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 2017/18

e ROAD FORWARD

CONTENTS

This annual report is printed on environmentally friendly paper

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Mr. Cao Zhong *(Chairman and Chief Executive Officer)*
Dr. Chen Yanping *(Chief Technical Officer)*
Mr. Lo Wing Yat
Mr. Jaime Che *(Senior 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. Jaime Che
Mr. Fei Tai Hung
Mr. Tse Kam Fow

NOMINATION COMMITTEE

Mr. Cao Zhong *(Chairman)*
Mr. Jaime Che
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)*
Dr. Chen Yanping
Mr. Jaime Che

AUTHORISED REPRESENTATIVES

Mr. Jaime Che
Ms. Man Yuet Lin

COMPANY SECRETARY

Ms. Man Yuet Lin

INDEPENDENT AUDITOR

Crowe (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 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 2018, as extracted from the published audited consolidated financial statements and reclassified and restated as appropriate, is set out below:

	2018 **HK$'000**	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Loss attributable to owners of the Company	**(2,230,371)**	(554,849)	(228,154)	(409,759)	(906,389)
Total assets	**10,646,287**	10,837,491	8,689,001	6,024,455	3,876,804
Total liabilities	**(8,497,882)**	(6,337,905)	(4,597,192)	(3,710,250)	(1,813,965)
Net assets	**2,148,405**	4,499,586	4,091,809	2,314,205	2,062,839
Non-controlling interests	**979,865**	1,550,961	729,282	243,059	329,039
Total equity attributable to owners of the Company	**1,168,540**	2,948,625	3,362,527	2,071,146	1,733,800

CHAIRMAN’S STATEMENT

Dear Shareholders,

It is my honour that I write to update you on the performance and recent developments of our company, FDG Electric Vehicles Limited (“FDG” or the “Company”) for the financial year ended 31 March 2018.

Looking back for the past year, China’s gross domestic product growth rate hiked to 6.9% year-on-year in 2017, beating global growth at 3.1%, the first acceleration for China’s economy since 2010. China has been at the forefront of new energy vehicles globally; of which pure electric vehicles accounted for approximately 84% in all new energy vehicles sold in 2017, more than any country in the world.

For the Chinese electric vehicle industry, though, 2017 was filled with challenges and transformations. Market conditions remain contested as more stringent policies were introduced to the electric vehicle sector in order to achieve higher standard for all players in the industry, eliminating unqualified participants in the market and benefiting consumers in the long run. The vice minister of China’s Ministry of Industry and Information Technology (“MIIT”), Mr. Xin Guobin, announced in an industry forum in September 2017 that the government was considering a gradual phase-out fossil fuel vehicles in China. Although no solid date was given by Mr. Xin, China finalised the New Energy Vehicle (“NEV”) mandate in the same month with the publication of the Dual New Energy Vehicle Credits policy. The goal of this policy was interpreted as to gradually shift the existing direct subsidizing towards a more market-oriented support.

2017 was one of the most challenging years as macro factors impacted the electric vehicle industry. Subsidies were less; criteria to obtain the subsidies were tightened; cash flow was squeezed as the expected time for subsidies to be received took much longer; profits for making batteries and cathode materials shrank; account receivables increased significantly as the Company is still waiting for the subsidies to be received after sales are made. Our impairment on trade receivables increased significantly because of regulatory requirement for electric vehicles to run above 20,000 km before they could qualify for subsidies, whilst we may only be able to recover these subsidies when these vehicles complete their 20,000 km journey one day. All of these factors contributed to the poor performance of FDG and has turned the period under review to become one of the worst years for FDG in our corporate history.

Despite 2017 being one of the most challenging year for the electric vehicle industry, FDG persevered to make considerable progress. For the year of 2017, FDG continues to expand in the logistic vehicle market, made our first step into the province of Guizhou; and, most importantly, marked our first step internationally by exporting the first ever Chinese-made pure electric logistics vehicles to the United States. Most notably, FDG has finalised exclusive partnership with Ryder Systems Inc. (“Ryder”, NYSE: R) through our joint venture Chanje. From this partnership, FDG could leverage on Ryder’s network and enables our vehicles to be sold to other blue-chip logistics customers offering original equipment manufacturer (OEM) level of maintenance services. In the B2C area for electric vehicles, FDG became the fifth company in China to be granted with a passenger vehicle license issued by both the MIIT and the National Development and Reform Commission (NDRC). This marks Changjiang to become one of the only six new electric vehicle companies in China with dual-license status.

With all our achievements, I would like to report Group revenue of HK$1.06 billion for the financial year ended 31 March 2018. This includes the gradual stabilising sales in China as well as the first batch of electric vehicles exported to the United States. Net loss attributable to shareholders was HK$2.23 billion, including HK$1.35 billion of one-off impairment. Management is focused on rigorously managing all costs, without adversely impacting the product’s quality and safety standards.

The management is aware that though we have made strides to achieve top line revenue in the difficult market condition, we should still be alerted with our bottom line position. Therefore, starting from the beginning of 2018, management has taken a conservative approach and included several one-off impairments, as well as began to dispose non-core, loss-making, and cash-consuming asset such as our production base in Yunnan. The management is mindful that such decisions will result in a less-than-promising 2017 year-end net loss number, however we hope such adjustment will provide a clean slate for 2018, a year that we have faith that the FDG will make substantial progress.

With increasingly tightened subsidy policies in the electric vehicle segment and tightened cash policies from the banks, FDG would shift the focal point to concentrate on our primary business in B2B commercial electric vehicles going forward. Focusing on our primary strength in B2B commercial vehicles means that we would no longer need to pursue the vertically-integrated model by building everything from scratch perfectly from head to toe in our supply chain; instead, we would work under a specialisation model and would become a focused commercial electric vehicle manufacturer.

I would also like to take the opportunity to address the recent turbulence FDG's stock price has experienced. First and foremost, I would like to reiterate that my commitment, confidence and dedication to FDG has not and will not change due to the decrease in my shareholding or the drop in share price. The involuntary disposal of my equity holding in FDG was an unfortunate incident due to my personal financial circumstances and I remain convinced that me, together with FDG and our fellow shareholders, will be able to ride through this adversity together.

Looking ahead, FDG will focus on our B2B commercial electric vehicle as our core business. This is just the start of an electrification revolution where FDG's electric vehicles will be replacing, rather than penetrating the market. While we used to be strategically vertically-integrated, the Group may consider focusing on one core business only, excel in that business and then progress onwards. We have identified our commercial electric vehicles business as the core. Other segments, such as battery and cathode materials manufacturing, will be secondary businesses for the Group. We will focus on our core B2B segment in commercial electric vehicles because they are ready now, they are the fruits of our investment and they reduce more carbon emissions, even more than five electric passenger cars combined. Disposing the non-profit generating arm in Yunnan was just the start of converging efforts to the core. Lastly, the management continues to be committed to improve FDG's financial performance and strengthening its balance sheet, and therefore will consider consolidating businesses and disposing non-core assets as deem fits if opportunity arises.

In the past year, I am also pleased to share the numerous awards granted to the Group for enhancing corporate management and investor communication. Some of the examples include the "The Most Valuable Vehicle and Industrial Manufacturing Company" award in the 2017 Golden Hong Kong Equities Awards. FDG and our subsidiary FDG Kinetic Limited ("FKL") won the "Best Digital Investor Relations" Award and the "Certificate of Excellence", recognising our investor relations efforts by the Hong Kong Investor Relations Association respectively. The well-known Chinese financial magazine "New Fortune" granted the "Best Investor Relations Company listed in Hong Kong Award" to FDG and FKL. All of these are solid recognition that FDG is highly regarded by industry experts at the corporate level.

Finally, on behalf of the Board of Directors, I would like to thank all the shareholders, business partners, customers and suppliers for your long-term support and trust. I would like to express my sincere gratitude and appreciation to the employees for their dedication and hard work. We will strive to become a leading electric vehicle manufacturer, create a better world for tomorrow and create better returns for our shareholders.

Cao Zhong
Chairman and Chief Executive Officer

Hong Kong, 28 June 2018

SELECTED AWARDS

Award	Presenter
FDG – Corporate	
The Most Valuable Vehicle and Industrial Manufacturing Company, Golden Hong Kong Equity Awards	Zhitong Finance and Tonghuashun Finance
Best Digital Investor Relations	Hong Kong Investor Relations Association
Best Investor Relations for a Hong Kong Listed Company	New Fortune Magazine
EcoPartner	Bank of China (Hong Kong) and the Federation of Hong Kong Industrial
FKL – Corporate	
The Most Valuable Small-Mid Cap Company, Golden Hong Kong Equities Awards	Zhitong Finance and Tonghuashun Finance
Certificate of Excellence Investor Relations	Hong Kong Investor Relations Association
Best Investor Relations for a Hong Kong Listed Company	New Fortune Magazine
Electric Vehicle Segment	
Best Industrial Investment Award	Hangzhou Yuhang Economic and Technological Development Zone (Hangzhou Qianjiang Economic Development Zone)
Changjiang E-Boss, Premium Commercial New Energy Mid-Size Bus of the Year	Red Dot Automotive
Best Commercial Vehicle	Red Dot Automotive
New Energy Vehicles International Market Breakthrough of the Year Award	Huanqiu Auto
Top Ten New Energy Light-Duty Commercial Vehicles	China Automotive News
E-Glory, "Vehicle of the Year", Mid-size bus category	China Automotive News
2017 Global Top 500 New Energy Technology Innovation Companies	China Energy News and People.cn Co.
Chinese Branding Innovative Pioneer Award	Sohu Automotive, Sohu Finance, and Sohu Technology
New Energy Vehicles Manufacturer of the Year	Hangzhou Daily, Holo.mn
Most Influential New Energy Vehicle Manufacturer of the Year	Baidu Mobile, chinaautonews.com.cn
Cathode Materials Segment	
Advanced Technology Corporate Certificate	Chongqing Science and Technology Committee
2017 Chongqing accredited Corporate Technology Centre	Chongqing Economic and Information Committee

BIOGRAPHIES OF DIRECTORS

Mr. Cao Zhong

Chairman, Executive Director & Chief Executive Officer

Mr. Cao, aged 58, 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 74.56% equity interest), companies whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Cao was appointed to the board of directors of the Company (the "Board") on 11 March 2014.

Dr. Chen Yanping

Executive Director & Chief Technical Officer

Dr. Chen, aged 55, 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 59, is an executive director 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), 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 & Senior Vice President

Mr. Che, aged 37, is an executive director of the Company and a member of the Executive Committee, Remuneration Committee, Nomination 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 Senior 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 42, 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 more than 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 and associate companies 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 Investment 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 56, 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) 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 an independent non-executive director of each of 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 70, 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 30 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 58, 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 68, is an independent non-executive director of the Company. 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 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, an independent director of each 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 and China Gezhouba Group Company Limited (a company listed on the Shanghai Stock Exchange, Stock Code: 600068) from January 2015 to June 2018. Mr. Xu was appointed to the Board on 15 February 2017.

* *For identification purpose only*

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 2018.

PRINCIPAL ACTIVITIES

The Group is principally engaged in (i) vehicle design and the design, manufacture and sale of electric vehicles; (ii) research and development, production and sale of lithium-ion batteries and related products; (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 2018 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 2018 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 30 to 48 of this annual report, the discussion thereof forms 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 2018 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 2018 are set out in the consolidated statement of profit or loss on page 68 of this annual report.

The directors of the Company do not recommend the payment of any dividend for the year ended 31 March 2018.

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 17.9% and 36.8% 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 24.6% and 56.3% 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 40 to the consolidated financial statements.

ISSUANCE OF NEW SHARES

Details of the issuance of new shares of the Company during the year are set out in "Capital Structure" under "Management Discussion and Analysis" section on pages 46 to 47 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 72 of this annual report and Note 41 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)*
Dr. Chen Yanping *(Chief Technical Officer)*
Mr. Lo Wing Yat
Mr. Jaime Che *(Senior Vice President)*
Mr. Miao Zhenguo *(resigned on 12 June 2018)*

Non-executive Directors:
Mr. Wong Kwok Yiu
Mr. Tong Zhiyuan *(re-designated from executive director to non-executive director on 3 May 2018 and resigned on 4 June 2018)*

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

In accordance with Bye-law 84 of the Company's Bye-laws, Mr. Lo Wing Yat, Mr. Chan Yuk Tong and Mr. Fei Tai Hung 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 2018, 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:

Long positions in the shares and underlying shares of the Company

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	230,000,000	236,800,000	1.05%
	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	523,000,000	5,627,572,167 *(Notes 1 and 5)*	25.11%
Mr. Miao Zhenguo *(resigned on 12 June 2018)*	Beneficial owner	–	195,000,000	195,000,000	0.87%
	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	558,000,000	6,349,881,122 *(Notes 2 and 5)*	28.33%
Mr. Tong Zhiyuan *(resigned on 4 June 2018)*	Beneficial owner	–	200,000,000	200,000,000	0.89%
Dr. Chen Yanping	Beneficial owner	–	162,000,000	162,000,000	0.72%
	Interest of controlled corporation	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	591,000,000	7,695,307,165 *(Notes 3 and 5)*	34.33%

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. Lo Wing Yat	Beneficial owner	21,179,000	58,200,000	79,379,000	0.35%
Mr. Jaime Che	Beneficial owner	1,000,000	166,000,000	167,000,000	0.74%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	7,761,432,165	587,000,000	8,348,432,165 *(Notes 4 and 5)*	37.25%
Mr. Chan Yuk Tong	Beneficial owner	–	34,900,000	34,900,000	0.16%
Mr. Fei Tai Hung	Beneficial owner	–	34,900,000	34,900,000	0.16%
Mr. Tse Kam Fow	Beneficial owner	–	34,900,000	34,900,000	0.16%
Mr. Xu Jingbin	Beneficial owner	–	22,000,000	22,000,000	0.10%

Notes:

1. Mr. Cao Zhong is interested or deemed to be interested in a total of 8,515,432,165 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 230,000,000 share options*(Note 6)* held by Mr. Cao; and (iv) 5,104,572,167 shares and 523,000,000 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 8,515,432,165 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) 195,000,000 share options*(Note 6)* held by Mr. Miao; and (iv) 5,791,881,122 shares and 558,000,000 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 8,515,432,165 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) 162,000,000 share options*(Note 6)* held by Dr. Chen; and (iii) 7,104,307,165 shares and 591,000,000 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 8,515,432,165 shares and underlying shares of the Company including: (i) 1,000,000 shares and 166,000,000 share options*(Note 6)* held by Mr. Che; and (ii) 7,761,432,165 shares and 587,000,000 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 of the Company 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 42 to the consolidated financial statements.

7. These percentages are calculated on the basis of 22,413,077,108 shares of the Company as at 31 March 2018.

Long positions in the shares and underlying shares of the associated corporations of the Company

Name of directors	Name of associated corporations	Capacity	Number of ordinary shares of the associated corporation	Number of underlying shares (unlisted and physically settled equity derivatives) of the associated corporation	Approximate percentage of issued ordinary share capital of the associated corporation
Mr. Cao Zhong	杭州長江汽車有限公司 (Hangzhou Changjiang Automobile Co., Ltd.*)	Interest of controlled corporation	Registered capital of RMB498,300,000 *(Note 1)*	–	49.83%
	杭州長江乘用車有限公司 (Hangzhou Changjiang Passenger Vehicles Co., Ltd.*)	Interest of controlled corporation	Registered capital of RMB88,110,000 *(Note 1)*	–	33.00%
Dr. Chen Yanping	簡式國際汽車設計（北京）有限公司 (Jasmin International Auto R&D (Beijing) Co., Ltd.*)	Beneficial owner	Registered capital of RMB7,200,000	–	9.00%
Mr. Jaime Che	Advanced Lithium Electrochemistry (Cayman) Co., Ltd. ("ALEEES")	Beneficial owner	–	2,000,000 *(Note 2)*	0.95%

Notes:

1. Mr. Cao Zhong is deemed to be interested in the registered capital of the associated corporations of the Company through 北京紫荊聚龍科技投資有限公司 (Beijing Bauhinia Julong Technology and Investment Co. Ltd.*) which is 49.83% held by a group of affiliated limited liability partnerships in which Mr. Cao has an aggregate effective interest of 69.98%.

2. Mr. Jaime Che is interested in 2,000,000 underlying shares of ALEEES (a company listed on the Taipei Exchange, Stock Code: 5227), representing interests in the options granted to him on 2 March 2018 to subscribe for 2,000,000 shares of ALEEES at an exercise price of TWD30.00 per share (subject to adjustments) during the period from 2 March 2020 to 1 March 2028.

   The options stated above are subject to a vesting period up to three years with half of the options becoming exercisable 24 months after the date of grant and the remainder becoming exercisable 36 months after the date of grant.

* *For identification purpose only*

Save as disclosed above, as at 31 March 2018, none of the directors or chief executive 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 SCHEMES

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 42 to the consolidated financial statements.

Pursuant to the ordinary resolution passed at each of the annual general meetings of FDG Kinetic Limited ("FKL") and the Company both held on 29 August 2017, FKL has adopted the new share option scheme (the "2017 FKL Scheme") and the share option scheme of FKL adopted on 12 October 2007 (the "2007 FKL Scheme") was terminated on the same date. No further options can be granted under the 2007 FKL Scheme.

As at the date of approval of the consolidated financial statements of FKL and the Company, there were no outstanding share options of FKL under the 2007 FKL Scheme and 2017 FKL Scheme. During the year ended 31 March 2018, no share options of FKL were held by any of the directors, eligible employees and other participants of FKL under the 2007 FKL Scheme and 2017 FKL Scheme and no share options of FKL were granted, exercised, cancelled or lapsed under the 2007 FKL Scheme and 2017 FKL Scheme.

A summary of the principal terms of the 2017 FKL Scheme is set out below:

Purpose

The purpose of the 2017 FKL Scheme is to enable FKL to grant options to the FKL Eligible Participants (as defined below) to subscribe for the shares of FKL (the "FKL Shares") (i) in recognition of their contribution to FKL and its subsidiaries (collectively, the "FKL Group"); (ii) to attract and retain or otherwise maintain an on-going relationship with them for the benefit of the FKL Group; and (iii) to align their interests with the shareholders of FKL, thereby encouraging them to work towards enhancing the value of FKL Shares.

Participants

The board of directors of FKL (the "FKL Board") may, at its absolute discretion, invite any persons belonging to any of the following classes of participants (the "FKL Eligible Participants") to take up options to subscribe for FKL Shares:

(a) any employee (whether full time or part time) of, or any individual for the time being seconded to work for, any member of the FKL Group or any entity in which any member of the FKL Group holds any equity interest (the "FKL Invested Entity") (the persons are collectively referred to as "FKL Eligible Employees");

(b) any directors (including executive, non-executive and independent non-executive directors) of FKL, or any directors of any member of the FKL Group or any FKL Invested Entity;

(c) any supplier of goods or services to any member of the FKL Group or any FKL Invested Entity;

(d) any customer, agent or distributor of any member of the FKL Group or any FKL Invested Entity;

(e) any person or entity that provides research, development or other technological support to any member of the FKL Group or any FKL Invested Entity;

(f) any shareholder of any member of the FKL Group or any FKL Invested Entity or any holder of any securities issued by any member of the FKL Group or any FKL Invested Entity who has contributed or may contribute to the FKL Group or the applicable FKL Invested Entity;

(g) any adviser (professional or otherwise) or consultant to any member of the FKL Group or any FKL Invested Entity;

(h) any joint venture or business partner of any member of the FKL Group, or any FKL Invested Entity, who has contributed or may contribute to the FKL Group or the applicable FKL Invested Entity;

(i) any nominee and/or trustee of any trusts established by FKL for employees of the FKL Group and other persons as designated by FKL; and

(j) any other person as determined by the FKL Board who the FKL Board considers, in its absolute discretion, has contributed or will contribute, by way of joint venture, business alliance, other business arrangement or otherwise, to the development and growth of any member of the FKL Group or any FKL Invested Entity,

and, for the purpose of the 2017 FKL Scheme, an offer for the grant of an option of FKL may be made to any company wholly owned by one or more FKL Eligible Participants.

Total number of FKL Shares available for issue

The maximum number of FKL Shares which may be issued upon the exercise of all outstanding options granted and not yet exercised under the 2017 FKL Scheme and any other share option schemes of FKL must not in aggregate exceed 30% of the FKL Shares in issue from time to time.

The total number of FKL 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 2017 FKL Scheme and any other share option schemes of FKL) to be granted under the 2017 FKL Scheme and any other share option schemes of FKL must not in aggregate exceed 10% of the FKL Shares in issue as at the date of adoption of the 2017 FKL Scheme.

Maximum entitlement of each FKL participant

An offer for the grant of an option of FKL to any director, chief executive or substantial shareholder of FKL, or any of their respective associates must be approved by the independent non-executive directors of FKL and the Company (the listed holding company of FKL) (excluding any independent non-executive director of FKL and the Company who or whose associate is the proposed grantee of an option of FKL). Where any grant of options of FKL to a substantial shareholder or an independent non-executive director of FKL, or any of their respective associates, would result in the FKL Shares issued and to be issued upon the exercise of all options already granted and to be granted under the 2017 FKL Scheme and any other share option schemes of FKL (including options exercised, cancelled and outstanding) 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 FKL Shares in issue; and

(b) having an aggregate value, based on the closing price of the FKL Shares at the offer date of each offer for the grant of an option of FKL, in excess of HK$5 million,

such further grant of options of FKL must be approved by the shareholders in general meetings of FKL and the Company.

Subject to the aforesaid, the total number of FKL Shares issued and which may fall to be issued upon the exercise of any options of FKL granted under the 2017 FKL Scheme and any other share option schemes of FKL (including both exercised or outstanding options) to each grantee in any 12-month period must not in aggregate exceed 1% of the FKL Shares in issue for the time being. Any further grant of options of FKL to a grantee in excess of such limit must be separately approved by shareholders in general meetings of FKL and the Company with such grantee and his close associates (or his associates if the grantee is a connected person) abstaining from voting.

Option period

The period within which the FKL Shares must be taken up under an option of FKL shall be determined and notified by the FKL 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 of FKL subject to the provisions for early termination thereof.

Minimum period for which an option of FKL must be held before it can be exercised

Unless otherwise determined by the FKL Board and stated in the offer for the grant of an option of FKL to a grantee, a grantee of FKL is not required to hold an option of FKL for any minimum period before the exercise of an option of FKL granted to him.

Amount payable upon acceptance of option of FKL

A nominal consideration of HK$1.00 is payable on acceptance of the offer of an option of FKL, which shall not be later than 21 days from the offer date.

Subscription price for FKL Shares

The subscription price for FKL Shares under the 2017 FKL Scheme will be a price determined by the FKL Board, but shall not be less than the highest of (i) the closing price of FKL 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 FKL 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 FKL Share.

Remaining life of the 2017 FKL Scheme

The 2017 FKL Scheme commenced on 29 August 2017 and shall continue in force until the tenth anniversary of such date.

EMPLOYEES' SHARE AWARD SCHEMES

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 and details of the employees' share award scheme of FKL are disclosed in the announcement of FKL dated 10 February 2017.

No shares were awarded under the employees' share award scheme of the Company or FKL during the year ended 31 March 2018.

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 Schemes" above, 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 EMPLOYEES

Details of the emoluments of the directors 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 2018, 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 corporation	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	753,000,000	7,040,536,041	31.41%
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	753,000,000	7,040,536,041	31.41%
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	753,000,000	7,040,536,041	31.41%
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	753,000,000	7,515,432,165	33.53%

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)*
Smooth Way Holdings Inc. *(Notes 1 and 3)*	Interest of controlled corporation	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	753,000,000	7,515,432,165	33.53%
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	753,000,000	7,515,432,165	33.53%
CITIC Limited *(Notes 1 and 4)*	Interest of controlled corporations	2,474,896,124	–	2,474,896,124	11.04%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	5,287,536,041	753,000,000	6,040,536,041	26.95%
CITIC Group Corporation *(Notes 1 and 4)*	Interest of controlled corporations	2,474,896,124	–	2,474,896,124	11.04%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	5,287,536,041	753,000,000	6,040,536,041	26.95%
Long Hing International Limited *(Note 5)*	Beneficial owner	2,311,059,998	–	2,311,059,998	10.31%
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 such, each party to the Undertaking was deemed to have interests in the shares and/or underlying shares of the Company held by the other parties to the Undertaking under Section 317(1)(a) of the SFO. As at 31 March 2018, the parties to the Undertaking are deemed to be interested in a total of 8,515,432,165 shares and underlying shares of the Company.

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) 7,040,536,041 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 46%. 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) 7,515,432,165 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) 6,040,536,041 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, a then executive director of the Company who resigned on 12 June 2018. 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 22,413,077,108 shares of the Company as at 31 March 2018.

Save as disclosed above, as at 31 March 2018, 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 2018, 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 2018, 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 sections headed "Connected Transactions" and "Continuing Connected Transactions" below, there were no transactions, arrangements or 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

During the year ended 31 March 2018 and up to the date of this report, the Group conducted the following transactions which constituted connected transactions of the Company under Chapter 14A of the Listing Rules.

(1) On 1 September 2017, a premises lease agreement (the "Premises Lease Agreement") in relation to the lease of the premises with an area of 184,636.37 m^2 comprising a 3-storey office building and other structures at the southwestern side of the main line at Kunming High Tech Industrial Development Zone, Kunming, Yunnan Province, the PRC for a term of one year from 1 April 2017 to 31 March 2018 with rental amount at RMB40,000,000 was entered into between 雲南五龍汽車有限公司 (Yunnan FDG Automobile Co., Limited*, "Yunnan FDG", a then 50% subsidiary of the Company) as the lessee and 雲南美的汽車產業控股有限公司 (Yunnan Meidi Vehicle Assets Holding Limited*, "Yunnan Meidi", a company which holds the other 50% interest in Yunnan FDG and is more than 30% owned by a director of a subsidiary of the Company) as the lessor. Pursuant to the Premises Lease Agreement, Yunnan FDG should pay the entire rental amount of RMB40,000,000 at the end of the term of the lease.

As at the date of the Premises Lease Agreement, as Yunnan Meidi was a substantial shareholder of Yunnan FDG and also an associate of a director of a subsidiary of the Company, Yunnan Meidi was a connected person of the Company at the subsidiary level under the Listing Rules.

(2) On 8 September 2017, (i) an agreement in relation to the sale and purchase of electric vehicles (the "EV Agreement"); and (ii) an agreement in relation to the sale and purchase of spare parts (the "Spare Parts Agreement") were entered into between 杭州長江汽車有限公司 (Hangzhou Changjiang Automobile Co., Ltd.*, "Hangzhou Changjiang") and Chanje Energy, Inc. ("Chanje", a company deemed to be a non-wholly owned subsidiary of the Company under the Listing Rules but was accounted for as a joint venture of the Group as the Group did not control its board of directors in accordance with the joint venture agreements).

Pursuant to the EV Agreement, Chanje would purchase from Hangzhou Changjiang 90 units of electric vehicles at a total consideration of US$9,000,000, comprising a deposit of US$875,000, a balance of US$3,500,000 payable within 30 days after the date of the EV Agreement and a balance of US$4,625,000 payable within 45 working days after the delivery of the electric vehicles. Pursuant to the Spare Parts Agreement, Chanje would purchase 1,757 units of relevant spare parts for the electric vehicles from Hangzhou Changjiang at a total consideration of US$365,403 payable within 90 days after final shipment of the spare parts.

Hangzhou Changjiang is owned as to 50.17% by the Company and as to 49.83% by 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 is owned as to 49.834% by a group of affiliated limited liability partnerships in which Mr. Cao Zhong, Mr. Miao Zhenguo and Dr. Chen Yanping have an aggregate effective interest of 69.98%, 20.02% and 10% respectively. As the Joint Venture Partner is an associate of Mr. Cao Zhong, Hangzhou Changjiang is a connected subsidiary of the Company under the Listing Rules and hence a connected person of the Company.

(3) On 30 September 2017, an agreement (as supplemented by a supplemental agreement on 2 October 2017, the "JV Agreement") was entered into between FKL, 貴安新區開發投資有限公司 (Guian New District Development and Investment Co., Ltd.*, "Guian New District Development") and ALEEES, pursuant to which the parties agreed to form a jointly-owned company (the "JV Company") which would be owned as to 51% by FKL, 40% by Guian New District Development and 9% by ALEEES for the manufacturing and sale of cathode materials for lithium-ion batteries in the PRC. The registered capital of the JV Company was RMB250,000,000 and the amount of total capital commitment of FKL towards the JV Company was RMB127,500,000.

On 30 September 2017, in view of the investment cooperation among FKL, Guian New District Development and ALEEES, an agreement (the "Ancillary JV Agreement") was entered into between 貴安新區管理委員會 (Guian New Area Management Committee*, "Guian Committee"), FKL and ALEEES, pursuant to which Guian Committee agreed to subsidize the JV Company an amount estimated to be not less than RMB120,000,000, including but not limited to (i) an amount equivalent to the bid price of a piece of industrial land which will be obtained by the JV Company; (ii) tax subsidies; (iii) industrial development fund subject to commencement of production; and (iv) other subsidies pursuant to the terms of the Ancillary JV Agreement.

貴州貴安產業投資有限公司 (Guizhou Guian Asset Investment Co., Ltd.*, "Guizhou Guian Asset Investment") is a substantial shareholder of 貴州長江汽車有限公司 (Guizhou Changjiang Automobile Co., Ltd.*, the "Guizhou Subsidiary", a non-wholly owned subsidiary of the Company). Guizhou Guian Asset Investment is a wholly-owned subsidiary of Guian New District Development, which is in turn owned as to 92.5% by Guian Committee. Accordingly, each of Guian Committee, Guian New District Development and Guizhou Guian Asset Investment is a connected person of the Company at the subsidiary level under the Listing Rules.

(4) On 3 May 2018, the shareholder controlling 50% of the issued share capital of Yunnan FDG (the "Yunnan FDG Shareholder", who was also a director of Yunnan FDG) provided a counter indemnity to Preferred Market Limited (a wholly-owned subsidiary of the Company) in relation to a sale and purchase agreement for the disposal of the entire issued share capital of Giant Industry Holdings Limited, which indirectly held 50% interest in Yunnan FDG, for a consideration of RMB80,000,000. Under such agreement, (i) the accounts payable of Yunnan FDG, less its accounts receivable, were guaranteed to be no more than RMB140,000,000 as at 3 May 2018, being the date of completion of the sale and purchase agreement, and the excess would be deducted from the remaining balance of RMB30,000,000 of the consideration payable; and (ii) if certain accounts receivable could not be recovered by Yunnan FDG within one year, Preferred Market Limited should pay Yunnan FDG the unrecovered amount and be entitled to sue the relevant debtor. The counter indemnity was provided by Yunnan FDG Shareholder to Preferred Market Limited in respect of the amounts so paid.

As at the time of providing the counter indemnity, Yunnan FDG Shareholder was a connected person of the Company at the subsidiary level under the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 March 2018 and up to the date of this report, the Group conducted the following transactions which constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

(1) On 17 June 2015, a 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 Hangzhou Changjiang on the supply of lithium-ion battery packs by Sinopoly Battery and its subsidiaries to Hangzhou Changjiang. Such agreement was terminated on 14 June 2017 and was superseded by the agreement as described in item (6) below.

(2) During the period from 19 May 2015 to 24 October 2016, facility agreements were entered into between Five Dragons Electric Vehicle Limited (a wholly-owned subsidiary of the Company), as lender, and Hangzhou Changjiang, as borrower, in the aggregate principal amount of HK$295,810,000. Such agreements were terminated on 14 June 2017 and were superseded by the agreements as described in item (17) below.

(3) On 26 April 2016, a 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 Hangzhou Changjiang pursuant to which the Lease Finance Company agreed to purchase from Hangzhou Changjiang at the consideration of RMB200,000,000 certain equipment, production lines and facilities and leased them back to Hangzhou Changjiang at an effective annualised average interest rate of approximately 8% during the period from 8 June 2016 to 5 May 2019. Such agreement is not expected to be renewed when it expires.

(4) On 12 December 2014, a facility agreement was entered into between Five Dragons Electric Vehicle Limited, as lender, and Hangzhou Changjiang, as borrower, in the principal amount of HK$696,000,000. Such agreement 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 RMB2,580,000,000 in favour of several banks in respect of banking facilities to Hangzhou Changjiang. Such 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.

(6) On 17 March 2017, a supply agreement was entered into between Sinopoly Battery and its subsidiaries and Hangzhou Changjiang in relation to the supply of lithium-ion battery packs by Sinopoly Battery and its subsidiaries to Hangzhou Changjiang for a term of three years commencing from 1 April 2017 and ending on 31 March 2020. The maximum transaction amounts of such 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. The transaction amount of such agreement for the year ended 31 March 2018 was RMB20,575,000.

(7) On 17 March 2017, a supply agreement was entered into between Sinopoly Battery and its subsidiaries and 杭州長江乘用車有限公司 (Hangzhou Changjiang Passenger Vehicles Co., Ltd.*, "Hangzhou Changjiang Passenger EV") in relation to the supply of lithium-ion battery packs by Sinopoly Battery and its subsidiaries to Hangzhou Changjiang Passenger EV for a term of three years commencing from 1 April 2017 and ending on 31 March 2020. The maximum transaction amounts of such 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. The transaction amount of such agreement for the year ended 31 March 2018 was nil.

Hangzhou Changjiang Passenger EV is owned as to 67% by the Company and as to 33% by the Joint Venture Partner. Therefore, Hangzhou Changjiang Passenger EV is a connected subsidiary of the Company under the Listing Rules and hence a connected person of the Company.

(8) On 17 March 2017, a supply agreement was entered into between the Guizhou Subsidiary and Hangzhou Changjiang in relation to the supply of auto parts and components (including mid-size bus components) by Hangzhou Changjiang 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 such 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. The transaction amount of such agreement for the year ended 31 March 2018 was RMB5,510,000.

(9) On 17 March 2017, a supply agreement was entered into between Yunnan FDG and Hangzhou Changjiang in relation to the supply of auto parts and components (including motor bridges and semi knock-down ("SKD") components) by Hangzhou Changjiang to Yunnan FDG for a term of three years commencing from 1 April 2017 and ending on 31 March 2020. The maximum transaction amounts of such agreement for the three years ending 31 March 2018, 2019 and 2020 are RMB299,792,000, RMB599,583,000 and RMB899,375,000 respectively. On 3 May 2018, the Company disposed of its entire interest in Yunnan FDG and the above mentioned agreement ceased to be a continuing connected transaction of the Company. The transaction amount of such agreement for the year ended 31 March 2018 was nil.

(10) On 17 March 2017, a procurement agreement was entered into between Yunnan FDG and Hangzhou Changjiang in relation to the supply of auto parts and components (including SKD components) for electric buses by Yunnan FDG to Hangzhou Changjiang for a term of three years commencing from 1 April 2017 and ending on 31 March 2020. The maximum transaction amounts of such 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. On 3 May 2018, the Company disposed of its entire interest in Yunnan FDG and the above mentioned agreement ceased to be a continuing connected transaction of the Company. The transaction amount of such agreement for the year ended 31 March 2018 was RMB225,130,000.

(11) On 17 March 2017, a finance lease framework agreement was entered into between the Lease Finance Company and Hangzhou Changjiang in relation to the provision of finance lease services by the Lease Finance Company to Hangzhou Changjiang by purchasing the assets at a price of not less than 75% and not more than 100% of the value of the assets from Hangzhou Changjiang and then leasing back such leased assets to Hangzhou Changjiang, which shall, in return, pay rent to the Lease Finance Company accordingly. The term of such agreement is three years commencing from 1 April 2017 and ending on 31 March 2020. The maximum transaction amounts of such agreement for the three years ending 31 March 2018, 2019 and 2020 are RMB972,000,000, RMB972,000,000 and RMB972,000,000 respectively. The transaction amount of such agreement for the year ended 31 March 2018 was RMB384,891,000.

(12) On 17 March 2017, a cooperation framework agreement was entered into between the Lease Finance Company and Hangzhou Changjiang 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 Hangzhou Changjiang which has undertaken that if the lessee defaults in the payment of rent under relevant finance lease agreements to the Lease Finance Company, Hangzhou Changjiang would be held responsible for such payments. The term of such agreement is three years commencing from 1 April 2017 and ending on 31 March 2020. The maximum transaction amounts of such 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. The transaction amount of such agreement for the year ended 31 March 2018 was nil.

(13) On 17 March 2017, a finance lease framework agreement was entered into between Lease Finance Company and Hangzhou Changjiang Passenger EV in relation to the provision of finance lease services by the Lease Finance Company to Hangzhou Changjiang Passenger EV by purchasing the assets at a price of not less than 75% and not more than 100% of the value of the assets from Hangzhou Changjiang Passenger EV and then leasing back such leased assets to Hangzhou Changjiang Passenger EV, which shall, in return, pay rent to the Lease Finance Company accordingly. The term of such agreement is three years commencing from 1 April 2017 and ending on 31 March 2020. The maximum transaction amounts of such agreement for the three years ending 31 March 2018, 2019 and 2020 are RMB432,000,000, RMB432,000,000 and RMB432,000,000 respectively. The transaction amount of such agreement for the year ended 31 March 2018 was RMB50,581,000.

(14) On 17 March 2017, a services agreement was entered into between 簡式國際汽車設計(北京)有限公司 (Jasmin International Auto R&D (Beijing) Co., Ltd.*, "Jasmin", a 80% subsidiary of the Company), Hangzhou Changjiang and Hangzhou Changjiang Passenger EV in relation to the provision of R&D services by Jasmin to Hangzhou Changjiang and Hangzhou Changjiang Passenger EV for a term of three years commencing from 1 April 2017 and ending on 31 March 2020. The maximum transaction amounts of such agreement for the three years ending 31 March 2018, 2019 and 2020 are RMB50,000,000, RMB50,000,000 and RMB50,000,000 respectively. The transaction amounts for the provision of R&D services by Jasmin to Hangzhou Changjiang and to Hangzhou Changjiang Passenger EV for the year ended 31 March 2018 were RMB25,000,000 and RMB25,000,000 respectively.

(15) On 17 March 2017, a services sharing agreement was entered into between Hangzhou Changjiang Passenger EV and Hangzhou Changjiang in relation to (i) the provision of administrative services, premises and factory space, and certain parts processing services by Hangzhou Changjiang to Hangzhou Changjiang Passenger EV; and (ii) the provision of parts processing services by Hangzhou Changjiang Passenger EV to Hangzhou Changjiang for a term of three years commencing from 1 April 2017 and ending on 31 March 2020. The maximum transaction amounts of such agreement for the three years ending 31 March 2018, 2019 and 2020 in respect of (i) the amount paid by Hangzhou Changjiang Passenger EV to Hangzhou Changjiang are RMB102,440,000, RMB423,160,000 and RMB823,880,000 respectively; and (ii) the amount paid by Hangzhou Changjiang to Hangzhou Changjiang Passenger EV are RMB400,000,000, RMB800,000,000 and RMB800,000,000 respectively. The transaction amounts for the year ended 31 March 2018 were RMB25,096,000 in relation to the provision of administrative services, premises and factory space, and certain parts processing services by Hangzhou Changjiang to Hangzhou Changjiang Passenger EV and nil in relation to the provision of parts processing services by Hangzhou Changjiang Passenger EV to Hangzhou Changjiang.

(16) On 17 March 2017, a 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 Holdings Company", a wholly-owned subsidiary of the Company), Hangzhou Changjiang, Hangzhou Changjiang Passenger EV, Yunnan FDG and the Guizhou Subsidiary in relation to the provision of management services by the Hangzhou Holdings 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 such agreement for the three years ending 31 March 2018, 2019 and 2020 for (i) Hangzhou Changjiang are RMB27,000,000, RMB20,000,000 and RMB10,000,000 respectively; and (ii) Hangzhou Changjiang Passenger EV are RMB4,700,000, RMB8,400,000 and RMB8,200,000 respectively. The transaction amounts for the provision of management services by Hangzhou Holdings Company to Hangzhou Changjiang and to Hangzhou Changjiang Passenger EV for the year ended 31 March 2018 were RMB20,070,000 and nil respectively.

(17) On 17 March 2017, facility agreements were entered into between Hangzhou Changjiang, 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 such agreements will not exceed HK$429,000,000. The maximum outstanding loan amounts of such agreements for the year ended 31 March 2018 were HK$295,810,000 (principal payable) and HK$35,254,000 (interest payable).

(18) On 17 September 2017, a framework agreement was entered into between Chanje and Hangzhou Changjiang in relation to the purchase of electric vehicles, SKD, and parts and components by Chanje from Hangzhou Changjiang for a term commencing from 17 September 2017 and ending on 31 March 2020. The maximum transaction amounts of such agreement for the three years ending 31 March 2018, 2019 and 2020 are US$219,936,750, US$1,047,750,000 and US$1,553,750,000 respectively. The transaction amount of such agreement for the year ended 31 March 2018 was US$2,984,000.

(19) On 27 November 2017, Jasmin and 浙江浙銀金融租賃股份有限公司 (the "Lessor") entered into a guarantee agreement (the "Guarantee Agreement") to provide a guarantee in relation to the sale and leaseback arrangements of certain production lines and molds used in the manufacture of electric vehicles of Hangzhou Changjiang. Under the sale and leaseback arrangements, Hangzhou Changjiang agreed to (i) sell certain production lines for the manufacture of electric vehicles to the Lessor for RMB65,000,000 and then leased such production lines back for 14 months at an annual lease rate of 5.3675%, with an initial rental of RMB1,430,000 and a refundable security deposit of RMB3,250,000; and (ii) sell certain molds for the manufacture of electric vehicles to the Lessor for RMB35,000,000 and then leased such molds back for 4 months at an annual lease rate of 5.4375%, with an initial rental of RMB297,500 and a refundable security deposit of RMB700,000. Pursuant to the Guarantee Agreement, Jasmin provided a guarantee on the amount owed to the Lessor in the event that Hangzhou Changjiang should fail to perform its payment obligations under the above sale and lease back arrangements after exhausting the security deposit, and such guarantee was secured by certain land use rights and a factory held by Jasmin in Beijing, the PRC.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive directors have reviewed the continuing connected transactions (the "CCTs") disclosed above. Default in payment (the "Default in Payment") were noted in the following transactions for the year ended 31 March 2018: (a) the provision of R&D services by Jasmin to Hangzhou Changjiang Passenger EV as mentioned in item (14) above, of which the outstanding balance of RMB25 million was not yet settled; and (b) the provision of administrative services, premises and factory space, and certain parts processing services by Hangzhou Changjiang to Hangzhou Changjiang Passenger EV as mentioned in item (15) above (the "Administrative Transaction"), of which the outstanding balance of RMB25,096,000 was not yet settled. Except for the above-mentioned Default in Payment, for the year ended 31 March 2018, the independent non-executive directors confirmed that all the CCTs were entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or better; 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 continuing connected transactions disclosed above for the year ended 31 March 2018. Except for the Default in Payment noted, the auditor of the Company confirmed that nothing has come to their attention that causes them to believe that the continuous connected transactions disclosed above for the year ended 31 March 2018 (i) have not been approved by the Board; (ii) for transactions involving the provision of goods or services by the Group, were not, in all material respects, in accordance with the pricing policies of the Group; (iii) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and (iv) have exceeded the cap.

The Default in Payment noted above were due to the fact that Hangzhou Changjiang Passenger EV had not yet commenced mass production during the year ended 31 March 2018 and had not yet generated sufficient operating and financing inflows by itself to settle all its outstanding debts. Accordingly, Hangzhou Changjiang Passenger EV had prioritised and applied its available resources to settle external debts. In both transactions, Jasmin and Hangzhou Changjiang are demanding the outstanding payments as usual according to their company policies. As the Administrative Transaction was carried out between two connected subsidiaries and given the fact that the controlling interests of each of Jasmin, Hangzhou Changjiang and Hangzhou Changjiang Passenger EV are owned by the Group, it is considered that such overdue balances did not have any material impact on the interest of the Company.

Details of the related party transactions undertaken by the Group in the normal course of business during the year ended 31 March 2018 are set out in Note 45 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 31 and 35 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 42 to the consolidated financial statements and details of the share option scheme of FKL are set out on pages 16 to 18 of this report.

Each of the Company and FKL has adopted an employees' share award scheme. Details of the share award scheme of each of the Company and FKL are set out on page 18 of this report.

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 LISTED SECURITIES OF THE COMPANY

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

DONATIONS

During the year ended 31 March 2018, the Group made donations amounting to approximately HK$905,000.

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

Events occurred after the reporting period are detailed in Note 46 to the consolidated financial statements.

AUDITOR

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

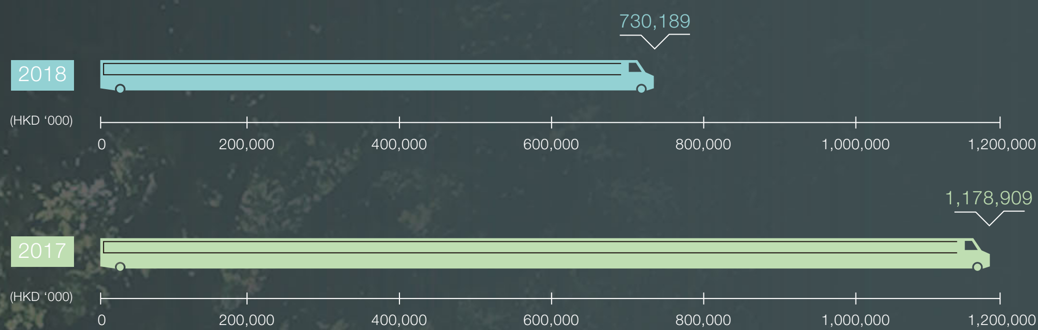
On behalf of the Board

Cao Zhong
Chairman and Chief Executive Officer

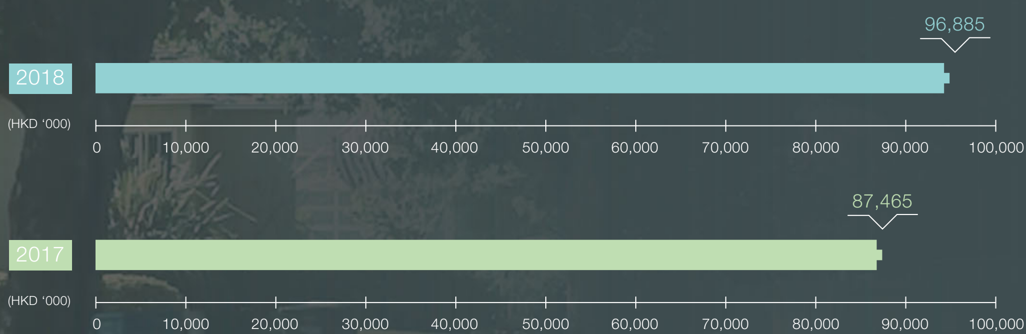
Hong Kong, 28 June 2018

Revenue by segment

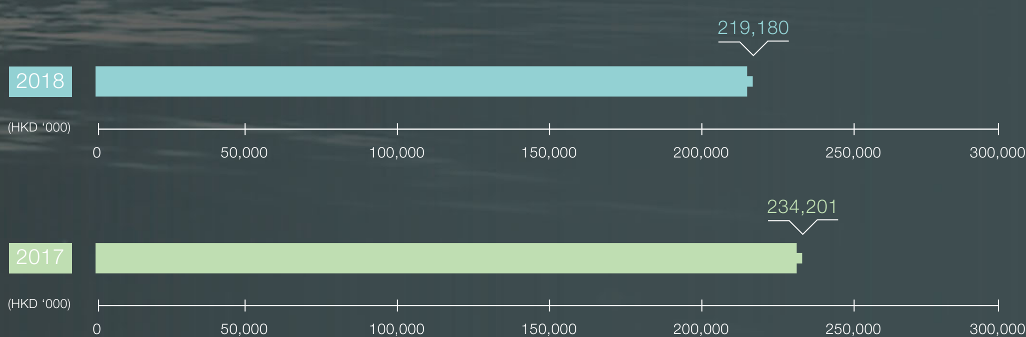
Sales of Electric Vehicles



Sales of Lithium-ion Batteries and its Related Products



Sales of Cathode Materials for NCM Lithium-ion Batteries



FDG Electric Vehicles Limited (the "Company" or "FDG") and its subsidiaries (collectively, the "Group") is a pure electric vehicle manufacturer. FDG aims to become a globally recognised producer of more economical, greener and more energy-efficient pure electric vehicles. The Group's core businesses include ground-up research, design and development, and manufacturing and sales of pure electric vehicles; manufacturing and sales of lithium-ion batteries and cathode materials for lithium-ion batteries. FDG Kinetic Limited ("FKL", stock code: 378) is an indirect non-wholly-owned subsidiary of the Company. FDG's mission is to replace and electrify the world's internal combustion engine (ICE) vehicles in the fastest adoption segment.

MARKET OVERVIEW

China's gross domestic product growth rate hiked to 6.9% year-on-year in 2017, beating global growth at 3.1%, the first acceleration for China's economy since 2010. Oil prices, an indicator which reflects how the economy had been doing, soared over 34% in 2017. Increasing oil consumption means increased emissions. As such, the determination by policymakers to curb global emissions as the global economy flourishes have never been stronger. The by-products of oil consumption, emissions such as carbon dioxide (CO_2), nitrogen oxide (NOx) and particulates (PM2.5), are largely contributed by ICE vehicles on the roads. Inevitably, governments would have to decipher a replacement for the population's mobility needs which could eradicate emissions at the spot of mobility use. Hence, the electric vehicle trend has been escalated by both demand and supply side factors whilst policymakers aim to balance both economic growth as well as sustainability concerns. China has been at the forefront of new energy vehicles globally; of which pure electric vehicles accounted for approximately 84% in all new energy vehicles sold in 2017, more than any country in the world.

Nevertheless, 2017 was also a challenging year of transformation for the Chinese electric vehicle industry. Market conditions remain challenging as more stringent policies were introduced to the electric vehicle sector so as to push the entire industry to the highest standards ever achieved, which should benefit consumers and the industry in the long run. We acknowledged that in the short run, players in the industry would still need to leap over hurdles as the macro environment turns positive.

The Universal Aspiration for Fresh Air has Driven Demand for Electric Vehicles

The world is on a quest for cleaner air. Countries such as Germany, Britain, France and the Netherlands have committed to cut emissions and have been exploring a more sustainable way of mobility for its people since consensus achieved in the Paris Agreement in December 2015. Even oil-rich nations such as Norway has pledged to use 100% battery electric vehicles by 2025. India sets its target to 2030 while the Netherlands would like to implement sales of electric vehicles only as early as 2025. The French government has also announced France's five-year plan to ban all petrol and diesel vehicles by 2040 as part of the Paris Agreement. China, too, has adopted strict anti-pollution measures throughout 2017 with rigorous changes in policy requirements for electric vehicles. This leads to industry consolidation and forces some poor-quality electric vehicle manufacturers to be out-of-business. The vice minister of China's Ministry of Industry and Information Technology ("MIIT"), Mr. Xin Guobin, announced in an industry forum that the government was considering a gradual phase-out of fossil fuel vehicles in China. Although no solid date was given by Mr. Xin, China finalised the New Energy Vehicle mandate in September 2017 with the publication of the Dual New Energy Vehicle Credits policy. The goal of this policy was interpreted as to gradually shift the existing direct subsidising towards a more market-oriented support, in which ICE vehicle producers would need to buy credits from new energy vehicle manufacturers, providing an additional stream of cash flow for those who invested to produce new energy vehicles. In February 2018, the Government has announced its new policy on new energy vehicle subsidies for 2018 to be implemented in June 2018. The subsidy reduction has been in-line with the aim for the government to drive from direct cash handouts to a more market-oriented and sustainable way for industry transformation.

China has emerged as a leader in both the supply and demand of electric vehicles. China Association of Automobile Manufacturers (CAAM) announced that new energy vehicle sales totalled to 777,000 units in 2017, a 53% increase year-on-year. Among which sales of commercial electric vehicles reached 184,000 units, an increase of 22% year-on-year. Strong electric vehicle demand in China surpasses all other countries.

Sales of Automobiles and New Energy Vehicles in China:

	(Thousand Units)		
	2017	2016	2015
Automobiles	**28,879**	28,030	24,600
New Energy Vehicles	**777**	507	331
% of New Energy Vehicles	**2.70%**	1.80%	1.30%

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

The global demand for batteries remained steady during 2017. The market trend for batteries was largely impelled by the demand for electric vehicles as the battery is the most essential component of an electric vehicle. Other uses of batteries such as in electric cycles, digital devices, and energy storage account for the rest of the demand. According to Bloomberg, approximately 55% of global lithium-ion battery production plants are already based in China, compared with only 10% in the United States. By 2021, China's share of battery production plants is forecasted to grow to 65%.

According to the data compiled by Gaogong Industry Research Institute (GGII), China's battery output was 44.5GWh in 2017, a significant increase of 44% compared to 2016. The battery market in China has grown to an approximate worth of RMB72.5bn, an increase of 12% year-on-year. The mismatched supply and demand were primarily due to the adjustments in government policies in 2017, decreased government subsidies and the shift of costs from OEMs (Original Equipment Manufacturers) to battery makers. In 2017, batteries installed by OEMs for new energy vehicles totalled 36.2GWh, an increase of 29% compared to 2016's 28GWh. Most of the batteries were installed in the second half of 2017 as most OEMs accelerated electric vehicles production after adopting to the change in policies at the beginning of the year.

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

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

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

BUSINESS REVIEW

FDG's stock price has been through some turbulent times in the market from May 2018 onwards. The recent forced sale of the Chairman's holdings in FDG was an unfortunate incident due to his personal financial circumstances. From management's perspective, the Chairman holds interest in a company which owns approximately 50% of Hangzhou Changjiang Automobile Co., Ltd. ("Hangzhou Changjiang"), while the Group owns the remaining of Hangzhou Changjiang. Hangzhou Changjiang remains the core manufacturing base for FDG, as such, the Chairman's interest is in line with FDG's.

2017 was one of the most challenging years as macro factors impacted the electric vehicle industry. Subsidies were less; Criteria to obtain the subsidies were tightened; cash flow was squeezed as the expected time for subsidies to be received took much longer; profits for making batteries and cathode materials shrank; account receivables increased significantly as the Group is still waiting for the subsidies to be received after sales are made. Our impairment on trade receivables increased significantly because of regulatory requirement for electric vehicles to run above 20,000 km before they could qualify for subsidies, whilst we may only be able to recover these subsidies when these vehicles complete their 20,000 km journey one day. All of these factors contributed to the poor performance of FDG and has turned the period under review to become one of the worst years for FDG in our corporate history. However, this was also a year of considerable progress. We made our first step into the province of Guizhou; and, most importantly, marked our first step into the United States by exporting the first ever Chinese-made pure electric logistics vehicles in the last-mile delivery segment. This export to the United States does not only reveal the recognition of our technological expertise in electric vehicles but is also a statement to show that even international blue-chip fleet managers can trust FDG.

FDG would like to report Group revenue of HK$1.06 billion for the financial year ended 31 March 2018, which includes the gradual stabilising sales in China as well as the first batch of electric vehicles exported to the United States. Net loss attributable to shareholders was HK$2.23 billion, including HK$1.35 billion of one-off impairment. Management is focused on rigorously managing all costs, without adversely impacting the product's quality and safety standards.

FDG is a true believer in the real reason of electric vehicles adoption lies in the total cost of ownership of electric vehicles. Even though at the broader level environmental concerns would be of prevalence especially to policymakers; for end users, one of the most important criteria for an individual or a corporation to consider going electric will be economics – whether it is worthwhile to switch from petrol/diesel to charging. Past concerns such as a short driving range, insufficient charging infrastructure and charging times are no longer an issue at all these days when adopting electric vehicles. Consequently, the total cost of ownership prevails in decision making – as long as the initial acquisition costs are alike, charging costs versus the diesel/petrol costs as well as the maintenance costs for an electric vehicle versus an ICE vehicle are lower, naturally, end-users would choose to go down the electrification route.

FDG believes that focusing on the B2B segment in commercial vehicles would be the way for the Group to move forward. We will focus on our core B2B segment in commercial electric vehicles because they are ready now, they are the fruits of our investment and they reduce more carbon emissions. A study shows that one FDG electric panel van could save emissions more than five electric passenger cars combined. We believe that the B2B segment is the most valuable asset for the Group. FDG's first mover advantage in the B2B segment, total cost of ownership concerns from fleet operators and increasing environmental awareness from fleet operators should drive the inflection point for commercial electric vehicles forward.

With increasingly tightened subsidy policy in the electric vehicle segment and tightened cash policies from the banks, FDG would shift the focal point to concentrate on our primary business in B2B commercial electric vehicles. Focusing on our primary strength in B2B commercial vehicles means that we would no longer need to pursue the vertically-integrated model by building everything from scratch perfectly from head to toe in our supply chain; instead, we would work under a specialisation model and would become a focused commercial electric vehicle manufacturer.

Electric Vehicle Business

There can be no doubt that 2017 was one of the most challenging years on record for the electric vehicle industry, as China's continued ever more stringent yet positive requirements imposed on the industry. Nevertheless, FDG achieved commendable sales volume particularly in the second half of 2017, and managed to open a new production base on trial basis in Guizhou on time.

The industry's structural transition to a more market-oriented subsidised electric vehicle manufacturing was due to more stringent requirements. In the second half of 2017, electric vehicle sales recovered after a sluggish first half, and with FDG's case, we made 91.2% of sales of electric vehicles in the second half. FDG actively managed our business to meet the evolving requirements, reallocating our production facilities to our highest and best use, particularly, taking the loss-making arm based in Yunnan away, and reaffirmed the Group's specialisation in electric commercial vehicles as the quickest segment to become profitable.

Although the operating environment was tough in the period under review, FDG's electric vehicles segment made laudable accomplishments, such as the finalised exclusive partnership with Ryder Systems Inc. ("Ryder", NYSE: R). Through this partnership, FDG could leverage on Ryder's network of 800 locations in the United States which enables our vehicles to be sold to other blue-chip logistics customers offering original equipment manufacturer (OEM) level of maintenance services by Ryder. Leveraging on their network, our end-users are then able to maximize their vehicles' uptime, lower their maintenance costs and keep their businesses moving. In 2017, we have also cooperated with strategic partners to offer a whole range of post-sales services and energy solutions to provide our end-users a better experience from lowering their total cost of ownership to managing their electricity charges. These behind-the-scene efforts have laid out a perfect centre stage for the crest of the electrification revolution to be materialised in the logistics segment. In the past year, FDG partnered with eMotorWerks on smart charging; FDG's Guizhou production base started operations and delivered the first batch of Guizhou-made electric vehicles; and, FDG made our first step internationally by exporting the first ever Chinese-made pure electric logistics vehicles to the United States. In the B2C area for electric vehicles, FDG became the fifth company in China to be granted with a passenger vehicle license issued by both the MIIT and the National Development and Reform Commission (NDRC). This marks Hangzhou Changjiang to become one of the only six new electric vehicle companies in China with dual-license status.

FDG's endeavour to become a world-class electric vehicle manufacturer has never been so strong. In 2017, FDG's electric vehicle business management team made significant achievements in the improvement in the quality of the products, lowered the overall production costs, built a systematic quality and patents scheme as well as expanded into various market segments. Firstly, we implemented a value-chain quality improvement system and executed on a strict, quality-control mechanism; we have also decreased wastage by strengthening the supplier management system. Secondly, we have also effectively implemented a cost control programme to cut unnecessary costs. Consequently, some of our key models have achieved a lowered cost as much as over 20%. Similarly, we have restlessly promoted internally for energy saving, produced less wastage as well as educated middle managers to keep cost savings in mind. In our factory, we strengthened the systematic scheme for quality and patents to standardise manufacturing operating procedures, improved key production indicators such as average employee productivity, inventory level and plan production activities in advance to maximise the production line's utilisation. Finally, FDG made immense exertions to expand geographically as well as in different markets. We sold commercial electric vehicles to customers such as logistics companies, hotels, airports, travel leasing companies and local governments. Our business is now having access to more provinces in China than ever before. Lastly and most importantly, we made history in the Chinese auto industry by selling the first ever batch of Chinese-made, pure electric logistics vehicles to the United States.

Battery Business

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

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

In November 2017, FDG announced a plan to construct a whole new electric vehicle and battery production base in Jianyang, in the province of Sichuan. The completion of the battery factory could support FDG's future ramp-up of the imminent electric vehicle demand. Through this cooperation with the local government, FDG has also been named as the preferred supplier for Sichuan province's electric bus purchasing need. When the construction of the Group's planned gigafactories is fully ramped, FDG would have achieved a maximum battery production capacity of 6.3GWh.

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

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

Cathode Material Business

FDG's two existing production lines A1 and A2 in Chongqing have been in full-on production in 2017, with a maximum annual designed capacity of 2,400 tonnes. Production lines A3 & A4 are expected to be completed in 2018 which would enable the Chongqing cathode materials factory to produce a maximum of 4,800 tonnes annually. In October 2017, FDG expanded upstream to manufacture cathode materials through our subsidiary FKL. FKL partnered with Guizhou Guian Asset Investment Co., Ltd. and Advanced Lithium Electrochemistry (Cayman) Co., Ltd. ("ALEEES") to build a production base to manufacture cathode materials with a maximum annual production of 30,000 tonnes of both LFP and NCM materials.

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

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

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

RISK FACTORS

Policy Risks

Policies related to the New Energy Vehicle ("NEV") industry are part of the national strategy in China. As such, businesses in the industry such as the Company are subject to the changes in these policies. Currently NEV companies, battery companies and other related industries in the supply chain benefited from the generous subsidies from state and local governments. There is no guarantee that these subsidies would continue or if these subsidies sustain at the current level.

Market Risk

We may experience significant delays or other complications in bringing to market and ramping production of new vehicles. Various factors could result in delays in its production ramp, including the capacity of our suppliers to deliver us components at the timing and volumes we require and production limitations that are needed to maintain our quality production standards. We have limited experience simultaneously designing, testing, manufacturing, upgrading, adapting and selling our electric vehicles as well as limited experience allocating our available resources among the design and production of multiple vehicles, such as our commercial logistics vehicles as well as the commercial transit vehicles. Occasionally we have unexpected delays. Our long-term success will be dependent upon our ability to achieve market acceptance of our vehicles. Although the initial feedback from the major fleet operators have been positive, there is no guarantee that future demand for our commercial vehicles will meet our expectations. We are also dependent on our suppliers, and the inability of these suppliers to continue to deliver, or their refusal to deliver, necessary components of our vehicles in a timely manner at prices, quality levels, and volumes acceptable to us would have a material adverse effect on our financial condition and operating results. The automotive market is highly competitive, and we may not be successful in competing in this industry. We currently face competition from international competitors and we expect to face competition from others in the future, including competition from companies with new technology.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group's electric vehicles are designed and produced with the Group's strategy of building from the ground up. They are equipped with lithium-ion batteries which effectively reduce energy consumption and emissions. In addition, a photovoltaic energy storage system was built in the Hangzhou factory.

The lithium-ion batteries of the Company are produced according to the international environmental protection standards with modern production technologies. The Company selects high-performance LFP cathode materials and environment-friendly water-based adhesive as raw materials, the lithium-ion battery products produced by the Company possess the advantages of superior performance, longer lifecycle and lower costs.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group is devoted to creating a career development path and a good working environment for employees. In addition to conducting induction training for new staff, the Group will also provide on-the-job training to all staff in a timely manner to encourage employees to develop their potential. We will ensure efficiency of operations so that employees could demonstrate their ability through open, equal and merit-based systems which is also the base for the monitoring and assessment of the promotion of employees. The Group also regularly reviews the benefits and remuneration of all staff. Compensation is payable according to the performance and qualifications of the employees. The Group has also set up an employee equity incentive plan to reward outstanding staff. We also recognise that work-life balance is important to employees. A variety of staff activities are organised from time to time. We care about the physical and mental health of staff and together we create a harmonious working atmosphere.

The Group has always been committed to providing customers with high-quality products. In addition to strict compliance with regulatory requirements, the Group has also established a complete quality assurance system. All products have passed rigorous tests and inspections to ensure quality, safety and are of highest standards.

To ensure the quality of raw materials and the stability of supply, we select leading enterprises as suppliers with the most advance technology and products in the industry as our partners based on a strict set of criteria.

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 Employment Ordinance and ordinances relating to occupational safety for the interests of employees of the Company.

Products and Specifications that Comply with Relevant Laws and Regulations

The Group's power batteries have been listed in the catalogue of "Standardised Requirements for the Automobile Power Storage Battery Industry", and complied with nationally qualified standards in capacity, energy, power, efficiency, standard life cycles and working life cycles. The Company's electric vehicles have been listed in the "Catalogue of Recommended Models for New Energy Automobile Demonstration, Popularisation and Application", demonstrating the quality of the Group's electric vehicles and thus eligible to receive government subsidies.

FINANCIAL REVIEW

Revenue

During the year under review, the Group's revenue significantly decreased by approximately 30.0% to approximately HK$1,058.5 million as compared with the revenue of approximately HK$1,513.2 million of the last financial year.

The substantial decrease was mainly due to a combined effect of (i) the significant decrease in the sales of electric vehicles represented by a revenue of approximately HK$730.2 million in the current financial year, a decline of approximately 38.1% as compared to a revenue of approximately HK$1,178.9 million of the last financial year mainly resulting from the longer than expected time for electric vehicles industry to adapt the new subsidy policies in the PRC and the impact of new specification requirements on electric vehicles under the new subsidy policies; (ii) a slight increase in sales of lithium-ion battery products of approximately HK$9.4 million to external customers as compared to that of the last financial year; and (iii) the slight decrease in sales of cathode materials from the battery materials production business, represented by a revenue of approximately HK$219.2 million, a decrease of approximately 6.4% as compared with a revenue of approximately HK$234.2 million of the last financial year.

Gross profit and margin

The Group's gross profit decreased to approximately HK$141.8 million of the current financial year from approximately HK$492.0 million of the last financial year, representing a substantial decrease of approximately HK$350.2 million. The overall gross profit ratio was at approximately 13.4% of the current financial year as compared with approximately 32.5% of the last financial year, representing a decrease of approximately 19.1%. Such substantial decrease was mainly attributable to the reduction of new energy subsidies in the PRC.

Other gains and losses, net

The Group's net other losses amounted to approximately HK$650.2 million of the current financial year as compared with approximately HK$40.3 million of net other gains of the last financial year. It was mainly attributable to the recognition of (i) the impairments on certain assets of the electric vehicle business in Yunnan by reference to their recoverable amounts determined based on the disposal of the business subsequent to the current financial year; (ii) write-down of inventories of approximately HK$117.1 million mainly arising from certain types of raw materials and battery products which were less compatible with new electric vehicle requirements and reflect the net realisable value of some aged inventories; and (iii) the impairment on trade receivables of approximately HK$270.0 million after the recoverability assessments made by the directors of the Company during the current financial year.

Selling and distribution costs

For the year under review, selling and distribution costs amounted to approximately HK$176.7 million, representing an increase of approximately HK$80.5 million comparing with the last financial year of approximately HK$96.2 million, which was mainly attributable to the Group's expansion of the sales teams and actively participated in exhibitions and marketing events in order to catch business opportunities as well as increase in warranty provision for electric vehicle after-sale services.

General and administrative expenses

For the year under review, general and administrative expenses amounted to approximately HK$618.9 million, representing an increase of approximately HK$126.7 million comparing with the last financial year of approximately HK$492.2 million, which was mainly attributable to (i) the increase in equity-settled share-based payments of approximately HK$37.0 million comparing with the last financial year and mainly arising from approximately 1,018 million share options granted to the directors of the Company for the current financial year; (ii) the increase in administrative expenditures of approximately HK$35.6 million incurred by the Group's electric vehicle production segment to support the scale of the electric vehicle business to well-equip for its future developments and strengthen the professional production lines in the passenger vehicles sector; and (iii) the increase in administrative expenditures of approximately HK$48.3 million to build up the new production lines in the Guizhou electric vehicle production base.

Research and development expenses

For the year under review, research and development expenses amounted to approximately HK$209.4 million, representing an increase of approximately HK$80.7 million comparing with the last financial year of approximately HK$128.7 million, was mainly attributable to the increase in the research and development on battery sector including the enhancement of battery capacity and density and electric vehicle sector including new model designs on commercial electric vehicles and logistics vehicles and various enhancements.

Finance costs

For the year under review, finance costs amounted to approximately HK$389.2 million, representing an increase of approximately HK$25.7 million comparing with the last financial year of approximately HK$363.5 million, was mainly attributable to the increase in interest expenses on bank loans and other borrowings in line with the increase in the Group's bank loans and other borrowings for electric vehicles business.

Other operating expenses

For the year under review, other operating expenses amounted to approximately HK$79.5 million in respect of certain indirect operating expenses was mainly arising from the temporary under-utilisation of production capacity of the electric vehicle production plants in Hangzhou and Yunnan during the first half of the current financial year as the Group has spent certain period of time to upgrade and re-configure the production lines, enhance production efficiency and apply for listing in the new catalogue of new energy automobile models published by the PRC government in order to meet the new specification requirements on electric vehicles under the PRC government new subsidy policies.

Impairment on goodwill

Goodwill is tested for impairment by allocating to the Group's cash generating units ("CGUs") identified in accordance with the operating segments. During the year under review, management assessed that goodwill from battery materials production segment, which was operated by the Chongqing factory, was impaired by approximately HK$153.0 million and goodwill from direct investments, that was operated by FKL, was impaired by approximately HK$427.9 million, as the recoverable amounts from these businesses were less than their carrying amounts. In addition, the Group disposed of the electric vehicle production site that operated in Yunnan on 3 May 2018 (the "Disposal"). As the proceeds from the Disposal is less than its carrying amounts, certain assets including the goodwill of approximately HK$87.5 million was fully impaired during the current financial year.

Impairment on intangible assets

During the year under review, battery products segment that engaged in the manufacturing and sales of lithium-ion batteries and its related products, facing the challenge from the new subsidy policies in the PRC resulted in weaker than expected sales performance. Management assessed that its recoverable amounts was less than its carrying amounts that lead to an impairment loss on intangible assets of approximately HK$197.8 million.

Amortisation of intangible assets

For the year under review, amortisation of intangible assets amounted to approximately HK$230.7 million, representing an increase of approximately HK$50.9 million comparing with the last financial year of approximately HK$179.8 million, which was attributable to additions of the intangible assets during the current financial year.

Share of results of associates and impairment on interest in an associate

For the year under review, share of net losses of associates amounted to approximately HK$49.6 million, representing an increase of approximately HK$31.8 million comparing with the last financial year of approximately HK$17.8 million, was mainly attributable to the increase in share of loss of an associate, ALEEES, which the Group holds its approximately 21.85% equity interest, which is principally engaged in the production and sales of cathode materials for lithium ferrous phosphate batteries. With the decreased sales and lower gross margin affected by the new energy policies in the PRC, the share of loss of ALEEES increased comparing with the last financial year.

Furthermore, due to the decrease in demand of battery products under the new energy subsidy policies which in return influence the demand of cathode materials for batteries, with the changes of the business prospects of this business, the expected future cash flows decreased and an impairment on interest in an associate, ALEEES, of approximately HK$61.0 million was recognised during the current financial year and grouped under “Other gains and losses, net”.

Share of results of joint ventures and impairment on interest in a joint venture

For the year under review, share of net losses of joint ventures amounted to approximately HK$117.1 million, representing an increase of approximately HK$48.9 million comparing with the last financial year of approximately HK$68.2 million, was mainly attributable to the increase in share of loss of a joint venture, Chanje Energy, Inc. (“Chanje”), which incurred costs to expand the sales team to develop the market in the United States of America (the “US”).

As the realisation of sales in the US market requires longer time than expected, the recoverable amounts of Chanje was assessed, and an impairment of approximately HK$42.1 million was recognised in the current financial year and grouped under “Other gains and losses, net”.

Loss for the year

The Group has widened its loss for the year to approximately HK$3,067.1 million from approximately HK$725.2 million of the last financial year.

During the year under review, the Group recorded a loss attributable to owners of the Company of approximately HK$2,230.4 million, an increase of approximately HK$1,675.6 million, comparing with approximately HK$554.8 million of the last financial year. Such increase was mainly due to the above-mentioned reasons.

Goodwill

During the year under review, the decrease in goodwill was mainly attributable to the recognition of goodwill impairment in respect of battery materials production segment, direct investment segment and electric vehicle production business in Yunnan, with details set out in the “Impairment on goodwill” section.

Property, plant and equipment and interests in leasehold land held for own use under operating leases

As at 31 March 2018, property, plant and equipment and interests in leasehold land held for own use under operating leases totally amounted to approximately HK$3,898.3 million (2017: approximately HK$3,495.3 million), increased by approximately HK$403.0 million, which was mainly attributable to additions of property, plant and equipment in relation to the electric vehicle production segment.

Inventories

As at 31 March 2018, inventories amounted to approximately HK$566.8 million, decreased by approximately HK$91.2 million comparing with approximately HK$658.0 million as at 31 March 2017. During the year under review, some raw materials and battery products were written down to reflect their net realisable values.

Trade and bills receivables

Trade and bill receivables amounted to approximately HK$1,409.2 million (2017: approximately HK$1,251.8 million) as at 31 March 2018 which mainly included (i) trade receivables of approximately HK$1,317.4 million from the sale of electric vehicles and (ii) trade receivables of approximately HK$69.7 million from the sale of battery materials. The increase was mainly arising from electric vehicle production segment.

The Group generally provides 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.

As at 31 March 2018, trade receivables that were past due but not impaired were approximately HK$464.7 million (2017: approximately HK$429.6 million). They are mainly attributable to the change in the PRC subsidy policies which had direct impact on the customers' ability to settle debts promptly and make payment as a result of the delayed timing in receipt of subsidies by the customers, which in turn delayed their repayment to the Group. Overdue balances are regularly reviewed by the senior management of the Group. For those past due customers, the Group has performed a series of additional procedures to assess the recoverability of these overdue amounts. During the year under review, amount of approximately HK$270.0 million was provided as allowance for doubtful debts, after reviewing the financial status and repayment records of those individual customers as well as the status of the electric vehicles sold to them.

Loan and other receivables

The increase in loan and other receivables (including current and non-current portions) by approximately HK$314.0 million from approximately HK$878.1 million as at 31 March 2017 to approximately HK$1,192.1 million as at 31 March 2018, was mainly attributable to the increase in other receivables, deposit and prepayment and value-added-tax recoverables from electric vehicle production segment.

Trade and bills payables

Trade and bills payables amounted to approximately HK$959.6 million (2017: approximately HK$745.5 million) as at 31 March 2018, increased by approximately HK$214.1 million, which was mainly attributable to the increase in bills payable of approximately HK$166.0 million, mainly arising from the electric vehicle production segment.

Accruals and other payables

The increase in accruals and other payables by approximately HK$635.5 million from approximately HK$740.1 million as at 31 March 2017 to approximately HK$1,375.6 million as at 31 March 2018, was mainly attributable to the combined effect of (i) the increase in bills and other payables for acquisition of non-current assets of approximately HK$70.5 million, mainly arising from the electric vehicle production segment; (ii) increase in other payables including payable for the investment cost in an associate of approximately HK$159.1 million; and (iii) the increase in receipts in advance of approximately HK$104.5 million and warranty provision of approximately HK$45.6 million, mainly arising from the electric vehicle production segment.

Convertible bonds

As at 31 March 2018, the Group had three tranches of convertible bonds including the convertible bonds due in 2020 and 2021 of the Company and the convertible bonds due in 2018 of a listed subsidiary of the Company, FKL. The liability components of convertible bonds as at 31 March 2018 amounted to approximately HK$646.5 million (including current and non-current portion), decreased by approximately HK$58.3 million as compared with approximately HK$704.8 million as at 31 March 2017, which were mainly attributable to the net effect of (i) convertible bonds due in 2017 and 2018 matured and settled by both cash and short-term promissory notes issued by the Group; and (ii) the Company issued new convertible bonds with principal amount of HK$400 million during the current financial year.

Segment Information

Vehicle design and electric vehicle production business

During the year under review, the segment revenue decreased significantly by approximately 38.1% to approximately HK$730.2 million, comparing with approximately HK$1,178.9 million of the last financial year. It is mainly attributable to the impact of new specification requirements on electric vehicles under new subsidy policies on electric vehicles, leading to a significant decline in the sale of electric vehicles in the first half of the current financial year. The sales had gradually increased thereafter. The sales of electric vehicles in the second half of the current financial year represent approximately 91.2% of the total sales of electric vehicles in the current financial year.

The gross profit ratio from the electric vehicle production business before elimination of inter-segment transactions was approximately 11.4% of the current financial year comparing with approximately 26.8% of the last financial year. The substantial decrease was mainly attributable to the reduction of new energy subsidies and the increased cost per unit with the temporary reduced production outputs.

The segment loss before tax for the current financial year was approximately HK$1,359.6 million, a substantial increase in loss of approximately HK$1,282.6 million as comparing with approximately HK$77.0 million of the last financial year, which was mainly attributable to the combined effect of (i) the decrease in segment gross profit; (ii) the other operating expenses of approximately HK$79.5 million as detailed under the section heading "Other operating expenses"; (iii) the impairments on goodwill and other assets of Yunnan electric vehicle business; (iv) the impairment on trade receivables; and (v) the one-off gain on bargain purchase arising from the acquisition of additional interest in a joint venture of approximately HK$133.9 million of the last financial year which did not recur in the current financial year.

Battery products business

The revenue from battery products business before the elimination of inter-segment transactions decreased from approximately HK$373.0 million of the last financial year to approximately HK$134.3 million of the current financial year, representing a decrease of approximately 64.0%. It is mainly attributable to the decrease in internal demand from electric vehicle production segment under new energy subsidy policies. The Group continue to enhance battery density, provide energy storage and recharging solutions to the customers to broaden the customer bases as well as continue to expand the oversea markets.

The gross profit ratio from the battery products business from external customers decreased from approximately 36.3% of the last financial year to approximately 30.1% of the current financial year. Such decrease was mainly attributable to the decreased selling prices to cope with the keen competition in the market and the increase in unit cost per battery product as a result of the lower battery production volume.

During the year under review, the battery products business widened its segment loss before tax to approximately HK$564.5 million from approximately HK$159.8 million of the last financial year, which was principally attributable to the increase of write-down of battery raw material and products, the increase in research and development for battery-related improvements and the recognition of the one-off impairment of intangible assets of approximately HK$197.8 million as the carrying amount of this business unit exceeds its recoverable amount due to reduced expected future cash flows generated from this business unit.

Electric vehicle leasing business

The electric vehicle leasing business was not active during the year under review. The segment loss before tax for the current financial year was approximately HK$0.5 million, an increase of approximately HK$0.1 million as comparing with approximately HK$0.4 million of the last financial year. The Group will maintain the existing operating and marketing channels to cope with the Group's vertical integration business model. The demand for electric vehicle financing lease services are expected to remain strong in the future under the growing development of the finance leasing industry in the PRC.

Battery materials production business

During the year under review, the sales of cathode materials for NCM lithium-ion batteries in the Chongqing factory amounted to approximately HK$219.2 million, representing a slight decrease of approximately 6.4% as compared with approximately HK$234.2 million of the last financial year, which was mainly attributable to tightening of credit control on existing customers which limited our sales. The segment loss before tax was approximately HK$326.6 million for the year under review, representing an increase of approximately HK$265.4 million comparing with approximately HK$61.2 million of the last financial year. It was mainly attributable to the increase in share of the loss of an associate, ALEEES, the non-recurring impairment loss on ALEEES of approximately HK$61.0 million and the impairment loss on goodwill of battery material production business of approximately HK$153.0 million.

Following the cooperation agreement signed on 26 March 2018 by the Group with a customer, the Group's capacity was nearly full, which achieve a steady gross profit margin to the Group. With the construction of new production lines requiring longer than expected time schedules and the longer time was needed to launch the new products, impairment loss on goodwill of approximately HK$153.0 million was recognised for battery material business in Chongqing.

Direct investments business

The interest income from direct investments business for the current financial year was approximately HK$43.1 million, representing a decrease of approximately HK$2.9 million as compared with approximately HK$46.0 million of the last financial year before the elimination of inter-segment transactions. The segment loss before tax for the current financial year of approximately HK$453.7 million, a decrease of approximately HK$471.0 million comparing with the last financial year profit of approximately HK$17.3 million, was mainly attributable to the impairment on goodwill for the Group's investment in FKL, with details set out in the "Impairment on goodwill" section.

Liquidity and Financial Resources

As at 31 March 2018, the cash and cash equivalents of the Group amounted to approximately HK$752.4 million (31 March 2017: approximately HK$1,321.4 million). The amounts were mainly denominated in Hong Kong dollars, Renminbi ("RMB") and United States dollars.

As at 31 March 2018, the Group recorded net current assets of approximately HK$21.8 million, representing a decrease of approximately HK$912.1 million, as compared with net current assets of approximately HK$933.9 million as at 31 March 2017. The decrease in net current assets was primarily due to the net increase in accruals and other payables and bank loans and other borrowings, the net proceeds of which were mainly used for additions of plant and machinery and working capital requirements of the electric vehicle production business.

Total bank loans and other borrowings as at 31 March 2018 were approximately HK$3,322.7 million (31 March 2017: approximately HK$2,435.3 million). The increase was mainly attributable to the combined effect of (i) the increase in bank loans and other borrowing in support of the operations of the Hangzhou electric vehicle production base; and (ii) short-term promissory notes obtained to finance the settlement of the convertible bonds due in 2017 and 2018. The Group's bank loans and other borrowings are mostly event driven, with little seasonality. Details of the maturity profile and security of bank loans and other borrowings are set out in Note 31 to the consolidated financial statements.

As at 31 March 2018, the Group's obligations under finance leases amounted to approximately HK$127.8 million (31 March 2017: approximately HK$69.9 million), out of which approximately HK$115.2 million (31 March 2017: approximately HK$28.4 million), approximately HK$12.6 million (31 March 2017: approximately HK$30.1 million) and nil (31 March 2017: approximately HK$11.4 million) were repayable within one year, within one to two years and within three to five years, respectively. The obligations under finance leases were secured by certain machineries of the Group with an aggregate carrying amount of approximately HK$162.0 million (31 March 2017: approximately HK$78.3 million).

As at 31 March 2018, the Group had obligations under redeemed convertible bonds of approximately HK$760.8 million which was classified as non-current liabilities. The Group had remaining three tranches of convertible bonds that will be due in 2018, 2020 and 2021.

As at 31 March 2018, the Group's gearing ratio, without taking into account the obligations under redeemed convertible bonds of approximately HK$760.8 million (31 March 2017: approximately HK$760.8 million) and the liability components of convertible bonds of approximately HK$646.5 million (31 March 2017: approximately HK$704.8 million), was approximately 160.6% (31 March 2017: approximately 55.7%) calculated on the basis of bank loans and other borrowings and obligations under finance leases of total approximately HK$3,450.5 million (31 March 2017: approximately HK$2,505.2 million) to total equity of approximately HK$2,148.4 million (31 March 2017: approximately HK$4,499.6 million) as at 31 March 2018. On 25 June 2018, the Company entered into a placing agreement with a placing agent to place up to 1,000,000,000 shares of the Company at a price of HK$0.109 per share to raise fund for repayment of debt and general working capital purposes, as detailed in Note 46(b) to the consolidated financial statements.

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 but substantial assets and liabilities of the Group were denominated in RMB and were mutually hedged. The Group has not entered into any foreign currency exchange forward contracts for hedging purposes during the year. The Board will closely monitor the foreign exchange exposure and consider appropriate hedging instruments when necessary.

Capital Structure

On 5 December 2017, 8% secured convertible bonds due 2020 in the principal amount of HK$400,000,000 (the "Convertible Bonds due 2020") were issued pursuant to a subscription agreement entered into between the Company and Sino Power Resources Inc. on 28 November 2017. Based on the initial conversion price of HK$0.465, the Convertible Bonds due 2020 will be converted into 860,215,052 new shares of the Company under the general mandate to issue shares granted at the Company's annual general meeting held on 29 August 2017 upon full conversion.

During the year ended 31 March 2018, (i) 2,118,000,000 share options were granted under the share option scheme of the Company, of which 1,018,000,000 share options were granted to the directors of the Company and 1,100,000,000 share options were granted to FDG EBT (Share Option) Limited which is a company under the employee benefit trust established by the Company for the employees of the Group and other persons as designated by the Company; and (ii) a total of 14,600,000 new shares of the Company were issued and allotted upon exercise of share options granted under the Company's share option scheme.

As a result, the number of shares of the Company in issue increased from 22,398,477,108 as at 1 April 2017 to 22,413,077,108 as at 31 March 2018.

As at 31 March 2018, the Company has (i) outstanding share options entitling holders to subscribe for a total of 2,502,600,000 shares of the Company; (ii) outstanding Convertible Bonds due 2020 in the amount of HK$400,000,000 which could be converted into 860,215,052 shares of the Company based on the initial conversion price of HK$0.465; and (iii) outstanding convertible bonds due 2021 in the amount of HK$275,000,000 which could be converted into 550,000,000 shares of the Company based on the initial conversion price of HK$0.50.

The intended use of proceeds from issuance of the Convertible Bonds due 2020 was for re-financing and general working capital purposes. The net proceeds of such issuance were approximately HK$387.8 million, of which (i) approximately HK$361.2 million was used for the settlement of short-term borrowings; and (ii) approximately HK$26.6 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 2018.

Material Acquisitions and Disposals

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

Pledge of Assets and Contingent Liabilities

There were pledge of assets as at 31 March 2018 and 2017 with details disclosed under the section heading "Liquidity and Financial Resources" and in Notes 31, 34 and 35(c) to the consolidated financial statements. In addition, pledged bank deposits of approximately HK$235.3 million (31 March 2017: approximately HK$160.2 million) were pledged to secure mainly for bank loans and other borrowings and bills payables.

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

Litigation

Details of the litigation updates of the Group are set out in Note 44 to the consolidated financial statements.

Capital Commitment

Details of the capital commitments of the Group are set out in Note 43(b) to the consolidated financial statements.

Employees and Remuneration Policies

As of 31 March 2018, the Group had 75 employees (31 March 2017: 75 employees) in Hong Kong and 2,793 employees (31 March 2017: 2,761 employees) in the PRC. Total staff costs (including directors' emoluments and equity-settled-share-based payments) during the year amounted to approximately HK$470.5 million (2017: approximately HK$359.2 million). The remuneration policies are determined with reference to market conditions and individual performance of staff. The Group participates in Mandatory Provident Fund Scheme in Hong Kong and state-managed retirement benefit schemes in the PRC. The Group has share option schemes, share award schemes and employee benefit trusts for the benefit of its directors and eligible participants.

FUTURE DEVELOPMENT

FDG performed poorly in the year under review in the midst of challenging market conditions. Nevertheless, the successful US homologations obtained and the subsequent first-ever sales made to the United States has transformed FDG's already compelling electric vehicle product to an internationally credible one, repositioned the business to a less government subsidy reliant segment and increased market share in the home base market in China in the second half of the year under review.

According to research by McKinsey's Center for Future Mobility, China now stands firmly in the global lead of electric vehicles. 2017 also marked a key milestone of China surpassing the United States, and has become the biggest market for electric vehicles globally, excelling in both the demand dimension as well as the supply dimension. FDG believes that one day electric vehicles will overtake all ICE vehicles as the blueprint for future development in scale has already been crafted.

Concentrating on FDG's first mover advantage in commercial electric vehicles

We continue to place emphasis on our first mover advantage in developing fully electric commercial vehicles. Transit vehicles (passenger carriers) and logistics vehicles (goods carriers) carry similar characteristics in terms of business patterns and charging patterns, as both work best with a concentrated spot of charging that saves costs for fleet managers. Additionally, for commercial fleets, the economic factor is of prime importance for mass adoption. This is the reason why we are a firm believer that the first inflection point of electrification will happen in the commercial vehicle segment.

Replacement rather than Infiltration

The Group has now identified a niche segment – the commercial electric vehicles segment where we focus on both transit and logistics vehicles. We will use a replacement strategy aiming at our customers so that they could replace their existing fleets quickly with as little disruption to their business as possible. This is what FDG eyes on – the start of an electrification revolution. Other electric vehicle makers, whether knowingly or not, only tried to penetrate the market to increase market share whereas FDG aims to replace all vehicles in our identified niche.

Specialisation instead of vertical integration

With increasingly tightened subsidy policy in the electric vehicle segment and tightened cash policies from the banks, FDG would shift the focal point to concentrate on our primary business in B2B commercial electric vehicles going forward. Focusing on our primary strength in B2B commercial vehicles means that we would no longer need to pursue the vertically-integrated model by building everything from scratch perfectly from head to toe in our supply chain; instead, we would work under a specialisation model and would become a focused commercial electric vehicle manufacturer.

Revaluation of business strategy and converge resources to the core

Looking ahead, FDG will focus on building the best quality commercial electric vehicles as our core business. While we used to be strategically vertically-integrated, the Group may consider focusing on one core business only, excel in that business and then progress onwards. We have identified our commercial electric vehicles business as the core. Other segments, such as battery and cathode materials manufacturing, will be secondary businesses for the Group. We will focus on our core B2B segment in commercial electric vehicles because they are ready now, they are the fruits of our investment and they reduce more carbon emissions, even more than five electric passenger cars combined. Furthermore, aligned with our fundamental value of "Green and Growth", commercial vehicles, given its longer road-traveling time and larger in volume, can contribute more positively to the carbon emission reduction compared to passenger vehicles. In fact, per calculation based on emission data from United States Environmental Protection Agency and comparable ICE commercial vehicles, the switch to 1 FDG electric vehicle can result in the carbon emission reduction of the switch to nearly 6 passenger vehicles. Disposing the non-profit generating arm in Yunnan was just the start of converging efforts to the core. At this point, we will concentrate the Group's business resources to the core, ramp up production, generate revenue and we may consider unloading non-core segments going forward.

Scaling up the domestic and international market

As well as continually tapping into the domestic electric vehicle demand in China, the Group continues to explore development opportunities internationally. The export of the vehicles to blue-chip American fleet managers was only the first milestone to prove that our ambition does not only stay within the domestic border, we see ourselves as a world-leading electric vehicle manufacturer in the future. FDG will continually explore valuable opportunities that bring value to our shareholders, in particular, the European market, after the successful sales announced in the United States.

Outlook

While it is too early to call an absolute stabilisation, supportive policies from the Chinese Government in the industry, sequential growth in the electric vehicle segment in China, greater clarity on the structural shift of the subsidies towards a more market-oriented approach, repeating orders from Chinese fleet managers and promising orders from blue-chip American companies should be viewed positively. FDG has already had a full strategic blueprint in place in anticipation of future orders. Nevertheless, we expect the global economy to experience a wide range of challenges which may result in less predictive trends and greater volatility in the short term.

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

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 (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 2018 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 are vested with 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 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 appointments of company secretaries of the Company were dealt with by written resolutions in April 2017 and October 2017. As all directors were individually consulted on the matters without any dissenting opinion prior to the execution of the relevant written resolutions, it was considered that there was no need to approve the matters by physical board meetings.

DIRECTORS' SECURITIES TRANSACTIONS

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

During the period of 60 days immediately preceding and including the publication date of the final results, certain shares of the Company held by each of Mr. Cao Zhong ("Mr. Cao", the chairman and executive director and chief executive officer of the Company) and Mr. Miao Zhenguo ("Mr. Miao", a then executive director of the Company who resigned on 12 June 2018) which were deposited with securities firms (the "Brokers") as collaterals to secure their respective margin financing were sold by certain Brokers as a result of the decrease in share price of the Company and their respective financial difficulties, and the shareholding interest in the Company of Mr. Cao reduced from approximately 11.86% to approximately 6.06% as of the publication date of the final results, and the shareholding interest in the Company of Mr. Miao reduced from approximately 8.79% to approximately 8.29% as of the date of his resignation (further reduced to approximately 4.30% as of the publication date of the final results). The directors of the Company (except Mr. Cao and Mr. Miao for their respective disposals) satisfied that such disposals were exceptional circumstances under paragraph C.14 of the Model Code.

BOARD OF DIRECTORS

Composition

The composition of the Board during the year ended 31 March 2018 and up to the date of this report is as follows:

Executive Directors:
Mr. Cao Zhong *(Chairman and Chief Executive Officer)*
Dr. Chen Yanping *(Chief Technical Officer)*
Mr. Lo Wing Yat
Mr. Jaime Che *(Senior Vice President)*
Mr. Miao Zhenguo *(resigned on 12 June 2018)*

Non-executive Directors:
Mr. Wong Kwok Yiu
Mr. Tong Zhiyuan *(re-designated from executive director to non-executive director on 3 May 2018 and resigned on 4 June 2018)*

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" on pages 8 to 10 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 2018, 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, who resigned as executive director of the Company on 12 June 2018, 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 five additional meetings during the year ended 31 March 2018. 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		8/9
Dr. Chen Yanping		8[c]/9
Mr. Lo Wing Yat		7[a]/9
Mr. Jaime Che		9/9
Mr. Miao Zhenguo	*(resigned on 12 June 2018)*	8/9
Non-executive Directors:		
Mr. Wong Kwok Yiu		7[c]/9
Mr. Tong Zhiyuan	*(re-designated from executive director to non-executive director on 3 May 2018 and resigned on 4 June 2018)*	7[b]/9
Independent Non-executive Directors:		
Mr. Chan Yuk Tong		8[a]/9
Mr. Fei Tai Hung		9[c]/9
Mr. Tse Kam Fow		9/9
Mr. Xu Jingbin		9/9

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. A summary of the trainings relating to corporate governance and regulatory updates received by the directors for the year ended 31 March 2018 is as follows:

Name of directors		Attending trainings/seminars	Reading relevant materials
Executive Directors:			
Mr. Cao Zhong		–	✓
Dr. Chen Yanping		✓	✓
Mr. Lo Wing Yat		✓	✓
Mr. Jaime Che		✓	✓
Mr. Miao Zhenguo	*(resigned on 12 June 2018)*	✓	✓
Non-executive Directors:			
Mr. Wong Kwok Yiu		✓	✓
Mr. Tong Zhiyuan	*(re-designated from executive director to non-executive director on 3 May 2018 and resigned on 4 June 2018)*	–	✓
Independent Non-executive Directors:			
Mr. Chan Yuk Tong		✓	✓
Mr. Fei Tai Hung		✓	✓
Mr. Tse Kam Fow		✓	✓
Mr. Xu Jingbin		✓	✓

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. Jaime Che (appointed as a member on 12 June 2018).

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 one meeting during the year ended 31 March 2018. 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)*	1/1
Mr. Fei Tai Hung	1[a]/1
Mr. Tse Kam Fow	1/1
Mr. Cao Zhong	1/1
Mr. Miao Zhenguo *(resigned as a member on 12 June 2018)*	0/1

Note:

a. Having another director acted as his representative.

During the year ended 31 March 2018, the Remuneration Committee considered and recommended to the Board (i) the proposal for the Board to fix the directors' remuneration to be put forward at the 2017 annual general meeting of the Company for shareholders' approval; and (ii) the directors' fees of executive directors and independent non-executive directors upon the renewal of their terms of 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 2018, 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. Jaime Che (appointed as a member on 12 June 2018), 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 one meeting during the year ended 31 March 2018. The individual attendance records of the committee members are as follows:

Name of committee members	Number of meetings attended/held
Mr. Cao Zhong *(Chairman)*	1/1
Mr. Chan Yuk Tong	1/1
Mr. Fei Tai Hung	1[a]/1
Mr. Tse Kam Fow	1/1
Mr. Miao Zhenguo *(resigned as a member on 12 June 2018)*	0/1

Note:

a. Having another director acted as his representative.

During the year ended 31 March 2018, 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 2017 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 renewal of the term of appointment of each of Mr. Cao Zhong, Dr. Chen Yanping, Mr. Fei Tai Hung and Mr. Tse Kam Fow.

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 2018. 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)*	1/2
Mr. Fei Tai Hung	2/2
Mr. Tse Kam Fow	2[a]/2

Note:

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

During the year ended 31 March 2018, 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 2017 and six months ended 30 September 2017 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; (vi) reviewed corporate governance compliance and disclosure of the Group; and (vii) reviewed the continuing connected transactions of the Company.

In addition, during the year ended 31 March 2018, 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 2018.

Risk Committee

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 with specific terms of reference.

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 Risk Committee held two meetings during the year ended 31 March 2018. The individual attendance records of the committee members are as follows:

Name of committee members	Number of meetings attended/held
Mr. Tse Kam Fow *(Chairman)*	2[a]/2
Mr. Cao Zhong	0/2
Mr. Jaime Che	2/2
Mr. Chan Yuk Tong	1/2
Mr. Fei Tai Hung	1/2

Note:

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

During the year ended 31 March 2018, the Risk Committee (i) reviewed the effectiveness of the Group's risk management system; and (ii) reviewed the risk management reports for the year ended 31 March 2017 and six months ended 30 September 2017.

Executive Committee

The Executive Committee currently comprises three executive directors, namely Mr. Cao Zhong (Chairman of the Executive Committee), Dr. Chen Yanping 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 2018, the Auditor received approximately HK$2,880,000 for audit service and approximately HK$480,000 for non-audit service regarding review of interim results and continuing connected transactions.

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 61 to 67 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 risks 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 2018, the internal audit department of the Company reviewed the effectiveness of the Group's risk management and internal control systems, 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/Risk 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/Risk 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 (the "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 2018, the Company held the annual general meeting on 29 August 2017 (the "AGM") and three special general meetings on 14 June 2017, 29 August 2017 and 10 November 2017 (the "SGMs"). The individual attendance records of the directors at the AGM and the SGMs are as follows:

Name of directors		Number of AGM attended/held	Number of SGM attended/held
Executive Directors:			
Mr. Cao Zhong		1/1	1/3
Dr. Chen Yanping		1[a]/1	2[b]/3
Mr. Lo Wing Yat		1/1	2/3
Mr. Jaime Che		1/1	3/3
Mr. Miao Zhenguo	*(resigned on 12 June 2018)*	1/1	2/3
Non-executive Directors:			
Mr. Wong Kwok Yiu		1/1	3[b]/3
Mr. Tong Zhiyuan	*(re-designated from executive director to non-executive director on 3 May 2018 and resigned on 4 June 2018)*	1[a]/1	3[b]/3
Independent Non-executive Directors:			
Mr. Chan Yuk Tong		0/1	1/3
Mr. Fei Tai Hung		1[a]/1	3[b]/3
Mr. Tse Kam Fow		1/1	3/3
Mr. Xu Jingbin		1/1	3[a]/3

Notes:

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

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

The Chairman of the Board attended the AGM and invited the chairmen of the audit, remuneration and nomination committees to attend. In case of absence of committee chairman, the chairman invited another member of the committee to attend for answer questions at the AGM.

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 2018, 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 2018, 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 6106, fax at (852) 3104 2801, email at ir@fdgev.com or directly in person through participation in general meetings.

國富浩華（香港）會計師事務所有限公司
Crowe (HK) CPA Limited
香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

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 68 to 188 which comprise the consolidated statement of financial position as at 31 March 2018, 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 2018, 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.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2(b) to the consolidated financial statements, which indicates that the Group incurred losses for the year ended 31 March 2018 and as at that date, the Group had net current assets of approximately HK$22 million and capital commitments of approximately HK$1,486 million. These events or conditions, along with other matters as set forth in Note 2(b) to the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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 Notes 2(k)(ii), 4(b), (c) and (d), 17, 18 and 19 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 determines 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 judgements 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 which was made with reference to the valuations conducted by an independent professional valuer, the recoverable amount of each of these CGUs was determined and each of their respective carrying value as of 31 March 2018 has been written down to its recoverable amount, if necessary. 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 significant judgements 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 their 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 our audit procedures include: 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 historical financial data of each of these CGUs, as well as the Group's strategic plan, future market growth; – the long-term growth rate of revenue, by comparing it with the relevant economic and industry forecasts, including certain forecasts sourced from independent third 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 input data and key assumptions in respect of, inter alia, lack of marketability discount of the relevant CGUs. c) Challenging the appropriateness of the key assumptions adopted in the management's discounted cash flow projections.

KEY AUDIT MATTERS (CONTINUED)

The key audit matter	How our audit addressed the key audit matter
(b) Recoverability of trade receivables	
(Refer to Notes 2(k)(i), 4(f), 5(b)(i) and 26 to the consolidated financial statements) As at 31 March 2018, the carrying amount of the Group's trade receivables (including commercial bills) was HK$1,409,167,000, after netting of allowance for doubtful debts of HK$337,951,000. The trade receivables included certain amounts that were grants receivable from the PRC government, as subsidies to customers for the purchases of electric vehicles from the Group. Significant judgement and estimates by the management are required in determining the timing when the Group's customers will reach the specified usage mileage for the electric vehicles purchased and hence entitling the Group to receive the relevant subsidies. We identified the estimation of allowance of trade receivables as a key audit matter due to the use of significant judgement and estimates by the management in determining the level of allowance for doubtful debts of trade receivables. In determining the allowance for doubtful debts of trade receivables, the management considers and reviews financial background and repayment abilities of the customers, their credit history including settlement records, and ageing 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 ageing analysis of trade receivables; – Testing the ageing analysis of trade receivables, on a sample basis, to the source documents; – Assessing the reasonableness of allowance for doubtful debts of trade receivables with reference to customers' financial conditions, past settlement records and ageing of trade receivables; – For the trade subsidies receivable from the PRC government: understanding how management monitors the customers' usage mileages of the electric vehicles sold, 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 Notes 4(l), 39 and 44 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 with an estimated amount (the "Claim Amount") which is substantially greater than the Redemption Amount. At 31 March 2018, the Claim Amount has not been recognised in the consolidated financial statements. The Group has sought to set off the whole Redemption Amount against part of the Claim Amount (the "Set-Off"). On 5 March 2013, the High Court of Hong Kong (the "HK Court") issued a judgement 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 Judgement") under which, the Company's obligations under the redeemed convertible bonds are in effect 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 Judgement. On 26 May 2016, the HK Court refused the application taken by Mei Li in 2013 for leave to appeal the 5 March 2013 Judgement on the basis that Mei Li had no such authority (the "Mei Li Authority Judgement"). On 23 June 2016, the Chung Parties lodged a notice of appeal against the Mei Li Authority Judgement and failed to file an amended Notice of Appeal by 24 August 2017 as ordered by the HK Court, thus the appeal was dismissed. The directors of the Company considered that, after having sought an opinion from its external legal counsel, the possibility of payment of the Redemption Amount would unlikely arise within twelve months after 31 March 2018, taking into account of the 5 March 2013 Judgement, the Mei Li Authority Judgement, and the time required for the 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 were classified as non-current liabilities in the consolidated statement of financial position at 31 March 2018. Significant management judgement is required to determine the expected timing of the Group's payment for the obligations under the redeemed convertible bonds under the most unfavorable scenario of the outcome of the litigations between the Group and the Chung Parties.	Our procedures in relation to management's classification of the obligation under redeemed convertible bonds as non-current liabilities included: – Reviewing correspondence of the Group with the Company's external legal counsel and documents related to major legal filings, and evaluating the court judgements 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 under the redeemed convertible bonds; – Evaluating the opinion 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 judgement 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 (HK) CPA Limited
Certified Public Accountants
Hong Kong, 28 June 2018

Leung Chun Wa
Practising Certificate Number P04963

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2018

	Note	2018 HK$'000	2017 HK$'000
Revenue	6	**1,058,474**	1,513,179
Cost of sales		**(916,718)**	(1,021,210)
Gross profit		**141,756**	491,969
Other income	8	**82,465**	72,125
Other gains and losses, net	8	**(650,221)**	40,331
Selling and distribution costs		**(176,740)**	(96,246)
General and administrative expenses		**(618,869)**	(492,230)
Research and development expenses		**(209,444)**	(128,714)
Finance costs	9	**(389,235)**	(363,536)
Other operating expenses	10	**(79,475)**	–
Impairment on goodwill	10	**(668,396)**	–
Impairment on intangible assets	10	**(197,790)**	–
Amortisation of intangible assets	18	**(230,724)**	(179,825)
Share of results of associates		**(49,626)**	(17,833)
Share of results of joint ventures		**(117,051)**	(68,210)
Loss before tax	10	**(3,163,350)**	(742,169)
Income tax	12	**96,219**	16,965
Loss for the year		**(3,067,131)**	(725,204)
Attributable to:			
Owners of the Company		**(2,230,371)**	(554,849)
Non-controlling interests		**(836,760)**	(170,355)
		(3,067,131)	(725,204)
		HK cents	HK cents
Loss per share attributable to owners of the Company	14		
– Basic and diluted		**(9.95)**	(2.50)

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 2018

	2018 **HK$'000**	2017 HK$'000
Loss for the year	**(3,067,131)**	(725,204)
Other comprehensive income/(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	**460,839**	(238,537)
Share of other comprehensive income/(loss) of associates	**15,878**	(6,649)
Share of other comprehensive income/(loss) of joint ventures	**10,837**	(6,276)
	487,554	(251,462)
Total comprehensive loss for the year	**(2,579,577)**	(976,666)
Attributable to:		
Owners of the Company	**(1,882,099)**	(756,013)
Non-controlling interests	**(697,478)**	(220,653)
Total comprehensive loss for the year	**(2,579,577)**	(976,666)

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Goodwill	17	**681,850**	1,265,028
Intangible assets	18	**620,894**	786,104
Property, plant and equipment	19	**3,538,502**	3,163,023
Interests in leasehold land held for own use under operating leases	19	**359,752**	332,309
Interests in associates	21	**436,142**	371,770
Interests in joint ventures	22	**354,692**	425,550
Deposits paid for non-current assets	23	**392,505**	144,908
Loan receivables	27	**16,128**	398
Other non-current assets	24	**7,416**	8,162
		6,407,881	6,497,252
Current assets			
Inventories	25	**566,829**	657,967
Trade and bills receivables	26	**1,409,167**	1,251,782
Loan and other receivables	27	**1,176,005**	877,684
Financial assets at fair value through profit or loss	28	**79,554**	50,000
Derivative financial instruments	35	**19,183**	21,233
Pledged bank deposits	29	**235,317**	160,163
Cash and cash equivalents	30	**752,351**	1,321,410
		4,238,406	4,340,239
Current liabilities			
Bank loans and other borrowings	31	**(1,628,383)**	(1,340,776)
Trade and bills payables	32	**(959,629)**	(745,544)
Accruals and other payables	33	**(1,375,624)**	(740,144)
Tax payables		**(39,661)**	(36,853)
Obligations under finance leases	34	**(115,235)**	(28,394)
Liability components of convertible bonds	35	**(98,079)**	(514,636)
		(4,216,611)	(3,406,347)
Net current assets		**21,795**	933,892
Total assets less current liabilities		**6,429,676**	7,431,144

	Note	**2018 HK$'000**	2017 HK$'000
Non-current liabilities			
Receipts in advance	*36*	**(676,113)**	(610,235)
Deferred income	*37*	**(502,944)**	(54,067)
Bank loans and other borrowings	*31*	**(1,694,268)**	(1,094,483)
Obligations under finance leases	*34*	**(12,588)**	(41,497)
Liability components of convertible bonds	*35*	**(548,415)**	(190,199)
Deferred tax liabilities	*38*	**(86,191)**	(180,325)
Obligations under redeemed convertible bonds	*39*	**(760,752)**	(760,752)
		(4,281,271)	(2,931,558)
NET ASSETS		**2,148,405**	4,499,586
CAPITAL AND RESERVES			
Issued capital	*40*	**224,131**	223,985
Reserves		**944,409**	2,724,640
Total equity attributable to owners of the Company		**1,168,540**	2,948,625
Non-controlling interests		**979,865**	1,550,961
TOTAL EQUITY		**2,148,405**	4,499,586

Cao Zhong
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 2018

	Attributable to owners of the Company											
	Issued capital HK$'000	Share premium *(Note 41(a))* HK$'000	Exchange reserve *(Note 41(b))* HK$'000	Contributed surplus *(Note 41(c))* HK$'000	Capital redemption reserve *(Note 41(d))* HK$'000	Equity component of convertible bonds *(Note 41(e))* HK$'000	Share option reserve *(Note 41(f))* HK$'000	Investment revaluation reserve *(Note 41(g))* HK$'000	Accumulated losses *(Note 41(h))* HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 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 40(a))*	4,300	210,700	–	–	–	–	–	–	–	215,000	–	215,000
Capital contribution 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 *(Note 35(d))*	–	–	–	–	–	119,148	–	–	–	119,148	–	119,148
Conversion of convertible bonds *(Note 40(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 and 1 April 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
Loss for the year	–	–	–	–	–	–	–	–	(2,230,371)	(2,230,371)	(836,760)	(3,067,131)
Other comprehensive income for the year												
– Exchange difference on translation of financial statements of foreign operations	–	–	329,477	–	–	–	–	–	–	329,477	131,362	460,839
– Share of other comprehensive income/(loss) of associates	–	–	(177)	–	–	–	–	10,891	–	10,714	5,164	15,878
– Share of other comprehensive income of joint ventures	–	–	8,081	–	–	–	–	–	–	8,081	2,756	10,837
Total other comprehensive income for the year	–	–	337,381	–	–	–	–	10,891	–	348,272	139,282	487,554
Total comprehensive loss for the year	–	–	337,381	–	–	–	–	10,891	(2,230,371)	(1,882,099)	(697,478)	(2,579,577)
Proceeds from shares issued upon exercise of share options *(Note 40(c))*	146	4,860	–	–	–	–	(1,648)	–	–	3,358	–	3,358
Initial recognition of convertible bonds issued by a subsidiary *(Note 35(e))*	–	–	–	–	–	–	–	–	–	–	120,080	120,080
Changes in ownership interests in subsidiaries without change of control *(Note 16(a))*	–	–	–	–	–	–	–	–	(22,635)	(22,635)	17,218	(5,417)
Settlement of convertible bonds *(Notes 35(a)&(b))*	–	–	–	–	–	(132,723)	–	–	132,723	–	–	–
Issue of convertible bonds *(Note 35(c))*	–	–	–	–	–	67,562	–	–	–	67,562	–	67,562
Conversion of convertible bonds issued by a subsidiary by non-controlling interests *(Note 35(e))*	–	–	–	–	–	–	–	–	10,916	10,916	(10,916)	–
Share options lapsed	–	–	–	–	–	–	(1,478)	–	1,478	–	–	–
Equity-settled share-based payments	–	–	–	–	–	–	42,813	–	–	42,813	–	42,813
At 31 March 2018	**224,131**	**2,062,317**	**46,735**	**1,419,585**	**1,868**	**186,710**	**76,421**	**-**	**(2,849,227)**	**1,168,540**	**979,865**	**2,148,405**

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2018

	Note	2018 HK$'000	2017 HK$'000
Operating activities			
Loss before tax		**(3,163,350)**	(742,169)
Adjustments for:			
Interest income	*10*	**(44,140)**	(28,748)
Finance costs	*9*	**389,235**	363,536
Loss on disposal of property, plant and equipment	*8*	**1,266**	108
Depreciation of property, plant and equipment	*19*	**201,868**	134,380
Amortisation of interests in leasehold land held for own use under operating leases	*19*	**7,962**	7,768
Equity-settled share-based payments	*10*	**42,813**	5,849
Amortisation of intangible assets	*18*	**230,724**	179,825
Impairment on trade receivables	*8 & 26(c)*	**269,987**	35,899
Impairment on loan and other receivables	*8 & 27(b)*	**–**	7,658
Impairment on deposits paid for non-current assets	*8*	**1,816**	–
Impairment on property, plant and equipment	*8*	**110,207**	–
Impairment on intangible assets	*10*	**197,790**	–
Impairment on goodwill	*10*	**668,396**	–
Impairment on available-for-sale investments	*8*	**–**	23,884
Impairment on interest in an associate	*8*	**61,000**	–
Impairment on interest in a joint venture	*8*	**42,145**	–
Write-down of inventories	*8*	**117,064**	1,574
Reversal of write-down of inventories		**(2,520)**	–
Reversal of impairment on trade receivables		**(2,964)**	–
Warranty provision	*33*	**54,353**	28,730
Foreign exchange difference		**(4,601)**	(19,588)
Share of results of associates and joint ventures		**166,677**	86,043
Net gain on held-for-trading investments	*8*	**(13,721)**	(10,669)
Net loss/(gain) on financial assets designated as at fair value through profit or loss	*8*	**48,376**	(273)
Gain on bargain purchase arising from the acquisition of additional interest in a joint venture	*8*	**–**	(133,850)
		(619,617)	(60,043)
Changes in working capital:			
Decrease in financial assets at fair value through profit or loss		**–**	28,734
Increase in prepaid expenses		**–**	(887)
Increase in inventories		**(165,123)**	(46,192)
Increase in trade, bills, loan and other receivables		**(514,682)**	(1,442,506)
Increase in trade and bills payable, accruals and other payables		**435,371**	361,028
Net cash used in operations		**(864,051)**	(1,159,866)
Income tax paid		**(2,251)**	(538)
Interest received		**21,214**	20,752
Net cash used in operating activities		**(845,088)**	(1,139,652)

	Note	**2018 HK$'000**	2017 HK$'000
Investing activities			
Proceeds from financial assets at fair value through profit or loss		**40,693**	1,429
Payments for acquisition of intangible assets		**(87,379)**	(126,592)
Payments for acquisition of property, plant and equipment		**(518,791)**	(389,275)
Payments for investments in associates and joint ventures		**–**	(416,316)
Receipts on disposal of property, plant and equipment		**53**	1,695
Receipts from government grants and other funding for capital expenditure		**429,651**	576,550
Placement of pledged bank deposits		**(230,581)**	(187,754)
Withdrawal of pledged bank deposits		**175,879**	240,150
Net cash used in investing activities		**(190,475)**	(300,113)
Financing activities			
Repayment of convertible bonds	*30(b)*	**(69,878)**	–
Receipts on disposal of convertible bonds of a subsidiary	*35(e)*	**110,000**	–
Receipts of additional disposal consideration upon conversion of convertible bonds of a subsidiary	*35(e)*	**10,589**	–
Net proceeds from issuance of new shares		**–**	215,000
Capital contribution from non-controlling interests		**–**	1,039,766
Net proceeds from shares issued upon exercise of share options	*40(c)*	**3,358**	–
Proceeds from sale and leaseback transactions classified as finance leases	*30(b)*	**117,860**	85,445
Repayment of obligations under finance leases	*30(b)*	**(70,275)**	(13,897)
Proceeds from issuance of convertible bonds	*35(c) & (d)*	**387,999**	275,000
Proceeds from bank loans and other borrowings	*30(b)*	**2,208,160**	1,471,115
Repayment of bank loans and other borrowings	*30(b)*	**(1,999,075)**	(936,894)
Interest paid	*30(b)*	**(327,256)**	(266,714)
Net cash generated from financing activities		**371,482**	1,868,821
Net (decrease)/increase in cash and cash equivalents		**(664,081)**	429,056
Effect of foreign exchange rate changes		**95,022**	(49,661)
Cash and cash equivalents at beginning of the year		**1,321,410**	942,015
Cash and cash equivalents at end of the year	*30*	**752,351**	1,321,410

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) vehicle design and the design, manufacture and sale of electric vehicles; (ii) research and development, production and sale of lithium-ion batteries and related products; (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 include 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 the 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 2018 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$") and that of its subsidiaries in the People's Republic of China (excluding Hong Kong) (the "PRC") is Renminbi ("RMB"). For the purpose of presenting the consolidated financial statements, the Group has adopted HK$ as its presentation currency and all values are rounded to the nearest thousand ("HK$'000") except where 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.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, 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 judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

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.

Judgements 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.

The Group incurred a loss of approximately HK$3,067 million for the year ended 31 March 2018 and as at that date, the Group had net current assets of approximately HK$22 million and capital commitments of approximately HK$1,486 million. Notwithstanding the aforesaid conditions, the consolidated financial statements have been prepared on a going concern basis because the Board is of the opinion that the Group can meet its financial obligations as and when they fall due in the next twelve months, after taking into consideration of the followings:

(1) Based on the cash flow forecast of the Group for the next twelve months ending 31 March 2019, the Group will have sufficient working capital for its financial and capital expenditure requirements for the next twelve months;

(2) The Group has undertaken measures to control costs and increase sales from April 2018 onwards including but not limited to reducing staff of those loss making business, negotiations with potential customers to fully utilise the current production facilities;

(3) The Group is considering to unload non-core assets or segments in the foreseeable future;

(4) A placing agreement was entered into by the Company with a placing agent to place up to 1,000,000,000 new shares of the Company at a price of HK$0.109 per share based on which the Company will raise net funds of approximately HK$103.9 million, as disclosed in the announcement of the Company dated 25 June 2018;

(5) The Group is also considering various future fundraising and financing activities to support its working capital requirements. There are several potential investors under negotiations with the Group and on 25 May 2018, the Company and CITIC Pacific Limited entered into the memorandum of understanding, to explore the possibility of collaborating with each other in the further development of the Group's business; and

(6) The Group will be able to manage the timing of the payment of capital commitments, in particular, the capital expenditures and capital injections in associates or joint ventures without hindering the Company's future development to ensure the Group will have sufficient working capital to meet its obligations in the foreseeable future.

After having taken into account of the Group's projected cash flows, current financial resources and capital expenditure requirements and in light of the measures and arrangements implemented to date and to be implemented, the Board is of the view that the Group has sufficient cash resources to satisfy its working capital and other financial obligations for the next twelve months from the end of the reporting period of these consolidated financial statements. Accordingly, the Board is of the view that it is appropriate to prepare these consolidated financial statements on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to restate the values of assets to their 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. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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.

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)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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.

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)).

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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.

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.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(e) (i) BUSINESS COMBINATIONS (CONTINUED)

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.

(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 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 (or any of the cash-generating unit within a group of cash-generating units in which the Group monitors goodwill).

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(e) (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.

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 the transaction price. Transaction costs are expensed immediately.

The Group recognises the financial asset on the date it becomes 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.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

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.

(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 the Group makes payments for a property interest which includes both leasehold 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, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

To the extent the allocation of the relevant payments can be made reliably, interest 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 leasehold land and building elements, the entire property is generally classified as if the leasehold land is under a finance lease.

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 lease are depreciated on a straight-line basis over the shorter of the unexpired term of lease 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 lease 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.

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.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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
– Software	5 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.

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 costs).

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.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from its 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.

(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.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) LEASED ASSETS (CONTINUED)

(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) Sale 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 financing to the lessee, with the asset as security.

(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.

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)

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.

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.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(k) IMPAIRMENT OF ASSETS (CONTINUED)

(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).

– 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).

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(k) IMPAIRMENT OF ASSETS (CONTINUED)

(ii) Impairment of other assets (Continued)

– 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 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 other 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 on behalf of the Group under an entrusted arrangement with granted by a licensed bank incorporated in the PRC 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 a liability component, an equity component and an embedded derivative component (consisting of the 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 of the issue of the convertible bonds and the fair values of the liability component and embedded derivative related to the redemption option 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 component 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 component 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 as 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 as 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 GRANT

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 the statement of 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 the HKICPA for the first time in the current year's consolidated financial statements:

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

Except for additional disclosures included in these consolidated financial statements to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, Disclosure Initiative, which require entities 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, 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, new standards and interpretations which are not yet effective for the year ended 31 March 2018 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[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
Amendments to HKFRSs	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRS 2015-2017 Cycle[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and Its Associates or Joint Venture[3]
Amendments to HKAS 28	Long-term interests in Associates and Joint Ventures[2]
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 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 new standards, amendments and interpretations 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.

– For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows and discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification. Currently, the Group revises the effective interest rates for non-substantial modification of financial liabilities with no gain/loss being recognised 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 loss event to have occurred before credit losses are recognised.

– The new general hedge accounting requirements retain the three types of hedge accounting mechanism 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 Group's financial instruments and risk management policies as at 31 March 2018, the directors anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement

– The components of the convertible bonds issued by the Group classified as derivative financial instruments carried at fair value as disclosed in Note 35: the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability will be presented in other comprehensive income.

– All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

HKFRS 9 FINANCIAL INSTRUMENTS (CONTINUED)

Impairment

In general, the directors anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 April 2018 would be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at 1 April 2018.

AMENDMENTS TO HKFRS 9 PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION

The amendments revise existing requirements in HKFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) in the case of negative compensation payments (where the lender has to make a settlement payment in the event of termination by the borrower). The directors of the Company do not anticipate that the application of the amendments will have a material impact on the Group's consolidated financial statements as the Group does not have such arrangements.

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.

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, that is, 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.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

HKFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

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 anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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, that is, 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 (that is, 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 profit or loss over the period of the lease.

As disclosed in Note 43(a), at 31 March 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$89,560,000, part of which is payable within 1 year for which the Group will elect not to apply this accounting model to these short-term leases, with remaining in the second to fifth year. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

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

The amendments clarify classification and measurement of cash-settled share-based payment under certain specific circumstances and share-based payments in which the Group is required by local tax law or regulation to withhold certain number of equity instruments for settlement of the employee's tax obligation. 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.

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

HK(IFRIC)-INT 22 FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION

HK(IFRIC)-Int 22 addresses how to determine the "date of transaction" for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example a non-refundable deposit or deferred revenue).

The interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

HK(IFRIC)-INT 23 UNCERTAINTY OVER INCOME TAX TREATMENTS

HK(IFRIC)-Int 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

As mentioned in Note 2(b) to the consolidated financial statements, the directors 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.

(b) IMPAIRMENT OF GOODWILL

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units to which the goodwill is allocated. Estimating the 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 factors.

The carrying amount of goodwill at 31 March 2018 was HK$681,850,000 (2017: HK$1,265,028,000). The management performed impairment assessments on the cash generating units to which the goodwill is allocated and impairment loss of HK$668,396,000 (2017: nil) was recognised for the Group's goodwill in the consolidated statement of profit or loss for the year ended 31 March 2018. 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 value-in-use of the cash-generating units to which intangible assets has been allocated. The value-in-use calculation requires 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 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 judgements 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 2018 was HK$620,894,000 (2017: HK$786,104,000). The management performed impairment assessments on the cash generating units to which intangible assets are allocated and impairment loss of HK$197,790,000 (2017: nil) for the Group's intangible assets was recognised in the consolidated statement of profit or loss for the year ended 31 March 2018. Further details are given in Note 18.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(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 value-in-use calculations. In determining the value-in-use, expected cash flows generated by the asset are discounted to their present values, which require significant judgement 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 2018 were HK$3,538,502,000 (2017: HK$3,163,023,000) and HK$359,752,000 (2017: HK$332,309,000), respectively. The management performed impairment assessments on the cash generating units to which the property, plant and equipment and interests in leasehold land held for own use under operating leases are allocated and impairment loss of HK$110,207,000 (2017: nil) was recognised for the Group's property, plant and equipment in the consolidated statement of profit or loss for the year ended 31 March 2018. 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 an impairment loss, management assesses the recoverable amounts of the associates and joint ventures, which are based on the higher of fair value less costs of disposal and value-in-use of the interests. 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 judgement 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$436,142,000 (2017: HK$371,770,000) and HK$354,692,000 (2017: HK$425,550,000), respectively. The management performed impairment assessments on interest in associates and joint ventures and impairment losses of HK$61,000,000 (2017: nil) and HK$42,145,000 (2017: nil) were recognised for the Group's interest in an associate and interest in a joint venture respectively, in the consolidated statement of profit or loss for the year ended 31 March 2018. Further details are given in Note 21 and Note 22.

(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 estimating 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.

Trade receivables included certain amounts that were grants receivable from the PRC government as subsidies to customers for the 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 the timing when the Group's customers will reach the specified usage mileage of the electric vehicles purchased.

The carrying amounts of trade and bills receivables and loan and other receivables at 31 March 2018 were HK$1,409,167,000 (2017: HK$1,251,782,000) and HK$1,192,133,000 (2017: HK$878,082,000), respectively. Further details are given in Note 26 and Note 27.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(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

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 technology or the market demand for the products generated or produced from the usage of these assets. The estimation of the useful life and basis for amortisation is a matter of judgement 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 and expected future 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 2018 was HK$566,829,000 (2017: HK$657,967,000).

(j) INCOME TAX

Determining income tax provision involves judgement 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(k) WARRANTY PROVISION

As explained in Note 33, the Group makes provisions under the warranties it gives on sale of its battery and electric vehicle 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 2018 was HK$74,059,000 (2017: HK$28,433,000). 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) OBLIGATIONS UNDER REDEEMED CONVERTIBLE BONDS

At 31 March 2018, as further detailed in Notes 39 and 44 to the consolidated financial statements, the Company has obligations under redeemed convertible bonds of approximately HK$760,752,000 (2017: 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 an estimated amount (the "Claim Amount") which is substantially larger than the Redemption Amount. At 31 March 2018, 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 (the "Set-Off"). On 5 March 2013, the High Court of Hong Kong (the "HK Court") issued a judgement 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 Judgement") 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. Any claim to payment under convertible bonds may be subject to the Company's argument of the Set-Off.

In 2013, the Chung Parties lodged an application to appeal against the 5 March 2013 judgement 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 Judgement"). On 23 June 2016, the Chung Parties lodged a notice of appeal against the Mei Li Authority Judgement and failed to file an amended Notice of Appeal by 24 August 2017 as ordered by the HK Court, thus the appeal was dismissed.

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 Judgement, the Mei Li Authority Judgement and the time required for the resolution of the relevant legal proceedings, as disclosed in Note 44 to the consolidated financial statements, and the applications of the Chung Parties. Accordingly, the obligations under redeemed convertible bonds of approximately HK$760,752,000 have been classified as non-current liabilities in the consolidated statement of financial position as at 31 March 2018 and 2017.

Significant judgement of management is required to determine the expected timing of the Group's payment for the obligations under redeemed convertible bonds under the most 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 the 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:

	2018 HK$'000	2017 HK$'000
Trade and bills receivables	**1,409,167**	1,251,782
Loan and other receivables (excluding deposits and prepayments and value-added-tax receivables)	**556,527**	473,780
Pledged bank deposits	**235,317**	160,163
Cash and cash equivalents	**752,351**	1,321,410
Loans and receivables	**2,953,362**	3,207,135
Financial assets at fair value through profit or loss		
– designated	**57,054**	–
– held-for-trading		
– trading investment	**22,500**	50,000
– derivative financial instruments	**19,183**	21,233
Financial assets at fair value through profit or loss	**98,737**	71,233

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

	2018 HK$'000	2017 HK$'000
Bank loans and other borrowings	**3,322,651**	2,435,259
Trade and bill payables	**959,629**	745,544
Accruals and other payables (excluding value-added-tax payables, receipts in advance and warranty provision)	**1,178,594**	692,233
Obligations under finance leases	**127,823**	69,891
Liability components of convertible bonds	**646,494**	704,835
Obligations under redeemed convertible bonds	**760,752**	760,752
Financial liabilities at amortised cost	**6,995,943**	5,408,514

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 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. At the end of the reporting period, the Group had a concentration of credit risk of 56.57% (2017: 40.44%) of the total trade receivables due from the Group's five largest trade debtors.

In respect of loan receivables, the Group holds collaterals in the form of second equitable mortgage, share charge, securities over mining license and asset, 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 2018. At the end of the reporting period, the Group had a concentration of credit risk of 52.89% (2017: 50.19%) of the loan receivables being due from the Group's largest loan debtor.

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 26 and 27, respectively.

5. FINANCIAL INSTRUMENTS (CONTINUED)

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

(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.

			2018		
	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	**1,797,578**	**680,645**	**1,249,962**	**3,728,185**	**3,322,651**
Trade and bills payables	**959,629**	**–**	**–**	**959,629**	**959,629**
Accruals and other payables (excluding value-added-tax payables, receipts in advance and warranty provision)	**1,178,594**	**–**	**–**	**1,178,594**	**1,178,594**
Obligations under finance leases	**120,120**	**12,982**	**–**	**133,102**	**127,823**
Liability component of convertible bonds	**124,480**	**32,000**	**755,000**	**911,480**	**646,494**
Obligations under redeemed convertible bonds *(Note)*	**–**	**760,752**	**–**	**760,752**	**760,752**
	4,180,401	**1,486,379**	**2,004,962**	**7,671,742**	**6,995,943**

			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 finance leases	32,220	32,220	11,716	76,156	69,891
Liability component of convertible bonds	530,518	–	275,000	805,518	704,835
Obligations under redeemed convertible bonds *(Note)*	–	760,752	–	760,752	760,752
	3,424,170	1,157,025	1,100,102	5,681,297	5,408,514

5. FINANCIAL INSTRUMENTS (CONTINUED)

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

(ii) Liquidity risk (Continued)

Note:

Based on a court judgement 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 39) 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 39, based on an opinion of the Company's external counsel obtained, payment of the obligations under redeemed convertible bonds would likely not arise for at least 12 months after the end of the reporting period. Accordingly, the Board considered it was appropriate to classify the amount in the category to be repayable earliest from 1 to 2 years after the end of the reporting period.

(iii) Interest rate risk

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

	2018		2017	
	Effective interest rate	**HK$'000**	Effective interest rate	HK$'000
Variable rate loan receivables	**6.00%**	**398**	6.00%	434
Fixed rate loan receivables	**6.00% to 28.50%**	**187,590**	8.00% to 28.50%	142,625
Variable rate bank balances	**0.001% to 0.46%**	**675,842**	0.001% to 0.42%	1,261,035
Fixed rate bank balances	**0.17% to 2.20%**	**272,626**	0.0001% to 2.40%	205,709
Variable rate bank loans	**4.75% to 6.18%**	**(676,994)**	4.75% to 6.18%	(627,129)
Fixed rate bank loans	**4.12% to 11.50%**	**(1,272,208)**	2.06% to 6.00%	(1,078,122)
Fixed rate other borrowings	**4.80% to 18.00%**	**(1,373,449)**	2.23% to 20.61%	(730,007)
Fixed rate obligations under finance leases	**5.37% to 6.00%**	**(127,823)**	6.00%	(69,891)
Fixed rate liability components of convertible bonds	**8.40% to 18.48%**	**(646,494)**	8.40% to 14.31%	(704,835)

Sensitivity analysis

The fixed rate loan receivables, bank balances, bank loans, other borrowings, obligations under finance leases and liability components of convertible bonds of the Group are fixed rate instruments 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 2018, 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 increase or decrease the Group's loss after tax for the year and accumulated losses by HK$8,000 (2017: decrease or increase by HK$6,343,000).

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 2017.

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.

	2018		2017	
	United States Dollars		United States Dollars	
	Assets HK$'000	**Liabilities HK$'000**	Assets HK$'000	Liabilities HK$'000
Cash and cash equivalents	**6,730**	**–**	12,660	–
Trade and bills receivables	**35,624**	**–**	20,005	–
Loan and other receivables	**28,804**	**–**	44,787	–
Financial assets at fair value through profit or loss	**7,005**	**–**	8,406	–
Bank loans and other borrowings	**–**	**(4,939)**	–	(32,550)
Other payables	**–**	**(3,081)**	–	(7,572)
	78,163	**(8,020)**	85,858	(40,122)

	2018		2017	
	Euros		Euros	
	Assets HK$'000	**Liabilities HK$'000**	Assets HK$'000	Liabilities HK$'000
Bank loans and other borrowings	**–**	**(235,541)**	–	(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.

	2018		2017	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in loss after tax and accumulated losses HK$'000**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in loss after tax and accumulated losses HK$'000
Euros	**5%**	**8,833**	5%	7,595
	(5%)	**(8,833)**	(5%)	(7,595)

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. The analysis is performed on the same basis for 2017.

(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 28).

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) trade 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 2018, it is estimated that an increase/(decrease) of 10% (2017: 10%) in the relevant share market price, with all other variables held constant, would (decrease)/increase the Group's loss after tax and accumulated losses as follows:

	2018		2017	
	Higher/ (lower) in the relevant share market price	**(Decrease)/ increase in loss after tax and accumulated losses HK$'000**	Higher/ (lower) in the relevant share market price	(Decrease)/ increase in loss after tax and accumulated losses HK$'000
Held-for-trading investments				
– listed equity securities	**10%**	**(1,549)**	10%	(4,159)
	(10%)	**1,549**	(10%)	4,159

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 2017.

The Group is also exposed to equity price risk arising from changes in the share prices of the Company to the extent that the Company's 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 35.

The Group is also exposed to equity price risk arising from changes in the share prices of a listed subsidiary of the Company to the extent that the listed subsidiary's equity instruments underlie the fair value of financial asset designated as at fair value through profit or loss, which was derived from the disposal of the convertible bonds issued by a listed subsidiary to an independent third party, details of which are disclosed in Note 35(e). As at the end of the reporting period, the Group is exposed to this risk through the contingent receivable derived from the disposal of convertible bonds issued the listed subsidiary as disclosed in Note 35(e).

5. FINANCIAL INSTRUMENTS (CONTINUED)

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

(v) Equity price risk (Continued)

At 31 March 2018, it is estimated that an increase/(decrease) of 10% (2017: 10%) in the share price of the listed subsidiary of the Company, with all other variables held constant, would (decrease)/increase the Group's loss after tax and accumulated losses as follows:

	2018		2017	
	Higher/ (lower) in the share price of the listed subsidiary of the Company	**(Decrease)/ increase in loss after tax and accumulated losses HK$'000**	Higher/ (lower) in the share price of the listed subsidiary of the Company	(Decrease)/ increase in loss after tax and accumulated losses HK$'000
Financial assets designated as at fair value through profit or loss	**10%**	**(7,997)**	10%	–
	(10%)	**8,971**	(10%)	–

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 price of the listed subsidiary of the Company 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.

At 31 March 2018, it is estimated that an increase/(decrease) of 10% (2017: 10%) in the share price of the Company, with all other variables held constant, would (decrease)/increase the Group's loss after tax and accumulated losses as follows:

	2018		2017	
	Higher/ (lower) in the share price of the Company	**(Decrease)/ increase in loss after tax and accumulated losses HK$'000**	Higher/ (lower) in the share price of the Company	(Decrease)/ increase in loss after tax and accumulated losses HK$'000
Derivative financial instruments	**10%**	**(3,987)**	10%	(3,518)
	(10%)	**1,920**	(10%)	3,522

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 price of the Company 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 in 2017.

5. FINANCIAL INSTRUMENTS (CONTINUED)

(c) FAIR VALUE MEASUREMENT

(i) Financial assets and liabilities 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.

An external independent valuation company, with appropriate recognised professional qualifications, is engaged to value the derivative financial instruments at the end of each financial reporting period. Appropriate valuation methods and assumptions with reference to market conditions existing at the end of 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 35.

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/(liabilities)	Fair value as at 31 March 2018 HK$'000	2017 HK$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs(s)	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss						
Held-for-trading investments:						
– Listed equity securities	**15,495**	41,594	Level 1	Quoted bid prices in active markets	N/A	N/A
– Unlisted funds	**7,005**	8,406	Level 2	Quoted prices in the over-the-counter markets	N/A	N/A
Derivative financial instruments:						
– Early redemption and mandatory conversion options embedded in convertible bonds	**19,183**	21,233	Level 3	Binomial pricing model	Expected volatility *(Note (a))*	The higher/lower of expected volatility, the higher/lower of fair value
Designated:						
– Contingent receivable	**57,054**	–	Level 3	Binomial pricing model	Expected volatility *(Note (b))*	The higher/lower of expected volatility, the higher/lower of fair value

5. FINANCIAL INSTRUMENTS (CONTINUED)

(c) FAIR VALUE MEASUREMENT (CONTINUED)

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

Fair value hierarchy (Continued)

Note:

(a) The fair values of redemption and mandatory conversion options embedded in convertible bonds are 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 2018, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 10% would decrease the Group's loss by HK$8,916,000 (2017: HK$1,581,000)/increase the Group's loss by HK$6,520,000 (2017: HK$928,000), respectively.

(b) The fair value of contingent receivable 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 2018, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 10% would decrease the Group's loss by HK$2,463,000 (2017: nil)/increase the Group's loss by HK$2,714,000 (2017: nil), respectively.

During the years ended 31 March 2018 and 2017, 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 it occurs.

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

	2018 HK$'000	2017 HK$'000
Early redemption and mandatory conversion options embedded in convertible bonds		
At 1 April	**21,233**	34,141
Additions from issue of convertible bonds	**11,180**	25,026
Transferred to equity upon conversion of convertible bonds	**–**	(37)
Changes in fair value recognised in profit or loss during the year	**(13,230)**	(37,897)
At 31 March	**19,183**	21,233
Contingent receivable		
Arising from disposal of convertible bonds issued by a subsidiary	**115,491**	–
Transferred to equity upon conversion of convertible bonds	**(10,589)**	–
Changes in fair value recognised in profit or loss during the year	**(47,848)**	–
At 31 March	**57,054**	–

The losses arising from the remeasurement of early redemption and mandatory conversion options embedded in convertible bonds as derivative financial instruments are presented in "Fair value loss on derivative financial instruments" included in "Finance costs" in the consolidated statement of profit or loss.

The loss arising from the remeasurement of contingent receivable as financial asset designated as at fair value through profit or loss is presented in "Net (loss)/gain on financial assets designated as at fair value through profit or loss" included in "Other gains and losses, net" 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 2018 and 2017.

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, 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.

	2018 HK$'000	2017 HK$'000
Sales of electric vehicles	**730,189**	1,178,909
Sales of lithium-ion batteries and its related products	**96,885**	87,465
Income from leasing of electric vehicles	**1**	3
Sales of cathode materials for NCM lithium-ion batteries	**219,180**	234,201
Income from direct investments	**12,219**	12,601
Total	**1,058,474**	1,513,179

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 services of electric vehicles including operating leases and finance leases;

(d) the battery materials production segment includes research and development, manufacture and sales of cathode materials for (1) NCM lithium-ion batteries and (2) lithium ferrous phosphate batteries; and

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

For 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);

7. SEGMENT REPORTING (CONTINUED)

(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.

The Group's reportable segments for the years ended 31 March 2018 and 2017 are as follows:

	2018					
	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	730,189	96,885	1	219,180	12,219	1,058,474
Inter-segment revenue	–	37,389	–	–	30,904	68,293
Reportable segment revenue	730,189	134,274	1	219,180	43,123	1,126,767
Reportable segment loss before tax	(1,359,571)	(564,525)	(484)	(326,648)	(453,715)	(2,704,943)
Other segment information:						
Interest income	24,027	1,551	28	325	12,219	38,150
Depreciation and amortisation	(249,842)	(156,314)	(29)	(33,003)	–	(439,188)
Finance costs	(73,132)	(23,353)	–	(10,805)	(7,025)	(114,315)
Write-down of inventories	(8,111)	(71,210)	–	–	–	(79,321)
Share of results of joint ventures	(120,544)	–	–	–	3,493	(117,051)
Impairment on interest in a joint venture	(42,145)	–	–	–	–	(42,145)
Interests in joint ventures	242,424	–	–	–	112,268	354,692
Share of results of associates	–	41	–	(49,667)	–	(49,626)
Impairment on interest in an associate	–	–	–	(61,000)	–	(61,000)
Interests in associates	–	2,789	–	433,353	–	436,142
Impairment on trade receivables	(251,382)	(11,052)	–	(7,553)	–	(269,987)
Impairment on deposits paid for non-current assets	(1,816)	–	–	–	–	(1,816)
Impairment on goodwill	(87,511)	–	–	(152,969)	(427,916)	(668,396)
Impairment on property, plant and equipment	(110,207)	–	–	–	–	(110,207)
Impairment on intangible assets	–	(197,790)	–	–	–	(197,790)
Additions to non-current assets	617,681	110,518	–	222,721	–	950,920
Reportable segment assets	7,420,930	1,298,986	21,200	1,274,307	306,588	10,322,011
Reportable segment liabilities	(4,410,796)	(1,567,967)	(2,196)	(410,013)	(176,579)	(6,567,551)

7. SEGMENT REPORTING (CONTINUED)

The Group's reportable segments for the years ended 31 March 2018 and 2017 are as follows: (Continued)

	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 receivables	–	(34,674)	–	(1,225)	–	(35,899)
Gain on bargain purchase 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)

RECONCILIATIONS OF REPORTABLE SEGMENT REVENUE, PROFIT OR LOSS, ASSETS AND LIABILITIES

	2018 HK$'000	2017 HK$'000
Revenue		
Reportable segment revenue	**1,126,767**	1,832,133
Elimination of inter-segment revenue	**(68,293)**	(318,954)
Consolidated revenue	**1,058,474**	1,513,179
Loss		
Reportable segment loss before tax	**(2,704,943)**	(281,105)
Elimination of inter-segment loss	**20,921**	3,830
Reportable segment loss derived from the Group's external customers	**(2,684,022)**	(277,275)
Other income and other gains and losses, net	**(36,065)**	(26,648)
Depreciation	**(1,366)**	(1,581)
Finance costs	**(274,920)**	(266,602)
Write-down of inventories	**(37,743)**	–
Unallocated corporate expenses	**(129,234)**	(170,063)
Consolidated loss before tax	**(3,163,350)**	(742,169)
Assets		
Reportable segment assets	**10,322,011**	10,458,047
Unallocated corporate assets:		
Derivative financial instruments	**19,183**	21,233
Cash and cash equivalents	**101,157**	109,369
Other unallocated corporate assets	**203,936**	248,842
Consolidated total assets	**10,646,287**	10,837,491
Liabilities		
Reportable segment liabilities	**(6,567,551)**	(4,637,495)
Unallocated corporate liabilities:		
Bank loans and other borrowings	**(1,289,617)**	(900,000)
Liability components of convertible bonds	**(548,415)**	(704,835)
Other unallocated corporate liabilities	**(92,299)**	(95,575)
Consolidated total liabilities	**(8,497,882)**	(6,337,905)

7. SEGMENT REPORTING (CONTINUED)

GEOGRAPHICAL INFORMATION

(a) Revenue from external customers

	2018 **HK$'000**	2017 HK$'000
European countries	**52,065**	52,479
The PRC	**958,705**	1,426,570
The United States of America (the "US")	**20,084**	9,314
Australia	**5,804**	4,518
Hong Kong	**12,538**	12,265
Others	**9,278**	8,033
	1,058,474	1,513,179

The revenue information is based on the location of the customers, the investees or the borrowers.

(b) Non-current assets (other than loan receivables)

	2018 **HK$'000**	2017 HK$'000
The PRC	**5,772,512**	5,256,914
The US	**242,424**	327,612
Hong Kong	**1,082**	430,455
Taiwan	**375,735**	481,873
	6,391,753	6,496,854

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:

	2018 **HK$'000**	2017 HK$'000
Customer A – revenue from sales of electric vehicles	**260,128**	N/A#
Customer B – revenue from sales of electric vehicles	**106,799**	N/A#
Customer C – revenue from sales of electric vehicles	**N/A#**	317,104
Customer D – revenue from sales of electric vehicles	**N/A#**	200,089
Customer E – revenue from sales of cathode materials	**N/A#**	156,125

\# The transactions with these customers did not contribute 10% or more of total revenue of the Group during the years ended 31 March 2018 or 2017, as the case may be.

8. OTHER INCOME/OTHER GAINS AND LOSSES, NET

	2018 HK$'000	2017 HK$'000
Other income		
Interest income	**31,921**	16,147
Government grants *(Note (a))*	**36,223**	47,723
Consultancy income	**346**	487
Gain on disposal of scraps	**1,537**	2,624
Others	**12,438**	5,144
	82,465	72,125

	2018 HK$'000	2017 HK$'000
Other gains and losses, net		
Net gains in respect of Smith and Chanje		
Gain on bargain purchase arising from the acquisition of additional interest in a joint venture *(Note (b))*	**–**	133,850
Impairment on available-for-sale investments	**–**	(23,884)
Impairment on loan and other receivables	**–**	(7,658)
	–	102,308
Other items		
Exchange losses, net	**(17,565)**	(35,338)
Net gain on held-for-trading investments	**13,721**	10,669
Net (loss)/gain on financial assets designated as at fair value through profit or loss *(Note (c))*	**(48,376)**	273
Write-down of inventories *(Note 25)*	**(117,064)**	(1,574)
Reversal of write-down of inventories	**2,520**	–
Impairment on property, plant and equipment *(Note 19(d))*	**(110,207)**	–
Impairment on deposits paid for non-current assets	**(1,816)**	–
Impairment on interest in a joint venture *(Note 22)*	**(42,145)**	–
Impairment on interest in an associate *(Note 21)*	**(61,000)**	–
Impairment on trade receivables *(Note 26(c))*	**(269,987)**	(35,899)
Reversal of impairment on trade receivables	**2,964**	–
Loss on disposal of property, plant and equipment, net	**(1,266)**	(108)
	(650,221)	(61,977)
	(650,221)	40,331

8. OTHER INCOME/OTHER GAINS AND LOSSES, NET (CONTINUED)

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.

(b) The Group and a joint venture partner, Smith Electric Vehicles Corp. ("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 Energy, Inc. ("Chanje", being a joint venture of the Group) 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 ended 31 March 2017, a gain on bargain purchase 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.

(c) The amounts mainly included a net loss on financial assets designated as at fair value through profit or loss of HK$47,848,000 (2017: nil). On 30 October 2017, the convertible bonds issued by FDG Kinetic Limited ("FKL") ("FKL CB") with the principal amount of HK$110,000,000 held by Union Grace Holdings Limited ("Union Grace", a wholly-owned subsidiary of the Company) were disposed of to an independent third party purchaser at a consideration equal to the aggregate of (a) HK$110,000,000 which has been received from the purchaser on the date of the sale and purchase agreement by way of cashier's orders; and additionally (b) in the event the conversion right of any FKL CB is exercised, HK$0.36 per conversion share so converted payable on the date of such exercise by way of cash (the "Contingent Assets"). Such Contingent Assets are designated and measured at fair value and included in financial assets at fair value through profit or loss. Thereafter, any change in fair value of the Contingent Assets is dealt with in profit or loss.

9. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest expenses on convertible bonds		
– issued by the Company	**52,738**	81,496
– issued by a listed subsidiary of the Company	**5,888**	–
Interest on finance leases	**7,985**	2,975
Interest on bank loans and other borrowings wholly repayable within five years	**300,675**	235,135
Other borrowing costs	**31,073**	6,033
Total interest expenses on financial liabilities not at fair value through profit or loss	**398,359**	325,639
Less: Interest expenses capitalised into construction in progress *(Note)*	**(22,354)**	–
	376,005	325,639
Fair value loss on derivative financial instruments	**13,230**	37,897
	389,235	363,536

Note: During the year ended 31 March 2018, borrowing costs were capitalised into qualifying assets at rates ranging from 5.23% to 6.18% (2017: nil) per annum.

10. LOSS BEFORE TAX

Loss before tax is arrived at after (crediting)/charging:

	2018 HK$'000	2017 HK$'000
Interest income	**(44,140)**	(28,748)
Auditor's remuneration *(Note (a))*		
– audit service	**2,880**	2,750
– non-audit service	**480**	180
Cost of inventories recognised as expenses		
– included in cost of sales	**915,249**	1,020,057
– included in selling and distribution costs	**3,783**	2,105
– included in research and development expenses	**48,230**	20,761
– included in other gains and losses	**114,544**	1,574
Amortisation of intangible assets	**230,724**	179,825
Depreciation of property, plant and equipment	**201,868**	134,380
Amortisation of interests in leasehold land held for own use under operating leases	**7,962**	7,768
Warranty provision	**54,353**	28,730
Other operating expenses *(Note (b))*	**79,475**	–
Impairment on goodwill *(Note (c))*	**668,396**	–
Impairment on intangible assets *(Note (d))*	**197,790**	–
Minimum lease payments under operating leases	**66,532**	20,767
Staff costs (including directors' emoluments)		
– salaries and allowances	**378,933**	321,468
– equity-settled share-based payments	**42,813**	5,849
– contributions to retirement benefits schemes	**48,775**	31,926

Notes:

(a) The disclosed amounts excluded remuneration paid to other auditors of certain subsidiaries, amounting to HK$2,397,000 (2017: HK$2,347,000) and HK$564,000 (2017: HK$1,001,000) for audit and non-audit services, respectively.

(b) During the year ended 31 March 2018, the other operating expenses represent certain indirect operating expenses arising from the temporary under-utilisation of production capacity of the electric vehicle production plants in Hangzhou and Yunnan as the Group has incurred resources to upgrade and re-configurate the production lines, enhance production efficiency and apply for listing in the new catalogue of new energy automobile models published by the PRC government in order to meet the new specification requirements on electric vehicles under the PRC government new subsidy policies. Such upgrades, re-configurations and applications have been successfully completed in July 2017 and the electric vehicle production plants are gradually increasing production afterwards.

(c) Goodwill is tested for impairment by allocating to the Group's cash generating units ("CGUs") identified in accordance with the operating segment. During the year ended 31 March 2018, management assessed that goodwill from battery materials production segment operated by Chongqing factory, was impaired by HK$152,969,000 and goodwill from direct investments operated by FKL, was impaired by HK$427,916,000, as the recoverable amounts from these CGUs were less than their carrying amounts. In addition, the Group disposed of the electric vehicle production site in Yunnan on 3 May 2018 (the "Disposal"). As the proceeds from the Disposal is less than its carrying amount, certain assets including goodwill of HK$87,511,000, were fully impaired during the year ended 31 March 2018.

(d) During the year ended 31 March 2018, the battery products segment engaged in the manufacturing and sales of lithium-ion batteries and related products, was subject to the new subsidy policies in the PRC and resulted in weaker than expected sales performance. The Group appointed Grant Sherman Appraisal Limited ("Grant Sherman"), an independent firm of professionally qualified valuers to perform a professional valuation on the recoverable amounts of the CGU for which the intangible assets representing patent using rights within battery products segment were allocated. The valuation performed by Grant Sherman was based on value-in-use calculation. The calculation uses cash flow projections based on financial budgets covering a five-year period approved by the management. The pre-tax discount rate applied to the cash flow forecasts was 20.00% (2017: 22.56%) to reflect specific risks relating to the CGU. The cash flows beyond the five-year period are extrapolated using a terminal growth rate of 3% (2017: 3%) per annum. The growth rate used is determined based on the expected long-term inflation in the PRC.

Based on the valuation performed by Grant Sherman, the management assessed that intangible assets attributable to battery products segment, were impaired by HK$197,790,000 (2017: nil), as the carrying amount of this CGU exceeds its recoverable amounts due to the changes of the business prospects, the demand of battery products decreased due to the new energy subsidy policies in the PRC on the quality of the lithium-ion batteries and the expected future cash flows decreased.

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% (2017: 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 2018 amounted to HK$48,775,000 (2017: HK$31,926,000).

12. INCOME TAX

	2018 **HK$'000**	2017 HK$'000
Current tax charge for the year:		
– PRC Enterprise Income Tax ("EIT")	**1,423**	24,130
– Overseas	**790**	816
	2,213	24,946
Deferred tax credit	**(98,432)**	(41,911)
Total tax credit for the year	**(96,219)**	(16,965)

No provision for the Hong Kong profits tax has been made as the Group incurred losses for taxation purposes in Hong Kong for the years ended 31 March 2018 and 2017. 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 2018 and 2017. Taxes on overseas profits have been calculated at the rates of taxation prevailing in the jurisdictions in which the entity operates. The deferred tax of HK$98,432,000 (2017: HK$41,911,000) that has been credited to the consolidated statement of profit or loss arose from the origination and reversal of temporary differences mainly in respect of fair value adjustments arising from the acquisition of subsidiaries.

12. INCOME TAX (CONTINUED)

The tax credit for the year can be reconciled to the loss per the consolidated statement of profit or loss as follows:

	2018 HK$'000	2017 HK$'000
Loss before tax	**(3,163,350)**	(742,169)
Notional tax on loss before tax, calculated at the rates applicable to the tax jurisdiction concerned	**(629,514)**	(144,049)
Tax effect of non-deductible expenses	**216,915**	52,125
Tax effect of non-taxable income	**(43,065)**	(25,821)
Tax effect of temporary differences not recognised	**109,339**	7,867
Tax effect of tax losses not recognised	**227,350**	111,862
Tax effect of prior years' tax losses utilised	**(4,506)**	(34,007)
Tax effect of share of results of joint ventures and associates	**26,472**	14,242
Withholding tax	**790**	816
Income tax credit for the year	**(96,219)**	(16,965)

13. DIVIDEND

No dividend was paid or declared by the Company during the year (2017: 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$2,230,371,000 (2017: HK$554,849,000) and (ii) the weighted average number of 22,407,637,000 (2017: 22,222,352,000) ordinary shares in issue during the year.

	2018 Weighted average number of ordinary shares '000	2017 Weighted average number of ordinary shares '000
Issued ordinary shares at the beginning of the reporting period	**22,398,476**	21,963,580
Effect of issue of shares upon conversion of convertible bonds	**–**	772
Effect of issue of shares pursuant to share subscriptions	**–**	258,000
Effect of issue of shares upon exercise of share options	**9,161**	–
Weighted average number of ordinary shares at the end of the reporting period	**22,407,637**	22,222,352

(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 of the Group which had an anti-dilutive effect and would result in a reduction in loss per share for the years ended 31 March 2018 and 2017. Therefore, the diluted loss per share is the same as the basic loss per share for both years.

15. DIRECTORS' 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:

	2018				
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share-based payments HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Executive Directors					
Mr. Cao Zhong (Chairman and Chief Executive Officer)	3,000	5,200	9,675	36	17,911
Mr. Miao Zhenguo *(Note (i))*	1,800	3,900	8,909	36	14,645
Mr. Tong Zhiyuan *(Note (ii))*	–	3,863	–	11	3,874
Dr. Chen Yanping *(Note (iii))*	1,800	3,882	7,508	91	13,281
Mr. Jaime Che	1,800	3,250	7,483	36	12,569
Mr. Lo Wing Yat	2,400	–	1,639	–	4,039
Non-executive Director					
Mr. Wong Kwok Yiu *(Note (iv))*	–	–	–	–	–
Independent non-executive Directors					
Mr. Chan Yuk Tong	480	–	1,253	–	1,733
Mr. Fei Tai Hung	480	–	1,253	–	1,733
Mr. Tse Kam Fow	480	–	1,253	–	1,733
Mr. Xu Jingbin *(Note (v))*	480	–	1,062	–	1,542
	12,720	20,095	40,035	210	73,060

15. DIRECTORS' EMOLUMENTS (CONTINUED)

(a) DIRECTORS' EMOLUMENTS (CONTINUED)

	2017				
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share-based payments HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Executive Directors					
Mr. Cao Zhong (Chairman and Chief Executive Officer)	2,982	5,200	241	36	8,459
Mr. Miao Zhenguo *(Note (i))*	1,782	3,900	225	36	5,943
Mr. Tong Zhiyuan *(Note (ii))*	–	450	–	3	453
Dr. Chen Yanping *(Note (iii))*	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 Director					
Mr. Wong Kwok Yiu *(Note (iv))*	–	–	–	–	–
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 (v))*	60	–	–	–	60
	11,878	16,690	1,801	195	30,564

Notes:

(i) Mr. Miao Zhenguo resigned as an executive director of the Company with effect from 12 June 2018.

(ii) Mr. Tong Zhiyuan ("Mr. Tong") has been appointed as the Chief Operating Officer of the Group and an executive director of the Company with effect from 15 February 2017. Mr. Tong has been re-designated from an executive director of the Company to a non-executive director of the Company and ceased to be the Chief Operating Officer of the Group with effect from 3 May 2018. On 4 June 2018, Mr. Tong resigned as a non-executive director of the Company.

(iii) Dr. Chen Yanping was re-designated from the Chief Operating Officer of the Company to the Chief Technical Officer of the Company on 15 February 2017 but remained as an executive director of the Company.

(iv) 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 years ended 31 March 2018 and 2017.

(v) Mr. Xu Jingbin has been appointed as an independent non-executive director of the Company with effect from 15 February 2017.

15. DIRECTORS' EMOLUMENTS (CONTINUED)

(a) DIRECTORS' EMOLUMENTS (CONTINUED)

The aggregate amounts of emoluments payable to the Directors during the year are as follows:

	2018 HK$'000	2017 HK$'000
Fees		
Executive Directors	**10,800**	10,378
Non-executive Director	**–**	–
Independent non-executive Directors	**1,920**	1,500
	12,720	11,878
Other emoluments for Directors		
Basic salaries, allowances and benefits in kind	**20,095**	16,690
Equity-settled share-based payments	**40,035**	1,801
Retirement benefit scheme contributions	**210**	195
	60,340	18,686
	73,060	30,564

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 42.

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 2018 and 2017.

Except for as disclosed in Note 15(a)(iv), no Directors waived or agreed to waive any emolument during the years ended 31 March 2018 and 2017.

(b) FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group are all Directors (2017: all Directors), details of whose emoluments are set out in Note 15(a).

16. ACQUISITION OF SUBSIDIARIES

(a) CHANGES IN OWNERSHIP INTERESTS IN FDG KINETIC LIMITED AND ITS SUBSIDIARIES WITHOUT CHANGE OF CONTROL

The changes in ownership interests in subsidiaries without change of control during the year ended 31 March 2018 mainly arose from (i) a conversion on 27 October 2017 of FKL CB with a principal amount of HK$540,000,000 held by an indirect wholly-owned subsidiary of the Company into 1,588,235,294 ordinary shares of FKL which increased the Company's shareholdings in FKL from approximately 67.19% to approximately 74.89%; and (ii) a conversion on 16 January 2018 of FKL CB with a principal amount of HK$10,000,000 held by a third party into 29,411,764 ordinary shares of FKL, with net proceeds of approximately HK$10,589,000, which reduced the Company's shareholdings in FKL from approximately 74.89% to approximately 74.56%.

The Group accounted for the additional acquisition and partial disposal of interests in subsidiaries without loss of control as equity transactions and the loss of HK$22,635,000 being the difference between the changes in the carrying amount of the non-controlling interests and the fair value of the considerations received was recognised in equity as set out in the consolidated statement of changes in equity.

(b) 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 total issued shares 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 was 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.

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 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 and 1 April 2017	903,481	83,634	904,240	441,216	427,916	2,760,487
Exchange adjustments	97,535	9,029	–	47,631	–	154,195
At 31 March 2018	**1,001,016**	**92,663**	**904,240**	**488,847**	**427,916**	**2,914,682**
Accumulated impairment						
At 1 April 2016	629,903	–	904,240	–	–	1,534,143
Exchange adjustments	(38,684)	–	–	–	–	(38,684)
At 31 March 2017 and 1 April 2017	591,219	–	904,240	–	–	1,495,459
Impairment loss for the year *(Note 10(c))*	–	87,511	–	152,969	427,916	668,396
Exchange adjustments	63,825	5,152	–	–	–	68,977
At 31 March 2018	**655,044**	**92,663**	**904,240**	**152,969**	**427,916**	**2,232,832**
Carrying amount						
At 31 March 2018	**345,972**	**–**	**–**	**335,878**	**–**	**681,850**
At 31 March 2017	312,262	83,634	–	441,216	427,916	1,265,028

17. GOODWILL (CONTINUED)

IMPAIRMENT TESTING OF GOODWILL IN RESPECT OF VEHICLE DESIGN AND ELECTRIC VEHICLE PRODUCTION, DIRECT INVESTMENTS AND BATTERY MATERIAL PRODUCTION

(A) Vehicle design and electric vehicle production in Hangzhou

The recoverable amount of the vehicle design and electric vehicle production unit in Hangzhou, the PRC has been 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	
	2018	2017
Discount rate	**23.19%**	23.25%
Growth rate	**3.00%**	3.00%

The following describes each key assumption on which management has based their cash flow projections to undertake an impairment testing of goodwill for this unit:

Projected cash flow – The projected cash flow of this unit is based on its past performance of these businesses and management's expectation on the market development.

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 beyond the five-year period 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 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 2018 (2017: nil).

(B) Vehicle design and electric vehicle production in Yunnan

On 3 May 2018, the Group entered into a sales and purchase agreement with the Giant Purchaser (as defined in Note 46(a)), pursuant to which the Group agreed to sell and the Giant Purchaser agreed to purchase the entire issued share capital of Giant Industry Holdings Limited ("Giant") (the "Disposal"), which represented the cash-generating unit of vehicle design and electric vehicle production in Yunnan. Taking into account the consideration for the Disposal in determining the recoverable amount of this cash-generating unit, an impairment on goodwill of HK$87,511,000 (2017: nil) was provided for vehicle design and electric vehicle production in Yunnan for the year ended 31 March 2018.

17. GOODWILL (CONTINUED)

IMPAIRMENT TESTING OF GOODWILL IN RESPECT OF VEHICLE DESIGN AND ELECTRIC VEHICLE PRODUCTION, DIRECT INVESTMENTS AND BATTERY MATERIAL PRODUCTION (CONTINUED)

(C) Direct investments

The direct investments segment mainly represents the Group's investment in a listed subsidiary, FKL, which is mainly engaged in the battery materials production and the investment in associates for the businesses of battery production and cathode materials production. The recoverable amount of cash-generating unit relating to the direct investments has been determined based on a value-in-use calculation. The Group appointed Grant Sherman, an independent firm of professional qualified valuers, to perform such valuation. The calculation uses cash flow projections based on financial budgets of various businesses that invested by FKL and covering a five-year period approved by management. The discount rate applied to the cash flow projections is approximately 21.75% (2017: 21.64%). The growth rate used to extrapolate the cash flows of this cash-generating unit beyond the five-year period is 3% (2017: 3%) per annum. Other key assumptions for the value-in-use calculations relate to the estimation of the performance of investment decisions, which is based on the past performance of this cash-generating unit and management's expectations for market development.

The following describes each key assumption on which management has based their cash flow projections to undertake an impairment testing of goodwill for this unit:

Projected cash flow – The projected cash flow from various businesses invested by FKL is based on the past performance of these businesses and management's expectation on the 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 beyond the five-year period is determined based on the expected long-term inflation in the PRC and 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 determined that the recoverable amount of the direct investment segment is less than its carrying value due to the changes in the prospects of these businesses, including battery materials production and battery production businesses. The expected future cash flows decreased as a result of our business prospects changed and the demand of battery products decreased while the battery related industry is influenced by the new subsidy policies in the PRC on the quality of the lithium-ion batteries. Accordingly, impairment losses in respect of goodwill attributable to direct investments segment of HK$427,916,000 (2017: nil) was recognised during the year ended 31 March 2018.

17. GOODWILL (CONTINUED)

IMPAIRMENT TESTING OF GOODWILL IN RESPECT OF VEHICLE DESIGN AND ELECTRIC VEHICLE PRODUCTION, DIRECT INVESTMENTS AND BATTERY MATERIAL PRODUCTION (CONTINUED)

(D) Battery materials production

The recoverable amount of the battery materials production unit has been 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 Grant Sherman, an independent firm of professional 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 a discount rate of 23.17% (2017: 21.61%) determined by the independent valuer using the Capital Assets Pricing Model, which is within Level 3 fair value hierarchy. The cash flows beyond the five-year period are extrapolated using a terminal growth rate of 3% (2017: 3%) per annum.

The following describes each key assumption on which management has based their cash flow projections to undertake impairment testing of goodwill for this unit:

Projected cash flow – The projected cash flow of this cash-generating unit is based on the past performance of these businesses and management's expectation on the market development. It also included future capital expenditure on the cash-generating unit to increase the production capacity, which is expected to result in a substantial increase in the net cash inflows derived from this cash-generating 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 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 beyond the five-year period is determined based on the expected long-term inflation in the PRC and 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 external information sources.

Management determined that the recoverable amount of the battery materials segment is less than its carrying value due to the changes in the prospects of this business. With the change of the business plan of the battery material production segment by supplying battery materials products to the new customer at the relative low gross profit margin pursuant to a cooperation agreement signed on 26 March 2018, it capture most of the production capacity. In addition, as the existing production lines have already reached their maximum utilisation, the Group has to defer the launching of the new products as well as the longer than expected time for completion of the additional production line. Furthermore, affected by the tightening of credit control on existing customers, the sales and production decreased during the year. As a result, the expected future cash flows are expected to decrease and impairment losses in respect of goodwill attributable to the battery materials production unit of HK$152,969,000 (2017: nil) was recognised during the year ended 31 March 2018.

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	Software HK$'000	Total HK$'000
Cost						
At 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 and 1 April 2017	3,676,501	51,230	601,950	33,342	–	4,363,023
Additions	–	–	–	–	17,054	17,054
Additions from internal developments	–	–	189,655	–	–	189,655
Written-off	–	–	–	(34,887)	–	(34,887)
Exchange adjustments	196	5,531	78,291	1,545	1,004	86,567
At 31 March 2018	**3,676,697**	**56,761**	**869,896**	**–**	**18,058**	**4,621,412**
Accumulated amortisation and impairment losses						
At 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 and 1 April 2017	3,353,736	5,566	185,380	32,237	–	3,576,919
Charge for the year	97,299	24,670	106,764	1,157	834	230,724
Impairment loss for the year *(Note 10(d))*	197,790	–	–	–	–	197,790
Written-off	–	–	–	(34,887)	–	(34,887)
Exchange adjustments	76	2,054	26,300	1,493	49	29,972
At 31 March 2018	**3,648,901**	**32,290**	**318,444**	**–**	**883**	**4,000,518**
Carrying amount						
At 31 March 2018	**27,796**	**24,471**	**551,452**	**–**	**17,175**	**620,894**
At 31 March 2017	322,765	45,664	416,570	1,105	–	786,104

18. INTANGIBLE ASSETS (CONTINUED)

Notes:

(a) Intangible assets mainly represent:

(1) the exclusive using rights of certain licensed patents granted to the Group through various acquisitions in 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 represents 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 non-controlling shareholder of Yunnan FDG (as defined in Note 20), for a term of three years from 7 May 2014 at nil consideration. Such lease contractual rights were fully amortised and written-off during the year ended 31 March 2018.

(b) As at 31 March 2018 and 2017, the recoverable amounts of the cash generating units for which the intangible assets were allocated were assessed by the Board by reference to the professional valuations performed by Grant Sherman, an independent firm of professionally qualified valuers. The valuations performed by Grant Sherman were based on the higher of value-in-use and fair value less costs of disposal, using cash flow forecasts approved by the Board. The pre-tax discount rate applied to the cash flow forecasts ranged from 20.00% to 23.19% (2017: 21.61% to 26.00%) per annum. The Board is of the opinion that, based on the valuations performed by Grant Sherman, an impairment loss on intangible assets for patent using rights attributable to the battery products segment of HK$197,790,000 (2017: Nil) was recognised in the consolidated statement of profit or loss for the year ended 31 March 2018 (Note 10(d)).

Δ *For identification purpose*

19. PROPERTY, PLANT AND EQUIPMENT AND INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

	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 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 and 1 April 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
Additions	–	–	9,122	29,363	7,819	12,418	–	293,834	352,556	–	352,556
Exchange adjustments	11,112	118,377	3,362	110,529	10,740	2,355	219	129,405	386,099	38,645	424,744
Transfers	–	106,466	1,050	40,543	1,390	–	–	(149,449)	–	–	–
Disposals	–	(801)	–	(1,556)	(473)	(768)	(3,969)	–	(7,567)	–	(7,567)
At 31 March 2018	**114,046**	**1,262,956**	**45,887**	**1,245,844**	**120,664**	**33,392**	**443**	**1,393,963**	**4,217,195**	**396,624**	**4,613,819**
Accumulated depreciation and amortisation and impairment losses											
At 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 and 1 April 2017	16,473	46,293	10,345	195,437	39,091	11,805	3,640	–	323,084	25,670	348,754
Charge for the year	4,659	57,312	4,107	113,310	18,232	4,248	–	–	201,868	7,962	209,830
Impairment loss for the year *(Notes (d) and 8)*	–	–	21,105	77,950	2,701	934	–	7,517	110,207	–	110,207
Exchange adjustments	2,053	8,365	2,329	30,202	5,047	1,152	191	443	49,782	3,240	53,022
Disposals	–	(140)	–	(1,476)	(461)	(733)	(3,438)	–	(6,248)	–	(6,248)
At 31 March 2018	**23,185**	**111,830**	**37,886**	**415,423**	**64,610**	**17,406**	**393**	**7,960**	**678,693**	**36,872**	**715,565**
Carrying amount											
At 31 March 2018	**90,861**	**1,151,126**	**8,001**	**830,421**	**56,054**	**15,986**	**50**	**1,386,003**	**3,538,502**	**359,752**	**3,898,254**
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

Notes:

(a) All of the Group's land and buildings were held in the PRC under medium-term leases as at 31 March 2018 and 2017.

(b) As at 31 March 2018, certain land and buildings, plant and machinery and construction in progress of the Group with a total carrying amount of HK$2,497,659,000 (2017: HK$2,332,690,000) were pledged as securities for the Group's bank loans and other borrowings (Notes 31(a) and (b)).

(c) As at 31 March 2018, the carrying amount of plant and machinery held under finance leases was HK$162,031,000 (2017: HK$78,264,000) (Note 34).

(d) The Group disposed of a wholly-owned subsidiary, Giant which indirectly holds 50% interests in Yunnan FDG (as defined in Note 20) which operates the electric vehicle production site in Yunnan on 3 May 2018. As the proceeds from the disposal is less than the carrying amount of Giant, an impairment loss on property, plant and equipment of HK$110,207,000 was recognised during the year ended 31 March 2018 (2017: nil).

20. SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 March 2018 are as follows:

Name	Place of incorporation and operation	Issued and fully paid capital/ registered capital	Percentage of equity interest held by the Company Directly 2018	Directly 2017	Indirectly 2018	Indirectly 2017	Principal activities
Agnita Limited	British Virgin Islands	US$10,000	–	–	100%	100%	Investment holding
Basland Enterprises Ltd.	British Virgin Islands	US$100	100%	100%	–	–	Investment holding
FDG Kinetic Limited#	Bermuda	HK$1,350,658,782	–	–	74.56%	67.19%	Investment holding
Five Dragons Electric Vehicle Limited	Hong Kong	HK$100	–	–	100%	100%	Investment holding
Glory Era Limited	Hong Kong	HK$10,000	100%	100%	–	–	Human resources, administrative management and consultancy services
Lucky Metro Trading Ltd.	British Virgin Islands	US$100	–	–	100%	100%	Investment holding
Preferred Market Limited	British Virgin Islands	US$1	100%	100%	–	–	Investment holding
Qiyang Limited	British Virgin Islands	US$1	100%	100%	–	–	Investment holding
Sinopoly Battery International Limited	Hong Kong	HK$1	–	–	100%	100%	Distribution and sale of battery products
Sinopoly Battery Limited	Hong Kong	HK$1	–	–	93.64%	91.80%	Investment holding
Sinopoly Battery Research Center Limited	Hong Kong	HK$1	–	–	93.64%	91.80%	Research and development
Synergy Dragon Limited	British Virgin Islands	US$100	–	–	93.64% *(Note 3)*	91.80%	Investment holding
Thunder Sky Energy Technology Limited	Hong Kong	HK$1,000,000	–	–	100%	100%	Investment holding
Union Grace Holdings Limited	British Virgin Islands	US$1,000	–	–	100%	100%	Investment holding
Sinopoly New Energy Investment Co., Ltd. *(Note 1)*	The PRC	HK$350,000,000*	–	–	93.64%	91.80%	Investment holding, purchase of battery raw materials and sale of battery products
天津中聚新能源科技有限公司 (Tianjin Sinopoly New Energy Technology Co., Ltd.△) *(Note 1)*	The PRC	HK$818,000,000	–	–	93.64%	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.△) *(Note 1)*	The PRC	HK$177,000,000*	–	–	93.64%	91.80%	Manufacture and sale of battery products

20. SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries as at 31 March 2018 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 Directly 2018	Directly 2017	Indirectly 2018	Indirectly 2017	Principal activities
北京中聚力佳科技有限公司 (Beijing Sinopoly Li Jia Technology Co., Ltd.△) *(Note 1)*	The PRC	HK$13,000,000*	–	–	**93.64%**	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.△) *(Note 1)*	The PRC	HK$10,000,000*	–	–	**93.64%**	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.△) *(Note 2)*	The PRC	RMB10,000,000*	–	–	**93.64%**	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.△) *(Note 2)*	The PRC	RMB10,000,000*	–	–	**93.64%**	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.△) *(Note 2)*	The PRC	RMB80,000,000*	–	–	**80% *(Note 4)***	80%	Design of electric vehicles
杭州長江汽車有限公司 (Hangzhou Changjiang Automobile Co., Ltd.△) *(Note 2)*	The PRC	RMB1,000,000,000*	–	–	**49.94% *(Note 5)***	49.94%	Manufacture and distribution of electric vehicles
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)***	50%	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*	–	–	**74.56%**	67.19%	Manufacture and trading of cathode materials for nickel-cobalt-manganese lithium-ion battery
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)***	43.68%	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)***	37.98%	Manufacture and distribution of electric vehicles

20. SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries as at 31 March 2018 are as follows: (Continued)

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 wholly-owned by FKL, a 74.56% non-wholly-owned subsidiary of the Group. Accordingly, the Group owned 93.64% effective interest in SDL and its wholly-owned subsidiaries.

Note 4: Jasmin International Auto R&D (Beijing) Co., Ltd.[Δ] ("Jasmin Beijing") was 80% owned by Agnita Limited ("Agnita") which was wholly-owned by the Group. Accordingly, the Group owned 80% effective interest in Jasmin Beijing.

Note 5: Hangzhou Changjiang Automobile Co., Ltd.[Δ] ("Hangzhou Changjiang") was 49% owned by Agnita and 1.17% owned by Jasmin Beijing which was controlled by the Group through Agnita. Accordingly, the Group owned 49.94% effective interest in Hangzhou Changjiang. As the Group has the right to nominate and appoint the majority of the directors to control the board of Hangzhou Changjiang, Hangzhou Changjiang was regarded as a subsidiary of the Company.

Note 6: Yunnan FDG Automobile Co., Limited[Δ] ("Yunnan FDG") was 50% owned by Hong Kong Southwest Electric Vehicles Limited ("Southwest EV") which was wholly-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. Yunnan FDG has been disposed of on 3 May 2018, and details of the disposal are disclosed in Note 46 to the consolidated financial statements.

Note 7: Hangzhou Changjiang Passenger Vehicles Co., Ltd.[Δ] ("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. As Hangzhou Changjiang and Jasmin Beijing together have the right to nominate and appoint the majority of the directors to control the board of Changjiang Passenger, Changjiang Passenger was regarded as a subsidiary of the Company.

Note 8: Guizhou Changjiang Automobile Co., Ltd.[Δ] ("Guizhou Changjiang") was 26% owned by Hangzhou Changjiang, and 25% owned by FDG Electric Vehicles (Guian) Holdings Limited ("FDG Guian") which was 100% owned by the Group. Accordingly, the Group owned 37.98% effective interest in Guizhou Changjiang. As Hangzhou Changjiang and FDG Guian together have the right to nominate and appoint the majority of the directors to control the board of Guizhou Changjiang, Guizhou Changjiang was regarded as a subsidiary of the Company.

* The registered capital has been fully paid-up.

Δ 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.

	2018					
	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%**	**25.44%**
Current assets	**834,926**	**102,324**	**483,345**	**2,530,796**	**463,887**	**505,513**
Non-current assets	**189,783**	**591,810**	**552,882**	**3,000,797**	**311**	**1,311,621**
Current liabilities	**(68,494)**	**(433,671)**	**(197,997)**	**(4,245,939)**	**(806,779)**	**(644,964)**
Non-current liabilities	**–**	**–**	**(645,203)**	**(1,209,012)**	**–**	**(76,420)**
Net assets/(liabilities)	**956,215**	**260,463**	**193,027**	**76,642**	**(342,581)**	**1,095,750**
Carrying amount of NCI	**623,418**	**68,986**	**35,386**	**35,443**	**(171,291)**	**278,758**
Revenue	**87,791**	**–**	**58,930**	**574,646**	**305,475**	**262,303**
Loss for the year	**(56,531)**	**(66,589)**	**(132,646)**	**(701,538)**	**(228,033)**	**(1,026,653)**
Loss allocated to NCI	**(35,058)**	**(37,504)**	**(26,529)**	**(351,218)**	**(114,016)**	**(272,435)**
Total comprehensive loss	**(23,154)**	**(38,261)**	**(93,433)**	**(667,391)**	**(251,313)**	**(862,668)**
Dividend paid to NCI	**–**	**–**	**–**	**–**	**–**	**–**
Cash flows generated from/(used in) operating activities	**(241,236)**	**(11,351)**	**(78,262)**	**(581,429)**	**(67,909)**	**49,749**
Cash flows generated from/(used in) investing activities	**(176,251)**	**(32,575)**	**(105,151)**	**(91,897)**	**(14,807)**	**6,089**
Cash flows generated from/(used in) financing activities	**–**	**46,665**	**179,882**	**564,846**	**80,506**	**(44,810)**

	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 generated from/(used in) operating activities	(4,022)	(4,238)	(57,215)	(1,118,319)	13,378	(65,659)
Cash flows generated from/(used in) investing activities	(261)	(99,123)	499,752	(506,412)	(48,823)	(366,061)
Cash flows generated from/(used in) financing activities	928,248	103,069	(448,942)	1,434,597	26,854	343,424

21. INTERESTS IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
Net assets of the associates attributable to the Group	**375,128**	249,756
Goodwill, net of impairment losses	**61,014**	122,014
Carrying amount of the Group's interests in associates	**436,142**	371,770

Particulars of the principal associates at 31 March 2018 are as follows:

Name	Place of incorporation and operation	Issued and fully paid capital/ registered capital	Proportion of ownership interest: Group's effective interest 2018	Group's effective interest 2017	Held by a subsidiary 2018	Held by a subsidiary 2017	Principal activities
Advanced Lithium Electrochemistry (Cayman) Co., Ltd. ("ALEEES")	The Cayman Islands/Taiwan	New Taiwan Dollar ("NT$") 2,105,736,540 (210,573,654 shares of NT$10 each)	**16.29%**	14.68%	**21.85%**	21.85%	Research and development, production, and marketing and sales of cathode materials for lithium ferrous phosphate batteries
立凱電能科技(貴州)有限公司 (ALEEES (GuiZhou) Co., Ltd△)	The PRC	RMB250,000,000	**38.03%**	N/A	**51%**	N/A	Research and development, sales and manufacturing of new energy battery materials

△ *For identification purpose.*

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 amounts in the consolidated financial statements, are disclosed below:

	2018 **HK$'000**	2017 HK$'000
Gross amounts of the associate's:		
Non-current assets	**908,215**	1,042,126
Current assets	**167,312**	247,952
Non-current liabilities	**(63,515)**	(77,910)
Current liabilities	**(35,828)**	(80,203)
Net assets	**976,184**	1,131,965
Revenue	**153,106**	160,747
Loss for the year	**(227,227)**	(79,235)
Other comprehensive income/(loss) for the year	**71,446**	(29,596)
Total comprehensive loss for the year	**(155,781)**	(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	**976,184**	1,131,965
Less: Net assets of the associate attributable to non-controlling interests of the associate	**(3)**	(3)
	976,181	1,131,962
Proportion of the Group's ownership interest in the associate	**21.85%**	21.85%
Net assets of the associate attributable to the Group	**213,247**	247,278
Goodwill	**122,014**	122,014
Impairment losses recognised *(Note)*	**(61,000)**	–
Carrying amount of the Group's interest in the associate	**274,261**	369,292

Note: As at 31 March 2018, the carrying amount of the interest in ALEEES exceeded its recoverable amount which was based on its market value less cost of disposal, and thus an impairment of HK$61,000,000 was recognised in the consolidated statement of profit or loss. The decrease in recoverable amount was caused by the decrease in demand of battery products under the new energy subsidy policies which in return influence the demand of cathode materials for batteries, with the changes of the business prospects, the expected future cash flows decreased.

21. INTERESTS IN ASSOCIATES (CONTINUED)

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2018 HK$'000	2017 HK$'000
Aggregate carrying amount of individually immaterial associates in the consolidated statement of financial position	**161,881**	2,478

	2018 HK$'000	2017 HK$'000
Aggregate amounts of the Group's share of the associates'		
– Profit/(loss) from continuing operations	**12**	(524)
– Other comprehensive income/(loss)	**270**	(184)
– Total comprehensive income/(loss)	**282**	(708)

22. INTERESTS IN JOINT VENTURES

	2018 HK$'000	2017 HK$'000
Share of net assets	**354,692**	425,550

Particulars of the principal joint ventures at 31 March 2018 are as follows:

Name	Place of incorporation and operation	Issued and fully paid capital/ registered capital	Proportion of ownership interest: Group's effective interest **2018**	Group's effective interest 2017	Held by a subsidiary **2018**	Held by a subsidiary 2017	Principal activities
Chanje	The US	US$4.5 (45,000 common stocks of US$0.0001 each)	**82.22%** ***(Note)***	80%	**82.22%**	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	**33.55%**	30.24%	**45%**	45%	Investment, construction and operation of wind power electricity facility, development, generation and sale of wind power electricity; provision of consultancy and relate services in respect of electricity projects

△ *For identification purpose.*

Note: In October 2017, the Group contributed an additional US$5,000,000 (equivalent to approximately HK$38,750,000) to the capital of Chanje to subscribe for 2,500 common stocks of Chanje and capitalised US$5,000,000 (equivalent to approximately HK$38,750,000) of loans to Chanje by the Group into 2,500 common stocks of Chanje. Following the completion of the subscription and capitalisation, Chanje was owned as to approximately 82.22% by the Group and as to approximately 17.78% by Smith. As the Group cannot command controlling votes in the board of directors of Chanje, Chanje continues to be accounted for as a joint venture of the Group.

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 amounts in the consolidated financial statements, are disclosed below:

	2018 **HK$'000**	2017 HK$'000
Gross amounts of the joint venture's		
Non-current assets	**511,564**	552,548
Current assets	**9,048**	3,650
Current liabilities	**(95,491)**	(61,639)
Net assets	**425,121**	494,559
Revenue	**21,894**	597
Loss for the year	**(146,938)**	(99,595)
Other and total comprehensive loss	**(146,938)**	(99,595)
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	**425,121**	494,559
Proportion of the Group's ownership interest in the joint venture	**82.22%**	80.00%
Net assets of the joint venture attributable to the Group	**349,534**	395,647
Goodwill	**4,689**	–
Impairment loss recognised *(Note)*	**(42,145)**	–
Adjusted by the Group's interest in the excess (the "Excess") of the agreed consideration of intangible assets contributed by the Group upon being transferred, in 2016, 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	**(69,654)**	(68,035)
Carrying amount of the Group's interest in the joint venture	**242,424**	327,612

Note: As at 31 March 2018, the carrying amount of the interest in Chanje exceeded its recoverable amount which was based on its value in use, determined based on the present value of the future cash flows, and thus an impairment of HK$42,145,000 was recognised in the consolidated statement of profit or loss. The decrease in recoverable amount was mainly caused by the longer than expected time for the realisation of sales in the US market.

22. INTERESTS IN JOINT VENTURES (CONTINUED)

The following table illustrates the aggregate financial information of the Group's joint venture that are not individually material:

	2018 HK$'000	2017 HK$'000
Aggregate carrying amount of individually immaterial joint venture in the consolidated statement of financial position	**112,268**	97,938

	2018 HK$'000	2017 HK$'000
Aggregate amounts of the Group's share of the joint venture's		
– Profit from continuing operations	**3,493**	543
– Other comprehensive income/(loss)	**10,837**	(6,276)
– Total comprehensive income/(loss)	**14,330**	(5,733)

23. DEPOSITS PAID FOR NON-CURRENT ASSETS

As at 31 March 2018, deposits paid of HK$392,505,000 (2017: HK$144,908,000) were mainly for the purchase of machineries and equipment and moulding for the Group's production plants.

24. OTHER NON-CURRENT ASSETS

	2018 HK$'000	2017 HK$'000
Prepaid expenses	**7,049**	7,795
Club debentures	**367**	367
	7,416	8,162

25. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	**274,153**	287,859
Work in progress	**95,185**	7,652
Finished goods	**197,491**	362,456
	566,829	657,967

Note: During the year ended 31 March 2018, write-down of inventories amounted to HK$117,064,000 (2017: HK$1,574,000) mainly arising from certain types of battery products and their related raw materials which were less compatible with new electric vehicle requirements.

26. TRADE AND BILLS RECEIVABLES

	2018 **HK$'000**	2017 HK$'000
Trade receivables	**1,732,436**	1,291,007
Bills receivable	**14,682**	10,936
Less: Allowance for doubtful debts *(Note (c))*	**(337,951)**	(50,161)
	1,409,167	1,251,782

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:

	2018 **HK$'000**	2017 HK$'000
Within 1 month	**54,731**	35,721
Over 1 month but within 3 months	**114,645**	52,386
Over 3 months but within 6 months	**251,596**	851,732
Over 6 months but within 9 months	**154,976**	145,784
Over 9 months but within 1 year	**126**	113,734
Over 1 year	**833,093**	52,425
	1,409,167	1,251,782

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.

During the year ended 31 March 2018, the Group performed recoverability assessments on those long overdue customers. Amount of HK$269,987,000 (2017: HK$35,899,000) was recognised as allowance for doubtful debts after reviewing the financial status and repayment records of those individual customers, as well as the status of the electric vehicles sold to them. 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 entered into between the Group and these customers. As at 31 March 2018, the subsidies receivable from the PRC government amounting to HK$680,422,000 (2017: HK$499,615,000), which are principally grouped under the age bands of over 1 year (2017: over 3 months but within 6 months), are subject to the relevant subsidy policies and were not considered past due.

26. TRADE AND BILLS RECEIVABLES (CONTINUED)

Notes: (Continued)

(b) The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired is as follows:

	2018 **HK$'000**	2017 HK$'000
Neither past due nor impaired	**944,503**	822,196
Less than 1 month past due	**2,279**	39,930
Between 1 and 3 months past due	**55,248**	20,982
Between 3 and 6 months past due	**91,583**	221,831
Between 6 and 9 months past due	**2,854**	102,878
Between 9 months and 1 year past due	**108,625**	4,595
More than 1 year past due	**204,075**	39,370
Past due but not impaired	**464,664**	429,586
	1,409,167	1,251,782

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 2018 and 2017, the Group does not hold any collateral over these balances.

(c) Movements in allowance for doubtful debts for trade receivables are as follows:

	2018 **HK$'000**	2017 HK$'000
At 1 April	**50,161**	15,920
Impairment loss recognised *(Note 8)*	**269,987**	35,899
Reversal of impairment on trade receivables *(Note 8)*	**(2,964)**	–
Written off	**(98)**	–
Exchange adjustments	**20,865**	(1,658)
At 31 March	**337,951**	50,161

During the year ended 31 March 2018, the Group performed recoverability assessments on those long overdue trade receivables. An amount of HK$269,987,000 (2017: HK$35,899,000) was recognised as allowance for doubtful debts which was mainly for the trade receivables attributable to the vehicle design and electric vehicle production segment. Based on the current government policies, the sold electric vehicles need to have above 20,000 kilometres usage before the relevant subsidies would be paid by the PRC government on behalf of the customers. As at 31 March 2018, accumulated usage of some of the sold electric vehicles were less than prescribed mileage usage for government subsidies, the Board is of the view that longer than expected time may be required for the Group to receive those government subsidies and due to such uncertainty, allowance for doubtful debts of these trade receivables was made. Furthermore, after reviewing the financial status and repayment records of some individual customers, additional allowance for doubtful debts of trade receivables was made.

At 31 March 2018, trade receivables of HK$794,475,000 (2017: HK$69,117,000), which were individually determined to be doubtful, mainly related to electric vehicle customers with certain electric vehicles purchased from the Group with less than normal mileage usage (2017: mainly related to battery products and battery materials customers that were in financial difficulties). According to the assessments performed by the management, specific allowances for doubtful debts of HK$337,951,000 (2017: HK$50,161,000) were recognised.

27. LOAN AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Loan receivables *(Note (a))*	**211,344**	221,507
Other receivables	**418,615**	323,556
Less: Allowance for doubtful debts *(Note (b))*	**(73,432)**	(71,283)
	556,527	473,780
Deposits and prepayments	**244,366**	123,580
Value-added-tax receivables	**391,240**	280,722
	1,192,133	878,082

	2018 HK$'000	2017 HK$'000
Presented by:		
Non-current assets	**16,128**	398
Current assets	**1,176,005**	877,684
	1,192,133	878,082

Notes:

(a) The loan 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. Other than loans to a joint venture as disclosed in Note 45(d), loan receivables bear interest ranging from 6.00% to 28.50% (2017: 6.00% to 28.50%) per annum. Out of these loans, a secured loan of HK$59,925,000 (2017: HK$54,086,000) (the "Loan") for 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 (2017: over one year) as at 31 March 2018. On 17 December 2015, the Group appointed CITIC International Assets Management Limited ("CIAM") as its exclusive agent in handling and collecting the Loan and its outstanding accrued interest for twenty four calendar months from 17 December 2015 (the "Contract Period"). On 17 December 2017, CIAM and the agent signed a supplemental agreement to extend the collecting period from 17 December 2017 to 17 June 2018, which was further extended to 17 September 2018 on 15 June 2018 (the "Extended Period"). CIAM paid deposits by instalments of RMB56,000,000 (equivalent to approximately HK$69,888,000 (2017: 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 the Extended 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.

27. LOAN AND OTHER RECEIVABLES (CONTINUED)

Notes: (Continued)

(b) Movements in allowance for doubtful debts for loan and other receivables are as follows:

	2018 HK$'000	2017 HK$'000
At 1 April	**71,283**	64,928
Impairment loss charged to profit or loss *(Note 8)*	**–**	7,658
Exchange adjustments	**2,149**	(1,303)
At 31 March	**73,432**	71,283

Included in loan and other receivables is an amount of HK$28,785,000 (2017: HK$28,785,000) due from certain of the Chung Parties (as defined in Note 39), 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 recognised 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$92,996,000 (2017: HK$84,038,000), representing the secured loan as described in Note 27(a) and related accrued interest and consultancy fee income receivables. Based on the impairment assessment on the individually loan and other receivables performed by the management, no impairment allowance (2017: nil) was recognised for the year ended 31 March 2018. As at 31 March 2018, accumulated impairment allowance amounted to HK$23,108,000 (2017: HK$20,960,000).

Included in loan and other receivables are amounts totaling HK$22,069,000 (2017: HK$22,069,000) due from a joint venture partner, Smith. Based on the impairment assessment on the creditability of Smith which was in financial difficulties, no impairment allowance (2017: HK$7,658,000) was recognised for the year ended 31 March 2018. As at 31 March 2018, accumulated impairment allowance amounted to HK$21,539,000 (2017: HK$21,539,000).

Except for loans receivables of HK$16,128,000 (2017: HK$398,000) 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.

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK$'000	2017 HK$'000
Held-for-trading investments:		
Listed equity securities	**15,495**	41,594
Unlisted funds	**7,005**	8,406
	22,500	50,000
Financial asset designated as at fair value through profit or loss	**57,054**	–
	79,554	50,000

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.

Financial asset designated as at fair value through profit or loss represents contingent receivable derived from the disposal of the convertible bonds issued by FKL to an independent third party, details of which are disclosed in Note 35(e).

29. PLEDGED BANK DEPOSITS

As at 31 March 2018, bank deposits of HK$180,136,000 (2017: HK$104,969,000), HK$54,181,000 (2017: HK$55,194,000) and HK$1,000,000 (2017: nil) were pledged as security for the issuance of bills payables, bank loans and other borrowings, and other banking facilities of the Group, respectively.

As at 31 March 2018, pledged bank deposits of HK$234,317,000 (2017: HK$160,163,000) 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.

30. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) CASH AND CASH EQUIVALENTS

	2018 HK$'000	2017 HK$'000
Cash at bank and in hand	**703,722**	1,251,566
Short-term bank deposits	**48,629**	69,844
Cash and cash equivalents	**752,351**	1,321,410

At the end of the reporting period, cash and cash equivalents of the PRC subsidiaries denominated in RMB amounted to HK$654,001,000 (2017: HK$1,183,396,000). 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.

30. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (CONTINUED)

(b) RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows used in financing activities.

	Interest payable HK$'000	Bank loans and other borrowings HK$'000 *(Note 31)*	Obligations under finance leases HK$'000 *(Note 34)*	Liability components of convertible bonds HK$'000 *(Note 35)*	Total HK$'000
At 1 April 2017	36,284	2,435,259	69,891	704,835	3,246,269
Changes from financing cash flows:					
– Proceeds from bank loans and other borrowings	–	2,208,160	–	–	2,208,160
– Proceeds from sale and leaseback transactions classified as finance leases	–	–	117,860	–	117,860
– Receipt on disposal of convertible bonds of a subsidiary, attributable to liability component *(Note 35(e))*	–	–	–	105,411	105,411
– Proceeds from issuance of convertible bonds, net of issuing costs, attributable to liability component *(Note 35(c))*	–	–	–	331,617	331,617
– Repayment of bank loans and other borrowings, finance leases, and convertible bonds	–	(1,999,075)	(70,275)	(69,878)	(2,139,228)
– Interest paid	(318,131)	–	(7,985)	(1,140)	(327,256)
– Reclassification upon maturities of convertible bonds	–	459,500	–	(459,500)	–
Net changes from financing cash flows	(318,131)	668,585	39,600	(93,490)	296,564
Non-cash items:					
– Interest expenses recognised and charged to consolidated profit or loss *(Note 9)*	345,529	–	7,985	44,845	398,359
– Interest recognised and capitalised in construction in progress *(Note 9)*	(22,354)	–	–	–	(22,354)
– Conversion to ordinary shares of a subsidiary *(Note 35(e))*	–	–	–	(9,696)	(9,696)
– Exchange adjustments	–	218,807	10,347	–	229,154
Net changes from non-cash items	323,175	218,807	18,332	35,149	595,463
At 31 March 2018	**41,328**	**3,322,651**	**127,823**	**646,494**	**4,138,296**

31. BANK LOANS AND OTHER BORROWINGS

At 31 March 2018, bank loans and other borrowings were repayable as follows:

	2018 HK$'000	2017 HK$'000
Within 1 year	**1,628,383**	1,340,776
After 1 year but within 2 years	**564,901**	319,917
After 2 years but within 5 years	**1,129,367**	774,566
	3,322,651	2,435,259

	2018 HK$'000	2017 HK$'000
Presented by:		
Current liabilities	**1,628,383**	1,340,776
Non-current liabilities	**1,694,268**	1,094,483
	3,322,651	2,435,259

At 31 March 2018, bank loans and other borrowings were as follows:

	2018 HK$'000	2017 HK$'000
Bank loans		
– secured *(Note (a))*	**1,799,442**	1,547,556
– unsecured	**149,760**	157,696
Total bank loans *(Note (c))*	**1,949,202**	1,705,252
Other borrowings		
– secured *(Note (b))*	**1,113,949**	697,457
– unsecured	**259,500**	32,550
Total other borrowings *(Note (c))*	**1,373,449**	730,007
	3,322,651	2,435,259

31. BANK LOANS AND OTHER BORROWINGS (CONTINUED)

Notes:

(a) As at 31 March 2018, the bank loans were secured by certain land and buildings, machinery and equipment, and construction in progress of the Group with a total carrying amount of HK$2,497,659,000 (2017: HK$2,332,690,000), share charges over certain shares of the subsidiaries of the Company, trade and bills receivables of HK$30,891,000 (2017: nil), bank deposits of nil (2017: HK$55,194,000) and intra-group trade receivables of the Group, 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 10 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 total banking facilities of RMB3,052,840,000 (equivalent to HK$3,809,345,000) (2017: 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 RMB2,580,000,000 (equivalent to HK$3,219,840,000) (2017: HK$2,906,112,000) in favour of several banks in respect of the Facilities. 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. The Facilities included term loans and trade lines for the existing operations 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 the 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 2018, secured other borrowings included (i) a loan of HK$583,602,000 which was secured by debentures in favour of the lender by way of the first fixed and floating charges over the tangible moveable property and investments of two wholly-owned subsidiaries of the Company and share charges over all issued shares of its two wholly-owned subsidiaries and 74.56% of the issued shares of FKL, a non-wholly-owned listed subsidiary of the Company; (ii) a loan of HK$150,000,000 which was secured by certain principal amount of convertible bonds of FKL held by the Group, a fixed and floating charge over all the undertaking, property and assets of a wholly-owned subsidiary of the Company and a share charge over 51% of issued shares of its wholly-owned subsidiary; (iii) loans of HK$294,136,000 which were secured by intra-group trade and bill receivables and a bank deposit of HK$54,181,000 of the Group; and (iv) loans of HK$86,211,000 which were secured by certain machineries of the Group.

As at 31 March 2017, other borrowings of HK$697,457,000 were secured by, inter alia, 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 its two wholly-owned subsidiaries and a share charge over certain shares of FKL, and the guarantee from two executive directors of the Company. When any events of default under the loan agreement occurred and is continuing, the lender will be entitled to sell 51.41% of the issued shares of FKL to satisfy any sum due and payable but unpaid to the lender.

(c) As at 31 March 2018, bank loans of HK$1,949,202,000 (2017: HK$1,705,252,000) were denominated in RMB, US$ or Euro and bearing interest at prevailing market interest rates; and other borrowings of HK$1,373,449,000 (2017: HK$730,007,000) were denominated in RMB, HK$ or US$ and bearing fixed interest rates.

32. TRADE AND BILLS PAYABLES

	2018 **HK$'000**	2017 HK$'000
Trade payables	**626,599**	578,479
Bills payable	**333,030**	167,065
	959,629	745,544

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

	2018 **HK$'000**	2017 HK$'000
Within 1 month	**83,559**	93,343
Over 1 month but within 3 months	**242,510**	131,114
Over 3 months but within 1 year	**521,065**	474,561
Over 1 year	**112,495**	46,526
	959,629	745,544

The carrying amounts of trade and bills payables approximate their fair values. As at 31 March 2018, bills payable of HK$179,660,000 (2017: HK$127,131,000) were secured by bank deposits of HK$177,790,000 (2017: HK$94,429,000).

33. ACCRUALS AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Bills and other payables for acquisition of non-current assets *(Note (a))*	**456,708**	386,220
Other payables and accrued expenses	**697,915**	306,013
Amounts due to directors *(Note (b))*	**23,971**	–
	1,178,594	692,233
Value-added-tax payables	**877**	1,901
Receipts in advance	**122,094**	17,577
Warranty provision *(Note (c))*	**74,059**	28,433
	1,375,624	740,144

Notes:

(a) As at 31 March 2018, bills payable for the acquisition of non-current assets of HK$2,346,000 (2017: HK$15,045,000) were secured by bank deposits of HK$2,346,000 (2017: HK$10,540,000).

(b) The amounts were unsecured, interest-free and repayable on demand as at 31 March 2018. These transactions constituted related party transactions and connected transactions of the Company which however, are fully exempted from shareholders' approval, annual review and all disclosure requirements under the Listing Rules.

(c) Movements in warranty provision during the year are as follows:

	HK$'000
At 1 April 2017	28,433
Provision made during the year	54,353
Provision utilised during the year	(13,911)
Exchange adjustments	5,184
At 31 March 2018	**74,059**

The Group generally provides one-year to three-year warranties on certain of its battery products and three-year to five-year warranties on the electric vehicles sold, 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.

34. OBLIGATIONS UNDER FINANCE LEASES

During the year ended 31 March 2018, the Group has entered into various sale and leaseback transactions with independent third parties by way of sale and leasing back of certain plant and machinery. In accordance with the lease agreements, the terms of the leases ranged from one to three years (2017: three years) with a fixed interest rate ranging from 5.4% to 6.0% (2017: 6.0%) per annum, secured by the lessor's charge over the leased plant and machinery (Note 19(c)) and certain leases are guaranteed by an indirect non-wholly-owned subsidiary of the Company. The ownership of those assets will be transferred back to the Group upon the end of the lease terms. These transactions are considered as sale and leaseback arrangements resulting in finance leases.

At 31 March 2018, the Group's total minimum lease payments under finance lease obligations and their present value are as follows:

	Minimum lease payments		**Present value of minimum lease payments**	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**120,120**	32,220	**115,235**	28,394
More than one year, but not exceeding two years	**12,982**	32,220	**12,588**	30,135
More than two years, but not exceeding five years	**–**	11,716	**–**	11,362
	133,102	76,156	**127,823**	69,891
Less: Future finance charges	**(5,279)**	(6,265)	**–**	–
Present value of lease obligations	**127,823**	69,891	**127,823**	69,891

	2018	2017
	HK$'000	HK$'000
Presented by:		
Current liabilities	**115,235**	28,394
Non-current liabilities	**12,588**	41,497
	127,823	69,891

35. CONVERTIBLE BONDS

	2018		2017	
	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)
Convertible bonds due in 2018 *(Note (b))*	**–**	**–**	115,605	(1,108)
Convertible bonds due in 2020 *(Note (c))*	**341,602**	**(8,303)**	–	–
Convertible bonds due in 2021 *(Note (d))*	**206,813**	**(10,880)**	190,199	(19,951)
Convertible bonds issued by FKL *(Note (e))*	**98,079**	**–**	–	–
	646,494	**(19,183)**	704,835	(21,233)
Presented by:				
Current assets	**–**	**(19,183)**	–	(21,233)
Current liabilities	**98,079**	**–**	514,636	–
Non-current liabilities	**548,415**	**–**	190,199	–
	646,494	**(19,183)**	704,835	(21,233)

Notes:

(a) Convertible bonds due in 2017

On 14 April 2014, the Company issued convertible bonds with an aggregate principal amount of HK$400,000,000 (the "2017 Due CB") pursuant to the agreement dated 20 March 2014 entered into between the Company and a subscriber, which was an independent third party to the Company. The 2017 Due CB were bearing 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 then 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 was more than HK$1.20 (subject to adjustments) for ten consecutive trading days, the Company might 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 was measured as the present value of the future interest and principal payments, discounted at the market rate for equivalent non-convertible bonds that do not have a conversion option. The derivative component of the 2017 Due CB, which were the early redemption and mandatory conversion options held by the Company, were measured at fair value and presented as derivative financial instruments in current assets. Such derivative financial instruments were 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 was 14.31% (2017: 14.31%) per annum. The valuation of the 2017 Due CB was performed by Asset Appraisal Limited, an independent firm of professional qualified valuers.

35. CONVERTIBLE BONDS (CONTINUED)

Notes: (Continued)

(a) Convertible bonds due in 2017 (Continued)

Upon maturity of the 2017 CB, the holder of 2017 Due CB agreed to have the 2017 Due CB fully settled by a short-term promissory note of HK$400,000,000 issued by the Company. As at 31 March 2018, the outstanding balance of the promissory note payable was HK$200,000,000, which was unsecured, bearing interest at 15% per annum and repayable on 15 August 2018. The promissory note payable has been included in other borrowings.

The following assumptions were used to calculate the fair values of the derivative component of the early redemption and mandatory conversion options of the 2017 Due CB as at 31 March 2017:

	At 31 March 2017
Closing share prices	HK$0.325
Conversion price	HK$0.60
Expected remaining life of the of the convertible bonds	0.04 year
Expected volatility	60.00%
Risk free rate	0.28%
Expected dividend yield	0%
Discount rate	6.49%

The 2017 Due CB had been split as follows:

	Liability component HK$'000	**Equity component HK$'000**	**Derivative financial instruments HK$'000**	**Total HK$'000**
As at 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 and 1 April 2017	399,031	86,075	(174)	484,932
Add: Interest expenses	2,109	–	–	2,109
Less: Interest paid	(1,140)	–	–	(1,140)
Less: Fair value loss on derivative financial instruments	–	–	174	174
Less: Derecognition upon maturity	(400,000)	(86,075)	–	(486,075)
As at 31 March 2018	**–**	**–**	**–**	**–**

None of the 2017 Due CB was converted during the years ended 31 March 2018 and 2017. The equity component of the 2017 Due CB of HK$86,075,000 was released to accumulated losses upon maturity.

35. 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 were outstanding under the share option scheme adopted by FKL (the "Offer") was closed and the total amount of approximately HK$1,432,171,000 convertible bonds (the "2018 Due CB") was issued by the Company. The 2018 Due CB were 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 entitled 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 then issue date up to the maturity date. The Company might 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 might 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 was measured as the present value of the future principal payments, discounted at the market rate for equivalent non-convertible bonds that do not have a conversion option. The derivative component of the 2018 Due CB, which were the early redemption and mandatory conversion options held by the Company, were measured at fair value and presented as derivative financial instruments in current assets. Such derivative financial instruments were 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 ranged from 13.07% to 13.64% (2017: 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 2018 Due CB matured on 30 January 2018 and were settled by cash except for a holder of the 2018 Due CB which agreed to have the 2018 Due CB settled by a short-term promissory note of HK$59,500,000 issued by the Company. The promissory note payable is unsecured, bearing interest at 6% per annum and repayable on 31 October 2018. The promissory note payable has been included in other borrowings.

35. CONVERTIBLE BONDS (CONTINUED)

Notes: (Continued)

(b) Convertible bonds due in 2018 (Continued)

The following assumptions were used to calculate the fair values of the derivative component of early redemption and mandatory conversion options of the 2018 Due CB as at 31 March 2017:

	At 31 March 2017
Closing share prices	HK$0.325
Conversion price	HK$0.50
Expected remaining life of the convertible bonds	0.83 year
Expected volatility	32.38%
Risk free rate	0.53%
Expected dividend yield	0%
Discount rate	6.74%

The 2018 Due CB had been split as follows:

	Liability component HK$'000	Equity component HK$'000	Derivative financial instruments HK$'000	Total HK$'000
As at 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 and 1 April 2017	115,605	46,648	(1,108)	161,145
Add: Interest expenses	13,773	–	–	13,773
Less: Fair value loss on derivative financial instruments	–	–	1,108	1,108
Less: Derecognition upon maturity	(129,378)	(46,648)	–	(176,026)
As at 31 March 2018	**–**	**–**	**–**	**–**

None of the 2018 Due CB was converted during the year ended 31 March 2018. The equity component of the 2018 Due CB of HK$46,648,000 was released to accumulated losses upon maturity. During the year ended 31 March 2017, the 2018 Due CB with an aggregate principal amount of HK$2,448,000 were converted into 4,896,000 ordinary shares of the Company at the conversion price of HK$0.50 per share (Note 40(b)).

35. CONVERTIBLE BONDS (CONTINUED)

Notes: (Continued)

(c) Convertible bonds due in 2020

On 5 December 2017, the Company issued convertible bonds with an aggregate principal amount of HK$400,000,000 (the "2020 Due CB") pursuant to the agreement dated 28 November 2017 entered into between the Company and a subscriber, which was an independent third party to the Company. Net proceeds from the issuance of the 2020 Due CB amounted to HK$387,999,000. The primary reasons for the Company to enter into the agreement are to lower the overall finance cost at the Group level and to improve the Group's liquidity ratios. The 2020 Due CB are bearing interest at 8% per annum, with a maturity date on the third anniversary of the date of their issue (that is, 5 December 2020), and entitled the holder to convert them, in whole or in part, into ordinary shares of the Company at a conversion price of HK$0.465 per share (subject to adjustments) at any time on or after the then issue date up to the seventh day immediately prior to the maturity date.

The Company shall redeem all the outstanding principal amount of the 2020 Due CB on the maturity date at the amount equal to the aggregate of (a) the principal amount outstanding on the 2020 Due CB; (b) the outstanding interest up to the date of redemption; (c) any other outstanding amount due but unpaid under the 2020 Due CB, (the "Applicable Redemption Amount") plus an amount that would make up an aggregate interest on the relevant amount of the 2020 Due CB calculated at the rate of 12% per annum thereon (having included the interest paid but excluding all default interest) from the issue date to, and including the maturity date.

The Company, on the condition that all outstanding principals and interests under certain facility agreement between the Company and the subscriber, are settled in full, may, at the date falling either 24 months or 30 months from the issue date, elect to redeem the whole or part of the then outstanding principal amount of the 2020 Due CB at the Applicable Redemption Amount plus an amount that would make up an aggregate interest on the relevant amount of the 2020 Due CB calculated at the rate of 12% per annum thereon (having included the interest paid but excluding all default interest) from the issue date to, and including the maturity date.

The 2020 Due CB was secured by the debentures in favour of the lender by way of the first fixed and floating charges over tangible moveable property and investments of two wholly-owned subsidiaries of the Company and share charges over all issued shares of its two wholly-owned subsidiaries and 74.56% of issued shares of FKL.

At initial recognition, the liability component of the 2020 Due CB is measured as the present value of the future interest and principal payments, discounted at the market rate for equivalent non-convertible bonds that do not have a conversion option. The derivative component of the 2020 Due CB, which are early redemption 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 is the residual amount after deducting the fair values of the liability and derivative components from the consideration received for the 2020 Due CB. The effective interest rate of the liability component of the 2020 Due CB is 18.48% per annum. The valuation of the 2020 Due CB was performed by Asset Appraisal Limited, an independent firm of professional qualified valuers. Net proceeds from the issuance of the 2020 Due CB attributable to the liability component amounted to HK$331,617,000.

35. CONVERTIBLE BONDS (CONTINUED)

Notes: (Continued)

(c) Convertible bonds due in 2020 (Continued)

The following assumptions were used to calculate the fair values of the derivative component of the early redemption option of the 2020 Due CB as at 31 March 2018:

	At 31 March 2018	At issue date
Closing share prices	**HK$0.260**	HK$0.320
Conversion price	**HK$0.465**	HK$0.465
Expected remaining life of the of the convertible bonds	**2.68 years**	3 years
Expected volatility	**40.63%**	44.26%
Risk free rate	**1.52%**	1.41%
Expected dividend yield	**0%**	0%
Discount rate	**17.69%**	18.46%

The 2020 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 ended 31 March 2018	341,578	69,602	(11,180)	400,000
Less: Transaction costs	(9,961)	(2,040)	–	(12,001)
Add: Interest expenses	20,242	–	–	20,242
Less: Interest payable	(10,257)	–	–	(10,257)
Less: Fair value loss on derivative financial instruments	–	–	2,877	2,877
As at 31 March 2018	**341,602**	**67,562**	**(8,303)**	**400,861**

None of the 2020 Due CB was converted during the year ended 31 March 2018.

35. CONVERTIBLE BONDS (CONTINUED)

Notes: (Continued)

(d) Convertible bonds due in 2021

On 25 August 2016, the Company issued convertible bonds with an aggregate 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 the 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 quoted on the Stock Exchange 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 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 equivalent 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 is 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% (2017: 8.40%) per annum. The valuation of the 2021 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 early redemption and mandatory conversion option of the 2021 Due CB:

	At 31 March 2018	At 31 March 2017
Closing share prices	**HK$0.26**	HK$0.325
Conversion price	**HK$0.50**	HK$0.50
Expected remaining life of the convertible bonds	**3.40 years**	4.40 years
Expected volatility	**45.53%**	46.54%
Risk free rate	**1.63%**	1.23%
Expected dividend yield	**0%**	0%
Discount rate	**17.80%**	7.44%

35. CONVERTIBLE BONDS (CONTINUED)

Notes: (Continued)

(d) Convertible bonds due in 2021 (Continued)

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 ended 31 March 2017	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 and 1 April 2017	190,199	119,148	(19,951)	289,396
Add: Interest expenses	16,614	–	–	16,614
Less: Fair value loss on derivative financial instruments	–	–	9,071	9,071
As at 31 March 2018	**206,813**	**119,148**	**(10,880)**	**315,081**

None of the 2021 Due CB was converted during the years ended 31 March 2018 and 2017.

(e) Convertible bonds issued by FKL

On 30 October 2017, an independent third party (the "Purchaser") purchased the convertible bonds with an aggregate principal amount of HK$110,000,000 issued by FKL on 4 August 2015 (the "FKL CB") from Union Grace Holdings Limited, a wholly-owned subsidiary of the Company, at a consideration equals to the aggregate of (a) HK$110,000,000 which has been paid by the Purchaser on the date of the sale and purchase agreement by way of cashier's orders; and additionally (b) contingent receivable in the event the conversion right of any of the FKL CB is exercised, HK$0.36 per conversion share so converted payable on the date of such exercise by way of cash, which was measured at the fair value of HK$115,491,000 at the disposal date. The FKL CB are bearing interest at 8% per annum, with a maturity date on the third anniversary of the issue date (that is, 4 August 2018) and entitle the holder to convert them, in whole or in part, into ordinary shares of FKL at a conversion price of HK$0.34 (after subdivision adjustments).

At initial recognition, the liability component of the FKL CB is measured as the present value of the future interest and principal payments, discounted at the market rate for equivalent non-convertible bonds that do not have a conversion option. The equity component is the residual amount after deducting the fair value of the liability component from the consideration received for the FKL CB. The effective interest rate of the liability component of the FKL CB is 13.78% per annum. The valuation of the FKL CB was performed by Asset Appraisal Limited, an independent firm of professional qualified valuers.

The FKL CB have been split as follows:

	Liability component HK$'000	Equity component HK$'000	Total HK$'000
Initially recognised during the year ended 31 March 2018	105,411	120,080	225,491
Add: Interest expenses	5,888	–	5,888
Less: Interest payable	(3,524)	–	(3,524)
Less: Converted during the year	(9,696)	(10,916)	(20,612)
As at 31 March 2018	**98,079**	**109,164**	**207,243**

During the year ended 31 March 2018, the FKL CB with an aggregate principal amount of HK$10,000,000 were converted into 29,412,000 ordinary shares of FKL at the conversion price of HK$0.34 per share, and additional consideration of HK$10,589,000 was received by the Group.

36. RECEIPTS IN ADVANCE

	2018 HK$'000	2017 HK$'000
Funding received for a design project *(Note (a))*	**624,000**	563,200
Funding received for acquisition of a land in the PRC *(Note (b))*	**52,113**	47,035
	676,113	610,235

Notes:

(a) The amount of RMB500,000,000 (equivalent to approximately HK$624,000,000 (2017: HK$563,200,000)) represents the first instalment of funding received by Jasmin Beijing in connection with an entrustment agreement in which Guizhou Guian Asset Investment Co., Ltd.△ (貴州貴安產業投資有限公司), as a non-controlling shareholder of Guizhou Changjiang, 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 2018 and 2017.

(b) The amount represents a grant received by the Group from a government authority in Tianjin, the PRC 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, the grant was not recognised as income in the consolidated statement of profit or loss for the years ended 31 March 2018 and 2017.

△ *For identification purpose.*

37. DEFERRED INCOME

The following are the major deferred income balances recognised and movements thereon during the years ended 31 March 2018 and 2017:

	HK$'000
At 1 April 2016	72,006
Additions during the year	17,398
Released to consolidated profit or loss during the year	(18,830)
Exchange adjustments	(4,321)
At 31 March 2017 and 1 April 2017	66,253
Additions during the year *(Note)*	429,651
Released to consolidated profit or loss during the year	(8,306)
Exchange adjustments	32,135
At 31 March 2018	**519,733**

37. DEFERRED INCOME (CONTINUED)

	2018 HK$'000	2017 HK$'000
Presented by:		
Amounts included in other payables and accrued expenses under current liabilities *(Note 33)*	**16,789**	12,186
Deferred income under non-current liabilities	**502,944**	54,067
	519,733	66,253

Note: The amounts mainly included government grants of RMB310,000,000 (equivalent to approximately HK$386,880,000) for research and development of electric vehicles and battery products to be used by the factories to be constructed in the Sichuan province, the PRC, received by the Group during the year ended 31 March 2018.

The Group received government grants for research and development activities and the acquisition of plant and equipment. Government grants for research and development activities received for which the related expenditures were not yet incurred are included in other payables and accrual expenses as deferred income under current liabilities. Government grants for research and development of technical know-hows received for which the related electric vehicle production and battery products projects were not yet commenced are classified as deferred income under non-current liabilities. Government grants for the 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 lives of the relevant assets to match with the depreciation of the assets.

38. DEFERRED TAX LIABILITIES

The major deferred tax balances recognised and movements thereon during the years ended 31 March 2018 and 2017 are as follows:

	Property, plant and equipment and interest in leasehold land held for own use under operating lease HK$'000	Intangible assets HK$'000	Others HK$'000	Total HK$'000
At 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 and 1 April 2017	19,692	160,714	(81)	180,325
Credit to profit or loss *(Note 12)*	(459)	(97,973)	–	(98,432)
Exchange adjustments	2,099	2,199	–	4,298
At 31 March 2018	**21,332**	**64,940**	**(81)**	**86,191**

At 31 March 2018, the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$2,681,859,000 (2017: HK$2,217,185,000) and deductible temporary differences of HK$969,806,000 (2017:HK$331,939,000), as it is not probable that future taxable profits against which the tax losses and deductible temporary differences can be utilised will be available in the relevant taxation authority of the relevant taxable entity. The tax losses do not expire under current tax legislation, except for an amount of PRC tax losses in aggregate of HK$1,309,984,000 (2017: HK$1,035,684,000) that will expire in the coming one to five years.

39. 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 face value of approximately HK$760,752,000 (the "Redemption Amount"). In the legal proceedings instituted against Mr. Chung and/or companies which are controlled and/or owned by him (together the "Chung Parties") for breaches of various agreements in relation to the acquisition completed by the Group in 2010 (the "High Court Proceedings"), the damages claimed by the Group (the "Claim Amount"), as supported by an independent forensic accountant report commissioned by the Group, are estimated to be substantially larger than the Redemption Amount. The Group has sought to set off a portion of the Claim Amount against the Redemption Amount (the "Set-Off").

On 5 March 2013, the High Court of Hong Kong (the "HK Court") issued a judgement in favour of the Company, granting the Company unconditional leave to defend the Claim Amount and to argue the Set-Off in the High Court Proceedings (the "5 March 2013 Judgement"). Effectively, since 5 March 2013, the Company's payment obligations under the redeemed convertible bonds are subject to a stay of execution pending determination of the High Court Proceedings. Any claim to payment under convertible bonds may be subject to the Company's argument of the Set-Off.

On 26 May 2016, HK Court refused Mei Li's application for leave to appeal the 5 March 2013 Judgement and ordered Mei Li to pay costs to the Company on an indemnity basis. On 23 June 2016, the Chung Parties lodged a notice of appeal against the Mei Li Authority Judgement and failed to file an amended Notice of Appeal by 24 August 2017 as ordered by the HK Court, thus the appeal was dismissed.

By reason of the 5 March 2013 Judgement stands and considering the complexity of the High Court Proceedings and the time required for various interlocutory applications of the parties, in addition to the fact that, Mr. Chung was adjudged bankrupt on 27 February 2013 and the bankruptcy has been extended for a period of 4 years from 26 February 2017 by an order of the HK Court on 26 February 2017. The directors of the Company do not expect that the Company will be required to settle the Redemption Amount regarding the convertible bonds in the near future.

The Company's instructing external counsels are in the process of reviewing the case, and based on their opinion, payment of the Redemption Amount regarding the convertible bonds would likely not arise for at least 12 months after the end of the reporting period. Under such circumstances, the Board considered it was appropriate to classify the obligations under the redeemed convertible bonds of approximately HK$760,752,000 under non-current liabilities.

40. SHARE CAPITAL

	2018 No. of shares '000	**2018** HK$'000	2017 No. of shares '000	2017 HK$'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	**22,398,476**	**223,985**	21,963,580	219,636
Issue of new shares:				
– pursuant to share placing and subscription *(Note (a))*	**–**	**–**	430,000	4,300
– upon conversion of convertible bonds *(Note (b))*	**–**	**–**	4,896	49
– upon exercise of share options *(Note (c))*	**14,600**	**146**	–	–
At end of the reporting period				
Ordinary shares of HK$0.01 each	**22,413,076**	**224,131**	22,398,476	223,985

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.

(b) During the year ended 31 March 2017, the convertible bonds with an aggregate principal amount of HK$2,448,000 were converted at a conversion price of HK$0.50 per share, resulting in 4,896,000 ordinary shares of HK$0.01 each being issued by the Company (Note 35(b)).

(c) During the year ended 31 March 2018, share options to subscribe for 14,600,000 ordinary shares of the Company were exercised. The net consideration for the exercise of the share options was HK$3,358,000 of which HK$146,000 was credited to share capital account and the balance of HK$3,212,000 was credited to share premium account. An amount of HK$1,648,000 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.

41. 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 2016	1,843,816	1,419,585	1,868	133,599	31,552	1,713,872	5,144,292
Issue of new shares *(Note 40(a))*	210,700	–	–	–	–	–	210,700
Issue of convertible bonds	–	–	–	119,148	–	–	119,148
Conversion of convertible bonds *(Note 35(b))*	2,941	–	–	(876)	–	–	2,065
Share options 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 and 1 April 2017	2,057,457	1,419,585	1,868	251,871	36,734	1,010,073	4,777,588
Proceed from shares issued upon exercise of share options	4,860	–	–	–	(1,648)	–	3,212
Settlement of convertible bonds *(Notes 35(a) & (b))*	–	–	–	(132,723)	–	132,723	–
Issue of convertible bonds *(Note 35(c))*	–	–	–	67,562	–	–	67,562
Share options lapsed	–	–	–	–	(1,478)	1,478	–
Equity-settled share-based payments	–	–	–	–	42,813	–	42,813
Loss and total comprehensive loss for the year	–	–	–	–	–	(3,077,594)	(3,077,594)
At 31 March 2018	**2,062,317**	**1,419,585**	**1,868**	**186,710**	**76,421**	**(1,933,320)**	**1,813,581**

41. RESERVES (CONTINUED)

Notes:

(a) 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.

(b) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(c) 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.

(d) 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 profits.

(e) 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).

(f) Share option reserve

The share option reserve comprises the fair value of unexercised share options granted by the Company.

(g) 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).

(h) Retained earnings/(accumulated losses)

Retained earnings/(accumulated losses) comprises (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.

(i) Distributability of reserve

At 31 March 2018, the Company had no reserves available for distribution (2017: distributable reserve of HK$1,010,073,000, which represented the balance of retained earnings). Under the Companies Act 1981 of Bermuda, contributed surplus is available for distribution to shareholders. However, 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.

42. 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 remain 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 options to the Eligible Participants (as defined below) to subscribe for the 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 the 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 any 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.

42. SHARE OPTION SCHEME (CONTINUED)

TOTAL NUMBER OF SHARES AVAILABLE FOR ISSUE

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and not yet exercised under the 2014 Scheme and any other share option schemes must not in aggregate exceed 30% of the shares 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 200,300,000, which represented approximately 0.89% 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 under the 2014 Scheme and any other share option schemes (including options exercised, cancelled and outstanding) 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 shares in issue 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 close associates (or his associates if the grantee is a connected person) abstaining from voting.

42. 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$1.00 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.

42. SHARE OPTION SCHEME (CONTINUED)

Details of the options and movements in such holdings during the year ended 31 March 2018 are as follows:

		Number of options								
Category of participants	Date of grant	Outstanding as at 1.4.2017	Granted during the year *(Note 2)*	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31.3.2018	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 3)*	0.630	–
	31.7.2017	–	220,000,000	–	–	–	220,000,000	31.7.2017 – 30.7.2027 *(Note 6)*	0.400	–
Directors										
Mr. Miao Zhenguo	4.9.2013	12,000,000	–	–	–	–	12,000,000	4.9.2015 – 3.9.2023 *(Note 3)*	0.450	–
	28.4.2014	3,000,000	–	–	–	–	3,000,000	28.4.2016 – 27.4.2024 *(Note 3)*	0.630	–
	31.7.2017	–	180,000,000	–	–	–	180,000,000	31.7.2017 – 30.7.2027 *(Note 6)*	0.400	–
Mr. Tong Zhiyuan	31.7.2017	–	200,000,000	–	–	–	200,000,000	31.7.2017 – 30.7.2027 *(Note 6)*	0.400	–
Dr. Chen Yanping	28.4.2014	12,000,000	–	–	–	–	12,000,000	28.4.2016 – 27.4.2024 *(Note 3)*	0.630	–
	31.7.2017	–	150,000,000	–	–	–	150,000,000	31.7.2017 – 30.7.2027 *(Note 6)*	0.400	–
Mr. Lo Wing Yat	23.8.2007	14,600,000	–	(14,600,000) *(Note 7)*	–	–	–	23.8.2008 – 22.8.2017 *(Note 4)*	0.230	0.310
	8.5.2009	16,200,000	–	–	–	–	16,200,000	8.5.2010 – 7.5.2019 *(Note 4)*	0.061	–
	4.9.2013	8,000,000	–	–	–	–	8,000,000	4.9.2015 – 3.9.2023 *(Note 3)*	0.450	–
	28.4.2014	4,000,000	–	–	–	–	4,000,000	28.4.2016 – 27.4.2024 *(Note 3)*	0.630	–
	31.7.2017	–	30,000,000	–	–	–	30,000,000	31.7.2017 – 30.7.2027 *(Note 6)*	0.400	–

42. SHARE OPTION SCHEME (CONTINUED)

Details of the options and movements in such holdings during the year ended 31 March 2018 are as follows: (Continued)

Category of participants	Date of grant	Number of options: Outstanding as at 1.4.2017	Granted during the year *(Note 2)*	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31.3.2018	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 3)*	0.450	–
	28.4.2014	4,000,000	–	–	–	–	4,000,000	28.4.2016 – 27.4.2024 *(Note 3)*	0.630	–
	31.7.2017	–	150,000,000	–	–	–	150,000,000	31.7.2017 – 30.7.2027 *(Note 6)*	0.400	–
Mr. Chan Yuk Tong	8.5.2009	900,000	–	–	–	–	900,000	8.11.2010 – 7.5.2019 *(Note 5)*	0.061	–
	4.9.2013	8,000,000	–	–	–	–	8,000,000	4.9.2015 – 3.9.2023 *(Note 3)*	0.450	–
	28.4.2014	4,000,000	–	–	–	–	4,000,000	28.4.2016 – 27.4.2024 *(Note 3)*	0.630	–
	31.7.2017	–	22,000,000	–	–	–	22,000,000	31.7.2017 – 30.7.2027 *(Note 6)*	0.400	–
Mr. Fei Tai Hung	8.5.2009	900,000	–	–	–	–	900,000	8.11.2010 – 7.5.2019 *(Note 5)*	0.061	–
	4.9.2013	8,000,000	–	–	–	–	8,000,000	4.9.2015 – 3.9.2023 *(Note 3)*	0.450	–
	28.4.2014	4,000,000	–	–	–	–	4,000,000	28.4.2016 – 27.4.2024 *(Note 3)*	0.630	–
	31.7.2017	–	22,000,000	–	–	–	22,000,000	31.7.2017 – 30.7.2027 *(Note 6)*	0.400	–
Mr. Tse Kam Fow	8.5.2009	900,000	–	–	–	–	900,000	8.11.2010 – 7.5.2019 *(Note 5)*	0.061	–
	4.9.2013	8,000,000	–	–	–	–	8,000,000	4.9.2015 – 3.9.2023 *(Note 3)*	0.450	–
	28.4.2014	4,000,000	–	–	–	–	4,000,000	28.4.2016 – 27.4.2024 *(Note 3)*	0.630	–
	31.7.2017	–	22,000,000	–	–	–	22,000,000	31.7.2017 – 30.7.2027 *(Note 6)*	0.400	–
Mr. Xu Jingbin	31.7.2017	–	22,000,000	–	–	–	22,000,000	31.7.2017 – 30.7.2027 *(Note 6)*	0.400	–

42. SHARE OPTION SCHEME (CONTINUED)

Details of the options and movements in such holdings during the year ended 31 March 2018 are as follows: (Continued)

		Number of options								
Category of participants	**Date of grant**	**Outstanding as at 1.4.2017**	**Granted during the year** *(Note 2)*	**Exercised during the year**	**Lapsed during the year**	**Cancelled during the year**	**Outstanding as at 31.3.2018**	**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	146,200,000	–	–	(3,300,000) *(Note 7)*	–	142,900,000	4.9.2015 – 3.9.2023 *(Note 3)*	0.450	–
	28.4.2014	103,400,000	–	–	(11,600,000) *(Note 7)*	–	91,800,000	28.4.2016 – 27.4.2024 *(Note 3)*	0.630	–
Others	23.8.2007	7,200,000	–	–	(7,200,000) *(Note 7)*	–	–	23.8.2008 – 22.8.2017 *(Note 4)*	0.230	–
	4.9.2013	24,000,000	–	–	(1,000,000) *(Note 7)*	(3,000,000) *(Note 7)*	20,000,000	4.9.2015 – 3.9.2023 *(Note 3)*	0.450	–
	28.4.2014	12,000,000	–	–	–	(2,000,000) *(Note 7)*	10,000,000	28.4.2016 – 27.4.2024 *(Note 3)*	0.630	–
FDG EBT (Share Option) Limited	31.7.2017	–	1,100,000,000	–	–	–	1,100,000,000	31.7.2017 – 30.7.2027 *(Note 6)*	0.400	–
		427,300,000	2,118,000,000	(14,600,000)	(23,100,000)	(5,000,000)	2,502,600,000			
Weighted average exercise price *(HK$)*		0.489	0.400	0.230	0.472	0.522	0.415			
Exercisable as at 31.3.2018							18,900,000 110,950,000 74,400,000		0.061 0.450 0.630	

42. 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 3)*	0.630	–
Directors										
Mr. Miao Zhenguo	4.9.2013	12,000,000	–	–	–	–	12,000,000	4.9.2015 – 3.9.2023 *(Note 3)*	0.450	–
	28.4.2014	3,000,000	–	–	–	–	3,000,000	28.4.2016 – 27.4.2024 *(Note 3)*	0.630	–
Dr. Chen Yanping	28.4.2014	12,000,000	–	–	–	–	12,000,000	28.4.2016 – 27.4.2024 *(Note 3)*	0.630	–
Mr. Lo Wing Yat	23.8.2007	14,600,000	–	–	–	–	14,600,000	23.8.2008 – 22.8.2017 *(Note 4)*	0.230	–
	8.5.2009	16,200,000	–	–	–	–	16,200,000	8.5.2010 – 7.5.2019 *(Note 4)*	0.061	–
	4.9.2013	8,000,000	–	–	–	–	8,000,000	4.9.2015 – 3.9.2023 *(Note 3)*	0.450	–
	28.4.2014	4,000,000	–	–	–	–	4,000,000	28.4.2016 – 27.4.2024 *(Note 3)*	0.630	–

42. 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 HK$	Weighted average closing price of the shares immediately before the dates on which the options were exercised HK$
		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			
Mr. Jaime Che	4.9.2013	12,000,000	–	–	–	–	12,000,000	4.9.2015 – 3.9.2023 *(Note 3)*	0.450	–
	28.4.2014	4,000,000	–	–	–	–	4,000,000	28.4.2016 – 27.4.2024 *(Note 3)*	0.630	–
Mr. Chan Yuk Tong	8.5.2009	900,000	–	–	–	–	900,000	8.11.2010 – 7.5.2019 *(Note 5)*	0.061	–
	4.9.2013	8,000,000	–	–	–	–	8,000,000	4.9.2015 – 3.9.2023 *(Note 3)*	0.450	–
	28.4.2014	4,000,000	–	–	–	–	4,000,000	28.4.2016 – 27.4.2024 *(Note 3)*	0.630	–
Mr. Fei Tai Hung	8.5.2009	900,000	–	–	–	–	900,000	8.11.2010 – 7.5.2019 *(Note 5)*	0.061	–
	4.9.2013	8,000,000	–	–	–	–	8,000,000	4.9.2015 – 3.9.2023 *(Note 3)*	0.450	–
	28.4.2014	4,000,000	–	–	–	–	4,000,000	28.4.2016 – 27.4.2024 *(Note 3)*	0.630	–
Mr. Tse Kam Fow	8.5.2009	900,000	–	–	–	–	900,000	8.11.2010 – 7.5.2019 *(Note 5)*	0.061	–
	4.9.2013	8,000,000	–	–	–	–	8,000,000	4.9.2015 – 3.9.2023 *(Note 3)*	0.450	–
	28.4.2014	4,000,000	–	–	–	–	4,000,000	28.4.2016 – 27.4.2024 *(Note 3)*	0.630	–

42. 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 9)*	(8,000,000) *(Note 10)*	146,200,000	4.9.2015 – 3.9.2023 *(Note 3)*	0.450	–
	28.4.2014	109,800,000	–	–	(6,400,000) *(Note 9)*	–	103,400,000	28.4.2016 – 27.4.2024 *(Note 3)*	0.630	–
Others	23.8.2007	7,200,000	–	–	–	–	7,200,000	23.8.2008 – 22.8.2017 *(Note 4)*	0.230	–
	4.9.2013	16,000,000	–	–	–	8,000,000 *(Note 10)*	24,000,000	4.9.2015 – 3.9.2023 *(Note 3)*	0.450	–
	28.4.2014	12,000,000	–	–	–	–	12,000,000	28.4.2016 – 27.4.2024 *(Note 3)*	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	

42. 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 to subscribe for 2,118,000,000 shares of the Company were granted on 31 July 2017. The Company received an aggregate consideration of HK$11 for the grant of these options. The closing price of the shares of the Company on the trading date immediately before the date on which these options were granted was HK$0.310.

3. 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.

4. 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.

5. 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.

6. Options granted are subject to vesting conditions of: (1) half of the options becoming exercisable if, as stated in the audited consolidated financial statements of the Company for any financial year within the validity period, (i) revenue and other income exceed HK$2 billion; or (ii) net profit before tax exceeds HK$200 million; and (2) the remainder becoming exercisable if, as stated in the audited consolidated financial statements of the Company for any financial year within the validity period, (i) revenue and other income exceed HK$5 billion; or (ii) net profit before tax exceeds HK$500 million.

7. During the year ended 31 March 2018, a total of 14,600,000 options were exercised, 7,950,000 vested options and 7,950,000 unvested options lapsed following the cessation of optionholders to be employees of the Company or eligible participants of the 2004 Scheme and/or the 2014 Scheme, 7,200,000 vested options lapsed on 23 August 2017 upon the expiry of the exercise period concerned, and 5,000,000 unvested options were cancelled on 1 December 2017.

42. SHARE OPTION SCHEME (CONTINUED)

Notes: (Continued)

8. The weighted average fair values of the options granted during the year ended 31 March 2018 calculated using the Binomial Option-Pricing Model and the inputs into such model were as follows:

	1,320,000,000 options granted on 31 July 2017 and approved in the special general meeting held on 29 August 2017	798,000,000 options granted on 31 July 2017
Weighted average fair value	HK$0.076	HK$0.121
Closing price of the shares on approval date/grant date	HK$0.310	HK$0.315
Exercise price	HK$0.400	HK$0.400
Expected volatility	54.24%	54.36%
Option life	9.9 years	10 years
Risk-free interest rate	1.52%	1.53%
Expected dividend yield	0%	0%

Expected volatility was determined by using the annualised standard deviations of the continuously compounded rates of return on the share prices of the other three comparable companies. The result of the Binomial Option-Pricing Model can be materially affected by changes in these variables and assumptions. Therefore, an option's actual value may differ from the estimated fair value of the options due to limitations of the Binomial Option-Pricing Model. The expected vesting period is based on the expected timing of achieving the performance targets with best estimates by the Board.

9. 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 the 2014 Scheme.

10. 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.

11. No options were granted, exercised or cancelled during the year ended 31 March 2017.

12. The Group recognised total expenses of approximately HK$42,813,000 for the year ended 31 March 2018 (2017: HK$5,849,000) in relation to the options granted by the Company. The options outstanding as at 31 March 2018 had a weighted average remaining contractual life of 8.7 years (2017: 6.1 years). As at 31 March 2018, a total of 204,250,000 (2017: 234,000,000) options were exercisable with weighted-average exercise price of HK$0.479 (2017: HK$0.460) per option.

43. 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 falling due as follows:

	2018 **HK$'000**	2017 HK$'000
Within one year	**30,268**	11,135
In the second to fifth year	**59,292**	1,925
	89,560	13,060

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:

	2018 **HK$'000**	2017 HK$'000
Contracted, but not provided for capital commitments in respect of:		
– capital expenditures of the Group's factories in the PRC *(Note)*	**1,434,146**	744,413
– investment in a joint venture	**38,750**	38,750
– investments in associates	**13,603**	12,278
	1,486,499	795,441

Note: As at 31 March 2018, the amounts of HK$703,613,000 (2017: nil) related to capital expenditure of electric vehicle production plants in Guizhou will be financed with the assistance of Guizhou local government.

44. LITIGATIONS

LITIGATIONS INVOLVING MR. WINSTON CHUNG

The Company and two of its subsidiaries are involving 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"). On 2 June 2015, the SZ Court ruled that the evidence provided by the Chung Parties did not support the Chung Parties' claims, thus 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 relevant documents to 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"). However, on 26 February 2017, the HK Court ordered that Mr. Chung's Bankruptcy be extended by 4 years.

Regarding the Bankruptcy Proceedings, the Trustee made an application to take over four companies owned and/or controlled by Mr. Chung, including Mei Li. On 15 September 2017, the HK Court ordered the said four companies to be transferred to the Trustee for further action and the Trustee is in the process of effecting the transfer.

Based on legal advice sought, 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 defence and counterclaim of the Chung Parties are frivolous, vexatious and based on unsubstantiated and invalid grounds. In the meantime, the Company's instructing external Counsels are reviewing the case based on updated new information and, the Company will proceed with the case accordingly and no provision for claims has therefore been made in respect of these litigations.

45. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

(a) SALES/PURCHASE OF GOODS AND OTHER TRANSACTIONS

	2018 **HK$'000**	2017 HK$'000
Sales of goods to a joint venture	**20,084**	8,662
Service income charged to a joint venture	**2,713**	–
Purchase of goods from an associate	**(19,712)**	(21,620)
Research and development expenses charged by an associate	**(31,828)**	(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.

45. 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:

	2018 HK$'000	2017 HK$'000
Short-term employee benefits	**32,815**	28,568
Retirement benefit schemes contributions	**210**	195
Equity-settled share-based payments	**40,035**	1,801
	73,060	30,564

(c) YEAR-END BALANCES ARISING FROM SALES/PURCHASE OF GOODS AND OTHER TRANSACTIONS

	2018 HK$'000	2017 HK$'000
Trade and other receivables from a joint venture	**23,686**	5,964
Trade and other payables to associates	**(42,259)**	(36,483)

The receivables from the joint venture arise mainly from sale transactions with credit period generally within 3 months (2017: ranging from 1 month to 6 months) and other advances. The receivables are unsecured and non-interest-bearing. No provision for doubtful debt has been made on the receivables from the joint venture (2017: 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 A RELATED PARTY

	2018 HK$'000	2017 HK$'000
Loans to a joint venture:		
At 1 April	**43,714**	6,324
Loans advanced during year	**21,700**	42,625
Loan repayments received	**(1,550)**	(6,200)
Interest charged	**3,101**	1,617
Interest received	**–**	(167)
Interest withholding tax provided	**–**	(485)
Conversion of debt to capital injection	**(38,750)**	–
At 31 March	**28,215**	43,714

As at 31 March 2018, the balances were due within one year, bearing interest ranging from 0% to 8% (2017: 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.

As at 31 March 2018, no provision for doubtful debt has been made on the loans to the joint venture (2017: nil).

46. EVENTS AFTER THE REPORTING PERIOD

(a) On 3 May 2018, Preferred Market Limited ("PML", a wholly-owned subsidiary of the Company) and Hong Kong ShengHai DeYong Investment Limited (the "Giant Purchaser", an independent third party to the Company), entered into a sale and purchase agreement. Pursuant to the agreement, PML agreed to sell and the Giant Purchaser agreed to purchase the entire issued share capital of Giant Industry Holdings Limited, which indirectly holds 50% interests in Yunnan FDG, for a consideration of RMB80,000,000 (equivalent to approximately HK$99,840,000). Certain assets of Yunnan FDG were impaired during the year ended 31 March 2018 and the management does not expect further material loss will be incurred upon disposal.

(b) On 25 June 2018, the Company entered into a placing agreement with a placing agent to place up to 1,000,000,000 shares of the Company, representing approximately 4.46% of issued share capital of the Company, at a placing price of HK$0.109 per share. Further details are set out in the Company's announcement dated 25 June 2018. Up to the date of approval of the consolidated financial statements, the transaction has not yet completed.

47. 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 2018 and 2017.

The management of the Group reviews 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.

47. CAPITAL MANAGEMENT (CONTINUED)

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 and deposit in a security account 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:

	2018 HK$'000	2017 HK$'000
Bank loans and other borrowings	**3,322,651**	2,435,259
Obligations under finance leases	**127,823**	69,891
Obligations under redeemed convertible bonds *(Note)*	**760,752**	760,752
Total borrowings	**4,211,226**	3,265,902
Less: Cash and cash equivalents	**(752,351)**	(1,321,410)
Net debt	**3,458,875**	1,944,492
Total equity attributable to owners of the Company	**1,168,540**	2,948,625
Liability component of convertible bonds	**646,494**	704,835
Adjusted capital	**1,815,034**	3,653,460
Net debt to equity ratio	**191%**	53%

Note: Based on a court judgement 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 39) 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 149% and 32% as at 31 March 2018 and 2017, respectively.

48. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Interests in subsidiaries, net		**4,287,005**	7,378,772
		4,287,005	7,378,772
Current assets			
Amounts due from subsidiaries		**195,000**	195,353
Other receivables		**5,427**	4,653
Derivative financial instruments		**19,183**	21,233
Cash and cash equivalents		**32,247**	7,997
		251,857	229,236
Current liabilities			
Amounts due to subsidiaries		**(135,023)**	(1,388)
Bank loan and other borrowings		**(409,500)**	(697,457)
Other payables		**(63,858)**	(72,003)
Liabilities components of convertible bonds		**–**	(514,636)
		(608,381)	(1,285,484)
Net current liabilities		**(356,524)**	(1,056,248)
Total assets less current liabilities		**3,930,481**	6,322,524
Non-current liabilities			
Bank loan and other borrowings		**(583,602)**	–
Liabilities component of convertible bonds		**(548,415)**	(190,199)
Obligations under redeemed convertible bonds		**(760,752)**	(760,752)
Bonds to a subsidiary		**–**	(370,000)
		(1,892,769)	(1,320,951)
NET ASSETS		**2,037,712**	5,001,573
CAPITAL AND RESERVES			
Issued capital	*40*	**224,131**	223,985
Reserves	*41*	**1,813,581**	4,777,588
TOTAL EQUITY		**2,037,712**	5,001,573

49. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 28 June 2018.