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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 2020 AND CONTINUED SUSPENSION OF TRADING IN SHARES

Reference is made to the announcement of Hybrid Kinetic Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 31 March 2021 in connection with the unaudited consolidated annual results of the Group for the year ended 31 December 2020 (the “**Announcement**”).

AUDITOR’S AGREEMENT ON THE 2020 ANNUAL RESULTS

The board of directors (the “**Board**” or the “**Directors**”) of the Company wishes to announce that the auditing process for the consolidated annual results of the Group for the year ended 31 December 2020 (the “**2020 Annual Results**”) has been completed. The Company’s auditor, ZHONGHUI ANDA CPA Limited (the “**Auditor**”), has agreed on the 2020 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 audited consolidated financial results of the Group for the year ended 31 December 2020 (the “Year”) are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

		2020	2019
	<i>Notes</i>	HK\$'000	HK\$'000
		(Audited)	(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>
	(Audited)	(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	—	(3,602)
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations – Group	30,147	(20,001)
Exchange differences on translating foreign operations – Associates	10,540	(4,163)
Release of translation reserve upon disposal of subsidiaries	426	—
	<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><u>(59,678)</u></u>	<u><u>(671,612)</u></u>
Loss for the year attributable to:		
Owners of the Company	(72,904)	(644,022)
Non-controlling interests	(27,887)	176
	<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	(27,603)	(383)
	<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

	<i>Notes</i>	2020 <i>HK\$'000</i> (Audited)	2019 <i>HK\$'000</i> (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
		191,536	218,733
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
		519,099	493,009
Current liabilities			
Trade and other payables	16	92,761	120,492
Loan from a shareholder	17	98,824	–
Lease liabilities		10,620	13,605
		202,205	134,097
Net current assets		316,894	358,912
Non-current liabilities			
Lease liabilities		632	10,169
NET ASSETS		507,798	567,476
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		507,798	567,476

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 and operating cash outflow of HK\$94,435,000 for the year ended 31 December 2020. 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.

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>	2019 <i>HK\$’000</i>
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>	2019 <i>HK\$’000</i>
Geographical markets		
The People’s Republic of China (the “ 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> (Audited)	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 <i>HK\$'000</i>	Battery management systems and spare parts <i>HK\$'000</i>	Advanced batteries materials <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2020:				
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:				
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:				
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:				
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> (Audited)	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>	2019 <i>HK\$'000</i>
Revenue:		
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>	2019 <i>HK\$'000</i>
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>	2019 <i>HK\$'000</i>
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 COST

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

8. INCOME TAX EXPENSE

	2020 <i>HK\$'000</i> (Audited)	2019 <i>HK\$'000</i> (Audited)
Current tax – PRC Enterprise Income Tax		
Provision for the year	—	—
	<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> (Audited)	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	(22,141)	(115,130)
Tax effect of non-taxable income	(151)	(4,684)
Tax effect of non-deductible expenses	<u>22,292</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> (Audited)	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)
Loss on disposal of subsidiaries	949	–
Property, plant and equipment written off	8,070	–
Impairment of right-of-use assets	1,083	23,223
Impairment of intangible assets	–	62,555
Impairment of value-added tax receivables	3,957	–
Fair value gain of 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
	<u>26,007</u>	<u>87,347</u>

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

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.

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 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
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	2019	
Shenzhen SUSTC Fuel Cell Company Limited*	The PRC	16.7%	16.7%	Environmental automobile and related business, the PRC
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.

	Ningbo Joint Venture		Shenzhen SUSTC Fuel Cell Company Limited	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
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>

	Ningbo Joint Venture		Shenzhen SUSTC Fuel Cell Company Limited	
	2020	2019	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December:				
Revenue	-	-	-	-
Loss for the year	(47,424)	(1,298,437)	(20,275)	-
Other comprehensive loss	58,378	(22,806)	189	(352)
Total comprehensive loss for the year	10,954	(1,321,243)	(20,086)	(352)
Dividends received from associates	-	-	-	-

13. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Audited)	(Audited)
Unlisted equity securities		
吉林美來中信木業有限公司	14,965	14,031
	14,965	14,031

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>	2019 <i>HK\$'000</i>
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> (Audited)	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 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> (Audited)	2019 <i>HK\$'000</i> (Audited)
Trade payables	5,880	5,951
Accruals and other payables	86,881	111,041
Amounts 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>	2019 <i>HK\$'000</i>
Over 360 days	<u>5,880</u>	<u>5,951</u>

17. LOAN FROM SHAREHOLDER

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

DIFFERENCES ON THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Taking into account that the financial information contained in the 2020 Unaudited Annual Results Announcement was unaudited as at the date of its publication and subsequent adjustments have been made to such information, the Shareholders and potential investors of the Company are advised to pay attention to the differences between the unaudited annual results set out in the 2020 Unaudited Annual Results Announcement and the audited annual results disclosed in this announcement. The 2020 Audited Annual Results remain substantially the same as the 2020 Unaudited Annual Results, except for the following reclassifications and adjustments as follows:

Differences on the Consolidated Statement of Comprehensive Income

	Audited Annual Results 2020 HK\$'000	Unaudited Annual Results Disclosed in the Announcement 2020 HK\$'000	Differences HK\$'000
Loss for the year	(100,791)	(100,791)	–
Other comprehensive income/(loss):			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations – Group	30,147	30,573	(426)
Exchange differences on translating foreign operations – Associates	10,540	10,540	–
Release of translation reserve upon disposal of subsidiaries	426	–	426
Other comprehensive income/(loss) for the year	41,113	41,113	–
Total comprehensive loss for the year	(59,678)	(59,678)	–
Loss for the year attributable to:			
Owners of the Company	(72,904)	(72,904)	–
Non-controlling interests	(27,887)	(27,887)	–
	(100,791)	(100,791)	–

Note:

Considering the disposal of subsidiaries was a transaction with independent third parties, reclassification adjustment was made in the 2020 Audited Annual Result to revise the presentation of the disposal transaction.

The above adjustment is only adjustment and/or representation of those items within the reserves account and have no effect to the consolidated income statement and the consolidated statement of financial position.

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 2020.

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 2020, 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\$100,791,000 and operating cash outflow of HK\$94,435,000 for the year ended 31 December 2020. 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\$11,915,000 and HK\$233,719,000 for the year ended 31 December 2020 and 2019, respectively, are fairly stated. We were also not able to satisfy ourselves as to (i) whether the carrying amount of investment in associates of approximately HK\$167,604,000 and HK\$168,980,000 as at 31 December 2020 and 2019, respectively, are 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\$14,965,000 and HK\$14,031,000 of an equity investment at fair value through other comprehensive income as at 31 December 2020 and 2019, respectively, and the fair value loss of approximately HK\$8,664,000 of that equity investment for the year ended 31 December 2019 are fairly stated.

In addition, as stated in note 23 to the consolidated financial statements, the Group had an other receivable amount of approximately HK\$75,741,000 and HK\$71,010,000 as at 31 December 2020 and 2019, respectively, 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 2020 and 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 2020 and 2019 and the impairment loss of approximately HK\$62,555,000 for the year ended 31 December 2019.

Other receivables

We have not been able to obtain sufficient and appropriate audit evidence in relation to the recoverability of other receivables of approximately HK\$50,781,000 and HK\$15,615,000 as at 31 December 2020 and 2019 respectively. We were also not able to satisfy ourselves as to the impairment loss on value-added tax receivables of approximately HK\$3,957,000 for the year ended 31 December 2020.

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 2020 and 2019 are fairly stated; (ii) the recoverability of prepayment to a supplier of approximately HK\$332,641,000 as at 31 December 2020 and 2019; and (iii) the existence and completeness of the disclosures of contingent liabilities in relation to the prepayment to the supplier.

Disposal of subsidiaries

We have not been able to obtain sufficient and appropriate audit evidence to verify whether the Group's loss on disposal of subsidiaries of approximately HK\$949,000 for the year ended 31 December 2020 is fairly stated. We were also not able to satisfy ourselves as to the accuracy of the disclosures in relation to the disposal of subsidiaries.

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 2020 and 2019 and the financial positions of the Group as at 31 December 2020 and 2019, 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 have 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, the consolidated financial statements of the Group for the Year give a true and fair view of the performance and financial position of the Group as at 31 December 2020.

The Audit Committee and the Board, after discussion with the Auditor on its basis of the Disclaimer of Opinion, have the following views:

1. *Material uncertainty related to going concern*

Background

The Group incurred a loss of HK\$100.8 million and operating cash outflow of HK\$94.4 million for the Year. 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.

The consolidated financial statements of the Group for the Year, as disclosed in note 2 thereto, were prepared on a going concern basis, the validity of which depends upon, among other matters, (i) the continuing financial support of the major shareholder of the Company, Dr Yeung Yung, (the "**Major Shareholder**") and (ii) the ability of the Company to successfully raise funds for the Group at a level sufficient to finance the working capital requirements of the Group.

Continuing financial support from the Major Shareholder

The Audit Committee and the Board have confidence in the Major Shareholder's continued commitment and support towards the Group as had been demonstrated in the past, and believe that the Major Shareholder is ready, willing and able to offer such other assistance (financial or otherwise) to the Group to enhance its financial flexibility and capability as and when the circumstances arise.

In order to assess the financial ability of the Major Shareholder and the validity of the financial support from the Major Shareholder, the evidence and supporting documents requested by the Auditor included but not limited to proof of funds of the Major Shareholder for demonstrating that the Major Shareholder has the financial ability to provide support to the Company.

Other fundraising opportunities

Further, the Board has been proactively exploring (i) all possible financial alternatives (including but not limited to equity financing, debt financing, rights issue, open offer or bank borrowings); (ii) collaborations with potential business partners and investors to develop the business of the Group. These collaborations may take the form of joint venture(s) or other forms of alliance with potential business partners and investors to invest in, develop or diversify the businesses of the Group in which (a) the Group may contribute its expertise and intangible assets (such as intellectual property rights owned by the Group) and (b) the potential business partners or investors may inject working capital to allow each party to fully leverage on each other's capabilities.

The Board's and Audit Committee's views on the material uncertainty related to going concern

Taking into account of the above, the Audit Committee agreed with the management's view that the Group will have sufficient working capital for the operation and development of its business for at least twelve months from the end of the reporting period of the Year. As such, the Audit Committee agreed with the management's view that the consolidated financial statements of the Group for the Year should be prepared on a going concern basis.

With the continued support from the Major Shareholder, together with the unwavering efforts and commitment of the Company's management in seeking potential collaborations and investment opportunities for the Group with a view to improving the liquidity, operation and performance of the Group in the long run, the Audit Committee and the Board believe that the Company will manage to have sufficient working capital for the operation and development of the Group's business so that the disclaimer of opinion in relation to the material uncertainty will not be carried forward to the Group's financial statements for the year ending 31 December 2021.

The Audit Committee considered that the material uncertainties related to going concern will not be carried forward to the Group's financial statements for the year ending 31 December 2021 based on (a) the Major Shareholder had in the past demonstrated its continued commitment and support towards the Group; and (b) the Company continued to explore fund raising opportunities and collaborations with potential business partners and investors.

2. Share of loss of associates and investment in associates

Background

The Company's investment in associates mainly represented the Company's (i) 16.7% equity interest in Shenzhen SUSTC Fuel Cell Company Limited; and (ii) 18% equity interest in Ningbo Joint Venture, the carrying amount of which amounted to approximately HK\$0.1 million and HK\$167.5 million as at 31 December 2020 respectively. The net assets of Ningbo Joint Venture were approximately RMB780.6 million (equivalent to approximately HK\$930.4 million) as at 31 December 2020.

Reference is made to the announcements of the Company dated 14 March 2017 and 28 July 2017. Ningbo Joint Venture was established pursuant to a joint venture agreement dated 10 March 2017 (as supplemented) entered into among the Group with Beijing WKW Automotive Parts Co., Ltd and 北京致雲資產管理有限公司 (Beijing Zhi Yun Asset Management Limited*). The Group has contributed RMB360 million for 18% of the equity interest in Ningbo Joint Venture.

Ningbo Joint Venture is principally engaged in the research and development production and sales of batteries in the manufacturing aspect of key new energy automobile components and related products and materials.

Given Ningbo Joint Venture is only an associate of the Company with 18% of its equity interest and coupled with the travelling limitations under the impact of COVID-19, the Company had difficulties in requesting for detailed business plans and financial forecast of Ningbo Joint Venture.

Reason leading to the disclaimer of opinion in relation to share of loss of associates and investment in associates

The Audit Committee and the Board understood that the Auditor's disclaimer of opinion was based on insufficient audit evidence to ascertain the recoverability of the investment in associates due to limited operations of Ningbo Joint Venture and limited financial and corporate information provided by the management of Ningbo Joint Venture given the Company only holds 18% of the equity interest of the Ningbo Joint Venture.

The Board's and Audit Committee's views on the Auditor's disclaimer of opinion in relation to the share of loss of associates and investment in associates

The Company is in negotiation with an independent third party in relation to the disposal of the Group's interest in Ningbo Joint Venture (the "**Potential Disposal**"). The consideration for the Potential Disposal is RMB360 million, representing the total sum of capital contribution made by the Group in Ningbo Joint Venture. Save for the capital contribution of RMB360 million, the Group did not have any commitment or financing provided to Ningbo Joint Venture as at 31 December 2020. Up to the date of this report, the Potential Disposal is still under negotiation.

Taking into account of the above, in the event the Potential Disposal materialised, the Group might be able to recover its investment in Ningbo Joint Venture and the Group would cease to hold any equity interest in Ningbo Joint Venture.

Based on the above, the Board and the Audit Committee are of the views that the disclaimer of opinion in relation to share of loss of associates and investment in associates will not be carried forward to the year ending 31 December 2021.

3. Equity investments at fair value through other comprehensive income

Background of the Meilai Investment

The equity investments at fair value through other comprehensive income of the Group as at 31 December 2020 represented the investment of the Group in the Meilai Group.

Reference is made to the announcement of the Company dated 4 September 2020 (the "**Meilai Announcement**") in relation to the subscription of 5% equity interest in the Meilai Group by the Group (the "**Meilai Investment**"). On 27 May 2016, the Group and another investor, 天風睿維(武漢)投資中心(有限合夥)("Tianfeng Investment") entered into a subscription agreement (the "**Subscription Agreement**") with the shareholders of the Meilai Group, pursuant to which the Group agreed to subscribe for 5% of the equity interest in Meilai Group at a consideration of RMB60 million (the "**Subscription**").

The Meilai Group is principally engaged in timber and wood processing industries in the PRC.

The carrying amount of equity interest in the Meilai Investment was approximately HK\$15.0 million as at 31 December 2020 (31 December 2019: HK\$14.0 million).

Profit Guarantee and Compensation Payable

Pursuant to the Subscription Agreement, certain shareholders of the Meilai Group (the “**Guarantors**”) covenanted and guaranteed to the Group that the accumulated audited consolidated net profit should not be less than RMB920 million for the three years ended 31 December 2018 (the “**Profit Guarantee**”). In the event the Profit Guarantee is not fulfilled, the Guarantors shall compensate the Group on a dollar-for-dollar basis (the “**Compensation Payable**”) based on the formula as disclosed in the Meilai Announcement. Based on the local audit reports, the actual accumulated audited consolidated net loss after taxation of the Meilai Group attributable to its shareholders for the three years ended 31 December 2018 was approximately RMB54.4 million. Accordingly, the Compensation Payable by the Guarantors to the Group amounted to approximately RMB63,546,000 (equivalent to approximately HK\$71.0 million). The Compensation Payable was recognised as derivative financial instrument for FY2018 and reclassified to other receivables for FY2019 under the consolidated financial statements of the Company. As at 31 December 2020, the Compensation Payable was amounted to approximately HK\$75.7 million.

Arbitration

On 29 September 2020, the Group applied to China International Economic and Trade Arbitration Commission (the “**Arbitration Commission**”) to initiate an arbitration proceeding against the Guarantors in relation to the Compensation Payable and the return of investment cost in Meilai Group with interests (the “**Arbitration**”). The case was accepted by the Arbitration Commission and the first and second sessions of hearing were held on 29 December 2020 and 24 March 2021 respectively. As at the date of this report, the Arbitration Commission has yet to hand down any arbitral award. It is expected that the Arbitration Commission may hand down the arbitral award in the third quarter of 2021 at the earliest.

Reason leading to the disclaimer of opinion in relation to the Compensation Payable and the Meilai Investment

Due to the ongoing Arbitration, the Company could not obtain the latest consolidated management accounts for the year ended 31 December 2020. The Group could only rely on the consolidated management accounts of the Meilai Group for the year ended 31 December 2019 with management adjustments and could not provide sufficient information to the independent valuer for the valuation of the Meilai Group and the Profit Guarantee.

Given (i) the inability of obtaining the audited financial statement of the Meilai Group for the year ended 31 December 2020 due to the ongoing Arbitration; and (ii) the Arbitration Commission has yet to hand down the arbitral award on the Arbitration, the Auditor could not obtain sufficient audit evidence to verify the management accounts of the Meilai Group and was therefore unable to satisfy itself on the fair value of the Meilai Investment and the recoverability of the Compensation Payable.

The Board's and Audit Committee's views on the recoverability of the Compensation Payable and the Meilai Investment

In assessing the possible outcome of the Arbitration and recoverability of the Compensation Payable, the Group noted an arbitral award dated 30 November 2020 handed down by the Arbitration Commission in relation to an arbitration proceeding initiated by Tianfeng Investment against the Guarantors for claims of compensation payable as a result of the shortfall in attaining the profit guarantee given to Tianfeng Investment and the return of investment cost in Meilai Group with interests (which is similar to the nature of claims made by the Group). The Arbitration Commission has ruled in favour of Tianfeng Investment and ordered the refund of the investment cost with interests to Tianfeng Investment by the Guarantors (the “**TF Arbitral Award**”).

The Board and Audit Committee understood that the Auditor had indicated that the TF Arbitral Award might only serve as a reference but could not be taken as substantial audit evidence as to the recoverability of the Compensation Payable because the outcome of each arbitration proceeding would be determined on a case by case basis.

Taking into account of the above, in the event the arbitral award of the Arbitration was handed down by the Arbitration Commission during the year ending 31 December 2021, the Group might be able to recover the Compensation Payable and the Meilai Investment. Based on the above, the Board and the Audit Committee are of the views that the disclaimer of opinion in relation to the equity investments at fair value through other comprehensive income will not be carried forward to the year ending 31 December 2021.

4. Intangible assets

Background of the intangible assets

Reference is made to (i) the announcement of the Company dated 5 December 2016 in relation to the establishment of Anhui Tiankang HK New Energy Technology Co., Ltd (the “**EJV**”); and (ii) the announcement of the Company dated 18 October 2018 in relation to the voluntary dissolution of the EJV, an associate of the Company (the “**Dissolution**”).

The registered capital of the EJV contributed by the Group was satisfied by certain technical know-how owned by the Group in relation to the battery technology of LTO (lithium titanate) cell (the “**Intangible Assets**”), while the joint venture partner contributed its registered capital by the transfer of assets including, but not limited to, land use right, plant and equipment. Upon establishment of the EJV, the Group accounted for the EJV as an associate of the Company under equity method and recognised its share of net assets in the EJV.

Upon completion of the Dissolution during the year ended 31 December 2018, the Group had withdrawn such technical know-how from the EJV and recognized the fair value of its technical know-how previously contributed to the EJV of HK\$62.6 million as intangible assets, which was based on the valuation performed by an independent valuer as at the date of withdrawal of the Intangible Assets.

The fair value of the Intangible Assets was measured with reference to the value in use of the CGU (cash-generating unit) which was derived by the cash flow projections of the CGU prepared by the management, and one of the key assumptions of the projection is the Group would be able to obtain additional working capital required for the CGU.

During the year ended 31 December 2019 and for the sake of prudence, the Company provided impairment in full on the Intangible Assets.

Reason leading to the disclaimer of opinion in relation to the Intangible Assets

As one of the key assumptions of the cash flow projection of the CGU used for the measurement of the fair value of the Intangible Assets as disclosed above is yet to be substantiated to the satisfaction of the Auditor, the Auditor was unable to satisfy itself as to the carrying amount of the Intangible Assets as at 31 December 2020.

The Board's and the Audit Committee's views on the Auditor's disclaimer of opinion in relation to the Intangible Assets

The Board is of the view that, for prudence's sake, a provision for impairment should continue to be provided for in full on the Intangible Assets. The Audit Committee agreed with the position of the Board concerning major judgmental areas in respect of the carrying amount of the Intangible Assets.

As disclosed above, the Board and the Audit Committee are of the views that the Group will manage to have sufficient working capital for the operation and development of its business and the Intangible Assets may generate positive cashflow to the Company in the future. Based on the above, the Board and the Audit Committee are of the views that the disclaimer of opinion in relation to the intangible assets will not be carried forward to the year ending 31 December 2021.

5. Other receivables

The balance represented (i) value-added tax (“VAT”) receivables which were generated during the daily operation and ordinary course of business of the Group’s subsidiaries in the PRC; and (ii) other receivables due from third parties which were overdue for more than a year (the “**Overdue Receivables**”).

Background of the VAT receivables

VAT receivables shall be offset against any VAT payables from VAT taxable income generated in the PRC. Since the Group’s subsidiaries in the PRC did not generate sufficient VAT taxable income to offset the VAT payment during the Year, the Company provided impairment in full on the VAT receivables of approximately HK\$4.0 million for prudence’s sake during the year ended 31 December 2020.

Reason leading to the disclaimer of opinion in relation to the VAT receivables

Due to the factors concerning the material uncertainty about the Group’s ability to continue as a going concern as detailed above, the Auditor was unable to satisfy itself that the Group will or will not generate sufficient VAT taxable income in the PRC and respective VAT payables to offset such VAT receivables.

The Board’s and the Audit Committee’s views on the Auditor’s disclaimer of opinion in relation to the VAT receivables

The Board is of the view that, for prudence’s sake, a provision for impairment should be provided in full on the VAT receivables. The Audit Committee agreed with the position of the Board concerning major judgmental areas in respect of the carrying amount and impairment loss of the VAT receivables.

As disclosed above, the Board and the Audit Committee are of the views that the Group will manage to have sufficient working capital for the operation and development of its business and the Intangible Assets may generate positive cashflow to the Company in the future. The Group may generate sufficient VAT taxable income to offset the VAT receivables in the future. Based on the above, the Board and the Audit Committee are of the views that the disclaimer of opinion in relation to the VAT receivables will not be carried forward to the year ending 31 December 2021.

Background of the Overdue Receivables

The Overdue Receivables included (i) the consideration receivable from the purchaser (the “**Purchaser**”) of the disposal of equity interest of an investment in joint venture (the “**Consideration Receivable**”) amounted to approximately HK\$23.8 million; (ii) prepayments made to various vendors during the daily operation and ordinary course of business (the “**Prepayment to Vendors**”) amounted to approximately HK\$12.1 million and (iii) downpayments made to third parties for business development (the “**Down Payments**”) amounted to approximately HK\$2.4 million.

Reason leading to the disclaimer of opinion in relation to the Overdue Receivables

As the Overdue Receivables remained outstanding and there is limited information on the financial capability of the vendors and Purchaser, the Auditor could not satisfy itself in relation to the recoverability of the Overdue Receivables.

The Board's and the Audit Committee's views on the Auditor's disclaimer of opinion in relation to the Overdue Receivables

The Company has continued to maintain business relationship with the Purchaser. There is no indication the Purchaser will not settle the Consideration Receivable and the Company is not aware that the Purchaser is experiencing any financial difficulties. Given the Company's business relationship with the Purchaser and the relatively cautious business environment in the PRC as recovering from the impact of COVID-19, the Board and the Audit Committee considered it prudent and expedient to continue to request the Purchaser to settle the Consideration Receivable through negotiations so that the disclaimer of opinion in relation to the Consideration Receivable will not be carried forward to the Group's financial statements for the year ending 31 December 2021.

Also, the Board and the Audit Committee are of the views that, the Prepayment to Vendors and the Down Payments made to certain vendors and third parties will be utilised by the Company for business development and ordinary business operation, so that the disclaimer of opinion in relation to the Overdue Receivables will not be carried forward to the Group's financial statements for the year ending 31 December 2021.

6. Disposal of subsidiaries

Background

During FY2020, the Company entered into a number of sale and purchase agreements with third parties to dispose of its investments in several subsidiaries of the Company in the United States (the "US Subsidiaries") (the "Disposal"). The Group recorded a loss on disposal of US Subsidiaries of approximately HK\$0.1 million. The details of the Disposal are set out in note 34 to the consolidated financial statements.

Due to the hindrance of the COVID-19 epidemic in the United States during the Year, the registration of the Disposal with the relevant authority had been inevitably delayed. As at 31 December 2020 and up to the date of this report, the registration and filing process of the Disposal in the relevant authority is yet to be completed. For prudence's sake, the Company recorded the Disposal during the Year and the financial results of the US Subsidiaries were no longer consolidated into the consolidated financial statements of the Company.

Reason leading to the disclaimer of opinion in relation to the Disposal

The Audit Committee and the Board understood that the Auditor's disclaimer of opinion was based on insufficient audit evidence to ascertain the completion of the Disposal as the legal formalities of the Disposal are yet to be completed. As such, the Auditor was unable to satisfy itself in relation to the accuracy of the disclosure in relation to the Disposal.

The Board's and the Audit Committee's views on the Auditor's disclaimer of opinion in relation to the Disposal

The Board and the Audit Committee consider that the completion of the relevant registration and filing process in respect of the Disposal with the authorities is only procedural, the Disposal should for prudence's sake be recorded and the financial results of the US Subsidiaries should no longer be consolidated into the consolidated financial statements of the Company. Upon the completion of remaining legal formalities of the Disposal, the Board and the Audit Committee are of the views that the disclaimer of opinion in relation to the Disposal will not be carried forward to the year ending 31 December 2021.

7. *Prepayment to a supplier*

Background

The prepayment to a supplier (the “**Prepayment**”), which was made to XALT pursuant to certain supply agreement and was the core of a lawsuit commenced by XALT as disclosed in “Other Information – Update on the legal proceedings against members of the Group ” in this report. The Prepayment was recorded as trade and other receivables in the consolidated financial statements of the Company for the Year.

The Company originally intended to consider commencing arbitration proceedings against XALT and had engaged legal counsel in this regard. However, during the Year, the COVID-19 pandemic had continued to prevail, which had triggered multiple impacts, not only on the economy but also resulted in significant challenges for the legal systems, including both litigation and arbitration proceedings. Mandatory social isolation measures, limited resources and improvised solutions have undermined the capacity to maintain normal levels of access to legal services during the outbreak. The progress of work for the preparation of the application for arbitral proceedings had been delayed.

More importantly, the COVID-19 pandemic has put tremendous pressure on corporations and businesses worldwide to look for ways to prioritize the preservation and enhancement of financial strength and other resources against the unprecedented challenges posed by the pandemic during FY2020. The Company is no exception. Under the extraordinary situation, the Company considered it prudent and expedient to seek mitigation (through making efforts to try to re-open negotiations with the management of XALT (although the progress had been intermittently disrupted due to a change in shareholding structure and management of XALT and the change in the principal officer of the Group in charge of the negotiations), and only to pursue litigation or arbitral proceedings as a last resort.

Reason leading to the disclaimer of opinion in relation to the Prepayment

The Company had 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 with XALT). Given the recoverability of the Prepayment is subject to the outcome of any negotiations or litigations which are yet to materialise, the Auditor was yet to be satisfied on the recoverability of the Prepayment.

The Board's and the Audit Committee's views on the Auditor's disclaimer of opinion in relation to the Prepayment

The Board and the Audit Committee considered that (i) the stay of commencing any legal proceedings did not and does not have any material impact on the business operations of the Group; (ii) it is understandable, from the Auditor's audit perspective, that it is premature to evaluate whether any portion of the Prepayment to XALT is recoverable and recordation of the Prepayment in the consolidated financial statements for the Year was fairly stated and there are no present contingent liabilities to be recognized for the lawsuit.

The Company will continue to make efforts to gather further evidence that may possibly assist the Auditor in making the necessary assessment for the purposes of the audit. With a view to resolving the dispute with XALT and ultimately removing the audit issue over the Prepayment, the Company has designated new responsible officer(s) to follow up the negotiations with the new management of XALT. At the same time, the Company will continue to seek legal and other professional advice as to whether it would be, given the exceptional situation as a result of the COVID-19 pandemic, strategically appropriate or favourable for the Company to adopt a more proactive approach to commence the arbitration proceedings in Hong Kong or adopt any other alternative approach in the second half of 2021 for the recovery of the Prepayment, so that the disclaimer of opinion in relation to the Prepayment will not be carried forward to the Group's financial statements for the year ending 31 December 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the development and sale 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 strengths in the development of, among other things, advanced and high quality batteries, battery management systems and related technologies.

The global automotive industry is on an evolutionary fast track towards electric mobility. To capture the mass market of the high-tech electric motor vehicles successfully, the Company has put its faith in the continuous improvement of higher quality batteries, parts and technology to provide cleaner, safer and more robust power for electric vehicles.

During the Year, despite the highly challenging business environment under the global pandemic, the Group had continued to explore business development opportunities by leveraging its core strengths.

The Group did not settle in comfort zone following positive feedback received for the Group's show cars from the public after their debuts at international car shows. The Group had, instead, moved beyond and continued to identify and engage with different strategic alliances and business partnerships to, among other things, (i) research, develop and deploy technologies in the areas of high performance electrical systems architecture and battery technologies, (ii) establish and maintain manufacturing bases and (iii) explore the viability of different business models in an efficient and cost-effective manner.

The COVID-19 pandemic had, however, posed significant challenges to the Group's research and development progress, particularly in Europe and North America where the Group's major research and development function are based. This situation was aggravated by the uncertain macro-economic environment and generally cautious sentiment, which had affected adversely the progress of the Group's research and development projects, and significantly hindered the negotiation progress with potential business partners or investors.

Nevertheless, the Company believes its continuous efforts and perseverance will bring the Group's business development to the next level. These efforts include but not limited to the research and development of technological advancement in the automotive industry, reviewing and making reforms on its on-going projects, exploring, expanding or reinforcing the cooperation and collaboration with its business alliances and/or potential business partners. The Company is confident that the Group will gradually catch up as the global economy recovers from the pandemic in 2021, and will strive to achieve the next success milestone in the automotive industry.

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 2 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 packs 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.

Continuous development of high-tech electric motor vehicles

As regards 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.

FINANCIAL REVIEW

The Group's revenue and gross profit for the Year amounted to approximately HK\$21.8 million (2019: HK\$16.3 million) and HK\$0.18 million (2019: HK\$12.4 million). The Group's revenue and gross profit for the Year was primarily derived from and attributable to the sales and service income of advanced battery management systems and spare parts. The increase in revenue and gross profit for the Year was mainly due to higher discount given by the Group to its customers, which promoted sales and service income, under the testing business environment caused by the COVID-19 pandemic. The loss attributable to shareholders for the Year amounted to approximately HK\$100.8 million (2019: HK\$643.8 million). The loss for the Year was mainly attributable to (i) the administrative expenses of approximately HK\$89.9 million; and (ii) the share of loss of associates of approximately HK\$11.9 million.

The administrative expenses for the Year decreased to approximately HK\$89.9 million (2019: HK\$439.2 million) which was mainly attributed to net of (i) the decrease in research and development expenses from approximately HK\$208.8 million for the year ended 31 December 2019 to approximately HK\$1.6 million for the Year and (ii) the decrease in employee benefit expenses (including wages and salaries, pension costs and other benefits) from approximately HK\$87.3 million for the year ended 31 December 2019 to HK\$26.0 million for the Year.

The prolonged COVID-19 pandemic situation has significantly hindered the business development of the Group. In addition, the Group has experienced unprecedented difficulties in raising capital for its business development as potential investors are more cautious during the pandemic. As the business development had remained stagnant during the Year, there was no significant increase in the revenue and gross profit, or the financial performance, of the Group for the Year.

PROSPECTS

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

Since the outbreak of COVID-19 at the end of December 2019, the epidemic has been menacing and impacted 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 and any future plans for material investment or capital assets.

FUND RAISING ACTIVITIES DURING THE YEAR

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

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, 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, the net current assets of the Group were approximately HK\$316.9 million (31 December 2019: HK\$358.9 million). The cash and cash equivalents amounted to HK\$35.4 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 or otherwise.

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 dollar. 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.

OTHER INFORMATION

(1) 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 preparation of the arbitration process and the possible mediation, however, had not shown much progress during the Year primarily due to (i) a change in shareholding structure and management of XALT; (ii) a change in the principal officer of the Group in charge of the negotiations; and (iii) the prevalence of the COVID-19 pandemic, which had undermined the capacity of the legal systems to maintain normal levels of access to legal services and delayed the progress of work for the preparation of the application for arbitral proceedings. Further, since the COVID-19 had unleashed an unprecedented crisis globally during the Year, the Board considered it appropriate to accord priority to the preservation and enhancement of the financial strength and other resources of the Group, and only to pursue litigation or arbitral proceedings as a last resort.

While it is not entirely within the control of the Company as to whether or when the legal dispute or civil lawsuit will be resolved or concluded, the Group will continue to make efforts to, among other things, proactively approach the new management of XALT to re-activate the negotiations 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 the appropriate timing for initiation of the arbitration process 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 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 the extent of its 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.

SCOPE OF WORK OF THE AUDITOR 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 2020 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 the Auditor 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 the Auditor on this preliminary announcement.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 25 June 2021 to Wednesday, 30 June 2021 (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 Wednesday, 30 June 2021. 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 Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong by 4:30 p.m. on Thursday, 24 June 2021.

PUBLICATION OF 2020 ANNUAL RESULTS ANNOUNCEMENT 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>).

The Company’s annual report for the Year containing the information required by Appendix 16 to the Listing Rules will be despatched to the Company’s shareholders in due course.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange was suspended from 9:00 a.m. on 1 April 2021 and will remain suspended until further notice.

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

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

Hong Kong, 31 May 2021

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