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HYBRID KINETIC GROUP LIMITED

正道集團有限公司

(incorporated in Bermuda with limited liability)

(Stock code: 1188)

ANNUAL RESULTS ANNOUNCEMENT 2016

The board (the “**Board**”) of directors (the “**Directors**”) of Hybrid Kinetic Group Limited (the “**Company**”) would like to announce the audited consolidated financial results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2016 (the “**Year**”) as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Continuing operations			
Revenue	3	15,529	38,004
Cost of sales		(11,683)	(36,534)
Gross profit		3,846	1,470
Other income	4	34,605	28,222
Distribution costs		(444)	(225)
Administrative expenses		(393,299)	(388,927)
Share of results of associates		(3,448)	11,519
Loss before tax		(358,740)	(347,941)
Income tax expense	7	(805)	(1,098)
Loss for the year from continuing operations	8	(359,545)	(349,039)
Discontinued operations			
Loss for the year from discontinued operations		–	(7,288)
Loss for the year		(359,545)	(356,327)

	2016	2015
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other comprehensive loss:		
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations – Group	(66,632)	(27,415)
Exchange differences on translating foreign operations – associates	(1,384)	2,408
Release of translation reserve to profit or loss upon disposal of a subsidiary	–	(3,938)
Other comprehensive loss for the year	(68,016)	(28,945)
Total comprehensive loss for the year	(427,561)	(385,272)
Loss for the year attributable to:		
Owners of the Company		
From continuing operations	(355,303)	(343,229)
From discontinued operations	–	(7,288)
Non-controlling interests		
From continuing operations	(4,242)	(5,810)
From discontinued operations	–	–
	(359,545)	(356,327)
Total comprehensive loss for the year attributable to:		
Owners of the Company	(421,185)	(376,067)
Non-controlling interests	(6,376)	(9,205)
	(427,561)	(385,272)
Loss per share	<i>10</i>	
Basic and diluted (<i>cents per share</i>)		
From continuing operations	1.75	1.94
From discontinued operations	–	0.04
From continuing operations and discontinued operations	1.75	1.98

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		80,329	79,372
Investment in associates		38,465	20,354
Available-for-sale financial assets	<i>11</i>	72,188	10,982
Prepayments		33,669	36,656
Finance lease receivables	<i>12</i>	1,639	13,584
		<hr/> 226,290 <hr/>	<hr/> 160,948 <hr/>
Current assets			
Inventories	<i>13</i>	97,270	4,087
Finance lease receivables	<i>12</i>	15,154	8,776
Trade and other receivables	<i>14</i>	869,724	639,797
Amount due from a non-controlling shareholder of a subsidiary		–	2,483
Short-term investments		–	84,001
Derivative financial instrument		4,260	–
Structured bank deposits		–	420,182
Pledged bank deposits		2,007	1,607
Bank and cash balances		695,258	999,820
		<hr/> 1,683,673 <hr/>	<hr/> 2,160,753 <hr/>
Current liabilities			
Trade and other payables	<i>15</i>	48,247	40,559
Borrowings		–	196
Current tax liabilities		298	920
		<hr/> 48,545 <hr/>	<hr/> 41,675 <hr/>
Net current assets		<hr/> 1,635,128 <hr/>	<hr/> 2,119,078 <hr/>
NET ASSETS		<hr/> 1,861,418 <hr/>	<hr/> 2,280,026 <hr/>
Capital and reserves			
Share capital		2,033,787	2,032,587
Reserves		(206,448)	210,984
		<hr/> 1,827,339 <hr/>	<hr/> 2,243,571 <hr/>
Equity attributable to owners of the Company		1,827,339	2,243,571
Non-controlling interests		34,079	36,455
		<hr/> 1,861,418 <hr/>	<hr/> 2,280,026 <hr/>
TOTAL EQUITY		<hr/> 1,861,418 <hr/>	<hr/> 2,280,026 <hr/>

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report from ZHONGHUI ANDA CPA LIMITED, the external auditor of the Company, on the Group's consolidated financial statements for the year ended 31 December 2016.

“Basis for Qualified Opinion

1) *Prepayment to suppliers*

We were unable to obtain direct audit confirmation in relation to the prepayment to a supplier and unable to obtain sufficient evidence to ascertain that such prepayment to the supplier will be recovered in the foreseeable future. In addition there is lawsuit between the Group and the supplier. We were therefore not able to satisfy ourselves as to (i) whether the carrying amount of the prepayment to suppliers amounted to approximately HK\$333,814,000 as at 31 December 2016 and 2015 are fairly stated; (ii) the recoverability of prepayment to suppliers of approximately HK\$333,814,000 as at 31 December 2016 and 2015; and (iii) the existence and completeness of the disclosures of contingent liabilities in relation to the prepayment to the supplier.

2) *Inventories*

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves the net realisable value of the inventories. We were therefore not able to satisfy ourselves as to the valuation of the inventories amounted to approximately HK\$97,270,000 as at 31 December 2016 is fairly stated.

Any adjustments to the figures as described above might have a consequential effect on the Group's financial performance and cash flows for the years ended 31 December 2016 and 2015 and the financial positions of the Group as at 31 December 2016 and 2015, and the related disclosures thereof in the consolidated financial statements.

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSAs”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.”

BOARD’S VIEWS ON THE QUALIFIED OPINION BY THE COMPANY’S EXTERNAL AUDITOR

1) Prepayment to suppliers

The Board considers that the Company had provided all the documents to the extent that they are available to the Company to the Company’s auditor to facilitate them to ascertain the carrying amount of the prepayment to suppliers and the Group’s assessment on its recoverability.

The prepayment is mainly related to a deposit (the “**Deposit**”) made by the Group pursuant to a supply agreement dated 20 March 2015 (the “**Supply Agreement**”) entered into between Billion Energy Holdings Limited (“**Billion Energy**”), a wholly-owned subsidiary of the Company, and XALT Energy MI, LLC (“**XALT MI**”) for the supply of battery cells by XALT MI to Billion Energy. Under the Supply Agreement, the Deposit is agreed to be used to set off any invoiced amount of the order(s) of battery cells placed by the Group with XALT MI. Based on the records of the Group, the carrying amount of the remaining Deposit amounted to approximately HK\$333,814,000 as at 31 December 2015 and 2016.

As disclosed in the Company’s announcement dated 26 March 2017 (the “**Litigation Announcement**”), the Supply Agreement is the core of a civil lawsuit (the “**Lawsuit**”) commenced by Townsend Ventures LLC, XALT Energy LLC and XALT MI (collectively, “**XALT**”) in the United States District Court for the Northern District of Maryland in Baltimore. Due to the Lawsuit, XALT had not been cooperative in rendering assistance and providing to the Group, among others, the audit confirmation required by the Company’s auditor to ascertain the balance of the prepayment made by the Group and/or the liabilities (if any) due from the Group to XALT MI on their books and records. In the circumstances and given that the Lawsuit is ongoing, no trial date has yet been set for the Lawsuit and its outcome may not be predictable or forthcoming based on its current development, the Company’s auditor, therefore, took a prudent approach regarding the prepayment and qualified its auditor’s report in that regard.

As disclosed in the Litigation Announcement, having considered the alleged claims of XALT as pleaded in the Lawsuit and consulted the Group’s legal advisers, the Board believes the Group’s position is meritorious. The Group has instructed its legal advisers to defend the Lawsuit vigorously. The Board is optimistic about the strengths of the Group’s case regarding the Lawsuit and considers it has insignificant effect on the business, operations or financial position of the Group until the matters in dispute are resolved by the parties or finally adjudicated by legal proceedings. Since the Litigation Announcement, there have been no significant developments in the Lawsuit. The United States District Court has not set a hearing date.

Given that the Lawsuit is still in a preliminary stage and has not gone into substantive pleading stage, the Board is of the views that (i) it is premature to determine the non-recoverability of the prepayment to XALT; (ii) there is no evidence indicating that the amount of the prepayment to suppliers as at 31 December 2015 and 2016 as recorded by the Group was not fairly stated on the Group's books and records; and (iii) no contingent liabilities have arisen or there is no basis for any contingent liabilities to be recognised for the Lawsuit based on its current development.

2) Inventories

The inventories are mainly related to the battery cells ordered by the Group from XALT MI pursuant to the Supply Agreement as disclosed in the Board's views stated in 1) above. Following the Litigation Announcement made by the Company, certain customers of the Group had expressed concerns as to whether or not the Group may still be able to secure reasonable technical support from its supplier (that is, XALT MI) towards the battery cells manufactured by XALT MI and to be sold by the Group to them for use in the automobile or auto products they process or produce if and when any after-sale or other services regarding the battery cells are needed. Due to this reason, it has significantly inhibited the sale by the Group of the battery cells in the PRC market. In the circumstances, the Company's auditor has casted doubts on the probability of inventories held to be sold in the near future. While the Group has been proactively looking for overseas markets to boost the sale of the battery cells comprising the Group's inventories and does not consider that it will have difficulty in providing or arranging to provide any technical support required to its customers because the Group does not place reliance on any single supplier and have its own technical team to render technical support, solutions and services to its customers as and when needed. the Company's auditor considered that the above is not sufficiently reliable information for valuing the inventories and determining the probability of inventories held to be sold from the audit's perspective. Accordingly, the Company's auditor took a prudent approach regarding the audit of the inventories of the Group and qualified its auditor's report in that regard.

The Board considers that, as the battery cells have a relatively wide application in the automobile and other industries, their net realisable value will not currently be materially affected. The Board believes that, with the Group's efforts, the sale of the battery cells will gradually improve and probability of sale be enhanced. On this basis, it is premature to make any impairment to the inventories at the end of the Year.

The Board considers that the issues concerning the prepayment to suppliers and inventories arisen as a result of the Lawsuit currently do not have material impact on the Group's business, operations or financial position until the matters in dispute under the Lawsuit are resolved by the parties to the Lawsuit or finally adjudicated by legal proceedings.

The Board will, depending on the business operation, financial and other factors of or affecting the Group for the year ending 31 December 2017 and after consultation with the Company's auditor, make appropriate accounting treatment (including but not limited to considering whether or not any impairment of any accounting items is appropriate) for the year ending 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL INFORMATION

Hybrid Kinetic Group Limited was incorporated in Bermuda as an exempted company with limited liability. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The address of its principal place of business is Suites 1407-8, 14th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and have been suspended for trading since 3 April 2017.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (together referred to as the "**Group**") were development of advanced batteries materials and development of high-tech electric motor vehicles.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2016. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

3. REVENUE

Revenue from the Group's principal activities, which is also the Group's turnover, represents total invoiced value of goods supplied. Revenue recognised during the year is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Sales of high-tech electric motor vehicles (Continuing operations)	9,199	38,004
Sales of battery management systems and spare parts (Continuing operations)	5,295	–
Interest income from finance leasing (Continuing operations)	1,035	–
Sales of lithium-ion power batteries (Discontinued operations)	–	6,941
	<u>15,529</u>	<u>44,945</u>

4. OTHER INCOME

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest income	16,188	8,576
Other receivables interest income	3,569	2,561
Exchange gain	13,707	16,476
Gain on disposal of property, plant and equipment	214	–
Rental income	279	–
Recovery of impairment of other receivables	–	93
Others	648	558
	<u>34,605</u>	<u>28,264</u>
Representing:		
Continuing operations	34,605	28,222
Discontinued operations	–	42
	<u>34,605</u>	<u>28,264</u>

5. SEGMENT INFORMATION

The Group's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different technology and marketing strategies. The Group has two reportable segments: development of high-tech electric motor vehicles and development of advanced batteries materials.

Segment profits or losses do not include unallocated corporate income and expenses. Segment assets do not include unallocated corporate assets. Segment liabilities do not include unallocated corporate liabilities. Segment non-current assets do not include financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

Information about reportable segment profit or loss, assets and liabilities:

	High-tech electric motor vehicles	Advanced batteries materials	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2016:			
Revenue	15,529	–	15,529
Segment loss	(142,392)	(5,035)	(147,427)
Depreciation	(1,784)	(4,236)	(6,020)
Income tax expense	805	–	805
Other material non-cash items:			
Impairment of property, plant and equipment	(4,539)	(1,447)	(5,986)
Additions to segment non-current assets	1,070	3,256	4,326
At 31 December 2016:			
Segment assets	939,826	18,581	958,407
Segment liabilities	<u>16,700</u>	<u>102</u>	<u>16,802</u>
Year ended 31 December 2015:			
Revenue	38,004	–	38,004
Segment loss	(34,344)	(27,109)	(61,453)
Depreciation	(1,507)	(3,608)	(5,115)
Other material non-cash items:			
Impairment of property, plant and equipment	(2,732)	(972)	(3,704)
Impairment of other investment	–	(11,479)	(11,479)
Research and development expenses	(36,895)	(1,670)	(38,565)
Additions to segment non-current assets	29,240	1,605	30,845
At 31 December 2015:			
Segment assets	965,624	21,260	986,884
Segment liabilities	<u>18,072</u>	<u>268</u>	<u>18,340</u>

Reconciliations of reportable segment revenue, profit and loss, assets and liabilities:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Revenue:		
Total revenue of reportable segments and consolidated revenue	<u>15,529</u>	<u>38,004</u>
Profit or loss:		
Total loss of reportable segments	(147,427)	(61,453)
Corporate and unallocated profit or loss	(208,214)	(159,088)
Share-based payment	(3,099)	(127,400)
Income tax expense	<u>(805)</u>	<u>(1,098)</u>
Consolidated loss for the year from continuing operations	(359,545)	(349,039)
Consolidated loss for the year from discontinued operations	<u>–</u>	<u>(7,288)</u>
Consolidated loss for the year	<u>(359,545)</u>	<u>(356,327)</u>
Assets:		
Total assets of reportable segments	958,407	986,884
Corporate and unallocated assets:		
– Available-for-sale financial asset	72,188	10,982
– Amount due from a non-controlling shareholder of a subsidiary	–	2,483
– Bank and cash balances held by the Group's headquarters	225,436	656,486
– Structured bank deposits	–	420,182
– Others	<u>653,932</u>	<u>244,684</u>
Consolidated total assets	<u>1,909,963</u>	<u>2,321,701</u>
Liabilities:		
Total liabilities of reportable segments	16,802	18,340
Corporate and unallocated liabilities		
– Borrowings	–	196
– Tax payable	298	920
– Others	<u>31,445</u>	<u>22,219</u>
Consolidated total liabilities	<u>48,545</u>	<u>41,675</u>

Geographical information:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Revenue (including discontinued operations):		
United States of America	–	2,267
The People's Republic of China (the "PRC")	15,529	39,235
Germany	–	1,462
Korea	–	1,940
Others	–	41
	<u>15,529</u>	<u>44,945</u>

In presenting the geographical information, revenue is based on the locations of the customers.

Revenue from major customers:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Customer A	N/A	17,803
Customer B	N/A	14,061
Customer C	N/A	6,140
Customer D	7,749	N/A
Customer E	4,153	N/A
	<u>4,153</u>	<u>N/A</u>

Revenue from above customers individually contributed more than 10% of the total consolidated revenue of the Group.

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current assets (other than financial assets):		
United States of America	422	16,457
The PRC	115,216	102,526
Hong Kong and others	36,825	17,399
	<u>152,463</u>	<u>136,382</u>

6. FINANCE COSTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interests on bank loans	<u>–</u>	<u>108</u>
Representing:		
Continuing operations	–	–
Discontinued operations	<u>–</u>	<u>108</u>
	<u>–</u>	<u>108</u>

7. INCOME TAX EXPENSE

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current tax – PRC Enterprise Income Tax		
– Provision for the year	805	1,098
Deferred tax	<u>–</u>	<u>(52)</u>
	<u>805</u>	<u>1,046</u>
Representing:		
Continuing operations	805	1,098
Discontinued operations	<u>–</u>	<u>(52)</u>
	<u>805</u>	<u>1,046</u>

No provision for Hong Kong Profits Tax has been made for the year as the Group did not generate any assessable profits arising in Hong Kong (2015: Nil).

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

The reconciliation between the income tax expense and the product of loss before tax multiplied by Hong Kong Profits Tax rate is as follows:

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before tax		
Continuing operations	(358,740)	(347,941)
Discontinued operations	–	(7,340)
	<u>(358,740)</u>	<u>(355,281)</u>
Tax on loss before income tax, calculated at the rates applicable to profit/loss in the tax jurisdictions concerned	(66,275)	(78,665)
Tax effect of non-taxable income	(1,937)	(4,618)
Tax effect of non-deductible expenses	67,953	83,195
Tax effect of tax loss not recognised	1,064	1,134
	<u>805</u>	<u>1,046</u>
Income tax expense for the year		

8. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging/(crediting) the following:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Continuing operations:		
Auditor's remuneration	1,600	2,066
Equity-settled share-based payments to consultants	–	127,400
Cost of inventories sold	11,683	36,534
Depreciation	18,835	12,413
(Gain)/loss on disposal of property, plant and equipment	(214)	308
Change in fair value of derivative financial asset	(4,260)	4,326
Impairment of property, plant and equipment	5,986	3,704
Impairment of available-for-sale financial asset	5,707	4,971
Impairment of inventories	3,606	–
Impairment of other investment	–	11,479
Impairment of other receivables	67,498	461
Net exchange gains	(13,707)	(16,476)
Operating lease charges in respect of land and buildings	35,400	14,338
Research and development costs	34,912	38,565
Staff costs including directors' emoluments		
– Salaries, bonus and allowances	114,054	72,790
– Equity-settled share-based payments	3,099	–
– Retirement benefits scheme contributions	4,221	1,640
	121,374	74,430

9. DIVIDENDS

The Directors do not recommend or declare the payment of any dividend in respect of the years ended 31 December 2016 and 2015.

10. LOSS PER SHARE

(a) From continuing and discontinued operations

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for year attributable to owners of the Company of approximately HK\$355,303,000 (2015: approximately HK\$350,517,000) and the weighted average number of 20,336,916,000 (2015: 17,726,331,000) ordinary shares in issue during the year.

Diluted loss per share

No diluted loss per share are presented as the Company did not have any dilutive potential ordinary share during the years ended 31 December 2016 and 2015.

(b) From continuing operations

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately HK\$355,303,000 (2015: approximately HK\$343,229,000) the weighted average number of 20,336,916,000 (2015: 17,726,331,000) ordinary shares in issue during the year.

Diluted loss per share

No diluted loss per share are presented as the Company did not have any dilutive potential ordinary share during the years ended 31 December 2016 and 2015.

(c) **From discontinued operation**

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for year attributable to owners of the Company of approximately HK\$Nil (2015: approximately HK\$7,288,000) and the denominator used is the same as that detailed above for calculation of basic loss per share from continuing and discontinued operation.

Diluted loss per share

No diluted loss per share are presented as the Company did not have any dilutive potential ordinary share during the years ended 31 December 2016 and 2015.

11. AVAILABLE-FOR-SALE FINANCIAL ASSET

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted investments		
– Investments outside Hong Kong	<u>72,188</u>	<u>10,982</u>

During the year ended 31 December 2015, the Group entered into an agreement with an independent third party to acquire the equity interest in 上海仁通檔案管理諮詢服務有限公司 (“上海仁通”) at a consideration of RMB13,200,000. 上海仁通 is incorporated in the PRC and is an unlisted Sino-foreign venture under the PRC Law, which does not have quoted market price in an active market. The Group intend to hold the investment for long-term capital appreciation and had no intention to dispose of the investment in the near future. As at 31 December 2016 and 2015, the Group hold 8.9% equity interest in 上海仁通. Dr. Zhu Shengliang and Mr. Li Zhengshan, the executive directors of the Company, hold 17.4% and 0.9% equity interest of 上海仁通 respectively.

During the year ended 31 December 2016, the Group entered into an agreement with an independent third party to acquire the equity interest in 吉林美來中信木業有限公司 (“吉林美來” together with its subsidiaries as the “Meilai Group”) at a consideration of RMB60,000,000. 吉林美來 is incorporated in the PRC and is an unlisted limited liability company established in the PRC under the PRC Law, which does not have quoted market price in an active market. The Group intend to hold the investment for long-term capital appreciation and had no intention to dispose of the investment in the near future. As at 31 December 2016, the Group hold 5% equity interest in 吉林美來.

The unlisted equity investment is measured at cost less impairment at each reporting date. The fair value information of this available-for-sale financial asset has not been disclosed as the range of reasonable fair value estimates is so significant and the probabilities of the various estimates within the range cannot be reasonably assessed and used when measuring fair value. Accordingly, the directors of the Company are of the opinion that the fair value cannot be reliably measured. During the year ended 31 December 2016, impairment loss of approximately HK\$5,707,000 (2015: HK\$4,971,000) was provided.

12. FINANCE LEASE RECEIVABLES

	Minimum lease payments		Present value of minimum lease payments	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Within one year	16,103	9,965	15,154	8,776
In the second to fifth years, inclusive	1,694	14,621	1,639	13,584
	<u>17,797</u>	<u>24,586</u>	<u>16,793</u>	<u>22,360</u>
Less: Unearned finance income	<u>(1,004)</u>	<u>(2,226)</u>		
Present value of minimum lease payments receivable	<u>16,793</u>	<u>22,360</u>		
Less: Amount receivable within 12 months (shown under current assets)			<u>(15,154)</u>	<u>(8,776)</u>
Amount receivable after 12 months			<u>1,639</u>	<u>13,584</u>

It is the Group's policy to lease out certain of its plant and machinery under finance leases. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of each lease term, the lessees have the options to purchase the plant and machinery at nominal prices.

As at 31 December 2016, the carrying amounts of the Group's finance lease receivables are principally denominated in RMB. Effective interest rates ranged from approximately 5.7% to 7.0% (2015: 5.7% to 7.0%) per annum.

The finance lease receivables are secured by the leased motor vehicles and guarantees provided by independent third parties. The Group is not permitted to sell or re-pledge the collaterals in absence of default by the lessees. The lessees are required to pay the Group through twelve quarterly lease payments.

13. INVENTORIES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Raw materials	8,934	–
Work in progress	667	–
Finished goods	87,592	–
Consumables	77	4,087
	<u>97,270</u>	<u>4,087</u>

14. TRADE AND OTHER RECEIVABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade receivables	304	–
<i>Less: impairment losses</i>	–	–
	<u>304</u>	–
Prepayments	396,446	443,934
Deposits and other receivables	471,253	194,037
Amounts due from directors	1,721	1,826
	<u>869,724</u>	<u>639,797</u>

Included in prepayments represent amount prepayments to suppliers of approximately HK\$338,502,000 (2015: approximately HK\$350,845,000), prepayment for acquisition of a subsidiary of HK\$29,503,000, prepayment for research and development projects of approximately HK\$27,026,000 (2015: approximately HK\$93,089,000), and prepayment for other expenses.

As at 31 December 2016, within the balances of other receivables, a balance of HK\$359,681,000 (2015: HK\$65,653,000) carries interest rate ranged from 1.5% to 8% (2015: at 6%) per annum, repayable within one year and is secured by equity interest of the debtor, being an unlisted limited liability company, and guarantees provided by the related parties of the debtor. The directors of the Company monitored the collectibility of these receivables closely with reference to their respective current creditworthiness and repayment records. As at 31 December 2016, all these receivables were neither past due nor impaired and in the process of renewal. The management believes that no impairment allowance is necessary in respect of the these receivables as they are considered fully recoverable. Upon its original maturity and up to the approval date of these consolidated financial statements, approximately HK\$304,901,000 were fully settled.

Amounts due from directors are unsecured, interest-free and repayable on demand.

Impairment losses in respect of other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against other receivables directly.

At 31 December 2016, other receivables of HK\$67,498,000 (2015: HK\$14,557,000) were individually determined to be impaired. The individually impaired other receivables related to debtors that has defaulted on the principal payments. The Group has considered the collateral over these balances and included in the impairment.

Trade receivables

The Group allows an average credit period of 30 to 90 days to its trade customers. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The aging analysis of trade receivables, based on invoiced date, and net of allowance, is as follows:

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 to 30 days	<u>304</u>	<u>–</u>

As at 31 December 2016, all trade receivables were neither past due nor impaired. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there are no significant change in their respective credit quality and the balances are still considered fully recoverable.

15. TRADE AND OTHER PAYABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade payables	10,900	2,988
Accruals and other payables	37,347	35,052
Received in advance for warranty services	—	2,519
	<u>48,247</u>	<u>40,559</u>

Trade payables

The aging analysis of the trade payables, based on the date of receipt of goods, is as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 to 180 days	10,900	2,920
Over 180 days	—	68
	<u>10,900</u>	<u>2,988</u>

MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER INFORMATION

OVERVIEW

During the Year, the principal businesses of the Group included:

- the development of high-tech electric motor vehicles comprising primarily electric buses, engine and related battery cells and a new micro turbine generator range extended electric sedan (新型渦輪增程電動橋車) ; and
- the development and/or production of advanced batteries materials (including key new energy automobile components and single and few-layer graphene (單層石墨烯)).

The Group's revenue and gross profit from continuing operations for the Year amounted to approximately HK\$15.5 million (2015: HK\$38.0 million) and HK\$3.8 million (2015: HK\$1.47 million). The gross profit for the Year was primarily attributable to the sale of electric buses. The loss attributable to shareholders for the Year amounted to approximately HK\$355.3 million (2015: HK\$343.2 million). The loss for the Year was mainly attributable to operating and administrative expenses.

The operating and administrative expenses from continuing operations for the Year increased to approximately HK\$393.3 million (2015: HK\$388.9 million) which consisted of research and development expenses of HK\$34.9 million (2015: HK\$38.6 million), operating lease charges in respect of land and buildings of HK\$35.4 million (2015: HK\$14.3 million, employee benefit expense (including wages and salaries, pension costs and other benefits) of HK\$121.4 million (2015:HK\$74.4 million) and depreciation expenses of HK\$18.8 million (2015: HK\$12.4 million).

The loss for the Year from discontinuing operations was nil as compared to HK\$7.3 million in 2015.

Electric Motor Vehicles Business

The Group has endeavoured to become a pioneer in the design, development and manufacture of zero-emission electric motor vehicles with advanced technology and tremendous potential to improve energy efficiency. During the Year, the Group had operated its electric bus business through the Company's wholly-owned subsidiaries in China.

Since 2009, the PRC Government has been granting subsidy to new energy vehicles. By the end of 2015, a total of RMB33.435 billion had been allocated in the central budget. Spurred by high subsidies, enterprises of all sizes have stepped up investment in new energy vehicles and skyrocketed sales of new energy vehicles in China were recorded. Notwithstanding the impressive growth, issues such as subsidy fraud, product quality and safety concerns had prompted the PRC Government to reconstruct its subsidy policies to ensure that the subsidies are appropriately and effectively implemented to prevent loopholes and to incentivise the industry. Since then, the subsidy policies, which impose minimum technical requirements (including energy efficiency), have been more robust, and aimed to omit vehicles with outdated technologies and poor performance and focus on and promote truly advanced technologies and improved performance. The latest adjustment in subsidy policies, which will be valid through 2020, has played a role and will continue to influence the development of the new energy vehicles in China.

The decrease in sales of electric vehicles during the Year was mainly attributable to diminished demand due to the cut of fiscal subsidy for electric vehicles from the Chinese government in 2016.

Nonetheless, the Board remains optimistic that China's new energy vehicles market will revive in the near future after the market adjustment. As the subsidies will mainly be graded accordingly to the level of technical sophistication, the adjustment in subsidy policy is overall in favour of electric vehicles with advanced technologies. The Company pursues innovativeness, sophistication and excellence in its design and development of electric vehicles. The Board believes that the implementation of the reformed measures by the Chinese government for the new energy vehicles market will ultimately exert positive impact on the sales of our electric vehicles.

To better cope with the changing national policies for new energy vehicles and the possible uncertainty brought to the market with flexibility and adaptability, we had shifted our focus from identifying possible acquisition targets with manufacturing facility to selecting well-established processing plant(s) (代工廠) for the manufacture and assembly of electric buses for our electric bus business. 丹東黃海汽車有限責任公司 (Dandong Huanghai Automobile Company Limited*), one of the largest builders of city buses in the PRC, was the major plant engaged by the Group.

As the propensity of the latest subsidy policies for new energy vehicles allows subsidies that are more for manufacturers rather than end users, the uncertainty has also impeded the development of our finance-leasing business. Nonetheless, we will continue to explore the expansion of our finance-leasing business. We will continue to follow closely the market trends and changes in the PRC economic conditions and government policies so that we can adjust our business and risk management policies from time to time. We will take a prudent approach in assessing the ability of repayment of our customers or potential customer(s) who are in need of funds for the purchase of motor vehicles (including but not limited to electric buses) before extending or continuing to extend our finance-leasing services, and closely monitor and exhaust all measures to ensure the recoverability of the finance granted.

Further, the battery system factory established by 連雲港正道新能源汽車系統集成有限公司 (Lianyungang HK New Energy Vehicles System Integration Company Limited*), a wholly-owned subsidiary of the Company, in 連雲港經濟技術開發區 (Lianyungang Economic and Technology Development Zone*), the Jiangsu Province, the PRC for the development of battery management system (which is a core component for use in electric buses) had been in operation during the Year.

We realise that flexibility is one of the keys to success for any business. During the Year, the Group had also been keen on seeking opportunities for collaboration with renowned organisations with a view to exploring ways to strengthen the Group's supply chains and enhance its production capacity and operational flexibility and widen its expertise in such areas which are considered to be beneficial to the overall development of the Group's battery management system.

In January 2017, the Group established an equity joint venture (namely 安徽天康正道新能源科技有限公司 (Anhui Tiankang HK New Energy Technology Co., Ltd.)) with 安徽天康(集團)股份有限公司 (Anhui Tiankang (Group) Co., Ltd.*) (“**Anhui Tiankang Group**”) in Tianchang City, Anhui Province, the PRC to engage in the development of energy power batteries and related business and technologies. Anhui Tiankang Group manufactures a vast diversity of products with wide applications across different industries (including the new energy vehicles industry) and has successfully developed and launched the production of LTO (lithium titanate) cells (納米鈦酸鋰電池) since 2013. The synergic effect from the formation of the equity joint venture with Anhui Tiankang Group has enhanced the Group’s competitive strength in the new energy vehicles industry, as well as the development and sale of our battery management system more efficiently in the Chinese market. The alliance also alleviates our reliance on single source of supply.

In addition to our business operation in electric bus for public transport operators, the Company also commenced the promotion and development of electric passenger cars for individual customers.

In June 2016, the Company entered into a collaboration with Pininfarina S.p.A. (“**Pininfarina**”), a renowned Italy automotive design company, to design and develop a show car H600, a high end luxury new energy sedan based on micro turbine generator range extender. The H600 concept new energy vehicle, the flagship product selected by the Company, is equipped with an energy recycling system that can greatly improve energy efficiency and contribute to the mission of sustainable development, and characterised by stylish surface and dynamic lines. The powertrain technology, comprising battery, electric motors, electrical controller and range extender, is the other key feature making H600 stand out among its competitors. Range limitation is no longer a problem due to the combination of the Company’s micro turbine generator range extender and our super battery, empowering the H600 with ultra-mileage and a long driving range. Our micro turbine generator range extender can provide electric power for the motor and the battery anytime, anywhere, without any need for charging pits and social grids. The Company also subsequently engaged Pininfarina for the design of two sport utility vehicles (SUVs) namely K500 and K750.

In February 2017, the Group entered into a contract with Pininfarina pursuant to which the parties have agreed to co-operate with each other in the field of designing, engineering and creating prototype to commence production for the series development of a new micro-turbine range-extended electric sedan.

In March 2017, the Company participated the Geneva Motor Show in Switzerland for showcased our H600. In April 2017, the Company showcased the H600, K550 and K750 in the Shanghai Car Show.

The participation in the international car shows has solicited interests of a number of potential strategic partners (including assets fund entities and municipal authorities in the PRC) to explore possible business or other collaborations with the Group. The Company will update its shareholders of these possible business or other collaborations currently under negotiations as and when appropriate in accordance with the Listing Rules. These collaborations, if materialised, are conducive to the development of the Group's high-tech electric motor vehicles business and its penetration into other provinces of China with untapped potential.

The cooperation with Pininfarina is one of the Group's strategic moves to open up its business into the global luxury car market, and make its name known to more international automobile manufacturers and customers.

For the Year, the revenue and the loss of this segment were approximately HK\$15.5 million (2015: HK\$38.0) and HK\$142.4 million (2015: HK\$34.3 million).

Advanced Batteries Materials

The Group has been engaging in the promotion of a new energy project (which involved the development of key new energy automobile components) (the “**New Energy Project**”) through 連雲港正道新能源有限公司 (Hybrid Kinetic (Lianyuangang) New Energy Limited, Inc.*) (the “**Project Company**”), in which the Company holds approximately 77.78% of its total registered capital of US\$27,000,000.

The major new energy automobile component under the New Energy Project comprises single and few-layer graphene (單層石墨烯). Graphene is an ideal material for super batteries (超級電池), electronic traction motor (電機) and power electronic system (電控系統) for use in electric vehicles.

In addition, the Project Company and HK Graphene Technology Corporation, a subsidiary of the Company in the U.S., have been cooperating in the research and development of graphene super batteries (石墨烯超級電池) (which possess relatively higher energy and power density and long charge and discharge life cycle, have a charging rate which is much faster than normal batteries and can function normally under severe weather condition).

The research and development of the application of graphene for super batteries, electronic traction motor and power electronic system are still underway. The Project Company will commence the application of graphene in the core components in electric vehicles when the technology is mature, which will then be expected to create a source of revenue for the Group.

For the Year, the revenue of this segment was nil (2015: Nil) and the loss was HK\$5.0 million (2015: HK\$27.1 million).

PROSPECTS

The Company has a long-term commitment to the global automobile industry.

We believe that the demand for high-tech, clean and sustainable transportation will continue to grow under the global trend of urbanisation and proactive impositions of environmental regulations.

The luxury car segment is seen as the most dynamic and major contributor of revenue in the luxury goods market. There has been an upward trend in the demand for luxury cars, and provide ample room for growth. This is even the case for the Chinese luxury car market. The increasingly affluent economy, the rising disposable income, the changing demographics and China's greentech policies have all been working in favour of the Chinese market.

We hope the Group's cooperation with Pininfarina, which shares our philosophy to pursue innovativeness and excellence, can bring the global automobile industry and car driving to a new dimension.

In March 2017, the Company and Beijing WKW Automotive Parts Co., Ltd.* (“**WKW Equity**”) (北京威卡威汽車零部件股份有限公司) entered into a strategic alliance memorandum to record the parties' strategic cooperation intention to collaborate in the areas of electric motors, electrical controller and range extender, as well as the research, development and commercial production of new energy vehicles (including the H600) and subsequent products production, including but not limited to the setting up of research and production bases initially proposed to be in China, North America and Europe. The Board expects the cooperation with WKW Equity will reap greater synergies, as the parties have their respective required expertise and solid experience in the field of automobile and new energy business. Looking forward, the Board believes that the cooperation will enable the Group to (i) create a platform for the promotion of clean energy and take advantage of the opportunity emerged from the PRC's 13th Five-Year Plan regarding the energy conservation and environmental protection; (ii) strengthen its own production capacity and ability in the design, research and development of electric motor vehicles; and (iii) expand its business scale as well as market share in the automobile industry.

The Company and WKW Equity have already formed a working group to conduct research on new power batteries through a joint venture. The collaboration is expected to further complement the strength of each other in the respective resource and technology advantages and achieve a more comprehensive strategic cooperation for the sustainable development of clean energy industry.

We will step up our efforts to explore investment opportunities and consider different options to achieve a higher level of vertical integration of our electric motor vehicles business. This business goal, if achieved successfully, is expected to improve supply chain co-ordination, as well as enhance costs and quality control. These, in turn, are expected to bring a positive impact on the Group's operation, performance and competitiveness in the automobile market place.

MATERIAL ACQUISITION OR DISPOSAL

On 28 June 2016 (US time), the Group entered into a conditional stock issuance and purchase agreement (the “SPA”) with UQM Technologies, Inc., (“UQM”) in relation to the proposed investment in UQM through the subscription of an aggregate of 66,500,000 new shares of UQM common stock (the “Subscription”) at the total subscription price US\$47,880,000 (representing US\$0.72 each) subject to and upon the terms and conditions contained in the SPA. The Subscription, if materialised, would constitute a very substantial acquisition of the Company under the Listing Rules. As certain condition(s) precedent to completion of the Subscription was not fulfilled pursuant to the terms of the SPA, the respective board of directors of the Company and UQM determined not to proceed with the Subscription and terminated the SPA on 26 December 2016. There were no penalties to UQM or the Group, and there was no adverse impact on the operation or otherwise of the Group, as a result of the termination of the SPA. Please refer to the announcements dated 30 June 2016 and 27 September 2016, the circular dated 23 November 2016 and the announcement dated 28 December 2016 for further details of the Subscription under the SPA and its termination.

Save as disclosed above, the Group did not have material acquisition or disposal of assets and any future plans for material investment or capital assets during the Year.

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

During the Year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the total equity of the Group amounted to approximately HK\$1,861.4 million (31 December 2015: HK\$2,280 million).

The gearing ratio of the Group as at 31 December 2016 measured in terms of total liabilities divided by shareholders' equity was approximately 2.61% (31 December 2015: 1.83%).

As at 31 December 2016, net current assets of the Group were approximately HK\$1,635.1 million (31 December 2015: HK\$2,119.1 million). The pledged bank deposits were approximately HK\$2.0 million (31 December 2015: HK\$1.6 million). The cash and cash equivalents amounted to HK\$695.3 million (31 December 2015: HK\$999.8 million).

The short-term investments was nil (31 December 2015: HK\$84.0 million) and structured bank deposits was nil (31 December 2015: HK\$420.2 million). The Group did not have outstanding borrowings (31 December 2015: HK\$196,000).

PLEDGE OF THE GROUP'S ASSETS

As at 31 December 2016, the Group had pledged its bank deposits of HK\$2.0 million (31 December 2015: HK\$1.6 million) to the Group's bankers to secure general banking facilities granted to the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

During the Year, almost all of the income and expenditure of the Group were denominated in Renminbi, Hong Kong dollar and/or United States dollars, and the Group had no significant exposure to foreign exchange fluctuations and therefore, had not taken any financial instruments for hedging purpose.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to ensure better transparency and protection of the interests of the Company and its shareholders as a whole and to enhance corporate value and accountability. The Company wishes to highlight that the Board will continue to devote efforts in ensuring effective leadership and control of the Company and the transparency and accountability of all operations.

Throughout the Year, the Company had adopted and complied with the code provisions of the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its own code of conduct governing securities transactions by the Directors. All Directors, after specific enquiries by the Company, had confirmed to the Company their compliance with the required standards set out in the Model Code during the Year.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company had reviewed and discussed with the management of the Company regarding the consolidated financial statements of the Group for the Year.

SCOPE OF WORK OF ZHONGHUI ANDA CPA LIMITED ON THIS PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2016 as set out in this preliminary announcement have been agreed by the Group’s auditor, ZHONGHUI ANDA CPA LIMITED, to the amounts set out in the Group’s audited consolidated financial statements for the Year. The work performed by ZHONGHUI ANDA CPA LIMITED in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by ZHONGHUI ANDA CPA LIMITED on this preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual results announcement for the Year is published on the respective websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.hk1188.etnet.com.hk>). The annual report of the Company for the Year will be available on the respective websites of the Stock Exchange and the Company, and despatched to the shareholders of the Company in due course.

SUSPENSION OF TRADING

Trading in the shares in the Company on the Stock Exchange will remain suspended pending the fulfillment of the conditions prescribed by the Stock Exchange for the resumption of trading as disclosed in the Company's announcement dated 12 June 2017.

By Order of the Board
HYBRID KINETIC GROUP LIMITED
Yeung Yung
Chairman

Hong Kong, 31 August 2017

As at the date of this announcement, the Board comprises ten executive Directors, namely Dr Yeung Yung (Chairman), Mr Xu Jianguo (Chief Executive Officer), Mr Hui Wing Sang, Wilson (Deputy Chairman), Dr Huang Chunhua (Deputy Chairman), Dr Wang Chuantao (Deputy Chairman), Mr Liu Stephen Quan, Dr Zhu Shengliang, Mr Li Zhengshan, Mr Ting Kwok Kit, Johnny and Mr Chen Xiao, one non-executive Director, namely Dr Xia Tingkang, Tim and six independent non-executive Directors, namely Mr Wong Lee Hing, Dr Song Jian, Dr Zhu Guobin, Mr Cheng Tat Wa, Dr Li Jianyong and Mr Chan Sin Hang.

* *For identification purposes only*