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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)**

### **ANNOUNCEMENT OF THE AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019**

Reference is made to the announcements of Hybrid Kinetic Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 31 March 2020, 3 April 2020 and 14 May 2020 in connection with the unaudited consolidated annual results of the Group for the year ended 31 December 2019 (collectively, the “**Announcements**”). Unless otherwise defined, capitalised terms used herein have the same meanings as those defined in the Announcements.

#### **AUDITOR’S AGREEMENT ON THE 2019 ANNUAL RESULTS**

The Company wishes to announce that on 28 May 2020, the auditing process for the consolidated annual results of the Group for the year ended 31 December 2019 (the “**2019 Annual Results**”) has been completed and the Company’s auditor, ZHONGHUI ANDA CPA Limited, has agreed on the 2019 Annual Results (including the financial figures in respect of the Group’s consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of financial position and the related notes thereto) as set out in this announcement in accordance with the requirement of Rule 13.49(2) of the Listing Rules.

## AUDITED ANNUAL RESULTS

The board of directors (the “**Board**” or the “**Directors**”) of the Company announces the audited consolidated financial results of the Group for the year ended 31 December 2019 (the “**Year**”) as follows:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2019*

		<b>2019</b>	2018
	<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
		<b>(Audited)</b>	(Audited)
<b>Revenue</b>		<b>16,342</b>	61,250
Cost of sales		<u><b>(3,899)</b></u>	<u>(52,931)</u>
<b>Gross profit</b>		<b>12,443</b>	8,319
Other income	2	<b>21,267</b>	77,959
Distribution costs		<b>(2,907)</b>	(8,082)
Administrative expenses		<b>(439,204)</b>	(365,437)
Share of loss of associates		<u><b>(233,719)</b></u>	<u>(2,570)</u>
<b>Loss from operations</b>		<b>(642,120)</b>	(289,811)
Finance costs		<u><b>(1,726)</b></u>	<u>–</u>
<b>Loss before tax</b>		<b>(643,846)</b>	(289,811)
Income tax expense	4	<u>–</u>	<u>(18)</u>
<b>Loss for the year</b>	5	<u><b>(643,846)</b></u>	<u>(289,829)</u>

	Notes	2019 <i>HK\$'000</i> (Audited)	2018 <i>HK\$'000</i> (Audited)
<b>Other comprehensive income/(loss):</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Fair value changes of equity investments at fair value through other comprehensive income		<u>(3,602)</u>	<u>(25,399)</u>
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations – Group		(20,001)	(20,512)
Exchange differences on translating foreign operations – Associates		<u>(4,163)</u>	<u>(23,931)</u>
<b>Other comprehensive loss for the year</b>		<u>(27,766)</u>	<u>(69,842)</u>
<b>Total comprehensive loss for the year</b>		<u><u>(671,612)</u></u>	<u><u>(359,671)</u></u>
<b>Loss for the year attributable to:</b>			
Owners of the Company		(644,022)	(288,571)
Non-controlling interests		<u>176</u>	<u>(1,258)</u>
		<u><u>(643,846)</u></u>	<u><u>(289,829)</u></u>
<b>Total comprehensive loss for the year attributable to:</b>			
Owners of the Company		(671,229)	(356,395)
Non-controlling interests		<u>(383)</u>	<u>(3,276)</u>
		<u><u>(671,612)</u></u>	<u><u>(359,671)</u></u>
<b>Loss per share</b>			
	6		
Basic ( <i>cents per share</i> )		<u><u>(3.16)</u></u>	<u><u>(1.42)</u></u>
Diluted ( <i>cents per share</i> )		<u><u>(3.16)</u></u>	<u><u>(1.42)</u></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2019*

	<i>Notes</i>	<b>2019</b> <b>HK\$'000</b> <b>(Audited)</b>	2018 <i>HK\$'000</i> <i>(Audited)</i>
<b>Non-current assets</b>			
Property, plant and equipment		35,722	58,102
Investment in associates		168,980	406,862
Investment in joint venture		–	22,772
Equity investments at fair value through other comprehensive income	7	14,031	38,423
Prepayments		–	98,370
Intangible assets		–	62,555
		<b>218,733</b>	687,084
<b>Current assets</b>			
Inventories		4,397	12,240
Trade and other receivables	8	477,738	498,054
Derivative financial instrument		–	55,018
Pledged bank deposits		2,014	2,007
Bank and cash balances		8,860	45,815
		<b>493,009</b>	613,134
<b>Current liabilities</b>			
Lease liabilities		13,605	–
Trade and other payables	9	120,492	61,170
		<b>134,097</b>	61,170
<b>Net current assets</b>		<b>358,912</b>	551,964
<b>Non-current liabilities</b>			
Lease liabilities		10,169	–
<b>NET ASSETS</b>		<b>567,476</b>	1,239,048
<b>Capital and reserves</b>			
Share capital		2,035,287	2,035,287
Reserves		(1,497,079)	(825,850)
Equity attributable to owners of the Company		<b>538,208</b>	1,209,437
Non-controlling interests		29,268	29,611
<b>TOTAL EQUITY</b>		<b>567,476</b>	1,239,048

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 1. GOING CONCERN BASIS

The Group incurred a loss of HK\$643,846,000 and operating cash out flow of HK\$26,142,000 for the year ended 31 December 2019. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the major shareholder, at a level sufficient to finance the working capital requirements of the Group. The major shareholder has agreed to provide adequate funds for the Group to meet its liabilities as they fall due. The directors are therefore of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

## 2. OTHER INCOME

	2019 <i>HK\$'000</i> (Audited)	2018 <i>HK\$'000</i> (Audited)
Interest income	40	205
Other receivables interest income	–	2,230
Gain on disposal of an associate	–	62,411
Recognition of deferred income on capital contribution to an associate	–	1,332
Fair value gain on derivative financial instrument	18,737	8,616
Others	<u>2,490</u>	<u>3,165</u>
	<u><u>21,267</u></u>	<u><u>77,959</u></u>

### 3. 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:

	<b>High-tech electric motor vehicles HK\$'000</b>	<b>Battery management systems and spare parts HK\$'000</b>	<b>Advanced batteries materials HK\$'000</b>	<b>Total HK\$'000</b>
<b>Year ended 31 December 2019</b>				
<b>(Audited):</b>				
Revenue	–	16,242	100	16,342
Segment loss	(232,951)	(11,362)	(979)	(245,292)
Depreciation	(7,563)	(1,505)	(12)	(9,080)
Other material non-cash items:				
Research and development expenses	(207,331)	(868)	(570)	(208,769)
Additions to segment non-current assets	13,191	859	–	14,050
<b>At 31 December 2019:</b>				
Segment assets	464,842	25,696	2,237	492,775
Segment liabilities	6,734	9,399	164	16,297
<b>Year ended 31 December 2018</b>				
<b>(Audited):</b>				
Revenue	58	61,192	–	61,250
Segment loss	(85,460)	(90,911)	(8,169)	(184,540)
Depreciation	(13,044)	(2,248)	(104)	(15,396)
Other material non-cash items:				
Impairment of property, plant and equipment	(134)	–	–	(134)
Research and development expenses	(2,010)	(13,559)	(6,354)	(21,923)
Additions to segment non-current assets	2,019	33,911	–	35,930
<b>At 31 December 2018:</b>				
Segment assets	743,566	31,762	4,076	779,404
Segment liabilities	9,144	9,725	161	19,030

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

	<b>2019</b>	2018
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Audited)</b>	(Audited)
<b>Revenue:</b>		
Total revenue of reportable segments and consolidated revenue	<u><b>16,342</b></u>	<u>61,250</u>
<b>Profit or loss:</b>		
Total loss of reportable segments	(245,292)	(184,540)
Corporate and unallocated profit or loss	(398,554)	(105,271)
Income tax expense	<u>–</u>	<u>(18)</u>
Consolidated loss for the year	<u><b>(643,846)</b></u>	<u>(289,829)</u>
<b>Assets:</b>		
Total assets of reportable segments	<b>492,775</b>	779,404
Corporate and unallocated assets:		
– Equity investments at fair value through other comprehensive income	<b>14,031</b>	38,423
– Bank and cash balances held by the Group's headquarters	<b>927</b>	15,664
– Others	<u><b>204,009</b></u>	<u>466,727</u>
Consolidated total assets	<u><b>711,742</b></u>	<u>1,300,218</u>
<b>Liabilities:</b>		
Total liabilities of reportable segments	<b>16,297</b>	19,030
Corporate and unallocated liabilities		
– Others	<u><b>127,969</b></u>	<u>42,140</u>
Consolidated total liabilities	<u><b>144,266</b></u>	<u>61,170</u>

Geographical information:

	<b>2019</b>	2018
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
	<b>(Audited)</b>	(Audited)
<b>Revenue:</b>		
The People's Republic of China (the "PRC")	<b><u>16,342</u></b>	<u>61,250</u>

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

Revenue from major customers:

	<b>2019</b>	2018
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
	<b>(Audited)</b>	(Audited)
Customer A	<b>Nil</b>	43,036
Customer B	<b>Nil</b>	18,077
Customer C	<b><u>14,783</u></b>	<u>Nil</u>

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

	<b>2019</b>	2018
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
	<b>(Audited)</b>	(Audited)
<b>Non-current assets (other than financial assets):</b>		
United States of America	<b>2,090</b>	1,025
The PRC	<b>166,810</b>	533,161
Hong Kong and others	<b><u>35,802</u></b>	<u>114,475</u>
	<b><u>204,702</u></b>	<u>648,661</u>



#### 4. INCOME TAX EXPENSE

	<b>2019</b> <b>HK\$'000</b> <b>(Audited)</b>	2018 <i>HK\$'000</i> (Audited)
Current tax – PRC Enterprise Income Tax		
Provision for the year	–	18
	<u>–</u>	<u>18</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 (2018: 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:

	<b>2019</b> <b>HK\$'000</b> <b>(Audited)</b>	2018 <i>HK\$'000</i> (Audited)
Loss before tax	<u><b>(643,846)</b></u>	<u>(289,811)</u>
Tax on loss before income tax, calculated at the rates applicable to profit/loss in the tax jurisdictions concerned	<b>(115,130)</b>	(41,855)
Tax effect of non-taxable income	<b>(4,684)</b>	(17,595)
Tax effect of non-deductible expenses	<b>119,814</b>	55,984
Tax effect of tax loss not recognised	<u>–</u>	<u>3,484</u>
Income tax expense for the year	<u><u>–</u></u>	<u><u>18</u></u>

## 5. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging the following:

	2019 <i>HK\$'000</i> (Audited)	2018 <i>HK\$'000</i> (Audited)
<b>Continuing operations:</b>		
Auditor's remuneration	1,400	1,600
Cost of inventories sold	3,899	52,931
Depreciation of property, plant and equipment	18,417	29,433
Depreciation of right-of-use assets	15,568	–
(Gain)/loss on disposal of property, plant and equipment	(1,105)	4,997
Loss on dissolution of an associate	–	14,123
Recognition of deferred income on capital contribution to an associate	–	(1,332)
Fair value gain of derivative financial instrument	–	(8,616)
Impairment of intangible assets	62,555	–
Impairment of property, plant and equipment	–	6,197
Impairment of right-of-use assets	23,223	–
Fair value gain of derivative financial instrument	(18,737)	–
Net exchange loss	912	2,537
Operating lease charges in respect of land and buildings	–	42,851
Research and development costs	208,769	21,923
Staff costs including directors' emoluments		
– Salaries, bonus and allowances	82,831	158,200
– Retirement benefits scheme contributions	4,516	9,091
	87,347	167,291

## 6. LOSS PER SHARE

### 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\$644,022,000 (2018: approximately HK\$288,571,000) and the weighted average number of 20,352,873,000 (2018: 20,352,078,000) ordinary shares in issue during the year.

## 7. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 <i>HK\$'000</i> (Audited)	2018 <i>HK\$'000</i> (Audited)
Equity securities listed outside Hong Kong		
上海仁通檔案管理諮詢服務有限公司	–	15,427
Unlisted equity securities		
吉林美來中信木業有限公司	<u>14,031</u>	<u>22,996</u>
	<u><b>14,031</b></u>	<u><b>38,423</b></u>

The above investments are intended to be held for the medium to long-term. Designation of these investments as equity investments at fair value through other comprehensive income can avoid the volatility of the fair value changes of these investments to the profit or loss.

During the year ended 31 December 2019, the Group disposed of its all equity interest held in the 上海仁通檔案管理諮詢服務有限公司 (“上海仁通”), incorporated in the PRC and listed in National Equities Exchange and Quotations (stock code: 838518), in the public market.

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 intends to hold the investment for long-term capital appreciation and has no intention to dispose of the investment in the near future. As at 31 December 2019, the Group holds 5% (2018: 5%) equity interest in 吉林美來.

## 8. TRADE AND OTHER RECEIVABLES

	2019 <i>HK\$'000</i> (Audited)	2018 <i>HK\$'000</i> (Audited)
Trade receivables	–	790
<i>Less: impairment losses</i>	–	–
	–	790
Prepayment to a supplier	<b>332,641</b>	333,918
Prepayments to others	<b>8,319</b>	131,346
Deposits and other receivables	<b>131,285</b>	30,132
Amounts due from directors	<b>5,493</b>	1,868
	<b><u>477,738</u></b>	<b><u>498,054</u></b>

In 2018, included in prepayments to others mainly represent amount prepaid for research and development projects of approximately HK\$106,932,000, and prepayment for other expenses.

As at 31 December 2019, included in other receivables are mainly i) approximately HK\$23,000,000 which are receivables from disposal of investments in joint venture, ii) approximately HK\$71,010,000 which are receivables incurred from the profits guaranteed arrangement which is secured by equity interest of the debtor and iii) other loans receivables of approximately HK\$13,106,000 (2018: HK\$17,106,000) which carry interest rate at 4.35% to 6% (2018: 4.35% to 6%) 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 collectability of these receivables closely with reference to their respective current creditworthiness and repayment records. As at 31 December 2019, 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.

## 9. TRADE AND OTHER PAYABLES

	2019 <i>HK\$'000</i> (Audited)	2018 <i>HK\$'000</i> (Audited)
Trade payables	<b>5,951</b>	7,615
Accruals and other payables	<b>111,041</b>	53,164
Amounts due to a director	<b>3,500</b>	391
	<b><u>120,492</u></b>	<b><u>61,170</u></b>

## MATERIAL DIFFERENCES BETWEEN THE UNAUDITED AND AUDITED ANNUAL RESULTS

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Audited Annual Results 2019 <i>HK\$'000</i>	Unaudited Annual Results Disclosed in the Announcement 2019 <i>HK\$'000</i>	Differences <i>HK\$'000</i>	Notes
Revenue	16,342	16,342	–	
Cost of sales	<u>(3,899)</u>	<u>(3,899)</u>	–	
<b>Gross profit</b>	<b>12,443</b>	12,443	–	
Other income	21,267	1,041	20,226	(i)
Distribution costs	(2,907)	(2,907)	–	
Administrative expenses	(439,204)	(359,404)	(79,800)	(ii)
Share of loss of associates	<u>(233,719)</u>	<u>(233,719)</u>	–	
<b>Loss from operations</b>	<b>(642,120)</b>	(582,546)	(59,574)	
Finance costs	<u>(1,726)</u>	<u>(1,726)</u>	–	
<b>Loss before tax</b>	<b>(643,846)</b>	(584,272)	(59,574)	
Income tax expense	<u>–</u>	<u>–</u>	–	
<b>Loss for the year</b>	<b>(643,846)</b>	<u>(584,272)</u>	(59,574)	
<b>Other comprehensive income/(loss):</b>				
<i>Items that will not be reclassified to profit or loss:</i>				
Fair value changes of equity investments at fair value through other comprehensive income	<u>(3,602)</u>	<u>5,062</u>	(8,664)	(vii)

	<b>Audited Annual Results 2019 HK\$'000</b>	Unaudited Annual Results Disclosed in the Announcement 2019 HK\$'000	<b>Differences HK\$'000</b>	<i>Notes</i>
<i>Items that may be reclassified to profit or loss:</i>				
Exchange differences on translating foreign operations – Group	(20,001)	(19,987)	(14)	
Exchange differences on translating foreign operations – Associates	<u>(4,163)</u>	<u>(4,163)</u>	–	
<b>Other comprehensive loss for the year</b>	<u>(27,766)</u>	<u>(19,088)</u>	(8,678)	
<b>Total comprehensive loss for the year</b>	<u><u>(671,612)</u></u>	<u><u>(603,360)</u></u>	(68,252)	
<b>Loss for the year attributable to:</b>				
Owners of the Company	(644,022)	(582,402)	(61,620)	<i>(iii)</i>
Non-controlling interests	<u>176</u>	<u>(1,870)</u>	2,046	
	<u><u>(643,846)</u></u>	<u><u>(584,272)</u></u>	(59,574)	
<b>Total comprehensive loss for the year attributable to:</b>				
Owners of the Company	(671,229)	(601,179)	(70,050)	<i>(iii)</i>
Non-controlling interests	<u>(383)</u>	<u>(2,181)</u>	1,798	
	<u><u>(671,612)</u></u>	<u><u>(603,360)</u></u>	(68,252)	
<b>Loss per share</b>				
Basic ( <i>cents per share</i> )	<u><u>(3.16)</u></u>	<u><u>(2.86)</u></u>	–	
Diluted ( <i>cents per share</i> )	<u><u>(3.16)</u></u>	<u><u>(2.86)</u></u>	–	

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Audited Annual Results 2019 HK\$'000	Unaudited Annual Results Disclosed in the Announcement 2019 HK\$'000	Differences HK\$'000	Notes
<b>Non-current assets</b>				
Property, plant and equipment	35,722	35,722	–	
Investment in associates	168,980	168,980	–	
Investment in joint venture	–	–	–	
Equity investments at fair value through other comprehensive income	14,031	22,570	(8,539)	(vii)
Intangible assets	–	33,591	(33,591)	(viii)
Prepayments	–	–	–	
Right-of-use assets	–	23,223	(23,223)	(iv)
	<u>218,733</u>	<u>284,086</u>	(65,353)	
<b>Current assets</b>				
Inventories	4,397	4,397	–	
Trade and other receivables	477,738	461,169	16,569	(v)
Derivative financial instrument	–	–	–	
Pledged bank deposits	2,014	2,014	–	
Bank and cash balances	8,860	8,860	–	
	<u>493,009</u>	<u>476,440</u>	16,569	
<b>Current liabilities</b>				
Trade and other payables	120,492	101,024	19,468	(vi)
Lease liabilities	13,605	13,605	–	
	<u>134,097</u>	<u>114,629</u>	19,468	
<b>Net current assets</b>	<u>358,912</u>	<u>361,811</u>	(2,899)	
<b>Non-current liabilities</b>				
Lease liabilities	10,169	10,169	–	
<b>NET ASSETS</b>	<u><u>567,476</u></u>	<u><u>635,728</u></u>	(68,252)	
<b>Capital and reserves</b>				
Share capital	2,035,287	2,035,287	–	
Reserves	(1,497,079)	(1,415,745)	(81,334)	(iii)
Equity attributable to owners of the Company	<u>538,208</u>	<u>619,542</u>	(81,334)	(iii)
Non-controlling interests	29,268	16,186	13,082	(iii)
<b>TOTAL EQUITY</b>	<u><u>567,476</u></u>	<u><u>635,728</u></u>	(68,252)	

*Notes:*

- (i) The difference in other income was approximately HK\$20.2 million, mainly due to (i) recognition of the fair value gain on derivative financial instrument; and (ii) reclassification of administrative expenses to other income.
- (ii) The difference in administrative expenses was approximately HK\$79.8 million, mainly due to the (i) impairment of right-of-use assets; (ii) reclassification of administrative expenses to other income; (iii) accruals of staff costs; and (iv) impairment of intangible assets.
- (iii) The difference in equity attributable to owners of the Company was approximately HK\$81.3 million and the difference in non-controlling interests was approximately HK\$13.1 million, mainly due to the adjustment of the items set out herein and respective adjustments on non-controlling interest.
- (iv) The difference in the right-of-use assets was approximately HK\$23.2 million mainly due to the impairment loss recognised during the year.
- (v) The difference in trade and other receivables was approximately HK\$16.6 million, mainly due to the (i) reclassification between other receivables and other payables; and (ii) revised the amount of profit guarantee for derivative financial instruments.
- (vi) The difference in trade and other payables was approximately HK\$19.5 million, mainly due to the (i) reclassification from other receivables; and (ii) accruals of staff costs.
- (vii) The difference in equity investment at fair value through other comprehensive income was approximately HK\$8.5 million mainly due to the fair value change.
- (viii) The difference in intangible assets was approximately HK\$33.6 million mainly due to the impairment loss recognized during the year.

## **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 2019.



## **DISCLAIMER OF OPINION**

We were engaged to audit the consolidated financial statements of Hybrid Kinetic Group Limited and its subsidiaries (collectively referred to as the “**Group**”), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **Basis for Disclaimer of Opinion**

#### ***Material uncertainty related to going concern***

We draw attention to note 2 to the consolidated financial statements which mentions that the Group incurred a loss of HK\$643,846,000 and operating cash out flow of HK\$26,142,000 for the year ended 31 December 2019. These conditions indicate a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the major shareholder has agreed to provide adequate funds for the Group to meet its liabilities as they fall due. The consolidated financial statements do not include any adjustments that would result from the failure to obtain the financial support. We consider that the material uncertainty has been adequately disclosed in the consolidated financial statements.

However, we were unable to obtain sufficient and appropriate audit evidence to satisfy ourselves as to the validity of the financial support from the major shareholder as described above. There are no other satisfactory audit procedures that we could adopt to determine whether the major shareholder has the financial ability to honour the financial support to the Group. We disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

### ***Share of loss of associates and investment in associates***

We have not been able to obtain sufficient and appropriate audit evidence to verify whether the Group's share of loss of associates of approximately HK\$233,719,000 for the year ended 31 December 2019 is fairly stated. We were also not able to satisfy ourselves as to (i) whether the carrying amount of investment in associates of approximately HK\$168,980,000 as at 31 December 2019 is fairly stated; and (ii) the accuracy of the disclosures in relation to the investment in associates.

### ***Equity investments at fair value through other comprehensive income***

We have not been able to obtain sufficient and appropriate audit evidence in relation to the fair value of approximately HK\$14,031,000 of an equity investment at fair value through other comprehensive income as at 31 December 2019 and the fair value loss of approximately HK\$8,664,000 of that equity investment for the year ended 31 December 2019.

In addition, as stated in note 25 to the consolidated financial statements, the Group had an other receivable amount of approximately HK\$71,010,000 as at 31 December 2019 resulting from the profits guarantee arrangement which is secured by the equity interest in the investment of the debtor. Since we have not been able to obtain sufficient and appropriate audit evidence of the fair value of such equity investment and the financial ability of the debtor, we were unable to satisfy ourselves as to the recoverability of such other receivable as at 31 December 2019.

### ***Intangible assets***

We have not been able to obtain sufficient and appropriate audit evidence in relation to the carrying amount of intangible assets of HK\$nil as at 31 December 2019 and the impairment loss of approximately HK\$62,555,000 for the year ended 31 December 2019.

### ***Value-added tax receivables***

We have not been able to obtain sufficient and appropriate audit evidence in relation to the recoverability of value-added tax receivables of approximately HK\$15,615,000 as at 31 December 2019.

### ***Prepayment to a supplier***

We were unable to obtain direct audit confirmation in relation to the prepayment to a supplier and unable to obtain sufficient and appropriate audit evidence to ascertain whether such prepayment will be recovered. We were therefore not able to satisfy ourselves as to (i) whether the carrying amount of the prepayment to a supplier amounted to approximately HK\$332,641,000 as at 31 December 2019 and approximately HK\$333,918,000 as at 31 December 2018 are fairly stated; (ii) the recoverability of prepayment to a supplier of approximately HK\$332,641,000 as at 31 December 2019 and approximately HK\$333,918,000 as at 31 December 2018; 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 significant consequential effect on the Group's financial performance for the years ended 31 December 2019 and 2018 and the financial positions of the Group as at 31 December 2019 and 2018, and the related disclosures thereof in the consolidated financial statements.

## **REVIEW OF FINANCIAL STATEMENTS**

The audit committee of the Company (the "**Audit Committee**") had reviewed and discussed with the management of the Company regarding the audited consolidated financial statements of the Group for the Year.

### **Views of the Audit Committee and the Board on the disclaimer of opinion of the Auditor**

The Audit Committee and the Board consider that the Company has provided all available audit evidence to the Auditor and, except for the uncertainty or possible effect of the matters leading to the Auditor's disclaimer of opinion disclosed herein, the consolidated financial statements of the Group for the financial year ended 31 December 2019 give a true and fair view of the performance and financial position of the Group as at 31 December 2019.

The Audit Committee and the Board, after discussion with the Auditor on its basis of disclaimer of opinion to the Auditor's report, have the following views:

***Material uncertainty related to going concern***

As disclosed in note 2 to the consolidated financial statements of the Group, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the major shareholder, at a sufficient level to finance the working capital requirements of the Group.

Should the major shareholder fail to provide adequate funds for the Group to meet its liabilities as they fall due, it might not be able to continue to operate as a going concern, and adjustments would have to be made to reclassify the Group's non-current assets and non-current liabilities as current assets and current liabilities respectively, to write down the carrying values of the Group's assets to their recoverable amounts and to provide for any provision for any contractual commitments that have become onerous as at the end of the reporting period. The effects of these adjustments have not been reflected in the consolidated financial statements.

As disclosed in the Company's announcement dated 24 April 2020, the Company entered into a shareholder's loan agreement with Dr. Yeung Yung ("**Dr. Yeung**") (a substantial shareholder, one of the executive Directors and the chairman of the Group) on 24 April 2020, pursuant to which Dr. Yeung has agreed to make available to the Company a shareholder's loan, which is interest free and unsecured, up to the principal amount of HK\$160,000,000 (the "**Shareholder's Loan**") by 31 May 2020 to finance the working capital requirements of the Group. The Board has confidence in the major shareholder's commitment and support towards the Group. The Shareholder's Loan is expected to be made available for use by the Company by 31 May 2020. Given that the Shareholder's Loan is taken out by the Company primarily to prepare for any future business operation needs of the Group, the Company will make request(s) to the major shareholder and utilize the Shareholder's Loan (in whole or in part(s)) as and when such needs arise.

Apart from the continuing financial support from the major shareholder, the Group will continue to explore fund raising opportunities and collaborations with potential business partners and investors. The Audit Committee and the Board consider that, with the unwavering efforts and commitment of its management, the Group will manage to have sufficient working capital for the operation and development of its business so that the disclaimer of opinion in relation to the material uncertainties related to going concern will not be carried forward to the Group's financial statements for the year ending 31 December 2020.

### ***Share of loss of associates and investment in associates***

As disclosed in note 18 to the consolidated financial statements of the Group, the financial results of the Company's associate, 寧波京威動力電池有限公司 (the “**Ningbo Joint Venture**”), for the year ended 31 December 2019 were accounted for using the equity method in the consolidated financial statements of the Group.

The carrying amount of the Group's investment in the Ningbo Joint Venture included in the investment in associates line item in the consolidated balance sheet of the Group as at 31 December 2019 amounted to HK\$168,980,000. The share of net profit of the Ningbo Joint Venture included in the share of loss of associates line item in the consolidated statement of comprehensive income of the Group for the year ended 31 December 2019 amounted to HK\$233,719,000.

The Audit Committee and the Board understood that the Auditor's disclaimer of opinion was based on insufficient audit evidence to verify the validity of the management accounts provided by the Ningbo Joint Venture primarily due to hindrance of normal operation of the Ningbo Joint Venture as a result of the prevalence of the COVID-19 epidemic. As such, there were only limited audit evidences that could be provided to the Auditor. The Company will continue to liaise with the Ningbo Joint Venture in the preparation of the management accounts for the year ending 31 December 2020 so that the disclaimer of opinion in relation to the share of loss of associates and investment in associates will not be carried forward to the Group's financial statements for the financial year ending 31 December 2020.

### ***Equity investments at fair value through other comprehensive income***

The equity investments at fair value through other comprehensive income as at 31 December 2019 represented the investment of the Group in 吉林美來中信木業有限公司 (“吉林美來”, and together with its subsidiaries, the “**Meilai Group**”).

The Audit Committee and the Board understood that the Auditor's disclaimer of opinion was based on the failure in obtaining the consolidated management accounts of Meilai Group. This was primarily due to the hindrance of normal operation of the Meilai Group as a result of the prevalence of the COVID-19 epidemic. As such, Meilai Group has not yet been able to provide the consolidated management accounts to the Company and the Auditor. The Company will continue to liaise with Meilai Group in the preparation of the consolidated management accounts for the year ending 31 December 2020 so that the disclaimer of opinion in relation to equity investments at fair value through other comprehensive income will not be carried forward to the Group's financial statements for the year ending 31 December 2020.

### ***Intangible assets***

The balance of intangible assets of the Group mainly represented the recoverable amount of the intangible assets was estimated by reference to the value in use of the cash generating units (the "CGU") under the segment of battery management systems and spare parts in which the intangible assets belonged to. The value in use of the CGU was derived by the cash flow projections of the CGU prepared by the management, and the key assumptions of the projection is the Group would be able to obtain additional working capital required for the CGU.

The Audit Committee and the Board understand from the Auditor that the basis of the disclaimer of opinion in relation to the intangible assets, due to the factors concerning the material uncertainties about the Group's ability to continue as a going concern, the CGU may not be able to meet the cash flow projections if the Group were to be unable to obtain the additional working capital.

As discussed above, it is expected that the Shareholder's Loan will be made available to the Group by 31 May 2020. As such, the Audit Committee and the Board consider that the Group will have sufficient working capital for the operation and development of its business as and when the needs arise so that the disclaimer of opinion in relation to intangible assets will not be carried forward to the Group's financial statements for the year ending 31 December 2020.

### ***Value-added tax receivables***

The balance of value-added tax receivables of HK\$15,615,000 as at 31 December 2019 were recorded as trade and other receivables in the consolidated financial statements of the Company.

The Audit Committee and the Board understood that the Auditor's disclaimer of opinion in relation to the value-added tax receivables was due to the factors concerning the material uncertainties about the Group's ability to continue as a going concern. As such, the Group may not generate sufficient income and respective value-added tax payables to offset such value-added tax receivables.

As discussed above, it is expected that the Shareholder's Loan will be made available to the Group by 31 May 2020. As such, the Audit Committee and the Board consider that the Group will have sufficient working capital for the operation and development of its business, and to generate sufficient income and respective value-added tax payables to offset such value-added tax receivables, so that the disclaimer of opinion in relation to value-added tax receivables will not be carried forward to the Group's financial statements for the year ending 31 December 2020.

### ***Prepayment to a supplier***

The Audit Committee and the Board understood that the Auditor's disclaimer of opinion in relation to the prepayment to a supplier was based on the prepayment to XALT, which was recorded as trade and other receivables in the consolidated financial statements of the Company.

The Audit Committee and the Board consider 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).

Given that no discovery has yet taken place, and there is no active, open litigation with XALT presently, the Audit Committee and the Board consider 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 years ended 31 December 2016, 2017, 2018 and 2019 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 disclaimer of opinion in relation to the prepayment to a supplier will not be carried forward to the Group's financial statements for the financial year ending 31 December 2020.

## **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 2019 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.

**Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.**

## **PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT**

This announcement is published on the respective websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://hk1188.etnet.com.hk>).



With the release of this announcement and after consultation with the Auditor and other working parties, it is expected that the compilation, translation, finalization and bulk-printing of the annual report of the Company for the Year (the “**2019 Annual Report**”) containing all applicable information required by the Listing Rules will be completed and available for despatch to the shareholders of the Company on or before 18 June 2020. The Company has made an application to the Stock Exchange for its indulgence in the delay in the despatch of the 2019 Annual Report and for a waiver from strict compliance with Rule 13.46(2) of the Listing Rules so as to allow the Company sufficient time to arrange for publication and despatch of the 2019 Annual Report and to give notice to the Shareholders of the annual general meeting to be convened and held by the Company (tentatively on or before 28 July 2020). Further announcements in this regard will be made by the Company.

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

Hong Kong, 28 May 2020

*As at the date of this announcement, the Board comprises nine executive Directors, namely Dr Yeung Yung (Chairman), Mr Feng Rui (Chief Executive Officer), 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 five independent non-executive Directors, namely Dr Zhu Guobin, Mr Cheng Tat Wa, Dr Li Jianyong, Mr Chan Sin Hang and Mr Lee Cheung Yuet Horace.*