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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)

UNAUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020 AND SUSPENSION OF TRADING

The board of directors (the “**Board**” or the “**Directors**”) of Hybrid Kinetic Group Limited (the “**Company**”) would like to announce the unaudited consolidated financial results (the “**2020 Unaudited Results**”) of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2020 (the “**Year**”) together with the audited comparative figures for the preceding year ended 31 December 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Audited)
Revenue	4	21,825	16,342
Cost of sales		<u>(21,649)</u>	<u>(3,899)</u>
Gross profit		176	12,443
Other income	5	1,889	21,267
Distribution costs		(158)	(2,907)
Administrative expenses		(89,930)	(439,204)
Share of loss of associates		<u>(11,915)</u>	<u>(233,719)</u>
Loss from operations		(99,938)	(642,120)
Finance costs	7	<u>(853)</u>	<u>(1,726)</u>
Loss before tax		(100,791)	(643,846)
Income tax expense	8	<u>—</u>	<u>—</u>
Loss for the year	9	<u>(100,791)</u>	<u>(643,846)</u>

	2020	2019
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Other comprehensive income/(loss):		
<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>–</u>	<u>(3,602)</u>
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations – Group	30,573	(20,001)
Exchange differences on translating foreign operations – Associates	<u>10,540</u>	<u>(4,163)</u>
	<u>41,113</u>	<u>(24,164)</u>
Other comprehensive income/(loss) for the year	<u>41,113</u>	<u>(27,766)</u>
Total comprehensive loss for the year	<u>(59,678)</u>	<u>(671,612)</u>
Loss for the year attributable to:		
Owners of the Company	(72,904)	(644,022)
Non-controlling interests	<u>(27,887)</u>	<u>176</u>
	<u>(100,791)</u>	<u>(643,846)</u>
Total comprehensive loss for the year attributable to:		
Owners of the Company	(32,075)	(671,229)
Non-controlling interests	<u>(27,603)</u>	<u>(383)</u>
	<u>(59,678)</u>	<u>(671,612)</u>
Loss per share	<i>11</i>	
Basic (<i>cents per share</i>)	<u>(0.36)</u>	<u>(3.16)</u>
Diluted (<i>cents per share</i>)	<u>(0.36)</u>	<u>(3.16)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment		8,967	35,722
Investment in associates	12	167,604	168,980
Equity investments at fair value through other comprehensive income	13	14,965	14,031
		<u>191,536</u>	<u>218,733</u>
Current assets			
Inventories	14	2,688	4,397
Prepayments, deposits and other receivables	15	481,013	477,738
Pledged bank deposits		–	2,014
Bank and cash balances		35,398	8,860
		<u>519,099</u>	<u>493,009</u>
Current liabilities			
Trade and other payables	16	92,761	120,492
Loan from a shareholder	17	98,824	–
Lease liabilities		10,620	13,605
		<u>202,205</u>	<u>134,097</u>
Net current assets		<u>316,894</u>	<u>358,912</u>
Non-current liabilities			
Lease liabilities		632	10,169
NET ASSETS		<u>507,798</u>	<u>567,476</u>
Capital and reserves			
Share capital		2,035,287	2,035,287
Reserves		(1,529,154)	(1,497,079)
Equity attributable to owners of the Company		506,133	538,208
Non-controlling interests		1,665	29,268
TOTAL EQUITY		<u>507,798</u>	<u>567,476</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, 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. GOING CONCERN BASIS

The Group incurred a loss of HK\$100,791,000 for the year ended 31 December 2020. This condition indicates 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.

3. 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 2020. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); 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 those 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.

4. REVENUE

The Group’s revenue represents sales and service income of battery management systems and spare parts.

	2020 <i>HK\$’000</i> (Unaudited)	2019 <i>HK\$’000</i> (Audited)
Sales and service income of battery management systems and spare parts	<u>21,825</u>	<u>16,342</u>

Disaggregation of revenue from contracts with customers:

	2020 <i>HK\$’000</i> (Unaudited)	2019 <i>HK\$’000</i> (Audited)
Geographical markets		
PRC	<u>21,825</u>	<u>16,342</u>
Major products/service		
Sales and service income of battery management system and lithium batteries	<u>21,825</u>	<u>16,342</u>
Timing of revenue recognition		
At a point in time	<u>21,825</u>	<u>16,342</u>

Sales and service income of battery management systems and spare parts

The Group sells battery management systems and spare parts to the customers. Sales are recognised when control of the products has transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products and the customer has obtained legal titles to the products.

A receivable is recognised when the products are delivered to the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Sales to customers are normally made with credit terms of 30 to 90 days. For new customers, deposits or cash on delivery may be required. Deposits received are recognised as a contract liability.

5. OTHER INCOME

	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Audited)
Interest income	22	40
Fair value gain on derivative financial instrument	–	18,737
Government grants	914	–
Others	953	2,490
	<u>1,889</u>	<u>21,267</u>

6. 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
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2020				
(Unaudited):				
Revenue	–	21,825	–	21,825
Segment loss	(25,728)	(3,332)	(168)	(29,228)
Depreciation	(6,397)	(363)	(2)	(6,762)
Other material non-cash items:				
Research and development expenses	(1,132)	(8)	(79)	(1,219)
Additions to segment non-current assets	13	–	–	13
At 31 December 2020 (Unaudited):				
Segment assets	434,690	28,599	2,242	465,531
Segment liabilities	<u>7,109</u>	<u>24,428</u>	<u>4</u>	<u>31,541</u>
Year ended 31 December 2019				
(Audited):				
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
At 31 December 2019 (Audited):				
Segment assets	464,842	25,696	2,237	492,775
Segment liabilities	<u>6,734</u>	<u>9,399</u>	<u>164</u>	<u>16,297</u>

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

	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Audited)
Revenue:		
Total revenue of reportable segments and consolidated revenue	<u>21,825</u>	<u>16,342</u>
Profit or loss:		
Total loss of reportable segments	(29,228)	(245,292)
Corporate and unallocated profit or loss	<u>(71,563)</u>	<u>(398,554)</u>
Consolidated loss for the year	<u>(100,791)</u>	<u>(643,846)</u>
Assets:		
Total assets of reportable segments	465,531	492,775
Corporate and unallocated assets:		
– Equity investments at fair value through other comprehensive income	14,965	14,031
– Bank and cash balances held by the Group's headquarters	17,397	927
– Others	<u>212,742</u>	<u>204,009</u>
Consolidated total assets	<u>710,635</u>	<u>711,742</u>
Liabilities:		
Total liabilities of reportable segments	31,541	16,297
Corporate and unallocated liabilities		
– Others	<u>171,296</u>	<u>127,969</u>
Consolidated total liabilities	<u>202,837</u>	<u>144,266</u>

Geographical information:

	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Audited)
Revenue:		
The People's Republic of China (the "PRC")	<u>21,825</u>	<u>16,342</u>

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

Revenue from major customers:

	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Audited)
Customer A	19,985	Nil
Customer B	<u>Nil</u>	<u>14,783</u>

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

	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Audited)
Non-current assets (other than financial assets):		
United States of America	–	2,090
The PRC	176,093	166,810
Hong Kong and others	<u>478</u>	<u>35,802</u>
	<u>176,571</u>	<u>204,702</u>

7. FINANCE COSTS

	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Audited)
Lease interests	<u>853</u>	<u>1,726</u>

8. INCOME TAX EXPENSE

	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Audited)
Current tax – PRC Enterprise Income Tax		
Provision for the year	<u>–</u>	<u>–</u>
	<u>–</u>	<u>–</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 (2019: 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:

	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Audited)
Loss before tax	<u>(100,791)</u>	<u>(643,846)</u>
Tax on loss before income tax, calculated at the rates applicable to profit/loss in the tax jurisdictions concerned	(21,149)	(115,130)
Tax effect of non-taxable income	(151)	(4,684)
Tax effect of non-deductible expenses	<u>21,300</u>	<u>119,814</u>
Income tax expense for the year	<u>–</u>	<u>–</u>

9. LOSS FOR THE YEAR

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

	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Audited)
Auditor's remuneration	1,400	1,400
Cost of inventories sold	21,649	3,899
Depreciation of property, plant and equipment	12,022	18,417
Depreciation of right-of-use assets	217	15,568
Loss/(gain) on disposal of property, plant and equipment	555	(1,105)
Property, plant and equipment written off	8,070	–
Impairment of right-of-use assets	1,083	23,223
Impairment of intangible assets	–	62,555
Fair value gain on derivative financial instrument	–	(18,737)
Net exchange loss	339	912
Research and development costs	1,607	208,769
Staff costs including directors' emoluments		
– Salaries, bonus and allowances	24,697	82,831
– Retirement benefits scheme contributions	1,310	4,516
	26,007	87,347

10. DIVIDENDS

The directors do not recommend or declare the payment of any dividend in respect of the years ended 31 December 2020 and 2019.

11. 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\$72,904,000 (2019: HK\$644,022,000) and the weighted average number of 20,352,873,000 (2019: 20,352,873,000) 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 2020 and 31 December 2019.

12. INVESTMENT IN ASSOCIATES

	2020 HK\$'000 (Unaudited)	2019 <i>HK\$'000</i> (Audited)
Unlisted investment:		
Share of net assets	<u>167,604</u>	<u>168,980</u>

Details of the Group's associates at 31 December 2020 and 2019 are as follows:

Name	Place of incorporation/ registration	Percentage of the Company's indirect ownership interest		Principal activities
		2020 (Unaudited)	2019 (Audited)	
深圳南科燃料電池有限公司 Shenzhen SUSTC Fuel Cell Company Limited*	The PRC	16.7%	16.7%	Environmental automobile and related business, the PRC
宁波京威動力電池有限公司 Ningbo Joint Venture*	The PRC	18%	18%	Manufacturing and sales of batteries

* *For identification purpose only*

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.

	Ningbo Joint Venture		Shenzhen SUSTC Fuel Cell Company Limited	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
At 31 December:				
Non-current assets	383,566	393,673	–	–
Current assets	569,704	525,822	27,345	45,580
Non-current liabilities	–	–	(25,894)	(23,996)
Current liabilities	(22,846)	(27)	(686)	(734)
Net assets	<u>930,424</u>	<u>919,468</u>	<u>765</u>	<u>20,850</u>
Group's share of net assets	<u>167,476</u>	<u>165,504</u>	<u>128</u>	<u>3,476</u>
Year ended 31 December:				
Revenue	–	–	–	–
Loss for the year	(47,424)	(1,298,437)	(20,275)	–
Other comprehensive loss	<u>58,378</u>	<u>(22,806)</u>	<u>189</u>	<u>(352)</u>
Total comprehensive loss for the year	<u>10,954</u>	<u>(1,321,243)</u>	<u>(20,086)</u>	<u>(352)</u>
Dividends received from associates	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

13. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Unlisted equity securities		
吉林美來中信木業有限公司	<u>14,965</u>	<u>14,031</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 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 2020, the Group holds 5% (2019: 5%) equity interest in 吉林美來.

14. INVENTORIES

	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Audited)
Raw materials	1,278	3,162
Finished goods	1,355	1,184
Consumables	55	51
	<u>2,688</u>	<u>4,397</u>

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Audited)
Prepayment to a supplier	332,641	332,641
Prepayments to others	12,718	8,319
Deposits and other receivables	127,764	131,285
Amounts due from directors	7,890	5,493
	<u>481,013</u>	<u>477,738</u>

As at 31 December 2020, included in other receivables mainly represents i) an approximately of HK\$23,838,000 (2019: HK\$23,000,000) are receivables from disposal of investments in joint venture, ii) an approximately of HK\$75,741,000 (2019: HK\$71,010,000) are receivables incurred from the profits guaranteed arrangement which is secured by equity interest of the debtor, iii) other loans receivables of approximately HK\$6,198,000 (2019: HK\$13,106,000) carries interest rate at 4.35% to 6% (2019: 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 and iv) other receivables to third parties approximately of HK\$2,362,000 are unsecured, interest-free and repayable on demand. 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 2020, 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.

16. TRADE AND OTHER PAYABLES

	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Audited)
Trade payables	5,880	5,951
Accruals and other payables	86,881	111,041
Amount due to a director	—	3,500
	<u>92,761</u>	<u>120,492</u>

Trade payables

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

	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Audited)
Over 360 days	<u>5,880</u>	<u>5,951</u>

17. LOAN FROM A SHAREHOLDER

The amount is unsecured, interest-free and repayable on demand.

DELAY IN PUBLICATION OF AUDITED ANNUAL RESULTS AND DESPATCH OF THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

ZHONGHUI ANDA CPA Limited (the “**Auditor**”) has been appointed as the external auditor of the Company to conduct an audit on the consolidated financial statements of the Group for the year ended 31 December 2020.

The 2020 Unaudited Results contained in this announcement have been reviewed by the audit committee of the Company (the “**Audit Committee**”) but have not been agreed with the Auditor as required under Rule 13.49(2) of the Listing Rules.

The delay in completion of the auditing and reporting progress of the Auditor was primarily due to the audit process of the Company’s subsidiaries in the United States of America and the associates of the Company in the PRC, which have been affected by the travel restrictions and other measures continuing to be imposed in response to the outbreak of the COVID-19 pandemic. The situation has necessitated the Auditor to require, and the Company to incur additional time and deploy extra resources so as to obtain such audit evidence or explore alternative audit procedures to facilitate the Auditor to complete its work. In addition, the Auditor requires more time to assess the matter in relation to the going concern of the Company. Accordingly, there will be a delay in the publication of the Company’s announcement on the audited financial results of the Group for the Year (the “**2020 Audited Results**”), and the despatch of its annual report for the Year (the “**2020 Annual Report**”).

The Company has been making all reasonable endeavours in an attempt to fully address, resolve and/or remove the issues (the “**Audit Issues**”) leading to the Auditor’s disclaimer of opinion on the consolidated financial statements of the Group for the year ended 31 December 2019 (please refer to the Company’s 2019 annual report for details of the Audit Issues) so that the Audit Issues (to the extent practicable) would not be brought forward to the ensuing financial year. The Company, however, is in a relatively passive position without the active cooperation of the relevant counter-parties. This has been further aggravated by the COVID-19 pandemic which has affected socio-economic activities across the globe and inevitably delayed access of records, negotiations or resolution of disputes to some extent. Under the circumstances and unless sufficient and appropriate audit evidence could be obtained by the Company and provided to the Auditor to its satisfaction, the Auditor is likely to express modified opinions on the consolidated financial statements of the Group for the Year.

Information on, among other matters, the modified opinions of the Auditor on the 2020 Audited Results of the Group upon completion of its audit work, our management's position, the Audit Committee's views and our actions plans to resolve the underlying issues leading to the Auditor's modified opinions will be disclosed in the announcement on the 2020 Audited Results and the 2020 Annual Report of the Company (as the case may be) as soon as practicable.

Based on the preliminary assessment of the Company after consultation with the Auditor, the 2020 Audited Results (and the material differences, if any as compared with the 2020 Unaudited Results contained in this announcement) is expected to be published before the mid of May 2021 and the 2020 Annual Report of the Company will be despatched by the end of May 2021.

Pursuant to Rules 13.49(1) and 13.46(2)(a) of the Listing Rules, the Company is required to publish the 2020 Audited Results on or before 31 March 2021, and to despatch the 2020 Annual Report to its shareholders on or before 30 April 2021. The delay will constitute non-compliance of Rules 13.49(1) and 13.46(2)(a) of the Listing Rules respectively.

The Company will issue further announcement(s) to keep its shareholders and potential investors informed of any material developments in this connection as and when appropriate.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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.

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

Development of battery technology

The high voltage battery pack technology developed by the Group utilizes one common battery cell and module within the pack for all vehicles. The battery's charging control system has been developed to intelligently allow the battery to charge in both AC (alternative current) and DC (direct current) fast charging modes, while a highly efficient low emission turbo charged twin cylinder engine is used as the power source to charge the battery and extend the range of the vehicle.

Applicability of the battery packs in vehicle design

On top of the fast charging and range extension capabilities, each of the Group's battery pack is configurable into a wide variety of shapes and sizes to efficiently fill available space while not constraining the overall dimensions that are critical to the unique styling and comfort of other models, which may allow the vehicle model to be offered to have a unique exterior and interior design as a result of the comparatively flexible size of the battery pack. The Group continues to source, identify and secure quality manufacturers and/or suppliers with high-level engineering and/or manufacturing capacities from worldwide for the Group's automotive innovations and products.

Financial performance

For the Year, the total revenue derived from the sales and services income of battery management systems and spare parts amounted to approximately HK\$21.8 million (2019: HK\$16.3 million). The increase was mainly due to higher discount given by the Group to its customers under the challenging business environment for the Year as a result of the outbreak of the novel coronavirus (COVID-19).

Continuous development of high-tech electric motor vehicles

Regarding the high-tech electric motor vehicles business, the Group believes 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. The comparatively flexible size of the Group's battery pack allows the vehicle model to be offered in the Group's product portfolio to have a unique exterior and interior design.

The Group continues to source, identify and secure quality manufacturers and/or suppliers with high-level engineering and/or manufacturing capacities from worldwide for the Group's automotive innovations and products. The Group has also been seeking collaboration opportunities with potential business partners to continue to develop our electric vehicles.

PROSPECTS

The Company has a long-term commitment to the global automobile industry, and which the industry is constantly evolving.

Since the outbreak of COVID-19 at the end of December 2019, the epidemic has been menacing and impact on the global business environment. No industry player in the auto industry was immune to the effects of COVID-19.

Despite the uncertainties on the global economic prospect as a result of the outbreak of COVID-19, the Group remains confident in the automobile market, especially in the PRC as it is the world's largest automobile market and was among the first major economies to recover from COVID-19. In addition, given the PRC government is keen on combating air pollution, narrowing the competitive gap between the global rivals and its domestic automakers, we believe that the development of new energy vehicles and its related products and advanced battery technology will continue to be a focus of global and domestic interest and a major trend in improving air pollution and enhancing economic sustainability.

The Group has continued to work closely with its partners in relation to the application of its advanced battery technology. Leveraging on the Group's expertise in advanced battery technology, the Group has explored collaboration opportunities in the application of its advanced battery technology by providing technical configuration advice, material specification and optimisation process service in advanced batteries materials to be produced by its partners. The Board is of the view that the Group's expertise in the advanced battery technology may continue to drive the Group's business and generate new stream of revenue for the Group.

The Group will continue to seek opportunities for strategic investment, cooperation and/or collaboration with renowned organizations, institutions, 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 are considered to be beneficial to the sustainable development, expansion and diversification of the Group's businesses.

Further, in response to the ongoing nature of the COVID-19 pandemic and other challenges, the Company will embrace agility in adapting its business strategies to the changing market and customer needs to maximize or safeguard the overall interests of the Company and its shareholders.

MATERIAL ACQUISITION OR DISPOSAL

The Group did not have material acquisition or disposal of assets during the Year or any future plans for material investment or capital assets.

DIVIDEND

The Directors do not recommend the payment of any final dividend to shareholders of the Company for the year ended 31 December 2020 (2019: Nil).

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.

FUND RAISING ACTIVITIES DURING THE YEAR

During the Year, the Company had not undertaken any fund raising activity.

LIQUIDITY, FINANCIAL RESOURCES, CAPITAL STRUCTURE AND TREASURY POLICY

As at 31 December 2020, the total equity of the Group amounted to approximately HK\$507.8 million (31 December 2019: HK\$567.5 million).

The gearing ratio of the Group as at 31 December 2020 measured in terms of total liabilities divided by shareholders' equity was approximately 39.94% (31 December 2019: 25.42%).

As at 31 December 2020, net current assets of the Group were approximately HK\$316.90 million (31 December 2019: HK\$358.9 million). The cash and cash equivalents amounted to HK\$35.40 million (31 December 2019: HK\$8.86 million).

The Group has an outstanding shareholder's loan of HK\$98.8 million (31 December 2019: Nil), which is unsecured, interest-free and repayable on demand.

The Group adopts a conservative and balanced treasury policy in cash and financial management. The Group's cash is generally placed as deposits mostly denominated in Hong Kong dollars, United States dollars or Renminbi. To manage liquidity risk, the Group regularly reviews liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

PLEDGE OF THE GROUP'S ASSETS

As at 31 December 2020, none of the assets of the Group had been pledged (31 December 2019: 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 dollars 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.

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group had a total of approximately 60 employees as at 31 December 2020 (31 December 2019: 100 employees). It has been the Group's policy to ensure that the remuneration levels of the Directors and its employees are reviewed and rewarded on a performance-related basis within the general framework of the Group's salary and bonus system. Share options may also be granted to the Directors and employees of the Group to attract, retain and incentivise them to work and make contribution towards the long term growth and development of the Group.

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.

OTHER INFORMATION

Update on the legal proceedings against members of the Group

(1) Legal dispute with XALT

As regards the attempts of the Group to settle the dispute and the subsequent civil lawsuit against the Company and one of its wholly-owned subsidiaries, Billion Energy Holdings Limited (“Billion Energy”), initiated in 2017 by Townsend Ventures LLC, XALT Energy LLC and XALT Energy MI, LLC (collectively, “XALT”), which centered on the supply agreement dated 25 March 2015 entered into between Billion Energy and XALT Energy MI, LLC for the supply of battery cells (as disclosed and referred to in the 2019 annual report of the Company), the Company has continued to seek legal advice to prepare for the initiation of the arbitration proceedings while exploring possible mediation with XALT. The progress of the mediation, however, has been intermittently disrupted due to a change in shareholding structure and management of XALT.

It is not entirely within the control of the Company as to whether or when the legal dispute or alleged claims with XALT will be concluded. The Group will continue to make efforts to, among other things, proactively approach the new management of XALT to re-activate negotiations with XALT so as to seek a mutually acceptable solution to resolve the dispute and the lawsuit amicably and more expeditiously, seek professional advice on the Group's strategies over the resolution of the dispute (including initiation of the arbitration process at appropriate time or taking other alternative actions) and of the Group's position, as well as the legal recourse over the recovery of the prepayment previously made by the Group to XALT pursuant to the terms of the supply agreement to safeguard the interests of the Group. The Company has engaged legal advisers in Hong Kong to handle the arbitration process which, if initiated, may take considerable time before reaching any conclusion.

The Company will make further announcement(s) to keep its shareholders informed of any material development as and when appropriate.

(2) *Impact of the COVID-19 pandemic*

The Company has been assessing the implications of the COVID-19 pandemic to the business in which the Group operates from time to time. Depending on the duration of the COVID-19 pandemic and continued negative impact on the socio-economic activity, the Group might experience further negative results, liquidity restraints and impairment of its assets. As the challenges are unprecedented, the exact impact of the COVID-19 pandemic in 2021 cannot be predicted with certainty.

As the financial information of the Group for the year ended 31 December 2020 contained in this announcement have not been audited and have not been agreed with the Auditor, shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

SUSPENSION OF TRADING

The Company has made an application for the suspension of trading in the shares of the Company on the Stock Exchange with effect from 9:00 a.m. on 1 April 2021, pending the publication of the 2020 Audited Results.

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

Hong Kong, 31 March 2021

As at the date of this announcement, the Board comprises eight executive Directors, namely Dr Yeung Yung (Chairman), Mr Feng Rui (Chief Executive Officer), 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 Tingkan, 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.