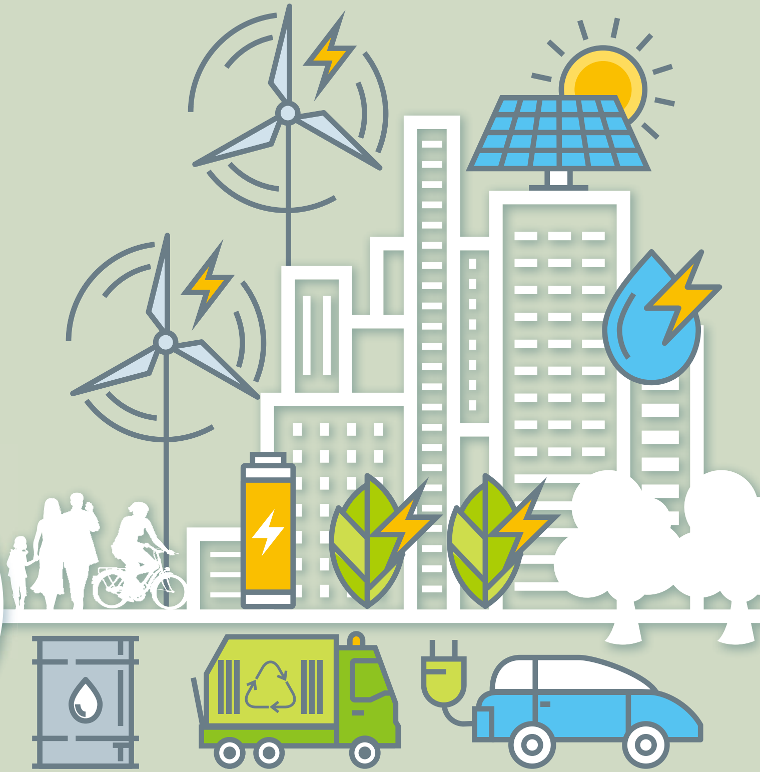
FDG KINETIC

INTERIM REPORT 2018/19



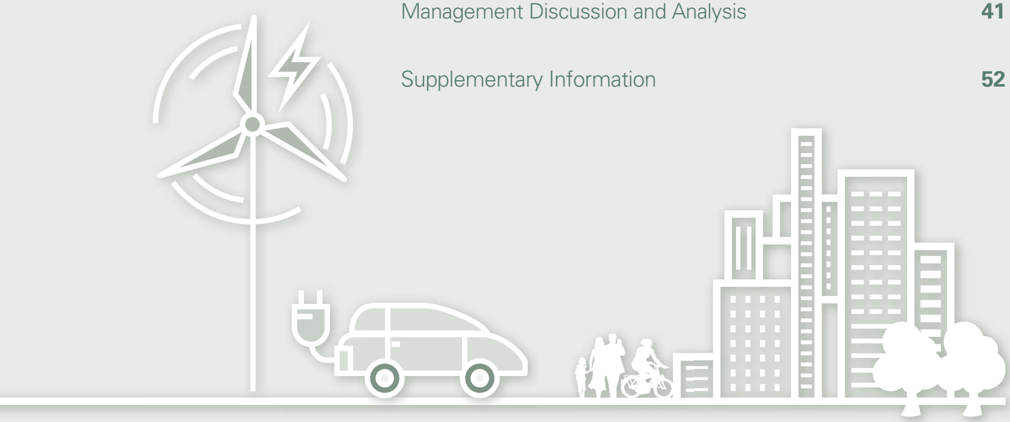
FDG Kinetic Limited
五龍動力有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 0378

GREEN & GROWTH

Contents



This interim report is printed on environmentally friendly paper.

The board of directors (the "Board") of FDG Kinetic Limited (the "Company") presents the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively referred as the "Group") for the six months ended 30 September 2018 together with the comparative figures for the six months ended 30 September 2017 as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 September 2018

	Notes	**Six months ended 30 September 2018 HK$'000 (Unaudited)**	Six months ended 30 September 2017 HK$'000 (Unaudited)
Revenue	3	**106,834**	192,908
Cost of sales		**(97,800)**	(164,747)
		9,034	28,161
Other income		**612**	328
Other gains and losses	5	**(17,659)**	(17,270)
Selling and distribution costs		**(3,106)**	(2,519)
General and administrative expenses		**(31,563)**	(27,326)
Research and development expenses		**(6,509)**	(6,441)
Finance costs	6	**(20,523)**	(68,495)
Share of results of associates		**(74,632)**	(50,410)
Share of results of a joint venture		**5,122**	3,364
Loss before taxation		**(139,224)**	(140,608)
Income tax credit	7	**979**	949
Loss for the period	8	**(138,245)**	(139,659)
Other comprehensive (expense)/income for the period			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of foreign operations		**(52,399)**	31,978
– Share of investment revaluation reserve of an associate		**–**	5,675
– Share of other comprehensive (expense)/income of associates		**(22,943)**	29,537
– Share of other comprehensive (expense)/income of a joint venture		**(10,264)**	4,450
Other comprehensive (expense)/income for the period		**(85,606)**	71,640
Total comprehensive expense for the period		**(223,851)**	(68,019)

	Note	Six months ended 30 September 2018 HK$'000 (Unaudited)	Six months ended 30 September 2017 HK$'000 (Unaudited)
Loss for the period attributable to owners of the Company		**(138,245)**	(139,659)
Other comprehensive (expense)/income for the period attributable to owners of the Company		**(85,606)**	71,640
Total comprehensive expense for the period attributable to owners of the Company		**(223,851)**	(68,019)
		HK cents	HK cents
Loss per share	9		
Basic		**(2.05)**	(2.72)

Condensed Consolidated Statement of Financial Position

At 30 September 2018

	Notes	At 30 September 2018 HK$'000 (Unaudited)	At 31 March 2018 HK$'000 (Audited)
Non-current assets			
Goodwill	10	**305,843**	335,878
Intangible assets		**58,532**	72,012
Property, plant and equipment	11	**218,070**	181,008
Interests in leasehold land held for own use under operating lease		**16,961**	18,836
Interests in associates	12	**415,351**	524,120
Interest in a joint venture		**107,449**	112,591
Loan receivables	13	**341**	360
Deposits paid for non-current assets		**23,517**	66,772
Other non-current assets		**367**	367
		1,146,431	1,311,944
Current assets			
Inventories		**43,912**	45,028
Trade and other receivables	14	**84,422**	122,847
Loan receivables	13	**139,107**	159,963
Financial assets at fair value through profit or loss	20	**8,340**	22,500
Amount due from an associate	12	**97,465**	69,699
Pledged bank deposits		**–**	11,375
Cash and cash equivalents		**12,202**	74,101
		385,448	505,513

	Notes	At 30 September 2018 HK$'000 (Unaudited)	At 31 March 2018 HK$'000 (Audited)
Current liabilities			
Bank and other borrowings	18	**181,288**	84,960
Trade and bills payables	15	**24,681**	43,089
Contract liabilities		**4,066**	–
Accruals and other payables		**107,626**	127,289
Loan from the ultimate holding company	17	**100,000**	–
Obligations under finance leases		**41,866**	33,389
Liability component of convertible bonds	16	**–**	192,561
Amount due to an associate	12	**144,891**	159,120
Tax payables		**4,167**	4,556
		608,585	644,964
Net current liabilities		**(223,137)**	(139,451)
Total assets less current liabilities		**923,294**	1,172,493
Non-current liabilities			
Other borrowings	18	**40,425**	51,107
Obligations under finance leases		**–**	12,588
Deferred tax liabilities		**10,728**	12,806
		51,153	76,501
Net assets		**872,141**	1,095,992
Capital and Reserves			
Share capital	19(b)	**1,350,659**	1,350,659
Reserves		**(478,518)**	(254,667)
Total equity		**872,141**	1,095,992

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2018

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Exchange reserve HK$'000	Equity component of convertible bonds HK$'000	Investment revaluation reserve HK$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2018 (Audited)	1,350,659	2,429,465	82,445	34,979	498,183	–	6,849	(3,306,588)	1,095,992
Loss for the period	–	–	–	–	–	–	–	(138,245)	(138,245)
Other comprehensive expense	–	–	–	(85,606)	–	–	–	–	(85,606)
Total comprehensive expense for the period	–	–	–	(85,606)	–	–	–	(138,245)	(223,851)
Transfer upon expiration of convertible bonds (Note 16)	–	–	–	–	(498,183)	–	–	498,183	–
At 30 September 2018 (Unaudited)	**1,350,659**	**2,429,465**	**82,445**	**(50,627)**	**–**	**–**	**6,849**	**(2,946,650)**	**872,141**
At 1 April 2017 (Audited)	1,027,129	872,801	82,445	(112,797)	1,868,185	(16,209)	6,849	(2,279,935)	1,448,468
Loss for the period	–	–	–	–	–	–	–	(139,659)	(139,659)
Other comprehensive income	–	–	–	65,965	–	5,675	–	–	71,640
Total comprehensive income /(expense) for the period	–	–	–	65,965	–	5,675	–	(139,659)	(68,019)
At 30 September 2017 (Unaudited)	1,027,129	872,801	82,445	(46,832)	1,868,185	(10,534)	6,849	(2,419,594)	1,380,449

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2018

	Six months ended 30 September 2018 HK$'000 (Unaudited)	Six months ended 30 September 2017 HK$'000 (Unaudited)
Net cash used in operating activities	**(8,826)**	(39,134)
Investing activities		
Advance to an associate	**(25,000)**	–
Deposits paid for non-current assets	**(25,950)**	–
Purchase of property, plant and equipment	**(1,958)**	(409)
Withdrawal of pledged bank deposits	**11,375**	–
Net cash used in investing activities	**(41,533)**	(409)
Financing activities		
Payment on redemption of convertible bonds	**(100,000)**	–
Repayment of bank and other borrowings	**(10,873)**	(13,326)
Interest paid	**(8,378)**	(5,244)
New other borrowings raised	**108,580**	22,843
Repayment of finance lease obligations	**–**	(14,340)
Loan from the ultimate holding company	**–**	867
Net cash used in financing activities	**(10,671)**	(9,200)
Net decrease in cash and cash equivalents	**(61,030)**	(48,743)
Cash and cash equivalents at the beginning of the period	**74,101**	65,893
Effect of foreign exchange rate changes	**(869)**	2,180
Cash and cash equivalents at the end of the period	**12,202**	19,330

Notes to the Condensed Consolidated Financial Statements

1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The condensed consolidated financial statements should be read in conjunction with the Group's audited consolidated financial statements for the year ended 31 March 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The condensed consolidated financial statements are unaudited, but have been reviewed by Deloitte Touche Tohmatsu in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

In preparing the condensed consolidated financial statements, the directors of the Company (the "Directors") have given careful consideration to the future liquidity of the Group. While recognising that the Group had net current liabilities of approximately HK$223,137,000 as at 30 September 2018 and incurred a net loss of approximately HK$138,245,000 for the period then ended, the Directors are of the opinion that the Group will be able to meet its financial obligations as they fall due for the foreseeable future, the appropriateness of which depends on the financial support from FDG Electric Vehicles Limited ("FDG"), the Company's ultimate holding company, who has agreed to provide adequate funds to enable the Group to meet in full its obligations as they fall due for a period of twelve months from the date the condensed consolidated financial statements are approved by the Directors.

As further described in FDG's condensed consolidated financial statements for the six-month period ended 30 September 2018, FDG is also implementing measures to improve its own liquidity position, the ultimate success of which cannot be determined at this stage. The Directors believe that FDG would be able to provide adequate funds to enable the Group to meet in full its obligation as they fall due for a period of twelve months from the date the condensed consolidated financial statements are approved by the Directors.

The Directors also consider that the Group will be able to manage the timing of discharging the Group's obligation for the unpaid investment cost in an associate upon the completion of disposal of interest in an associate as stated in Note 24 to ensure the Group will have sufficient working capital to meet its obligations in the foreseeable future. In particular, a borrowing with principal amount of HK$100,000,000 due September 2019 is owed to FDG (Note 17) and another borrowing with principal amount of HK$100,000,000 due February 2019 is guaranteed by FDG (Note 18).

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

2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to HKFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2018 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2. Principal Accounting Policies (continued)

2.1 Impacts and changes in accounting policies on application of HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from sales of cathode materials for battery production.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 April 2018. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 April 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- 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, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

2. Principal Accounting Policies (continued)

2.1 Impacts and changes in accounting policies on application of HKFRS 15 "Revenue from Contracts with Customers" (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

2. Principal Accounting Policies (continued)

2.1 Impacts and changes in accounting policies on application of HKFRS 15 "Revenue from Contracts with Customers" (continued)

2.1.2 Summary of effects arising from initial application of HKFRS 15

Revenue from the sales of cathode materials for battery production is recognised based upon output delivered, which is the point in time when the customer has the ability to direct the use of the output and obtain the control of the output.

Upon adoption of HKFRS 15, receipt in advance from customers previously included in accruals and other payables amounting to approximately HK$8,705,000 was reclassified to contract liabilities as at the date of initial application, 1 April 2018.

At 30 September 2018, without the application of HKFRS 15, receipt in advance from customers of approximately HK$4,066,000 would have been reclassified from contract liabilities to accruals and other payables since the underlying products and services are yet to be delivered.

As a result, other than reclassification of contract liabilities, the adoption of HKFRS 15 does not have material impact on the amounts reported in the condensed consolidated financial statements.

2.2 Impacts and changes in accounting policies on application of HKFRS 9 "Financial Instruments"

In the current period, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (a) the classification and measurement of financial assets and financial liabilities, (b) expected credit losses ("ECL") for financial assets and (c) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 April 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 April 2018. The difference between carrying amounts as at 31 March 2018 and the carrying amounts as at 1 April 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

2. Principal Accounting Policies (continued)

2.2 Impacts and changes in accounting policies on application of HKFRS 9 "Financial Instruments" (continued)

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that all date of initial application/initial recognition of a financial asset the Group may irrecoverably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which HKFRS 3 "Business Combination" applies.

In addition, the Group may irrecoverable designate a debt investment that meet the amortised cost or fair value through other comprehensive income criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

2. Principal Accounting Policies (continued)

2.2 Impacts and changes in accounting policies on application of HKFRS 9 "Financial Instruments" (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Classification and measurement of financial assets (continued)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income ("FVTOCI") or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 April 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 2.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, loan receivables, amount due from an associate, pledged bank deposits and cash and cash equivalents). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

2. Principal Accounting Policies (continued)

2.2 Impacts and changes in accounting policies on application of HKFRS 9 "Financial Instruments" (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Impairment under ECL model (continued)

The Group always recognises lifetime ECL for trade receivables. The ECL on trade receivables are assessed individually for debtors with significant balances or collectively using a provision matrix based on its historical observed default rates which is adjusted for forward-looking estimates.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

2. Principal Accounting Policies (continued)

2.2 Impacts and changes in accounting policies on application of HKFRS 9 "Financial Instruments" (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Significant increase in credit risk (continued)

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

2. Principal Accounting Policies (continued)

2.2 Impacts and changes in accounting policies on application of HKFRS 9 "Financial Instruments" (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Measurement and recognition of ECL (continued)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and loan receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1 April 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 2.2.2.

2.2.2 Summary of effects arising from initial application of HKFRS 9

The effects of the classification and measurement (including impairment) of financial assets subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 April 2018 are as follows:

(a) Classification and measurement of financial assets

On initial application of HKFRS 9, the Group's financial assets will continue to be measured on the same bases as was previously adopted under HKAS 39.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for trade receivables. To measure the ECL, trade receivables with significant balances have been assessed individually and/or collectively, which have been grouped based on shared credit risk characteristics.

2. Principal Accounting Policies (continued)

2.2 Impacts and changes in accounting policies on application of HKFRS 9 "Financial Instruments" (continued)

2.2.2 Summary of effects arising from initial application of HKFRS 9 (continued)

(b) Impairment under ECL model (continued)

Loss allowances for other financial assets at amortised cost mainly comprise of other receivables, loan receivables, amount due from an associate, pledged bank deposits and cash and cash equivlalents, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 April 2018, the Group has assessed and reviewed the existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. Hence, no additional impairment loss was identified.

2.2.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

	At 31 March 2018 (Audited) HK$'000	HKFRS 15 HK$'000	At 1 April 2018 (Restated) HK$'000
Current liabilities			
Accrual and other payables	127,289	(8,705)	118,584
Contract liabilities	–	8,705	8,705

Except as described above, the application of other new and amendments to HKFRSs in the current interim period has no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. Revenue

Disaggregation of revenue

	Six months ended 30 September 2018 HK$'000 (Unaudited)	Six months ended 30 September 2017 HK$'000 (Unaudited)
Revenue from contracts with customers		
– Sales of cathode materials for battery production	**100,255**	169,032
Interest income	**6,579**	23,876
	106,834	192,908
Geographical markets		
The People's Republic of China (the "PRC")	**100,255**	169,032
Hong Kong	**6,579**	23,876
	106,834	192,908
Timing of revenue recognition		
A point in time	**100,255**	169,032

4. Segment Information

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

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

(i) Battery materials production segment, which includes research and development, manufacture and sales of cathode materials for (1) nickel-cobalt-manganese lithium-ion batteries; and (2) lithium ferrous phosphate batteries representing the Group's interest in an associate, Advanced Lithium Electrochemistry (Cayman) Co., Ltd. ("ALEEES"); and

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

4. Segment Information (continued)

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

	Battery Materials Production		Direct Investments		Total	
	Six months ended 30 September 2018 HK$'000 (Unaudited)	Six months ended 30 September 2017 HK$'000 (Unaudited)	**Six months ended 30 September 2018 HK$'000 (Unaudited)**	Six months ended 30 September 2017 HK$'000 (Unaudited)	**Six months ended 30 September 2018 HK$'000 (Unaudited)**	Six months ended 30 September 2017 HK$'000 (Unaudited)
Reportable segment revenue from external customers	**100,255**	169,032	**6,579**	23,876	**106,834**	192,908
Reportable segment results	**(71,880)**	(28,683)	**(53,719)**	(93,008)	**(125,599)**	(121,691)
Unallocated corporate expenses					**(130)**	(5,197)
Central administrative costs and directors' remuneration					**(13,495)**	(13,720)
Loss before taxation					**(139,224)**	(140,608)

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

4. Segment Information (continued)

(a) Segment assets and liabilities

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

	At 30 September 2018 HK$'000 (Unaudited)	At 31 March 2018 HK$'000 (Audited)
Segment assets		
Battery materials production	**1,087,018**	1,274,307
Direct investments	**420,326**	467,377
Total segment assets	**1,507,344**	1,741,684
Unallocated assets	**24,535**	75,773
Consolidated assets	**1,531,879**	1,817,457
Segment liabilities		
Battery materials production	**359,784**	410,013
Direct investments	**276,555**	288,440
Total segment liabilities	**636,339**	698,453
Unallocated liabilities	**23,399**	23,012
Consolidated liabilities	**659,738**	721,465

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

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

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

4. Segment Information (continued)

(b) Seasonality of operations

The Group's operations are not subject to significant seasonal or cyclical factors.

5. Other Gains and Losses

	Six months ended 30 September 2018 HK$'000 (Unaudited)	Six months ended 30 September 2017 HK$'000 (Unaudited)
Net foreign exchange gains	**(14,622)**	(289)
Reversal of impairment losses on trade receivables	**(5,935)**	(357)
Impairment losses on loan receivables (Note 13)	**15,500**	–
Impairment losses on interests in associates (Note)	**11,194**	30,000
Net loss/(gain) on held-for-trading investments classified as financial assets at FVTPL	**6,563**	(16,114)
Impairment losses on interest receivables	**4,959**	–
Write-down of inventories	**–**	5,197
Loss on disposal of property, plant and equipment	**–**	18
Reversal of write-down of inventories	**–**	(1,185)
	17,659	17,270

Notes:

For the six months ended 30 September 2018

For the interest in ALEEES, at the end of the reporting period, the carrying amount exceeded its recoverable amount which was based on its market value less cost of disposal of approximately HK$211,925,000 and thus an additional impairment loss of HK$11,194,000 (six months ended 30 September 2017: Nil) was recognised in the condensed consolidated statement of profit or loss and other comprehensive income. The market value less cost of disposal is categorised as Level 1 of fair value hierarchy.

For the six months ended 30 September 2017

For the interest in Synergy Dragon Limited ("SDL"), at the end of 30 September 2017, affected by the new policies in the PRC on the quality of the lithium-ion batteries, the demand of the battery products produced by SDL in the PRC decreased, resulted in a decrease in the expected future cash flows. The carrying amount exceeded the recoverable amount, which was based on its value in use, that led to an impairment loss of HK$30,000,000. The value in use was determined based on the discounted cash flow projections of SDL at the end of 30 September 2017 using a discount rate of 25%.

6. Finance Costs

	Six months ended 30 September 2018 HK$'000 (Unaudited)	Six months ended 30 September 2017 HK$'000 (Unaudited)
Interest on convertible bonds	**13,445**	61,668
Interest on finance leases	**1,261**	2,107
Interest on bank and other borrowings	**5,817**	4,720
	20,523	68,495

7. Income Tax Credit

	Six months ended 30 September 2018 HK$'000 (Unaudited)	Six months ended 30 September 2017 HK$'000 (Unaudited)
Deferred tax and total income tax credit for the period	**(979)**	(949)

No provision for the Hong Kong Profits Tax has been made for the six months ended 30 September 2018 and 2017 as the Group does not have any assessable profits in Hong Kong.

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

8. Loss for the Period

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

	Six months ended 30 September 2018 HK$'000 (Unaudited)	Six months ended 30 September 2017 HK$'000 (Unaudited)
Cost of inventories recognised as expenses	**97,800**	164,747
Amortisation of intangible assets	**7,382**	7,156
Amortisation of interests in leasehold land held for own use under operating lease	**200**	194
Depreciation of property, plant and equipment	**11,175**	8,728
Less: Amounts capitalised in inventories	**(8,677)**	(6,425)
	2,498	2,303
Bank interest income	**(136)**	(265)

9. Loss per Share

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

	Six months ended 30 September 2018 HK$'000 (Unaudited)	Six months ended 30 September 2017 HK$'000 (Unaudited)
Loss:		
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	**138,245**	139,659

9. Loss per Share (continued)

	Six months ended 30 September 2018 (Unaudited)	Six months ended 30 September 2017 (Unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic loss per share	**6,753,293,913**	5,135,646,855

The computation of diluted loss per share for the six months ended 30 September 2018 and 2017 did not assume the conversion of the Company's outstanding convertible bonds on or before redemption at 4 August 2018 since their exercise would result in a decrease in loss per share.

10. Goodwill

	Allocated to battery materials production HK$'000
COST	
At 31 March 2018 (Audited)	488,847
Exchange realignment	(43,714)
At 30 September 2018 (Unaudited)	**445,133**
ACCUMULATED IMPAIRMENT	
At 31 March 2018 (Audited)	152,969
Exchange realignment	(13,679)
At 30 September 2018 (Unaudited)	**139,290**
CARRYING VALUES	
At 30 September 2018 (Unaudited)	**305,843**
At 31 March 2018 (Audited)	335,878

10. Goodwill (continued)

For the purposes of impairment testing, goodwill has been allocated to the battery materials production segment of the Group, which is an individual cash-generating unit ("CGU").

During the six months ended 30 September 2018, management of the Group determines that there is no impairment of its CGU containing goodwill. The basis of the recoverable amount of the above CGU and the major underlying assumptions are summarised below:

The recoverable amount of this CGU is determined based on its fair value less costs of disposal. The fair value less costs of disposal of this CGU is assessed by the management of the Group based on a business valuation performed by an independent valuer appointed by the Group. The calculation uses cash flow projections based on the financial budgets approved by the Directors, and discount rate of 23% (31 March 2018: 23%) that is determined by an independent valuer using the Capital Assets Pricing Model, which is within level 3 fair value hierarchy. The cash flow projections include future capital expenditure on the CGU to increase the production capacity which are expected to result in a substantial increase in the net cash inflows derived from this CGU. The cash flows beyond the five-year period are extrapolated using a terminal growth rate of 3% (31 March 2018: 3%). This growth rate is determined based on the expected long-term inflation in the PRC. Other key assumptions relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin generated from the CGU, such estimation is determined based on the past performance of the CGU and management's expectations on the market development.

11. Movements in Property, Plant and Equipment

During the current interim period, the Group acquired property, plant and equipment of approximately HK$66,298,000 (six months ended 30 September 2017: approximately HK$409,000).

12. Interests in Associates and Amount due from/to an Associate

	At 30 September 2018 HK$'000 (Unaudited)	At 31 March 2018 HK$'000 (Audited)
Cost of investment in associates		
Listed in Taiwan	**393,066**	393,066
Unlisted	**909,120**	909,120
Share of post-acquisition losses and other comprehensive expenses	**(342,457)**	(244,882)
Less: Impairment loss (Note (5))	**(544,378)**	(533,184)
	415,351	524,120
Amount due from an associate (Note (i))	**97,465**	69,699
Amount due to an associate (Note (ii))	**144,891**	159,120

Notes:

(i) As at 30 September 2018, the balance represented three unsecured loans to an associate with total principal sum of approximately HK$90,000,000 (31 March 2018: two unsecured loans to an associate with total principal sum of approximately HK$65,000,000), which bear interest at 6% per annum and with maturity within one year. During the period, two of the loans were due and have been extended for half year.

(ii) The balance represented the unpaid investment cost in ALEEES (GuiZhou) Co., Ltd, which is interest-free and repayable on demand (31 March 2018: with maturity within one year).

13. Loan Receivables

	At 30 September 2018 HK$'000 (Unaudited)	At 31 March 2018 HK$'000 (Audited)
Fixed-rate loan receivables	**162,698**	168,073
Less: allowance for doubtful debts	**(23,250)**	(7,750)
Net fixed-rate loan receivables (Note)	**139,448**	160,323
Presented by:		
Non-current assets	**341**	360
Current assets	**139,107**	159,963
	139,448	160,323

Note:

At 30 September 2018, the loan receivables include a loan secured by a mining right of an iron ore mine in the PRC (the "Loan") with carrying amount of HK$54,566,000 (31 March 2018: HK$59,925,000). On 17 December 2015, the Group appointed CITIC International Assets Management Limited ("CIAM") as its exclusive agent in collecting and handling the Loan and its outstanding accrued interest for twenty four calendar months from 17 December 2015 (the "Contract Period"). CIAM should pay deposits by instalments of RMB56,000,000 in total (equivalent to approximately HK$63,078,000) to the Group by 31 May 2016. 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 Group is able to use deposits received from CIAM to offset the Loan. On 15 December 2017, the Contract Period has been extended for another six calendar months to 17 June 2018. On 15 June 2018, the Contract Period has been extended for another three calendar months to 17 September 2018. On 14 September 2018, the Contract Period has been extended for another three calendar months to 17 December 2018. In the opinion of the Directors, the fair value of the put option is insignificant. As at 30 September 2018, the Group had received deposits of approximately HK$63,638,000 (31 March 2018: approximately HK$69,888,000) from CIAM and included in the Group's accruals and other payables.

As part of the Group's credit risk management, the Group applies internal credit rating for its debtor. The estimated loss rate is estimated based on historical repayment pattern and adjusted for forward-looking information that is available without undue cost or effort. During the current interim period, the Group provided HK$15,500,000 impairment loss based on the lifetime ECL model as there has been a significant increase in credit risk since initial recognition due to the overdue of principal and interest within 90 days.

13. Loan Receivables (continued)

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

	At 30 September 2018 HK$'000 (Unaudited)	At 31 March 2018 HK$'000 (Audited)
On demand and due within one year	**139,107**	159,963
Over five years	**341**	360
	139,448	160,323

14. Trade and Others Receivables

	At 30 September 2018 HK$'000 (Unaudited)	At 31 March 2018 HK$'000 (Audited)
Trade receivables	**36,596**	77,182
Bills receivables	**1,034**	3,779
	37,630	80,961
Less: allowance for doubtful debts	**(4,635)**	(11,307)
	32,995	69,654
Value-added tax receivables	**30,520**	22,455
Interest receivables	**9,072**	11,497
Other receivables	**2**	1,056
Deposits and prepayments	**11,833**	18,185
	84,422	122,847

All of the interest receivables, other receivables, deposits and prepayments classified as current assets are expected to be repaid or amortised to profit or loss within one year.

14. Trade and Others Receivables (continued)

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

	At 30 September 2018 HK$'000 (Unaudited)	At 31 March 2018 HK$'000 (Audited)
Within one month	**1,863**	3,582
Between one and three months	**10,513**	10,888
Over three months	**20,619**	55,184
	32,995	69,654

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

At 30 September 2018, included in the trade receivables are discounted trade receivables with recourse of approximately HK$12,029,000.

15. Trade and Bills Payables

	At 30 September 2018 HK$'000 (Unaudited)	At 31 March 2018 HK$'000 (Audited)
Trade payables	**24,681**	31,714
Bills payables	**–**	11,375
	24,681	43,089

15. Trade and Bills Payables (continued)

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

	At 30 September 2018 HK$'000 (Unaudited)	At 31 March 2018 HK$'000 (Audited)
Within one month	**204**	5,471
Between one and three months	**5,677**	13,217
Over three months	**18,800**	24,401
	24,681	43,089

The carrying amounts of trade and bills payables approximate their fair values. All bills payables were secured by pledged bank deposits at the end of the reporting period.

16. Convertible Bonds

On 4 August 2015, the Company issued convertible bonds with an aggregate principal amount of HK$750,000,000 (the "Convertible Bonds") to a subsidiary of FDG for the acquisition of 25% equity interest in SDL that was completed on 4 August 2015. The Convertible Bonds are interest bearing at 8% per annum, with a maturity date on the third anniversary on the date of their issue (i.e. 4 August 2018) and entitle the holder to convert them, in whole or in part, into ordinary shares of the Company at an initial conversion price of HK$1.70 per share (subject to adjustments) at any time on or after the issue date of the Convertible Bonds up to the maturity date.

At initial recognition, the fair value of the Convertible Bonds was approximately HK$2,443,113,000. The liability component of the Convertible Bonds 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 equity component was the residual amount after deducting the fair value of the liability component from the fair value of the Convertible Bonds at initial recognition. The effective interest rate of the liability component of the Convertible Bonds is 18.89% per annum. The valuation of the Convertible Bonds at initial recognition was prepared by an independent professional qualified valuer.

16. Convertible Bonds (continued)

On 14 September 2015, the Company effected a subdivision of its shares so that one share of HK$1.00 became five shares of HK$0.20 each. The number of conversion shares that would arise from the conversion was, in accordance with the terms and conditions of the Convertible Bonds, quintupled. The original conversion price was adjusted from HK$1.70 to HK$0.34 pursuant to the terms and conditions of the Convertible Bonds.

On 30 October 2017, FDG and an independent third party entered into a bond sale deed, pursuant to which FDG agreed to sell and the independent third party agreed to purchase the Convertible Bonds in the principal amount of HK$110,000,000 held by FDG.

On 4 August 2018, the entire outstanding convertible bonds with the principal account of HK$200,000,000 remained unexercised and was redeemed and extinguished by the Company upon expiration.

17. Loan from the Ultimate Holding Company

The amount is unsecured, interest-free and repayable in September 2019.

18. Bank and Other Borrowings

	At 30 September 2018 HK$'000 (Unaudited)	At 31 March 2018 HK$'000 (Audited)
Secured bank borrowings	**43,117**	49,856
Secured other borrowings	**78,596**	86,211
Unsecured other borrowing	**100,000**	–
	221,713	136,067
Less: Amounts due within one year shown under current liabilities	**(181,288)**	(84,960)
Amounts due after one year	**40,425**	51,107

During the six months ended 30 September 2018, the Group repaid bank and other borrowings in the amount of approximately HK$10,873,000 (six months ended 30 September 2017: approximately HK$13,326,000) and raised new other borrowing of approximately HK$108,580,000, in which a new unsecured other borrowing from an independent third party of HK$100,000,000 which is bearing interest at 21.80% per annum, guaranteed by FDG and repayable in February 2019.

The effective interest rates of bank and other borrowings are ranging from 6.04% to 21.80% (31 March 2018: 6.04% to 6.45%) per annum.

19. Capital and Dividends

(a) Dividends

No dividend had been paid or declared during the period. The Board does not recommend the payment of a dividend for the six months ended 30 September 2018 (six months ended 30 September 2017: Nil).

(b) Share Capital

	Number of ordinary shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.20 each		
At 31 March 2018 (Audited) and		
30 September 2018 (Unaudited)	**12,500,000,000**	**2,500,000**
Issued and fully paid:		
Ordinary shares of HK$0.20 each		
At 31 March 2018 (Audited) and		
30 September 2018 (Unaudited)	**6,753,293,913**	**1,350,659**

20. Fair Value Measurements of Financial Instruments

For financial reporting purposes, 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 and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

20. Fair Value Measurements of Financial Instruments (continued)

Some of the Group's financial assets are measured at fair value at the end of each reporting period. 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).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)		
Financial assets at fair value through profit or loss				
– Listed equity securities in Hong Kong	**2,134**	15,495	Level 1	Quoted bid prices in active markets
– Unlisted funds	**6,206**	7,005	Level 2	Quoted prices in the over-the-counter markets

21. Major Non-Cash Transaction

On 4 August 2018, the Company redeemed the entire outstanding Convertible Bonds with the principal amount of HK$200,000,000 (Note 16); accordingly, HK$100,000,000 of such amount were settled by the loan advanced from FDG (Note 17) pursuant to a loan agreement entered into by the Company with FDG during the current interim period.

22. Capital Commitments

	At 30 September 2018 HK$'000 (Unaudited)	At 31 March 2018 HK$'000 (Audited)
Capital expenditures contracted for but not provide in the consolidated financial statements in respect of acquisition of property, plant and equipment	**17,743**	37,373

23. Major Related Party Transactions

(a) Transactions with related companies

In addition to the transactions and balances disclosed elsewhere in this condensed consolidated financial statements and notes thereon, the Group entered into the following transactions with related companies during the six months ended 30 September 2018:

	Notes	**Six months ended 30 September 2018 HK$'000 (Unaudited)**	Six months ended 30 September 2017 HK$'000 (Unaudited)
Rental expenses paid to a fellow subsidiary	(i)	**(480)**	(480)
Consultancy fee paid to a fellow subsidiary	(i)	**(480)**	(480)
Expenses reimbursed to a fellow subsidiary	(i)	**(475)**	(459)
Interest expenses payable to a fellow subsidiary	(ii)	**(6,231)**	(61,669)
Interest income receivable from FDG	(iii)	**–**	14,841
Interest income receivable from an associate	(iv)	**2,766**	1,977

Notes:

(i) The amounts represented rental expenses, consultancy fee and other expenses reimbursed to a fellow subsidiary, which is a wholly-owned subsidiary of FDG.

(ii) The amount represented interest expense accrued for the convertible bonds.

(iii) The amount represented interest income derived from the investment in a secured bond.

(iv) The amount represented interest income derived from the amount due from an associate (Note 12).

23. Major Related Party Transactions (continued)

(b) Balances with related companies

	At 30 September 2018 HK$'000 (Unaudited)	At 31 March 2018 HK$'000 (Audited)
Amount due from an associate (Note 12)	**97,465**	69,699
Amount due to an associate (Note 12)	**144,891**	159,120
Amount due to a fellow subsidiary (Note)	**8,193**	17,300
Loan from the ultimate holding company (Note 17)	**100,000**	–
Liability component of convertible bonds	**–**	96,574

Note:

The amount represented interest payable from the convertible bonds issued to a subsidiary of FDG (Note 16) which is included in accruals and other payables.

(c) Key management personnel compensation

The remuneration of Directors and other members of key management during the period was as follows:

	Six months ended 30 September 2018 HK$'000 (Unaudited)	Six months ended 30 September 2017 HK$'000 (Unaudited)
Salaries and other short-term employee benefits	**5,866**	6,236

23. Major Related Party Transactions (continued)

(d) Guarantee

As at 30 September 2018 and 31 March 2018, the Group's secured other borrowings are guaranteed by an indirect wholly-owned subsidiary of an associate.

As at 30 September 2018, the Group's unsecured other borrowing is guaranteed by FDG.

As at 30 September 2018 and 31 March 2018, the Group's obligations under finance leases are guaranteed by an indirect wholly-owned subsidiary of an associate.

24. Event after the Reporting Period

Pursuant to a board resolution of an associate passed on 19 November 2018, the Group agreed to dispose of the entire interests in an associate with carrying amount of approximately HK$144,891,000 as at 30 September 2018 to one of the existing shareholders of an associate. Up to the date of this report, the disposal transaction has not been completed as the terms of the disposal are still under negotiation among the parties.

Report on Review of Condensed Consolidated Financial Statements

Deloitte. 德勤

To the Board of Directors of FDG Kinetic Limited
(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of FDG Kinetic Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 2 to 38, which comprise the condensed consolidated statement of financial position as of 30 September 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Material Uncertainty Related to Going Concern

We draw attention to note 1 to the condensed consolidated financial statements which indicates that the Group incurred a net loss of approximately HK$138,245,000 during the six months ended 30 September 2018 and, as of that date, had net current liabilities of approximately HK$223,137,000. The Group's ability to continue as a going concern is dependent on the ongoing availability of financial support from the Company's ultimate holding company, FDG Electric Vehicles Limited ("FDG"), who has agreed to provide adequate funds to enable the Group to meet in full its financial obligations as they fall due for a period of twelve months from the date the condensed consolidated financial statements are approved by the directors of the Company. As further described in FDG's condensed consolidated financial statements for the six-month period ended 30 September 2018, FDG is also implementing measures to improve its own liquidity position, the ultimate success of which cannot be determined at this stage. Should the above financing be unavailable, the Group may be unable to operate on a going concern, in which case adjustments might have to be made to the carrying values of the Group's assets to state them at their recoverable amounts, to provide for any further liabilities which might arise and to reclassify its non-current assets and non-current liabilities to current assets and current liabilities, respectively. These conditions, along with other matters as set forth in note 1 to the condensed consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong

29 November 2018

Management Discussion and Analysis

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

Market Overview

During the period under review, the global economic development had faced many uncertainties like U.S. interest rate hike caused emerging market currencies weakened; geopolitical risks sent oil price surging; Sino-US trade tensions worsened due to trade unilateralism. However, China's economy maintained steady growth in the first half of 2018 with a GDP growth of 6.8% year-on-year, while inflation and employment rate remained stable. In the first half of 2018, China's economy was in the process of further economic structure adjustment and is expected to be continued.

While other countries successively promised to reduce carbon emission and aimed to replace conventional internal-combustion-engine ("ICE") vehicles with new energy vehicles ("NEV"), China is a clear global leader in adopting electric vehicles ("EV"). According to the statistics from the China Association of Automobile Manufacturers, from January to September 2018, the production and sales volume of NEV added up to 735,000 units and 721,000 units, up by 73.0% and 81.1% year-on-year, respectively. In particular, the production and sales volume of pure electric vehicles added up to 555,000 units and 541,000 units, up by 58.9% and 66.2% year-on-year, respectively. Moreover, by the end of June 2018, the NEVs on the road in China added up to 1,990,000 units, in particular, pure electric vehicles on the road accounted for 1,620,000 units. Benefitting from the support of government policies, global customers' increasing awareness of environmental protection and battery technology advancement, the total cost of ownership of EVs is decreasing and it is expected that the new energy vehicle market in China will continue to grow in a rapid pace.

Power battery is the key component of an EV as well as the most expensive component in total EV's manufacturing costs. Benefitting from the rapid development of the NEV market, the power battery market has also been growing rapidly. According to the statistics released by the China Association of Automobile Manufacturers, from January to September 2018, the production and sales volume of power batteries in China added up to 46.0GWh and 45.6GWh respectively. These numbers are way higher than 39.2GWh, the total sales volume of 2017. The most commonly used power batteries are ternary batteries and Lithium-Iron-Phosphate (LFP) batteries. During January to September 2018, the ternary batteries recorded 24.6GWh of sales, which accounted for 53.9% of total batteries sales volume; the LFP batteries recorded 20.5GWh of sales, which accounted for 45.0% of total batteries sales volume. LFP batteries have higher chemical stability and longer lifespan, are therefore commonly used in commercial vehicles such as transit vehicles; whereas ternary batteries have higher energy density and, are commonly used in passenger vehicles. In the future, the new energy vehicle market will keep expanding, it is expected that the battery market will also be growing at a rapid pace.

Following the decline in the NEV subsidy policy, the costs have been shifted from the downstream EV original equipment manufacturers ("OEM") to the upstream battery and cathode material manufacturers causing the decrease in upstream product price. Under the circumstance of lifted battery energy density hurdle from the subsidy policy, the EV OEMs are required to meet higher energy density in order to receive government subsidies, this has propelled the battery manufacturers to developing higher energy density products.

Business Review

Battery Business

Li-ion batteries are mostly deployed in three main downstream segments, which are consumable batteries (electronic products), power batteries (new energy vehicles) and energy storage batteries. Currently, the energy storage batteries market in China is relatively small; consumable batteries are gradually dropping in market shares and the new demands and investments in the Li-ion battery industry are focused on the power battery segment. Power batteries will be the largest engine to drive the Li-ion battery market forward.

Driven by the vehicles electrification boom, huge amount of capitals poured into the battery industry, therefore creating massive production capacity. The profit of power batteries was further squeezed by the decrease in subsidy making the overall battery industry highly competitive. In such competitive environment, the Group executed a cost control programme in a pragmatic manner in order to maintain its competitive edge in the market. The Group successfully negotiated with its upstream suppliers for lower costs in purchasing cathode materials, anode materials, electrolytes and separators. The Group also managed to increase its labour productivity per unit and implemented seasonal production planning that are of its cost control effort. As to product development, the Group has continually improved its batteries' energy density and lifespan, and has developed battery modules that are suitable for varieties of EVs and energy storage systems which enriches the Group's product lines to satisfy different customer needs.

Under the highly competitive market environment in the PRC, the Group has always been developing overseas market business. The Group's battery products are mainly exported to Europe such as Germany, Belgium, Italy and Russia. In the European market, the Group's battery products are mainly used for energy storage purpose since the European energy storage industry is developed earlier and more mature in comparing with the Chinese energy storage industry; the customers in the energy storage industry do not blindly pursue high energy density, instead, they value battery's stability and safety more.

Cathode Material Business

On 26 March 2018, FKL announced that all four production lines in Chongqing production base have been allocated for producing ternary products – the cathode material of Li-ion batteries for a client until 31 December 2018. Currently, the four production lines are operating at almost full capacity, providing stable revenue at least until the end of December 2018.

Apart from the A1 to A4 production lines in Chongqing production base at almost full capacity, the Group has been strengthening its production capacity. The new A5 and A6 production lines are currently under construction with designed annual capacity of 2,400 tonnes ternary materials and are expected to be completed by the end of 2018. After completing the construction of the new A5 and A6 production lines, together with the existing A1 to A4 production lines, the designed annual capacity of Chongqing production base is estimated to reach 7,200 tonnes. The Group's associate, Advanced Lithium Electrochemistry (Cayman) Co., Ltd. ("ALEEES") which operates in Taiwan, specialises in manufacturing LFP cathode materials. Affected by the decline in the NEV subsidy and the lifted subsidy hurdle, the demands for LFP cathode material were substantially decreased, therefore ALEEES plans to export products to overseas market in order to increase its revenue.

With the adjustment of the new subsidy policy, the electric vehicle industry chain is committed to developing higher energy density products. The Group is dedicated to improving its product competitiveness, developing higher energy density and safer cathode materials that stick to the market trend. The Group is mainly supplying NCM523 products and conducting research and development on NCM622, NCM811 and NCA ternary products currently. The Group's research and development team for cathode materials is led by a group of experts from Japan and the PRC where the team focuses on developing ternary cathode materials and operates with complementary testing equipment and researchers.

Interim Financial Review

During the six months period under review, the Group recorded a revenue of approximately HK$106.8 million, representing a decrease of approximately 44.6% as compared with the revenue of approximately HK$192.9 million of the six months ended 30 September 2017. Such decrease was mainly due to decreasing sales of cathode material of the battery materials production business segment.

The Group's loss attributable to equity shareholders of the Company for the six months ended 30 September 2018 amounted to approximately HK$138.2 million, representing a decrease of approximately HK$1.5 million as comparing with the loss of approximately HK$139.7 million for the six months ended 30 September 2017. The decrease was mainly attributable to the combination effects of the followings:

(i) decrease in sales of cathode material from approximately HK$192.9 million for the six months ended 30 September 2017 to approximately HK$106.8 million for the six months ended 30 September 2018 and therefore decrease in profit generated;

(ii) net losses from other gains and losses increased from approximately HK$17.3 million for the six months ended 30 September 2017 to approximately HK$17.7 million for the six months ended 30 September 2018, mainly represented (i) the impairment losses on interests in an associate, Advanced Lithium Electrochemistry (Cayman) Co., Ltd. ("ALEEES"), amounted to approximately HK$11.2 million, caused by the decrease in demand and selling price of cathode material for batteries under the new energy subsidy policies. With the changes of the business prospects of these businesses, the carrying amount exceeded its recoverable amount which was based on its market value less cost of disposal and thus an impairment losses were recognised (six month ended 30 September 2017: Nil); (ii) the impairment loss on a loan and interest receivable to an independent third party totally amounted to approximately HK$20.4 million for the six months ended 30 September 2018 which did not incur in the corresponding last period; and (iii) offsetted by net foreign exchange gain amounted to approximately HK$14.6 million for the six months ended 30 September 2018 (six months ended 30 September 2017: approximately HK$0.3 million);

(iii) the finance costs amounted to approximately HK$20.5 million were comprised of the interest expenses on the convertible bonds, finance leases and bank and other borrowings, which representing a decrease of approximately HK$48.0 million as comparing with approximately HK$68.5 million for the six months ended 30 September 2017. Such decrease was mainly due to partial repayment of bank and other borrowings and finance leases and fully repayment of the convertible bonds during the period under review; and

(iv) the share of loss of associates amounted to approximately HK$74.6 million (six months ended 30 September 2017: share of loss of approximately HK$50.4 million) which was mainly attributable from two associates, Synergy Dragon Limited ("SDL") and ALEEES, amounted to approximately HK$22.8 million (six months ended 30 September 2017: approximately HK$43.9 million) and approximately HK$51.8 million (six months ended 30 September 2017: approximately HK$6.5 million), respectively, the increase in share of loss of associates was caused by the increase in losses of these associates following changes in subsidy policies for batteries and electric vehicles in China and the keen competition in the market.

Segment Information

Battery Materials Production Business

During the six months period under review, this battery materials production business segment contributed the Group's revenue of approximately HK$100.3 million from the sales of cathode materials for NCM lithium-ion batteries, representing a decrease of approximately 40.7% as compared with the revenue of approximately HK$169.0 million for the six months ended 30 September 2017. Such decrease was mainly due to tightening of credit control on existing customers which limited our sales and delay in time schedule to carry out subcontracting sales to a new customer during the period under review.

This battery materials production business segment brought a loss before tax of approximately HK$71.9 million to the Group during the six months under review, which included share of loss of an associate, ALEEES, of approximately HK$51.8 million. The Group holds approximately 21.85% of total issued shares of ALEEES. ALEEES is principally engaged in the business of production, research and development and sales and marketing of cathode materials for lithium ferrous phosphate batteries. As most of the customers of ALEEES were from the People's Republic of China (the "PRC"), and influenced by the new energy subsidy policies and keen competition in the market, ALEEES suffered losses during the period under review.

Without taking into account of share of loss of ALEEES of approximately HK$51.8 million (six months ended 30 September 2017: approximately HK$6.5 million), the one-off impairment loss on ALEEES of approximately HK$11.2 million and exchanges gain on investment cost payable to an associate. of approximately HK$11.3 million for the six months ended 30 September 2018, the battery material production business of Chongqing factory incurred a loss before tax of approximately HK$20.2 million during the period under review, which is nearly the same as comparing with the loss before tax of approximately HK$22.2 million for the six months ended 30 September 2017.

In order to further strive for efficiency, the Group will expand the production capacity of Chongqing factory by the use of other new borrowings facility obtained in June 2017, in a bid to satisfy the growing needs of customers and increase the scale of economies. Further, on 26 March 2018, the Company announced that most of the Chongqing's production capacity in all production lines have been allocated for carrying out subcontracting sale for a customer until 31 December 2018. The subcontracting sales has been started during the period under review. As a results, the Group is expecting a guaranteed revenue stream at a steady gross margin from the cathode materials segment going forward. The NCM lithium-ion batteries can be widely used in the telecommunication devices, electric vehicles and energy storage systems. The demand for cathode materials are expected to remain strong in the future to cope with the favorable government policies in the development of new energy vehicle industry.

Direct Investments Business

During the period under review, interest and dividend income of approximately HK$6.6 million (six months ended 30 September 2017: approximately HK$23.9 million), the decrease was mainly due to approximately HK$14.8 million of the interest accrued for the secured bond issued by FDG Electric Vehicles Limited ("FDG") to the Company for the six months ended 30 September 2017, which did not incurred during the period.

The Group's investments measured at fair value recorded a net loss of approximately HK$6.6 million for six months ended 30 September 2018 (six months ended 30 September 2017: net gain of approximately HK$16.1 million).

During the period under review, the interest expenses on the convertible bonds amounted to approximately HK$13.4 million (six months ended 30 September 2017: approximately HK$61.7 million).

The Group shared the gain of a joint venture, 華能壽光風力發電有限公司 ("Huaneng Shouguang") of approximately HK$5.1 million for the six months ended 30 September 2018 (six months ended 30 September 2017: share of gain of approximately HK$3.4 million). Huaneng Shouguang is a wind power electricity developer and operator in the PRC. It generated electricity of 54.4 million kWh and revenue of approximately Renminbi ("RMB") 26.7 million during the period under review.

During the six months under review, the Group shared the loss of an associate of approximately HK$22.9 million (six months ended 30 September 2017: share of loss of approximately HK$43.9 million) and impairment loss of nil (six months ended 30 September 2017: impairment loss of HK$30.0 million), which represented 25% interest in an associate, SDL.

At as 30 September 2018, the carrying value of a loan receivable to an independent third party amounted to HK$84.5 million (31 March 2018: HK$100.0 million). Based on the impairment assessment performed by the management, an individually assessed impairment allowance of HK$15.5 million was provided for the six months ended 30 September 2018.

Liquidity and Financial Resources

As at 30 September 2018, the Group's net assets attributable to equity shareholders of the Company amounted to approximately HK$872.1 million (31 March 2018: approximately HK$1,096.0 million). Net assets attributable to equity shareholders of the Company per share were approximately HK$0.13 (31 March 2018: approximately HK$0.16). The Group's total assets of approximately HK$1,531.9 million (31 March 2018: approximately HK$1,817.5 million) mainly consisted of goodwill of approximately HK$305.8 million (31 March 2018: approximately HK$335.9 million), intangible assets of approximately HK$58.5 million (31 March 2018: approximately HK$72.0 million), property, plant and equipment and interests in leasehold land held for own use under operating lease of approximately HK$235.1 million (31 March 2018: approximately HK$199.8 million), interests in associates of approximately HK$415.4 million (31 March 2018: approximately HK$524.1 million), interest in a joint venture of approximately HK$107.5 million (31 March 2018: approximately HK$112.6 million), loan receivables of approximately HK$139.5 million (31 March 2018: approximately HK$160.3 million) and cash and cash equivalents of approximately HK$12.2 million (31 March 2018: approximately HK$74.1 million). The decrease of the total assets for the current period compared with last year amounted to approximately HK$285.6 million was mainly due to (i) the interests in associates of approximately HK$415.4 million as at 30 September 2018, decreased by approximately HK$108.7 million as compared with approximately HK$524.1 million as at 31 March 2018; (ii) the pledged bank deposits and cash and cash equivalents of approximately HK$12.2 million as at 30 September 2018, decreased by approximately HK$73.3 million as compared with approximately HK$85.5 million as at 31 March 2018; and (iii) the trade receivables of approximately HK$32.0 million as at 30 September 2018, decreased by approximately HK$33.9 million as compared with approximately HK$65.9 million as at 31 March 2018.

As at 30 September 2018, the non-current assets of approximately HK$1,146.4 million, comparing with the amount of approximately HK$1,311.9 million as at 31 March 2018, representing a decrease of approximately HK$165.5 million. Such decrease are mainly due to the impairment losses incurred by interests in associates, ALEEES, amounting to approximately HK$11.2 million and share of loss of associates amounted to approximately HK74.6 million, which was mainly attributable from two associates, SDL and ALEEES, amounted to approximately HK$22.8 million and approximately HK$51.8 million, respectively, during the period under review.

As at 30 September 2018, the current assets amounted to approximately HK$385.5 million, representing a decrease of approximately 23.7% as compare with the current assets of approximately HK$505.5 million as at 31 March 2018. Such decrease was mainly attributable to (i) the pledged bank deposits and cash and cash equivalents of approximately HK$12.2 million as at 30 September 2018, decreased by approximately HK$73.3 million as compared with approximately HK$85.5 million as at 31 March 2018; and (ii) the trade receivables of approximately HK$32.0 million as at 30 September 2018, decreased by approximately HK$33.9 million as compared with approximately HK$65.9 million as at 31 March 2018, resulting from tightening of credit control on our customers. A credit period generally ranging from 30 days to 90 days is generally allowed to the customers, the Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk.

As at 30 September 2018, the bank and other borrowings included (i) bank borrowings of approximately HK$43.1 million (31 March 2018: approximately HK$49.9 million), denominated in RMB, were secured, interest bearing at floating rates and repayable within one year. Such bank borrowings were granted under a general banking facilities by a bank in the PRC. The general banking facilities were secured by, inter alia, certain land and buildings of the Group with carrying amounts of approximately HK$108.0 million (31 March 2018: approximately HK$121.8 million) in favour of the lender by way of the fixed charges and floating charges over all the plant and machinery and inventories of FDG Kinetic (Chongqing) Lithium Ion Battery Materials Co. Ltd.; (ii) the other borrowings of HK$100.0 million as at 30 September 2018 is denominated in Hong Kong dollars, were unsecured, guaranteed by FDG and interest bearing at a fixed rate; and (iii) the other borrowings of approximately HK$78.6 million (31 March 2018: HK$86.2 million), out of which approximately HK$38.2 million, approximately HK$17.9 million and approximately HK$22.5 million were repayable within one year, within one to two years and within two to five years, respectively. The other borrowings is denominated in RMB, was secured by certain machineries of the Group with carrying amounts of approximately HK$62.5 million (31 March 2018: approximately HK$68.3 million) and trade receivables amounted to approximately HK$12.0 million (31 March 2018: approximately HK$54.0 million), bear fixed interest rate and guaranteed by an indirect wholly-owned subsidiary of an associate. The Group's bank and other borrowings are mostly event driven, with little seasonality.

As at 30 September 2018, the Group's obligations under finance leases amounted to approximately HK$41.9 million (31 March 2018: approximately HK$46.0 million), out of which approximately HK$41.9 million (31 March 2018: approximately HK$33.4 million) and nil (31 March 2018: approximately HK$12.6 million) were repayable within one year and within one to two years, respectively. The obligations under finance leases were secured by certain machineries of the Group with carrying amounts of approximately HK$62.5 million (31 March 2018: approximately HK$74.6 million) and guaranteed by an indirect wholly-owned subsidiary of an associate. Loan from the ultimate holding company as at 30 September 2018 amounted to HK$100.0 million (31 March 2018: nil) is unsecured, interest-free and repayable within one year.

As at 30 September 2018, the current liabilities of approximately HK$608.6 million representing a decrease of approximately HK$36.4 million comparing with the amount of approximately HK$645.0 million as at 31 March 2018. Such decrease was mainly due to settlement of other payable and accrued from approximately HK$127.3 million as at 31 March 2018 to approximately HK$107.6 million as at 30 September 2018.

As at 30 September 2018, non-current liabilities of approximately HK$51.2 million representing a decrease of approximately HK$25.3 million comparing with the amount of approximately HK$76.5 million as at 31 March 2018, which mainly representing the reclassification of other borrowings and finance leases from non-current liabilities to current liabilities.

As at 30 September 2018, the Group's non-current liabilities comprised mainly the long term portion of other borrowings of approximately HK$40.4 million (31 March 2018: approximately HK$51.1 million) and long term portion of obligations under finance leases of nil (31 March 2018: approximately HK$12.6 million).

As at 30 September 2018, the Group's gearing ratio, without taking into account of the liability component of convertible bonds of nil (31 March 2018: approximately HK$192.6 million), was approximately 30.2% (31 March 2018: approximately 16.6%) calculated on the basis of bank and other borrowings of approximately HK$221.7 million (31 March 2018: approximately HK$136.1 million) and obligations under finance lease of approximately HK$41.9 million (31 March 2018: approximately HK$46.0 million) to total equity of the Company of approximately HK$872.2 million (31 March 2018: approximately HK$1,096.0 million).

Foreign Exchange Exposure

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

Material Acquisitions and Disposals

During the six months ended 30 September 2018, the Group had no material acquisitions or disposals of subsidiaries, associates and joint ventures.

Contingent Liabilities and Pledge of Assets

There were pledge of assets as at 30 September 2018 and 31 March 2018 with details disclosed under the section headed "Liquidity and Financial Resources". In addition, certain bank deposits of nil (31 March 2018: approximately HK$11.4 million) were pledged for bills payable.

The Group had no significant contingent liabilities as at 30 September 2018 (31 March 2018: Nil).

Capital Commitments

Details of the capital commitments of the Group are set out in Note 22 to the interim financial statements.

Human Resources

As of 30 September 2018, the Group had 17 employees in Hong Kong (30 September 2017: 19 employees) and 116 employees in the PRC (30 September 2017: 85 employees). Total staff costs (including directors' remunerations) during the six months ended 30 September 2018 amounted to approximately HK$12.6 million (six months ended 30 September 2017: approximately HK$14.8 million). The remuneration policies are determined with reference to market conditions and individual performance of staff. The Group participates in Mandatory Provident Fund Scheme in Hong Kong and state managed retirement benefit schemes in the PRC.

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

There were no material changes in human resources structure and compensation approach during the six months ended 30 September 2018. No share option was granted, exercised, cancelled or lapsed under the share option scheme during the period under review.

Future Development

The Group understands the market trend going forward would be to attain higher energy density cathode material. The Group has been supplying NCM523 products as well as advancing NCM622, NCM811, NCA and solid-state batteries for its customers. The Group's highly professional research and development team for cathode materials now has four patents applications in progress. The Group operates its 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 products are guaranteed. The Group's upcoming A5 and A6 production lines in Chongqing will increase its production capacity with higher density products to cope with market demands in the future.

The power battery market has seen a massive surge in growth and capacity expansion over the last few years, consequently, there will be a huge amount of power batteries to be decommissioned. How to handle these decommissioned batteries becomes a critical issue but also a crucial opportunity. After 2018, large-scale of NEV power batteries will be decommissioned, it is estimated that the decommissioned batteries will be in excess of 200,000 tonnes (24.6GWh) in 2020. For EV standards, battery decommissioning applies to power batteries that have been reduced to 80% of their capacity. If the scrapped batteries are treated as normal waste disposal, the elements such as cobalt, nickel, lithium, manganese and other chemicals will be hazardous for the environment and also a waste of resources.

Power battery's echelon utilisation is the future development and direction of the industry, the residual capacity of decommissioned batteries can still be used in energy storage, thereby extending the usable life of the power batteries. Li-ion batteries have become much more applicable for use in energy storage with the decrease in production costs while its lifespan, reliability and safety have also been improved. In particular, the decrease in LFP battery price makes replacement of traditional energy storage batteries more economically feasible. At present, the Chinese energy storage market is still in the early developing stage but market potential is huge under the trends of energy efficiency and environmental protection.

Developing the energy storage market and echelon utilisation of electric vehicle power batteries are in line with our "Green and Growth" philosophy, which are beneficial to environmental protection and community safety; and advancing the circular use of resources simultaneously supports the sustainable growth for the Li-ion batteries industry chain.

Supplementary Information

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 September 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 of Hong Kong Limited (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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

1. Interests and short positions in the shares, underlying shares and debentures of the Company

None of the directors nor chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company.

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

(a) FDG Electric Vehicles Limited ("FDG")

Name of directors	Capacity	Number of ordinary shares of the associated corporation	Number of underlying shares (unlisted and physically settled equity derivatives) of the associated corporation *(Note 5)*	Total number of ordinary shares and underlying shares of the associated corporation	Approximate percentage of issued ordinary share capital of the associated corporation *(Note 6)*
Mr. Cao Zhong	Beneficial owner	6,800,000	230,000,000	236,800,000	1.01%
	Interest of controlled corporation	1,352,134,998	–	1,352,134,998 *(Note 1)*	5.78%

Name of directors	Capacity	Number of ordinary shares of the associated corporation	Number of underlying shares (unlisted and physically settled equity derivatives) of the associated corporation *(Note 5)*	Total number of ordinary shares and underlying shares of the associated corporation	Approximate percentage of issued ordinary share capital of the associated corporation *(Note 6)*
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	3,786,332,167	523,000,000	4,309,332,167 *(Notes 1 and 4)*	18.40%
Mr. Miao Zhenguo	Beneficial owner	–	195,000,000	195,000,000	0.83%
	Interest of controlled corporations	652,311,043	–	652,311,043 *(Note 2)*	2.79%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	4,492,956,122	558,000,000	5,050,956,122 *(Notes 2 and 4)*	21.57%
Mr. Jaime Che	Beneficial owner	1,000,000	166,000,000	167,000,000	0.71%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	5,144,267,165	587,000,000	5,731,267,165 *(Notes 3 and 4)*	24.48%

Notes:

1. Mr. Cao Zhong is interested or deemed to be interested in a total of 5,898,267,165 shares and underlying shares of FDG including: (i) 1,352,134,998 shares held by Long Hing International Limited which is wholly owned by Mr. Cao who is a director; (ii) 6,800,000 shares and 230,000,000 share options*(Note 5)* held by Mr. Cao; and (iii) 3,786,332,167 shares and 523,000,000 share options*(Note 5)* held by the other parties to the Undertaking*(Note 4)*.

2. Mr. Miao Zhenguo is interested or deemed to be interested in a total of 5,898,267,165 shares and underlying shares of FDG including: (i) 488,061,043 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 5)* held by Mr. Miao; and (iv) 4,492,956,122 shares and 558,000,000 share options*(Note 5)* held by the other parties to the Undertaking*(Note 4)*.

3. Mr. Jaime Che is interested or deemed to be interested in a total of 5,898,267,165 shares and underlying shares of FDG including: (i) 1,000,000 shares and 166,000,000 share options*(Note 5)* held by Mr. Che; and (ii) 5,144,267,165 shares and 587,000,000 share options*(Note 5)* held by the other parties to the Undertaking*(Note 4)*.

4. 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 FDG (the "Undertaking"). As such, each party to the Undertaking was deemed to have interests in the shares and/or underlying shares of FDG held by the other parties to the Undertaking under Section 317(1)(a) of the SFO.

5. The interests in the underlying shares of FDG represent interests in options granted to the directors named above by FDG to subscribe for shares of FDG under a share option scheme of FDG.

6. These percentages are calculated on the basis of 23,413,077,108 shares of FDG as at 30 September 2018.

(b) 杭州長江汽車有限公司 (Hangzhou Changjiang Automobile Co., Ltd.)*

Name of director	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	Interest of controlled corporation	Registered capital of RMB498,300,000 *(Note)*	–	49.83%

Note:

Mr. Cao Zhong is deemed to be interested in the registered capital of the associated corporation 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%.

* *For identification purpose only*

(c) 杭州長江乘用車有限公司 (Hangzhou Changjiang Passenger Vehicles Co., Ltd.*)

Name of director	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	Interest of controlled corporation	Registered capital of RMB88,110,000 *(Note)*	–	33.00%

Note:

Mr. Cao Zhong is deemed to be interested in the registered capital of the associated corporation 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%.

(d) Advanced Lithium Electrochemistry (Cayman) Co., Ltd. ("ALEEES")

Name of director	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. Jaime Che	Beneficial owner	–	2,000,000 *(Note)*	0.95%

Note:

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 30 September 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.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company

As at 30 September 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 held in long position (L)/ short position (S)**	**Approximate percentage of issued ordinary share capital** *(Note 3)*
Sinopoly Strategic Investment Limited	Beneficial owner	3,447,222,490 (L) 3,447,222,490 (S)	51.04% (L) 51.04% (S)
Union Grace Holdings Limited	Beneficial owner	1,588,235,294 (L) 1,588,235,294 (S)	23.52% (L) 23.52% (S)
FDG	Interest of controlled corporations *(Note 1)*	5,035,457,784 (L) 5,035,457,784 (S)	74.56% (L) 74.56% (S)
Sino Power Resources Inc.	Person having a security interest in shares *(Note 2)*	5,035,457,784 (L)	74.56% (L)
China Orient Asset Management (International) Holding Limited	Interest of controlled corporations *(Note 2)*	5,035,457,784 (L)	74.56% (L)
Wise Leader Assets Ltd.	Interest of controlled corporations *(Note 2)*	5,035,457,784 (L)	74.56% (L)

Name of substantial shareholders	Capacity	Number of ordinary shares held in long position (L)/ short position (S)	Approximate percentage of issued ordinary share capital *(Note 3)*
Dong Yin Development (Holdings) Limited	Interest of controlled corporations *(Note 2)*	5,035,457,784 (L)	74.56% (L)
China Orient Asset Management Co., Ltd.	Interest of controlled corporations *(Note 2)*	5,035,457,784 (L)	74.56% (L)

Notes:

1. FDG was deemed or taken to be interested in (i) 3,447,222,490 shares held by Sinopoly Strategic Investment Limited which is a direct wholly-owned subsidiary of FDG; and (ii) 1,588,235,294 shares held by Union Grace Holdings Limited which is an indirect wholly-owned subsidiary of FDG.

   Mr. Miao Zhenguo and Mr. Jaime Che, the executive directors of the Company, are also directors of each of Sinopoly Strategic Investment Limited and Union Grace Holdings Limited.

2. Sino Power Resources Inc. is a wholly-owned subsidiary of China Orient Asset Management (International) Holding Limited ("COAMI"). COAMI is held as to 50% by Wise Leader Assets Ltd. ("Wise Leader") and as to 50% by Dong Yin Development (Holdings) Limited ("Dong Yin"). Wise Leader is a wholly-owned subsidiary of Dong Yin, which in turn is a wholly-owned subsidiary of China Orient Asset Management Co., Ltd. ("COAMC"). Accordingly, COAMI, Wise Leader, Dong Yin and COAMC were deemed to have the same long position as Sino Power Resources Inc..

3. These percentages are calculated on the basis of 6,753,293,913 shares of the Company as at 30 September 2018.

Save as disclosed above, as at 30 September 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.

Share Option Scheme

On 29 August 2017, a share option scheme (the "Share Option Scheme") was approved and adopted by the shareholders of each of the Company and FDG for the purpose of enabling the Company to grant options to eligible participants (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. The Share Option Scheme will remain in force for 10 years from the date of its adoption, unless otherwise cancelled or amended.

During the six months ended 30 September 2018, no share options were held by any of the directors, eligible employees and other participants of the Company under the Share Option Scheme and no share options were granted, exercised, cancelled or lapsed under the Share Option Scheme.

No expenses were recognised by the Group for the six months ended 30 September 2018 (six months ended 30 September 2017: nil).

Employees' Share Award Scheme

The Company has adopted an employees' share award scheme. Employees, directors or advisors/consultants of any member of the Group or any employee of such advisor or consultant or any other person as determined by the board of directors of the Company will be entitled to participate. Details of the employees' share award scheme of the Company were disclosed in the announcement of the Company dated 10 February 2017.

No shares were awarded under the employees' share award scheme of the Company during the six months ended 30 September 2018.

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 Listing Rules throughout the six months ended 30 September 2018 and up to the date of this report.

Changes in Directors' Information

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the directors of the Company since the date of the 2017/18 annual report of the Company are set out below:

- The term of appointment of each of Mr. Cao Zhong, Mr. Miao Zhenguo and Mr. Jaime Che, the executive directors of the Company, has been fixed for a period of three years subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-laws of the Company and the Listing Rules.

- The term of appointment of each of Mr. Hung Chi Yuen Andrew, Professor Sit Fung Shuen Victor and Mr. Toh Hock Ghim, the independent non-executive directors of the Company, has been fixed for a period of two years subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Bye-laws of the Company and the Listing Rules.

- Mr. Sun Ziqiang has resigned as the vice chairman of the Company, but remained as the executive director of the Company with effect from 31 August 2018.

- The annual emoluments of Mr. Miao Zhenguo *(executive director and chief executive officer of the Company)*, Mr. Sun Ziqiang *(executive director of the Company)* and Mr. Jaime Che *(executive director of the Company)* have been revised to HK$2,400,000, HK$1,440,000 and HK$1,920,000 respectively with effect from 1 September 2018.

- Mr. Toh Hock Ghim has resigned as the independent director of Fourth-Link Inc. (a company whose shares are listed on the Korea Exchange) with effect from 21 September 2018 and has been appointed as the independent director of Auralite Investments Inc. (a company whose shares are listed on the Toronto Stock Exchange in Canada) with effect from 1 October 2018.

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 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 six months ended 30 September 2018.

Purchase, Sale or Redemption of the Listed Securities of the Company

During the six months ended 30 September 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

Events After the Reporting Period

Events occurred after the reporting period are detailed in Note 24 to the interim financial statements.

Review of Interim Financial Report

The interim financial report is unaudited but has been reviewed by Deloitte Touche Tohmatsu in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants, and the audit committee of the Company which comprises three independent non-executive directors of the Company.

On behalf of the Board
FDG Kinetic Limited
Cao Zhong
Chairman

Hong Kong, 29 November 2018

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

Website: http://www.fdgkinetic.com