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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 2017

The board of directors (the "**Board**" or 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 2017 (the "**Year**") as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017** **HK$'000**	2016 HK$'000
Revenue	3	**35,434**	15,529
Cost of sales		**(26,012)**	(11,683)
Gross profit		**9,422**	3,846
Other income	4	**134,631**	34,605
Distribution costs		**(5,971)**	(444)
Administrative expenses		**(452,066)**	(393,299)
Share of losses of associates		**(11,321)**	(3,448)
Loss before tax		**(325,305)**	(358,740)
Income tax expense	6	**(360)**	(805)
Loss for the year	7	**(325,665)**	(359,545)

	Notes	**2017** HK$'000	2016 HK$'000
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations – Group		**51,228**	(66,632)
Exchange differences on translating foreign operations – Associates		**6,597**	(1,384)
Other comprehensive income/(loss) for the year		**57,825**	(68,016)
Total comprehensive loss for the year		**(267,840)**	(427,561)
Loss for the year attributable to:			
Owners of the Company		**(322,290)**	(355,303)
Non-controlling interests		**(3,375)**	(4,242)
		(325,665)	(359,545)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(266,658)**	(421,185)
Non-controlling interests		**(1,182)**	(6,376)
		(267,840)	(427,561)
Loss per share	*9*		
Basic *(cents per share)*		**(1.58)**	(1.75)
Diluted *(cents per share)*		**(1.58)**	(1.75)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment		**70,638**	80,329
Investment in associates	*10*	**547,494**	38,465
Available-for-sale financial assets	*11*	**60,310**	72,188
Prepayments	*12*	**63,368**	33,669
Finance lease receivables	*13*	**–**	1,639
		741,810	226,290
Current assets			
Inventories	*14*	**75,408**	97,270
Finance lease receivables	*13*	**1,753**	15,154
Trade and other receivables	*15*	**480,959**	869,724
Derivative financial instrument		**46,957**	4,260
Pledged bank deposits		**2,007**	2,007
Bank and cash balances		**311,781**	695,258
		918,865	1,683,673
Current liabilities			
Trade and other payables	*16*	**61,827**	48,247
Current tax liabilities		**–**	298
		61,827	48,545
Net current assets		**857,038**	1,635,128
NET ASSETS		**1,598,848**	1,861,418
Capital and reserves			
Share capital		**2,033,787**	2,033,787
Reserves		**(472,159)**	(206,448)
Equity attributable to owners of the Company		**1,561,628**	1,827,339
Non-controlling interests		**37,220**	34,079
TOTAL EQUITY		**1,598,848**	1,861,418

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 2017.

Basis for Qualified Opinion

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. We were therefore not able to satisfy ourselves as to (i) whether the carrying amount of the prepayment to suppliers amounted to approximately HK$333,918,000 as at 31 December 2017 and the carrying amount of the prepayment to suppliers amounted to approximately HK$333,814,000 as at 31 December 2016 are fairly stated; (ii) the recoverability of prepayment to suppliers of approximately HK$333,918,000 as at 31 December 2017 and the recoverability of prepayment to suppliers of approximately HK$333,814,000 as at 31 December 2016; and (iii) the existence and completeness of the disclosures of contingent liabilities in relation to the prepayment to the supplier.

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 2017 and 2016 and the financial positions of the Group as at 31 December 2017 and 2016, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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**").

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 high-tech electric motor vehicles, development and sales of battery management systems and spare parts and development of advanced batteries materials.

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 2017. 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 represents total invoiced value of goods supplied. Revenue recognised during the year is as follows:

	2017	2016
	HK$'000	*HK$'000*
Sales of high-tech electric motor vehicles	–	9,199
Sales of battery management systems and spare parts	**35,133**	5,295
Interest income from finance leasing	**301**	1,035
	35,434	15,529

4. OTHER INCOME

	2017	2016
	HK$'000	*HK$'000*
Interest income	**3,375**	16,188
Other receivables interest income	**3,934**	3,569
Net exchange gains	–	13,707
Gain on disposal of property, plant and equipment	–	214
Recognition of deferred income on capital contribution to associate	**1,828**	–
Gain on deemed disposal of partial investment in an associate	**2,765**	–
Gain on capital contribution to an associate	**77,861**	–
Fair value gain on derivative financial instrument	**40,729**	–
Rental income	**211**	279
Reversal of impairment of other receivables	**1,837**	–
Others	**2,091**	648
	134,631	34,605

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 three reportable segments: development of high-tech electric motor vehicles, development and sales of battery management systems and spare parts 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	Battery management systems and spare parts	Advanced batteries materials	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2017:				
Revenue	**301**	**35,133**	**–**	**35,434**
Segment profit/(loss)	**(157,337)**	**13,121**	**(5,046)**	**(149,262)**
Depreciation	**(4,912)**	**(1,394)**	**(633)**	**(6,939)**
Other material non-cash items:				
Impairment of property, plant and equipment	**(14)**	**(26)**	**(1)**	**(41)**
Research and development expenses	**(45,315)**	**(11,662)**	**(1,718)**	**(58,695)**
Additions to segment non-current assets	**2,189**	**4,423**	**43**	**6,655**
At 31 December 2017:				
Segment assets	**900,145**	**67,294**	**4,472**	**971,911**
Segment liabilities	**12,700**	**9,568**	**222**	**22,490**
Year ended 31 December 2016:				
Revenue	10,234	5,295	–	15,529
Segment loss	(105,204)	(37,188)	(5,035)	(147,427)
Depreciation	(1,271)	(513)	(4,236)	(6,020)
Income tax	(515)	(290)	–	(805)
Other material non-cash items:				
Impairment of property, plant and equipment	(4,539)	–	(1,447)	(5,986)
Impairment of inventories	3,606	–	–	3,606
Research and development expenses	(2,037)	(5,179)	(1,901)	(9,117)
Additions to segment non-current assets	1,070	–	3,256	4,326
At 31 December 2016:				
Segment assets	552,727	387,099	18,581	958,407
Segment liabilities	7,017	9,683	102	16,802

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

	2017	2016
	HK$'000	*HK$'000*
Revenue:		
Total revenue of reportable segments and consolidated revenue	**35,434**	15,529
Profit or loss:		
Total loss of reportable segments	**(149,262)**	(147,427)
Corporate and unallocated profit or loss	**(175,096)**	(208,214)
Share-based payment	**(947)**	(3,099)
Income tax expense	**(360)**	(805)
Consolidated loss for the year	**(325,665)**	(359,545)
Assets:		
Total assets of reportable segments	**971,911**	958,407
Corporate and unallocated assets:		
– Available-for-sale financial asset	**60,310**	72,188
– Bank and cash balances held by the Group's headquarters	**103,803**	225,436
– Others	**524,651**	653,932
Consolidated total assets	**1,660,675**	1,909,963
Liabilities:		
Total liabilities of reportable segments	**22,490**	16,802
Corporate and unallocated liabilities		
– Tax payable	**–**	298
– Others	**39,337**	31,445
Consolidated total liabilities	**61,827**	48,545

Geographical information:

	2017	2016
	HK$'000	*HK$'000*
Revenue:		
The People's Republic of China (the "**PRC**")	**35,319**	15,529
Others	**115**	–
	35,434	15,529

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

Revenue from major customers:

	2017	2016
	HK$'000	*HK$'000*
Customer A	**nil**	7,749
Customer B	**nil**	4,153
Customer C	**34,559**	nil

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

	2017	2016
	HK$'000	*HK$'000*
Non-current assets (other than financial assets):		
United States of America	**1,813**	422
The PRC	**588,529**	115,216
Hong Kong and others	**91,158**	36,825
	681,500	152,463

6. INCOME TAX EXPENSE

	2017	2016
	HK$'000	*HK$'000*
Current tax – PRC Enterprise Income Tax		
Provision for the year	**–**	805
Under-provision in prior years	**360**	–
	360	805

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 (2016: 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:

	2017	2016
	HK$'000	*HK$'000*
Loss before tax	**(325,305)**	(358,740)
Tax on loss before income tax, calculated at the rates applicable to profit/loss in the tax jurisdictions concerned	**(49,847)**	(66,275)
Tax effect of non-taxable income	**(33,591)**	(1,937)
Tax effect of non-deductible expenses	**73,263**	67,953
Under-provision in prior years	**360**	–
Tax effect of tax loss not recognised	**10,175**	1,064
Income tax expense for the year	**360**	805

7. LOSS FOR THE YEAR

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

	2017	2016
	HK$'000	*HK$'000*
Continuing operations:		
Auditor's remuneration	**1,600**	1,600
Cost of inventories sold	**26,012**	11,683
Depreciation	**21,949**	18,835
Loss/(gain) on disposal of property, plant and equipment	**531**	(214)
Gain on deemed disposal of partial investment in an associate	**(2,765)**	–
Recognition of deferred income on capital contribution to associate	**(1,828)**	–
Gain on capital contribution to an associate	**(77,861)**	–
Change in fair value of derivative financial instrument	**(40,729)**	(4,260)
Impairment of property, plant and equipment	**1,639**	5,986
Impairment of available-for-sale financial asset	**16,260**	5,707
Impairment of inventories	**–**	3,606
(Reversal of impairment)/impairment of other receivables	**(1,837)**	67,498
Net exchange loss/(gains)	**9,319**	(13,707)
Operating lease charges in respect of land and buildings	**35,102**	35,400
Research and development costs	**62,653**	34,912
Staff costs including directors' emoluments		
– Salaries, bonus and allowances	**141,977**	114,054
– Equity-settled share-based payments	**947**	3,099
– Retirement benefits scheme contributions	**7,532**	4,221
	150,456	121,374

8. DIVIDENDS

The directors do not recommend or declare the payment of any dividend in respect of the years ended 31 December 2017 and 2016.

9. LOSS PER SHARE

(a) 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$322,290,000 (2016: approximately HK$355,303,000) and the weighted average number of 20,337,873,000 (2016: 20,336,916,000) ordinary shares in issue during the year.

(b) Diluted loss per share

The effects of all potential ordinary shares are anti-dilutive for the year ended 31 December 2017 and 31 December 2016.

10. INVESTMENT IN ASSOCIATES

	2017	2016
	HK$'000	*HK$'000*
Unlisted investment:		
Share of net assets	**547,494**	38,465

Details of the Group's associates at 31 December 2016 and 2017 are as follows:

Name	**Place of incorporation/ registration**	**Percentage of the Company's indirect ownership interest**		**Principal activities**
		2017	2016	
浙江佳貝思綠色能源有限公司 Zhejiang GBS Energy Co., Limited*	The PRC	**25%**	25%	Manufacturing and sales of batteries, the PRC
深圳南科燃料電池有限公司 Shenzhen SUSTC Fuel Cell Company Limited*	The PRC	**16.7%**	20%	Environmental automobile and related business, the PRC
寧波京威動力電池有限公司 Ningbo Joint Venture*	The PRC	**18%**	N/A	Manufacturing and sales of batteries
安徽天康正道新能源科技有限公司 Anhui Tiankang HK New Energy Technology Co., Ltd.	The PRC	**25%**	N/A	Manufacturing and sales of batteries

* *For identification purpose only*

At 18 December 2017, 深圳南科燃料電池有限公司 was injected an additional RMB20,000,000 share capital from a third party independent investor leading to the percentage of the Company's indirect ownership interest was diluted from 20% to 16.7%.

During the year ended 31 December 2017, 連雲港正道新能源汽車系統集成有限公司 ("**LYG Hybrid Kinetic**"), a wholly owned subsidiary of the Company, entered into a joint venture agreement (as revised) (the "**JV Agreement**") with 北京威卡威汽車零部件股份有限公司 ("**Beijing WKW**") and 北京致云資產管理有限公司 ("**Beijing Zhi Yun**") (together the "**JV partners**") for the establishment of 寧波京威動力電池有限公司 ("**Ningbo JV**") with registered capital of RMB2,000 million. The Group had undertaken to contribute RMB360 million.

During the year ended 31 December 2017, HK Battery Technology Inc., a non-wholly owned subsidiary, entered into an agreement with 安徽天康(集團)股份有限公司 for establishment of 安徽天康正道新能源科技有限公司 with registered capital of RMB360 million. The Group had undertaken to contribute a technical know-how of producing electric motor vehicle batteries as capital injection, the fair value of the technical know-how amounting to RMB90,000,000 (approximately HK$108,072,000) was determined by a third party independent valuer, 北京中金浩資產評估有限責任公司.

The above associates are accounted for using the equity method in the consolidated financial statements.

Set as below are the summarised financial information of the associates which is accounted for using equity method.

	Zhejiang GBS Energy Co., Limited		Shenzhen SUSTC Fuel Cell Company Limited	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At 31 December:				
Non-current assets	**57,856**	59,729	**–**	29,288
Current assets	**163,971**	147,321	**55,431**	38,196
Non-current liabilities	**(2,052)**	(1,918)	**(28,152)**	(22,417)
Current liabilities	**(82,821)**	(87,276)	**(725)**	(60)
Net assets	**136,954**	117,856	**26,554**	45,007
Group's share of net assets	**34,239**	29,464	**4,426**	9,001

	Zhejiang GBS Energy Co., Limited		Shenzhen SUSTC Fuel Cell Company Limited	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Year ended 31 December:				
Revenue	**128,071**	193,515	**154**	–
Profit/(loss) for the year	**10,428**	42,265	**(43,820)**	(70,074)
Other comprehensive income/(loss)	**8,671**	(6,786)	**1,351**	570
Total comprehensive income/(loss) for the year	**19,099**	35,479	**(42,469)**	(69,504)
Dividends received from associates	**–**	–	**–**	–

	Ningbo Joint Venture	Anhui Tiankang HK New Energy Technology Co., Ltd.
	2017	**2017**
	HK$'000	***HK$'000***
At 31 December:		
Non-current assets	491,483	182,866
Current assets	1,913,938	242,250
Non-current liabilities	–	–
Current liabilities	(28,270)	(886)
Net assets	2,377,151	424,230
Group's share of net assets before deferred income	427,887	106,057
Gain on capital contribution to associate – deferred income	–	(25,115)
Group's share of net assets	427,887	80,942
Year ended 31 December:		
Revenue	7,346	–
Loss for the year	(7,741)	(23,485)
Other comprehensive loss	(317)	(963)
Total comprehensive loss for the year	(8,058)	(24,448)
Dividends received from associates	–	–

The movement of deferred income are set out below:

	Anhui Tiankang HK New Energy Technology Co., Ltd.
	2017
	HK$'000
As at 1 January	–
Addition of deferred income arising from transaction between the associate with the Group	(27,018)
Recognition of deferred income on capital contribution to associate	1,828
Exchange difference	75
As at 31 December	(25,115)

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017	2016
	HK$'000	*HK$'000*
Listed investments		
上海仁通檔案管理咨詢服務有限公司	**9,696**	9,063
Unlisted investments		
吉林美來中信木業有限公司	**50,614**	63,125
	60,310	72,188

During the year ended 31 December 2015, the Group entered into an agreement with an independent third party to acquire the equity interest in 上海仁通檔案管理咨詢服務有限公司 (“**上海仁通**”), incorporated in the PRC and listed in National Equities Exchange and Quotations (stock code: 838518), is a Sino-foreign venture under the PRC Law. 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 2017 and 2016, the Group holds 8.5% (2016: 8.9%) equity interest in 上海仁通. Mr. Zhu Shengliang and Dr. Li Zhengshan, the executive directors of the Company, hold 16.2% (2016: 17.1%) and 0.9% (2016: 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 2017, the Group holds 5% (2016: 5%) equity interest in 吉林美來.

The 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 2017, impairment loss of approximately HK$16,260,000 (2016: approximately HK$5,707,000) was provided.

12. PREPAYMENTS

	2017	2016
	HK$'000	*HK$'000*
Prepayment for:		
– Purchase of property, plant and equipment	**–**	33,669
– Research and developments projects for motor vehicles	**63,368**	–
	63,368	33,669

13. FINANCE LEASE RECEIVABLES

	Minimum lease payments		Present value of minimum lease payments	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**1,812**	16,103	**1,753**	15,154
In the second to fifth years, inclusive	**–**	1,694	**–**	1,639
	1,812	17,797	**1,753**	16,793
Less: Unearned finance income	**(59)**	(1,004)		
Present value of minimum lease payments receivable	**1,753**	16,793		
Less: Amount receivables within 12 months (shown under current assets)			**(1,753)**	(15,154)
Amount receivables after 12 months			**–**	1,639

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 2017, the carrying amounts of the Group's finance lease receivables are principally denominated in RMB. Effective interest rate was 5.7% (2016: 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.

14. INVENTORIES

	2017	2016
	HK$'000	*HK$'000*
Raw materials	**8,808**	8,934
Work in progress	**658**	667
Finished goods	**65,860**	87,592
Consumables	**82**	77
	75,408	97,270

15. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**28,413**	304
Less: impairment losses	**–**	–
	28,413	304
Prepayments	**373,386**	396,446
Deposits and other receivables	**76,588**	471,253
Amounts due from directors	**2,572**	1,721
	480,959	869,724

Included in prepayments represent amount prepaid to suppliers of approximately HK$335,108,000 (2016: approximately HK$338,502,000), prepayment for acquisition of a subsidiary of HK$nil (2016: approximately HK$29,053,000), prepayment for research and development projects of approximately HK$21,219,000 (2016: approximately HK$27,026,000), and prepayment for other expenses.

As at 31 December 2017, included in other receivables is a balance of HK$17,106,000 (2016: HK$359,681,000) carries interest rate at 6% (2016: 1.5% to 8%) per annum, repayable within one year and is secured by equity interest of the debtor, being an unlisted limited liability company and its own shares of a listed 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 2017, all these receivables were neither past due nor impaired. The management believes that no impairment allowance is necessary in respect of the these receivables as they are considered fully recoverable.

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.

During the year ended 31 December 2017, other receivables which were previously impaired of HK$1,837,000 were reversed due to repayments from debtors (2016: impairment provision amounting to HK$67,498,000). 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.

The movement of impairment of other receivables are set out below:

	2017	2016
	HK$'000	*HK$'000*
As at 1 January	**79,547**	12,049
(Reversal of impairment)/impairment of other receivables	**(1,837)**	67,498
As at 31 December	**77,710**	79,547

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:

	2017	2016
	HK$'000	*HK$'000*
0 to 30 days	**9,471**	304
31 to 60 days	**9,471**	–
61 to 90 days	**9,471**	–
	28,413	304

As at 31 December 2017, 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.

16. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**8,168**	10,900
Accruals and other payables	**53,021**	37,347
Amounts due to a director	**638**	–
	61,827	48,247

Trade payables

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

	2017	2016
	HK$'000	*HK$'000*
0 to 180 days	**312**	10,900
181 to 360 days	**6,825**	–
Over 360 days	**1,031**	–
	8,168	10,900

MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER INFORMATION

OVERVIEW

The Group principally engages in the development and sales of battery management systems and spare parts, high-tech electric motor vehicles, and advanced batteries materials. The Group is also engaged in the provision of finance leasing services.

During the Year, the principal businesses of the Group included the development and/or sales of:

- battery management systems and spare parts;
- high-tech electric motor vehicles; and
- advanced batteries materials, including key new energy automobile components and single and few-layer graphene.

The Group's revenue and gross profit for the Year amounted to approximately HK$35.4 million (2016: HK$15.5 million) and HK$9.4 million (2016: HK$3.8 million). The gross profit for the Year was primarily attributable to the sales of advanced battery management systems. The loss attributable to shareholders for the Year amounted to approximately HK$322.3 million (2016: HK$355.3 million). The loss for the Year was mainly attributable to administrative expenses.

The administrative expenses for the Year increased to approximately HK$452.1 million (2016: HK$393.3 million) which consisted of research and development expenses of approximately HK$62.7 million (2016: HK$34.9 million), operating lease charges in respect of land and buildings of approximately HK$35.1 million (2016: HK$35.4 million, employee benefit expense (including wages and salaries, pension costs and other benefits) of approximately HK$150.5 million (2016: HK$121.4 million) and depreciation expenses of approximately HK$21.9 million (2016: HK$18.8 million).

During the Year, the Group had remained keen to seek opportunities for investment, cooperation and/or collaboration with renowned organizations, institution, experts and/or other strategic alliances with a view to exploring ways to strengthen the Group's supply chains, enhance its production capacity and operational flexibility and widen its expertise in such areas which were considered to be beneficial to the sustainable development, expansion and diversification of the Group's businesses.

Battery management systems and spare parts

The Group has been engaging in the automotive batteries business since 2011.

The Group identifies, secures or sources from time to time quality manufacturers and/ or suppliers worldwide with high-level engineering capabilities and/or manufacturing capacities for the Group's automotive innovations and products. During the Year. the lines of automotive–related batteries sold by the Group included but not limited to LiFeMnPO4 lithium-ion batteries(磷酸亞鐵錳鋰電池)and Lithium Nickel Manganese Cobalt Oxide battery. These are high-power rapid-charging battery cells suitable for high-performance rapid charging new energy vehicles.

We consider the Group's environmental automobile and related businesses will be restrained unless there is innovative breakthrough in battery architecture and technology. In this respect, we have established a team of experts with extensive experience and expertise in a wide variety of applications in the automobile industry, which forms part of our core strength in the development of, among other things, advanced and high quality batteries, battery management systems and related technologies. For instance, the Lithium Titanate Oxide battery and battery systems which we have been developing have a relatively stable structure, a higher battery charge and discharge current (C-rate), a longer life cycle and more excellent environmental tolerance (function from -30 ˚C to 55 ˚C) to better alleviate safety concerns.

Currently, the Group has its own manufacturing facilities in Lianyungang, Jiangsu Province, the PRC for the processing of battery cells and assembling of batteries and spare parts into battery management systems. As part of the manufacturing process of the battery management systems, the Group sources battery cells from certain designated suppliers, and provide the necessary expertise, technical know-how and support to such suppliers so as to aid them in building production lines that are developed and tailored for the manufacture and supply of battery cells exclusively to the Group.

Further, to ensure a stable supply of battery cells and minimize any risk of reliance on any single supplier, the Group has formed 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.*))(the "**EJV**") with 安徽天康(集團)股份有限公司 (Anhui Tiankang (Group) Co., Ltd.*) in Tianchang City, Anhui Province, the PRC to engage in the development, production and sales of batteries and related technologies so as to strengthen its production capacity in the manufacture of battery cells. In October 2017, the battery cells developed and produced by the EJV had passed the function inspection test performed by 國家轎車質量監督檢驗中心 (National Passenger Car Quality Supervision and Inspection Centre), a national inspection authority in the PRC, which has further expanded the sources of supply of battery cells to the Group for its production and sales of battery management systems in the PRC.

For the Year, the total revenue derived from the sales of battery management systems and spare parts amounted to approximately HK$35.1 million (2016: HK$5.3 million). The increase was mainly due to a rise in the volume of sales orders from the Group's customers.

High-tech electric motor vehicles

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 urbanization and proactive imposition of environmental regulation.

- *Development of new types of new energy vehicles*

  During the Year, due to the sluggish market in the PRC for electric buses caused by the reduction of fiscal incentives following the Chinese government's reforms (including the introduction of tightened technical requirements) for China's electric vehicles markets to curb subsidy fraud in 2016, the Group had shifted its focus to the development and promotion of micro-turbine range extender vehicles.

  The micro-turbine range extender vehicle developed by the Group is equipped with a micro-turbine which can run on a variety of fuels, including gasoline, diesel, ethanol, natural gas or bio-fuels. Its co-generation units can generate electric power to the vehicle and charge the electric car batteries simultaneously. The vehicle therefore requires no external charging facilities to achieve optimum efficiency and energy economy.

  Following its collaboration in 2016 with Pininfarina S.p.A. ("**Pininfarina**") (a recognized world leading company in the field of design, engineering, prototyping and niche manufacturing of motor vehicles) in the design and development of new show cars based on the micro-turbine range extender developed the Group for presentation at the car shows in Geneva and Shanghai in 2017, the Group entered into a contract with Pininfarina in February 2017 to cooperate further in the production of a new type of micro-turbine range extender electric sedan (H600). The Group has delivered the required technical specification of powertrain and other key components for the frame construction of the prototype H600. The work is currently in prototype development stage to fine-tune and complete the frame construction of the micro-turbine range extender electric vehicle by installing all the key components into the prototype vehicle.

After a complete prototype vehicle is built, the Group will conduct certain simulation work such as crash analysis and durability tests on the vehicle (which is expected to be completed in around mid-2018). The Group will then proceed to the series development stage for the pilot testing of the production and enter into the building phase of the vehicle afterwards (which is expected to be commenced at the end of 2018). Barring any unforeseen circumstances, the Group expects that the final product of its new micro-turbine range extender vehicle, with the support (stage of industrialization, engineering changes and launch support) of Pininfarina in the PRC, will be ready for mass production in mid-2020. Pursuant to the agreement with Pininfarina, the Group is entitled to hold the ownership of all designs, patterns, models, gauge, sample, specification and other technical date developed by Pininfarina and the Group in connection with the above work.

- *Continuous brand building – debut of new concept car*

  Following the global debut of the luxury sedan H600 and with the continuous collaboration with Pininfarina, the Group has further refined the identity of the Hybrid Kinetic brand and proudly presented in the 2018 Geneva motor show its fourth new concept car (2018 HKGT) which exemplified sensuality, power and elegance. HKGT, with the Group's advanced powertrain technology applied, is dubbed as a car with two souls as it offers two different modes of experience: "race", for moments of solitary and hedonistic sports driving, and "cruise" for great routes to be shared with family.

- *Establishment of manufacturing base with strategic alliance*

  During the Year, the Group has gained the support of 寧波市奉化區人民政府 (Ningbo Fenghua District People's Government*) and 北京威卡威汽車零部件股份有限公司 (Beijing WKW Automotive Parts Co., Ltd.") ("**Beijing WKW**"), an automaker whose shares are listed on the Shenzhen Stock Exchange, towards the proposed implementation of a business plan regarding the establishment of a manufacturing base in Ningbo Fenghua District, the PRC for the research and production of new energy automobiles and other key new energy vehicles components (including power batteries and range extender). The business plan, under the auspices of the PRC municipal government (through the creation of a favourable operating environment such as the offering of subsidies, investment or tax incentives and other assistance) and the synergy with Beijing WKW that the Group can leverage on to complement its resource advantage and network, is expected to expedite the implementation of the business plan. Please refer to the Company's announcement dated 29 September 2017 for details.

- *Sales channel expansion*

  We consider the success of our business also hinges on an effective distribution channel strategy for the sales of the new energy vehicles and other automotive products of the Group. During the Year, the Group entered into an entrusted management agreement with 哈爾濱龍飛汽車銷售服務有限公司 (Harbin Longfei Automobile Sales & Service Co. Ltd.* ("**Harbin Longfei**")) and its shareholders pursuant to which the Group has been entrusted with the management of the business operation and administration of Harbin Longfei for a term of five years commencing from 1 October 2017. The scope of our work includes the daily management of Harbin Longfei and provision of guidance and recommendation in the formulation of its business strategies, annual business and investment plan, annual financial budget, and the deployment of human resources.

  Pursuant to the entrusted management agreement, the Group is entitled to receive from Harbin Longfei 70% of its profit after tax each year as management fee, which was determined after arm's length negotiation and with reference to the estimated costs of the Group to provide high-level guidance and supervision as well as the added-value that the Group has agreed to offer to Harbin Longfei by appointing it as the exclusive authorized dealer of new energy vehicles to be developed by the Group in the city of Harbin, the PRC.

  The arrangements under the entrusted management agreement are expected to widen the income stream of the Group and, more importantly, allow the Group to leverage on Harbin Longfei's existing sales platform and network to expand our geographical reach for the promotion and sales of our new energy vehicles in the northeast region in the PRC according to our marketing strategy without incurring heavy market entry costs.

During the Year, there was no revenue generated from the segment of high-tech electric motor vehicles (2016: HK$9.2 million).

- *Finance leasing business*

  The Group has a valid business licence for the operation of finance leasing business in the PRC. To complement the development of its high-tech electric motor vehicles business, the Group will continue to provide finance leasing arrangement to potential customers, which is expected to help promote the sale and use of electric motor vehicles and bring steady interest income for the Group.

  For the Year, the revenue recorded for the Group's finance leasing business was approximately HK$0.3 million (2016: HK$1.0 million).

Advanced batteries materials

The Group is dedicated to the research and development of advanced batteries materials and has an experienced team of experts with diverse expertise in energy management, system controls, power conversion and energy storage technologies for automobiles. During the Year, leveraging their combined expertise, the Group has continued its efforts in the research and development of single and few-layer graphene, which is an ideal material for super batteries, electronic traction motor and power electronic system for use in electric vehicles. The battery material is still under its research and development stage and did not generate any revenue for the Year.

- *Other research project with academic and research institution*

  One of the Group's ongoing research projects is a 7-year project with the University of California focusing on graphene materials for automobile applications, which is expected to be completed in 2020.

- *Protection of intellectual property rights*

  To protect its intellectual property rights, the Group is in the course of applying for patent registration in respect of its proprietary interest in an invention (namely, "*Nanoporous Graphene Naowires and Producing Methods and Application of the Same*").

For the Year, there was no revenue recorded from this segment of business (2016: Nil).

PROSPECTS

The PRC government is keen to combat air pollution and narrow the competitive gap between the global rivals and its domestic automakers. To this end, the PRC government has postponed implementing tough new sales quotas for new energy vehicles (NEVs), which cover all electric battery vehicles (including electric plug-in hybrids), and set goals for NEVs to make up at least one-fifth of PRC auto sales by the end of the next two decades. Besides, the Chinese government will extend tax debate on purchases of NEVs until the end of 2020, and The Ministry of Finance of the PRC has announced that tax exemption for NEVs will be extended to run until the end of 2020. These are welcoming policies and incentives for the PRC automobile industry, as they are expected to spark a flurry of electric car deals and new launches of new models of NEVs, and prompt automakers to look for concrete and solid technology for the manufacturing of NEVs. We are fully confident about the market potentials for the development of NEVs in the foreseeable future.

We believe that we have prepared the Group for the golden opportunities as the Group has been developing, among other things, technologies of powertrain, series of batteries and micro-turbine range extender and equipped itself with the capability of manufacturing the whole NEV on its own and formulated business strategies to cater for the need of, and the anticipated demand from, the vast of the market. Having said that, we will not be complacent with our present ability and capability and will continue to strive for further technological advancement in the development of NEVs (through, among others, entering into series of development stage for NEVs through co-operation and other forms of strategic alliance, and setting up of production lines at strategic locations for the manufacture of NEVs, which may or may not require additional funding requirement), build up and maintain good relations and business connections with governmental authorities, existing business partners as well as potential strategic alliances (including other automakers). We believe our business plans, our persistence in following our business philosophy to bring ideas, innovations and changes to the automobile industry and our unwavering efforts will allow us to better pursue and diversify our businesses, widen our income streams and ultimately create long-term values for all our stakeholders.

OTHER INFORMATION – UPDATE ON THE LEGAL PROCEEDINGS IN THE US AGAINST MEMBERS OF THE GROUP

Reference is made to the Company's announcements dated 26 March 2017 and 14 November 2017 (collectively, the "**Announcements**") regarding, among other things, the Lawsuit referred to in the Announcements and commenced by Townsend Ventures LLC, XALT Energy LLC and XALT Energy MI, LLC (collectively, "**XALT**") against the Company and one of its wholly-owned subsidiaries, Billion Energy Holdings Limited.

Unless the context requires otherwise, capitalized terms used in this section have the same meanings as those defined in the Announcements.

As disclosed in the Announcements, the Supply Agreement was at the core of a civil lawsuit (the "**Lawsuit**") commenced by XALT in the United States District Court for the Northern District of Maryland (the "**US District Court**"), located in Baltimore Maryland. On August 2017, the US District Court granted the Company's motion to compel that the claims in the Lawsuit be subject to binding arbitration in Hong Kong, before the Hong Kong International Arbitration Centre. The US District Court ordered the Lawsuit stayed, and administratively closed, unless and until there is a conclusion to such an arbitration. The US District Court therefore will not preside over the Lawsuit, although it may consider an application to enter a judgment if and when there is an order after trial from the Hong Kong Arbitration Centre. The parties to the Lawsuit are ordered to report back to the US District Court after conclusion of any arbitration proceeding in Hong Kong.

Since the US District Court's order was issued, XALT has not, to the Company's knowledge, taken any steps to initiate such an arbitration. Currently, the Company is not aware of any active, open litigation between the Company and XALT relating to the claims stated in the Lawsuit, and there is no assurance that any such proceeding will or will not be commenced.

Although litigation is unpredictable, and no discovery has been exchanged between the parties, the Company, in consultation with its legal counsel and based on its current understanding of the facts, believes it has meritorious defenses to all claims (even if such a litigation is initiated before the Hong Kong International Arbitration Centre), and the Company intends to vigorously defend the claims, and it reserves the right to state cross-claims, including a claim to recoup the entire amount of the payments made to XALT.

The Company has engaged in discussion with XALT with the aim of resolving all parties' legal claims amicably (if possible), there is however no resolution to these discussions, or to the parties' dispute yet.

Board's views on the audit qualification

The Board has discussed with the Auditor its qualification to the Auditor's report. The Board considers that the Company has provided all available evidence to the Auditor of the Group's making of the prepayment to, and its receipt by, the recipient suppliers (whom and whose related parties are involved in the Lawsuit) and, except for the uncertainty or possible effect of the matters leading to the Auditor's qualified opinion disclosed herein, the consolidated financial statements of the Group for the financial year ended 31 December 2017 give a true and fair view of the performance and financial position of the Group as at 31 December 2017.

Given that no discovery has yet taken place, and there is no active, open litigation with XALT presently, the Board considers it is understandable, from the Auditor's audit perspective, that it is premature to evaluate whether (i) any portion of the prepayment to XALT is unrecoverable; (ii) the recordation of the prepayment to suppliers in the audited financial statements of the Group for the year ended 31 December 2016 and 2017 were fairly stated; and (iii) there are no present contingent liabilities to be recognised for the Lawsuit. The Company will continue to engage in discussion with XALT and seek legal advice for appropriate legal actions on the Lawsuit from time to time in the hope of resolving the parties' dispute or settling the Lawsuit expeditiously so that the audit qualification will not be carried forward to the Group's financial statements for the financial year ending 31 December 2018.

MATERIAL ACQUISITION OR DISPOSAL

The Group did not have material acquisition or disposal of assets during the Year and any future plans for material investment or capital assets (other than the existing projects and those disclosed in this annual results announcement).

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 2017, the total equity of the Group amounted to approximately HK$1,598.8 million (31 December 2016: HK$1,861.4 million).

The gearing ratio of the Group as at 31 December 2017 measured in terms of total liabilities divided by shareholders' equity was approximately 3.87% (31 December 2016: 2.61%).

As at 31 December 2017, net current assets of the Group were approximately HK$857.0 million (31 December 2016: HK$1,635.1 million). The cash and cash equivalents amounted to HK$311.8 million (31 December 2016: HK$695.3 million). The Group did not have outstanding borrowings (31 December 2016: Nil).

PLEDGE OF THE GROUP'S ASSETS

As at 31 December 2017, the Group had pledged its bank deposits of HK$2.0 million (31 December 2016: HK$2.0 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. The Group had no significant exposure to foreign exchange fluctuations and, therefore, had not taken any financial instruments for hedging purpose.

DIVIDEND

The Directors do not recommend the payment of any final dividend to shareholders of the Company for the year ended 31 December 2017 (2016: Nil).

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 contained 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 2017 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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 28 May 2018 to Friday, 1 June 2018 (both days inclusive) for the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting (the "**AGM**") of the Company to be held on Friday, 1 June 2018. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Friday, 25 May 2018.

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.

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

Hong Kong, 28 March 2018

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 Dr Song Jian, Dr Zhu Guobin, Mr Cheng Tat Wa, Dr Li Jianyong, Mr Chan Sin Hang and Mr Lee Cheung Yuet, Horace.

* *For identification purposes only*