FDG KINETIC

FDG Kinetic Limited
五龍動力有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 378

2019/20 INTERIM REPORT

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 2019 together with the comparative figures for the six months ended 30 September 2018 as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 September 2019

	Notes	**Six months ended 30 September 2019 HK$'000 (Unaudited)**	Six months ended 30 September 2018 HK$'000 (Unaudited)
Revenue	3		
Goods and services		**29,362**	100,255
Interest income		**2,855**	6,579
Total revenue		**32,217**	106,834
Cost of sales		**(29,212)**	(97,800)
		3,005	9,034
Other income		**48**	612
Other gains and losses, net	5	**(3,923)**	8,059
Selling and distribution costs		**(1,140)**	(3,106)
General and administrative expenses		**(23,909)**	(31,563)
Research and development expenses		**(4,275)**	(6,509)
Finance costs	6	**(21,097)**	(20,523)
Reversal of impairment losses/(Impairment losses) on financial assets at amortised cost, net	7	**2,372**	(14,524)
Impairment losses on interest in associates		**–**	(11,194)
Share of results of associates		**(20,531)**	(74,632)
Share of results of a joint venture		**3,286**	5,122
Loss before taxation		**(66,164)**	(139,224)
Income tax credit	8	**932**	979
Loss for the period	9	**(65,232)**	(138,245)

	Note	Six months ended 30 September 2019 HK$'000 (Unaudited)	Six months ended 30 September 2018 HK$'000 (Unaudited)
Other comprehensive expense for the period			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of foreign operations		**(3,018)**	(52,399)
– Share of other comprehensive expense of associates		**(6,668)**	(22,943)
– Share of other comprehensive expense of a joint venture		**(5,284)**	(10,264)
Other comprehensive expense for the period		**(14,970)**	(85,606)
Total comprehensive expense for the period		**(80,202)**	(223,851)
Loss for the period attributable to owners of the Company		**(65,232)**	(138,245)
Other comprehensive expense for the period attributable to owners of the Company		**(14,970)**	(85,606)
Total comprehensive expense for the period attributable to owners of the Company		**(80,202)**	(223,851)
		HK cents	HK cents
Loss per share	10		
Basic and diluted		**(0.97)**	(2.05)

Condensed Consolidated Statement of Financial Position

At 30 September 2019

	Notes	At 30 September 2019 HK$'000 (Unaudited)	At 31 March 2019 HK$'000 (Audited)
Non-current assets			
Goodwill		**6,424**	6,755
Intangible assets		**43,363**	52,823
Property, plant and equipment	11	**215,984**	240,286
Interests in leasehold land held for own use under operating lease		**–**	17,204
Right-of-use asset	2	**16,174**	–
Interests in associates	12	**297,701**	324,900
Interest in a joint venture		**104,566**	106,564
Loan receivables	13	**–**	321
Other non-current assets		**367**	367
		684,579	749,220
Current assets			
Inventories		**32,158**	35,485
Trade and other receivables	14	**62,135**	66,732
Loan receivables	13	**53,232**	125,174
Financial assets at fair value through profit or loss	18	**5,482**	6,438
Amount due from an associate	12	**67,226**	80,979
Cash and cash equivalents		**12,128**	6,587
		232,361	321,395

	Notes	At 30 September 2019 HK$'000 (Unaudited)	At 31 March 2019 HK$'000 (Audited)
Current liabilities			
Bank and other borrowings	16	**(234,369)**	(219,933)
Trade payable	15	**(12,445)**	(5,589)
Accruals and other payables		**(145,005)**	(127,298)
Loan from the ultimate holding company		**–**	(100,000)
Lease liability	2	**(37,679)**	(41,255)
Amount due to an associate	12	**(141,347)**	(148,640)
Tax payables		**(4,070)**	(4,269)
		(574,915)	(646,984)
Net current liabilities		**(342,554)**	(325,589)
Total assets less current liabilities		**342,025**	423,631
Non-current liabilities			
Deferred tax liabilities		**(8,644)**	(10,048)
NET ASSETS		**333,381**	413,583
Capital and reserves			
Share capital	17(b)	**1,350,659**	1,350,659
Reserves		**(1,017,278)**	(937,076)
TOTAL EQUITY		**333,381**	413,583

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2019

	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$'000	Other reserve HK$'000	Accumulated losses HK$'000	Total equity HK$'000
At 1 April 2019 (Audited)	1,350,659	2,429,465	82,445	(18,848)	–	6,849	(3,436,987)	413,583
Loss for the period	–	–	–	–	–	–	(65,232)	(65,232)
Other comprehensive expense	–	–	–	(14,970)	–	–	–	(14,970)
Total comprehensive expense for the period	–	–	–	(14,970)	–	–	(65,232)	(80,202)
At 30 September 2019 (Unaudited)	**1,350,659**	**2,429,465**	**82,445**	**(33,818)**	**–**	**6,849**	**(3,502,219)**	**333,381**
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	–	–	–	–	(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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2019

	Six months ended 30 September 2019 HK$'000 (Unaudited)	Six months ended 30 September 2018 HK$'000 (Unaudited)
Net cash generated from/(used in) operating activities	**7,080**	(8,826)
Investing activities		
Advance to an associate	**–**	(25,000)
Deposits paid for non-current assets	**–**	(25,950)
Proceeds from repayment of loan receivables	**82,360**	–
Purchase of property, plant and equipment	**(15)**	(1,958)
Withdrawal of pledged bank deposits	**–**	11,375
Net cash from/(used in) investing activities	**82,345**	(41,533)
Financing activities		
Payment on redemption of convertible bonds	**–**	(100,000)
Repayment of bank and other borrowings	**(39,790)**	(10,873)
Interest paid	**(14,547)**	(8,378)
New other borrowings raised	**60,000**	108,580
Repayment of lease liability	**(1,589)**	–
Loan from the ultimate holding company	**41,000**	–
Repayment to the ultimate holding company	**(127,300)**	–
Net cash used in financing activities	**(82,226)**	(10,671)
Net increase/(decrease) in cash and cash equivalents	**7,199**	(61,030)
Cash and cash equivalents at the beginning of the period	**6,587**	74,101
Effect of foreign exchange rate changes	**(1,658)**	(869)
Cash and cash equivalents at the end of the period	**12,128**	12,202

Notes to the Condensed Consolidated Interim Financial Statements

1. Basis of Preparation

The condensed consolidated interim financial information 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 interim financial information should be read in conjunction with the Group's audited consolidated financial statements for the year ended 31 March 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

During the six months ended 30 September 2019, the Group incurred a net loss of approximately HK$65,232,000 and, as of that date, the Group had net current liabilities of approximately HK$342,554,000. In addition, as at 30 September 2019, repayments in respect of the Group's aggregate other borrowings and lease liability amounting to approximately HK$64,437,000 and HK$37,679,000 respectively, were overdue but the Group has not been able to obtain extensions of repayments of such other borrowings and lease liability. These overdue borrowings are therefore immediately repayable as requested by that financial institution.

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

(i) The Group has been actively negotiating with the financial institution for renewal or extension of other borrowings of approximately HK$64,437,000 and lease liability of approximately HK$37,679,000 that were currently overdue. The Group has communications with the financial institution to extend the repayment dates of the overdue and due amounts for a period of 12-months from 30 September 2019 and, subject to the financial institution's board approval and the signing of a formal extension agreement;

(ii) The Group has obtained financial support from FDG Electric Vehicles Limited ("FDG"), the ultimate holding company, who has agreed to provide adequate funds to enable the Group to meet in full its obligations as and when they fall due for a period of twelve months from the date the condensed consolidated financial statements are approved for issuance by the Directors;

1. Basis of Preparation (continued)

(iii) The Group has initiated the plan to dispose of its entire equity interest in an associate, ALEEES (GuiZhou) Co., Ltd. ("ALEEES GuiZhou") in November 2018 to one of the associate's existing shareholders, to discharge the Group's obligation for the unpaid investment cost in the associate of approximately HK$141,347,000 (the "Discharge"), and all shareholders of ALEEES GuiZhou preliminarily agreed to the Discharge. The Discharge is expected to be completed on or before 31 March 2020;

(iv) The Group keeps on looking for potential buyers for buying all or part of its equity interest in an associate (which is a listed overseas company) with carrying amount of approximately HK$156,369,000 as at 30 September 2019; and

(v) The Group has an option to conduct equity fund raising activities under general mandate in case of operation needs.

The board of directors of the Company (the "Board") has reviewed the Group's cash flow projections prepared by the management of the Group. The cash flow projections cover a period of not less than twelve months from the date of approval of the condensed consolidated interim financial statements. The Board is of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its obligations and to meet its financial obligations as and when they fall due not less than twelve months from the date of approval of the condensed consolidated interim financial statements. Accordingly, the Board is satisfied that it is appropriate to prepare the condensed consolidated interim financial statements on a going concern basis.

2. Principal Accounting Policies

The accounting policies adopted in the preparation of these condensed consolidated interim financial statements are consistent with those used in the Group's audited consolidated financial statements for the year ended 31 March 2019, except in relation to the following new standard, amendments to HKFRSs and an interpretation, which have become effective for accounting periods beginning on or after 1 April 2019, that are adopted for the first time in the current period's financial statements:

HKFRS 16	Leases
Annual Improvements to HKFRS 2015-2017 Cycle	Amendments to HKFRSs to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term interests in Associates and Joint Ventures
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments

Except as described below, the adoption of the above new and revised standards in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or disclosure set out in these condensed consolidated interim financial statements.

2. Principal Accounting Policies (continued)

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases – incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 and remain substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 April 2019. The Group has elected to use the modified retrospective approach and there was no impact on the opening balance of equity at 1 April 2019 upon the initial application of HKFRS 16. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(A) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 April 2019. For contracts entered into before 1 April 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16.

2. Principal Accounting Policies (continued)

HKFRS 16 Leases (continued)

(A) Changes in the accounting policies (continued)

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are relating to property, plant and equipment.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

2. Principal Accounting Policies (continued)

HKFRS 16 Leases (continued)

(A) Changes in the accounting policies (continued)

(iii) Lessor accounting

The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

(B) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 April 2019), the Group determined the length of the remaining lease terms and measured the lease liability for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 April 2019.

To ease the transition to HKFRS 16, at the date of initial application of HKFRS 16, the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 March 2020.

The Group had no newly capitalised lease as at the date of initial application of HKFRS 16 as the lease terms of all leases previously not capitalised ended within 12 months. The following table summarises the impacts of the adoption of HKFRS 16 on the Group's condensed consolidated statement of financial position:

	Carrying amounts previously reported at 31 March 2019 (Audited)	Adjustments	Carrying amounts under HKFRS 16 at 1 April 2019
	HK$'000	HK$'000	HK$'000
Non-current assets			
Interests in leasehold land held for own use under operating lease	17,204	(17,204)	–
Right-of-use asset	–	17,204	17,204

2. Principal Accounting Policies (continued)

HKFRS 16 Leases (continued)

(B) Transitional impact (continued)

The carrying amounts of the Group's right-of-use asset and lease liability and the movement during the period are as follows:

	Right-of-use asset – land use right HK$'000	Lease liability HK$'000
As at 1 April 2019	17,204	(41,255)
Amortisation	(190)	–
Interest expenses	–	(3,686)
Paid/payable	–	5,275
Exchange adjustments	(840)	1,987
As at 30 September 2019 (Unaudited)	**16,174**	**(37,679)**

(C) Lease liability

The remaining contractual maturities of the Group's lease liability at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At 30 September 2019		At 1 April 2019	
	Present value of the minimum lease payments HK$'000	**Total minimum lease payments HK$'000**	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000
Within 1 year or on demand	**37,679**	**37,679**	41,255	43,067
Less: total future interest expenses		**–**		(1,812)
Present value of lease liability		**37,679**		41,255

As at 30 September 2019 and 31 March 2019, the Group was unable to make certain principal and/or interest repayments on the above lease liability, for which the creditor was entitled to request for the immediate repayment of full outstanding amount. The management of the Group is in the process of extending the repayment date of this lease liability with the creditor.

2. Principal Accounting Policies (continued)

New and revised HKFRSs issued but not yet effective

The Group has not early adopted the following new standard and amendments to HKFRSs that have been issued but are not yet effective in these condensed consolidated interim financial statements:

HKFRS 17	Insurance Contracts
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets between an Investor and Its Associates or Joint Venture
Amendments to HKAS 1 and HKAS 8	Definition of Material

The Group is in the process of making an assessment of what the impact of the new standard and amendments to HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have significant impact on the financial performance and position of the Group.

3. Revenue

(i) Disaggregation of revenue

	Notes	**Six months ended 30 September 2019 HK$'000 (Unaudited)**	Six months ended 30 September 2018 HK$'000 (Unaudited)
Revenue from contracts with customers			
– Sales of cathode materials for battery production	(a)	**28,626**	100,255
– Provision of processing services	(a)	**736**	–
		29,362	100,255
Interest income	(b)	**2,855**	6,579
		32,217	106,834
Geographical markets			
The People's Republic of China (the "PRC")		**29,362**	100,255
Hong Kong		**–**	–
Revenue from contracts with customers		**29,362**	100,255

3. Revenue (continued)

(i) Disaggregation of revenue (continued)

Notes:

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

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

(ii) Performance Obligations for Contracts with Customers

Sales of cathode materials for battery production (revenue recognised at a point in time)

Revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the customers' specific location. The normal credit term is 30 to 90 days (six months ended 30 September 2018: 30 to 90 days) upon delivery.

Revenue is recognised for sales which are considered highly probable that a significant reversal in the cumulative revenue recognised will not occur. A contract liability is recognised for sales in which revenue has yet been recognised.

Provision of processing services (revenue recognised at a point in time)

Revenue from provision of processing services is recognised when the customers obtains the control of services and the Group has present right to payment and the collection of the consideration is probable.

(iii) Transaction Price allocated to the Remaining Performance Obligation for Contracts with Customers

All the revenue from contracts with customers are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

4. Segment Information

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

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

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

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

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 2019 HK$'000 (Unaudited)	Six months ended 30 September 2018 HK$'000 (Unaudited)	**Six months ended 30 September 2019 HK$'000 (Unaudited)**	Six months ended 30 September 2018 HK$'000 (Unaudited)	**Six months ended 30 September 2019 HK$'000 (Unaudited)**	Six months ended 30 September 2018 HK$'000 (Unaudited)
Reportable segment revenue from external customers	**29,362**	100,255	**2,855**	6,579	**32,217**	106,834
Reportable segment results	**(53,980)**	(71,880)	**(3,976)**	(53,719)	**(57,956)**	(125,599)
Unallocated corporate expenses					**–**	(130)
Central administrative costs and directors' remuneration					**(8,208)**	(13,495)
Loss before taxation					**(66,164)**	(139,224)

Segment results represent profit or loss attributable to the segment without allocation of corporate expenses, central administrative costs and directors' remuneration. This is the measure reported to the CODM 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 2019 HK$'000 (Unaudited)	At 31 March 2019 HK$'000 (Audited)
Segment assets		
Battery materials production	**653,100**	723,042
Direct investments	**239,356**	328,783
Total segment assets	**892,456**	1,051,825
Unallocated assets	**24,484**	18,790
Consolidated assets	**916,940**	1,070,615
Segment liabilities		
Battery materials production	**346,890**	355,019
Direct investments	**210,691**	275,422
Total segment liabilities	**557,581**	630,441
Unallocated liabilities	**25,978**	26,591
Consolidated liabilities	**583,559**	657,032

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 seasoned or cyclical factors.

5. Other Gains and Losses, Net

	Six months ended 30 September 2019 HK$'000 (Unaudited)	Six months ended 30 September 2018 HK$'000 (Unaudited)
Net foreign exchange loss/(gain)	**3,200**	(14,622)
Net loss on held-for-trading investments	**723**	6,563
	3,923	(8,059)

6. Finance Costs

	Six months ended 30 September 2019 HK$'000 (Unaudited)	Six months ended 30 September 2018 HK$'000 (Unaudited)
Interest on convertible bonds	**–**	13,445
Interest on lease liability	**3,686**	1,261
Interest on bank and other borrowings	**17,411**	5,817
	21,097	20,523

7. Reversal of Impairment Losses/(Impairment Losses) on Financial Assets at Amortised Cost, Net

	Six months ended 30 September 2019 HK$'000 (Unaudited)	Six months ended 30 September 2018 HK$'000 (Unaudited)
Impairment loss on loan receivables	**–**	(4,959)
Impairment loss on interest receivables	**–**	(15,500)
Impairment loss on amount due from an associate	**(16,550)**	–
Reversal of impairment losses on trade receivables	**1,119**	5,935
Reversal of impairment loss on loan and interest receivables, net	**17,803**	–
	2,372	(14,524)

8. Income Tax Credit

	Six months ended 30 September 2019 HK$'000 (Unaudited)	Six months ended 30 September 2018 HK$'000 (Unaudited)
Deferred tax and total income tax credit for the period	**(932)**	(979)

No provision for the Hong Kong Profits Tax has been made for the six months ended 30 September 2019 and 2018 as the Group did not have any assessable profits in Hong Kong.

No PRC Enterprise Income Tax has been provided for both periods as the Group did not have any assessable profits in the PRC.

The deferred tax of approximately HK$932,000 (six months ended 30 September 2018: approximately HK$979,000) that has been credited to the condensed consolidated statement of profit or loss and other comprehensive income arose from origination and reversal of temporary differences in respect of fair value adjustments on business combination.

9. Loss for the Period

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

	Six months ended 30 September 2019 HK$'000 (Unaudited)	Six months ended 30 September 2018 HK$'000 (Unaudited)
Cost of inventories recognised as expenses	**29,212**	97,800
Amortisation of intangible assets	**7,031**	7,382
Amortisation of interests in leasehold land held for own use under operating lease	**–**	200
Amortisation of right-of-use asset	**190**	–
Depreciation of property, plant and equipment	**12,906**	11,175
Less: Amounts capitalised in inventories	**(10,890)**	(8,677)
	2,016	2,498
Bank interest income	**(16)**	(136)

10. Loss per Share

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

	Six months ended 30 September 2019 HK$'000 (Unaudited)	Six months ended 30 September 2018 HK$'000 (Unaudited)
Loss:		
Loss for the period attributable to owners of the Company for the purpose of basic and diluted loss per share	**65,232**	138,245

	Six months ended 30 September 2019 (Unaudited)	Six months ended 30 September 2018 (Unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**6,753,293,913**	6,753,293,913

The diluted loss per share for the six months ended 30 September 2019 was equal to the basic loss per share as the potential ordinary shares outstanding during the period had no dilutive effect on the basic loss per share.

The computation of diluted loss per share for the six months ended 30 September 2018 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.

11. Movements in Property, Plant and Equipment

During the current interim period, the Group acquired property, plant and equipment of approximately HK$15,000 (six months ended 30 September 2018: approximately HK$66,298,000).

12. Interests in Associates and Balances with Associates

		Notes	At 30 September 2019 HK$'000 (Unaudited)	At 31 March 2019 HK$'000 (Audited)
(a)	Interest in associates			
	Cost of investment in associates			
	Listed in Taiwan	(i)	**393,066**	393,066
	Unlisted		**909,120**	909,120
	Share of post-acquisition losses and other comprehensive expenses		**(455,381)**	(428,182)
	Less: impairment loss		**(549,104)**	(549,104)
			297,701	324,900
(b)	Amount due from an associate	(ii)		
	Advances		**96,976**	94,179
	Less: allowance for expected credit losses		**(29,750)**	(13,200)
			67,226	80,979
(c)	Amount due to an associate	(iii)	**141,347**	148,640

Notes:

(i) On 15 August 2019, ALEEES issued 31,000,000 new shares. Accordingly, the Group's equity interest on ALEEES was diluted from approximately 21.85% to approximately 19.04%.

(ii) As at 30 September 2019, the balance represented three unsecured loans to an associate with an aggregate principal amount of approximately HK$91,645,000 (31 March 2019: approximately HK$91,645,000), which are interest bearing at 6% per annum and with maturity within one year. During the period, the loans were due and have been extended for one year. Additional allowance for expected credit losses of HK$16,550,000 (31 March 2019: HK$13,200,000) has been made by reference to the financial position of the associate and other forward-looking information.

(iii) The balance represented the unpaid investment cost in ALEEES (GuiZhou), which is interest-free and repayable on demand (31 March 2019: with maturity within one year).

13. Loan Receivables

	At 30 September 2019 HK$'000 (Unaudited)	At 31 March 2019 HK$'000 (Audited)
Fixed-rate loan receivables	**53,232**	156,339
Less: allowance for expected credit losses ("ECL")	**–**	(30,844)
Net fixed-rate loan receivables (Note)	**53,232**	125,495
Presented by:		
Non-current assets	**–**	321
Current assets	**53,232**	125,174
	53,232	125,495

Note:

As at 30 September 2019, the loan receivable included a loan secured by a mining right of an iron ore mine in the PRC (the "Loan") with carrying amount of HK$53,232,000 (31 March 2019: HK$55,978,000). 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. In the opinion of the Directors, the fair value of the put option is insignificant. On 15 December 2017, the Contract Period has been extended to 17 June 2018, and thereafter further extended in several occasions to 17 January 2019. On 12 April 2019, the Group entered into a sale and purchase agreement with CIAM pursuant to the disposal of the subsidiary which holds such Loan to CIAM. As at the date of approval of the condensed consolidated interim financial statements, the transaction was not yet been completed. As at 30 September 2019, the Group had received deposits of approximately HK$62,082,000 (31 March 2019: approximately HK$65,285,000) from CIAM which was 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, no impairment loss is provided based on the lifetime ECL model.

13. Loan Receivables (continued)

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

	At 30 September 2019 HK$'000 (Unaudited)	At 31 March 2019 HK$'000 (Audited)
On demand or due within one year	**53,232**	125,174
Over five years	**–**	321
	53,232	125,495

14. Trade and Other Receivables

	At 30 September 2019 HK$'000 (Unaudited)	At 31 March 2019 HK$'000 (Audited)
Trade receivables	**18,042**	17,743
Less: allowance for ECL	**(252)**	(870)
	17,790	16,873
Value-added tax receivables	**28,080**	31,455
Interest receivables	**8,850**	9,306
Other receivables	**286**	325
Deposits and prepayments	**7,129**	8,773
	62,135	66,732

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 Other 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 2019 HK$'000 (Unaudited)	At 31 March 2019 HK$'000 (Audited)
Within one month	**10,964**	7,134
Between one and three months	**1,192**	345
Over three months	**5,634**	9,394
	17,790	16,873

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 of the Group. The carrying amounts of the receivables approximate their fair values.

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

15. Trade Payable

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

	At 30 September 2019 HK$'000 (Unaudited)	At 31 March 2019 HK$'000 (Audited)
Within one month	**7**	–
Between one and three months	**634**	538
Over three months	**11,804**	5,051
	12,445	5,589

The carrying amounts of trade payable approximate their fair values.

16. Bank and Other Borrowings

	At 30 September 2019 HK$'000 (Unaudited)	At 31 March 2019 HK$'000 (Audited)
Amounts due within one year:		
Secured bank borrowings (Note (i))	**36,240**	43,031
Secured other borrowings (Note (ii))	**105,414**	47,757
Unsecured other borrowings (Note (iii))	**92,715**	129,145
	234,369	219,933

16. Bank and Other Borrowings (continued)

Notes:

(i) During the six months ended 30 September 2019, the Group repaid secured bank borrowing of approximately HK$4,790,000 (six months ended 30 September 2018: approximately HK$2,391,000). As at 30 September 2019, the bank borrowing of the Group of approximately HK$36,240,000 (31 March 2019: approximately HK$43,031,000) was secured by pledges over land and buildings with carrying amount of approximately HK$101,261,000 (31 March 2019: approximately HK$107,841,000).

(ii) During the six months ended 30 September 2019, the Group raised new secured other borrowing of HK$60,000,000 from an independent third party which is bearing interest at 15% per annum, secured by first fixed and floating charge over the undertaking, property and assets of the Company and repayable in September 2020.

As at 30 September 2019, an other borrowing of approximately HK$45,414,000 (31 March 2019: HK$47,757,000) was guaranteed by an indirect wholly-owned subsidiary of an associate and secured by pledges over plant and machinery with carrying amount of approximately HK$50,663,000 (31 March 2019: approximately HK$60,987,000). As at 30 September 2019, the Group was unable to make certain principal and/or interest repayments on secured other borrowings of approximately HK$45,414,000 (31 March 2019: approximately HK$47,757,000), for which the lender requested for the immediate repayment of full outstanding amounts. The management of the Group is in the process of extending the repayment date of these other borrowings with the creditor.

(iii) During the six months ended 30 September 2019, the Group repaid unsecured other borrowings of HK$35,000,000.

As at 30 September 2019, an other borrowing of HK$65,000,000 (31 March 2019: HK$100,000,000) was guaranteed by FDG while the remaining balance of approximately HK$27,715,000 (31 March 2019: approximately HK$29,145,000) was guaranteed by an indirect wholly-owned subsidiary of an associate. As at 30 September 2019, the Group was unable to make certain principal and/or interest repayments on unsecured other borrowings of approximately HK$27,715,000 (31 March 2019: approximately HK$129,145,000), for which the lender was entitled to request for the immediate repayment of full outstanding amounts. The management of the Group is in the process of extending the repayment date of these other borrowings with the creditor.

17. 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 2019 (six months ended 30 September 2018: Nil).

(b) Share Capital

	Number of ordinary shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.20 each		
At 31 March 2019 (Audited) and		
30 September 2019 (Unaudited)	**12,500,000,000**	**2,500,000**
Issued and fully paid:		
Ordinary shares of HK$0.20 each		
At 31 March 2019 (Audited) and		
30 September 2019 (Unaudited)	**6,753,293,913**	**1,350,659**

18. 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.

18. 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 2019 HK$'000 (Unaudited)	31 March 2019 HK$'000 (Audited)		
Financial assets at fair value through profit or loss				
– Listed equity securities in Hong Kong	**–**	231	Level 1	Quoted bid prices in active markets
– Unlisted funds	**5,482**	6,207	Level 2	Quoted prices in the over-the-counter markets
	5,482	6,438		

19. 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, out of which an amount of HK$100,000,000 were settled by the loan advanced from FDG pursuant to a loan agreement entered into by the Company with FDG during the six months ended 30 September 2018.

20. Major Related Party Transactions

(a) Transactions with related companies

In addition to the transactions and balances disclosed elsewhere in this condensed consolidated interim financial statements and notes thereon, the Group entered into the following transactions with related companies during the six months ended 30 September 2019:

	Notes	**Six months ended 30 September 2019 HK$'000 (Unaudited)**	Six months ended 30 September 2018 HK$'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)	**(468)**	(475)
Interest expenses payable to a fellow subsidiary	(ii)	**–**	(6,231)
Interest income receivable from an associate	(iii)	**2,797**	2,766

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 amount due from an associate (Note 12).

20. Major Related Party Transactions (continued)

(b) Balances with related companies

	At 30 September 2019 HK$'000 (Unaudited)	At 31 March 2018 HK$'000 (Audited)
Amount due from an associate (Note 12)	**67,226**	80,979
Amount due to an associate (Note 12)	**(141,347)**	(148,640)
Amount due to a fellow subsidiary (Note)	**–**	(100,000)

Note:

The amount represented interest payable for the convertible bonds issued to a subsidiary of FDG which was 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 2019 HK$'000 (Unaudited)	Six months ended 30 September 2018 HK$'000 (Unaudited)
Salaries and other short-term employee benefits	**3,800**	5,866

(d) Guarantee

The Group's other borrowings of HK$65,000,000 and approximately HK$73,129,000 as at 30 September 2019 were guaranteed by FDG and an indirect wholly-owned subsidiary of an associate, respectively.

As at 31 March 2019, the Group's unsecured other borrowing was guaranteed by FDG.

As at 30 September 2019 and 31 March 2019, the Group's lease liability was guaranteed by an indirect wholly-owned subsidiary of an associate.

Management Discussion and Analysis

FDG Kinetic Limited ("FKL" or the "Company", stock code: 378) adheres to a philosophy of "Green and Growth", gradually establishing and improving its lithium-ion ("Li-ion") battery industry chain. The Company and its subsidiaries (collectively the "Group") are principally engaged in research and development, manufacturing and trading of cathode materials for Li-ion batteries and direct investment. FKL strategically positions in the Li-ion battery and cathode materials segment, and FKL is an indirect non-wholly owned subsidiary of FDG Electric Vehicles Limited ("FDG", stock code: 729). Furthermore, FKL also holds 25% and 19.04% equity interests in Synergy Dragon Limited and Advanced Lithium Electrochemistry (Cayman) Co., Ltd. ("ALEEES", listed on the Taipei Exchange, stock code: 5227), respectively that they are engaged in the business of research and development, manufacturing and sales of batteries and new energy battery materials respectively.

Market Overview

During the period under review, affected by adverse factors such as the escalation of geopolitical risks, additional tariffs imposed by the US on goods from China amid intensifying Sino-US trade disputes and the lingering Brexit, the domestic and global financial markets have witnessed increased volatility and the economic growth has slowed down. According to the economic data from the National Bureau of Statistics of China, China's gross domestic product reached RMB45 trillion in January to June 2019, representing an increase of 6.3% as compared to the last corresponding period, which is the lowest economic growth rate since quarterly record first available in 1992. In addition, according to the "Global Economic Outlook" published by Fitch Ratings, a credit rating agency, in September this year, in view of the downward pressure exerted on the global economy amid the deterioration of the global economic environment, Fitch Ratings made downward adjustments to the global economic growth in 2019 and 2020 to 2.6% and 2.5%, respectively, and expected that quantitative relaxed monetary policies will continue to be adopted by central banks worldwide to cope with the corresponding economic risks and stimulate economic growth.

Battery Business

Driven by the growth of production volume of new energy vehicles ("NEVs") in China, the demand for power batteries in China remained strong in the first half of 2019. According to the data from Gaogong Industry Research Institute ("GGII"), the output for power batteries in China in the first and second quarter of 2019 amounted to 15.5 GWh and 19.7 GWh, respectively, up by 80% and 38% from the last corresponding period, respectively. However, according to the information published by GGII, the power battery market size in China in the second quarter of 2019 reached RMB21.5 billion, up by only 10% from the last corresponding period, and it is also shown that the growth of the power battery market size in China is slower than of the output for power batteries in China, which was mainly attributable to the effect of price reduction of power batteries and their raw materials. In addition, both domestic and overseas battery enterprises continued to increase efforts in production capacity building, leading to more intensified competition in the battery industry and further pressure on the price of Li-ion batteries.

Cathode Material Business

According to the information published by GGII, the market output for cathode materials in China in the first half of 2019 amounted to 172,400 tonnes, up by 54% from the last corresponding period, which was mainly driven by the growing domestic demand for power batteries, which has in turn promoting the growth of demand for cathode materials. In particular, from January to June 2019, the output for ternary cathode materials in China amounted to 92,300 tonnes, representing approximately 54% of the total output of cathode materials. However, due to the impact of price reduction of raw materials including cobalt and lithium and price cut pressure from battery enterprises, the price of ternary cathode materials in China in the first two quarters of 2019 further slid. Moreover, with the downward adjustment of NEV subsidies by the Chinese government, the growth of domestic production volume of NEVs in China may slow down or even shrink in the second half of 2019, thereby reducing the demand for batteries and cathode materials and hence exerting further pressure on the battery and cathode material market.

Business Review

The Group has been focusing on developing its core cathode material business and actively exploring domestic and overseas markets so as to further increase the market share of the Group in the cathode material sector. However, the downward adjustment of NEV subsidies and the tightening of subsidy standards by the Chinese government and increased efforts in production capacity building of both domestic and overseas battery enterprises, have led to overcapacity in battery industry, and hence exerting pressure on the price of batteries and cathode materials for Li-ion batteries in the market, thereby affecting the profit of the Group's cathode material business.

Cathode Material Business

During the period under review, the Group's production capacity of the six production lines for processing ternary products in Chongqing production base amounted to more than 3,000 tonnes. However, during the period under review, revenue from cathode material business amounted to approximately HK$29.4 million, representing a decrease of approximately 71% as compared with that of the last corresponding period. The decrease was mainly due to a decrease in orders from our largest customer during the period resulted from the general slowdown of the new energy market and the temporary change of the business operation by provision of processing services to a customer.

For the purpose of easing the pressure on the Group's working capital, the Group has been actively promoting the Group's cathode material products and related services to potential customers, striving to expand its customer base. Besides, the Group will continue to rigorously manage various costs of cathode material business in order to strengthen the Group's financial position.

During the period under review, ALEEES, the Group's associate which operates in Taiwan and specialises in Lithium-Ferrous-Phosphate (LFP) cathode materials and ternary oxides products, actively developed and expanded into overseas markets such as Japan and Korea, and strived to develop the high-tier energy storage market with a view to satisfying market demands.

Interim Financial Review

During the six months period under review, the Group recorded a revenue of approximately HK$32.2 million, representing a decrease of approximately 69.8% as compared with the revenue of approximately HK$106.8 million for the six months ended 30 September 2018. Such decrease was mainly due to decreasing sales of cathode material of the battery materials production business segment. As sales of cathode materials for NCM lithium-ion batteries and provision of processing income decreased, resulting the gross profit decreased from approximately HK$2.5 million for the six months ended 30 September 2018 to approximately HK$0.1 million for the six months ended 30 September 2019.

The Group's loss attributable to equity shareholders of the Company for the six months ended 30 September 2019 amounted to approximately HK$65.2 million, representing a decrease of approximately HK$73.0 million as comparing with the loss of approximately HK$138.2 million for the six months ended 30 September 2018. The decrease was mainly attributable to the combined effects of the followings:

(i) a turnaround of net gains of approximately HK$8.1 million for the six months ended 30 September 2018 to net loss of approximately HK$3.9 million for the six months ended 30 September 2019, mainly due to a turnaround of exchange gain of approximately HK$14.6 million for the six months ended 30 September 2018 to exchange loss of approximately HK$3.2 million for this period;

(ii) the decrease in general and administrative expenses from approximately HK$31.6 million for the six months ended 30 September 2018 to approximately HK$23.9 million for the six months ended 30 September 2019, mainly resulted from the implementation of more stringent cost control by the Group;

(iii) a net reversal of impairment losses on financial assets at amortised cost of approximately HK$2.4 million for the six months ended 30 September 2019 (six months ended 30 September 2018: net impairment losses of approximately HK$14.5 million) was mainly due to the reversal of impairment loss of approximately HK$17.8 million resulting from the receipts of a loan receivable during the six months ended 30 September 2019; and

(iv) the decrease in the share of loss of associates of approximately HK$20.5 million for the six months ended 30 September 2019 from approximately HK$74.6 million for the six months ended 30 September 2018, which was mainly attributable from two associates: (i) Synergy Dragon Limited ("SDL"), amounted to Nil (six months ended 30 September 2018: approximately HK$22.8 million), as all interest in SDL has been shared to zero during the year ended 31 March 2019, no loss to be shared during the six months ended 30 September 2019; and (ii) ALEEES, amounted to approximately HK$20.5 million (six months ended 30 September 2018: approximately HK$51.8 million), the decrease in loss mainly due to the improvement on sales by expanding markets in Europe, America, Japan and Korea and received sales from new customers during the six months ended 30 September 2019.

Segment Information

Battery Materials Production Business

During the six months period under review, this battery materials production business segment contributed to the Group's revenue of approximately HK$29.4 million from the sales of cathode materials for NCM lithium-ion batteries, representing a decrease of approximately 70.7% as compared with the revenue of approximately HK$100.3 million for the six months ended 30 September 2018. Such decrease was mainly due to decrease in orders from our largest customer during the period resulted from the general slow-down of the new energy market and the temporary change of the business operation by provision of processing services to a customer.

This battery materials production business segment brought a loss before taxation of approximately HK$54.0 million (six months ended 30 September 2018: approximately HK$71.9 million) to the Group during the period under review, which included share of loss of an associate, ALEEES, of approximately HK$20.5 million. The Group holds approximately 19.04% (six months ended 30 September 2018: 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. However, the loss decreased during the current period when compared with the last corresponding period, resulted from the improvement on sales of ALEEES by expanding markets in Europe, America, Japan and Korea during the first half of current year.

Without taking into account the share of loss of ALEEES of approximately HK$20.5 million (six months ended 30 September 2018: approximately HK$51.8 million), the one-off impairment loss on ALEEES of Nil (six months ended 30 September 2018: approximately HK$11.2 million) and exchanges gain on investment cost payable to an associate of Nil (six months ended 30 September 2018: HK$11.3 million), the battery material production business of Chongqing factory incurred a loss before taxation of approximately HK$33.5 million during the period under review, increased by approximately HK$13.3 million as comparing with the loss before taxation of approximately HK$20.2 million for the six months ended 30 September 2018. Such increase in loss was mainly caused by the decrease in sales and increase in finance costs.

On 2 January 2019, the Company announced that most of the Chongqing's production capacity with all production lines have been allocated for carrying out subcontracting processing services for a customer from 1 January 2019 to 31 December 2019. As a results, the Group is expecting a guaranteed revenue stream at a steady gross margin from the battery materials production segment going forward.

Direct Investments Business

During the period under review, interest income amounted to approximately HK$2.9 million (six months ended 30 September 2018: approximately HK$6.6 million), the decrease was mainly due to approximately HK$3.4 million (six months ended 30 September 2019: Nil) of interest accrued for a loan receivable from an independent third party for the six months ended 30 September 2018.

The Group's investments measured at fair value recorded a net loss of approximately HK$0.7 million for six months ended 30 September 2019 (six months ended 30 September 2018: net gain of approximately HK$6.6 million).

The Group shared the gain of a joint venture, 華能壽光風力發電有限公司 ("Huaneng Shouguang") of approximately HK$3.3 million for the six months ended 30 September 2019 (six months ended 30 September 2018: share of gain of approximately HK$5.1 million). Huaneng Shouguang is a wind power electricity developer and operator in the PRC. It generated electricity of 47.0 million kWh and revenue of approximately HK$26.2 million (six months ended 30 September 2018: HK$31.8 million) during the period under review.

Liquidity and Financial Resources

As at 30 September 2019, the Group's net assets attributable to equity shareholders of the Company amounted to approximately HK$333.4 million (31 March 2019: approximately HK$413.6 million). Net assets attributable to equity shareholders of the Company per share were approximately HK$0.05 (31 March 2019: approximately HK$0.06). The Group's total assets of approximately HK$916.9 million (31 March 2019: approximately HK$1,070.6 million) mainly consisted of goodwill of approximately HK$6.4 million (31 March 2019: approximately HK$6.8 million), intangible assets of approximately HK$43.4 million (31 March 2019: approximately HK$52.8 million), property, plant and equipment, interests in leasehold land held for own use under operating lease and right-of-use asset of approximately HK$232.2 million (31 March 2019: approximately HK$257.5 million), interests in associates of approximately HK$297.7 million (31 March 2019: approximately HK$324.9 million), interest in a joint venture of approximately HK$104.6 million (31 March 2019: approximately HK$106.6 million), loan receivables of approximately HK$53.2 million (31 March 2019: approximately HK$125.5 million) and cash and cash equivalents of approximately HK$12.1 million (31 March 2019: approximately HK$6.6 million).

As at 30 September 2019, the non-current assets amounted to approximately HK$684.6 million, comparing with the amount of approximately HK$749.2 million as at 31 March 2019, representing a decrease of approximately HK$64.6 million. Such decrease is mainly due to share of loss of associates amounted to approximately HK$20.5 million, which was mainly attributable from ALEEES during the period under review.

As at 30 September 2019, the current assets amounted to approximately HK$232.4 million, representing a decrease of approximately 27.7% as compare with the current assets of approximately HK$321.4 million as at 31 March 2019. Such decrease is mainly attributable to (i) the repayment of a loan amounted to approximately HK$82.4 million from a lender under loan receivables during the six months ended 30 September 2019; and (ii) additional allowance for expected credit losses of HK$16.6 million during the current period on the amount due from an associate with reference to the financial position of the associate and other forward-looking information.

The decrease in non-current assets and current assets resulting the decrease of the total assets for the current period compared with last year amounted to approximately HK$153.6 million.

As at 30 September 2019, the bank and other borrowings included (i) bank borrowings of approximately HK$36.2 million (31 March 2019: approximately HK$43.0 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$101.3 million (31 March 2019: approximately HK$107.8 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$65.0 million as at 30 September 2019 (31 March 2019: HK$100.0 million) is denominated in Hong Kong dollars, were unsecured, guaranteed by FDG and interest bearing at a fixed rate; (iii) other borrowing of HK$60 million from an independent third party, which is bearing interest at 15% per annum, secured by first fixed and floating charge over the undertaking, property and asset of the Company and repayable within one year; and (iv) the other borrowings of approximately HK$73.1 million (31 March 2019: approximately HK$76.9 million), in which amounted to HK$8.7 million (31 March 2019: approximately HK$54.5 million) were repayable within one year and approximately HK$64.4 million (31 March 2019: approximately HK$22.4 million) were overdue. The other borrowings denominated in RMB amounting to approximately HK$45.4 million (31 March 2019: approximately HK$47.8 million) was secured by certain machineries of the Group with carrying amounts of approximately HK$55.0 million (31 March 2019: approximately HK$61.0 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 2019, the Group's lease liability amounted to approximately HK$37.7 million (31 March 2019: approximately HK$41.3 million) were overdue. The lease liability was secured by certain machineries of the Group with carrying amounts of approximately HK$50.7 million (31 March 2019: approximately HK$57.4 million) and guaranteed by an indirect wholly-owned subsidiary of an associate.

As at 30 September 2019, the current liabilities was approximately HK$574.9 million representing a decrease of approximately HK$72.1 million comparing with the amount of approximately HK$647.0 million as at 31 March 2019. Such decrease was mainly due to the settlement of loan from the ultimate holding company of HK$100.0 million during the period.

As at 30 September 2019, non-current liabilities of deferred tax was approximately HK$8.6 million representing a decrease of approximately HK$1.4 million comparing with the amount of approximately HK$10.0 million as at 31 March 2019.

As at 30 September 2019, the Group's gearing ratio was approximately 81.6% (31 March 2019: approximately 63.2%) calculated on the basis of bank and other borrowings of approximately HK$234.4 million (31 March 2019: approximately HK$219.9 million) and lease liability of approximately HK$37.7 million (31 March 2019: approximately HK$41.3 million) to total equity of the Company of approximately HK$333.4 million (31 March 2019: approximately HK$413.6 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 period under review. The Board will closely monitor the foreign exchange exposure and consider appropriate hedging instruments when necessary.

Material Acquisition and Disposal

During the six months ended 30 September 2019, the Group had no material acquisitions or disposals of subsidiaries, associate and joint ventures.

Contingent Liabilities and Pledge of Assets

There were pledge of assets as at 30 September 2019 and 31 March 2019 with details disclosed under the section headed "Liquidity and Financial Resources".

The Group had no significant contingent liabilities as at 30 September 2019 (31 March 2019: Nil).

Capital Commitments

There was no significant capital commitments of the Group as at 30 September 2019 (31 March 2019: Nil).

Human Resources

As of 30 September 2019, the Group had 11 (30 September 2018: 17) employees in Hong Kong and 71 (30 September 2018: 116) employees in the PRC. Total staff costs (including directors' remunerations) during the six months ended 30 September 2019 amounted to approximately HK$11.2 million (six months ended 30 September 2018: approximately HK$12.6 million). The remuneration policies are determined with reference to market conditions and individual performance of staff. The Group participates in the Mandatory Provident Fund Scheme in Hong Kong and state managed retirement benefit schemes in the PRC.

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

There were no material changes in human resources structure and compensation approach during the six months ended 30 September 2019.

Future Development

During the period under review, affected by factors such as the revision of subsidy policies regarding NEV by the Chinese government, the escalation of geopolitical risks and the intensifying Sino-US trade disputes, the power battery and cathode material markets in China were under downward pressure. In particular, affected by overcapacity driven by successively increased efforts in production capacity building of both domestic and overseas battery enterprises and an increased supply for raw materials including lithium and cobalt, the price of Li-ion battery and cathode materials in domestic market further slid. Looking forward, the competition in battery and cathode materials markets in China will intensify and thus speed up the structural transformation of the battery industry chain. However, the Group will continue to proactively develop and explore domestic and overseas markets in order to expand the Group customer base and diversify the competitive edges of the Group.

Continue to improve the quality of cathode material products

The research centre of the Group will continue to improve the quality of its cathode material products and production processes. Furthermore, the Group will continue to promote the Group's cathode material products and related services to potential customers, striving to expand its customer base and increase the Group's market share in the cathode material sector and hence bringing greater revenue to the Group.

Rigorously manage the operating costs to enhance the Group's competitiveness

The structural transformation of domestic battery industry chain, the price reduction of raw materials including cobalt and lithium and successively increased efforts in production capacity building of both domestic and overseas battery enterprises have all resulted in overcapacity and intensified competition in battery industry chain, leading further decrease in the price of Li-ion batteries and cathode materials for Li-ion batteries. Looking forward, the Group will rigorously manage its operating costs in a pragmatic manner without compromise of the quality and safety standards of the Group's products in a bid to enhance the Group's competitiveness.

Supplementary Information

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

As at 30 September 2019, 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 2)*	Total number of ordinary shares and underlying shares of the associated corporation	Approximate percentage of issued ordinary share capital of the associated corporation *(Note 3)*
Mr. Cao Zhong	Beneficial owner	340,000	11,500,000	11,840,000	0.71%
	Interest of controlled corporation	64,449,499	–	64,449,499 *(Note 1)*	3.86%
Mr. Jaime Che	Beneficial owner	50,000	8,300,000	8,350,000	0.50%

Notes:

1. Mr. Cao Zhong is interested or deemed to be interested in a total of 76,289,499 shares and underlying shares of FDG including (i) 64,449,499 shares held by Long Hing International Limited which is wholly owned by Mr. Cao who is a director; and (ii) 340,000 shares and 11,500,000 share options*(Note 2)* held by Mr. Cao.

2. 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.

3. These percentages are calculated on the basis of 1,669,469,872 issued shares of FDG as at 30 September 2019.

(b) 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 1)*	0.83% *(Note 2)*

Notes:

1. 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.

2. The percentage is calculated on the basis of 241,573,654 issued shares of ALEEES as at 30 September 2019.

Save as disclosed above, as at 30 September 2019, 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 2019, 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 corporation *(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)
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 is 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. Jaime Che, an executive director of the Company, is also a director 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 are deemed to have the same long position as Sino Power Resources Inc.

3. These percentages are calculated on the basis of 6,753,293,913 issued shares of the Company as at 30 September 2019.

Save as disclosed above, as at 30 September 2019, 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 the eligible participants (i) in recognition of their contribution to the Company and its subsidiaries (collectively, 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 2019, 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 2019 (six months ended 30 September 2018: nil).

Employees' Share Award Scheme

The Company has adopted an employees' share award scheme on 10 February 2017. The objectives of the employees' share award scheme of the Company are (i) to recognise the contributions by the eligible participants and to motivate them for the continual operation and further development of the Group; (ii) to align the interests of the eligible participants with the shareholders of the Company for the benefit of the Group; and (iii) to attract and retain suitable personnel for the interest of the Group and the shareholders of the Company as a whole.

The board of directors of the Company (the "Board") may designate any eligible participant for participation in the employees' share award scheme, including employee, director, officer, agent, supplier, customer, business partner, advisor, consultant (or its representative or employee) or employee of any member of the Group, nominee and/or trustee of any employee benefit trust established by the Company, or any other person as determined by the Board who it considers will contribute or have contributed to the Group and determine the number of shares to be awarded. The number of shares of the Company granted under the employees' share award scheme is limited to 8% of the issued share capital of the Company at all relevant times. Further details of the employees' share award scheme of the Company are 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 2019.

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 2019 and up to the date of this report, except for the following deviation.

Code provision E.1.2

Pursuant to code provision E.1.2 of the Code, the chairman of the board should attend the annual general meeting. Mr. Cao Zhong, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 3 September 2019 (the "2019 AGM") due to other business engagement. Mr. Jaime Che, an executive director and Chief Executive Officer of the Company, took the chair of the 2019 AGM.

Changes in Directors' Information

There are no changes in the information of the directors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the publication of the 2018/19 annual report of the Company.

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 2019.

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

During the six months ended 30 September 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

Review of Interim Results

The Audit Committee of the Company has reviewed with the management the unaudited consolidated interim results of the Group for the six months ended 30 September 2019 and this report.

On behalf of the Board
FDG Kinetic Limited
Cao Zhong
Chairman

Hong Kong, 28 November 2019

As at the date of this report, the Board comprises Mr. Cao Zhong (Chairman) and Mr. Jaime Che (Chief Executive Officer) 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