business segments, the Company structure has become increasingly larger and the corresponding administrative expenses have also recorded a significant increase during the period under review. The Group is faced with challenges in terms of trade receivables, cash management and cost reduction.

Electric Vehicles Business

During the period under review, the EVs business of the Group has achieved considerable progress. As the new base in Hangzhou completed construction and put into operation, the Group has expanded market actively and recorded remarkable results. During the period under review, the Group sold over 1,200 units of EVs, and the corresponding revenue amounted to approximately HK$1.18 billion. Meanwhile, its products have won numerous awards, receiving high recognition for the quality from external parties. In addition, the Group has further improved the management team by engaging senior management members from renowned technical enterprises in the industry to assist the Group in building standardized scale-operation management, promoting globalization strategies and strengthening the Group's brand name. Meanwhile, the Group will continue to push forward the construction project of new EVs production base, committed to expanding its production capacity and setting its strategic layout in the PRC to build a world class EVs brand.

Pushing forward the Guian New Area project actively to further expand production capacity

The Group is setting its strategic layout for further expansion in its capacity and branding effect. Currently, FDG is joining hands with Guian New Area Management Committee to build a NEVs industrial park for a coordinated development in the Complete Buildup Unit and core components of pure EVs in Guian New Area. It is expected that after completion, the production base will achieve an annual capacity of up to 150,000 units of pure EVs and equip with R&D capacity. As the NEVs industry is growing, consumption demands and performance requirement against the products from the market are also becoming higher and higher. Completion of the project will help the Group further expand production capacity and improve product offerings. Meanwhile, it will also enhance R&D capability to satisfy the ever-changing needs of the market, hence enlarge market shares gradually and improve the Group's reputation in the NEVs market.

Changjiang Automobile participated in Shanghai Automobile Exhibition where its products were well received

In April 2017, Changjiang Automobile, a subsidiary of the Group, participated in The 17th Shanghai International Automobile Industry Exhibition with the theme of "Committed to Better Life" for an exhibition with automotive brands from different countries and regions. Under the theme of "e Road Forward", Changjiang Automobile displayed a few pure EVs and its core components which are developed under its "Independent-Forward-Engineering" approach. It also showcased the Group's intelligent vehicle intranet management terminal and its refined service management system, which were well received. Taking this opportunity, the Group has also announced "Changjiang Automobile Globalization Strategy" through Changjiang Automobile: the target is to build a globalized automobile platform for all series of products and further expand its production capacity and sales.

Engaging technical senior management to strengthen the brand name of the Group

NEVs industry is booming. For the purpose of further improving its management team, FDG engaged Mr. Tong Zhiyuan and other technical corporate senior managements who possess extensive industry experience. To face the increasingly intense competition in the NEVs industry, marketing strategy, cost management and brand building are critical to an enterprise in order to stand out from the competitors. With the expertise knowledge and profound management experience of the Group's strengthened management team, we believe that it will assist the Group in setting and carrying out market strategies effectively, optimize the specialized and scale operation management to strengthen businesses in the PRC, and help expand the overseas market, strengthen the Group's brand and further consolidate its industry position.

Having won numerous awards, the EVs products have shown that their quality has been well recognized

The Group insists on substantial investment at the initial stage, R&D with advanced technology and high production standard, and the EVs developed under its "Independent-Forward-Engineering" approach have won numerous awards, showing that the quality has been well recognized. In 2016, the Group's pure electric SUV "eCOOL", which is under the brand name of Changjiang Automobile, was awarded "Most Anticipated SUV Model of the Year" in the 4th China Automobile Media Award Ceremony. Pure electric mid-size bus "eBOSS", under the brand name of Changjiang Automobile, also stood out from other thousands of products with its outstanding creative design. It also won the "2016 China Red Star Design Award", the highest award for the industrial design across the country. Moreover, with its superb performance, the Changjiang Automobile's pure electric mid-size buses "eBOSS" and "eGLORY" had proudly received two honors of "G20 Hangzhou Summit Super Sponsor" and "G20 Hangzhou Summit Designated Products" at the 2016 G20 Hangzhou Summit from G20 Organizing Committee, highlighting the advantages of its high-end commercial vehicles. In addition, after providing reception services to the guests at Boao Forum for Asia in 2016, this pure electric mid-size bus model has again provided the same service this year, demonstrating that the Group's EV products are highly recognized, no matter in terms of its performance or physical design. Each award has also raised the Group's reputation in the EVs industry to building a premium brand and further seizing the market share to ensure the Group's leading position in the industry.

Hangzhou production base's capacity is being released gradually and to actively improve R&D

The construction of the Group's production base in Hangzhou was completed and put into operation in April 2016. Being planned under the model of intelligentization, specialization and modernization, the base is equipped with world-class facilities, laying a solid foundation for the quality and intelligentization development of EVs produced by the Group, and marking a key milestone on the Group's growth history. The designed annual production capacity of the base is 100,000 units of pure EVs, which is being released gradually. We believe that it can satisfy the increasing market demand of EVs. The PRC government has continued to be effective and in order on promoting strategy about NEVs in recent years. Local governments have also promulgated various support polices and tax incentives. Hangzhou is one of the pilot cities for 5G Internet of Vehicles. The Group will take the geographic advantage of Hangzhou and the support from government policies to focus on improving its R&D levels, captures the core technology and further expands the capacity to develop more high quality EVs and relevant products.

In addition, the Group obtained "Permission to Manufacture New Energy Passenger Vehicles" in May 2016, being the first non-traditional manufacturer and the second enterprise granted with such qualification in the PRC. The Group will proactively promote the launch of the passenger vehicle "eCOOL", continue to develop and manufacture with its "Independent-Forward-Engineering" approach, and enhance the overall product quality, so as to gain more recognition from the market.

Batteries Business

Increase in production capacity and enhancement on research and development to enlarge the market share

In recent years, the NEVs industry has been booming, which fueled the rapid growth on the demand of lithium-ion batteries. To cater for the market demand, the Group proactively adjusted the production layout. Sinopoly Battery Limited, a subsidiary of the Group, has commenced the expansion of its production base in Tianjin from the current capacity of 0.42GWh to 1.92GWh. Such move will further expand the production capacity and market share of the Group. It will also help the Group further reduce cost and improve efficiency through mass production. Meanwhile, since 2017, energy density has become the standard of the policy on governmental subsidies for the NEVs. In view of the fact that the market is developing towards higher energy density of lithium-ion batteries, the Group is now proactively matching with policies and responding to the changes in market demand, enhancing the R&D as well as promoting the upgrade of products, thereby increasing the product performance and quality while enriching the product mix. The Group's current production technology and scales have laid a basic foundation and will endeavor to make use of it to stay in the leading position in the ever-changing market environment.

Cathode Material Business

Upgrade on ternary cathode material products to cater market demand

FDG Kinetic (Chongqing) Lithium Ion Battery Materials Co., Ltd. ("FDG Kinetic (Chongqing)"), a subsidiary of the Group, has grown rapidly in its ternary material business. With excellent comprehensive performance shown from the cathode materials for nickel-cobalt-manganese ("NCM") lithium-ion batteries, its technical route is also catering the craving for high-performance cathode materials in the mainstream market. During the period under review, the release of production capacity of FDG Kinetic (Chongqing) has accelerated. With a corresponding revenue for cathode materials amounted to approximately HK$234 million, the sales volume of NCM cathode materials exceeded 1,600 tonnes, representing approximately 4.1 times year-on-year growth. With the adjustment to the NEVs subsidy policy in 2017 and the amount of the subsidy linked to energy density of battery system, the demand on the performance of the battery products has become higher. By leveraging its high energy density, the demand is expected to grow further. Accordingly, FDG Kinetic (Chongqing) will put more efforts in the R&D, promote the product upgrades and improve the system of products to cater for the strategic technology upgrades on cathode materials and lithium-ion battery industry. It will also plan to expand the production capacity to further reduce costs, in a bid to satisfy the growing needs of customers and improve economic efficiencies.

Building a cathode materials factory to stabilize the supply of raw materials

To meet the Group's growth on the EVs and the batteries business, the Group is also active in expanding the business of cathode materials. In November 2016, FKL, a subsidiary of the Group, has entered into a framework agreement with Guian New Area Management Committee and Advanced Lithium Electrochemistry (Cayman) Co., Ltd. (a company listed on the Taipei Exchange, "ALEEES", stock code: 5227) to cooperate in the construction of a factory for the manufacturing of cathode materials with a designed maximum annual production of 30,000 tonnes by three phases. This will allow the fulfillment of the demand for cathode materials from Sinopoly Battery Limited, the utilization of the expertise and business connection of the respective parties to the framework agreement and the facilitation of the Group's expansion and development in the cathode materials manufacturing business. This strategic cooperation can secure a steady and quality supply of cathode materials to the Group and maximize the cost-efficiency, thus optimize the industry chain layout of the Group.

Completing the equity restructuring with ALEEES for comprehensive cooperation

In August 2016, the Group completed an equity restructuring with ALEEES and entered into a cooperation agreement. After the equity restructuring, FKL has become the single largest shareholder of ALEEES, and ALEEES is also accounted for as an associate of FKL. The Group has been focusing on expanding the EVs and its upstream businesses, well-studying the PRC market and actively expanding overseas coverage. This equity restructuring cooperation combining the advantages of Hong Kong, Mainland China and Taiwan match perfectly with the Group's long-term developing strategy, and is significant to the Group in improving the layout of the industry chain on upstream and downstream, safeguarding the steady development on the Group's core technology and its constant increase of the market competitiveness.

RISK FACTORS

Policy Risk

In general, the policies in relation to the NEVs industry have become one of the major national development strategies in the PRC. The operations of the Group are, to a certain extent, subject to the policies as our industry is currently receiving support from the state policies and government subsidies. In order to reduce the susceptibility of the Group's businesses to state policies, FDG will optimize cost control through improving technology, expand market presence and strengthen existing businesses for better economies of scale.

Market Risk

The growth of traditional automobile market in the PRC is expected to slow down. Many automobile manufacturers are shifting from producing cars with combustion engines to developing NEVs. As a result, the market competition has intensified. The Group, different from the general traditional automobile manufacturers which produce EVs by modifying traditional automobiles, is the only EV manufacturer in the PRC that focuses on designing and producing pure EVs. The design, production and assembling of core components of the Group's EVs are developed with its "Independent-Forward-Engineering" approach, giving us apparent advantages in terms of functions and structure of its EVs. It will become the Group's strongest competitive edge in facing the vigorous market competition.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group is devoted to creating a perfect career development arena and a good working environment for employees. In addition to induction training for new staffs, the Group will also provide on-the-job trainings to all employees in a timely manner to encourage employees to improve themselves and develop their potentials. We will ensure the efficiency of operation and the employees can all display their abilities through open, equal and merit-based standards as a system for monitoring and assessing the promotion of employees. The Company will also regularly review the benefits and remuneration system of the staff, compensations are payable according to the performance and qualifications of the employees, and set up an employee equity incentive plan as a reward for the outstanding staff. The Group also attaches great importance to the work-life balance of employees. It also organizes a variety of staff activities from time to time, cares about both physical and mental health of staff, and creates a harmonious working atmosphere.

The Group has always been committed to providing customers with high-quality products. In addition to the strict compliance with regulatory requirements, the Group has also established a complete quality assurance system in Hangzhou with a professional testing line to better meet the requirements of customers. All products have passed rigorous tests, including driving under adverse weathers, driving speed, and gradeability to ensure that only the EVs with maximum level of quality, performance and safety are sold to customers. The Group also provides comprehensive after-sales services process to customers to maintain good customer relationship and solidify the Group's brand reputation.

To ensure the quality of raw materials and the stability of supply, we select leading enterprises or suppliers with advanced technology and products in the industry as our partners based on strict criteria. In addition, the Group consolidates the upstream and downstream industry chain through merger and acquisition activities within the Group, so as to secure the supply of raw materials and enhance the technical standards.

RELEVANT LAWS AND REGULATIONS

The Group complies with the requirements under the Companies Ordinance, the Listing Rules and the Securities and Futures Ordinance for the disclosure of information and corporate governance. The Group also complies with the requirements of the Employment Ordinance and ordinances relating to occupational safety for the interest of employees of the Group.

Products and Specifications that Comply with Relevant Laws and Regulations

The Group's power batteries have been listed in the catalogue of "Standardized Requirements for the Automobile Power Storage Battery Industry", and comply with nationally qualified capacity, energy, power, efficiency, standard life cycle and working life cycle. The Company's EVs have been listed in the "Catalogue of Recommended Models for New Energy Automobile Popularization and Application", proving the quality of the Group's EVs and the eligibility to receive government subsidies. The Company's EVs have also been granted the qualification according to the "Provisions on the Administration of Newly Established Pure Electric Passenger Vehicle Enterprises", showing that the Group's production technology, R&D and design comply with the strict national requirements.

FUTURE DEVELOPMENT

NEVs market is promising and to further improve the Group's competitiveness

The global NEVs industry is booming. The PRC, as a big country in vehicle industry, has also listed the NEVs industry in the "13th Five-Year Plan" as one of the government's key support industries. It is expected that with the continuous improvement of the policy system and production technology and the corresponding increase in new charging infrastructure, NEVs are expected to gain further popularity. According to "Planning for the Development of the Energy-Saving and New Energy Automobile Industry (2012-2020)", the production of NEVs will reach 2 million units and the cumulative output will be more than 5 million units by 2020, showing that the NEVs market is promising.

To grasp such opportunity, NEVs enterprises in the PRC have to focus on the perfection of their own R&D design, enhanced product quality and lowered production cost to become international leading enterprises. As such, FDG will continue to implement its own "Independent-Forward-Engineering" approach, research and develop products according to international standards. FDG will establish large-scale and specialised production, further complete industry chain, with an aim to build a leading brand so as to raise the Group's competitiveness.

Promotion to recycling of the lithium-ion batteries to adhere to green concept

The PRC has become the largest NEVs market in the world after development for a few years, which evidenced the increase of domestic awareness on the environment protection. However, the power lithium-ion batteries have limited service life, and its storage capacity will gradually reduce and no longer applicable to EVs as time goes by. As forecasted by China Automotive Technology and Research Center, the accumulated scrap power battery volume will reach 120,000 to 170,000 tonnes in the PRC by 2020. Given the current domestic battery recovery rate is less than 2%, eliminating a large number of power lithium batteries will pose a threat to the environment in the future, and how to avoid waste of resources and environmental re-pollution will become the new issues for the PRC government and relevant enterprises. As one of the main solutions, power batteries recycling and second use are set to bring new development opportunities to the Group.

Taking challenges as motivations and endeavor to bring fruitful returns to its shareholders

As the public environmental awareness enhanced, the NEVs industry carried forward its strong growth from 2016. Under such market conditions, all business segments of FDG achieved brilliant results in the period under review. The sales of EVs segment was particularly strong. However, since the development of NEVs industry is still in its early stage, coupled with the ever-adjusting subsidy policy, the trade receivables of the Group also recorded a considerable increase during the period under review. The Group will devote efforts to acquiring quality and trustworthy clients which are possible in establishing long-term strategic cooperation to ease its trade receivable pressure.

With the fast growth in all business segments of the Group, administrative expenses also increased significantly accordingly in the period under review. The Group will further lower its cost through optimizing industry chain and integrating upper and lower stream resources. Besides, as most of the growth of FDG in recent years arose from merger and acquisition, the Group will commit to simplifying organisation structure to enhance operation efficiency.

To cope with the continuous rise of financial cost, the Group will actively expand its financing channels, facilitate loan refinancing to further reduce the average financing cost of the Group. In addition, with the continuous increase in sales of EVs, the revenue will increase accordingly, the Group will be able to obtain more favorable loan terms, thereby effectively reducing the cost of financing and optimizing the Group's debt structure.

After the subsidy fraud last year, the PRC government has reduced subsidies amount and increased technology threshold, which is intended to rectify and standardize the NEVs industry so as to facilitate its long-term healthy growth. The adjusted subsidy policy will guide the enterprises that possess the competitiveness to produce the EVs of higher quality, transform and upgrade the NEVs industry in the PRC. The Group will proactively meet the state policies, take challenges as motivations, and strive to control the costs in order to improve economic efficiencies by enhancing scaled and specialised production. The Group will also raise the R&D level, production technology and operation capacity to ensure the efficient use of resources, while increasing R&D efforts to explore new products with a view to raise the overall market competitiveness of the Group.

The Group is confident about the NEVs industry and the Company's prospects, and believes that by virtue of its own continuous optimization of the development strategy and the strengthened management team, the Group will be able to stand out from its peers in the NEVs industry, establish its own brand name in the PRC, and become an international leading manufacturer of pure EVs. In the future, the Group will continue to endeavor to bring fruitful returns to its shareholders.

FINANCIAL REVIEW

During the year, the Group's revenue increased by approximately 3.2 times to reach approximately HK$1,513.2 million as compared with the revenue of approximately HK$363.4 million of the last financial year. The substantial increase was mainly due to a combination effect of (i) the increase in the sales of electric vehicles over 1,200 vehicles, which included mini-size buses, commercial vehicles and public buses, represented by a revenue of approximately HK$1,178.9 million in the current financial year, an increase of approximately 119.3 times as compared with a revenue of approximately HK$9.8 million of the last financial year; (ii) the increase in the sales of cathode materials over 1,600 tonnes from the battery materials production business, represented by a revenue of approximately HK$234.2 million, an increase of approximately 4.1 times as compared with a revenue of approximately HK$46.3 million of the last financial year; and (iii) a decrease in sales of battery products of approximately HK$198.3 million to external customers as compared to that of the last financial year as a strong internal demand of the lithium-ion batteries from the Group's electric vehicle production business segment.

Gross profit increased by approximately 2.4 times to approximately HK$492.0 million of the current financial year from approximately HK$144.2 million of the last financial year. The overall gross profit ratio was at approximately 32.5% of the current financial year as compared with approximately 39.7% of last financial year, representing a slightly decrease of approximately 7.2%.

The Group has narrowed its loss for the year to approximately HK$725.2 million from approximately HK$887.8 million of the last financial year, which is principally attributable to a positive effect of:

(i) the other income of approximately HK$72.1 million, an increase of approximately HK$44.8 million comparing with the last financial year, it was mainly attributable to increase in grants received from various PRC government agencies in respect of subsidies for research and development of electric vehicles and batteries;

(ii) the other net gains of approximately HK$40.3 million of the current financial year which mainly represented a negative goodwill arising from the acquisition of additional interest in a joint venture of approximately HK$133.9 million and partly offset by impairment on trade and bills receivables of approximately HK$35.9 million, impairment on available-for-sale investments of approximately HK$23.9 million and impairment on loan and other receivables of approximately HK$7.7 million, while there was other net losses of approximately HK$35.9 million of the last financial year;

(iii) the other operating expenses of approximately HK$87.4 million in respect of the production and output costs incurred in the trial stage of the Group's electric vehicle production base in Hangzhou was incurred in the last financial year which did not incur in the current financial year;

(iv) the income tax credit of the Group of approximately HK$17.0 million, an increase of approximately HK$16.1 million as comparing with the last financial year of approximately HK$0.9 million, mainly attributable to the increase in deferred tax credit derived from the reversal of temporary differences arising on fair value adjustments on intangible assets;

and a negative effect of:

(i) the selling and distribution costs of approximately HK$96.2 million, an increase of approximately HK$59.5 million comparing with the last financial year of approximately HK$36.7 million, was mainly attributable to the increase of marketing and promotion expenses in launching the electric vehicles;

(ii) the general and administrative expenses of approximately HK$492.2 million, an increase of approximately HK$141.9 million comparing with last financial year of approximately HK$350.3 million, was mainly attributable to the increase in expenditures incurred by the Group's electric vehicle production segment in Hangzhou plant because of the commencement of its mass production;

(iii) the research and development expenses of approximately HK$128.7 million, an increase of approximately HK$65.9 million comparing with the last financial year of approximately HK$62.8 million, was mainly attributable to the increase in the research and development on batteries and electric vehicles with new models and various enhancements;

(iv) the finance costs of approximately HK$363.5 million, an increase of approximately HK$58.7 million comparing with the last financial year of approximately HK$304.8 million, was mainly attributable to interest expenses from the increase in the Group's bank loans and other borrowings and the increase of fair value loss on derivative financial instruments of convertible bonds; and

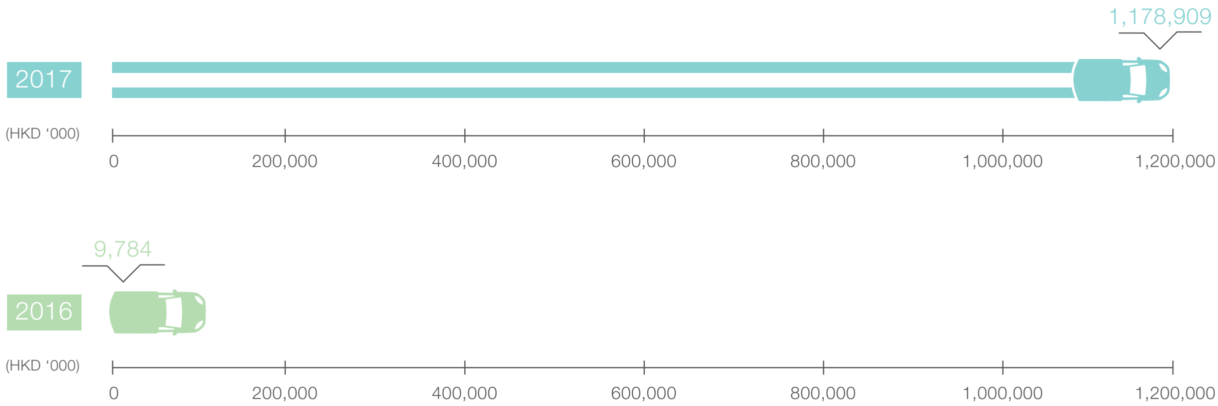
(v) the share of results of joint ventures of approximately HK$68.2 million, an increase of approximately HK$57.4 million as comparing with the last financial year of approximately HK$10.8 million, was mainly attributable to the share of loss of a joint venture, Chanje Energy Inc., of approximately HK$68.8 million.

The Group recorded the loss before interest, tax, depreciation and amortisation ("LBITDA") of approximately HK$94.6 million for the current financial year, a decrease of approximately HK$234.4 million, comparing with approximately HK$329.0 million in the last financial year. Such decrease was mainly attributable to the commencement of sales of electric vehicles that generated from the Group's electric vehicle production segment during the year under review.

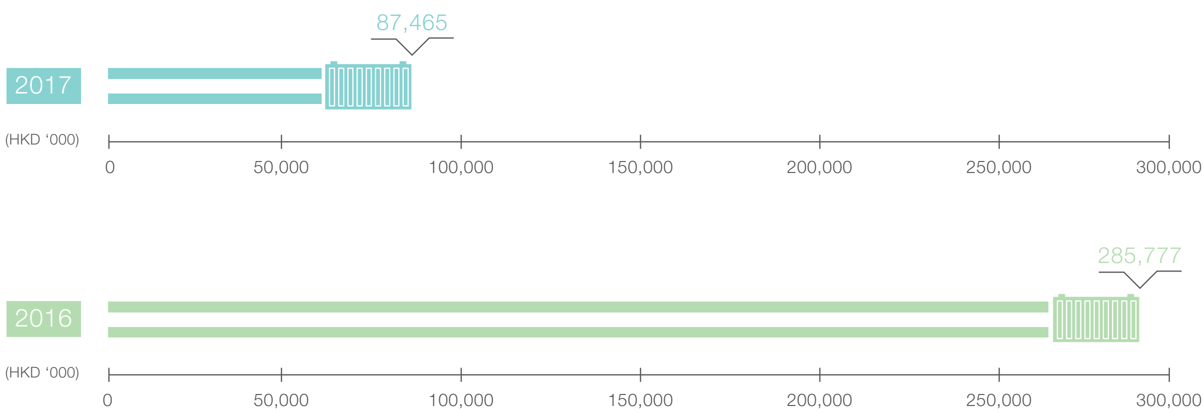
During the year under review, the Group widen the loss attributable to owners of the Company at approximately HK$554.8 million, comparing with the last financial year of approximately HK$228.2 million while the loss attributable to non-controlling interests amount to approximately HK$170.4 million (2016: approximately HK$659.6 million). Such decrease in the loss attributable to non-controlling interests are primarily due to the loss arising from the acquisition of interest in an associate of approximately HK$1,693.1 million recorded in FDG Kinetic Limited ("FKL", a non-wholly-owned listed subsidiary of the Company) in the last financial year, such loss was proportionally shared by the non-controlling interests of FKL, amounted to approximately HK$447.8 million which did not incur in the current financial year.

Turnover of main business segment

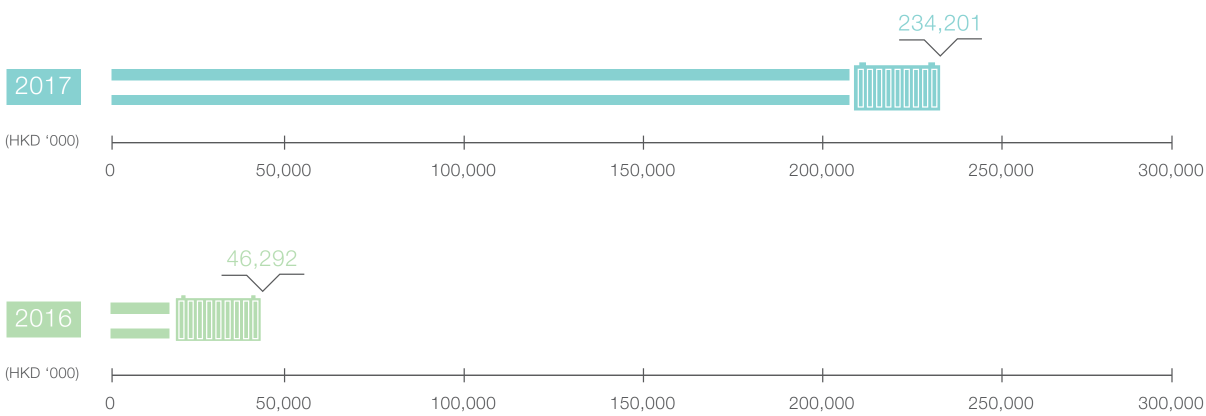
Sales of Electric Vehicles



Sales of Lithium-ion Batteries and its Related Products



Sales of Cathode Materials for NCM Lithium-ion Batteries



Segment Information

Vehicle design and electric vehicle production business

During the year under review, the Group's electric vehicle production plant in Hangzhou has officially commenced mass production. The segment revenue during the year contributed approximately HK$1,178.9 million to the Group as compared with approximately HK$11.4 million of the last financial year, which is approximately 77.9% of the Group's total revenue.

The gross profit ratio from the electric vehicle production business before elimination of inter-segment transactions was approximately 26.8% of the current financial year. The demand for electric vehicles are expected to remain strong in the future to cope with the continuous favorable government policies. The performance of this segment is expected to be improved and accelerated from the better economic of scale for the development of new energy automobile industry in the future.

The segment loss before tax for the year was approximately HK$77.0 million, a decrease of approximately HK$148.8 million as comparing with approximately HK$225.8 million of the last financial year. An earnings before interest, tax, depreciation and amortisation ("EBITDA") at approximately HK$129.6 million for the current financial year is recorded comparing with the LBITDA of approximately HK$128.6 million for the last financial year. Such improvement was mainly attributable to the rapid growth of revenue from electric vehicles and grants and subsidies on related sales of electric vehicles recorded and accrued during the current financial year. The Group's related electric vehicles with models were listed in the catalogue of recommended new energy automobile models announced by the PRC government. The current PRC government policy for subsidy on new energy automobiles is to subsidise the customers of electric vehicles but not the electric vehicle manufacturer itself. The electric vehicle manufacturer makes subsidy application as a whole and thereafter the national subsidy will be directly paid by the government to the manufacturer on behalf of the customers in order to reduce the customer's burden on purchase the electric vehicles.

Battery products business

The revenue from battery products business before the elimination of inter-segment transactions decreased from approximately HK$592.7 million of last financial year to approximately HK$373.0 million of the current financial year as the decrease of revenue from external customers and lots of batteries will be supplied to our electric vehicle production segment to match with the pace of the development of electric vehicle business. The gross profit ratio from the battery products business from external customers decreased from approximately 46.1% of the last financial year to approximately 36.3% of the current financial year. Such decrease was mainly attributable to the provision of competitive selling price to the customers to maintain specific market share under the high competition environment.

The battery products business widened a segment loss before tax to approximately HK$159.8 million from approximately HK$17.4 million of the last financial year which was principally attributable to the combination effect of the decrease in revenue and the increase in research and development of battery-related products and its improvements.

Electric vehicle leasing business

There was almost no rental income from electric vehicle leasing business for the current financial year as compared with approximately HK$0.7 million of the last financial year. Such decrease was mainly due to the change of operation model that the Group will deploy its own electric vehicles for leasing and provide different leasing services including sale and leaseback and finance lease services through its vertical integration business model covering the Group's battery production, electric vehicle manufacturing and electric vehicle leasing. The segment loss before tax for the current financial year was approximately HK$0.4 million, a decrease of approximately HK$3.0 million as comparing with approximately HK$3.4 million of the last financial year.

Battery materials production business

During the year under review, the sales of cathode materials for NCM lithium-ion batteries in Chongqing factory of approximately HK$234.2 million, representing an increase of approximately HK$187.9 million as compared with approximately HK$46.3 million of the last financial year, was mainly attributable to the recognition of our cathode materials quality and the increase in demand from customers achieved by the release of its full capacity. The segment loss before tax of approximately HK$61.2 million as comparing with approximately of HK$30.4 million of the last financial year. Excluding the share of loss of an associate, ALEEES, of approximately HK$17.3 million for the current financial year, the segment loss before tax in Chongqing factory was approximately HK$43.9 million during the current financial year, which representing an increase of approximately HK$13.5 million as comparing with the last financial year of approximately HK$30.4 million (which only covered five month's results since its consolidation into the Group). The losses of the Chongqing factory was narrowed during the year by utilising its current production capacity and the increase in revenue. It will also plan to expand the production capacity by the use of new finance lease to further reduce costs in order to increase the scale of economies.

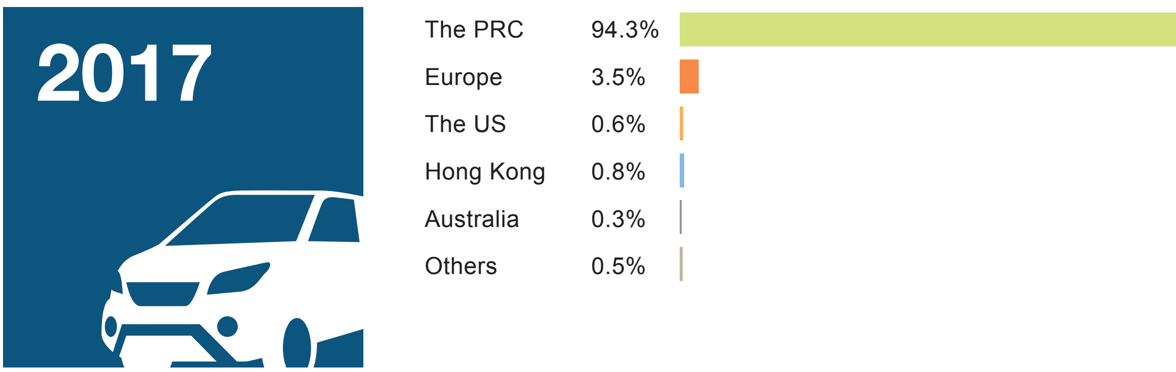
The NCM lithium-ion batteries can be widely used in the telecommunication devices, electric vehicle and energy storage system. The demand for cathode materials are expected to remain strong in the future to cope with the continuous favorable government policies in the development of new energy automobile industry.

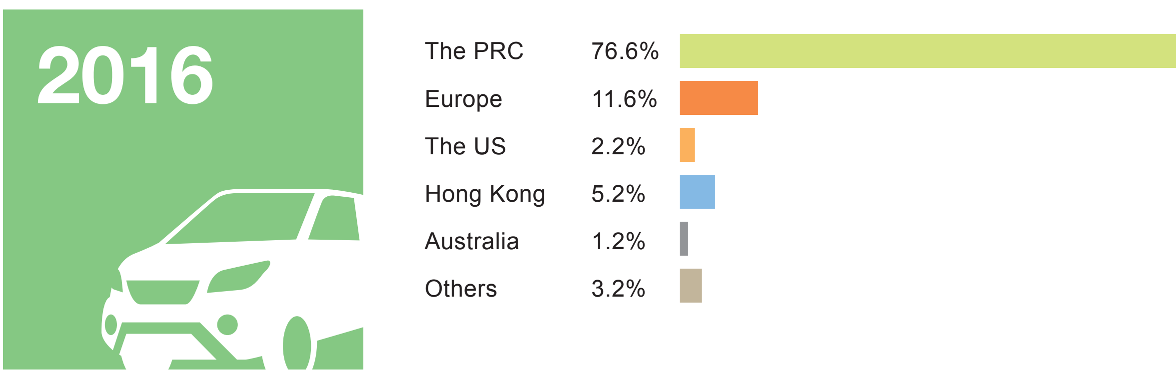
Direct investments business

The interest income from direct investments for the current financial year of approximately HK$46.0 million, a decrease of approximately HK$4.8 million as compared with approximately HK$50.8 million of the last financial year before the elimination of inter-segment transactions. The segment profit before tax for the current financial year of approximately HK$17.3 million as comparing with the segment loss before tax of the last financial year of approximately HK$24.5 million, was mainly attributable to the increase in unrealised and realised gains on held-for-trading investments.

Geographical Analysis of Turnover

During the year under review, the Group's electric vehicles market was mainly in the PRC and the Group continue to develop its lithium-ion batteries business world-wide. The PRC, European countries, the United States, Australia, Hong Kong and others contributed approximately 94.3% (2016: 76.6%), 3.5% (2016: 11.6%), 0.6% (2016: 2.2%), 0.3% (2016: 1.2%), 0.8% (2016: 5.2%) and 0.5% (2016: 3.2%) to the Group's total turnover respectively.





Liquidity and Financial Resources

As of 31 March 2017, the Group had non-current assets of approximately HK$6,497.3 million (31 March 2016: approximately HK$6,035.0 million), which comprised of goodwill, intangible assets, fixed assets, interests in associates, interests in joint ventures, available-for-sale investments, deposits paid for non-current assets, loan receivable, and other non-current assets. Such increase in non-current assets by approximately HK$462.3 million was mainly due to (i) the increase in interests in associates, which mainly represented an acquisition of approximately 21.85% equity interests in an associate, ALEEES, of approximately HK$393.1 million during the year, with details disclosed under the section headed "Material Acquisitions and Disposals"; and (ii) there was an increase of property, plant and equipment of approximately HK$329.4 million comparing with two financial year-end dates, to cope with the operations of Hangzhou plant.

As of 31 March 2017, the Group had current assets of approximately HK$4,340.2 million, an increase of approximately HK$1,686.2 million comparing with the current assets of approximately HK$2,654.0 million as at 31 March 2016, which mainly comprised of inventories, trade, bills, loan and other receivables, financial assets at fair value through profit and loss, derivative financial instruments, pledged bank deposits and cash and cash equivalents. Such substantial increase in current assets mainly represented an increase in trade and bill receivables of approximately HK$1,098.2 million which was attributable to the increase in sales of electric vehicles and the credit period was granted to those electric vehicle customers. The Group generally provide a credit period of one month to six months to its customers. Credit limits are set for those customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly review by senior management.

As of 31 March 2017, the Group had current liabilities of approximately HK$3,406.3 million (31 March 2016: approximately HK$2,891.3 million), which mainly comprised of bank loans and other borrowings, trade and bills payables, accruals and other payables, tax payables, obligations under finance leases and liability components of convertible bonds. Such increase in current liabilities by approximately HK$515.0 million was mainly attributable to the combination effect of (i) the net increase of bank loans and other borrowings of approximately HK$238.6 million for the general working capital purpose of the Group; (ii) the increase of trade and bills payables of approximately HK$334.6 million to cope with the increased operations of electric vehicles production business; (iii) the increase in liability components of convertible bonds of approximately HK$514.6 million; and (iv) the reclassification of obligations under redeemed convertible bonds from current liabilities to non-current liabilities with details set out in Note 36 to the consolidated financial statements.

The Group's non-current liabilities (comprised of receipts in advance, deferred income, bank loans and other borrowings, obligations under finance leases, liability components of convertible bonds, deferred tax liabilities and obligations under redeemed convertible bonds) increased from approximately HK$1,705.9 million as at 31 March 2016 to approximately HK$2,931.6 million as at 31 March 2017, which mainly attributable to the combination effect of (i) the increase in receipts in advance of approximately HK$560.1 million mainly attributable to an amount of approximately HK$563.2 million received in advance for providing electric vehicles research, design and development of related service in respect of new product models; (ii) the increase in long-term bank loans and other borrowings of approximately HK$213.7 million; (iii) the decrease of the liability components of convertible bonds of approximately HK$286.4 million; and (iv) the reclassification of obligations under redeemed convertible bonds of approximately HK$760.8 million from current liabilities to non-current liabilities.

Total bank loans and other borrowings as at 31 March 2017 were approximately HK$2,435.3 million (31 March 2016: approximately HK$1,983.0 million), including:

(i) the bank loans of approximately HK$1,547.6 million (31 March 2016: approximately HK$1,255.8 million) were secured by certain land and buildings, machinery and equipment and construction in progress of the Group with a total carrying value of approximately HK$2,332.7 million (31 March 2016: approximately HK$2,176.9 million), bank deposits of approximately HK$55.2 million (31 March 2016: approximately HK$21.0 million) and share mortgages over certain shares of subsidiaries of the Group, denominated in Renminbi ("RMB") and/or in Euro, bear interest at prevailing market interest rates;

(ii) the other borrowings of approximately HK$697.5 million (31 March 2016: approximately HK$694.6 million) were secured by, inter alia, the debentures in favour of the lender by way of the first fixed and floating charges over all the undertaking, property and assets of the Company and two wholly-owned subsidiaries of the Company and a share mortgage over certain shares of FKL. Such borrowings were denominated in Hong Kong dollars and bear fixed interest rate;

(iii) unsecured bank loans of approximately HK$157.7 million (31 March 2016: nil) were denominated in RMB, unsecured, and bear interest at prevailing market interest rates; and

(iv) unsecured other borrowing of approximately HK$32.6 million (31 March 2016: approximately HK$32.6 million) were denominated in US dollars, unsecured, bear fixed interest rate.

The maturity profile of the bank loans and other borrowings included approximately HK$1,340.8 million (31 March 2016: approximately HK$1,102.2 million) repayable within one year, approximately HK$319.9 million (31 March 2016: approximately HK$169.8 million) repayable after one year but within two years and approximately HK$774.6 million (31 March 2016: approximately HK$711.0 million) repayable after two years but within five years respectively. The Group's bank loans and other borrowings are mostly event driven, with little seasonality.

The net assets of the Group increased from approximately HK$4,091.8 million as at 31 March 2016 to approximately HK$4,499.6 million as at 31 March 2017. The net assets attributable to owners of the Company per share as at 31 March 2017 was approximately HK$0.13 (31 March 2016: approximately HK$0.15).

As at 31 March 2017, the Group's gearing ratio, without taking into account the obligations under redeemed convertible bonds of approximately HK$760.8 million (31 March 2016: approximately HK$760.8 million) and the liability components of convertible bonds of approximately HK$704.8 million (31 March 2016: approximately HK$476.6 million), was approximately 82.6% (31 March 2016: approximately 59.0%) calculated on the basis of bank loans and other borrowings of approximately HK$2,435.3 million (31 March 2016: approximately HK$1,983.0 million) to total equity attributable to owners of the Company of approximately HK$2,948.6 million as at 31 March 2017 (31 March 2016: approximately HK$3,362.5 million).

Foreign Exchange Exposure

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

Capital Structure

On 25 August 2016, a total of 430,000,000 new shares of the Company were issued and allotted at a price of HK$0.50 per share under the general mandate to issue shares granted at the Company's annual general meeting held on 28 August 2015 (the "General Mandate") pursuant to a subscription agreement entered into between the Company and ALEEES on 14 April 2016 (the "Subscription Agreement").

On 25 August 2016, zero coupon convertible bonds due 2021 in the principal amount of HK$275,000,000 (the "Convertible Bonds due 2021") were issued pursuant to the Subscription Agreement. Based on the initial conversion price of HK$0.50, the Convertible Bonds due 2021 will be converted into 550,000,000 new shares of the Company under the General Mandate upon full conversion.

During the year ended 31 March 2017, a total of 4,896,000 new shares of the Company were issued and allotted upon the conversion of the convertible bonds due 2018 which are convertible into new shares of the Company at an initial conversion price of HK$0.50 (the "Exchange CBs") issued by the Company in the offer to acquire all the issued shares and share options of FKL.

As a result of the above, the number of shares of the Company in issue increased from 21,963,581,108 as at 1 April 2016 to 22,398,477,108 as at 31 March 2017.

As at 31 March 2017, the Company has (i) outstanding share options entitling holders to subscribe for a total of 427,300,000 shares of the Company; (ii) outstanding Exchange CBs in the amount of HK$129,378,304.80 which could be converted into 258,756,609 shares of the Company based on the initial conversion price of HK$0.50; and (iii) outstanding Convertible Bonds due 2021 held by ALEEES which could be converted into 550,000,000 shares of the Company based on the initial conversion price of HK$0.50.

The net proceeds of approximately HK$488.5 million from the issuance of 430,000,000 new shares of the Company and Convertible Bonds due 2021 pursuant to the Subscription Agreement were intended to be used for repaying some of the Group's debts, supporting the development of FKL (if required) and as general working capital of the Group. All of such net proceeds have been utilised, as to approximately HK$350 million was used for funding to support the development of FKL, approximately HK$58 million was used to repay certain borrowings of the Group and approximately HK$80.5 million was used for the general working capital of the Group.

Save as disclosed above, the Group had no other debt securities or other capital instruments as at 31 March 2017.

Material Acquisitions and Disposals

During the year under review, the following transactions were considered as material acquisitions of the Company:

On 14 April 2016, the Company and FKL jointly announced, inter alia, that the Company and FDG Investment Holdings Limited ("FIHL", being a direct wholly-owned subsidiary of the Company) entered into (i) the Ark Cayman Sale and Purchase Agreement; (ii) the Ark Taiwan Asset Purchase Agreement; and (iii) the Loan Agreement, whereas FKL and/or FDG Kinetic Investment Limited ("FKIL", being a direct wholly-owned subsidiary of FKL) entered into (iv) the ALEEES Share Subscription Agreement, details of which are set out below.

(i) On 14 April 2016, FIHL, the Company and ALEEES entered into the Ark Cayman Sale and Purchase Agreement pursuant to which ALEEES conditionally agreed to sell and FIHL conditionally agreed to acquire the total issued shares of Aleees Eco Ark (Cayman) Co., Ltd. ("Ark Cayman") for the consideration of HK$28,000,000. Completion of the acquisition took place on 24 August 2016 and Ark Cayman has become an indirect wholly-owned subsidiary of the Company.

(ii) On 14 April 2016, FIHL, the Company and Ark Taiwan entered into the Ark Taiwan Asset Purchase Agreement pursuant to which Ark Taiwan conditionally agreed to sell and deliver to FIHL and FIHL conditionally agreed to purchase the asset and equipment of Ark Taiwan as set out in the Ark Taiwan Asset Purchase Agreement for the consideration of approximately HK$72,000,000 for the asset and a maximum consideration of NT$138,000,000 for the equipment. Completion of the acquisition of the asset and equipment took place on 24 August 2016.

(iii) On 14 April 2016, FIHL (as lender) entered into the Loan Agreement with Ark Cayman (as borrower) and ALEEES (as guarantor) pursuant to which FIHL agreed to make available to Ark Cayman the provision of a loan in the principal amount of US$2,000,000 for the purpose of assisting Ark Taiwan to pay or finance its research and development expenses.

(iv) On 14 April 2016, FKIL, FKL and ALEEES entered into the ALEEES Share Subscription Agreement pursuant to which ALEEES conditionally agreed to allot and issue and FKIL conditionally agreed to subscribe for 46,000,000 new ordinary shares of ALEEES which represented approximately 21.85% of the total issued shares of ALEEES as enlarged by the subscription of the shares of ALEEES by FKIL for the total subscription price of NT$1,610,000,000.

As the Ark Cayman Sale and Purchase Agreement, the Ark Taiwan Asset Purchase Agreement, the provision of the loan under the Loan Agreement and the ALEEES Share Subscription Agreement were inter-conditional and related, such transactions were aggregated as a series of transactions which constituted a discloseable transaction of the Company.

On 14 April 2016, the Company and ALEEES also entered into a subscription agreement pursuant to which the Company conditionally agreed to allot and issue and ALEEES conditionally agreed to subscribe for (a) 430,000,000 new shares of the Company at the subscription price of HK$0.50 per new share of the Company; and (b) the unlisted zero coupon convertible bonds due 2021 in the principal amount of HK$275 million to be issued by the Company in favour of ALEEES pursuant to the terms and conditions of the subscription agreement. Completion of the subscription of shares and convertible bonds took place on 25 August 2016.

ALEEES is principally engaged in the business of production, research and development and sales and marketing of cathode materials for lithium ferrous phosphate batteries. It is one of the largest cathode materials manufacturers in the world. It is also a primary supplier of cathode materials for Sinopoly Battery Limited (a lithium-ion battery manufacturer within the Group and is 75% owned by the Company and 25% owned by FKL). The acquisition of Ark Cayman and the asset and equipment of Ark Taiwan represent the acquisition of ALEEES' research and development capabilities in connection with electric vehicle and battery technology which will be synergetic to the Company's existing research and development.

Details of the above agreements are disclosed in the joint announcement of the Company and FKL dated 14 April 2016.

Save as disclosed above, the Group had no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31 March 2017.

Pledge of Assets and Contingent Liabilities

There are pledges of assets as at 31 March 2017 and 2016 with details disclosed under the section headed "Liquidity and Financial Resources". In addition, pledged bank deposits of approximately HK$160.2 million (31 March 2016: approximately HK$212.6 million) were pledged to secure mainly for bills payables, bank loans and letter of credit issued by the Group.

The Group had no significant contingent liabilities as at 31 March 2017 (31 March 2016: nil).

Capital Commitment

Details of the capital commitments of the Group are set out in Note 44(b) on page 189 of this report.

Employees and Remuneration Policies

As of 31 March 2017, the Group had 75 employees (31 March 2016: 65 employees) in Hong Kong and 2,761 employees (31 March 2016: 2,663 employees) in the PRC. Total staff costs (including directors' emoluments and equity-settled share-based payments) during the current financial year amounted to approximately HK$359.2 million (2016: approximately HK$315.6 million). The remuneration policies are determined with reference to market conditions and performance of individual staff. The Group participates in the Mandatory Provident Fund Scheme in Hong Kong and the state-managed retirement benefit schemes in the PRC. The Group has a share option scheme for the benefit of its directors and eligible participants. On 25 November 2016, the Board of the Company resolved to establish a new and comprehensive employee benefit trust for the employees of the Group and other persons as designated by the Company with details set out in the announcement of the Company dated 28 November 2016.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining a high standard of corporate governance. The board of directors of the Company (the "Board") believes that sound corporate governance principles, increased transparency and independency of corporate operation, and an effective shareholder communication mechanism will promote the healthy growth of the Company and enhance the shareholders' value.

CORPORATE GOVERNANCE

The Company applied the principles of and complied with all the code provisions of the Corporate Governance Code and Corporate Governance Report (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 March 2017 and up to the date of this report except for the following deviations.

Code provision A.2.1

Since 28 May 2014, both the roles of Chairman and Chief Executive Officer are vested in Mr. Cao Zhong. This constitutes a deviation from code provision A.2.1 of the Code which requires the roles of the chairman and chief executive officer to be separated and performed by different individuals. The Board considers that it will be more effective in implementing the Company's business strategies under the current arrangement as the Group has expanded into the electric vehicle sector and that a balance of power and authority is maintained at all times as the Board comprises experienced and high calibre individuals including sufficient number of independent non-executive directors as required under the Listing Rules.

Code provision F.1.2

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code for securities transactions by directors (the "Securities Code"), which is largely based on the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. The Securities Code is on terms no less exacting than the required standard set out in the Model Code. All directors of the Company have confirmed, following specific enquiry by the Company, their compliance with the required standard set out in the Model Code and the Securities Code throughout the year ended 31 March 2017.

BOARD OF DIRECTORS

Composition

The Board currently comprises the following eleven directors:

Executive directors:
Mr. Cao Zhong *(Chairman and Chief Executive Officer)*
Mr. Miao Zhenguo *(Deputy Chairman)*
Mr. Tong Zhiyuan *(Chief Operating Officer)*
Dr. Chen Yanping *(Chief Technical Officer)*
Mr. Lo Wing Yat
Mr. Jaime Che *(Vice President)*

Non-executive director:
Mr. Wong Kwok Yiu

Independent non-executive directors:
Mr. Chan Yuk Tong
Mr. Fei Tai Hung
Mr. Tse Kam Fow
Mr. Xu Jingbin

The biographical details of the existing directors are set out in the "Biographies of Directors and Senior Management" on pages 8 to 12 of this annual report.

Board Diversity

The Board has adopted a board diversity policy (the "Policy"). Under the Policy, the selection of candidates for Board appointment will be based on a range of diversity perspectives, including but without limitation to gender, age, cultural and educational background, professional and industry experience, skills, knowledge and length of service. The Nomination Committee has considered that the current Board composition has the appropriate skills, experience and diversity of perspectives that are required to support the execution of the business strategies of the Company and achieve the effective running of the Board.

The Nomination Committee will monitor the implementation of the Policy and assess the Board composition on an annual basis.

Role and Function

The Board is reserved for its decision or consideration matters covering mainly the overall strategy of the Group; annual and interim results; material acquisition, disposal or investments; directors' appointment or re-appointment; and other significant business, financial or legal matters.

The Board has delegated the day-to-day operations of the Group to the management and the management has been providing the Board with monthly reports, which contain, inter alia, business information, financial summaries including cash and bank balances and key events of the Group (if any).

The Board is responsible for overseeing corporate governance practices of the Group and will assign certain functions to other board committee(s) as and when appropriate.

Chairman and Chief Executive

This is detailed under the section headed "Corporate Governance – Code provision A.2.1".

Non-executive Director and Independent Non-executive Directors

The Company has one non-executive director and four independent non-executive directors.

The term of appointment of the non-executive director and independent non-executive directors of the Company is two years.

All the non-executive director and independent non-executive directors are subject to retirement by rotation and re-election at the annual general meetings pursuant to the Bye-laws of the Company.

Throughout the year ended 31 March 2017, the Company complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive directors, at least one independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise, and a sufficient number of independent non-executive directors representing at least one-third of the board, respectively.

The Board has received from each independent non-executive director an annual confirmation of his independence and considers that all the independent non-executive directors are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Relationship

Mr. Miao Zhenguo, the Deputy Chairman and executive director of the Company, is the brother-in-law of Mr. Cao Zhong, the Chairman, executive director and Chief Executive Officer of the Company.

Save as disclosed above, there is no financial, business, family or other material relationship among the members of the Board.

Meetings and Attendance

The Board held four regular meetings and three additional meetings during the year ended 31 March 2017. The individual attendance records of the directors at the Board meetings are as follows:

Name of directors	Number of meetings attended/held
Executive directors:	
Mr. Cao Zhong	7/7
Mr. Miao Zhenguo	6[a]/7
Mr. Tong Zhiyuan *(appointed on 15 February 2017)*	0/0
Dr. Chen Yanping	7[c]/7
Mr. Lo Wing Yat	7[c]/7
Mr. Jaime Che	7/7
Non-executive director:	
Mr. Wong Kwok Yiu *(appointed on 25 November 2016)*	1/2
Independent non-executive directors:	
Mr. Chan Yuk Tong	7/7
Mr. Fei Tai Hung	7[b]/7
Mr. Tse Kam Fow	7/7
Mr. Xu Jingbin *(appointed on 15 February 2017)*	0/0

Notes:

a. Including one meeting having another director acted as his representative.

b. Including two meetings having another director acted as his representative.

c. Including three meetings having another director acted as his representative.

Time Commitment

The Board has reviewed the contribution required from all directors to perform their responsibilities to the Company and considered that each of the directors has been spending sufficient time and attention to the Company's affairs.

Training

The Company recognises the importance of continuous professional development of directors so as to ensure that their contribution to the Board remains informed and relevant. All directors have been actively participating in different aspects of professional training to develop and refresh their knowledge and skills and a summary of the training received by the directors for the year ended 31 March 2017 is as follows:

Name of directors	Physical visit to the Company's facilities	Attending trainings/ seminars relevant to corporate governance and regulatory updates
Executive directors:		
Mr. Cao Zhong	✓	✓
Mr. Miao Zhenguo	✓	✓
Mr. Tong Zhiyuan *(appointed on 15 February 2017)*	✓	✓
Dr. Chen Yanping	✓	✓
Mr. Lo Wing Yat	✓	✓
Mr. Jaime Che	✓	✓
Non-executive director:		
Mr. Wong Kwok Yiu *(appointed on 25 November 2016)*	–	✓
Independent non-executive directors:		
Mr. Chan Yuk Tong	✓	✓
Mr. Fei Tai Hung	✓	✓
Mr. Tse Kam Fow	✓	✓
Mr. Xu Jingbin *(appointed on 15 February 2017)*	–	✓

Insurance

The Company has arranged appropriate insurance cover in respect of legal action against its directors and senior management.

BOARD COMMITTEES

The Board has established six committees, namely the Remuneration Committee, the Nomination Committee, the Audit Committee, the Risk Committee, the Executive Committee and the Special Board Committee. Each committee reports back to the Board on its decisions or recommendations, unless there are legal or regulatory restrictions on its ability to do so.

Remuneration Committee

The terms of reference of the Remuneration Committee are in compliance with the code provisions set out in the Code. The Remuneration Committee currently comprises three independent non-executive directors, namely Mr. Chan Yuk Tong (Chairman of the Remuneration Committee), Mr. Fei Tai Hung and Mr. Tse Kam Fow, and two executive directors, namely Mr. Cao Zhong and Mr. Miao Zhenguo.

The principal duties of the Remuneration Committee are (i) to make recommendations to the Board on the Company's policy and structure for all directors' and senior management's remuneration; (ii) to make recommendations to the Board on the remuneration packages of individual executive directors and senior management; (iii) to make recommendations to the Board on the remuneration of non-executive directors; (iv) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; and (v) to ensure that no director or any of his associates is involved in deciding his own remuneration. The full version of the terms of reference of the Remuneration Committee is available on the Stock Exchange's website and the Company's website at www.fdgev.com.

The Remuneration Committee held three meetings during the year ended 31 March 2017. The individual attendance records of the committee members are as follows:

Name of committee members	Number of meetings attended/held
Mr. Chan Yuk Tong *(Chairman)*	3/3
Mr. Fei Tai Hung	3/3
Mr. Tse Kam Fow	3/3
Mr. Cao Zhong	3/3
Mr. Miao Zhenguo	2/3

In these three meetings, the Remuneration Committee considered and recommended to the Board (i) salary adjustment of an executive director; (ii) the proposal for the Board to fix the directors' remuneration to be put forward at the 2016 annual general meeting of the Company for shareholders' approval; and (iii) the remuneration of an executive director, a non-executive director and an independent non-executive director upon their respective appointment.

The primary objective of the director remuneration policy is to attract, retain and motivate the Board members by providing fair reward for their contribution to the Group's performance. The directors' remuneration packages are determined with reference to the duties and responsibilities of individual directors, the Company's performance and the prevailing market conditions and trends. The Company has adopted a share option scheme for the purpose of providing incentives or rewards to eligible participants, including the directors of the Company (i) in recognition of their contribution to the Group; (ii) to attract and retain or otherwise maintain an on-going relationship with them for the benefit of the Group; and (iii) to align their interests with the shareholders of the Company, thereby encouraging them to work towards enhancing the value of the shares of the Company.

During the year ended 31 March 2017, no director was involved in deciding his own remuneration.

Nomination Committee

The terms of reference of the Nomination Committee are in compliance with the code provisions set out in the Code. The Nomination Committee currently comprises two executive directors, namely Mr. Cao Zhong (Chairman of the Nomination Committee) and Mr. Miao Zhenguo, and three independent non-executive directors, namely Mr. Chan Yuk Tong, Mr. Fei Tai Hung and Mr. Tse Kam Fow.

The principal duties of the Nomination Committee are (i) to review the structure, size and diversity (including but without limitation to gender, age, cultural and education background, professional and industry experience, skills, knowledge and length of service) of the Board and make recommendations on any proposed changes to the Board to complement the Group's business strategy; (ii) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; (iii) to assess the independence of independent non-executive directors; and (iv) to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive. The full version of the terms of reference of the Nomination Committee is available on the Stock Exchange's website and the Company's website at www.fdgev.com.

The Nomination Committee held three meetings during the year ended 31 March 2017. The individual attendance records of the committee members are as follows:

Name of committee members	Number of meetings attended/held
Mr. Cao Zhong *(Chairman)*	3/3
Mr. Miao Zhenguo	2/3
Mr. Chan Yuk Tong	3/3
Mr. Fei Tai Hung	3/3
Mr. Tse Kam Fow	3/3

In these three meetings, the Nomination Committee (i) reviewed the structure, size and composition of the Board; (ii) considered and recommended to the Board the re-election of directors who were subject to retirement by rotation at the 2016 annual general meeting of the Company; (iii) assessed the independence of the independent non-executive directors; and (iv) considered and recommended to the Board the appointments of an executive director, a non-executive director and an independent non-executive director.

With respect to the board composition, the Nomination Committee ensures that the Board (i) comprises members with mixed skills, knowledge and experience with appropriate weights necessary to accomplish the Group's business development, strategies, operation and opportunities; and (ii) has a strong independent element which can exercise independent judgement effectively.

The Nomination Committee carries out the process of selecting and recommending candidates for directorship including the consideration of referral, promotion and engagement of recruitment firms, whenever necessary; and considers the suitability of a candidate to act as a director on the basis of his qualifications, experience and background.

Audit Committee

The terms of reference of the Audit Committee are in compliance with the code provisions set out in the Code. The Audit Committee currently comprises three independent non-executive directors, namely Mr. Chan Yuk Tong (Chairman of the Audit Committee), Mr. Fei Tai Hung and Mr. Tse Kam Fow.

The principal duties of the Audit Committee are (i) to oversee the relationship with the auditor of the Company (the "Auditor"); (ii) to review the annual and interim results before publication; (iii) to oversee the Group's financial reporting system, risk management and internal control systems; and (iv) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. Besides, the Audit Committee is delegated by the Board with certain corporate governance duties, namely: (a) to develop and review the Company's policies and practices on corporate governance; and (b) to review the Company's compliance with the Code and disclosure of this report. The full version of the terms of reference of the Audit Committee is available on the Stock Exchange's website and the Company's website at www.fdgev.com.

The Audit Committee held two meetings during the year ended 31 March 2017. The individual attendance records of the committee members are as follows:

Name of committee members	Number of meetings attended/held
Mr. Chan Yuk Tong *(Chairman)*	2/2
Mr. Fei Tai Hung	2[a]/2
Mr. Tse Kam Fow	2/2

Note:

a. Including one meeting having another director acted as his representative.

During the year ended 31 March 2017, the Audit Committee (i) reviewed the accounting policies and practices adopted by the Group; (ii) reviewed the Company's results for the year ended 31 March 2016 and six months ended 30 September 2016 and recommended the same to the Board for approval; (iii) recommended to the Board the re-appointment of the Auditor; (iv) reviewed the effectiveness of the Group's internal control systems, inter alia, the financial, operational and compliance controls functions of the Group; (v) reviewed the adequacy of resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting function, and their training programmes and budget; and (vi) reviewed corporate governance compliance and disclosure of the Group.

In addition, during the year ended 31 March 2017, a meeting was held with the Auditor to discuss the pre-audit planning of the Group.

The Audit Committee has reviewed with the management and the Auditor the audited results of the Group for the year ended 31 March 2017.

Risk Committee

The Risk Committee was established on 26 August 2016 with specific terms of reference. The Risk Committee currently comprises three independent non-executive directors, namely Mr. Tse Kam Fow (Chairman of the Risk Committee), Mr. Chan Yuk Tong and Mr. Fei Tai Hung, and two executive directors, namely Mr. Cao Zhong and Mr. Jaime Che.

The principal duties of the Risk Committee are (i) to advise the Board on the Group's risk appetite statement(s), risk principles and other risk-related issues including corporate actions and proposed strategic transactions such as mergers, acquisitions and disposals; (ii) to oversee risk management framework to identify and deal with financial, operational, legal, regulatory, technology, business and strategic risks faced by the Group and amend and supplement this from time to time; (iii) to approve the Group's risk policies and risk tolerances; (iv) to consider emerging risks relating to the Group's business and strategies to ensure that appropriate arrangements are in place to control and mitigate the risks effectively; (v) to review risk reports and breaches of risk tolerances and policies; (vi) to review and assess the effectiveness of the Group's risk control/mitigation tools including the enterprise risk management programme, the risk management systems, the internal audit function relating to risk management and the Group's contingency plans; (vii) to review the Group's capital adequacy and solvency levels; and (viii) to monitor stress testing results of the Group's key risk exposures.

The Company engaged an advisory firm to assist in establishing risk management and assessment system and conducting risk assessment and the relevant enterprise risk management report was reviewed by the Risk Committee in its first regular meeting held in June 2017.

Executive Committee

The Executive Committee currently comprises five executive directors, namely Mr. Cao Zhong (Chairman of the Executive Committee), Mr. Miao Zhenguo, Dr. Chen Yanping, Mr. Lo Wing Yat and Mr. Jaime Che. It meets as and when necessary and operates as a general management committee under the direct authority of the Board.

Special Board Committee

The Board established the Special Board Committee in March 2013, in view of Mr. Chung Winston's bankruptcy, with delegated authority to deal with all matters relating to, inter alia, the legal proceedings and legal claims against Mr. Chung Winston and/or companies which are controlled and/or owned by him. It currently comprises Mr. Chan Yuk Tong (Chairman of the Special Board Committee), Mr. Lo Wing Yat, Mr. Fei Tai Hung and Mr. Tse Kam Fow.

AUDITOR'S REMUNERATION

For the year ended 31 March 2017, the Auditor received approximately HK$2,750,000 for audit service and approximately HK$180,000 for non-audit service regarding interim review.

FINANCIAL REPORTING

The directors acknowledge their responsibility for preparing the consolidated financial statements of the Group.

The statement of the Auditor about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 72 to 78 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for establishing and maintaining adequate and effective systems of risk management and internal control of the Group and reviewing their effectiveness annually.

The Group's risk management and internal control systems include a management structure with defined lines of responsibility and limits of authority. These systems aim to provide reasonable, but not absolute, assurance that assets are safeguarded against misappropriations, transactions are executed in accordance with the management's authorisation, and accounting records are reliable and proper for preparing financial information and are not materially misstated. The systems are designed to identify, evaluate and manage effectively risks rather than to eliminate the risk of failure to achieve business objectives.

The Group has established a risk management framework in providing direction in identifying, evaluating and managing significant risks. Risks that would adversely affect the achievement of the Group's objectives are identified and assessed and prioritised according to a set of standard criteria. Risk mitigation plans and risk owners are then established for those risks which are considered to be significant.

During the year ended 31 March 2017, the internal audit department of the Company reviewed the effectiveness of the Group's internal control system, inter alia, the financial, operational and compliance controls functions of the Group. No material deficiencies have been identified during the review. The relevant findings and recommendations have been reported to the Audit Committee and the Board. The management will deal with the areas for improvement which come to the attention of the Board and the Audit Committee. The Board considered that the risk management and internal control systems are effective and adequate and is committed to improving the Group's risk management and internal control systems on an ongoing basis.

The Group complies with requirements of the Securities and Futures Ordinance ("SFO") and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

SHAREHOLDERS' RIGHTS

The Company values the views of its shareholders and recognises their interests in the Group's strategy and performance. The Company has formulated the shareholders' communication policy which will be reviewed by the Board from time to time to ensure its effectiveness.

Shareholders' Meetings

The annual general meeting and other general meetings (if any) of the Company are the primary forum for communication by the Company with the shareholders and for shareholders' participation. All shareholders are encouraged to attend the general meetings or to appoint proxies to attend and vote at meetings on their behalf if they are unable to attend the meetings in person.

During the year ended 31 March 2017, the Company held the annual general meeting on 26 August 2016 (the "AGM"). The individual attendance records of the directors at the AGM are as follows:

Name of directors	Number of AGM attended/held
Executive directors:	
Mr. Cao Zhong	1/1
Mr. Miao Zhenguo	1/1
Mr. Tong Zhiyuan *(appointed on 15 February 2017)*	0/0
Dr. Chen Yanping	1[a]/1
Mr. Lo Wing Yat	1[a]/1
Mr. Jaime Che	1/1
Non-executive director:	
Mr. Wong Kwok Yiu *(appointed on 25 November 2016)*	0/0
Independent non-executive directors:	
Mr. Chan Yuk Tong	1/1
Mr. Fei Tai Hung	1/1
Mr. Tse Kam Fow	1/1
Mr. Xu Jingbin *(appointed on 15 February 2017)*	0/0

Note:

a. Having another director acted as his representative.

The Auditor has also attended the AGM to answer questions about the conduct of the audit, the preparation and content of the Independent Auditor's Report, the accounting policies and auditor's independence.

Requisition for Special General Meeting

Pursuant to bye-law 58 of the Bye-laws of the Company, shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company (the "Company Secretary"), to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If the Board fails to proceed to convene such meeting within twenty-one days after such deposit, such shareholder(s) may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

During the year ended 31 March 2017, no such requisition(s) has/have been received.

Procedures for Putting Forward Proposals at Shareholders' Meetings

According to Sections 79 and 80 of the Companies Act 1981 of Bermuda, shareholder(s) of the Company, at his/their own expense, holding (i) not less than one-twentieth of the total voting rights of all shareholders having at the date of requisition the right to vote at general meeting; or (ii) of not less than 100 in number, can submit a written request stating the resolution intended to be moved at the next annual general meeting. The requisition signed by the relevant shareholder(s) must be deposited at the head office of the Company at Rooms 3001-3005, 30th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong for the attention to the Company Secretary not less than six weeks before the meeting. The request will be verified with the Hong Kong branch share registrar and transfer office (the "Share Registrar") of the Company and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the notice for such general meeting.

As mentioned in the above section headed "Requisition for Special General Meeting", eligible shareholder(s) can make a requisition to convene a special general meeting and move forward a resolution thereat. The requisition signed by the relevant shareholder(s) must be deposited at the head office of the Company in Hong Kong for the attention to the Company Secretary. Only when the request has been verified with the Share Registrar to be proper and in order, the Company Secretary will ask the Board to include the resolution in the notice for such general meeting.

During the year ended 31 March 2017, no such requisition(s) has/have been received.

The procedures as to how shareholder(s) can propose a person for election as a director are detailed in the "Rights and Procedure for Shareholders to Propose a Person for Election as a Director" which is available on the Company's website at www.fdgev.com.

Enquiries

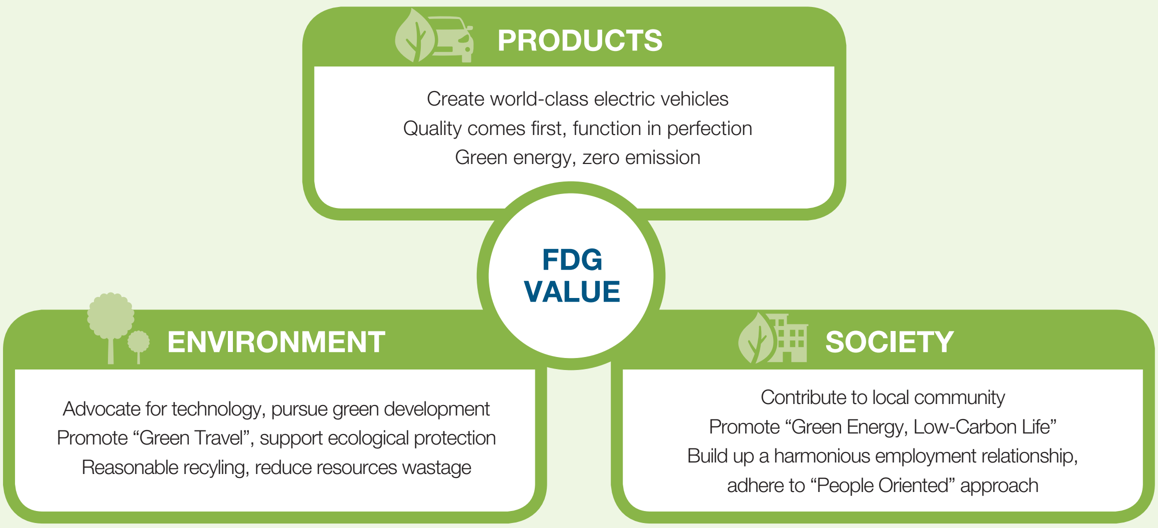
All enquiries to the Board are welcome and can be brought through our investor relations' hotline at (852) 3101 6104, fax at (852) 3104 2801, email at ir@fdgev.com or directly in person through participation in general meetings.

INTRODUCTION

FDG Electric Vehicles Limited (the "Company" or "FDG", and together with its subsidiaries, the "Group") is an integrated electric vehicle manufacturer. Its core businesses include: (i) research and development, design, manufacture and sale of electric vehicles; (ii) research and development, production and sale of lithium-ion batteries and related products; (iii) research and development, manufacture and sale of cathode materials for lithium-ion batteries; and (iv) direct investments. This Environmental, Social and Governance Report is prepared in accordance with Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. It outlines the environmental and social performance of the main business of the Group for the year ended 31 March 2017 and covers the following operation locations of the Group:

- Hong Kong Wanchai Headquarter Office
- Beijing Vehicle Design Centre
- Hangzhou Production Base
- Kunming Production Base
- Tianjin Production Base

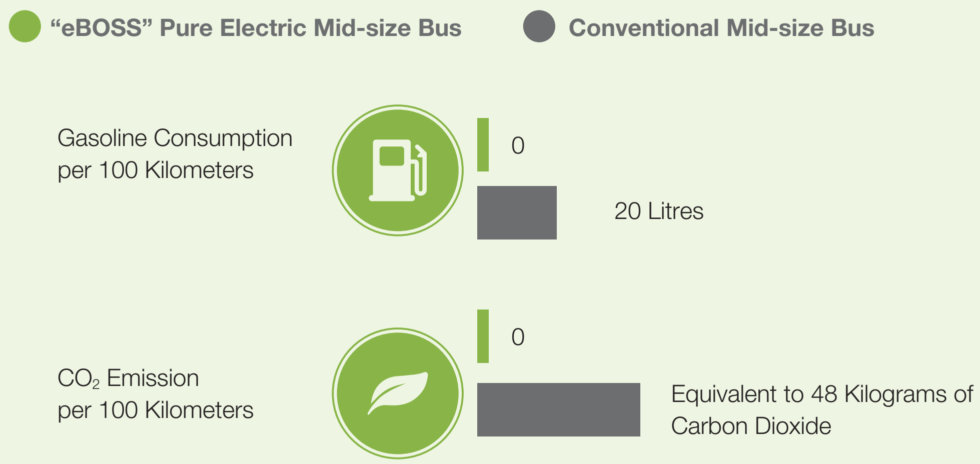
MANAGEMENT APPROACH AND STRATEGY



Economic development of the People's Republic of China (the "PRC") is entering into the "New Normal" phase. Under the trend of promoting green growth, recycling and low-carbon development, the PRC government has continued to promote energy conservation and emission reduction effectively and deeply through a series of policies and initiatives. In December 2016, the State Council published "The Comprehensive Work Planning for Energy Conservation and Emissions Reduction in the 13th Five-Year", which vigorously advocated the ideas of green environmental protection, energy conservation and emission reduction, and also set improving the efficiency of energy use and enhancing the quality of ecological environment as long-term targets. The plan also expressly pointed out that the PRC will proactively facilitate the use of clean energy for transportations, promote new energy vehicles ("NEVs") and support the constructions of related auxiliary infrastructure.

As an integrated electric vehicles ("EVs") manufacturer, FDG follows closely the changes in the national strategic direction on environmental protection strategies in all aspects including business development, production and operations, and develops, designs and manufactures a series of high-performance pure EVs. The EVs fuelled by lithium-ion batteries do not involve burning of gasoline and do not emit any exhaust, thus achieving environmental protection effect of "Zero Emission", which significantly improves the roadside air quality, and making important contributions to protecting the environment and building a green society. Taking the pure electric mid-size bus of the Group as an example, with its features of no gasoline consumption and no pollution, there will be a reduction of 20 litres of gasoline consumption per 100 kilometres comparing with the conventional mid-size bus, which is equivalent to 48 kilograms of carbon dioxide emissions.

Energy-saving Comparison



The Group is conscious of its consumption of water, raw materials and other natural resources. The Group is committed to increase the use of renewable energy resources with the aim of minimizing the level of carbon emissions. In addition, before the Group constructed its new operation sites and factories, the Group assessed local environmental conditions and the impacts such construction would have on the surrounding areas with the aim of developing the land in a responsible way that is compatible with the local environment. After the factories are put into operation, the Group will regularly check the relevant indicators to continuously maintain the air quality, water quality and the ecological balance of the local environment, properly dispose of waste to maintain balance between economic development and environmental protection.

ENVIRONMENTAL

1. Emissions

The Group actively responds to the global trend of emission reduction and is committed to avoid generating greenhouse gas, exhaust gas, solid waste and other emissions in its daily operations, as well as seeking innovative technologies and new products that can enhance environmental protection. It has also developed a series of environmental protection policies to strengthen control, including the following:

Waste Reduction Policy

The Group adopts different measures for different types of waste to ensure proper treatment. In particular, in the case of hazardous waste reduction, the Group reduces the amount of hazardous waste mainly through replacing hazardous materials with non-hazardous and/or natural materials wherever possible.

In the case of non-hazardous waste, the Group adopts waste classification and set up recycle bins to collect the classified waste. Packaging wastes are collected by recycling companies for integrated usage, solder wastes are collected by the suppliers and paper wastes are collected by recyclers respectively. The Group also trains employees regularly on their awareness of waste classification and the storage of wastes that can be recycled, helping to reduce non-hazardous waste.

For the disposal of hazardous waste, the hazardous wastes generated during production in Tianjin and Kunming production bases are mainly electrolytes. The wastes are separated into hazardous and non-hazardous wastes which are then packed in separate packages with labels of “hazardous waste” or “non-hazardous waste” properly attached. The packages will then be collected by hazardous and non-hazardous recyclers accordingly.

As for Hangzhou production base, the disposal process is more complicated. The hazardous wastes generated include paint residues, paint buckets, phosphate residues (dry), phosphate waste, wastewater from degreasing process, sewage sludge, waste solvents, sealant waste and activated carbon waste. Among which the paint residues, paint buckets, phosphate residues, waste solvents, waste engine oil and oiled cloth, sealant waste, sewage sludge and activated carbon waste are collected by a qualified recycling contractor for further treatment. In the Hangzhou plant, there is a sewage station which processes the wastewater from the degreasing process and the phosphate waste so that they can meet the Grade 3 requirements set by the GB8978-1996 “Integrated Wastewater Discharge Standard” before discharging to the urban sewage treatment plant. This can reduce the amount of hazardous wastes treated by the contractor.

Business Travel Reduction Policy

The Group thoroughly understands that business travel will increase energy consumption, leading to increase in the emission of greenhouse gas. Therefore, the Group actively reduces the number of business trips by using other effective means of communication. For example, avoiding long-distance travel for face-to-face meetings where possible and instead communicating through the use of phone calls, emails and video conferences so as to reduce greenhouse gas emissions caused by extra long distance transportation. In addition, employees will use the Group’s electric vehicles or public transportation during business trips whenever possible. The Group also encourages employees to plan travel and manpower arrangements earlier in advance and to share vehicles whenever possible in order to reduce energy consumption and pollution during travel.

Indoor Air Quality Policy

Smoking is strictly prohibited at any indoor location of the Group. In order to keep the indoor air free of odour which may affect work and even the health of the employees, there is a designated outdoor area for smoking and also, windows are opened regularly for ventilation and greenery plants are placed indoors.

Procurement Policy Supporting Local Suppliers

FDG takes the initiative to invite local suppliers to provide quotations and products information. Priority will be given to local suppliers to consciously shorten the shipping and delivery distance to reduce carbon emissions. Non-local suppliers will only be considered when local suppliers cannot meet services or if requirements cannot be met.

Reduction of Emissions from Traditional Power Generation

Tianjin production base has developed its own energy-containing conservation system, replacing diesel emergency generators. The system can provide 500 KWh per day when needed, thereby reducing exhaust emitted from traditional diesel power generators.

2 *Use of Resources*

The Group focuses on environmental protection and adheres to the management philosophy of "Conserving and Controlling Resources at Source". It has implemented relevant measures to improve the efficiency of resource consumption, including:

Energy Conservation

FDG adopts different strategies at different locations for energy conservation.

Hangzhou production base implemented the "Changjiang Automobile Energy Management System" and "Energy Management Working Rules", replacing the fluorescent lights with LED energy-saving lights; and adopting the 8.68MW photovoltaic solar energy to generate power for the plant. Kunming production base replaced their traditional street lamp posts with solar lamp posts. Tianjin production base purchased air conditioners with energy-efficiency labels and replaced the lights in the plant with LED lights. Beijing vehicle design centre uses water to water heat pumps in the air conditioning and heating system as they are more efficient and help to reduce resource consumption and cost.

In addition, the Group puts great emphasis on cultivating the employees' awareness of energy conservation in order to avoid the waste of resources by ensuring that relevant production equipment in all factories are turned off when not in production.

Water Conservation Policy

In the day-to-day operations, the Group constantly reminds employees to conserve water by putting up water conservation messages in the washrooms, the employees' canteens and rest areas, such as "Please turn off the tap after washing hands" and "It is everybody's responsibility to save water". Water faucets are inspected regularly to prevent leakage so as to reduce water wastage.

The Green Office

FDG promotes a green office encouraging the use of electronic files in its daily operation by replacing printed filing with computer archiving, implementing paperless office and resources sharing to reduce the use of printed files. It requires employees to use double-sided printing and recycle and re-use single-side printed paper in order to save paper. Beijing vehicle design centre encourages employees to minimize the use of office resources such as water, paper and printing machines, and to store drawings and product information electronically so as to facilitate information search, management and sharing.

3 *The Environment and Natural Resources*

With the public concern about environmental issues, the customers of the Group also expect us to upgrade our equipments in order to meet worldwide requirements of energy conservation and emission reduction. The Group is committed to meeting the needs of the society and customers. Its efforts in advocating green processes are manifested in the application of new energy, its support for green activities and the office operations.

Large-scale Solar Power Generation System

The Group is committed to relieving the burden of the environment in its daily operations, including sewage treatment, contaminated oil collection, hazardous waste treatment, energy conservation and reduction in consumption, and technical renovation.

With respect to the use of renewable energy resources, the Group, making full use of geographical advantage of the abundant sunshine in Zhejiang Province, set up photovoltaic panels electricity generator on the rooftop of its Hangzhou factory. The photoelectric conversion device converts solar energy into electrical energy and achieves energy conservation and emission reduction through pollution-free power generation. It also greatly enhances space utilization of the building. The photovoltaic energy storage system installed in the factory was connected to the power grid in March 2016, serving as the largest photovoltaic power generation project for colour-coated steel tile roof in Zhejiang Province. With a total installed capacity of 8.68 MW on the 200,000 square meters factory roof, it generates power for self-use with any remaining power sent to the power grid. During the period from April 2016 to March 2017, it generated a total of 6,195,420 KWh electricity, representing approximately 30% of the annual electricity consumption of the whole Hangzhou factory, which substantially reduced the reliance of the factory on traditional thermal power, and directly lowered the overall carbon emission of the Group.

New Energy Application

With the new energy policies continuing to favour the industry, the EVs market of the PRC has been developing in full swing, bringing rapid development of the related auxiliary infrastructure projects construction. In 2016, an additional 100,000 public charging piles were installed in the PRC, with the total number exceeding 150,000 units at present. The percentage of private charging piles has increased to over 80.0%. As a critical element in the promotion of EVs application, the popularity of charging piles is of utmost importance.

In accordance with the mission for "Green Energy, Low-Carbon Life" and cater for the demand of NEVs industry, Sinopoly (Hangzhou) New Energy Technology Co., Ltd (中聚(杭州)新能源科技有限公司) ("Sinopoly (Hangzhou)"), a member of FDG, offers integrated solutions including a wide range of product series such as alternating current charging pile, direct current charging pile, portable charging pile and onboard charger together with smart charging station, thereby achieving the development of smarter and higher efficiency charging facilities.

The design of alternating current charging piles of Sinopoly (Hangzhou) is trendy and sophisticated. The shield-like appearance delivers the concept of safe charging, with smart and flexible charging modes such as automatic setting or setting based on time, payment amount and electricity volume. The charging piles also possess voltage and temperature protection functions to ensure stability and safety. They are also fully expandable with high system compatibility. The embedded ethernet communication function is integrated with charging station management system, allowing energy management and providing strong energy supports for green travel with new energy.

In respect of its aim to reduce environmental pollution and protection of natural resources, FDG promotes the application of clean energy by producing electric vehicles and lithium-ion batteries. It also educates employees to protect the environment in daily life and at work. All electric vehicles are developed with its "Independent-Forward-Engineering" and produced by the Group's professional team with the most advanced scientific research and technology. Lithium-ion batteries made by the Group are used in all the vehicles, which can effectively reduce or avoid energy consumption and exhaust gas emission, and thereby improve road air quality. The Group continues to enhance the environmental performance of our products and to contribute to the environment. The Group's products have been approved by the Central Government to be included in the third and fourth batches of the "Catalogue of Recommended Models for New Energy Automobile Popularization and Application" published by the Ministry of Industry and Information Technology of the PRC. Environmental protection and energy conservation are top priorities in the development of the Group's businesses and electric vehicles with the goal of achieving "Zero Emission".

Support Green Activities Organized by the Government and Green Organizations

When the senior management team of the Science and Technology Committee visited the Beijing vehicle design centre, they provided positive feedback on the Group's efforts on taking the lead to industrialize wheel side electric motor axle and other electric vehicle core technology in the PRC. Beijing vehicle design centre also supports the government's traffic policy that on restricting the use of vehicles based on even and odd numbered license plates on the particular date or under special weather conditions in order to reduce air pollution. In Tianjin, tree planting activities in the production base are organized on Tree Planting Day.

Second Use of Power Battery

In the era of environmental protection, the NEVs industry has entered a phase of rapid development. As NEVs industry shows an exponential growth, undoubtedly a significant amount of EVs power batteries will be retiring in the coming few years. As the current battery recovery rate in the PRC is less than 2%, the large number of power lithium-ion batteries that will be disposed of in the future will pose a threat to the environment. Avoiding the waste of resources and re-polluting the environment will become new issues for the PRC government and relevant enterprises.

A large amount of abandoned batteries could cause environmental pollution but if utilized properly can bring business opportunities that can effectively mitigate pollutions brought to the environment by making reasonable use of resources and greatly reduce the cost of the NEVs. The requirement of battery performance for EVs is relatively high but the retired batteries from EVs can still be applied for other purposes, such as light power or low speed vehicles, telecommunication base station, back-up power supply or energy storage, etc. Through the collection, organisation and analysis of data at each stage from the research and production, sales and usage, retirement and reuse, to recycling of the batteries, a battery lifetime management system which maximizes battery efficiency, minimizes environmental burden, and promotes green energy and highly efficient throughout the process can then be established. FDG strongly embraces the idea of implementing scientific management on recycling and reusing of batteries. It would be a road-map for the Group in optimizing lithium battery investment layout in the future. Although the current recycle cost of power battery is relatively high and the policies and regulations are not comprehensive enough, with the aim of upholding its principle of "Advocate for technology, pursue green development", FDG will continue to actively explore feasibility of relevant development, not only for grasping future business opportunities in that area, but also taking the responsibility on environmental protection in the society as an outstanding enterprise.

SOCIAL

1. Employment

In addition to complying with the local employment regulations, the Group has also developed a series of employment policies to ensure employees are treated in a fair and reasonable manner.

Equal Employee Recruitment Policy

FDG complies with national laws and regulations and treats all job applicants equally without any unequal restrictions and preferential policies and provides equal opportunities for all job applicants. Moreover, the recruitment process is open and transparent and is monitored. No backroom deals are allowed in the recruitment process.

Equal Promotion Policy

Promotion decisions of the Group are based on the individual's competencies and the principles of openness, equality, competition and merit. No other factors will be considered when making promotion decisions.

The Hangzhou production base takes the following measures to ensure promotion decisions are made in an open, fair and impartial manner:

(i) Developing a comprehensive assessment system and ensuring the assessment system is properly implemented. Promotion decisions are made mainly based on assessment results; and

(ii) Open, clear and specific promotion policies, procedures and methods are adopted to ensure that all eligible employees have fair competition opportunity.

Compensation and Retirement Policy

In relation to compensation and retirement policy, FDG complies with national laws and regulations, and follows the relevant provisions on indemnification, compensation and retirement stipulated in the "Labour Law of the PRC" and the "Labour Contract Law of the PRC". In Hong Kong, the Company also strictly abides by the relevant provisions of the Employment Ordinance and the Mandatory Provident Fund Schemes Ordinance.

Employee Benefits Policy

The Group provides social securing insurance for employees in accordance with national laws and regulations, and purchases group accident insurance for some employees. The Company also purchases medical insurance for employees so that they can have medical services at a lower cost.

During the reporting period, no violations or complaints were reported to or found by the Group with regard to discrimination or recruitment.

2. *Health and Safety*

The Group has developed an occupational health and safety management system to protect employees against occupational diseases and industrial casualties through different measures.

Occupational Health and Safety Policy

FDG is committed to achieving zero-accident and has established an OHSAS 18001 Occupational Health and Safety Management Systems. The entire working medal is designed and adjusted based on this system, which has been certified by a third-party agency. Employees must participate in internal safety training during new employee orientation and from time to time to improve their awareness of workplace safety. The Group also finds out the safety requirements at different work locations and provides employees with suitable personal protection equipment.

Work and Life Balance Policy

Employees' well-being is important to the Group as it can improve the overall efficiency of the Group. Therefore, the Group pays close attention to employees' work and life balance and adopts the following policies:

(i) Ensure employees have proper breaks and leaves according to national laws and regulations;

(ii) Create a harmonious working atmosphere and comfortable working environment;

(iii) Organize a variety of employee activities to enrich their lives. For example, Tianjin production base holds birthday party to celebrate employees' birthday every month, organises Mid-Autumn Festival welfare activities and Chinese New Year gala each year, and on the International Working Women's Day on 8 March, organised activities such as picking strawberries, watching movies and giving welfare items to employees;

(iv) Concern about employees' health and caring for their families; and

(v) The Group provides employees in need with accommodation at each production base, furnished with air conditioning, hot water and WiFi and also provides facilities such as laundry rooms, billiard rooms, table tennis rooms, etc.

During the reporting period, the Group had not violated any local occupational health and safety related regulations.

3. *Development and Training*

Career Development Policy

FDG provides induction training to new employees in its daily operations. In Kunming and Tianjin production bases, new employees are arranged to work with experienced employees to guide them at work, and two career development paths, technology and management, are designed for the employees. These enable both new and experienced employees to receive continuous guidance on career development, and identify and adjust their development paths from time to time. In addition, Beijing vehicle design centre and Hangzhou production base help employees to develop their potential and creativity by providing training and necessary materials, with the aim to maximize their values and equip them with necessary knowledge and professional skills.

Employee Development Policy

FDG is actively building a comprehensive career development environment to help employees reaching the synergy between their career development and FDG's growth, so as to attract and retain talents. The Group has developed a sound management system for employee growth and development. Hangzhou production base implemented an internal job rotation program to provide employees with more opportunities and to expand their work capacity. It has also implemented a comprehensive human resources development system that can help employees to be professional, practical, market oriented and internationally oriented.

4. Labour Standards

Child Labour Prevention Policy

FDG strictly abides by national laws and regulations and prohibits the use of child labour. In the Hangzhou production base, a job applicant will only be interviewed after verification of his or her identification documents in order to avoid employing child labour using others' identification. The identification documents are further verified upon formal employment and applicants with no identification document with not be hired.

Forced Labour Prevention Policy

FDG strictly abides by national laws and regulations and prohibits all forms of forced labour. Hangzhou production base has developed the following measures to prevent forced labour:

(i) A labour contract or internship agreement (for interns only) should be signed by all employees on fair and voluntary basis;

(ii) Detention of an employee's identity card, temporary residence permit or other identification documents is strictly prohibited;

(iii) No department or person is allowed to physically abuse, assault, body search or insult an employee or to restrict an employee's personal freedom by locking up workplace or employee quarters; and

(iv) No department or person is allowed to force an employee to work by any means of violence, threat or unlawful restriction of personal freedom.

During the reporting period, the Group had not violated any laws and regulations related to the use of child labour or forced labour.

5. Supply Chain Management

The Group developed a supplier management policy which sets out the expectations of the Group and the issues required to be observed by the suppliers and others.

Supplier Code Policy

The production bases of FDG consider corporate social responsibility as one of the criteria for the selection of suppliers. When introducing an electronic materials supplier, Beijing vehicle design centre requires that their products should meet environmental regulations under RoHS (Restriction of Hazardous Substances). Hangzhou production base requires suppliers to have an ISO9001 or ISO/TS16949 certificate and requires relevant suppliers to obtain 3C certificate according to relevant national regulations.

Supplier Review

The Group's Beijing vehicle design centre reviews samples to confirm the accuracy of the pre-shipment inspection report and third-party testing results of the products of the suppliers. Kunming production base obtains through a third-party organization the review of suppliers' corporate social responsibility performance on a regular basis. In addition, Tianjin production base reviews and assesses suppliers' performance monthly, while Kunming production base does the same annually.

In addition to the review criteria mentioned above, if the business requirements of the Group can be met with, local suppliers will be given priority over overseas suppliers in order to reduce greenhouse gas emissions caused by long-distance transportation.

6. Product Responsibility

The Group is well aware that providing high quality equipment is the key to long-term success. In countries where the products are produced and sold, the Group strictly observes local laws and regulations to ensure that its products meet relevant requirements and the needs of the customers, ensuring that quality products are provided to the customers.

Product Quality Assurance Policy

All the products of the Group are subject to quality inspection. Hangzhou production base offers a Quality Agreement for parts and components which provides warranty on all the main parts and components as a commitment to after-sales service. Different quality inspection procedures are used at different production locations. In Kunming and Tianjin, the quality inspection procedures are as follows:

(i) The Group will only purchase raw materials from suppliers with a product quality certificate;

(ii) Upon completion of production, the products will be sent to the Inspection Unit of the Quality Department to verify their safety and quality;

(iii) A verification report will be issued by the Inspection Unit upon completion of the verification;

(iv) Only the qualified products will be launched to the market for sale; and

(v) The rejected products and verification reports will be verified again after such products are refurbished.

Product Safety Policy

Hangzhou production base has passed the China Compulsory Certification (CCC) regarding product safety, established a comprehensive quality assurance system and set up a professional testing line to ensure the quality of product.

Fair Promotion of Products

The Group ensures that the product information on the promotional web pages and other promotional materials is true and accurate. Some of the Group's products are provided with operating manuals and their contents are supported by reliable evidence. Also, in products promotion, the Group requires its salespersons to provide information only based on the strengths of the products of the Group and not to include negative statements about our competitors or their products so as to avoid misleading the customers in making purchases.

After-sales Service

The Group has set up an after-sales telephone service hotline and a technical inquiry hotline for customers to facilitate their inquiries and help them to understand the products as part of the Group's follow up and after-sales care. A designated department is responsible for following up and responding to customers, as well as proposing solutions in response to customer problems. The Group has developed its customer complaint system, in which customers' comments or complaints will be sent through the Group's Customer Complaint Management System to the relevant departments for cause analysis and improvement measures formulation in order to reduce the number of similar problems with the aim to eliminate similar problems from reoccurring. The Group has a designated department to follow up with customers' cases, and initiate the product recall process when necessary.

Product Recall/Customer Return Procedures

When a customer rejects a product, the Group will assess the reasons for the rejection or return. Kunming and Tianjin production bases have set the following procedures:

(i) A customer can call or email to describe the problems of the product;

(ii) After the comments are received, the Customer Service Department will consider whether the product needs to be recalled;

(iii) If a recall decision is made, the customer will be informed and employee(s) will be assigned to the product location to recall the product;

(iv) All recalled products will be recorded by the Warehousing Department before being sent to the Inspection Department;

(v) The Inspection Department will follow up on the record and find out the cause of the problem; and

(vi) After the cause is found, the Inspection Department will discuss with the Research Centre on the solutions of the problems.

Protection of Intellectual Property Rights

The Group only uses the products designed by the Company's Engineering Technology Centre. The Engineering Technology Centre will not plagiarize the design of other organizations. The employees of the design department are bound by their employment terms not to copy or plagiarize other works and are compelled to maintain confidentiality on their own product designs and works which are owned by the Company. The Group also commits not to use photos that are not authorized by a third party. For the commercial software being used in the office, the Group commits not to buy any pirated software. All office software is provided by suppliers with legal copyrights.

Privacy Protection of Customer Information

Kunming and Tianjin production bases have established protection for customer privacy. Customer information will not be used for publicity purposes without customers' consent. All customer information is stored in the central customer information system, which is provided and regularly monitored by a technology company to ensure system security and avoid hacking.

7. Anti-Corruption

FDG has established a comprehensive internal control system and stringent policies to prevent fraud and eliminate unethical business practices.

Anti-Corruption Policy

Kunming production base requires employees to comply with business ethics standards and not to commit any corruption and bribery in the employment contract. Tianjin production base established the "Sunshine Convention" explicitly showing the reporting phone number and the reporting to the Legal Affairs Department of the Group.

Conflict of Interests Declaration Policy

Kunming production base requires employees to declare cases on conflict of interest to the Human Resources Department in the employment contract and provides training to positions where the risk of conflict of interests is higher, such as the senior management team and the Procurement Department.

Open Tender Policy

For services of higher amount, Kunming production base and Beijing vehicle design centre through email invitations and website notice arrange for open tender and three or more suppliers will be invited to submit a tender.

The Group's Whistle-Blowing Policy

The Group has established to its employees and implemented a series of reporting procedures in Beijing, Kunming and Tianjin through the use of email, notice board and company website to provide a whistle-blowing hotline. After receiving a complaint, the responsible department will commence investigation no later then 3 days. The details of the case and the investigation will be kept on file and reported to the board of directors. After investigation has been concluded, the whistle-blower will be called within 2 days for an update. The case will be summarized and kept on file, and can only be accessed by the responsible department. Tianjin factory will also share the "Sunshine Convention" through email or its intranet.

During the reporting period, the Group did not have any corruption related cases or related complaints.

8. Community Investment

Supported G20 Summit with Green Travel

During the period under review, FDG actively extended domestic market by providing solutions for green travel and contributing to the protection on ecological environment. In particular, as a local vehicle manufacturer in Hangzhou, during G20 Summit held in Hangzhou in September 2016, FDG assisted the local government in solving the problem of green travel for the summit. Changjiang Automobile under FDG provided exclusive transportation services for the delegates in the core area of the summit through a total of 210 pure electric mid-size buses, "eBOSS" and pure electric commercial vehicles, "eGLORY", which provided strong product supports for green transportation, enabling the holding of a green summit in Hangzhou. According to the statistics, in serving the summit, the fleet of "eBOSS" and "eGLORY" covered a total mileage of over 100,000 kilometers, where the longest mileage covered by a single vehicle reached 1,752 kilometers. Even under such highly demanding operational environment, the vehicles were operated stably and received commendations from the organising committee and guests from other countries for its outstanding performance of "Full Participation, Zero Failure and High Comfort", hence setting a new benchmark for EVs in the PRC. With its superb performance, Changjiang Automobile was awarded with two honours of, "G20 Hangzhou Summit Super Sponsor" and "G20 Hangzhou Summit Designated Products", from the G20 Organising Committee.

Social Responsibility

Since its establishment, FDG has been strengthening its communication and interaction with the community by actively looking to involve itself in community activities and contribute to its development. On the one hand, FDG is creating job opportunities for the local community by using its technical capacity and funds, and supporting the local economic development. Also, FDG is maintaining a friendly relationship with the community when developing its business.

FDG supports health-related community activities. Kunming production base has been supporting the women's health examination organized by the women's committee of local community.

In addition, FDG also continues to cooperate with local schools to promote the importance of education. Hangzhou production base cooperates with local colleges and universities to provide internships and training programmes for the students as a learning and development platform. Beijing vehicle design centre and Hefei University of Technology jointly set up an Automobile Design and Research Institute. With the enterprise as the principal, following market direction and through the innovative technological platform, it combines production, education and research and provides a new model of technological innovation and talent cultivation. This program helps both the Company and the educational institutes to improve their innovation capabilities and develop advanced technology.

FDG places great importance on the community's environmental protection work. Employees are assigned to participate in the environmental seminars organized by the Tianjin government in order to master the latest environmental protection trends in the market.

Assisting Hangzhou's Environment Protection

FDG is committed to producing pure EVs, aiming to replace the traditional fuel vehicles and actively promote the ecological enhancement in the local community. The air pollution and haze problem in the PRC cities are getting worldwide attention. In accordance with to the "Zero Emission" green concept, FDG is committed to the environmental protection mission of local communities. Hangzhou is the first "Three-no" city (no steel and iron production enterprise, no coal fueled thermal power units, and basically no yellow-label cars (heavy-polluting vehicles)) in the PRC. The government has always been devoted to the promotion of environmental protection and NEVs usage, and over 20,000 NEVs are currently in use. According to Hu Wei, member of People's Political Consultative Conference of Hangzhou city (杭州市政協委員) and director general of Hangzhou Environmental Protection Bureau, it is expected that particulate matter concentration (細顆粒物濃度), the key indicator of annual average air quality of Hangzhou, will be reduced to 45 microgram/m^3 by 2020, and the number of days with excellent weather for the whole year will reach 280, nearly the standard of developed countries.

Currently, the vehicles of FDG cover small SUVs, commercial vehicles, mid-size buses and public buses. The popularity of all kinds of "Zero Emission" pure EVs should be able to effectively reduce the pollution brought by traditional vehicles, and therefore greatly benefit the ecological environment of urban communities. FDG will actively cooperate and continuously develop highly efficient EVs and assist the implementation of electricity replacement project for Hangzhou public transportation, in a bid to promote the green city construction and economic growth of Hangzhou city.

In the future, the Group will hold more green themed charity activities in the community such as science education exhibition in relation to new energy, leading the green culture in the community and encouraging citizens to join low-carbon life and build a green home.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FDG ELECTRIC VEHICLES LIMITED

(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of FDG Electric Vehicles Limited (the "Company") and its subsidiaries (the "Group") set out on pages 79 to 194, which comprise the consolidated statement of financial position as at 31 March 2017, 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.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter	How our audit addressed the key audit matter
(a) Impairment assessment of goodwill, intangible assets, property, plant and equipment and interests in leasehold land held for own use under operating leases	
(Refer to Note 2(k)(ii), Notes 4(b), (c) and (d) to the consolidated financial statements) The Group has material balances of goodwill, intangible assets, property, plant and equipment and interests in leasehold land held for own use under operating leases under separate reportable business segments, namely, electric vehicle production, lithium-ion battery production, battery materials production and direct investments which are identified as separate cash generating units ("CGUs"). Management engaged an independent valuer to determine the recoverable amount of each of these CGUs, being the higher of fair value less costs of disposal and value-in-use. Such assessment involved complex and subjective judgments and assumptions, such as future cash flow projections using revenue, gross margin and other operating costs projections, long-term growth rates, and discount rate. Based on the management's assessment, the recoverable amount of each of these CGUs was higher than each of their respective carrying value as of 31 March 2017. We focused on this area due to the material balances of goodwill, intangible assets, property, plant and equipment and interests in leasehold land held for own use under operating leases relating to each of these CGUs and the fact that judgment and assumptions were involved to determine the recoverable amount of each of these CGUs.	The recoverable amount of each reportable business segment, namely, electric vehicle production, lithium-ion battery production, battery materials production and direct investments, being the higher of fair value less costs of disposal and value-in-use, was determined based on the present value of the future cash flows expected to be derived from each of these CGUs, less costs of disposal, if applicable, and we performed the following major audit procedures: a) Assessing the competence, independence and integrity of the valuer, and reading the valuer's reports and assessing the valuation methodology. b) Testing the consistency and assessing the reasonableness of the data used and evaluating the management's key assumptions adopted in the discounted cash flow projections, mainly in relation to: – the budgeted sales, gross margin and operating costs, by comparing them with actual performance and historic financial data of each of these CGUs. For the budgeted sales, we also compared to the Group's strategic plan, future market growth as forecasted and sourced from independent parties; – the long-term growth rate of revenue, by comparing it with the relevant economic and industry forecasts, including certain forecasts sourced from independent parties; and – the discount rate, by comparing it with the cost of capital of comparable companies and historical weighted average cost of capital, as well as considering specific factors relating to the respective industries to which these CGUs related. For the assessments using fair value less costs of disposal model, we also evaluated the reasonableness of future capital expenditure and the lack of marketability discount of the relevant CGUs. c) Challenging on the appropriateness of the key assumptions adopted in the management's discounted cash flow projection.

KEY AUDIT MATTERS (CONTINUED)

The key audit matter	How our audit addressed the key audit matter
(b) Recoverability of trade receivables	
(Refer to Note 2(k)(i) and Note 4(f) to the consolidated financial statements) As at 31 March 2017, the carrying amount of the Group's trade receivables (including commercial bills) was HK$1,251,782,000, after netting of allowance for doubtful debts of HK$50,161,000. The trade receivables included certain amounts that will be settled by the PRC government, on behalf of the customers for purchases of electric vehicles from the Group, by way of national subsidies in accordance with the Circular on Financial Support Policies for the Promotion and Application of New Energy Vehicles 2016–2020 (Cai Jian [2015] 134) and other relevant and applicable government notices and policies promulgated by the PRC government, and the sales contracts made between the Group and these customers. Significant judgement and estimates of management are required in determining when the Group's customers will reach the specified mileage of the electric vehicles for these government subsidies. We identified estimated allowance of trade receivables as a key audit matter due to the use of significant judgment and estimates by the management in determining the allowance for doubtful debts of trade receivables. In determining the allowance for doubtful debts of trade receivables, the management considers and reviews the financial background and repayment abilities of customers, their credit history including settlement records and ageing analysis of the trade receivables.	Our procedures in relation to estimated allowance of trade receivables included: • Understanding how management determines the allowance for doubtful debts of trade receivables; • Understanding the Group's key controls relating to the preparation of aging analysis of trade receivables; • Testing the ageing analysis of the receivables, on a sample basis, to the source documents; • Assessing the reasonableness of allowance of trade receivables with reference to customers' financial condition, past settlement records and ageing analysis of trade receivables; • For those trade receivables that will be settled by the PRC government, on behalf of the Group's customers, by way of national subsidies: understanding how management records the customers' running mileages of the electric vehicles after sales, reperforming the computation of trade receivables arising from subsidies in accordance with government policies and evaluating the recoverability and management's estimation of government's settlement schedule of such subsidies.

KEY AUDIT MATTERS (CONTINUED)

The key audit matter	How our audit addressed the key audit matter
(c) Obligations under redeemed convertible bonds and contingent claim receivable in legal proceedings	
(Refer to Note 4(l), Note 36 and Note 45(a) to the consolidated financial statements) At 31 March 2017, the Company has obligations under redeemed convertible bonds of HK$760,752,000 (the "Redemption Amount") held by Mei Li New Energy Limited ("Mei Li"), a company controlled by Mr. Winston Chung, while the Group has also claimed under legal proceedings against Mr. Winston Chung and/or companies (including Mei Li) controlled by him (the "Chung Parties") for damages (the "Claim Amount"), which is substantially larger than the Redemption Amount. At 31 March 2017, the Claim Amount has not been recognised in the consolidated financial statements. The Group has sought to set off the whole Redemption Amount by part of the Claim Amount. On 5 March 2013, the High Court of Hong Kong (the "HK Court") issued a judgment in favour of the Company with a grant of unconditional leave to defend the Claim Amount and to argue the Set-Off (the "5 March 2013 Judgment") under which, in effect, the Company's obligations under the redeemed convertible bonds are subject to a stay of execution pending determination of the litigations between the Group and the Chung Parties. In 2013, the Chung Parties lodged an appeal against the 5 March 2013 Judgment. On 26 May 2016, the HK Court refused the application taken by Mei Li in 2013 for leave to appeal the 5 March 2013 Judgment on the basis that Mei Li had no such authority (the "Mei Li Authority Judgment"). On 23 June 2016, the Chung Parties lodged a notice of appeal against the Mei Li Authority Judgment. The directors of the Company considered that, after having sought a legal opinion from its external legal counsel, the payment of the Redemption Amount would unlikely arise within twelve months after 31 March 2017, taking into account of the 5 March 2013 Judgment, the Mei Li Authority Judgement, and the time required for resolution of the relevant legal proceedings, and the applications of the Chung Parties. Accordingly, the obligations under redeemed convertible bonds of approximately HK$760,752,000 have been reclassified from current liabilities to non-current liabilities in the consolidated statement of financial position at 31 March 2017. Significant management judgment is required to determine the expected timing of the Group's payment for the obligations under the redeemed convertible bonds under the worst unfavorable scenario of the litigations between the Group and the Chung Parties.	Our procedures in relation to management's assessment on the reclassification of the obligation under redeemed convertible bonds from current liabilities to non-current liabilities included: • Reviewing correspondence with the Company's external legal counsel and documents related to major legal filings, and evaluating the court judgments and/or orders relating to these legal proceedings; • Discussing with the management and the internal legal counsel of the Company on how they assessed the probability of the exposure and expected timing of the Group's payment for the obligations for the redeemed convertible bonds; • Evaluating the opinion letter issued by the external legal counsel of the Company on the expected timing of the court hearing dates and hence the possible expected timing of Group's payment for the obligations under the redeemed convertible bonds; and • Evaluating the adequacy of disclosures made in the notes to the consolidated financial statements for the legal proceedings between the Chung Parties and the obligations under the redeemed convertible bonds.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we were required to report the fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intention omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 29 June 2017

Leung Chun Wa
Practising Certificate Number P04963

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2017

	Note	2017 HK$'000	2016 HK$'000
Revenue	6	**1,513,179**	363,384
Cost of sales		**(1,021,210)**	(219,141)
Gross profit		**491,969**	144,243
Other income	8	**72,125**	27,332
Other gains and losses, net	8	**40,331**	(35,859)
Selling and distribution costs		**(96,246)**	(36,747)
General and administrative expenses		**(492,230)**	(350,329)
Research and development expenses		**(128,714)**	(62,797)
Finance costs	9	**(363,536)**	(304,801)
Other operating expenses	10	**–**	(87,381)
Amortisation of intangible assets	18	**(179,825)**	(171,010)
Share of results of associates		**(17,833)**	(547)
Share of results of joint ventures		**(68,210)**	(10,771)
Loss before tax	10	**(742,169)**	(888,667)
Income tax	12	**16,965**	865
Loss for the year		**(725,204)**	(887,802)
Attributable to:			
Owners of the Company		**(554,849)**	(228,154)
Non-controlling interests		**(170,355)**	(659,648)
		(725,204)	(887,802)
		HK cents	HK cents
Loss per share attributable to owners of the Company	14		
– Basic and diluted		**(2.50)**	(1.21)

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2017

	2017 HK$'000	2016 HK$'000
Loss for the year	**(725,204)**	(887,802)
Other comprehensive loss for the year, net of nil tax:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**(238,537)**	(165,911)
Share of other comprehensive loss of associates	**(6,649)**	–
Share of other comprehensive loss of joint ventures	**(6,276)**	(5,411)
	(251,462)	(171,322)
Total comprehensive loss for the year	**(976,666)**	(1,059,124)
Attributable to:		
Owners of the Company	**(756,013)**	(355,032)
Non-controlling interests	**(220,653)**	(704,092)
Total comprehensive loss for the year	**(976,666)**	(1,059,124)

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

	Note	2017 HK$'000	2016 HK$'000
Non-current assets			
Goodwill	17	**1,265,028**	1,319,800
Intangible assets	18	**786,104**	854,080
Fixed assets: Property, plant and equipment	19	**3,163,023**	2,833,613
Fixed assets: Interests in leasehold land held for own use under operating leases	19	**332,309**	362,137
Interests in associates	21	**371,770**	3,186
Interests in joint ventures	22	**425,550**	342,936
Available-for-sale investments	23	**–**	23,884
Deposits paid for non-current assets	24	**144,908**	285,966
Loan receivable	28	**398**	434
Other non-current assets	25	**8,162**	8,950
		6,497,252	6,034,986
Current assets			
Inventories	26	**657,967**	613,349
Trade and bills receivables	27	**1,251,782**	153,576
Loan and other receivables	28	**877,684**	629,154
Financial assets at fair value through profit or loss	29	**50,000**	69,221
Derivative financial instruments	38	**21,233**	34,141
Pledged bank deposits	30	**160,163**	212,559
Cash and cash equivalents	31	**1,321,410**	942,015
		4,340,239	2,654,015
Current liabilities			
Bank loans and other borrowings	32	**(1,340,776)**	(1,102,153)
Trade and bills payables	33	**(745,544)**	(410,954)
Accruals and other payables	34	**(740,144)**	(604,152)
Tax payables		**(36,853)**	(13,250)
Obligations under finance leases	35	**(28,394)**	–
Liability components of convertible bonds	38	**(514,636)**	–
Obligations under redeemed convertible bonds	36	**–**	(760,752)
		(3,406,347)	(2,891,261)
Net current assets/(liabilities)		**933,892**	(237,246)
Total assets less current liabilities		**7,431,144**	5,797,740

	Note	**2017 HK$'000**	2016 HK$'000
Non-current liabilities			
Receipts in advance	*37*	**(610,235)**	(50,113)
Deferred income	*40*	**(54,067)**	(72,006)
Bank loans and other borrowings	*32*	**(1,094,483)**	(880,802)
Obligations under finance leases	*35*	**(41,497)**	–
Liability components of convertible bonds	*38*	**(190,199)**	(476,611)
Deferred tax liabilities	*39*	**(180,325)**	(226,399)
Obligations under redeemed convertible bonds	*36*	**(760,752)**	–
		(2,931,558)	(1,705,931)
NET ASSETS		**4,499,586**	4,091,809
CAPITAL AND RESERVES			
Issued capital	*41*	**223,985**	219,636
Reserves		**2,724,640**	3,142,891
Total equity attributable to owners of the Company		**2,948,625**	3,362,527
Non-controlling interests		**1,550,961**	729,282
TOTAL EQUITY		**4,499,586**	4,091,809

Miao Zhenguo
Director

Jaime Che
Director

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2017

	Attributable to owners of the Company											
	Issued capital	Share premium *(Note 42(b))*	Exchange reserve *(Note 42(c))*	Contributed surplus *(Note 42(d))*	Capital redemption reserve *(Note 42(e))*	Equity component of convertible bonds *(Note 42(f))*	Share option reserve *(Note 42(g))*	Investment revaluation reserve *(Note 42(h))*	Accumulated losses *(Note 42(i))*	Total	Non-controlling interests	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2015	178,662	6,604,261	26,505	15,506	1,868	511,179	20,623	–	(5,287,458)	2,071,146	243,059	2,314,205
Loss for the year	–	–	–	–	–	–	–	–	(228,154)	(228,154)	(659,648)	(887,802)
Other comprehensive loss for the year												
– Exchange difference on translation of financial statements of foreign operations	–	–	(121,467)	–	–	–	–	–	–	(121,467)	(44,444)	(165,911)
– Share of other comprehensive loss of joint ventures	–	–	(5,411)	–	–	–	–	–	–	(5,411)	–	(5,411)
Total other comprehensive loss for the year	–	–	(126,878)	–	–	–	–	–	–	(126,878)	(44,444)	(171,322)
Total comprehensive loss for the year	–	–	(126,878)	–	–	–	–	–	(228,154)	(355,032)	(704,092)	(1,059,124)
Issue of new shares *(Note 41(a))*	20,000	937,462	–	–	–	–	–	–	–	957,462	–	957,462
Proceeds from shares issued upon exercise of share options	60	2,910	–	–	–	–	(270)	–	–	2,700	–	2,700
Capital contributions from non-controlling interests	–	–	–	–	–	–	–	–	–	–	230,220	230,220
Changes in ownership interests in subsidiaries without change of control *(Note 16(c))*	–	–	–	–	–	–	–	–	(92,148)	(92,148)	960,095	867,947
Conversion of convertible bonds *(Note 41(b))*	20,914	1,123,808	–	–	–	(377,580)	–	–	–	767,142	–	767,142
Cancellation of share premium *(Note 42(a))*	–	(6,824,625)	–	6,824,625	–	–	–	–	–	–	–	–
Transfer *(Note 42(a))*	–	–	–	(5,420,546)	–	–	–	–	5,420,546	–	–	–
Share options lapsed	–	–	–	–	–	–	(58)	–	58	–	–	–
Equity-settled share-based payments	–	–	–	–	–	–	11,257	–	–	11,257	–	11,257
At 31 March 2016 and 1 April 2016	219,636	1,843,816	(100,373)	1,419,585	1,868	133,599	31,552	–	(187,156)	3,362,527	729,282	4,091,809
Loss for the year	–	–	–	–	–	–	–	–	(554,849)	(554,849)	(170,355)	(725,204)
Other comprehensive loss for the year												
– Exchange difference on translation of financial statements of foreign operations	–	–	(192,419)	–	–	–	–	–	–	(192,419)	(46,118)	(238,537)
– Share of other comprehensive income/(loss) of associates	–	–	6,363	–	–	–	–	(10,891)	–	(4,528)	(2,121)	(6,649)
– Share of other comprehensive loss of joint ventures	–	–	(4,217)	–	–	–	–	–	–	(4,217)	(2,059)	(6,276)
Total other comprehensive loss for the year	–	–	(190,273)	–	–	–	–	(10,891)	–	(201,164)	(50,298)	(251,462)
Total comprehensive loss for the year	–	–	(190,273)	–	–	–	–	(10,891)	(554,849)	(756,013)	(220,653)	(976,666)
Issue of new shares *(Note 41(a))*	4,300	210,700	–	–	–	–	–	–	–	215,000	–	215,000
Capital contributions from non-controlling interests	–	–	–	–	–	–	–	–	–	–	1,039,766	1,039,766
Non-cash contributions from a non-controlling interest	–	–	–	–	–	–	–	–	–	–	2,566	2,566
Issue of convertible bonds	–	–	–	–	–	119,148	–	–	–	119,148	–	119,148
Conversion of convertible bonds *(Note 41(b))*	49	2,941	–	–	–	(876)	–	–	–	2,114	–	2,114
Share options lapsed	–	–	–	–	–	–	(667)	–	667	–	–	–
Equity-settled share-based payments	–	–	–	–	–	–	5,849	–	–	5,849	–	5,849
At 31 March 2017	**223,985**	**2,057,457**	**(290,646)**	**1,419,585**	**1,868**	**251,871**	**36,734**	**(10,891)**	**(741,338)**	**2,948,625**	**1,550,961**	**4,499,586**

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2017

	Note	2017 HK$'000	2016 HK$'000
Operating activities			
Loss before tax		**(742,169)**	(888,667)
Adjustments for:			
Interest income	10	**(28,748)**	(23,765)
Finance costs	9	**363,536**	304,801
Loss on disposal of property, plant and equipment	8	**108**	709
Gain on disposal of subsidiaries	8	**–**	(7,300)
Loss on disposal of associates and joint ventures	8	**–**	226
Technology transfer income	8	**–**	(82,948)
Depreciation of property, plant and equipment	19	**134,380**	69,158
Amortisation of interests in leasehold land held for own use under operating leases	19	**7,768**	8,494
Equity-settled share-based payments	10	**5,849**	11,257
Amortisation of intangible assets	18	**179,825**	171,010
Impairment on trade and bills receivables	8 & 27(d)	**35,899**	16,235
Impairment on loan and other receivables	8 & 28(b)	**7,658**	34,558
Impairment on available-for-sale investments	8	**23,884**	69,750
Write-down of inventories	8	**1,574**	4,755
Warranty provision	34	**28,730**	2,467
Foreign exchange difference		**(19,588)**	(7,535)
Share of results of associates and joint ventures		**86,043**	11,318
Net (gain)/loss on held-for-trading investments	8	**(10,669)**	19,344
Net gain on financial assets designated as at fair value through profit or loss	8	**(273)**	–
Negative goodwill arising from the acquisition of additional interest in a joint venture	8	**(133,850)**	(18,761)
Changes in working capital:			
Decrease/(increase) in financial assets at fair value through profit or loss		**28,734**	(31,088)
Increase in prepaid expenses		**(887)**	(355)
Increase in inventories		**(46,192)**	(389,970)
Increase in trade, bills, loan and other receivables		**(1,442,506)**	(235,986)
Increase in trade, bills, accruals and other payables		**361,028**	277,414
Net cash used in operations		**(1,159,866)**	(684,879)
Income tax paid		**(538)**	(590)
Interest received		**20,752**	8,327
Net cash used in operating activities		**(1,139,652)**	(677,142)

	Note	**2017 HK$'000**	2016 HK$'000
Investing activities			
Payments for acquisition of intangible assets		**(126,592)**	(83,526)
Payments for acquisition of property, plant and equipment		**(389,275)**	(1,132,018)
Payments for investments in associates and joint ventures		**(416,316)**	(61,845)
Proceeds from disposal of interest in a joint venture		**–**	695
Receipts on disposal of property, plant and equipment		**1,695**	454
Receipts of government grants and other fundings for capital expenditures		**576,550**	73,674
Proceeds from financial assets at fair value through profit or loss		**1,429**	–
Decrease/(increase) in pledged bank deposits		**52,396**	(85,405)
Decrease in deposit in a security account		**–**	320,019
Net cash outflows on acquisition of subsidiaries		**–**	(369,944)
Net proceeds from disposal of subsidiaries		**–**	8,000
Net cash used in investing activities		**(300,113)**	(1,329,896)
Financing activities			
Net proceeds from issuance of new shares		**215,000**	957,462
Capital contributions from non-controlling interests		**1,039,766**	230,220
Net proceeds from issuance of new shares by a subsidiary		**–**	264,191
Net proceeds from partial disposal of interest in a subsidiary		**–**	248,372
Net proceeds from shares issued upon exercise of share options		**–**	2,700
Proceeds from finance lease		**85,445**	–
Repayment of finance lease		**(13,897)**	–
Proceeds from issuance of convertible bonds		**275,000**	–
Proceeds from bank loans and other borrowings		**1,471,115**	1,304,412
Repayment of bank loans and other borrowings		**(936,894)**	(285,869)
Interest paid		**(266,714)**	(168,329)
Net cash generated from financing activities		**1,868,821**	2,553,159
Net increase in cash and cash equivalents		**429,056**	546,121
Effect of foreign exchange rate changes		**(49,661)**	(15,584)
Cash and cash equivalents at beginning of the year		**942,015**	411,478
Cash and cash equivalents at end of the year	*31*	**1,321,410**	942,015

Note: Certain comparative amounts in the consolidated statement of cash flows have been reclassified to conform with the current year's presentation.

The accompanying notes form part of these consolidated financial statements.

1. GENERAL INFORMATION

FDG Electric Vehicles Limited (the "Company") is a limited liability company incorporated in Bermuda. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office and principal place of business of the Company are situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Rooms 3001-3005, 30th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, respectively.

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in (i) research and development, production and sale of lithium-ion batteries and related products; (ii) vehicle design and the design, manufacture and sale of electric vehicles; (iii) leasing of electric vehicles; (iv) research and development, manufacture and sale of cathode materials for lithium-ion batteries; and (v) direct investments.

2. PRINCIPAL ACCOUNTING POLICIES

(a) STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Principal accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any change in accounting policies resulting from initial application of these developments to the extent they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

(b) BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 March 2017 comprise the Company and its subsidiaries and the Group's interests in joint ventures and associates.

Items included in the financial statements of each entity in the Group are measured using the functional currency of the entity, that is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries in Hong Kong, the British Virgin Islands, the Cayman Islands and Bermuda is Hong Kong dollar ("HK$") and that of its subsidiaries in the People's Republic of China (the "PRC") is Renminbi ("RMB"). For the purposes of presenting the consolidated financial statements, the Group has adopted HK$ as its presentation currency and all values are rounded to the nearest thousand ("HK$'000") except when otherwise indicated.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except for financial assets at fair value through profit or loss (see Note 2(f)) and derivative financial instruments (see Note 2(g)) which are measured at fair value.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have a significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 4.

(c) SUBSIDIARIES AND NON-CONTROLLING INTERESTS

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identified assets. However, the choice of measuring non-controlling is limited to those types of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the subsidiary's net assets in the event of liquidation. All other types of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by HKFRSs.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Notes 2(o), (p) or (q) depending on the nature of the liability.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) SUBSIDIARIES AND NON-CONTROLLING INTERESTS (CONTINUED)

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, interests in subsidiaries are carried at cost less any impairment losses (see Note 2(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(d) ASSOCIATES AND JOINT VENTURES

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment losses relating to the investment (see Note 2(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(d) ASSOCIATES AND JOINT VENTURES (CONTINUED)

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(f)).

(e) (i) BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Incomes Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(e) (i) BUSINESS COMBINATIONS (CONTINUED)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (that is, the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(e) (ii) GOODWILL

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On the disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

(iii) ACQUISITION OF A SUBSIDIARY NOT CONSTITUTING A BUSINESS

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

(f) OTHER INVESTMENTS IN DEBT AND EQUITY SECURITIES

Investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are categorised as follows:

Financial assets at fair value through profit or loss

This category comprises financial assets held for trading, and those designated as at fair value through profit or loss upon initial recognition, but excludes those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Trading financial instruments are financial assets which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(f) OTHER INVESTMENTS IN DEBT AND EQUITY SECURITIES (CONTINUED)

Financial assets at fair value through profit or loss (Continued)

Financial instruments are designated as at fair value through profit or loss upon initial recognition when:

– the assets are managed, evaluated and reported internally on a fair value basis;

– the designation eliminates or significantly reduced an accounting mismatch which would otherwise arise;

– the asset contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or

– the separation of the embedded derivative(s) from the financial instrument is not prohibited.

Financial assets at fair value through profit or loss are measured initially at fair value, which normally will equal to the transaction price. Transaction costs are expensed immediately.

The Group recognises the financial asset on the date it become a party to the contractual provisions of the instrument. A regular way purchase or sale of the financial asset is recognised using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets are recorded. Upon disposal or repurchase, the difference between the net sale proceeds and the carrying value is included in profit or loss.

Available-for-sale financial assets

Investments in securities which do not fall into the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see Note 2(k)). Dividend income from equity securities calculated using the effective interest method are recognised in profit or loss. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see Note 2(k)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(h) PROPERTY, PLANT AND EQUIPMENT AND INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

Property, plant and equipment, other than construction in progress, are carried at cost less accumulated depreciation and any accumulated impairment losses (see Note 2(k)). The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group.

To the extent the allocation of the lease payments can be made reliably, interests in leasehold land that is accounted for as an operating lease is presented as interests in leasehold lands held for own use under operating leases and included in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and account for as property, plant and equipment.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- Buildings held for own use situated on leasehold land under operating leases are depreciated on a straight-line basis over the shorter of the unexpired term of leases and their estimated useful lives.
- Other property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Leasehold land under finance leases	over the remaining lease terms
Buildings	over the shorter of the unexpired term of leases and their estimated useful lives, being no more than 50 years after the date of completion
Leasehold improvements	20% to 33.3% or, if shorter, the remaining term of the lease
Furniture and equipment	10% to 33.3%
Motor vehicles	10% to 25%
Plant and machinery	10% to 14.3%
Electric vehicles	33.3%

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(h) PROPERTY, PLANT AND EQUIPMENT AND INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES (CONTINUED)

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents buildings, leasehold improvements and plant and equipment in the course of construction for production and for the Group's own use purposes. Construction in progress is stated at cost less any identified impairment loss. Cost comprises construction expenditure and other direct costs attributable to such projects. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for its intended use.

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

(i) INTANGIBLE ASSETS (OTHER THAN GOODWILL)

Intangible assets internally generated and acquired separately

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development, and the expenditure attributable to the development can be measured reliably. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(k)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

–	Patents and exclusive patents using rights	10 to 20 years
–	Industrial proprietary rights	25 to 30 years
–	Technical know-hows	5 to 7 years
–	Lease contractual rights	3 years

The period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(i) INTANGIBLE ASSETS (OTHER THAN GOODWILL) (CONTINUED)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

(j) LEASED ASSETS

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) LEASED ASSETS (CONTINUED)

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 2(h). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(k). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring leasehold land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

(iv) Sales and leaseback transactions

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved. If the leaseback is a finance lease, the transaction is a means whereby the lessor provides finance to the lessee, with the asset as security.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(k) IMPAIRMENT OF ASSETS

(i) Impairment of investments in equity securities and trade, bills, loan and other receivables

Investments in equity securities and trade, bills, loan and other receivables that are carried at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 2(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 2(k)(ii).
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.
- For trade, bills, loan and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(k) IMPAIRMENT OF ASSETS (CONTINUED)

(i) Impairment of investments in equity securities and trade, bills, loan and other receivables (Continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables, loan receivables and other receivables included within trade and bills receivables, and loan and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the followings assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased.

– intangible assets;

– goodwill;

– property, plant and equipment;

– interests in leasehold land held for own use under operating leases;

– deposits paid for non-current assets; and

– interests in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (that is, a cash-generating unit).

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(k) IMPAIRMENT OF ASSETS (CONTINUED)

(ii) Impairment of other assets (Continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value-in-use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(k)(i) and (k)(ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(l) INVENTORIES

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(m) PROJECT CONTRACTS IN PROGRESS

Project contracts in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date (see Note 2(v)(ii)) less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Project contracts in progress is presented as "Amounts due from customers for contract work" (as part of trade and bills receivables) in the consolidated statement of financial position for all contracts in which costs incurred plus recognised profits less recognised losses exceed progress billings. If progress billings exceed costs incurred plus recognised profits less recognised losses, then the difference is presented as "Amounts due to customers for contract work" (as part of trade and bills payables) in the consolidated statement of financial position.

(n) TRADE, BILLS, LOAN AND OTHER RECEIVABLES

Trade, bills, loan and other receivables are initially recognised at fair value and thereafter carried at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see Note 2(k)(i), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are carried at cost less allowance for impairment of doubtful debts (see Note 2(k)(i)).

Loans and other receivables include loans made under an entrusted arrangement granted by a licensed bank incorporated in the PRC on behalf of the Group to one of its external PRC customers for which the Group bears the credit risks.

(o) CONVERTIBLE BONDS

Convertible bonds issued by the Company that contain liability, conversion option and redemption option components are classified separately into liability component, equity component and embedded derivative component (consisting of the early redemption and mandatory conversion options of the Company), respectively. A derivative embedded in a non-derivative host contract is treated as a separate derivative when its risks and characteristics are not closely related to those of the host contract. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible bonds. The derivative component is carried at fair value on the statement of financial position with any changes in fair value being charged or credited to profit or loss in the period in which the change occurs. The difference between the proceeds from the issue of the convertible bonds and the fair values of the liability component and the embedded derivative component of the Company is included in equity.

Subsequent to initial recognition, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The difference between the interest so calculated and the interest paid is added to the carrying amount of the liability component. The embedded derivative is re-measured to fair value through profit or loss at subsequent reporting dates. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, remains in equity reserve until the embedded option is exercised (at which time the convertible bonds equity component will be transferred to share capital and share premium). Where the option remains unexercised at the expiry date, the balance remaining in equity reserve is released to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(o) CONVERTIBLE BONDS (CONTINUED)

Transaction costs that relate to the issue of convertible bonds are allocated to the liability component, embedded derivative and equity component of the convertible bonds in proportion to the allocation of proceeds. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible bonds using the effective interest method. Transaction costs relating to the embedded derivative are charged directly to profit or loss. Transaction costs relating to the equity component are charged directly to equity.

If the convertible bonds are redeemed by the Company before maturity, the Company will allocate the consideration paid and any transaction costs for the repurchase or redemption to the liability and equity components of the instrument at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the Company when the convertible instrument was issued. Once the consideration is allocated, any resulting gain or loss relating to the liability component is recognised in profit or loss and the amount of consideration relating to the equity component is recognised in equity.

(p) INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are carried at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) TRADE, BILLS AND OTHER PAYABLES

Trade, bills and other payables are initially recognised at fair value and subsequently carried at amortised cost unless the effect of discounting would be immaterial, in which case they are carried at cost.

(r) CASH AND CASH EQUIVALENTS AND DEPOSIT IN A SECURITY ACCOUNT

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Deposit in a security account is restricted as to withdrawal or use under the terms of certain contractual agreements.

(s) EMPLOYEE BENEFITS

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are carried at their present values.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(s) EMPLOYEE BENEFITS (CONTINUED)

(ii) Share-based payment transactions

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share option reserve within equity. The fair value is measured at grant date using the Binomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged or credited to profit or loss for the year of the review. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest with a corresponding adjustment to the share option reserve. The equity amount is recognised in the share option reserve until either the option is exercised when it is transferred to the share premium account or the option expires when it is released directly to retained profits.

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(t) INCOME TAX

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences, or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(t) INCOME TAX (CONTINUED)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group or the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously;

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either;

  - the same taxable entity; or

  - different taxable entities which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) PROVISIONS AND CONTINGENT LIABILITIES

(i) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with Note 2(u)(ii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with Note 2(u)(ii).

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(u) PROVISIONS AND CONTINGENT LIABILITIES (CONTINUED)

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

Sales of goods is recognised when the Group's products are delivered, and when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes value-added-tax or other sales taxes and is after deduction of any trade discounts and returns.

(ii) Service income

Service income is recognised when the outcome of a service contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a service contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal installments over the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the reporting period in which they are earned.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(v) REVENUE RECOGNITION (CONTINUED)

(iv) Interest income

Interest income is recognised on an accrual basis, using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial assets to the net carrying amounts of the financial assets.

Interest income on all financial assets that are classified as trading or designated at fair value through profit or loss are considered to be incidental and are therefore presented together with all other changes in fair value arising from the portfolio. Net income from financial instruments designated at fair value through profit or loss and net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with interest income and expenses and foreign exchange differences attributable to those financial instruments.

(w) GOVERNMENT GRANTS

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset to match with the depreciation of the relevant asset.

(x) TRANSLATIONS OF FOREIGN CURRENCY

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies carried at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items of statement of financial position are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised directly in other comprehensive income and accumulated separately in equity in the exchange reserve.

On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(y) BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(z) WARRANTIES

Provisions for the expected cost of warranty obligations under the relevant contract for the sale of goods are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligations.

(aa) DIVIDENDS AND DISTRIBUTIONS

Dividends and distributions to the Company's shareholders are recognised as a liability in the Group's consolidated financial statements in the period in which the dividends and distributions have been approved by the Company's shareholders.

(ab) RELATED PARTIES

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(ab) RELATED PARTIES (CONTINUED)

(b) An entity is related to the Group if any of the following conditions applies: (Continued)

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(ac) SEGMENT REPORTING

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Board, the chief operating decision maker, for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has where applicable adopted the following amendments to HKFRSs issued by HKICPA for the first time in the current year's consolidated financial statements:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 27	Equity Method in Separate Financial Statements

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Up to the date of issuance of these consolidated financial statements, the HKICPA has issued a number of amendments and new standards and an interpretation which are not yet effective for the year ended 31 March 2017 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the Group.

HKFRS 9	Financial Instruments[3]
HKFRS 15	Revenue from Contracts with Customers[3]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[3]
HKFRS 16	Leases[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 Cycle[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[3]
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets between an Investor and Its Associates or Joint Venture[5]
Amendments to HKAS 7	Disclosure Initiatives[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[3]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate
3 Effective for annual periods beginning on or after 1 January 2018
4 Effective for annual periods beginning on or after 1 January 2019
5 Effective for annual periods beginning on or after a date to be determined

The Group is in the process of making an assessment of what the impact of these amendments and new standards and the interpretation is expected to be in the period of initial application. Further information on the key developments is as follows:

HKFRS 9 FINANCIAL INSTRUMENTS

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

– All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

HKFRS 9 FINANCIAL INSTRUMENTS (CONTINUED)

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost and fair value through profit or loss will continue with their respective classification and measurements upon the adoption of HKFRS 9.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated as at fair value through profit or loss and the Group does not have any such liabilities.

This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

The directors do not anticipate that the application of the HKFRS 9 hedge accounting requirements will have a material impact on the Group's consolidated financial statements.

HKFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

HKFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Specifically, the HKFRS 15 introduces a 5-step approach to revenue recognition:

– Step 1: Identify the contract(s) with a customer

– Step 2: Identify the performance obligations in the contract

– Step 3: Determine the transaction price

– Step 4: Allocate the transaction price to the performance obligations in the contract

– Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors are currently assessing the impact of the adoption of HKFRS 15 on the Group's consolidated financial statements.

HKFRS 16 LEASES

As disclosed in Note 2(j), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. The directors are currently assessing the impact of the adoption of HKFRS 16 on the Group's consolidated financial statements.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

AMENDMENTS TO HKFRS 2 CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS

The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

    i) the original liability is derecognised;

    ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and

    iii) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The directors of the Company do not anticipate that the application of the amendments in future will have a significant impact on the Group's consolidated financial statements as the Group does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.

AMENDMENTS TO HKFRS 10 AND HKAS 28 SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE

The amendments to HKFRS 10 Consolidated Financial Statements and HKAS 28 Investments in Associates and Joint Ventures deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

AMENDMENTS TO HKAS 7 DISCLOSURE INITIATIVE

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

AMENDMENTS TO HKAS 12 RECOGNITION OF DEFERRED TAX ASSETS FOR UNREALISED LOSSES

The amendments provide guidance on how an entity determines, in accordance with HKAS 12 Income Taxes, whether to recognise a deferred tax asset in relation to unrealised tax losses of a debt instrument that is classified as an available-for-sale financial asset in accordance with HKAS 39 Financial Instruments: Recognition and Measurement under certain specific facts and circumstances.

The directors of the Company do not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

HK(IFRIC) – INTERPRETATION 22 FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION

The interpretation provide guidance on how an entity determines, in accordance with HKAS 21 The Effects of Changes in Foreign Exchange Rates, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

The directors of the Company do not anticipate that the application of the interpretation will have a material impact on the Group's consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, as discussed below.

(a) GOING CONCERN

The directors of the Company are satisfied that the Group has sufficient cash resources to satisfy the Group's working capital and other financial obligations for the next twelve months from the end of the reporting period. Under such circumstances, the consolidated financial statements have been prepared on a going concern basis. If the going concern basis is not appropriate, adjustments would have to be made to restate the values of assets to their immediate recoverable amounts, to make provision for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. Such adjustments may have a significant consequential effect on the loss for the year and net assets of the Group.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(b) IMPAIRMENT OF GOODWILL

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amounts, being the higher of fair value less costs of disposal and value-in-use, of the cash-generating units to which the goodwill is allocated. Estimating the fair value less costs of disposal and value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. In the process of estimating expected future cash flow, management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. Determining the appropriate discount rate involves estimating the appropriate adjustments for market risk and for asset specific risk factor.

The carrying amount of goodwill at 31 March 2017 was HK$1,265,028,000 (2016: HK$1,319,800,000). The management performed an impairment assessment on the relevant cash-generating units and no impairment loss (2016: nil) was recognised in the consolidated statement of profit or loss for the year ended 31 March 2017. Further details are given in Note 17.

(c) IMPAIRMENT OF INTANGIBLE ASSETS (OTHER THAN GOODWILL)

Determining whether intangible assets (other than goodwill) are impaired requires an estimation of the recoverable amounts, being the higher of fair value less costs of disposal and value-in-use, of the cash-generating units to which intangible assets have been allocated. The fair value less costs of disposal and value-in-use calculations require the Group to estimate the future cash flows and profit forecast expected to arise from the cash-generating unit and a suitable discount rate in order to calculate their present value. As the industries of the lithium-ion batteries and related electric vehicles are new and currently at its early stage of development, the cash flow and profit forecast projections involve significant judgments and estimates on the accuracy of the assumptions for the projections and estimates of, including but not limited to, the future growth rates, the extent of the future market competition, market demand and market share, and sales and cost structures of the lithium-ion batteries and the related electric vehicles that the Group will achieve during the forecasting period. Where the actual future cash flows are less than expected, a material impairment loss may arise.

The carrying amount of intangible assets at 31 March 2017 was HK$786,104,000 (2016: HK$854,080,000). The management performed an impairment assessment on the relevant cash-generating units and no impairment loss (2016: nil) was recognised in the consolidated statement of profit or loss for the year ended 31 March 2017. Further details are given in Note 18.

(d) IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

Property, plant and equipment and interests in leasehold land held for own use under operating leases are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts are determined based on fair value less costs of disposal or value-in-use calculations. In determining the fair value less costs of disposal and value-in-use, expected cash flows generated by the asset are discounted to their present values, which require significant judgment relating to such items such as the level of turnover and the amount of operating costs. The carrying amounts of property, plant and equipment and interests in leasehold land held for own use under operating leases at 31 March 2017 were HK$3,163,023,000 (2016: HK$2,833,613,000) and HK$332,309,000 (2016: HK$362,137,000), respectively. No impairment loss (2016: nil) was recognised in the consolidated statement of profit or loss for the year ended 31 March 2017. Further details are given in Note 19.

(e) IMPAIRMENT OF INTERESTS IN ASSOCIATES AND JOINT VENTURES

When there is an indication that interests in associates and joint ventures may suffer impairment loss, management assesses the recoverable amounts of the associates and joint ventures, which are based on the value-in-use calculations. In determining the value-in-use, expected cash flows generated by each associate or joint venture are discounted to their present values, which require significant judgment relating to such items such as the level of turnover and the amount of operating costs. The carrying amounts of interests in associates and joint ventures were HK$371,770,000 (2016: HK$3,186,000) and HK$425,550,000 (2016: HK$342,936,000) respectively. No impairment loss (2016: nil) was recognised in the consolidated statement of profit or loss for the year ended 31 March 2017. Further details are given in Note 21 and Note 22.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(f) IMPAIRMENT OF RECEIVABLES

The management evaluates whether there is any objective evidence that trade and other receivables are impaired and determines the amount of impairment loss as a result of the inability of the debtors to make the required payments. The management's estimation is based on the ageing of the trade and other receivables balances, credit-worthiness, and historical write-off experience. If the financial conditions of the debtors were to deteriorate, actual write-offs would be higher than estimated.

The trade receivables included certain amounts that will be settled by the PRC government, on behalf of the customers for purchases of electric vehicles from the Group, by way of national subsidies in accordance with the Circular on Financial Support Policies for the Promotion and Application of New Energy Vehicles 2016–2020 (Cai Jian [2015] 134) and other relevant and applicable government notices and policies promulgated by the PRC government, and the sales contracts made between the Group and these customers. Significant judgement and estimates of management are required in determining when the Group's customers will reach the specified mileage of the electric vehicles for these government subsidies.

The carrying amounts of trade and bills receivables and loan and other receivables at 31 March 2017 were HK$1,251,782,000 (2016: HK$153,576,000) and HK$878,082,000 (2016: HK$629,588,000), respectively. Further details are given in Note 27 and Note 28.

(g) DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account the anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(h) USEFUL LIVES AND AMORTISATION OF INTANGIBLE ASSETS

The intangible assets are amortised on a straight-line basis over the estimated useful lives. The management determines the estimated useful life and basis for amortisation taking into account factors including but not limited to, contractual terms of the respective contracts, the expected usage of the assets by the Group based on past experience, technical obsolescence arising from changes or improvements in production or from a change in the market demand for the products. The estimation of the useful life and basis for amortisation is a matter of judgment based on the experience of the Group. Management reviews the useful life and basis for amortisation of intangible asset annually and, if expectations are significantly different from previous estimates of useful economics life, the amortisation rate for future periods will be adjusted accordingly.

Had different amortisation rates been used to calculate the amortisation of the intangible assets, the Group's result of operations and financial position could be materially different.

(i) VALUATION OF INVENTORIES

Inventories are carried at the lower of cost and net realisable value at the end of the reporting period. Net realisable value is determined on the basis of the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The management estimates the net realisable value for inventories based primarily on the latest invoice prices, current market conditions, historical experience on selling similar inventories and physical conditions of the inventories. It could change significantly as a result of changes in market conditions. In addition, the management performs an inventory review at the end of the reporting period and assess the need for write down of inventories.

The carrying amount of inventories at 31 March 2017 was HK$657,967,000 (2016: HK$613,349,000).

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(j) INCOME TAX

Determining income tax provision involves judgment on the future tax treatment of certain transactions. The management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations.

(k) WARRANTY PROVISIONS

As explained in Note 34, the Group makes provisions under the warranties it gives on sale of its batteries and electric vehicles products taking into account the Group's past experience of the level of repairs and returns. The carrying amount of warranty provision at 31 March 2017 was HK$28,433,000 (2016: HK$3,887,000). As the Group is continually upgrading its product designs and launching new models it is possible that the past experience of the level of repairs and returns is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

(l) OBLIGATION UNDER REDEEMED CONVERTIBLE BONDS

At 31 March 2017, as further detailed in Note 36 and Note 45(a) to the consolidated financial statements, the Company has obligations under redeemed convertible bonds of approximately HK$760,752,000 (the "Redemption Amount") held by Mei Li New Energy Limited ("Mei Li"), a company controlled by Mr. Winston Chung, while the Group has also claimed under legal proceedings against Mr. Winston Chung and/or companies (including Mei Li) controlled by him (the "Chung Parties") for damages with estimated amount (the "Claim Amount"), which is substantially larger than the Redemption Amount. At 31 March 2017, the Claim Amount has not been recognised in the consolidated financial statements.

The Group has sought to set off the whole Redemption Amount by part of the Claim Amount. On 5 March 2013, the High Court of Hong Kong (the "HK Court") issued a judgment in favour of the Company with a grant of unconditional leave to defend the Claim Amount and to argue the Set-Off (the "5 March 2013 Judgment") under which, in effect, the Company's obligations under the redeemed convertible bonds are subject to a stay of execution pending determination of the litigations between the Group and the Chung Parties.

In 2013, Chung Parties lodged an application to appeal against the 5 March 2013 judgment which was refused and set aside by the HK Court on 26 May 2016 on the basis that Mei Li had no such authority to submit appeal application (the "Mei Li Authority Judgment"), On 23 June 2016, the Chung Parties lodged a notice of appeal against the Mei Li Authority Judgment.

The directors of the Company considered that, after having sought a legal opinion from its external counsel, the payment of the Redemption Amount would likely not arise for at least one year after the end of the reporting period, taking into account of the 5 March 2013 Judgment and the time required for the resolution of the relevant legal proceedings, as disclosed in Note 45(a) to the consolidated financial statements, and the applications of the Chung Parties. Accordingly, at 31 March 2017, the obligations under redeemed convertible bonds of approximately HK$760,752,000 have been reclassified from current liabilities to non-current liabilities in the consolidated statement of financial position.

Significant judgment of management is required to determine the expected timing payment for the obligations under redeemed convertible bonds in the worst unfavorable scenario of the outcome of the litigations between the Group and the Chung Parties. The status of the relevant legal proceedings are reviewed periodically and the obligations under redeemed convertible bonds would be reclassified as current when expected timing for payment falls within 12 months.

5. FINANCIAL INSTRUMENTS

(a) CATEGORIES OF FINANCIAL INSTRUMENTS

Financial assets at the end of the reporting period are as follows:

	2017 HK$'000	2016 HK$'000
Trade and bills receivables (excluding amounts due from customers for contract work)	**1,251,782**	152,397
Loan and other receivables (excluding deposits and prepayments and value-added-tax receivables)	**473,780**	275,695
Pledged bank deposits	**160,163**	212,559
Cash and cash equivalents	**1,321,410**	942,015
Loans and receivables	**3,207,135**	1,582,666
Available-for-sale investments	**–**	23,884
Financial assets at fair value through profit or loss		
– designated	**–**	29,074
– held-for-trading		
– trading investment	**50,000**	40,147
– derivative financial instruments	**21,233**	34,141
Financial assets at fair value through profit or loss	**71,233**	103,362

Financial liabilities at the end of the reporting period are as follows:

	2017 HK$'000	2016 HK$'000
Bank loans and other borrowings	**2,435,259**	1,982,955
Trade and bill payables	**745,544**	410,954
Accruals and other payables (excluding value-added-tax payables, receipts in advance and warranty provision)	**692,233**	535,081
Obligations under finance leases	**69,891**	–
Obligations under redeemed convertible bonds	**760,752**	760,752
Liability components of convertible bonds	**704,835**	476,611
Financial liabilities at amortised cost	**5,408,514**	4,166,353

5. FINANCIAL INSTRUMENTS (CONTINUED)

(b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, interest rate risk, currency risk and equity price risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Credit risk

The Group's credit risk is primarily attributable to bank deposits, trade, bills, loan and other receivables and unlisted debt securities. The management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group's cash are deposited with creditworthy banks and other financial institutions with high credit ratings and the Group has limited exposure to any single financial institution.

In respect of trade, bills, loan and other receivables, in order to minimise its credit risk exposure, credit evaluations are performed for the determination and approval of credit limits granted and other monitoring procedures are implemented to ensure that follow-up actions are taken to recover overdue debts. In addition, regular reviews on ageing and recoverability are performed to ensure that adequate allowance for impairment losses are made for irrecoverable amounts.

In respect of trade receivables, credit terms from generally one month to six months may be granted to customers, depending on the results of assessment of the credit-worthiness of individual customers. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. The Group had a concentration of credit risk of 40.44% (2016: 78.01%) of the total trade receivables being due from the Group's five largest trade debtors as at 31 March 2017.

In respect of loan receivables, the Group holds collaterals in the form of second equitable mortgage, share charge, securities over mining license and assets, and guarantees. The Group considers that the credit risk arising from the loan receivables are significantly mitigated by the collaterals, with reference to their estimated market values as at 31 March 2017. The Group had a concentration of credit risk of 50.19% (2016: 54.27%) of the loan receivables being due from the Group's largest loan debtor as at 31 March 2017.

The Group does not provide any other guarantees which would expose the Group to credit risk. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and bills receivables and loan and other receivables are set out in Notes 27 and 28 respectively.

(ii) Liquidity risk

To manage liquidity risk, the Group regularly monitors its current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks and financial institutions to meet its liquidity requirements in the short and longer terms.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay.

5. FINANCIAL INSTRUMENTS (CONTINUED)

(b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(ii) Liquidity risk (Continued)

			2017		
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 March HK$'000
Bank loans and other borrowings	**1,423,655**	**364,053**	**813,386**	**2,601,094**	**2,435,259**
Trade and bills payables	**745,544**	**–**	**–**	**745,544**	**745,544**
Accruals and other payables (excluding value-added-tax payables, receipts in advance and warranty provision)	**692,233**	**–**	**–**	**692,233**	**692,233**
Obligations under redeemed convertible bonds *(Note)*	**–**	**760,752**	**–**	**760,752**	**760,752**
Obligations under finance lease	**32,220**	**32,220**	**11,716**	**76,156**	**69,891**
Liability component of convertible bonds	**530,518**	**–**	**275,000**	**805,518**	**704,835**
	3,424,170	**1,157,025**	**1,100,102**	**5,681,297**	**5,408,514**

			2016		
	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 March HK$'000
Bank loans and other borrowings	1,218,077	219,928	762,409	2,200,414	1,982,955
Trade and bills payables	410,954	–	–	410,954	410,954
Accruals and other payables (excluding value-added-tax payables, receipts in advance and warranty provision)	535,081	–	–	535,081	535,081
Obligations under redeemed convertible bonds *(Note)*	760,752	–	–	760,752	760,752
Liability component of convertible bonds	1,140	563,826	–	564,966	476,611
	2,926,004	783,754	762,409	4,472,167	4,166,353

Note:

Based on a court judgment dated 5 March 2013, the Group has been given an unconditional leave to defend to the extent of the Set-Off (as defined in Note 36) and based on which, the Group is entitled to a stay of execution of payment for the obligations under redeemed convertible bonds before the conclusion of the relevant legal proceedings.

As further detailed in Note 36, based on the opinion of the Company's external counsel obtained during the year, payment of the obligations under redeemed convertible bonds would likely not arise for at least 12 months from the end of the reporting period. Accordingly, the Board considered it was appropriate to consider the amount to be repayable earliest from 1 to 2 years after 31 March 2017.

5. FINANCIAL INSTRUMENTS (CONTINUED)

(b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(iii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable rate loan receivables, bank balances and bank loan and fair value interest rate risk in relation to fixed rate loan receivables, bank balances, bank loans, other borrowings and liability components of convertible bonds.

	2017 Effective interest rate	**2017** HK$'000	2016 Effective interest rate	2016 HK$'000
Variable rate loan receivables	**6.00%**	**434**	6.00%	467
Fixed rate loan receivables	**8.00% to 28.50%**	**142,625**	6.00% to 28.50%	198,406
Variable rate bank balances	**0.001% to 0.42%**	**1,261,035**	0.001% to 0.42%	658,720
Fixed rate bank balances	**0.0001% to 2.40%**	**205,709**	0.08% to 1.70%	329,981
Variable rate bank loans	**4.75% to 6.18%**	**(627,129)**	4.75% to 6.18%	(952,808)
Fixed rate bank loans	**2.06% to 6.00%**	**(1,078,122)**	5.00% to 6.75%	(303,025)
Fixed rate other borrowings	**2.23% to 20.61%**	**(730,007)**	2.23% to 20.61%	(727,122)
Fixed rate liability components of convertible bonds	**8.40% to 14.31%**	**(704,835)**	13.07% to 14.31%	(476,611)

Sensitivity analysis

The fixed rate loan receivables, bank balances, bank loans, other borrowings and liability components of convertible bonds of the Group which are fixed rate instruments, are insensitive to any change in interest rates. A change in interest rate at the end of the reporting period would not affect the consolidated profit or loss.

At 31 March 2017, it is estimated that a general increase or decrease of 100 basis points in interest rates in respect of variable rate loan receivables, bank balances and bank loans, with all other variable held constant, would decrease or increase the Group's loss after tax for the year and accumulated losses by approximately HK$6,343,000 (2016: increase or decrease by HK$2,936,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis is performed on the same basis for 2016.

5. FINANCIAL INSTRUMENTS (CONTINUED)

(b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(iv) Currency risk

The Group currently does not have a foreign currency hedging policy. However, the management monitors the relative foreign exchange positions of its assets and liabilities and will consider hedging significant foreign currency exposures should the need arises.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from the following assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. Financial assets and liabilities denominated in RMB relate to entities with functional currency being RMB and have no exposure to currency risk. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the end of the reporting period. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	2017		2016	
	United States Dollars		United States Dollars	
	Assets	**Liabilities**	Assets	Liabilities
	HK$'000	**HK$'000**	HK$'000	HK$'000
Cash and cash equivalents	**12,660**	**–**	10,327	–
Trade and bills receivables	**20,005**	**–**	10,651	–
Loan and other receivables	**44,787**	**–**	16,440	–
Financial assets at fair value through profit or loss	**8,406**	**–**	38,299	–
Available-for-sales investments	**–**	**–**	23,884	–
Bank loans and other borrowings	**–**	**(32,550)**	–	(32,550)
Other payables	**–**	**(7,572)**	–	(7,204)
	85,858	**(40,122)**	99,601	(39,754)

	2017		2016	
	Euros		Euros	
	Assets	**Liabilities**	Assets	Liabilities
	HK$'000	**HK$'000**	HK$'000	HK$'000
Bank loans and other borrowings	**–**	**202,543**	–	–

5. FINANCIAL INSTRUMENTS (CONTINUED)

(b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(iv) Currency risk (Continued)

Sensitivity analysis

As Hong Kong dollars are pegged to United States dollars ("US$"), the Group considers the risk of movements in exchange rates between Hong Kong dollars and United States dollars to be insignificant. Therefore, no sensitivity analysis for United States dollars is prepared.

The following table indicates the instantaneous change in the Group's loss after tax (and accumulated losses) that would arise if foreign exchange rates of Euros against HK$ had changed at that date, assuming all other risk variables remained constant.

	2017		2016	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) on loss after tax and accumulated losses HK$'000**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) on loss after tax and accumulated losses HK$'000
Euros	**5%**	**7,595**	5%	–
	(5%)	**(7,595)**	(5%)	–

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' loss after tax and equity measured in the respective functional currencies, translated into HK$ at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of each reporting period.

(v) Equity price risk

The Group is exposed to equity price changes arising from investments in equity securities classified as financial assets at fair value through profit or loss (see Note 29).

Equity price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment (stock-specific) or its issuer, or factor affecting all instruments (generic risks) traded in the market.

The Group's unquoted investments are held for strategic purposes. Their performance is assessed at least bi-annually based on the information available to the Group, together with an assessment of their relevance to the Group's strategic plans.

The Group's listed investments are listed on the Stock Exchange. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the other listed investments in the Stock Exchange and other industry indicators, as well as the Group's liquidity needs.

5. FINANCIAL INSTRUMENTS (CONTINUED)

(b) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(v) Equity price risk (Continued)

At 31 March 2017, it is estimated that an increase/(decrease) of 10% (2016: 10%) in the relevant share market price, with all other variables held constant, would have (decreased)/increased the Group's loss after tax and accumulated losses as follows:

	2017		2016	
	Higher/ (lower) in the relevant share market price	**(Decrease)/ increase on loss after tax and accumulated losses HK$'000**	Higher/ (lower) in the relevant share market price	(Decrease)/ increase on loss after tax and accumulated losses HK$'000
Held-for-trading investments				
– listed equity securities	**10%**	**(4,159)**	10%	(3,092)
	(10%)	**4,159**	(10%)	3,092

The sensitivity analysis indicate the instantaneous change in the Group's loss after tax and accumulated losses that would arise assuming that the changes in the share market price had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant share market price, and that all other variables remain constant. The analysis is performed on the same basis in 2016.

The Group is also exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of derivative financial instruments of the Company. As at the end of the reporting period, the Group is exposed to this risk through the early redemption and mandatory conversion options attached to the convertible bonds issued by the Company as disclosed in Note 38.

At 31 March 2017, it is estimated that an increase/(decrease) of 10% (2016: 10%) in the relevant share market price, with all other variables held constant, would have increased/(decreased) the Group's loss after tax and accumulated losses as follows:

	2017		2016	
	Higher/ (lower) in the Company's own share price	**(Decrease)/ increase on loss after tax and accumulated losses HK$'000**	Higher/ (lower) in the Company's own share price	(Decrease)/ increase on loss after tax and accumulated losses HK$'000
Derivative financial instruments	**10%**	**(3,518)**	10%	(4,401)
	(10%)	**3,522**	(10%)	17,311

The sensitivity analysis indicate the instantaneous change in the Group's loss after tax and accumulated losses that would arise assuming that the changes in the Company's own trade price had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period, and that all other variables remain constant. The analysis is performed on the same basis for 2016.

5. FINANCIAL INSTRUMENTS (CONTINUED)

(c) FAIR VALUE MEASUREMENT

(i) Financial assets measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair Value Measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, that is, unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs, that is, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

The Group has a team performing valuations for the financial instruments, including unlisted debt securities with embedded option and unlisted equity securities which are categorised into Level 3 of the fair value hierarchy. The team reports directly to the management. A valuation report with analysis of changes in fair value measurement is prepared by the team at each financial reporting date, and is reviewed and approved by the management. Discussion of the valuation process and results with the management is held twice a year, to coincide with the reporting dates.

An external independent valuation company, with appropriate recognised professional qualifications, is engaged to value the derivative financial instruments at each financial reporting period. Appropriate valuation methods and assumptions with reference to market conditions existing at each financial reporting period to determine the fair value of the derivative financial instruments are adopted. The basis for determining the fair value is disclosed in Note 38.

5. FINANCIAL INSTRUMENTS (CONTINUED)

(c) FAIR VALUE MEASUREMENT (CONTINUED)

(i) Financial assets measured at fair value (Continued)

Fair value hierarchy (Continued)

The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised into Level 1, 2 and 3, based on the degree to which the inputs to the fair value measurements are observable.

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	31 March 2017 HK$'000	31 March 2016 HK$'000				
Held-for trading investments:						
– Listed equity securities	**41,594**	30,922	Level 1	Quoted bid prices in active markets	N/A	N/A
– Unlisted funds	**8,406**	9,225	Level 2	Quoted prices in the over-the-counter markets	N/A	N/A
Financial assets designated as at fair value through profit or loss						
– Unlisted debt securities with embedded options	**-**	29,074	Level 3	Discounted cash flow	Estimated future cash flows to be derived from the assets discounted at a risk based discount rate *(Note (i))*	The higher/lower of estimated cash flows derived from the assets, the higher/lower of fair value
Derivative financial instruments						
– Early redemption and mandatory conversion options embedded in convertible bonds	**21,233**	34,141	Level 3	Binomial pricing model	Expected volatility *(Note (ii))*	The higher/lower of expected volatility, the higher/lower of fair value

Note (i): The fair value of unlisted debt securities with embedded options is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors, adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability. As at 31 March 2017, if the discount for lack of marketability had been 5% higher/lower, with all other variable held constant, the Group's loss after tax for the year would have been unchanged (2016: HK$1,454,000 higher/lower).

Note (ii): The fair value of redemption and mandatory conversion options embedded in convertible bonds is determined using binomial pricing model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 March 2017, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 10% would have decreased the Group's loss by HK$1,581,000 (2016: HK$5,702,000)/increased the Group's loss by HK$928,000 (2016: HK$7,783,000), respectively.

5. FINANCIAL INSTRUMENTS (CONTINUED)

(c) FAIR VALUE MEASUREMENT (CONTINUED)

(i) Financial assets measured at fair value (Continued)

Fair value hierarchy (Continued)

During the years ended 31 March 2017 and 2016, there were no transfer between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise the transfer between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The movement during the year in the balance of Level 3 fair value measurements is as follows:

	2017 **HK$'000**	2016 HK$'000
Unlisted debt securities with embedded options		
At 1 April	**29,074**	29,311
Disposals	**(29,074)**	–
Exchange adjustment	**–**	(237)
At 31 March	**–**	29,074
Total loss for the year included in profit or loss for assets held at the end of the reporting period	**–**	(237)

The gain or loss arising from the remeasurement of the unlisted debt securities with embedded options are presented in "other gains and losses, net" in the consolidated statement of profit or loss and other comprehensive income.

	2017 **HK$'000**	2016 HK$'000
Unlisted equity securities		
At 1 April	**–**	18,938
Proceeds from disposals	**–**	(17,834)
Exchange adjustment	**–**	(1,104)
At 31 March	**–**	–

Exchange adjustments of the unlisted equity securities are presented in "Exchange differences on translation of financial statements of foreign operations" in the consolidated statement of profit or loss and other comprehensive income.

5. FINANCIAL INSTRUMENTS (CONTINUED)

(c) FAIR VALUE MEASUREMENT (CONTINUED)

(i) Financial assets measured at fair value (Continued)

The movement during the year in the balance of Level 3 fair value measurements is as follows: (Continued)

	2017 **HK$'000**	2016 HK$'000
Derivative financial instruments		
At 1 April	**34,141**	53,862
Additions from issue of convertible bonds	**25,026**	–
Transferred to equity upon conversion of convertible bonds	**(37)**	(25,890)
Changes in fair value recognised in profit or loss during the year	**(37,897)**	6,169
At 31 March	**21,233**	34,141
Total (loss)/gain for the year included in profit or loss for assets held at the end of the reporting period	**(37,897)**	6,169

The gains or losses arising from the remeasurement of the derivative financial instruments are presented in "Fair value (loss)/gain on derivative financial instruments" included in "Finance costs" in the consolidated statement of profit or loss.

(ii) Fair value of financial assets and liabilities carried at other than fair value

The directors of the Company consider that the carrying amounts of the Group's financial assets and liabilities carried at cost or amortised cost approximate their fair values as at 31 March 2017 and 2016.

6. REVENUE

Revenue represents the aggregate of gross proceeds from sales of electric vehicles, gross proceeds from sales of lithium-ion batteries and its related products, service income from vehicle design, income from leasing of electric vehicles, gross proceeds from sales of cathode materials for nickel-cobalt-manganese ("NCM") lithium-ion batteries, and income from direct investments which includes loan financing, securities trading and asset investment.

	2017 **HK$'000**	2016 HK$'000
Sales of electric vehicles	**1,178,909**	9,784
Sales of lithium-ion batteries and its related products	**87,465**	285,777
Service income from vehicle design	**–**	1,611
Income from leasing of electric vehicles	**3**	668
Sales of cathode materials for NCM lithium-ion batteries	**234,201**	46,292
Income from direct investments	**12,601**	19,252
Total	**1,513,179**	363,384

7. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports which provide information about components of the Group. These information are reported to and reviewed by the Board, the chief operating decision maker of the Group, for the purposes of resources allocation and performance assessment. The Board considers that the Group is organised into business units based on their products and services, and has reportable operating segments as follows:

(a) the vehicle design and electric vehicle production segment includes the vehicle design and the research and development, manufacture and sales of electric vehicles;

(b) the battery products segment includes the research and development, manufacture and sales of lithium-ion batteries and its related products;

(c) the electric vehicle leasing segment represents the provision of leasing service of electric vehicles including operating lease and finance lease;

(d) the battery materials production segment includes research and development, manufacture and sales of cathode materials for lithium-ion batteries; and

(e) the direct investments segment represents various investments, including loan financing, securities trading and asset investment.

For the purposes of assessing segment performance and allocating resources between segments, the Board monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

(i) Reportable segment profit/(loss) before tax represents the profit earned by/(loss from) each segment without allocation of central administration costs, central finance costs and other income earned which is not attributable to any reportable segment. Reportable segment profit/(loss) before tax also excludes the elimination of inter-segment profit/(loss);

(ii) Revenue and expenses are allocated to each reportable segment with reference to revenue generated by the relevant segments and the expenses incurred by the relevant segments or which otherwise arise from the depreciation and amortisation of assets attributable to the relevant segments. The revenue from external parties reported to the Board is measured in a manner consistent with that in the consolidated statement of profit or loss. Inter-segment transactions are on an arm's length basis on terms similar to transactions with third parties;

(iii) All assets are allocated to reportable segments other than unallocated corporate assets; and

(iv) All liabilities are allocated to reportable segments other than unallocated corporate liabilities.

7. SEGMENT REPORTING (CONTINUED)

The Group's reportable segments for the years ended 31 March 2017 and 2016 are as follows:

	2017					
	Vehicle design & electric vehicle production HK$'000	Battery products HK$'000	Electric vehicle leasing HK$'000	Battery materials production HK$'000	Direct investments HK$'000	Total HK$'000
Revenue from external customers	1,178,909	87,465	3	234,201	12,601	1,513,179
Inter-segment revenue	–	285,523	–	–	33,431	318,954
Reportable segment revenue	1,178,909	372,988	3	234,201	46,032	1,832,133
Reportable segment profit/(loss) before tax	(76,951)	(159,834)	(417)	(61,192)	17,289	(281,105)
Other segment information:						
Interest income	9,665	1,085	22	712	12,601	24,085
Depreciation and amortisation	(135,380)	(152,604)	(216)	(32,192)	–	(320,392)
Finance costs	(71,208)	(18,210)	–	(7,516)	–	(96,934)
Share of results of joint ventures	(68,753)	–	–	–	543	(68,210)
Interests in joint ventures	327,612	–	–	–	97,938	425,550
Share of results of associates	–	(524)	–	(17,309)	–	(17,833)
Interests in associates	–	2,478	–	369,292	–	371,770
Impairment on trade and bills receivables	–	(34,674)	–	(1,225)	–	(35,899)
Negative goodwill arising from the acquisition of additional interest in a joint venture	133,850	–	–	–	–	133,850
Additions to non-current assets	542,310	277,992	–	395,380	–	1,215,682
Reportable segment assets	6,771,198	1,615,136	25,019	1,305,797	740,897	10,458,047
Reportable segment liabilities	(2,888,614)	(1,432,938)	(1,102)	(246,524)	(68,317)	(4,637,495)

7. SEGMENT REPORTING (CONTINUED)

The Group's reportable segments for the years ended 31 March 2017 and 2016 are as follows: (Continued)

	2016					
	Vehicle design & electric vehicle production HK$'000	Battery products HK$'000	Electric vehicle leasing HK$'000	Battery materials production HK$'000	Direct investments HK$'000	Total HK$'000
Revenue from external customers	11,395	285,777	668	46,292	19,252	363,384
Inter-segment revenue	–	306,962	–	–	31,594	338,556
Reportable segment revenue	11,395	592,739	668	46,292	50,846	701,940
Reportable segment loss before tax	(225,825)	(17,406)	(3,411)	(30,402)	(24,538)	(301,582)
Other segment information:						
Interest income	2,493	1,158	75	23	19,252	23,001
Depreciation and amortisation	(96,917)	(134,610)	(1,479)	(14,253)	–	(247,259)
Finance costs	(318)	(11,562)	–	(2,240)	–	(14,120)
Share of results of joint ventures	(12,684)	–	–	–	1,913	(10,771)
Interests in joint ventures	239,264	–	–	–	103,672	342,936
Share of results of associates	–	(547)	–	–	–	(547)
Interests in associates	–	3,186	–	–	–	3,186
Impairment on trade and bills receivables	–	(13,652)	–	(2,583)	–	(16,235)
Impairment on loan and other receivables	(37)	–	–	–	(28,708)	(28,745)
Technology transfer income	82,948	–	–	–	–	82,948
Negative goodwill arising from the acquisition of additional interest in a joint venture	18,761	–	–	–	–	18,761
Additions to non-current assets	1,303,968	200,955	527	831,672	59	2,337,181
Reportable segment assets	4,836,191	1,434,452	5,474	936,726	826,940	8,039,783
Reportable segment liabilities	(1,805,185)	(1,329,736)	(1,176)	(196,637)	(48,232)	(3,380,966)

7. SEGMENT REPORTING (CONTINUED)

RECONCILIATIONS OF REPORTABLE SEGMENT REVENUE, PROFIT OR LOSS, ASSETS AND LIABILITIES

	2017 HK$'000	2016 HK$'000
Revenue		
Reportable segment revenue	**1,832,133**	701,940
Elimination of inter-segment revenue	**(318,954)**	(338,556)
Consolidated revenue	**1,513,179**	363,384
Loss		
Reportable segment loss before tax	**(281,105)**	(301,582)
Elimination of inter-segment loss/(profit)	**3,830**	(92,633)
Reportable segment loss derived from the Group's external customers	**(277,275)**	(394,215)
Other income and other gains and losses, net	**4,894**	5,002
Depreciation	**(1,581)**	(1,403)
Finance costs	**(266,602)**	(290,681)
Impairment on available-for-sale investments	**(23,884)**	(69,750)
Impairment on loan and other receivables	**(7,658)**	(5,813)
Unallocated corporate expenses	**(170,063)**	(131,807)
Consolidated loss before tax	**(742,169)**	(888,667)
Assets		
Reportable segment assets	**10,458,047**	8,039,783
Unallocated corporate assets:		
Available-for-sale investments	**–**	23,884
Derivative financial instruments	**21,233**	34,141
Cash and cash equivalents	**109,369**	502,024
Other unallocated corporate assets	**248,842**	89,169
Consolidated total assets	**10,837,491**	8,689,001
Liabilities		
Reportable segment liabilities	**(4,637,495)**	(3,380,966)
Unallocated corporate liabilities:		
Bank loans and other borrowings	**(900,000)**	(694,572)
Liability components of convertible bonds	**(704,835)**	(476,611)
Other unallocated corporate liabilities	**(95,575)**	(45,043)
Consolidated total liabilities	**(6,337,905)**	(4,597,192)

7. SEGMENT REPORTING (CONTINUED)

GEOGRAPHICAL INFORMATION

(a) Revenue from external customers

	2017 HK$'000	2016 HK$'000
European countries	**52,479**	42,085
The PRC	**1,426,570**	278,312
The United States of America (the "US")	**9,314**	8,115
Australia	**4,518**	4,439
Hong Kong	**12,265**	18,896
Others	**8,033**	11,537
	1,513,179	363,384

The revenue information is based on the location of the customers, the investees or the borrowers.

(b) Non-current assets (other than available-for-sale investments and loan receivable)

	2017 HK$'000	2016 HK$'000
The PRC	**5,256,914**	5,337,564
The US	**327,612**	239,264
Hong Kong	**430,455**	433,840
Taiwan	**481,873**	–
	6,496,854	6,010,668

The geographical location of the non-current assets is based on the physical location of the assets (in the case of property, plant and equipment, interests in leasehold land held for own use under operating leases, deposits paid for non-current assets and other non-current assets), the location of the operation to which they are allocated (in the case of goodwill and intangible assets), and the location of the operation (in the case of interests in associates and joint ventures).

INFORMATION ABOUT MAJOR CUSTOMERS

Revenue(s) from customer(s) contributing 10% or more of the total revenue of the Group are as follows:

	2017 HK$'000	2016 HK$'000
Customer A – revenue from sales of electric vehicles	**317,104**	N/A#
Customer B – revenue from sales of electric vehicles	**200,089**	N/A#
Customer C – revenue from sales of cathode materials	**156,125**	N/A#
Customer D – revenue from sales of battery products	**N/A#**	137,015
Customer E – revenue from sales of battery products	**N/A#**	75,358

\# The transactions with these customers did not contribute 10% or more of total revenue of the Group during the years ended 31 March 2017 or 2016, as the case maybe.

8. OTHER INCOME/OTHER GAINS AND LOSSES, NET

	2017 HK$'000	2016 HK$'000
Other income		
Interest income	**16,147**	4,513
Government grants *(Note (a))*	**47,723**	15,151
Consultancy income	**487**	4,237
Gain on disposal of scraps	**2,624**	1,009
Others	**5,144**	2,422
	72,125	27,332

	2017 HK$'000	2016 HK$'000
Other gains and losses, net		
Negative goodwill arising from the acquisition of additional interest in a joint venture *(Note (b))*	**133,850**	18,761
Impairment on available-for-sale investments	**(23,884)**	(69,750)
Impairment on loan and other receivables	**(7,658)**	(13,881)
Technology transfer income *(Note (c))*	**–**	82,948
Net gains in respect of Smith and Chanje	**102,308**	18,078
Exchange losses, net	**(35,338)**	–
Gain on disposal of subsidiaries *(Note (d))*	**–**	7,300
Loss on disposal of associates and joint ventures	**–**	(226)
Net gain/(loss) on held-for-trading investments	**10,669**	(19,344)
Net gain on financial assets designated as at fair value through profit or loss	**273**	–
Impairment on trade and bills receivables	**(35,899)**	(16,235)
Impairment on loan and other receivables	**–**	(20,677)
Write-down of inventories	**(1,574)**	(4,755)
Loss on disposal of property, plant and equipment, net	**(108)**	–
	40,331	(35,859)

Notes:

(a) The Group is entitled to government grants from various PRC government agencies in respect of subsidies for research and development of new energy products, subsidies for machineries of new energy automotive, development of strategic emerging industries and other incentives.

8. OTHER INCOME/OTHER GAINS AND LOSSES, NET (CONTINUED)

Notes: (Continued)

(b) During the year ended 31 March 2016, the Group and a joint venture partner, Smith Electric Vehicles Corp. ("Smith"), entered into a debt conversion agreement on 25 November 2015, pursuant to which the Group agreed to discharge and cancel Smith's debt obligations with respect to the debenture judgments in the amount of approximately US$2,000,000 and, in consideration therefore, Smith agreed to transfer and assign 2,000,000 common stocks of Chanje Energy, Inc. ("Chanje", formerly known as Nohm Inc. or Orng EV Solutions, Inc.) to the Group. Following the completion of the debt conversion agreement, Chanje had been owned as to approximately 52% by the Group and as to approximately 48% by Smith. A negative goodwill arising from the acquisition of such additional interest in a joint venture of HK$18,761,000 was then recognised.

The Group and Smith entered into a loan agreement on 11 December 2015 (the "Loan Agreement") pursuant to which the Group granted a secured loan (the "Secured Loan") amounting to US$2,000,000 (equivalent to approximately HK$15,500,000) to Smith. The repayment date of the Secured Loan was 14 February 2016. The Secured Loan was secured by 10,000,000 common stocks of Chanje owned by Smith (the "Security"), as collateral. As a result of Smith's default in repayment under the Loan Agreement, the Group commenced the foreclosure process on 26 February 2016 and a public secured party auction was conducted on the Security on 1 June 2016 (the "Public Auction"). At the Public Auction, the Group acquired the subject 10,000,000 common stocks of Chanje with a credit-bid of US$500,000 (equivalent to approximately HK$3,875,000), being credit deducted from the outstanding monies owed by Smith to the Group under the Loan Agreement. During the year, a negative goodwill arose from the acquisition of this additional interest in the joint venture of HK$133,850,000 being calculated with reference to the fair value of Chanje based on the valuation report dated 31 May 2016 issued by an independent firm of professional qualified valuers. As at 31 March 2017, Chanje was owned as to approximately 80% by the Group and as to approximately 20% by Smith. As the Group cannot control the board of directors of Chanje, Chanje continues to be accounted for as a joint venture of the Group.

(c) During the year ended 31 March 2016, technology transfer income represented the excess (the "Excess") of the agreed consideration of intangible assets contributed by the Group upon being transferred to Chanje over the carrying amount of such intangible assets after deducting the impact arising through the Group's interest in Chanje from the Excess.

(d) During the year ended 31 March 2016, gain on disposal of subsidiaries mainly resulted from the Group's disposal of two subsidiaries that hold certain club memberships.

9. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest expenses on convertible bonds	**81,496**	145,634
Interest on finance leases	**2,975**	–
Interest on bank loans and other borrowings wholly repayable within five years	**235,135**	179,360
Other borrowing costs	**6,033**	–
Total interest expenses on financial liabilities not at fair value through profit or loss	**325,639**	324,994
Less: Interest expenses capitalised into construction in progress *(Note)*	**–**	(14,024)
	325,639	310,970
Fair value loss/(gain) on derivative financial instruments	**37,897**	(6,169)
	363,536	304,801

Note: During the year ended 31 March 2016, borrowing costs attributable to the purchase of qualifying assets were capitalised at a rate of 6.18% per annum.

10. LOSS BEFORE TAX

Loss before tax is arrived at after (crediting)/charging:

	2017 **HK$'000**	2016 HK$'000
Interest income	**(28,748)**	(23,765)
Auditor's remuneration *(Note (a))*		
– audit service	**2,750**	2,500
– non-audit service	**180**	930
Cost of inventories recognised as expenses		
– included in cost of sales	**1,020,057**	216,579
– included in selling and distribution costs	**2,105**	1,114
– included in research and development expenses	**20,761**	13,630
– included in other gains and losses	**1,574**	4,755
Amortisation of intangible assets	**179,825**	171,010
Depreciation of property, plant and equipment	**134,380**	69,158
Amortisation of interests in leasehold land held for own use under operating leases	**7,768**	8,494
Other operating expenses *(Note (b))*	**–**	87,381
Warranty provision	**28,730**	2,467
Minimum lease payments under operating leases	**20,767**	16,853
Staff costs (including directors' emoluments)		
– salaries and allowances	**321,468**	278,640
– equity-settled share-based payments	**5,849**	11,257
– contributions to retirement benefits schemes	**31,926**	25,682

Notes:

(a) Excluding remuneration paid to other auditors of certain subsidiaries, amounting to HK$2,347,000 (2016: HK$2,080,000) and HK$1,001,000 (2016: HK$1,986,000) for audit and non-audit services, respectively.

(b) During the year ended 31 March 2016, the other operating expenses of HK$87,381,000 represented production and output costs incurred in trial run stage of the Group's electric vehicle production base in Hangzhou, the PRC.

11. RETIREMENT BENEFIT SCHEMES

The Group's Hong Kong subsidiaries operate defined contribution retirement benefit schemes under the Hong Kong Mandatory Provident Fund Schemes Ordinance ("Ordinance"). The Ordinance requires each employer and its employees to contribute 5% of the employees' monthly gross earnings with a ceiling of HK$1,500 per month. The assets of the scheme are held separately from those of the Group in independently administered funds. The contributions payable by the Group to the scheme are immediately vested and charged to the consolidated statement of profit or loss.

The employees of the Group's PRC subsidiaries are members of the retirement schemes operated by the PRC local authorities. The subsidiaries are required to contribute at a rate ranging from 13% to 20% of the eligible employees' salaries to these schemes. The only obligation of the Group with respect to these schemes is the required contributions under the schemes.

The Group's total contributions to these schemes charged to the consolidated statement of profit or loss for the year ended 31 March 2017 amounted to HK$31,926,000 (2016: HK$25,682,000).

12. INCOME TAX

	2017 HK$'000	2016 HK$'000
Current tax charge for the year:		
– PRC Enterprise Income Tax ("EIT")	**24,130**	590
– Overseas	**816**	367
	24,946	957
Deferred tax credit	**(41,911)**	(1,822)
Total tax credit for the year	**(16,965)**	(865)

No provision for the Hong Kong profits tax has been made as the Group sustained losses for taxation purposes in Hong Kong for the years ended 31 March 2017 and 2016. The provision for PRC EIT is calculated on the estimated assessable profits of the Group's PRC subsidiaries at 25% (except for certain subsidiaries which are subject to a preferential tax rate of 15%) for the years ended 31 March 2017 and 2016. Taxes on overseas profits have been calculated at the rates of taxation prevailing in the jurisdictions in which the Group operates. The deferred tax of HK$41,911,000 (2016: HK$1,822,000) that has been credited to the consolidated statement of profit or loss arose from origination and reversal of temporary differences.

The tax credit for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss as follows:

	2017 HK$'000	2016 HK$'000
Loss before tax	**(742,169)**	(888,667)
Notional tax on loss before tax, calculated at the rates applicable to the tax jurisdictions concerned	**(144,049)**	(165,283)
Tax effect of non-deductible expenses	**52,125**	53,302
Tax effect of non-taxable income	**(25,821)**	(56,164)
Tax effect of deductible temporary differences not recognised	**7,867**	31,706
Tax effect of tax losses not recognised	**111,862**	149,817
Tax effect of prior years' tax losses utilised	**(34,007)**	(18,236)
Tax effect of share of results of joint ventures and associates	**14,242**	3,626
Withholding tax	**816**	367
Income tax credit for the year	**(16,965)**	(865)

13. DIVIDEND

No dividend was paid or declared by the Company during the year (2016: nil).

14. LOSS PER SHARE

(a) BASIC LOSS PER SHARE

The basic loss per share is calculated based on (i) the consolidated loss for the year attributable to owners of the Company of HK$554,849,000 (2016: HK$228,154,000) and (ii) the weighted average number of 22,222,352,000 (2016: 18,889,285,000) ordinary shares in issue during the year.

	2017 Weighted average number of ordinary shares ’000	2016 Weighted average number of ordinary shares ’000
Issued ordinary shares at the beginning of the reporting period	**21,963,580**	17,866,170
Effect of issue of shares upon conversion of convertible bonds	**772**	520,779
Effect of issue of shares pursuant to share placing	**–**	404,372
Effect of issue of shares pursuant to share subscriptions	**258,000**	95,628
Effect of issue of shares upon exercise of share options	**–**	2,336
Weighted average number of ordinary shares at the end of the reporting period	**22,222,352**	18,889,285

(b) DILUTED LOSS PER SHARE

The calculation of diluted loss per share does not assume the exercise of the Company’s outstanding share options or conversion of outstanding convertible bonds which had an anti-dilutive effect and would result in a reduction in loss per share for the years ended 31 March 2017 and 2016. Therefore, the diluted loss per share is the same as the basic loss per share for both years.

15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

	2017				
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share-based payments HK$'000	Retirement benefit schemes contributions HK$'000	Total HK$'000
Executive Directors					
Mr. Cao Zhong (Chief Executive Officer and Chairman)	2,982	5,200	241	36	8,459
Mr. Miao Zhenguo	1,782	3,900	225	36	5,943
Mr. Tong Zhiyuan *(Note (iii))*	–	450	–	3	453
Dr. Chen Yanping *(Note (i))*	1,800	3,890	289	84	6,063
Mr. Jaime Che	1,782	3,250	250	36	5,318
Mr. Lo Wing Yat	2,032	–	199	–	2,231
Non-executive Directors					
Mr. Wong Kwok Yiu *(Note (v))*	–	–	–	–	–
Independent non-executive Directors					
Mr. Chan Yuk Tong	480	–	199	–	679
Mr. Fei Tai Hung	480	–	199	–	679
Mr. Tse Kam Fow	480	–	199	–	679
Mr. Xu Jingbin *(Note (iv))*	60	–	–	–	60
	11,878	16,690	1,801	195	30,564

15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(a) DIRECTORS' EMOLUMENTS (CONTINUED)

	2016				
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share-based payments HK$'000	Retirement benefit schemes contributions HK$'000	Total HK$'000
Executive Directors					
Mr. Cao Zhong (Chief Executive Officer and Chairman)	3,174	4,600	469	30	8,273
Mr. Miao Zhenguo	1,899	3,540	352	30	5,821
Dr. Chen Yanping *(Note (i))*	1,434	3,419	563	87	5,503
Mr. Jaime Che	1,899	2,980	399	30	5,308
Mr. Lo Wing Yat	3,242	–	329	–	3,571
Non-executive Director					
Professor Chen Guohua *(Note (ii))*	240	–	–	–	240
Independent non-executive Directors					
Mr. Chan Yuk Tong	440	–	328	–	768
Mr. Fei Tai Hung	440	–	328	–	768
Mr. Tse Kam Fow	440	–	328	–	768
	13,208	14,539	3,096	177	31,020

Notes:

(i) Dr. Chen Yanping was appointed as Chief Operating Officer of the Company on 28 May 2014 and re-designated as Chief Technical Officer of the Company on 15 February 2017 but remained as the executive director of the Company.

(ii) Professor Chen Guohua resigned as a non-executive director of the Company with effect from 29 October 2015.

(iii) Mr. Tong Zhiyuan has been appointed as the Chief Operating Officer of the Group and an executive director of the Company with effect from 15 February 2017.

(iv) Mr. Xu Jingbin has been appointed as an independent non-executive director of the Company with effect from 15 February 2017.

(v) Mr. Wong Kwok Yiu has been appointed as a non-executive director of the Company with effect from 25 November 2016 and agreed to waive his emoluments for the year ended 31 March 2017.

15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(a) DIRECTORS' EMOLUMENTS (CONTINUED)

The aggregate amounts of emoluments payable to the Directors during the year are as follows:

	2017 **HK$'000**	2016 HK$'000
Fees		
Executive Directors	**10,378**	11,648
Non-executive Directors	**–**	240
Independent non-executive Director	**1,500**	1,320
	11,878	13,208
Other emoluments for Directors and senior management		
Basic salaries, allowances and benefit in kind	**16,690**	14,539
Equity-settled share-based payments	**1,801**	3,096
Retirement benefit scheme contributions	**195**	177
	18,686	17,812
	30,564	31,020

The above emoluments included the fair value of share options granted to certain Directors under the Company's share option scheme. The details are disclosed in Note 43.

No emoluments of the Directors were incurred as an inducement to join or upon joining the Company or as compensation for loss of office during the years ended 31 March 2017 and 2016.

Except for as disclosed in Note 15(a)(v), no Director has waived or agreed to waive any emolument during the years ended 31 March 2017 and 2016.

(b) FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group include five (2016: five) Directors, details of whose emoluments are set out in Note 15(a) to the consolidated financial statements.

16. ACQUISITION OF SUBSIDIARIES

(a) ACQUISITION OF ALEEES ECO ARK (CAYMAN) CO., LTD.

For the year ended 31 March 2017

On 24 August 2016, FDG Investment Holdings Limited, a direct wholly-owned subsidiary of the Company, acquired the entire issued share capital of Aleees Eco Ark (Cayman) Co., Ltd. ("Ark Cayman"), a company incorporated in the Cayman Islands with limited liability, from Advanced Lithium Electrochemistry (Cayman) Co., Ltd., at a cash consideration of HK$28,000,000. Ark Cayman holds primarily intellectual properties including patents related to battery and electric vehicle parts. The underlying assets of Ark Cayman being acquired were not integrated to form a business for generating revenue. As such, the directors of the Company are of the opinion that the acquisition of Ark Cayman is an acquisition of assets which does not constitute a business combination for accounting purposes.

(b) ACQUISITION OF PREMIER PROPERTY MANAGEMENT LIMITED

For the year ended 31 March 2016

On 5 September 2015, Kingspark Group Limited ("Kingspark"), an indirect non-wholly-owned subsidiary of the Company, entered into a sales and purchase agreement (the "PPM Acquisition Agreement") with SKC Co., Ltd. ("SKC Korea") and SK China Company Limited ("SK China") (SKC Korea and SK China collectively as the "PPM Vendors"), both of which are independent third parties to the Company. Pursuant to the PPM Acquisition Agreement, the PPM Vendors conditionally agreed to sell and Kingspark conditionally agreed to purchase 100% equity interest in Premier Property Management Limited ("PPM") and its subsidiary (collectively, the "PPM Group") for a cash consideration of HK$372,000,000 and a share consideration by the issuance of 269,230,770 new ordinary shares of FDG Kinetic Limited ("FKL"), a non-wholly-owned listed subsidiary of the Company (the "PPM Acquisition"). The PPM Acquisition was completed on 29 October 2015 (the "PPM Completion Date").

PPM is the sole legal and beneficial owner of 愛思開(重慶)鋰電材料有限公司 (SK (Chongqing) Lithium Ion Battery Materials Co., Ltd[Δ]), currently known as 五龍動力(重慶)鋰電材料有限公司 (FDG Kinetic (Chongqing) Lithium Ion Battery Materials Co., Ltd[Δ]) ("FDG Chongqing"), which is a wholly foreign-owned enterprise established in Chongqing, the PRC. FDG Chongqing mainly manufactures cathode materials for NCM lithium-ion batteries with an annual designed production capacity of 2,400 tonnes. The PPM Acquisition represented a significant furtherance of the Group's strategic development of vertical expansion and will be beneficial to the development of the Group's electric battery products through the synergy formed.

Δ *For identification purpose*

16. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(b) ACQUISITION OF PREMIER PROPERTY MANAGEMENT LIMITED (CONTINUED)

The fair values of the identifiable assets and liabilities of the PPM Group as at the PPM Completion Date were as follows:

	Fair value recognised on the PPM Group HK$'000
Intangible assets *(Note 18)*	106,983
Property, plant and equipment *(Note 19)*	220,023
Interests in leasehold land held for own use under operating leases *(Note 19)*	19,411
Inventories	35,419
Trade and bills receivables *(Note 16(b)(i))*	20,543
Other receivables *(Note 16(b)(i))*	29,316
Pledged bank deposits	6,739
Cash and cash equivalents	2,056
Trade and bills payables	(52,494)
Bank loans and other borrowings	(113,037)
Accruals and other payables	(8,319)
Deferred tax liabilities *(Note 39)*	(24,277)
Total identifiable net assets at fair value	242,363
Goodwill *(Notes 16(b)(ii) and 17)*	485,021
	727,384

	HK$'000
Consideration was satisfied by:	
Cash consideration	372,000
Share consideration at fair value *(Note 16(b)(iii))*	355,384
	727,384

Notes:

(i) The fair value of trade and bills and other receivables at the PPM Completion Date amounted to HK$49,859,000. The gross contractual amounts of those trade and bills and other receivables acquired amounted to HK$65,124,000 at the PPM Completion Date. The best estimate at the PPM Completion Date of the contractual cash flows expected not yet to be collected amounted to HK$15,265,000.

(ii) Goodwill arose in the acquisition of the PPM Group because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the PPM Group. These benefits are not recognised separately from the goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising from the PPM Acquisition is expected to be deductible for tax purposes.

(iii) The share consideration was satisfied by an issuance of 269,230,770 new ordinary shares of FKL with a par value of HK$0.20 each, for approximately HK$355,384,000. The fair value of each consideration share was calculated at HK$1.32, being the closing market price of FKL's ordinary share on the PPM Completion Date.

The Group incurred transaction costs of HK$1,490,000 for the PPM Acquisition. These transaction costs have been expensed and are included in general and administrative expenses in the consolidated statement of profit or loss for the year ended 31 March 2016.

16. ACQUISITION OF SUBSIDIARIES (CONTINUED)

(b) ACQUISITION OF PREMIER PROPERTY MANAGEMENT LIMITED (CONTINUED)

An analysis of the cash flows in respect of the PPM Acquisition is as follows:

	HK$'000
Cash consideration paid and included in cash flows from investing activities	(372,000)
Cash and cash equivalents acquired and included in cash flows from investing activities	2,056
Net cash outflows included in investing activities	(369,944)
Transaction costs of the PPM Acquisition included in cash flows from operating activities	(1,490)

The PPM Acquisition was partly settled by the issuance of new shares of FKL, which had no cashflow impact to the Group.

Since the completion of the PPM Acquisition, the PPM Group contributed HK$46,292,000 to the Group's revenue and caused a loss of HK$29,615,000 to the consolidated statement of profit or loss for the year ended 31 March 2016.

Had the PPM Acquisition took place at the beginning of the last reporting period, the revenue and the loss of the Group for the year ended 31 March 2016 would have been HK$401,379,000 and HK$930,684,000 respectively.

(c) CHANGES IN OWNERSHIP INTERESTS IN FDG KINETIC LIMITED WITHOUT CHANGE OF CONTROL

For the year ended 31 March 2016

The changes in ownership interests in subsidiaries without change of control during the year ended 31 March 2016 mainly arose from (i) the completion of placing of 150,000,000 shares of FKL held by a direct wholly-owned subsidiary of the Company on 7 May 2015, at a placing price of HK$1.70 per share, with net proceeds of approximately HK$248,372,000 (net of direct costs), which reduced the shareholdings of FKL held by the Company from approximately 89.54% to approximately 73.55%; (ii) a completion of top-up placing of 35,000,000 new ordinary shares of FKL on 5 August 2015 at a placing price of HK$7.73 per share, with net proceeds of approximately HK$264,191,000 (net of direct costs), which reduced the shareholdings of FKL held by the Company from approximately 73.55% to approximately 70.91%; and (iii) a completion of the PPM Acquisition by FKL by an issuance of 269,230,770 new ordinary shares of FKL which reduced the shareholdings of FKL held by the Company from approximately 70.91% to 67.19%.

The Group accounted for the partial disposals of interests in subsidiaries without loss of control as equity transactions and the difference of HK$92,148,000 between the changes in the carrying amount of the non-controlling interests and the fair value of the consideration paid or received was recognised in equity as set out in the consolidated statement of changes in equity.

17. GOODWILL

Goodwill is allocated to the Group's cash-generating units identified according to the operating segments as follows:

	Vehicle design & electric vehicle production in Hangzhou HK$'000	Vehicle design & electric vehicle production in Yunnan HK$'000	Battery products HK$'000	Battery materials production HK$'000	Direct investments HK$'000	Total HK$'000
Cost						
At 1 April 2015	1,012,649	93,739	904,240	–	427,916	2,438,544
Acquisition of subsidiaries *(Note 16(b))*	–	–	–	485,021	–	485,021
Exchange adjustments	(50,053)	(4,633)	–	(14,936)	–	(69,622)
At 31 March 2016 and 1 April 2016	962,596	89,106	904,240	470,085	427,916	2,853,943
Exchange adjustments	(59,115)	(5,472)	–	(28,869)	–	(93,456)
At 31 March 2017	**903,481**	**83,634**	**904,240**	**441,216**	**427,916**	**2,760,487**
Accumulated impairment						
At 1 April 2015	662,657	–	904,240	–	–	1,566,897
Exchange adjustments	(32,754)	–	–	–	–	(32,754)
At 31 March 2016 and 1 April 2016	629,903	–	904,240	–	–	1,534,143
Exchange adjustments	(38,684)	–	–	–	–	(38,684)
At 31 March 2017	**591,219**	**–**	**904,240**	**–**	**–**	**1,495,459**
Carrying amount						
At 31 March 2017	**312,262**	**83,634**	**–**	**441,216**	**427,916**	**1,265,028**
At 31 March 2016	332,693	89,106	–	470,085	427,916	1,319,800

17. GOODWILL (CONTINUED)

IMPAIRMENT TESTING OF GOODWILL IN RESPECT OF VEHICLE DESIGN AND ELECTRIC VEHICLE PRODUCTION, DIRECT INVESTMENTS AND BATTERY MATERIAL PRODUCTION

Vehicle design and electric vehicle production

The recoverable amount of each of the vehicle design and electric vehicle production units in Hangzhou and Yunnan of the PRC is determined based on value-in-use calculation. That calculation uses cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projections and the growth rate used to extrapolate the cash flows of these cash-generating units beyond the five-year period are as follows:

	Vehicle design & electric vehicle production in			
	Hangzhou		Yunnan	
	2017	2016	**2017**	2016
Discount rate	**23.25%**	23.31%	**26.00%**	24.72%
Growth rate	**3.00%**	3.00%	**3.00%**	3.00%

The following describes each key assumption on which management has based their cash flow projections to undertake impairment testing of goodwill for these units:

Budgeted gross margins – Budgeted gross margins are based on the average values of the comparables and the expectations for market development.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant units. In determining an appropriate discount rate, consideration has been given to the applicable borrowing interest rates in the year immediately before the projection period.

Growth rate – The growth rate used does not exceed the long-term average growth rate of the relevant market in the PRC.

The values assigned to the key assumptions on market development, gross margins and discount rate are consistent with information from external sources.

Management believes that any reasonably possible change in any of these key assumptions would not cause the aggregate carrying amount of these units to exceed their recoverable amounts. There was no impairment recognised as the recoverable amounts of these units were higher than their carrying amounts as at 31 March 2017 (2016: nil).

Direct investments

The recoverable amount of cash-generating unit relating to direct investments is determined based on value-in-use calculation. That calculation uses cash flow projection based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projections is approximately 21.64% (2016: 20.01%). The growth rate used to extrapolate the cash flows of this cash-generating unit beyond the five-year period is 3% (2016: 3%) per annum. Other key assumptions for the value-in-use calculations relate to the estimation of the performance of investment decisions, which are based the past performance of this cash-generating unit and management's expectations for the market development.

17. GOODWILL (CONTINUED)

IMPAIRMENT TESTING OF GOODWILL IN RESPECT OF VEHICLE DESIGN AND ELECTRIC VEHICLE PRODUCTION, DIRECT INVESTMENTS AND BATTERY MATERIAL PRODUCTION (CONTINUED)

Direct investments (Continued)

The following describes each key assumption on which management has based their cash flow projections to undertake impairment testing of goodwill for this unit:

Discount rate – The discount rate used is before tax and reflects specific risks relating to this unit. In determining an appropriate discount rate, consideration has been given to the applicable borrowing interest rates in the year immediately before the projection period.

Growth rate – The growth rate used does not exceed the long-term average growth rate of the relevant business in which this cash-generating unit operates.

The values assigned to the key assumptions on discount rate and growth rate are consistent with information from external sources.

Management believes that any reasonably possible change in any of these key assumptions would not cause the aggregate carrying amount of this unit to exceed its recoverable amount. There was no impairment recognised as the recoverable amount of this unit was higher than its carrying amount as at 31 March 2017 (2016: nil).

Battery materials production

The recoverable amount of the battery materials production unit in Chongqing is determined based on fair value less costs of disposal. The fair value less costs of disposal of this cash-generating unit was assessed by management based on a business valuation performed by a firm of independent qualified valuers appointed by the Group. The calculation uses cash flow projections based on the financial budgets covering a five-year period approved by management, and discount rate of 21.61% (2016: 19.52%) that is determined by the independent valuers using the Capital Assets Pricing Model, which is within level 3 fair value hierarchy. The cash flow projections included future capital expenditure on the cash-generating unit to increase the production capacity, which are expected to result in a substantial increase in the net cash inflows derived from this cash-generating unit. The cash flows beyond the five-year period are extrapolated using a terminal growth rate of 3% (2016: 3%) per annum.

The following describes each key assumption in the cash flow projection to undertake impairment testing of goodwill for this unit:

Budgeted gross margins – Budgeted gross margins are based on the average values of the comparables and the expectations for market development.

Discount rate – The discount rate used is before tax and reflects specific risks relating to this unit. In determining an appropriate discount rate, consideration has been given to the applicable borrowing interest rates in the year immediately before the projection period.

Growth rate – The growth rate used does not exceed the long-term average growth rate of the relevant market in the PRC.

Costs of disposal – Costs of disposal are incremental costs directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expense. Since this cash generating unit is a private entity and there is no active market for its shares, a lack of marketability discount of 20% is considered reasonable for this valuation.

The values assigned to the key assumptions on market development, gross margins and discount rate are consistent with external information sources.

Management believes that any reasonably possible change in any of these key assumptions would not cause the aggregate carrying amount of this unit to exceed its recoverable amount. There was no impairment recognised as the recoverable amount of this unit was higher than its carrying amount as at 31 March 2017 (2016: nil).

18. INTANGIBLE ASSETS

	Patents and patent using rights HK$'000	Industrial proprietary rights HK$'000	Technical know-hows HK$'000	Lease contractual right HK$'000	Total HK$'000
Cost					
At 1 April 2015	3,642,092	57,420	457,547	37,371	4,194,430
Additions through acquisition of subsidiaries *(Note 16(b))*	–	–	106,983	–	106,983
Additions from internal developments	16	–	83,510	–	83,526
Disposals *(Note 18(c))*	–	–	(96,155)	–	(96,155)
Exchange adjustments	(100)	(2,838)	(21,636)	(1,847)	(26,421)
At 31 March 2016 and 1 April 2016	3,642,008	54,582	530,249	35,524	4,262,363
Additions	34,612	–	–	–	34,612
Additions from internal developments	–	–	106,907	–	106,907
Exchange adjustments	(119)	(3,352)	(35,206)	(2,182)	(40,859)
At 31 March 2017	**3,676,501**	**51,230**	**601,950**	**33,342**	**4,363,023**
Accumulated amortisation and impairment losses					
At 1 April 2015	3,166,098	2,018	82,649	11,218	3,261,983
Charge for the year	92,509	2,055	64,331	12,115	171,010
Disposals *(Note 18(c))*	–	–	(19,116)	–	(19,116)
Exchange adjustments	(23)	(147)	(4,596)	(828)	(5,594)
At 31 March 2016 and 1 April 2016	3,258,584	3,926	123,268	22,505	3,408,283
Charge for the year	95,186	1,927	71,335	11,377	179,825
Exchange adjustments	(34)	(287)	(9,223)	(1,645)	(11,189)
At 31 March 2017	**3,353,736**	**5,566**	**185,380**	**32,237**	**3,576,919**
Carrying amount					
At 31 March 2017	**322,765**	**45,664**	**416,570**	**1,105**	**786,104**
At 31 March 2016	383,424	50,656	406,981	13,019	854,080

18. INTANGIBLE ASSETS (CONTINUED)

Notes:

(a) Intangible assets mainly represent:

(1) the exclusive using rights of certain licensed patents granted to the Group through acquisition in current and previous financial years;

(2) the industrial proprietary rights and capitalised development costs of certain technical know-hows relating to the electric vehicle production business and battery materials production business acquired through the acquisition in previous financial years.

(3) the patents generated through acquisitions and internal research and developments and capitalised technical know-hows by the Group; and

(4) the lease contractual right being the fair value of leasing the land and manufacturing factory from Yunnan Meidi Vehicle Industry Holdings Co., Ltd.[Δ] (雲南美的汽車產業控股有限公司), a company incorporated in the PRC and 40% owned by the non-controlling shareholder of a subsidiary of the Company, for a term of three years from 7 May 2014 at nil consideration.

(b) As at 31 March 2017 and 2016, the recoverable amount of the intangible assets was assessed by the Board by reference to the professional valuations performed by Grant Sherman Appraisal Limited ("Grant Sherman") (2016: Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("Jones Lang LaSalle")), an independent firm of qualified valuers. The Board is of the opinion that, based on the valuations performed by Grant Sherman (2016: Jones Lang LaSalle), no impairment (2016: nil) should be recognised in the Group's consolidated statement of profit or loss for the year ended 31 March 2017. The valuations performed by Grant Sherman (2016: Jones Lang LaSalle) are based on value-in-use or fair value less costs of disposal calculations using cash flow forecasts approved by the Board. The pre-tax discount rates applied to the cash flow forecasts ranging from 21.61% to 26.00% (2016: 19.52% to 24.72%).

(c) During the year ended 31 March 2016, certain technical know-hows were transferred to a foreign joint venture, Chanje, as part of contributions made to Chanje (Note 8(c)).

Δ *For identification purpose*

19. FIXED ASSETS: PROPERTY, PLANT AND EQUIPMENT AND INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

	Leasehold land under finance leases and buildings HK$'000	Buildings held for own use HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Electric vehicles HK$'000	Construction in progress HK$'000	Property, plant and equipment HK$'000	Interests in leasehold land held for own use under operating leases HK$'000	Total HK$'000
Cost											
At 1 April 2015	115,371	168,475	20,786	295,706	60,450	18,813	4,724	1,317,970	2,002,295	381,156	2,383,451
Acquisition of subsidiaries *(Note 16(b))*	–	115,559	–	100,539	3,925	–	–	–	220,023	19,411	239,434
Additions	–	1,200	3,670	34,355	25,308	5,751	–	878,631	948,915	–	948,915
Exchange adjustments	(5,702)	(12,335)	(1,006)	(20,043)	(3,638)	(779)	(257)	(79,815)	(123,575)	(19,165)	(142,740)
Transfers	–	90,115	1,075	133,349	5,235	–	–	(229,774)	–	–	–
Disposals	–	–	–	(2,729)	(2,099)	(1,039)	–	–	(5,867)	–	(5,867)
At 31 March 2016 and 1 April 2016	109,669	363,014	24,525	541,177	89,181	22,746	4,467	1,887,012	3,041,791	381,402	3,423,193
Additions	–	–	1,627	106,449	15,129	660	–	525,927	649,792	–	649,792
Exchange adjustments	(6,735)	(38,843)	(1,560)	(44,896)	(5,397)	(1,360)	(274)	(100,445)	(199,510)	(23,423)	(222,933)
Transfers	–	714,743	7,761	466,527	3,603	(313)	–	(1,192,321)	–	–	–
Disposals	–	–	–	(2,292)	(1,328)	(2,346)	–	–	(5,966)	–	(5,966)
At 31 March 2017	**102,934**	**1,038,914**	**32,353**	**1,066,965**	**101,188**	**19,387**	**4,193**	**1,120,173**	**3,486,107**	**357,979**	**3,844,086**
Accumulated depreciation and amortisation and impairment losses											
At 1 April 2015	8,482	21,872	3,550	91,326	14,814	9,527	2,956	–	152,527	11,534	164,061
Charge for the year	4,854	9,953	3,141	34,326	12,758	2,835	1,291	–	69,158	8,494	77,652
Exchange adjustments	(529)	(1,307)	(196)	(5,244)	(1,009)	(342)	(176)	–	(8,803)	(763)	(9,566)
Disposals	–	–	–	(2,033)	(1,672)	(999)	–	–	(4,704)	–	(4,704)
At 31 March 2016 and 1 April 2016	12,807	30,518	6,495	118,375	24,891	11,021	4,071	–	208,178	19,265	227,443
Charge for the year	4,558	18,067	4,246	87,577	16,664	3,268	–	–	134,380	7,768	142,148
Exchange adjustments	(892)	(2,292)	(396)	(8,960)	(1,854)	(486)	(431)	–	(15,311)	(1,363)	(16,674)
Disposals	–	–	–	(1,555)	(610)	(1,998)	–	–	(4,163)	–	(4,163)
At 31 March 2017	**16,473**	**46,293**	**10,345**	**195,437**	**39,091**	**11,805**	**3,640**	**-**	**323,084**	**25,670**	**348,754**
Carrying amount											
At 31 March 2017	**86,461**	**992,621**	**22,008**	**871,528**	**62,097**	**7,582**	**553**	**1,120,173**	**3,163,023**	**332,309**	**3,495,332**
At 31 March 2016	96,862	332,496	18,030	422,802	64,290	11,725	396	1,887,012	2,833,613	362,137	3,195,750

Notes:

(a) All of the Group's land and buildings are held in the PRC under medium-term leases as at 31 March 2017 and 2016.

(b) As at 31 March 2017, certain land and buildings, machinery and equipment and construction in progress of the Group with a total carrying amount of HK$2,332,690,000 (2016: HK$2,176,923,000) were pledged as securities for the Group's bank loans (Note 32(a)).

(c) As at 31 March 2017, the carrying amount of plant and machinery held under finance leases was HK$78,264,000 (2016: nil) (Note 35).

20. SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 March 2017 are as follows:

Name	Place of incorporation and operation	Issued and fully paid capital/ registered capital	Percentage of equity interest held by the Company		Principal activities
			Directly	Indirectly	
Agnita Limited	British Virgin Islands	US$10,000	–	100%	Investment holding
Basland Enterprises Ltd.	British Virgin Islands	US$100	100%	–	Investment holding
FDG Kinetic Limited#	Bermuda	HK$1,027,129,371	–	67.19%	Investment holding
Five Dragons Electric Vehicle Limited	Hong Kong	HK$100	–	100%	Investment holding
Glory Era Limited	Hong Kong	HK$10,000	100%	–	Human resources, administrative management and consultancy services
Lucky Metro Trading Ltd.	British Virgin Islands	US$100	–	100%	Investment holding
Preferred Market Limited	British Virgin Islands	US$1	100%	–	Investment holding
Qiyang Limited	British Virgin Islands	US$1	100%	–	Investment holding
Sinopoly Battery International Limited	Hong Kong	HK$1	–	100%	Distribution and sale of battery products
Sinopoly Battery Limited	Hong Kong	HK$1	–	91.80%	Investment holding
Sinopoly Battery Research Center Limited	Hong Kong	HK$1	–	91.80%	Research and development
Synergy Dragon Limited	British Virgin Islands	US$100	–	91.80% *(Note 3)*	Investment holding
Thunder Sky Energy Technology Limited	Hong Kong	HK$1,000,000	–	100%	Investment holding
Union Grace Holdings Limited	British Virgin Islands	US$1,000	–	100%	Investment holding
Sinopoly New Energy Investment Co., Ltd. *(Note 1)*	The PRC	HK$350,000,000*	–	91.80%	Investment holding, purchase of battery raw materials and sale of battery products

20. SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries as at 31 March 2017 are as follows: (Continued)

Name	Place of incorporation and operation	Issued and fully paid capital/ registered capital	Percentage of equity interest held by the Company		Principal activities
			Directly	Indirectly	
天津中聚新能源科技有限公司 (Tianjin Sinopoly New Energy Technology Co., Ltd.^Δ) *(Note 1)*	The PRC	HK$818,000,000	–	91.80%	Manufacture and sale of battery products
吉林中聚新能源科技有限公司 (Jilin Sinopoly New Energy Technology Co., Ltd.^Δ) *(Note 1)*	The PRC	HK$177,000,000*	–	91.80%	Manufacture and sale of battery products
北京中聚力佳科技有限公司 (Beijing Sinopoly Li Jia Technology Co., Ltd.^Δ) *(Note 1)*	The PRC	HK$13,000,000*	–	91.80%	Research and development, purchase of battery raw materials and sale of battery products
深圳中聚電池有限公司 (Shenzhen Sinopoly Battery Co., Ltd.^Δ) *(Note 1)*	The PRC	HK$10,000,000*	–	91.80%	Sale of battery products
天津中聚新能源設備有限公司 (Tianjin Sinopoly New Energy Equipment Co., Ltd.^Δ) *(Note 2)*	The PRC	RMB10,000,000*	–	91.80%	Manufacture and sale of battery-related products
上海中聚佳華電池科技有限公司 (Shanghai Sinopoly Jia Hua Battery Technology Co., Ltd.^Δ) *(Note 2)*	The PRC	RMB10,000,000*	–	91.80%	Research and development
簡式國際汽車設計(北京)有限公司 (Jasmin International Auto R&D (Beijing) Co., Ltd.^Δ) *(Note 2)*	The PRC	RMB80,000,000*	–	80% *(Note 4)*	Design of electric vehicles
杭州長江汽車有限公司 (Hangzhou Changjiang Automobile Co., Ltd.^Δ) *(Note 2)*	The PRC	RMB1,000,000,000*	–	49.94% *(Note 5)*	Manufacture and distribution of electric vehicles

20. SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries as at 31 March 2017 are as follows: (Continued)

Name	Place of incorporation and operation	Issued and fully paid capital/ registered capital	Percentage of equity interest held by the Company		Principal activities
			Directly	Indirectly	
雲南五龍汽車有限公司 (Yunnan FDG Automobile Co., Limited△) *(Note 2)*	The PRC	RMB69,735,000 *	–	50% *(Note 6)*	Manufacture and distribution of electric vehicles
五龍動力(重慶)鋰電材料有限公司 (FDG Kinetic (Chongqing) Lithium Ion Battery Materials Co., Ltd.△) *(Note 2)*	The PRC	US$43,200,000*	–	67.19%	Manufacture and trade of cathode materials
杭州長江乘用車有限公司 (Hangzhou Changjiang Passenger Vehicles Co., Ltd.△) *(Note 2)*	The PRC	RMB267,000,000*	–	43.68% *(Note 7)*	Manufacture and distribution of electric passenger vehicles
貴州長江汽車有限公司 (Guizhou Changjiang Automobile Co., Ltd.) *(Note 2)*	The PRC	RMB1,100,000,000	–	37.98% *(Note 8)*	Manufacture and distribution of electric vehicles

Note 1: These subsidiaries established in the PRC are wholly-foreign-owned enterprises.

Note 2: These subsidiaries established in the PRC are limited liability companies.

Note 3: Synergy Dragon Limited ("SDL") was 75% owned by Union Grace Holdings Limited which was a wholly-owned subsidiary of the Group, and 25% owned by Cherrylink Investments Limited which was 100% owned by FDG Kinetic Limited, a 67.19% non-wholly-owned subsidiary of the Group. Accordingly, the Group owned 91.80% effective interest in SDL and its wholly-owned subsidiaries.

Note 4: Jasmin International Auto R&D (Beijing) Co., Ltd.△ ("Jasmin Beijing") was 80% owned by Agnita Limited ("Agnita") which was 100% owned by the Group. Accordingly, the Group owned 80% effective interest in Jasmin Beijing.

Note 5: Hangzhou Changjiang Automobile Co., Ltd.△ ("Hangzhou Changjiang") was 49% owned by Agnita and 1.17% owned by Jasmin Beijing which was controlled by the Group through Agnita (Note 4). Accordingly, the Group owned 49.94% effective interest in Hangzhou Changjiang.

Note 6: Yunnan FDG Automobile Co., Limited△ ("Yunnan FDG") was 50% owned by Hong Kong Southwest Electric Vehicles Limited ("Southwest EV") which was 100% owned by the Group. As Southwest EV has the right to nominate and appoint the majority of the directors of the board of Yunnan FDG, Yunnan FDG was regarded as a subsidiary of the Company.

Note 7: Hangzhou Changjiang Passenger Vehicles Co., Ltd.△ ("Changjiang Passenger") was 34% owned by Jasmin Beijing and 33% owned by Hangzhou Changjiang. Accordingly, the Group owned 43.68% effective interest in Changjiang Passenger.

Note 8: Guizhou Changjiang Automobile Co., Ltd.△ ("Guizhou Changjiang") was 26% owned by Hangzhou Changjiang, and 25% owned by FDG Electric Vehicles (Guian) Holdings Limited which was 100% owned by the Group. Accordingly, the Group owned 37.98% effective interest in Guizhou Changjiang.

* The registered capital has been fully paid-up.

△ For identification purpose.

Listed on the Main Board of The Stock Exchange of Hong Kong Limited.

20. SUBSIDIARIES (CONTINUED)

The following table lists out the information of the subsidiaries of the Group which have material non-controlling interests ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2017					
	Guizhou Changjiang HK$'000	Changjiang Passenger HK$'000	Jasmin Beijing HK$'000	Hangzhou Changjiang HK$'000	Yunnan FDG HK$'000	FKL HK$'000
NCI percentage	62.02%	56.32%	20%	50.06%	50%	32.81%
Current assets	915,550	83,127	475,890	2,085,982	307,422	977,881
Non-current assets	1,672	474,854	576,507	2,520,432	147,274	1,826,084
Current liabilities	(149)	(259,257)	(170,111)	(2,155,539)	(540,056)	(595,289)
Non-current liabilities	–	–	(595,825)	(1,706,842)	(5,908)	(760,450)
Net assets/(liabilities)	917,073	298,724	286,461	744,033	(91,268)	1,448,226
Carrying amount of NCI	596,182	98,107	57,292	369,851	(45,634)	475,163
Revenue	–	–	40,474	1,063,702	292,424	280,233
Loss for the year	(3,391)	(1,949)	(60,228)	(162,574)	(11,698)	(206,853)
Loss allocated to NCI	(2,103)	(1,098)	(12,046)	(81,391)	(5,849)	(67,868)
Total comprehensive loss	(13,919)	(14,656)	(81,426)	(192,233)	(6,203)	(325,390)
Dividend paid to NCI	–	–	–	–	–	–
Cash flows from/(used in) operating activities	(4,022)	(4,238)	(57,215)	(1,118,319)	13,378	(65,659)
Cash flows from/(used in) investing activities	(261)	(99,123)	499,752	(506,412)	(48,823)	(366,061)
Cash flows from/(used in) financing activities	928,248	103,069	(448,942)	1,434,597	26,854	343,424

	2016			
	Jasmin Beijing HK$'000	Hangzhou Changjiang HK$'000	Yunnan FDG HK$'000	FKL HK$'000
NCI percentage	20%	50.06%	50%	32.81%
Current assets	140,257	1,127,254	203,870	647,377
Non-current assets	495,252	2,612,569	128,974	2,020,892
Current liabilities	(128,493)	(1,453,523)	(408,433)	(208,729)
Non-current liabilities	(139,131)	(1,689,093)	(9,476)	(685,924)
Net assets/(liabilities)	367,885	597,207	(85,065)	1,773,616
Carrying amount of NCI	73,577	116,387	(42,532)	581,923
Revenue	57,603	31,061	14,188	97,138
Loss for the year	(94,791)	(229,904)	(79,702)	(1,808,689)
Loss allocated to NCI	(18,958)	(115,099)	(39,851)	(485,665)
Total comprehensive loss	(114,560)	(300,900)	(77,525)	(1,833,119)
Dividend paid to NCI	–	–	–	–
Cash flows from/(used in) operating activities	294,143	(257,369)	(18,924)	(195,725)
Cash flows used in investing activities	(210,897)	(969,068)	(30,986)	(422,120)
Cash flows (used in)/from financing activities	(97,618)	1,531,273	51,559	259,531

21. INTERESTS IN ASSOCIATES

	2017 HK$'000	2016 HK$'000
Net assets of the associates attributable to the Group	**249,756**	3,816
Goodwill	**122,014**	–
Carrying amount of the Group's interests in the associates	**371,770**	3,186

Particulars of the principal associates of the Group at 31 March 2017 are as follows:

Name	Place of incorporation and operation	Issued and fully paid capital/ registered capital	Proportion of ownership interest Attributable to the Group	Proportion of ownership interest Held by a subsidiary	Principal activities
Advanced Lithium Electrochemistry (Cayman) Co., Ltd. *(Note)*	The Cayman Islands/ Taiwan	New Taiwan Dollar ("NT$") 2,105,736,540 (210,573,654 shares of NT$10 each)	14.68%	21.85%	Production, research and development and sales and marketing of cathode materials for lithium ferrous phosphate batteries
雲南五龍電動汽車應用技術有限公司 (Yunnan FDG Automobile Electric Vehicles Application Technique Company Limited△)	The PRC	RMB10,000,000	36.72%	40%	Manufacture and distribution of electric vehicles
臨沂華凱再生資源科技有限公司 (Linyi Huakai Renewable Resources Technology Company Limited△)	The PRC	RMB20,000,000	27.54%	30%	Recycle and sale of battery products

△ For identification purpose.

Note: On 14 April 2016, FDG Kinetic Investment Limited ("FKIL"), a non-wholly-owned subsidiary of the Company, FKL (as guarantor) and Advanced Lithium Electrochemistry (Cayman) Co., Ltd. ("ALEEES"), a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Taipei Exchange (Stock Code: 5227) entered into a share subscription agreement pursuant to which ALEEES conditionally agreed to allot and issue and FKIL conditionally agreed to subscribe for 46,000,000 new ordinary shares of ALEEES (the "ALEEES Share Subscription") at a subscription price of NT$35 per new share of ALEEES, totaling NT$1,610,000,000 (equivalent to approximately HK$393,066,000), to be payable in cash upon completion. The resolution approving the ALEEES Share Subscription was duly passed at the special general meeting of FKL on 16 June 2016 and the ALEEES Share Subscription was completed on 24 August 2016. After the completion of the ALEEES Share Subscription, FKIL holds approximately 21.85% of the total issued shares of ALEEES and ALEEES has been accounted for as an associate of the Group.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

21. INTERESTS IN ASSOCIATES (CONTINUED)

Summarised financial information of ALEEES, a material associate, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements, are disclosed below:

	ALEEES 2017 HK$'000
Gross amounts of the associate's	
Non-current assets	**1,042,126**
Current assets	**247,952**
Non-current liabilities	**(77,910)**
Current liabilities	**(80,203)**
Net assets	**1,131,965**
Revenue	**160,747**
Loss for the year	**(79,235)**
Other comprehensive loss for the year	**(29,596)**
Total comprehensive loss for the year	**(108,831)**
Dividend received from the associate	**–**
Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:	
Net assets of the associate	**1,131,965**
Less: Net assets of the associate attributable to non-controlling interests of the associate	**(3)**
	1,131,962
Proportion of the Group's ownership interest in the associate	**21.85%**
Net assets of the associate attributable to the Group	**247,278**
Goodwill	**122,014**
Carrying amount of the Group's interest in the associate	**369,292**

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2017 HK$'000	2016 HK$'000
Aggregate carrying amount of individually immaterial associates in the consolidated statement of financial position	**2,478**	3,186

	2017 HK$'000	2016 HK$'000
Aggregate amounts of the Group's share of the associates'		
– Loss from continuing operations	**(524)**	(547)
– Other comprehensive loss	**(184)**	–
– Total comprehensive loss	**(708)**	(547)

22. INTERESTS IN JOINT VENTURES

	2017 HK$'000	2016 HK$'000
Share of net assets	**425,550**	342,936

Particulars of the principal joint ventures of the Group at 31 March 2017 are as follows:

Name	Place of incorporation and operation	Issued and fully paid capital/ registered capital	Proportion of ownership interest Attributable to the Group	Proportion of ownership interest Held by a subsidiary	Principal activities
Chanje	The US	US$4 (40,000 common stocks of US$0.0001 each)	80% *(Note)*	80%	Sales and distribution of electric vehicles
華能壽光風力發電有限公司 (Huaneng Shouguang Wind Power Company Limited△)	The PRC	RMB186,730,000	30.24%	45%	Investment, construction and operation of wind power electricity facility, development, generation and sale of wind power electricity; provision of consultancy and related services in respect of electricity projects

△ For identification purpose.

Note: In May 2016, the Group injected cash of US$2,500,000 (equivalent to approximately HK$19,375,000) as additional capital contribution to Chanje for the subscription of 1,250,000 common stocks of Chanje. Following the completion of the foreclosure process and transfer of the 10,000,000 common stocks of Chanje to the Group (as detailed in Note 8(b)), Chanje was owned as to approximately 80% by the Group and as to approximately 20% by Smith. As the Group cannot control the board of directors of Chanje, Chanje continues to be accounted for as a joint venture of the Group.

Pursuant to a special resolution passed and approved at the special meeting of the stockholders of Chanje held on 6 October 2016, Chanje effected a reverse stock split of its common stocks, par value US$0.0001 per common stock, pursuant to which each common stock issued, outstanding or reserved for issuance is converted into 0.001 common stock issued, outstanding or reserved for issuance.

22. INTERESTS IN JOINT VENTURES (CONTINUED)

Summarised financial information of Chanje, a material joint venture, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements, are disclosed below:

	Chanje	
	2017	2016
	HK$'000	HK$'000
Gross amounts of the joint venture's		
Non-current assets	**552,548**	580,459
Current assets	**3,650**	9,794
Current liabilities	**(61,639)**	(8,623)
Net assets	**494,559**	581,630
Revenue	**597**	27
Loss for the year	**(99,595)**	(25,846)
Other and total comprehensive loss for the year	**(99,595)**	(25,846)
Dividend received from the joint venture	**–**	–
Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:		
Net assets of the joint venture	**494,559**	581,630
Proportion of the Group's ownership interest in the joint venture	**80.00%**	53.55%
Net assets of the joint venture attributable to the Group	**395,647**	311,463
Adjusted by the Group's interest in the Excess *(Note 8(c))*	**(68,035)**	(72,198)
Carrying amount of the Group's interest in the joint venture	**327,612**	239,265

The following table illustrates the aggregate financial information of the Group's joint venture that are not individually material:

	2017	2016
	HK$'000	HK$'000
Aggregate carrying amount of individually immaterial joint venture in the consolidated statement of financial position	**97,938**	103,671

	2017	2016
	HK$'000	HK$'000
Aggregate amounts of the Group's share of the joint ventures'		
– Profit from continuing operations	**543**	1,913
– Other comprehensive loss	**(6,276)**	(5,411)
– Total comprehensive loss	**(5,733)**	(3,498)

23. AVAILABLE-FOR-SALE INVESTMENTS

	2017 **HK$'000**	2016 HK$'000
Unlisted investments, at cost less impairment losses:		
– Equity securities	**–**	23,884

As at 31 March 2017 and 2016, the Group's unlisted equity securities were stated at cost less impairment losses because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. For the year ended 31 March 2017, due to the financial difficulties of the investee, an impairment of HK$23,884,000 (2016: HK$69,750,000) was made by reference to its financial position and potential future profitability.

24. DEPOSITS PAID FOR NON-CURRENT ASSETS

As at 31 March 2017, the deposits of HK$144,908,000 (2016: HK$285,966,000) were for the purchase of machineries and equipment and moulding for the Group's production plants.

25. OTHER NON-CURRENT ASSETS

	2017 **HK$'000**	2016 HK$'000
Prepaid expenses	**7,795**	8,583
Club debentures	**367**	367
	8,162	8,950

26. INVENTORIES

	2017 **HK$'000**	2016 HK$'000
Raw materials	**287,859**	250,318
Work in progress	**7,652**	81,268
Finished goods	**362,456**	281,763
	657,967	613,349

27. TRADE AND BILLS RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade receivables	**1,291,007**	160,895
Bills receivable	**10,936**	7,422
Less: Allowance for doubtful debts *(Note (d))*	**(50,161)**	(15,920)
Trade and bills receivables *(Notes (a) and (b))*	**1,251,782**	152,397
Amounts due from customers for contract work *(Note (c))*	**–**	1,179
	1,251,782	153,576

Notes:

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

	2017 HK$'000	2016 HK$'000
Within 1 month	**35,721**	1,665
Between 1 and 3 months	**52,386**	29,032
Between 3 and 6 months	**851,732**	54,278
Between 6 and 9 months	**145,784**	13,237
Between 9 months and 1 year	**113,734**	1,526
Over 1 year	**52,425**	52,659
	1,251,782	152,397

Trading terms with customers are either on a cash basis or on credit. For those customers who trade on credit, a credit period generally ranging from one month to six months is allowed. Credit limits are set for those customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management of the Group. The carrying amounts of the receivables approximate their fair values. Certain portion of the above trade receivables will be settled by the PRC government, on behalf of the customers of the Group, for the sales of electric vehicles, by the way of national subsidies in accordance with the Circular on Financial Support Policies for the Promotion and Application of New Energy Vehicles 2016-2020 (Cai Jian [2015] 134) and other relevant and applicable government's notices and policies promulgated by the PRC government, and the sales contracts made between the Group and these customers.

27. TRADE AND BILLS RECEIVABLES (CONTINUED)

Notes: (Continued)

(b) The ageing analysis of trade and bills receivable that are neither individually nor collectively considered to be impaired is as follows:

	2017 HK$'000	2016 HK$'000
Neither past due nor impaired	**822,196**	49,993
Less than 1 month past due	**39,930**	29,829
Between 1 and 3 months past due	**20,982**	8,810
Between 3 months and 6 months past due	**221,831**	1,142
Between 6 months and 9 months past due	**102,878**	10,364
Between 9 months and 1 year past due	**4,595**	1,415
More than 1 year past due	**39,370**	50,844
Past due but not impaired	**429,586**	102,404
	1,251,782	152,397

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have good track records of repayment to the Group and/or sound financial background. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. As at 31 March 2017 and 2016, the Group does not hold any collateral over these balances.

(c) As at 31 March 2016, the aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in the amounts due from customers for contract work, was HK$9,942,000 less progress billing of HK$8,763,000. The amounts due from customers for contract work are expected to be recovered within one year.

(d) Movement in allowance for doubtful debts for trade receivables is as follows:

	2017 HK$'000	2016 HK$'000
At 1 April	**15,920**	–
Impairment loss recognised *(Note 8)*	**35,899**	16,235
Written off	**–**	(3)
Exchange adjustments	**(1,658)**	(312)
At 31 March	**50,161**	15,920

At 31 March 2017, trade receivables of HK$69,117,000 (2016: HK$28,682,000) were individually determined to be doubtful debts being related to customers that were in financial difficulties. According to the assessments of management, specific allowances for doubtful debts of HK$50,161,000 (2016: HK$15,920,000) were recognised.

28. LOAN AND OTHER RECEIVABLES

	2017 **HK$'000**	2016 HK$'000
Loan receivables *(Note (a))*	**221,507**	198,873
Other receivables	**323,556**	141,750
Less: Allowance for doubtful debts *(Note (b))*	**(71,283)**	(64,928)
	473,780	275,695
Deposits and prepayments	**123,580**	37,467
Value-added-tax receivables	**280,722**	316,426
	878,082	629,588

	2017 **HK$'000**	2016 HK$'000
Presented by:		
Non-current assets	**398**	434
Current assets	**877,684**	629,154
	878,082	629,588

Notes:

(a) The loans receivables were secured by the borrowers' property and assets, listed and unlisted equity securities and, a mining right of an iron ore mine as collaterals. Loan receivables bear interests ranging from 6.00% to 28.50% (2016: 6.00% to 28.50%) per annum. Out of these loans, a secured loan of HK$54,086,000 (2016: HK$58,680,000) (the "Loan") which the borrower pledged a mining right of an iron ore mine as collateral, was acquired through the acquisition of FKL and was past due for over one year (2016: over one year) as at 31 March 2017. On 17 December 2015, the Group appointed CITIC International Assets Management Limited ("CIAM") as its exclusive agent in collecting and handling the Loan and its outstanding accrued interest for twenty four calendar months from 17 December 2015 (the "Contract Period"). CIAM paid deposits by instalments of RMB56,000,000 (equivalent to HK$63,078,000) in total to the Group. CIAM undertook to collect RMB56,000,000 (the "Agreed Amount") for the Group and should the amount collected exceed the Agreed Amount, the excess will be paid to CIAM as agency fee. The Group also has the right to exercise a put option to sell the Loan to CIAM at the consideration of the Agreed Amount less any amount recovered from the Loan during the Contract Period and use deposits received from CIAM to offset. In the opinion of the directors of the Company, the fair value of the put option is insignificant as the collateral is worth more than the exercise price of the put option. The deposits received are included in accruals and other payables.

28. LOAN AND OTHER RECEIVABLES (CONTINUED)

Notes: *(Continued)*

(b) Movement in allowance for doubtful debts for loan and other receivables is as follows:

	2017 HK$'000	2016 HK$'000
At 1 April	**64,928**	30,276
Impairment loss recognised *(Note 8)*	**7,658**	34,558
Written off	**–**	(37)
Exchange adjustments	**(1,303)**	131
At 31 March	**71,283**	64,928

Included in loan and other receivables is an amount of HK$28,785,000 (2016: HK$28,785,000) due from certain of the Chung Parties (as defined in Note 36), in respect of the receipt of trade sales amounts receivable by the Group as reduced by the amount of payments made for purchases payable by the Group to the Chung Parties. However, the Chung Parties have failed and refused to remit such amount to the Group. Impairment losses in respect of the other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against the other receivables directly.

Included in loan and other receivables is an amount of HK$84,038,000 (2016: HK$91,333,000), representing the secured loan as described in Note 28(a) and related accrued interest and consultancy fee income receivables. Based on the impairment assessment on the individual loan and other receivables performed by the management, no impairment allowance (2016: HK$20,640,000) was provided for the year ended 31 March 2017. As at 31 March 2017, accumulated impairment allowance amounted to HK$20,960,000 (2016: HK$22,262,000).

Included in loan and other receivables are amounts of totaling HK$22,069,000 (2016: HK$24,296,000) due from a joint venture partner, Smith. Based on the impairment assessment on the individual amounts and related interest receivables which was past due and that Smith had indications of financial difficulty, an impairment allowance of HK$7,658,000 (2016: HK$13,881,000) was provided for the year ended 31 March 2017. As at 31 March 2017, accumulated impairment allowance amounted to HK$21,539,000 (2016: HK$13,881,000).

Except for loan receivables of HK$398,000 (2016: HK$434,000) which are expected not to be recovered within one year, all of the loan and other receivables (net of allowance for doubtful debts) are expected to be recovered or recognised as expense within one year.

29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 HK$'000	2016 HK$'000
Securities designated as at fair value through profit or loss:		
Unlisted debt securities with embedded options	**–**	29,074
Held-for-trading investments:		
Listed equity securities	**41,594**	30,922
Unlisted funds	**8,406**	9,225
	50,000	69,221

All listed and unlisted securities classified as financial assets at fair value through profit or loss are issued by corporate entities. The fair value changes of these securities are recognised and included in other gains and losses, net.

30. PLEDGED BANK DEPOSITS

As at 31 March 2017, the pledged bank deposits of HK$104,969,000 (2016: HK$190,837,000), HK$55,194,000 (2016: HK$21,002,000) (Note 32) and nil (2016: HK$720,000) were pledged as security for the issuance of bills payables, bank loans and letters of credit by the Group, respectively.

As at 31 March 2017 and 2016, all pledged bank deposits relating to the PRC subsidiaries were denominated in RMB. RMB is not freely convertible into other currencies and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

31. CASH AND CASH EQUIVALENTS

	2017 **HK$'000**	2016 HK$'000
Cash at bank and in hand	**1,251,566**	609,994
Short-term bank deposits	**69,844**	332,021
Cash and cash equivalents	**1,321,410**	942,015

At the end of the reporting period, the cash and cash equivalents of the PRC subsidiaries denominated in RMB amounted to HK$1,183,396,000 (2016: HK$544,490,000). RMB is not freely convertible into other currencies and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

32. BANK LOANS AND OTHER BORROWINGS

At 31 March 2017, the bank loans and other borrowings were repayable as follows:

	2017 **HK$'000**	2016 HK$'000
Within 1 year	**1,340,776**	1,102,153
After 1 year but within 2 years	**319,917**	169,814
After 2 years but within 5 years	**774,566**	710,988
	2,435,259	1,982,955

	2017 **HK$'000**	2016 HK$'000
Presented by:		
Current liabilities	**1,340,776**	1,102,153
Non-current liabilities	**1,094,483**	880,802
	2,435,259	1,982,955

32. BANK LOANS AND OTHER BORROWINGS (CONTINUED)

At 31 March 2017, the bank loans and other borrowings were secured as follows:

	2017 HK$'000	2016 HK$'000
Bank loans		
– secured *(Note (a))*	**1,547,556**	1,255,833
– unsecured	**157,696**	–
Total bank loans	**1,705,252**	1,255,833
Other borrowings		
– secured *(Note (b))*	**697,457**	694,572
– unsecured	**32,550**	32,550
Total other borrowings	**730,007**	727,122
	2,435,259	1,982,955

Notes:

(a) As at 31 March 2017 and 2016, the bank loans were secured by certain land and buildings, machinery and equipment, construction in progress (Note 19(b)), share charges over certain shares of the subsidiaries of the Group, and bank deposits of HK$55,194,000 (2016: HK$21,002,000 (Note 30)) and guaranteed by three executive directors of the Company.

A non-wholly-owned subsidiary of the Company, Hangzhou Changjiang has become a connected subsidiary of the Company since March 2017 under Chapter 14A of the Listing Rules. With effect from 10 March 2017 onwards, guarantees that were previously given by the Company and its subsidiary to Hangzhou Changjiang for a total banking facilities of HK$3,438,178,000 (the "Facilities") constituted continuing connected transactions and are subject to the disclosure of Rule 14A.60 of the Listing Rules. The guarantees were granted by the Company and the subsidiary to Hangzhou Changjiang before 10 March 2017 with an aggregate credit limit up to HK$2,906,112,000 in favour of several banks in respect of the Facilities. The guarantees will be expired two years after the final repayment of each respective loan under the Facilities and are not expected to be renewed when they expires. The Facilities included term loans and trade lines for the existing business development of Hangzhou Changjiang. The above guarantees given by the Company and the subsidiary are counter-guaranteed by a non-controlling shareholder of Hangzhou Changjiang pro rata to its equity interest in Hangzhou Changjiang in favour of the Company and the subsidiary.

No recognition of provision for financial guarantees was made in the statement of financial position of the Company because the fair values of these guarantees were insignificant and the directors of the Company considered it is unlikely that a claim would be made against the Company under these guarantees.

(b) As at 31 March 2017 and 2016, the secured other borrowings were secured by, inter alia, the debentures in favour of the lender by way of the first fixed and floating charges over all the undertaking, property and assets of the Company and two wholly-owned subsidiaries of the Company and a share charge over certain shares of FKL, and guaranteed by two executive directors of the Company.

When any events of default under the loan agreement has occurred and is continuing, the lender will be entitled to sell 51.41% (2016: 51.41%) of the issued shares of FKL, a non-wholly-owned listed subsidiary of the Company, to satisfy any sum due and payable but unpaid to the lender.

33. TRADE AND BILLS PAYABLES

	2017 **HK$'000**	2016 HK$'000
Trade payables	**578,479**	331,735
Bills payable	**167,065**	79,219
	745,544	410,954

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

	2017 **HK$'000**	2016 HK$'000
Within 1 month	**93,343**	132,565
Between 1 and 3 months	**131,114**	107,656
Between 3 months and 1 year	**474,561**	162,825
Over 1 year	**46,526**	7,908
	745,544	410,954

The carrying amounts of trade and bills payables approximate their fair values. As at 31 March 2017, bills payable of HK$127,131,000 (2016: HK$79,219,000) were secured by bank deposits of HK$94,429,000 (2016: HK$60,981,000).

34. ACCRUALS AND OTHER PAYABLES

	2017 **HK$'000**	2016 HK$'000
Bills and other payables for acquisition of non-current assets	**386,220**	343,323
Other payables and accrued expenses	**306,013**	191,758
Value-added-tax payables	**1,901**	12,499
Receipts in advance	**17,577**	52,685
Warranty provision *(Note)*	**28,433**	3,887
	740,144	604,152

As at 31 March 2017, bills payables for the acquisition of non-current assets of HK$15,045,000 (2016: HK$129,856,000) were secured by bank deposits of HK$10,540,000 (2016: HK$129,856,000).

34. ACCRUALS AND OTHER PAYABLES (CONTINUED)

Note:

Movements in warranty provision during the year is as follows:

	HK$'000
At 1 April 2016	**3,887**
Provision made during the year	**28,730**
Provision utilised during the year	**(3,361)**
Exchange adjustments	**(823)**
At 31 March 2017	**28,433**

The Group generally provides customers one-year to three-year warranties on certain of its battery products and three-year to five-year warranties on electric vehicles, under which faulty products will be repaired or replaced within the specified warranty period. The amount of the provision for the warranties is estimated based on sales volumes, and past experience and future expectation of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

35. OBLIGATIONS UNDER FINANCE LEASES

During the year ended 31 March 2017, the Group has entered into a sale and leaseback transaction with an independent third party by way of sale and leasing back of certain plant and machinery. In accordance with the lease agreement, the term of the lease is three years with a fixed interest rate of 6% per annum, guaranteed by an indirect non-wholly-owned subsidiary of the Company and secured by the lessor's charge over the leased plant and machinery (Note 19(c)). The ownership of those assets will be transferred back to the Group upon the end of the lease term. Such transaction is considered as a sale and leaseback arrangement resulting in a finance lease.

35. OBLIGATIONS UNDER FINANCE LEASES (CONTINUED)

At 31 March 2017, the Group's total minimum lease payments under finance lease obligation and their present value are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**32,220**	–	**28,394**	–
More than one year, but not exceeding two years	**32,220**	–	**30,135**	–
More than two years, but not exceeding five years	**11,716**	–	**11,362**	–
	76,156	–	**69,891**	–
Less: Future finance charges	**(6,265)**	–	**–**	–
Present value of lease obligations	**69,891**	–	**69,891**	–

	2017	2016
	HK$'000	HK$'000
Presented by:		
Current liabilities	**28,394**	–
Non-current liabilities	**41,497**	–
	69,891	–

36. OBLIGATIONS UNDER REDEEMED CONVERTIBLE BONDS

On 8 March 2011, the Company issued a redemption notice to Mei Li New Energy Limited ("Mei Li") which was beneficially wholly-owned by Mr. Winston Chung (formerly known as Chung Hing Ka) ("Mr. Chung") for the redemption of convertible bonds at total face value of approximately HK$760,752,000 (the "Redemption Amount"). Legal proceedings have been instituted against Mr. Chung and/or companies which are controlled and/or owned by him (together the "Chung Parties") (the "High Court Proceedings"). The convertible bonds were issued to Mei Li pursuant to a series of agreements between the Group and the Chung Parties, which are the subject of the dispute in the High Court Proceedings. As supported by an independent forensic accountant report commissioned by the Group, the damages claimed by the Group in the High Court Proceedings (the "Claim Amount") are estimated to be substantially larger than the Redemption Amount and the Group has sought to set off a portion of the Claim Amount against the Redemption Amount (the "Set-Off").

36. OBLIGATIONS UNDER REDEEMED CONVERTIBLE BONDS (CONTINUED)

On 5 March 2013, the HK Court issued a judgment in favour of the Company, granting the Company unconditional leave to defend the Claim Amount and to argue the Set-Off (the "5 March 2013 Judgment"). Effectively, since 5 March 2013, the Company's payment obligations under the redeemed convertible bonds is subject to a stay of execution pending determination of the High Court Proceedings.

On 26 May 2016, HK Court refused Mei Li's application for leave to appeal the 5 March 2013 Judgment and ordered Mei Li to pay costs to the Company on an indemnity basis.

By reason that the 5 March 2013 Judgment stands and considering the time required for the resolution of the relevant legal proceedings and various interlocutory applications of the parties, the directors of the Company do not expect that the Company will be required to settle the Redemption Amount in the near future. In any event, Mr. Chung was adjudged bankrupt on 27 February 2013 and the property of Mr. Chung became vested in the trustees-in-bankruptcy who are in the process of taking over Mr. Chung's several companies, including Mei Li. By an order of the HK Court on 26 February 2017, Mr. Chung's bankruptcy has been extended for a period of 4 years from 26 February 2017.

Based on the opinion of the Company's external counsel, payment of the Redemption Amount would likely not arise for at least 12 months from the end of the reporting period. Under such circumstances, the Board considered it was appropriate to reclassify the obligations under the redeemed convertible bonds of approximately HK$760,752,000 from current liabilities to non-current liabilities.

37. RECEIPTS IN ADVANCE

	2017 **HK$'000**	2016 HK$'000
Funding received for a design project *(Note (a))*	**563,200**	–
Funding received for acquisition of a land in the PRC *(Note (b))*	**47,035**	50,113
	610,235	50,113

Notes:

(a) The amount of RMB500,000,000 (equivalent to approximately HK$563,200,000) (2016: nil) represents the first instalment of funding received by Jasmin Beijing during the year ended 31 March 2017 in connection with an entrustment agreement in which Guizhou Guian Asset Investment Co., Ltd.[Δ] (貴州貴安產業投資有限公司), has entrusted Jasmin Beijing to provide electric vehicles research, design and development related services to Guizhou Changjiang for a period from 4 November 2016 to 31 December 2021. As the related new product models have yet to be delivered to Guizhou Changjiang, no recognition of such funding as income in the consolidated statement of profit or loss was made during the year ended 31 March 2017.

(b) The amount represents a grant received by the Group from the PRC government authority for subsidising the Group's acquisition of a land for the construction of a lithium-ion batteries production plant. The grant is subject to certain conditions to be complied with by the Group. Since the related conditions were not yet fulfilled, there was no recognition of such grant as income in the consolidated statement of profit or loss for the years ended 31 March 2017 and 2016.

Δ *For identification purpose*

38. CONVERTIBLE BONDS

	2017		2016	
	Liability components HK$'000	**Derivative financial instruments HK$'000**	Liability components HK$'000	Derivative financial instruments HK$'000
Convertible bonds due in 2017 *(Note (a))*	**399,031**	**(174)**	373,666	(29,731)
Convertible bonds due in 2018 *(Note (b))*	**115,605**	**(1,108)**	102,945	(4,410)
Convertible bonds due in 2021 *(Note (c))*	**190,199**	**(19,951)**	–	–
	704,835	**(21,233)**	476,611	(34,141)
Presented by:				
Current assets	**–**	**(21,233)**	–	(34,141)
Current liabilities	**514,636**	**–**	–	–
Non-current liabilities	**190,199**	**–**	476,611	–
	704,835	**(21,233)**	476,611	(34,141)

Notes:

(a) Convertible bonds due in 2017

On 14 April 2014, the Company issued convertible bonds with an aggregated principal amount of HK$400,000,000 (the "2017 Due CB") pursuant to an agreement dated 20 March 2014 entered into between the Company and a subscriber, which is an independent third party to the Company. The 2017 Due CB bear interest at 8% per annum, with a maturity date on the third anniversary of the date of their issue (that is, 14 April 2017) and entitle the holder to convert them, in whole or in part, into ordinary shares of the Company at a conversion price of HK$0.60 per share (subject to adjustments) at any time on or after the issue date up to the maturity date. The Company may at any time up to (and excluding) the commencement of the seven calendar day period ending on (and including) the maturity date, by written notice to the holder, elect to redeem the whole or part of the then outstanding principal amount of the 2017 Due CB at an amount equal to the sum of (a) 100% of the principal amount of the 2017 Due CB sought to be redeemed and (b) all unpaid interest thereon. In addition, at any time prior to the maturity date, if the average of the closing prices of the ordinary shares of the Company for the five consecutive trading days ending on and including the trading day last preceding such date is more than HK$1.20 (subject to adjustments) for ten consecutive trading days, the Company may give not less than seven business days' notice to the holder to mandatorily convert all or any part of the 2017 Due CB.

At initial recognition, the liability component of the 2017 Due CB is measured as the present value of the future interest and principal payments, discounted at the market rate for similar non-convertible bonds that do not have a conversion option. The derivative component of the 2017 Due CB, which are early redemption and mandatory conversion options held by the Company, are measured at fair value and presented as derivative financial instruments in current assets. Such derivative financial instruments are re-measured to fair value at the end of each reporting period. The equity component was the residual amount after deducting the fair values of the liability and derivative components from the consideration received for the 2017 Due CB. The effective interest rate of the liability component of the 2017 Due CB is 14.31% (2016: 14.31%) per annum. The valuation of the 2017 Due CB was performed by Asset Appraisal Limited, an independent firm of professional qualified valuers.

38. CONVERTIBLE BONDS (CONTINUED)

Notes: (Continued)

(a) Convertible bonds due in 2017 (Continued)

The following assumptions are used to calculate the fair values of the derivative component of the 2017 Due CB:

	At 31 March 2017	At 31 March 2016
Closing share prices	HK$0.325	HK$0.430
Conversion price	HK$0.60	HK$0.60
Expected remaining life of the convertible bonds	0.04 year	1.04 years
Expected volatility	60.00%	57.77%
Risk free rate	0.28%	0.26%
Expected dividend yield	0%	0%
Discount rate	6.49%	23.01%

The 2017 Due CB have been split as follows:

	Liability component HK$'000	**Equity component HK$'000**	**Derivative financial instruments HK$'000**	**Total HK$'000**
As at 1 April 2015	351,240	86,075	(19,383)	417,932
Add: Interest expenses	54,428	–	–	54,428
Less: Interest payable	(32,002)	–	–	(32,002)
Add: Fair value gain on derivative financial instruments	–	–	(10,348)	(10,348)
As at 31 March 2016 and 1 April 2016	373,666	86,075	(29,731)	430,010
Add: Interest expenses	57,365	–	–	57,365
Less: Interest payable	(32,000)	–	–	(32,000)
Less: Fair value loss on derivative financial instruments	–	–	29,557	29,557
As at 31 March 2017	**399,031**	**86,075**	**(174)**	**484,932**

None of the 2017 Due CB was exercised during the years ended 31 March 2017 and 2016.

38. CONVERTIBLE BONDS (CONTINUED)

Notes: (Continued)

(b) Convertible bonds due in 2018

On 23 February 2015, an offer made by VMS Securities Limited on behalf of Sinopoly Strategic Investment Limited, a direct wholly-owned subsidiary of the Company, to acquire all the issued ordinary shares of FKL and to cancel the options which are outstanding under the share option scheme adopted by FKL (the "Offer") was closed and a total amount of approximately HK$1,432,171,000 convertible bonds (the "2018 Due CB") was issued by the Company. The 2018 Due CB are non-interest-bearing with a maturity date falling on the third anniversary of the date of the commencement of the Offer (that is, 30 January 2018) and entitle the holder to convert them, in whole or in part (in an amount of HK$1,000,000 or integral multiples thereof or an amount representing in aggregate the entire outstanding principal amount of the 2018 Due CB), into ordinary shares of the Company at a conversion price of HK$0.50 per share (subject to adjustments), at any time on or after the issue date up to the maturity date. The Company may at any time after the second anniversary of the date of commencement of the Offer (that is, 30 January 2017) redeem the whole or any part of the then outstanding principal amount of the 2018 Due CB. The Company may also give not less than seven business days' notice to any holder to mandatorily convert all or any part of the 2018 Due CB, if at any time after the issue date up to the maturity date, the closing price of the Company's shares as quoted on the Stock Exchange is more than HK$1.00 (subject to subdivision or consolidation of the Company's shares) for fifteen consecutive trading days, unless the mandatorily conversion will trigger a mandatory general offer or change in control under the Code on Takeovers and Mergers and Share Buy-backs.

At initial recognition, the liability component of the 2018 Due CB is measured as the present value of the future principal payments, discounted at the market rate for similar non-convertible bonds that do not have a conversion option. The derivative component of the 2018 Due CB, which are early redemption and mandatory conversion options held by the Company, are measured at fair value and presented as derivative financial instruments in current assets. Such derivative financial instruments are re-measured to fair value at the end of each reporting period. The equity component was the residual amount after deducting the fair values of the liability and derivative components from the fair value of the 2018 Due CB. The effective interest rates of the liability component of the 2018 Due CB range from 13.07% to 13.64% (2016: 13.07% to 13.64%) per annum. The valuation of the 2018 Due CB was performed by Asset Appraisal Limited, an independent firm of professional qualified valuers.

The following assumptions are used to calculate the fair values of the derivative component of the 2018 Due CB:

	At 31 March 2017	At 31 March 2016
Closing share prices	HK$0.325	HK$0.430
Conversion price	HK$0.50	HK$0.50
Expected remaining life of the convertible bonds	0.83 year	1.83 years
Expected volatility	32.38%	50.63%
Risk free rate	0.53%	0.48%
Expected dividend yield	0%	0%
Discount rate	6.74%	23.23%

38. CONVERTIBLE BONDS (CONTINUED)

Notes: (Continued)

(b) Convertible bonds due in 2018 (Continued)

The 2018 Due CB have been split as follows:

	Liability component HK$'000	Equity component HK$'000	Derivative financial instruments HK$'000	Total HK$'000
As at 1 April 2015	804,771	425,104	(34,479)	1,195,396
Add: Interest expenses	91,206	–	–	91,206
Less: Converted during the year	(793,032)	(377,580)	25,890	(1,144,722)
Less: Fair value loss on derivative financial instruments	–	–	4,179	4,179
As at 31 March 2016 and 1 April 2016	102,945	47,524	(4,410)	146,059
Add: Interest expenses	14,810	–	–	14,810
Less: Converted during the year	(2,150)	(876)	37	(2,989)
Less: Fair value loss on derivative financial instruments	–	–	3,265	3,265
As at 31 March 2017	**115,605**	**46,648**	**(1,108)**	**161,145**

During the year ended 31 March 2017, holders of the 2018 Due CB converted an aggregated principal amount of approximately HK$2,448,000 (2016: HK$1,045,705,000) into approximately 4,896,000 (2016: 2,091,410,000) ordinary shares of the Company at the conversion price of HK$0.50 per share (Note 41(b)).

(c) Convertible bonds due in 2021

On 25 August 2016, the Company issued convertible bonds with an aggregated principal amount of HK$275,000,000 (the "2021 Due CB") pursuant to the subscription agreement dated 14 April 2016 entered into between the Company and ALEEES. The 2021 Due CB are non-interest bearing with a maturity date on the fifth anniversary of the date of their issue (that is, 25 August 2021) and entitle the holder to convert them, in whole or in part, into ordinary shares of the Company at a conversion price of HK$0.50 per share (subject to adjustments) at any time on or after then issue date up to the maturity date. The Company may at any time from the 183rd day after the second anniversary of the completion date of the agreement up to (and excluding) the commencement of the seven calendar day period ending on (and including) the maturity date, by written notice to the holder, elect to redeem the whole or part (being an authorised denomination) of the then outstanding principal amount of the 2021 Due CB in a pro rata manner at an amount equal to 100% of the principal amount of the 2021 Due CB sought to be redeemed. In addition, at any time prior to the maturity date, if the average closing price per ordinary share of the Company as stated in the Stock Exchange's daily quotations sheet for each of the last thirty consecutive trading days immediately preceding (and excluding) such day exceeds HK$0.60 (subject to adjustments), the 2021 Due CB shall be fully and mandatorily converted at one time into the ordinary shares of the Company at a conversion price of HK$0.50 per share (subject to adjustments).

At initial recognition, the liability component of the 2021 Due CB is measured as the present value of the future principal payments, discounted at the market rate for similar non-convertible bonds that do not have a conversion option. The derivative component of the 2021 Due CB, which are early redemption and mandatory conversion options held by the Company, are measured at fair value and presented as derivative financial instruments in current assets. Such derivative financial instruments are re-measured to fair value at the end of each reporting period. The equity component was the residual amount after deducting the fair values of the liability and derivative components from the consideration received for the 2021 Due CB. The effective interest rate of the liability component of the 2021 Due CB is 8.40% per annum. The valuation of the 2021 Due CB was performed by Asset Appraisal Limited, an independent firm of professional qualified valuers.

38. CONVERTIBLE BONDS (CONTINUED)

Notes: (Continued)

(c) Convertible bonds due in 2021 (Continued)

The following assumptions are used to calculate the fair values of the derivative component of the 2021 Due CB:

	At 31 March 2017	At Issue date
Closing share prices	HK$0.325	HK$0.445
Conversion price	HK$0.50	HK$0.50
Expected remaining life of the convertible bonds	4.40 years	5 years
Expected volatility	46.54%	48.35%
Risk free rate	1.23%	0.45%
Expected dividend yield	0%	0%
Discount rate	7.44%	8.74%

The 2021 Due CB have been split as follows:

	Liability component HK$'000	Equity component HK$'000	Derivative financial instruments HK$'000	Total HK$'000
Issued during the year	180,878	119,148	(25,026)	275,000
Add: Interest expenses	9,321	–	–	9,321
Less: Fair value loss on derivative financial instruments	–	–	5,075	5,075
As at 31 March 2017	**190,199**	**119,148**	**(19,951)**	**289,396**

None of the 2021 Due CB was exercised during the year ended 31 March 2017.

39. DEFERRED TAX LIABILITIES

The major deferred tax balances recognised and movements thereon during the years ended 31 March 2017 and 2016 are as follows:

	Property, plant and equipment and interests in leasehold land held for own use under operating leases HK$'000	Intangible assets HK$'000	Others HK$'000	Total HK$'000
At 1 April 2015	22,384	192,381	353	215,118
Credit to profit or loss *(Note 12)*	(473)	(1,046)	(303)	(1,822)
Acquisition of subsidiaries *(Note 16(b))*	712	23,565	–	24,277
Exchange adjustments	(1,175)	(9,999)	–	(11,174)
At 31 March 2016 and 1 April 2016	21,448	204,901	50	226,399
Credit to profit or loss *(Note 12)*	(449)	(41,331)	(131)	(41,911)
Exchange adjustments	(1,307)	(2,856)	–	(4,163)
At 31 March 2017	**19,692**	**160,714**	**(81)**	**180,325**

At 31 March 2017, the Group has not recognised deferred tax assets in respect of cumulative losses of HK$2,217,185,000 (2016: HK$1,429,766,000) and deductible temporary differences of HK$331,939,000 (2016: HK$159,491,000), due to the unpredictability of future taxable profits against which the losses and deductible temporary differences can be utilised in the relevant taxation jurisdiction of the relevant taxable entity. Tax losses do not expire under current tax legislation, except for an amount of PRC tax losses in aggregate of HK$1,035,684,000 (2016: HK$580,078,000) that will expire in the coming one to five years.

40. DEFERRED INCOME

The movements in deferred income during the years ended 31 March 2017 and 2016 are as follows:

	HK$'000
At 1 April 2015	–
Additions during the year	73,674
Exchange adjustments	(1,668)
At 31 March 2016 and 1 April 2016	72,006
Additions during the year	17,398
Released to profit or loss during the year	(18,830)
Exchange adjustments	(4,321)
At 31 March 2017	**66,253**
Less: Amounts included in other payables and accrued expenses under current liabilities *(Note 34)*	(12,186)
	54,067

The Group received government grants for research and development activities and acquisition of plant and equipment. Government grants for research and development activities received for which related expenditures not yet incurred are included in other payables and accrual expenses as deferred income under current liabilities. Government grants for acquisition of plant and equipment are classified as deferred income under non-current liabilities and will be released as income in profit or loss over the expected useful life of the relevant assets to match with the depreciation of the assets.

41. SHARE CAPITAL

	2017 No. of shares '000	**2017** HK$'000	2016 No. of shares '000	2016 HK$'000
Authorised:				
At beginning and at end of the reporting period				
Ordinary shares of HK$0.01 each	**50,000,000**	**500,000**	50,000,000	500,000
Issued and fully paid:				
At beginning of the reporting period				
Ordinary shares of HK$0.01 each	**21,963,580**	**219,636**	17,866,170	178,662
Issue of new shares:				
– pursuant to share placing and subscription *(Note (a))*	**430,000**	**4,300**	2,000,000	20,000
– upon conversion of convertible bonds *(Note (b))*	**4,896**	**49**	2,091,410	20,914
– upon exercise of share options *(Note (c))*	**–**	**–**	6,000	60
At end of the reporting period				
Ordinary shares of HK$0.01 each	**22,398,476**	**223,985**	21,963,580	219,636

Notes:

(a) During the year ended 31 March 2017, the Company issued a total of 430,000,000 ordinary shares of HK$0.01 each at the subscription price of HK$0.50 per share pursuant to the subscription agreement dated 14 April 2016.

During the year ended 31 March 2016, the Company issued a total of 2,000,000,000 ordinary shares of HK$0.01 each pursuant to the following placing and subscription agreements:

- on 5 November 2015, the Company issued 1,000,000,000 ordinary shares of HK$0.01 each at the subscription price of HK$0.50 per share pursuant to the placing agreement dated 22 October 2015.
- on 26 February 2016, the Company issued 1,000,000,000 ordinary shares of HK$0.01 each at the subscription price of HK$0.465 per share pursuant to the subscription agreements dated 9 December 2015.

(b) During the year ended 31 March 2017, the convertible bonds with an aggregated principal amount of approximately HK$2,448,000 (2016: HK$1,045,705,000) were converted at a conversion price of HK$0.50 per share, resulting in approximately 4,896,000 (2016: 2,091,410,000) ordinary shares of HK$0.01 each being issued by the Company (Note 38(b)).

(c) During the year ended 31 March 2016, share options to subscribe for 6,000,000 ordinary shares of the Company were exercised. The net consideration was HK$2,700,000 of which HK$60,000 was credited to share capital account and the balance of HK$2,640,000 was credited to the share premium account. The amount of HK$270,000 was transferred from share option reserve account to share premium account upon the exercise of the share options.

All the new ordinary shares issued and allotted during the year rank pari passu in all respects with the then existing ordinary shares of the Company.

42. RESERVES

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of changes in the Company's individual components of reserve between the beginning and the end of the reporting period are set out below:

THE COMPANY

	Share premium HK$'000	Contributed surplus HK$'000	Capital redemption reserve HK$'000	Equity component of convertible bonds HK$'000	Share option reserve HK$'000	Retained earnings/ (accumulated losses) HK$'000	Total HK$'000
At 1 April 2015	6,604,261	15,506	1,868	511,179	20,623	(5,274,360)	1,879,077
Proceed from shares issued upon exercise of share options	2,910	–	–	–	(270)	–	2,640
Cancellation of share premium *(Note 42(a))*	(6,824,625)	6,824,625	–	–	–	–	–
Transfer *(Note 42(a))*	–	(5,420,546)	–	–	–	5,420,546	–
Issue of new shares *(Note 41(a))*	937,462	–	–	–	–	–	937,462
Conversion of convertible bonds *(Note 41(b))*	1,123,808	–	–	(377,580)	–	–	746,228
Share option lapsed	–	–	–	–	(58)	58	–
Equity-settled share-based payments	–	–	–	–	11,257	–	11,257
Profit and total comprehensive income for the year	–	–	–	–	–	1,567,628	1,567,628
At 31 March 2016 and 1 April 2016	1,843,816	1,419,585	1,868	133,599	31,552	1,713,872	5,144,292
Issue of new shares *(Note 41(a))*	210,700	–	–	–	–	–	210,700
Issue of convertible bonds	–	–	–	119,148	–	–	119,148
Conversion of convertible bonds *(Note 41(b))*	2,941	–	–	(876)	–	–	2,065
Share option lapsed	–	–	–	–	(667)	667	–
Equity-settled share-based payments	–	–	–	–	5,849	–	5,849
Loss and total comprehensive loss for the year	–	–	–	–	–	(704,466)	(704,466)
At 31 March 2017	**2,057,457**	**1,419,585**	**1,868**	**251,871**	**36,734**	**1,010,073**	**4,777,588**

42. RESERVES (CONTINUED)

Notes:

(a) Pursuant to the special resolution passed at the annual general meeting of the Company held on 28 August 2015 and with effect from 31 August 2015, the amount of approximately HK$6,824,625,000 standing to the credit of the share premium account was transferred to contributed surplus account of the Company, of which, an amount of approximately HK$5,420,546,000 was applied to offset the accumulated losses of the Company.

(b) Share premium

The application of share premium account is governed by the relevant provisions set out in the Company's Bye-laws and the Companies Act 1981 of Bermuda.

(c) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(d) Contributed surplus

The contributed surplus represents the surplus arising from capital reductions pursuant to the Group's reorganisation in 2004 and 2005, and an amount of approximately HK$5,420,546,000 was applied to offset the accumulated losses of the Company as stated in Note 42(a).

(e) Capital redemption reserve

In prior years, the Company repurchased its own shares. The capital redemption reserve represents the amount equivalent to the nominal value of the shares cancelled from repurchases of own shares transferred from retained earnings.

(f) Equity component of convertible bonds

The reserve comprises the value of the unexercised equity component of convertible bonds issued by the Group recognised in accordance with the accounting policy adopted for convertible bonds in Note 2(o).

(g) Share option reserve

The share option reserve comprises the fair value of unexercised share options granted by the Company.

(h) Investment revaluation reserve

The investment revaluation reserve comprise the share of cumulative net change in the fair value of available-for-sale investments held by an associate at the end of the reporting period and is dealt with in accordance with the accounting policies in Notes 2(f) and 2(k)(i).

(i) Retained earnings/(accumulated losses)

Retained earnings/accumulated losses comprise (i) an accumulated amount of profit or loss for the current and prior years exclude amounts distributed to shareholders as dividends; and (ii) reserves which arose from the acquisition of additional interests in subsidiaries that do not result in a change of control by the Group, and represents any differences between the amount by which the non-controlling interests are adjusted (to reflect the changes in the interests in the subsidiaries) and the fair value of the consideration paid or received.

(j) Distributability of reserve

At 31 March 2017, the Company had distributable reserve amounting to approximately HK$1,010,073,000 (2016: HK$1,713,872,000), which represented the balance of retained earnings. However, under the Companies Act 1981 of Bermuda, the Company shall not declare or pay a dividend, or make a distribution out of contributed surplus if the Company is, or would after the payment be, unable to pay its liabilities as they become due; or the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities.

43. SHARE OPTION SCHEME

Pursuant to the approval by the shareholders of the Company at the special general meeting held on 28 February 2014, the previous share option scheme adopted by the Company on 30 March 2004 (the "2004 Scheme") was terminated and a share option scheme (the "2014 Scheme") which was in compliance with the requirements set out in the Listing Rules was adopted by the Company, both effective on 28 February 2014. No further options can be granted under the 2004 Scheme. Howsoever, the options granted under the 2004 Scheme remains exercisable.

A summary of the principal terms of the 2014 Scheme is set out below:

PURPOSE

The purpose of the 2014 Scheme is to enable the Group to grant option(s) to the Eligible Participants (as defined below) to subscribe for shares of the Company (i) in recognition of their contribution to the Group; (ii) to attract and retain or otherwise maintain an on-going relationship with them for the benefit of the Group; and (iii) to align their interests with the shareholders of the Company, thereby encouraging them to work towards enhancing the value of the shares of the Company.

PARTICIPANTS

The Board may, at its absolute discretion, invite any persons belonging to any of the following classes of participants (the "Eligible Participants") to take up options to subscribe for shares of the Company:

(a) any employee (whether full-time or part-time) of, or any individual for the time being seconded to work for, the Company, or any of its subsidiaries, or any entity in which any member of the Group holds an equity interest (the "Invested Entity") (the persons are collectively referred to as "Eligible Employees");

(b) any directors (including executive, non-executive and independent non-executive directors) of the Company, or any directors of any of its subsidiaries or any Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer, agent or distributor of any member of the Group or any Invested Entity;

(e) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;

(f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity who has contributed or may contribute to the Group or the applicable Invested Entity;

(g) any adviser (professional or otherwise) or consultant to any member of the Group or any Invested Entity; and

(h) any joint venture or business partner of any member of the Group or any Invested Entity who has contributed or may contribute to the Group or the applicable Invested Entity,

and, for the purposes of the 2014 Scheme, an offer for the grant of an option may be made to any company wholly-owned by one or more Eligible Participants.

43. SHARE OPTION SCHEME (CONTINUED)

TOTAL NUMBER OF SHARES AVAILABLE FOR ISSUE

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2014 Scheme and any other share option schemes must not in aggregate exceed 30% of the share capital of the Company in issue from time to time.

The total number of shares which may be issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the 2014 Scheme and any other share option schemes) to be granted under the 2014 Scheme and any other share option schemes must not in aggregate exceed 10% of the shares of the Company in issue as at the date of refreshment of share option mandates from time to time.

As at the date of approval of the consolidated financial statements, the total number of shares of the Company that may be issued upon exercise of all options granted and vested but not yet exercised was 233,500,000, which represented approximately 1.04% of the issued share capital of the Company on that date.

MAXIMUM ENTITLEMENT OF EACH PARTICIPANT

An offer for the grant of an option to any director, chief executive or substantial shareholder of the Company, or any of their respective associates must be approved by the independent non-executive directors (excluding any independent non-executive director who or whose associate is the proposed grantee of an option). Where any grant of options to a substantial shareholder of the Company or an independent non-executive director, or any of their respective associates, would result in the shares issued and to be issued upon the exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) under the 2014 Scheme and any other share option schemes to such person in the 12-month period up to and including the date of such grant:

(a) representing in aggregate over 0.1% of the shares in issue; and

(b) having an aggregate value, based on the closing price of the shares at the offer date of each offer for the grant of an option, in excess of HK$5 million,

such further grant of options must be approved by the shareholders in general meeting of the Company.

Subject to the aforesaid, the total number of shares issued and which may fall to be issued upon the exercise of any options granted under the 2014 Scheme and any other share option schemes (including both exercised or outstanding options) to each grantee in any 12-month period must not in aggregate exceed 1% of the issued share capital of the Company for the time being. Any further grant of options to a grantee in excess of such limit must be separately approved by shareholders in general meeting of the Company with such grantee and his associates abstaining from voting.

43. SHARE OPTION SCHEME (CONTINUED)

OPTION PERIOD

The period within which the shares must be taken up under an option shall be determined and notified by the Board to the grantee thereof, but such period shall end in any event not later than 10 years from the date of offer of the option subject to the provisions for early termination thereof.

MINIMUM PERIOD FOR WHICH AN OPTION MUST BE HELD BEFORE IT CAN BE EXERCISED

Unless otherwise determined by the Board and stated in the offer for the grant of an option to a grantee, a grantee is not required to hold an option for any minimum period before the exercise of an option granted to him.

AMOUNT PAYABLE UPON ACCEPTANCE OF OPTION

A nominal consideration of HK$1 is payable on acceptance of the offer of an option, which shall not be later than 21 days from the offer date.

SUBSCRIPTION PRICE FOR SHARES

The subscription price for shares under the 2014 Scheme will be a price determined by the Board, but shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share.

REMAINING LIFE OF THE 2014 SCHEME

The 2014 Scheme commenced on 28 February 2014 and shall continue in force until the tenth anniversary of such date.

43. SHARE OPTION SCHEME (CONTINUED)

Details of the options and movements in such holdings during the year ended 31 March 2017 are as follows:

		Number of options								
Category of participants	Date of grant	Outstanding as at 1.4.2016	Granted during the year	Exercised during the year	Lapsed during the year	Re-classified during the year	Outstanding as at 31.3.2017	Exercise period	Exercise price per option HK$	Weighted average closing price of the shares immediately before the dates on which the options were exercised HK$
Director & Substantial Shareholder										
Mr. Cao Zhong	28.4.2014	10,000,000	–	–	–	–	10,000,000	28.4.2016 – 27.4.2024 *(Note 2)*	0.630	–
Directors										
Mr. Miao Zhenguo	4.9.2013	12,000,000	–	–	–	–	12,000,000	4.9.2015 – 3.9.2023 *(Note 2)*	0.450	–
	28.4.2014	3,000,000	–	–	–	–	3,000,000	28.4.2016 – 27.4.2024 *(Note 2)*	0.630	–
Dr. Chen Yanping	28.4.2014	12,000,000	–	–	–	–	12,000,000	28.4.2016 – 27.4.2024 *(Note 2)*	0.630	–
Mr. Lo Wing Yat	23.8.2007	14,600,000	–	–	–	–	14,600,000	23.8.2008 – 22.8.2017 *(Note 3)*	0.230	–
	8.5.2009	16,200,000	–	–	–	–	16,200,000	8.5.2010 – 7.5.2019 *(Note 3)*	0.061	–
	4.9.2013	8,000,000	–	–	–	–	8,000,000	4.9.2015 – 3.9.2023 *(Note 2)*	0.450	–
	28.4.2014	4,000,000	–	–	–	–	4,000,000	28.4.2016 – 27.4.2024 *(Note 2)*	0.630	–

43. SHARE OPTION SCHEME (CONTINUED)

Details of the options and movements in such holdings during the year ended 31 March 2017 are as follows: (Continued)

Category of participants	Date of grant	Number of options						Exercise period	Exercise price per option	Weighted average closing price of the shares immediately before the dates on which the options were exercised
		Outstanding as at 1.4.2016	Granted during the year	Exercised during the year	Lapsed during the year	Re-classified during the year	Outstanding as at 31.3.2017		HK$	HK$
Mr. Jaime Che	4.9.2013	12,000,000	–	–	–	–	12,000,000	4.9.2015 – 3.9.2023 *(Note 2)*	0.450	–
	28.4.2014	4,000,000	–	–	–	–	4,000,000	28.4.2016 – 27.4.2024 *(Note 2)*	0.630	–
Mr. Chan Yuk Tong	8.5.2009	900,000	–	–	–	–	900,000	8.11.2010 – 7.5.2019 *(Note 4)*	0.061	–
	4.9.2013	8,000,000	–	–	–	–	8,000,000	4.9.2015 – 3.9.2023 *(Note 2)*	0.450	–
	28.4.2014	4,000,000	–	–	–	–	4,000,000	28.4.2016 – 27.4.2024 *(Note 2)*	0.630	–
Mr. Fei Tai Hung	8.5.2009	900,000	–	–	–	–	900,000	8.11.2010 – 7.5.2019 *(Note 4)*	0.061	–
	4.9.2013	8,000,000	–	–	–	–	8,000,000	4.9.2015 – 3.9.2023 *(Note 2)*	0.450	–
	28.4.2014	4,000,000	–	–	–	–	4,000,000	28.4.2016 – 27.4.2024 *(Note 2)*	0.630	–
Mr. Tse Kam Fow	8.5.2009	900,000	–	–	–	–	900,000	8.11.2010 – 7.5.2019 *(Note 4)*	0.061	–
	4.9.2013	8,000,000	–	–	–	–	8,000,000	4.9.2015 – 3.9.2023 *(Note 2)*	0.450	–
	28.4.2014	4,000,000	–	–	–	–	4,000,000	28.4.2016 – 27.4.2024 *(Note 2)*	0.630	–

43. SHARE OPTION SCHEME (CONTINUED)

Details of the options and movements in such holdings during the year ended 31 March 2017 are as follows: (Continued)

Category of participants	Date of grant	Number of options: Outstanding as at 1.4.2016	Granted during the year	Exercised during the year	Lapsed during the year	Re-classified during the year	Outstanding as at 31.3.2017	Exercise period	Exercise price per option HK$	Weighted average closing price of the shares immediately before the dates on which the options were exercised HK$
Employees	4.9.2013	172,300,000	–	–	(18,100,000) *(Note 5)*	(8,000,000) *(Note 6)*	146,200,000	4.9.2015 – 3.9.2023 *(Note 2)*	0.450	–
	28.4.2014	109,800,000	–	–	(6,400,000) *(Note 5)*	–	103,400,000	28.4.2016 – 27.4.2024 *(Note 2)*	0.630	–
Others	23.8.2007	7,200,000	–	–	–	–	7,200,000	23.8.2008 – 22.8.2017 *(Note 3)*	0.230	–
	4.9.2013	16,000,000	–	–	–	8,000,000 *(Note 6)*	24,000,000	4.9.2015 – 3.9.2023 *(Note 2)*	0.450	–
	28.4.2014	12,000,000	–	–	–	–	12,000,000	28.4.2016 – 27.4.2024 *(Note 2)*	0.630	–
		451,800,000	–	–	(24,500,000)	–	427,300,000			
Weighted average exercise price *(HK$)*		0.490	–	–	0.497	–	0.489			
Exercisable as at 31.3.2017							21,800,000 18,900,000 113,100,000 80,200,000		0.230 0.061 0.450 0.630	

43. SHARE OPTION SCHEME (CONTINUED)

Details of the options and movements in such holdings during the year ended 31 March 2016 are as follows:

		Number of options								
Category of participants	Date of grant	Outstanding as at 1.4.2015	Granted during the year	Exercised during the year	Lapsed during the year	Re-classified during the year	Outstanding as at 31.3.2016	Exercise period	Exercise price per option HK$	Weighted average closing price of the shares immediately before the dates on which the options were exercised HK$
Director & Substantial Shareholder										
Mr. Cao Zhong	28.4.2014	10,000,000	–	–	–	–	10,000,000	28.4.2016 – 27.4.2024 *(Note 2)*	0.630	–
Directors										
Mr. Miao Zhenguo	4.9.2013	12,000,000	–	–	–	–	12,000,000	4.9.2015 – 3.9.2023 *(Note 2)*	0.450	–
	28.4.2014	3,000,000	–	–	–	–	3,000,000	28.4.2016 – 27.4.2024 *(Note 2)*	0.630	–
Dr. Chen Yanping	28.4.2014	12,000,000	–	–	–	–	12,000,000	28.4.2016 – 27.4.2024 *(Note 2)*	0.630	–
Mr. Lo Wing Yat	23.8.2007	14,600,000	–	–	–	–	14,600,000	23.8.2008 – 22.8.2017 *(Note 3)*	0.230	–
	8.5.2009	16,200,000	–	–	–	–	16,200,000	8.5.2010 – 7.5.2019 *(Note 3)*	0.061	–
	4.9.2013	8,000,000	–	–	–	–	8,000,000	4.9.2015 – 3.9.2023 *(Note 2)*	0.450	–
	28.4.2014	4,000,000	–	–	–	–	4,000,000	28.4.2016 – 27.4.2024 *(Note 2)*	0.630	–

43. SHARE OPTION SCHEME (CONTINUED)

Details of the options and movements in such holdings during the year ended 31 March 2016 are as follows: (Continued)

		Number of options								
Category of participants	Date of grant	Outstanding as at 1.4.2015	Granted during the year	Exercised during the year	Lapsed during the year	Re-classified during the year	Outstanding as at 31.3.2016	Exercise period	Exercise price per option HK$	Weighted average closing price of the shares immediately before the dates on which the options were exercised HK$
Mr. Jaime Che	4.9.2013	12,000,000	–	–	–	–	12,000,000	4.9.2015 – 3.9.2023 *(Note 2)*	0.450	–
	28.4.2014	4,000,000	–	–	–	–	4,000,000	28.4.2016 – 27.4.2024 *(Note 2)*	0.630	–
Mr. Chan Yuk Tong	8.5.2009	900,000	–	–	–	–	900,000	8.11.2010 – 7.5.2019 *(Note 4)*	0.061	–
	4.9.2013	8,000,000	–	–	–	–	8,000,000	4.9.2015 – 3.9.2023 *(Note 2)*	0.450	–
	28.4.2014	4,000,000	–	–	–	–	4,000,000	28.4.2016 – 27.4.2024 *(Note 2)*	0.630	–
Mr. Fei Tai Hung	8.5.2009	900,000	–	–	–	–	900,000	8.11.2010 – 7.5.2019 *(Note 4)*	0.061	–
	4.9.2013	8,000,000	–	–	–	–	8,000,000	4.9.2015 – 3.9.2023 *(Note 2)*	0.450	–
	28.4.2014	4,000,000	–	–	–	–	4,000,000	28.4.2016 – 27.4.2024 *(Note 2)*	0.630	–
Mr. Tse Kam Fow	8.5.2009	900,000	–	–	–	–	900,000	8.11.2010 – 7.5.2019 *(Note 4)*	0.061	–
	4.9.2013	8,000,000	–	–	–	–	8,000,000	4.9.2015 – 3.9.2023 *(Note 2)*	0.450	–
	28.4.2014	4,000,000	–	–	–	–	4,000,000	28.4.2016 – 27.4.2024 *(Note 2)*	0.630	–

43. SHARE OPTION SCHEME (CONTINUED)

Details of the options and movements in such holdings during the year ended 31 March 2016 are as follows: (Continued)

		Number of options								
Category of participants	Date of grant	Outstanding as at 1.4.2015	Granted during the year	Exercised during the year	Lapsed during the year	Re-classified during the year	Outstanding as at 31.3.2016	Exercise period	Exercise price per option HK$	Weighted average closing price of the shares immediately before the dates on which the options were exercised HK$
Professor Chen Guohua (resigned on 29 October 2015)	4.9.2013	6,000,000	–	–	–	(6,000,000) *(Note 8)*	–	4.9.2015 – 3.9.2023 *(Note 2)*	0.450	–
	28.4.2014	4,000,000	–	–	–	(4,000,000) *(Note 8)*	–	28.4.2016 – 27.4.2024 *(Note 2)*	0.630	–
Employees	4.9.2013	189,100,000	–	(6,000,000) *(Note 9)*	(10,800,000) *(Note 9)*	–	172,300,000	4.9.2015 – 3.9.2023 *(Note 2)*	0.450	0.518
	28.4.2014	122,800,000	–	–	(13,000,000) *(Note 9)*	–	109,800,000	28.4.2016 – 27.4.2024 *(Note 2)*	0.630	–
Others	23.8.2007	7,200,000	–	–	–	–	7,200,000	23.8.2008 – 22.8.2017 *(Note 3)*	0.230	–
	4.9.2013	10,000,000	–	–	–	6,000,000 *(Note 8)*	16,000,000	4.9.2015 – 3.9.2023 *(Note 2)*	0.450	–
	28.4.2014	8,000,000	–	–	–	4,000,000 *(Note 8)*	12,000,000	28.4.2016 – 27.4.2024 *(Note 2)*	0.630	–
		481,600,000	–	(6,000,000)	(23,800,000)	–	451,800,000			
Weighted average exercise price *(HK$)*		0.492	–	0.450	0.548	–	0.490			
Exercisable as at 31.3.2016							21,800,000 18,900,000 122,150,000		0.230 0.061 0.450	

43. SHARE OPTION SCHEME (CONTINUED)

Notes:

1. Number of options refers to the number of underlying shares of the Company covered by the options granted under both the 2004 Scheme and the 2014 Scheme.

2. Options granted are subject to a vesting period up to five years with half of the options becoming exercisable 24 months after the relevant date of grant and the remainder becoming exercisable 60 months after the relevant date of grant.

3. Options granted are subject to a vesting period up to two years with 50%, 25% and 25% of the options becoming exercisable 12 months, 18 months and 24 months after the date of grant respectively.

4. Options granted are subject to a vesting period up to two years with half of the options becoming exercisable 18 months after the date of grant and the remainder becoming exercisable 24 months after the date of grant.

5. 12,250,000 vested options and 12,250,000 unvested options lapsed during the year ended 31 March 2017 following the cessation of optionholders to be employees of the Company or eligible participants of the 2004 Scheme and/or 2014 Scheme.

6. An optionholder was employed by the Company as a consultant following his resignation as an employee with effect from 1 June 2016. His outstanding options entitling him to subscribe for a total of 8,000,000 shares of the Company with an exercise price of HK$0.450 per share were therefore re-classified from the category of "Employees" to the category of "Others" during the year ended 31 March 2017.

7. No options were granted, exercised or cancelled during the year ended 31 March 2017, and no options were granted or cancelled during the year ended 31 March 2016.

8. Professor Chen Guohua resigned as a director of the Company on 29 October 2015. His outstanding options entitling him to subscribe for 6,000,000 shares of the Company with an exercise price of HK$0.450 per share and 4,000,000 shares of the Company with an exercise price of HK$0.630 per share were therefore re-classified from the category of "Directors" to the category of "Others" during the year ended 31 March 2016.

9. A total of 6,000,000 options were exercised, and 2,400,000 vested options and 21,400,000 unvested options lapsed respectively during the year ended 31 March 2016 following the cessation of optionholders to be employees of the Company or eligible participants of the 2004 Scheme and/or 2014 Scheme.

10. The Group recognised total expenses of approximately HK$5,849,000 for the year ended 31 March 2017 (2016: HK$11,257,000) in relation to the options granted by the Company. The options outstanding as at 31 March 2017 had a weighted average remaining contractual life of 6.1 years (2016: 7.2 years). As at 31 March 2017, a total of 234,000,000 (2016: 162,850,000) options were exercisable with weighted-average exercise price of HK$0.460 (2016: HK$0.375) per option.

44. COMMITMENTS

(a) COMMITMENTS UNDER OPERATING LEASES

At the end of the reporting period, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of rental premises and equipment falling due as follows:

	2017 HK$'000	2016 HK$'000
Within one year	**11,135**	14,014
In the second to fifth year	**1,925**	6,325
	13,060	20,339

Leases are negotiated for terms from one to four years with a fixed monthly rental over the terms of the leases. None of the leases include contingent rentals.

(b) CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2017 HK$'000	2016 HK$'000
Contracted, but not provided for capital commitments in respect of:		
– capital expenditures of the Group's factories in the PRC	**744,413**	1,170,257
– investment in a joint venture	**38,750**	58,125
– investments in associates	**12,278**	8,281
	795,441	1,236,663

45. LITIGATIONS

(a) LITIGATIONS INVOLVING MR. WINSTON CHUNG

The Company and two of its subsidiaries are currently involved in litigations with the Chung Parties in the High Court Proceedings, which were instituted against the Chung Parties for, inter alia, breaches of various agreements in relation to the acquisition completed by the Group on 25 May 2010. In the same action, the Chung Parties issued a counterclaim based on certain documents.

After the Group instituted the High Court Proceedings against the Chung Parties:

– The Chung Parties attempted to claim against a subsidiary of the Company by filing a lawsuit in the Shenzhen Intermediate Court of the PRC (the "SZ Court") for breaches of various agreements in relation to the production of battery products (the "SZ Case"). The allegations and claims of the Chung Parties in the SZ Case were primarily based on their reliance on certain documents (the "Questioned Documents"), which were disputed by the Group as not being the genuine version entered into by parties and that the Questioned Documents had been fraudulently altered and/or completely fabricated. On 2 June 2015, the SZ Court ruled that the Questioned Documents relied upon by the Chung Parties were not the bona fide agreements that the parties had entered into and that the evidence did not support the Chung Parties' claims, to the effect that the SZ Court dismissed the SZ Case and ordered the Chung Parties to pay the SZ Court's costs (the "SZ Court Order").

– On 27 February 2013, the HK Court made an order for bankruptcy against Mr. Chung (the "Bankruptcy"). Despite being adjudged bankrupt, Mr. Chung failed to submit a substantive statement of affairs, annual report of his earnings and acquisitions or deliver any substantial property to the trustees-in-bankruptcy (the "Trustee") as required under the Bankruptcy Ordinance. The HK Court issued a warrant of arrest to apprehend Mr. Chung on 4 September 2014 (the "Warrant of Arrest"). On 26 February 2017, the HK Court ordered that Mr. Chung's Bankruptcy be extended by 4 years.

In the Bankruptcy proceedings, the Trustee is in the process of taking over further companies owned and/or controlled by Mr. Chung. On 25 May 2016, the Trustee has taken out an application to take over Mei Li and other companies, for which a substantive hearing has been fixed to be heard on 14 September 2017.

Based on legal advice, the directors of the Company do not believe that it is probable that the courts will find against the Group in the High Court Proceedings. In light of the SZ Court Order which casts serious doubt on the Chung Parties' credibility, together with the fact that Mr. Chung has disappeared since the Warrant of Arrest was issued in 2014, the directors of the Company are of the view that the allegations and defences of the Chung Parties are frivolous, vexatious and based on unsubstantiated and invalid grounds. No provision has therefore been made in respect of these litigations.

45. LITIGATIONS (CONTINUED)

(b) SMITH'S COMPLAINT

On 16 June 2016, the Company received a complaint that was filed by Smith, against the Company and Chanje in the Court of Chancery of the State of Delaware, the US (the "Delaware Proceedings"). In the Delaware Proceedings, Smith alleges that Smith was induced into the formation of Chanje, a joint venture between the Company and Smith. Smith claims against inter alia the Company for fraud and misrepresentation and breach of fiduciary duty as major shareholder of Chanje.

On 12 August 2016, the Company and Chanje filed motions to dismiss the Delaware Proceedings. The management of the Company have been of the view that the Delaware Proceedings against the Company were fruitless, unreasonable and without merit and their views were supported by legal advisors who advised the Company that there were good grounds to strike out Smith's complaint with the motions to dismiss. Prior to the signing of the contribution agreements to form the joint venture, the approvals and necessary ratification had been obtained from the board members, independent directors and independent shareholders of Smith and Smith had proper legal representation during the negotiations.

On 23 December 2016, Smith withdrew their complaint by filing a notice of voluntary dismissal, to the effect that Smith no longer has any pending complaint against the Company (and Chanje) in the Court of Chancery of the State of Delaware. The operations of Chanje have not been affected by the Delaware Proceedings.

46. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these consolidated financial statements, the Group had the following material transactions with related parties during the year:

(a) SALES/PURCHASE OF GOODS AND OTHER TRANSACTIONS

	2017 HK$'000	2016 HK$'000
Sales of goods to a joint venture	**8,662**	1,269
Purchase of goods from an associate	**(21,620)**	–
Research and development expenses charged by an associate	**(27,527)**	–

The transactions were based on the terms mutually agreed between the Group and the joint venture or the associate. In the opinion of directors of the Company, the transactions were conducted in the ordinary course of business.

46. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) KEY MANAGEMENT PERSONNEL REMUNERATION

Remuneration of key management personnel, including amounts paid to the Company's directors as disclosed in Note 15(a) and certain of the highest paid employees as disclosed in Note 15(b), is as follows:

	2017 HK$'000	2016 HK$'000
Short-term employee benefits	**28,568**	27,747
Retirement benefit schemes contributions	**195**	177
Equity-settled share-based payments	**1,801**	3,096
	30,564	31,020

(c) YEAR-END BALANCES ARISING FROM SALES/PURCHASE OF GOODS AND OTHER TRANSACTIONS

	2017 HK$'000	2016 HK$'000
Trade receivables from a joint venture	**5,964**	868
Trade and other payables to associates	**(36,483)**	–

The receivables from the joint venture arise mainly from sale transactions with credit period generally ranging from 1 month to 6 months (2016: within 6 months). The receivables are unsecured and non-interest-bearing. No provision for doubtful debt has been made on the receivables from the joint venture (2016: nil). The payables to the associates arise mainly from the purchase of raw materials and research and development expenses charged. The payables are unsecured, non-interest-bearing and repayable within 1 year.

(d) LOANS TO RELATED PARTIES

	2017 HK$'000	2016 HK$'000
Loans to a joint venture:		
At 1 April	**6,324**	–
Loans advanced during year	**42,625**	8,913
Loan repayments received	**(6,200)**	(2,713)
Interest charged	**1,617**	312
Interest received	**(167)**	(135)
Interest withholding tax provided	**(485)**	(53)
At 31 March	**43,714**	6,324

As at 31 March 2017, the balances are due within one year, bearing interest at 8% (2016: 8%) per annum and secured by a lien on any and all properties, rights and assets of the joint venture, now owned or hereafter acquired (2016: a floating charge over the undertaking, property and assets of the joint venture).

As at 31 March 2017, no provision for doubtful debt has been made on the loans to the joint venture (2016: nil).

47. EVENTS AFTER THE REPORTING PERIOD

On 28 April 2017, the Company entered into a subscription agreement to conditionally allot and issue 1,500,000,000 ordinary shares of the Company to a subscriber at the subscription price of HK$0.33 per share. Further details are set out in the Company's announcement dated 28 April 2017. Pursuant to the Company and the subscriber agreeing, the date for completion of the subscription was extended to 30 June 2017. At the date of approval of the consolidated financial statements, the subscription transaction is not yet completed.

48. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances.

The capital structure of the Group consists of the equity attributable to owners of the Company, comprising issued capital and reserves. No material changes were made in the objectives, policies or processes during the years ended 31 March 2017 and 2016.

The management of the Group monitors the capital structure and considers the cost of capital regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, issue new shares as well as the raising of debts and bank borrowings.

Neither the Company nor any other subsidiary is subject to externally imposed capital requirements.

The Group monitors its capital structure on the basis of net debt to equity ratio, which is net debt divided by capital. Net debt includes the Group's total borrowings (including bank loans and other borrowings and obligations under redeemed convertible bonds) less cash and cash equivalents as shown in consolidated statement of financial position. Total capital includes all components of equity attributable to owners of the Company and the liability components of convertible bonds. The net debt to equity ratio as at the end of the reporting period is as follows:

	2017 **HK$'000**	2016 HK$'000
Bank loans and other borrowings	**2,435,259**	1,982,955
Obligations under redeemed convertible bonds *(Note)*	**760,752**	760,752
Total borrowings	**3,196,011**	2,743,707
Less: Cash and cash equivalents	**(1,321,410)**	(942,015)
Net debt	**1,874,601**	1,801,692
Total equity attributable to owners of the Company	**2,948,625**	3,362,527
Liability component of convertible bonds	**704,835**	476,611
Adjusted capital	**3,653,460**	3,839,138
Net debt to equity ratio	**51%**	47%

Note: Based on a court judgment dated 5 March 2013, the Group has been given an unconditional leave to defend to the extent of the Set-Off (as defined in Note 36) and based on which, the Group is entitled to a stay of execution of payment for the obligations under redeemed convertible bonds before the conclusion of relevant legal proceedings. If the obligations under redeemed convertible bonds were excluded, the net debt to equity ratio would be 30% and 27% as at 31 March 2017 and 2016, respectively.

49. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	**2017 HK$'000**	2016 HK$'000
Non-current assets			
Interests in subsidiaries		**7,378,772**	6,924,957
Available-for-sales investments		**–**	23,884
		7,378,772	6,948,841
Current assets			
Amounts due from subsidiaries		**195,353**	452,815
Other receivables		**4,653**	9,368
Derivative financial instruments		**21,233**	34,141
Cash and cash equivalents		**7,997**	261,210
		229,236	757,534
Current liabilities			
Amounts due to subsidiaries		**(1,388)**	–
Other borrowings		**(697,457)**	(694,572)
Accruals and other payables		**(72,003)**	(40,459)
Tax payables		**–**	(53)
Liability components of convertible bonds		**(514,636)**	–
Obligations under redeemed convertible bonds		**–**	(760,752)
		(1,285,484)	(1,495,836)
Net current liabilities		**(1,056,248)**	(738,302)
Total assets less current liabilities		**6,322,524**	6,210,539
Non-current liabilities			
Liability components of convertible bonds		**(190,199)**	(476,611)
Obligations under redeemed convertible bonds		**(760,752)**	–
Bonds to a subsidiary		**(370,000)**	(370,000)
		(1,320,951)	(846,611)
NET ASSETS		**5,001,573**	5,363,928
CAPITAL AND RESERVES			
Issued capital	*41*	**223,985**	219,636
Reserves	*42*	**4,777,588**	5,144,292
TOTAL EQUITY		**5,001,573**	5,363,928

50. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 29 June 2017.