HYBRID KINETIC GROUP LIMITED
正道集團有限公司
(incorporated in Bermuda with limited liability)
(Stock code: 1188)

ANNUAL RESULTS ANNOUNCEMENT 2022

The board of directors (the "**Board**" or the "**Directors**") of Hybrid Kinetic Group Limited (the "**Company**") would like to announce the audited consolidated financial results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2022 (the "**Year**") as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	**2022**	2021
		HK$'000	*HK$'000*
Revenue	*4*	**–**	2,571
Cost of sales		**–**	(1,585)
Gross profit		**–**	986
Other income	*5*	**448**	1,076
Administrative expenses		**(33,939)**	(46,070)
Loss on disposal of subsidiaries		**–**	(3,875)
Net losses on disposal of associates		**(143,566)**	–
Share of loss of associates		**–**	(7,070)
Impairment loss on trade and other receivables		**(443,098)**	–
Loss from operations		**(620,155)**	(54,953)
Finance costs	*7*	**(154)**	(300)
Loss before tax		**(620,309)**	(55,253)
Income tax expense	*8*	**–**	–
Loss for the year	*9*	**(620,309)**	(55,253)
Other comprehensive losses:			
Items that will not be reclassified to profit or loss:			
Fair value changes of equity investments at fair value through other comprehensive income		**(14,620)**	–
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations – Group		**(27,630)**	1,677
Exchange differences on translating foreign operations – Associates		**–**	6,620
Release of translation reserve upon disposal of associates		**18,038**	–
Release of translation reserve upon disposal of subsidiaries		**–**	4,161
		(9,592)	12,458

	Notes	**2022** *HK$'000*	2021 *HK$'000*
Other comprehensive (loss)/income for the year		**(24,212)**	12,458
Total comprehensive loss for the year		**(644,521)**	(42,795)
Loss for the year attributable to:			
Owners of the Company		**(620,248)**	(55,239)
Non-controlling interests		**(61)**	(14)
		(620,309)	(55,253)
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(644,304)**	(42,826)
Non-controlling interests		**(217)**	31
		(644,521)	(42,795)
Loss per share	*11*		
Basic *(cents per share)*		**(3.05)**	(0.27)
Diluted *(cents per share)*		**(3.05)**	(0.27)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Non-current assets			
Property, plant and equipment		**423**	1,595
Investment in associates	*12*	**–**	167,154
Equity investments at fair value through other comprehensive income	*13*	**–**	15,375
Intangible assets		**–**	–
		423	184,124
Current assets			
Inventories	*14*	**–**	103
Prepayments, deposits and other receivables	*15*	**21,450**	474,092
Bank and cash balances		**7,541**	16,435
		28,991	490,630
Current liabilities			
Trade and other payables	*16*	**92,340**	91,127
Loan from a shareholder	*17*	**114,300**	114,487
Lease liabilities		**1,449**	1,845
		208,089	207,459
Net current (liabilities)/assets		**(179,098)**	283,171
Non-current liabilities			
Lease liabilities		**843**	2,292
NET (LIABILITIES)/ASSETS		**(179,518)**	465,003
Capital and reserves			
Share capital		**2,035,287**	2,035,287
Reserves		**(2,216,284)**	(1,571,980)
Equity attributable to owners of the Company		**(180,997)**	463,307
Non-controlling interests		**1,479**	1,696
TOTAL EQUITY		**(179,518)**	465,003

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 Room 1002, 10th Floor, Infinitus Plaza, 199 Des Voeux Road Central, 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$620,309,000 and operating cash outflow of HK$17,020,000 for the year ended 31 December 2022 and as at 31 December 2022 the Group had net current liabilities of HK$179,098,000 and net liabilities of HK$179,518,000. 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 and the completion of the subscription of new shares in the Company, at a level sufficient to finance the working capital requirements of the Group. The major shareholder has agreed to provide adequate funds and an independent third party has conditionally agreed to subscribe for new shares in the Company 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 2022. 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.

	2022	2021
	HK$'000	*HK$'000*
Sales and service income of battery management systems and spare parts	**–**	2,571

Disaggregation of revenue from contracts with customers:

	2022	2021
	HK$'000	*HK$'000*
Geographical markets		
The People's Republic of China (the "**PRC**")	**–**	2,571
Major products/service		
Sales and service income of battery management system and spare parts	**–**	2,571
Timing of revenue recognition		
At a point in time	**–**	2,571

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

	2022	2021
	HK$'000	*HK$'000*
Interest income	**10**	14
Government grants	**264**	–
Gain on disposal of property, plant and equipment	**–**	740
Others	**174**	322
	448	1,076

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
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2022:				
Revenue	**–**	**–**	**–**	**–**
Segment loss	**(417,551)**	**(3,134)**	**(174)**	**(420,859)**
Depreciation	**(91)**	**(203)**	**(17)**	**(311)**
Other material non-cash items:				
Additions to segment non-current assets	**–**	**–**	**–**	**–**
At 31 December 2022:				
Segment assets	**3,670**	**345**	**248**	**4,263**
Segment liabilities	**6,331**	**6,015**	**1**	**12,347**
Year ended 31 December 2021:				
Revenue	–	2,571	–	2,571
Segment loss	(6,899)	(3,845)	(32)	(10,776)
Depreciation	(521)	(910)	(78)	(1,509)
Other material non-cash items:				
Additions to segment non-current assets	–	–	–	–
At 31 December 2021:				
Segment assets	429,096	14,417	2,236	445,749
Segment liabilities	6,957	25,121	1	32,079

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

	2022	2021
	HK$'000	*HK$'000*
Revenue:		
Total revenue of reportable segments and consolidated revenue	**–**	2,571
Profit or loss:		
Total loss of reportable segments	**(420,859)**	(10,776)
Corporate and unallocated profit or loss	**(199,450)**	(44,477)
Consolidated loss for the year	**(620,309)**	(55,253)
Assets:		
Total assets of reportable segments	**4,263**	445,749
Corporate and unallocated assets:		
– Equity investments at fair value through other comprehensive income	**–**	15,375
– Bank and cash balances held by the Group's headquarters	**1,520**	11,720
– Others	**23,631**	201,910
Consolidated total assets	**29,414**	674,754
Liabilities:		
Total liabilities of reportable segments	**12,347**	32,079
Corporate and unallocated liabilities		
– Others	**196,585**	177,672
Consolidated total liabilities	**208,932**	209,751

Geographical information:

	2022	2021
	HK$'000	*HK$'000*
Revenue:		
The PRC	**–**	2,571

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

Revenue from major customers:

	2022	2021
	HK$'000	*HK$'000*
Customer A	**Nil**	1,650
Customer B	**Nil**	587
Customer C	**Nil**	293

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

	2022	2021
	HK$'000	*HK$'000*
Non-current assets (other than financial assets):		
The PRC	**–**	167,846
Hong Kong and others	**423**	903
	423	168,749

7. FINANCE COSTS

	2022	2021
	HK$'000	*HK$'000*
Lease interests	**154**	300

8. INCOME TAX EXPENSE

	2022	2021
	HK$'000	*HK$'000*
Current tax		
– PRC Enterprise Income Tax		
Provision for the year	**–**	–
	–	–

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 (2021: 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:

	2022	2021
	HK$'000	*HK$'000*
Loss before tax	**(620,309)**	(55,253)
Tax on loss before income tax, calculated at the rates applicable to profit/loss in the tax jurisdictions concerned	**(124,109)**	(12,058)
Tax effect of non-taxable income	**(43)**	(180)
Tax effect of non-deductible expenses	**124,152**	12,238
Income tax expense for the year	**–**	–

9. LOSS FOR THE YEAR

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

	2022	2021
	HK$'000	*HK$'000*
Auditor's remuneration	**1,300**	1,300
Cost of inventories sold	**–**	1,585
Depreciation of property, plant and equipment	**485**	3,601
Depreciation of right-of-use assets	**–**	462
Loss/(gain) on disposal of property, plant and equipment	**14**	(740)
Loss on disposal of subsidiaries	**–**	3,875
Net losses on disposal of associates	**143,566**	–
Property, plant and equipment written off	**–**	8
Inventories written off	**–**	991
Impairment of property, plant and equipment	**510**	6,410
Impairment of right-of-use assets	**–**	3,278
Impairment loss on trade and other receivables *(note)*	**443,098**	–
Net exchange (gain)/loss	**(216)**	51
Staff costs including directors' emoluments		
– Salaries, bonus and allowances	**18,027**	18,791
– Retirement benefits scheme contributions	**388**	472
	18,415	19,263

Note:

During the year ended 31 December 2022, in respect of the dispute between the Group and Townsend Ventures LLC, XALT Energy LLC and XALT Energy MI, LLC (collectively "**XALT**"), the Company consulted its United States legal adviser and received a legal opinion, pursuant to which the legal adviser is of the view that, as the Company and XALT did not follow through the arbitration process against each other for over three years, each of the Company and XALT lost its rights to claim any damages or compensation from each other. Accordingly, an impairment of approximately HK$332,641,000 has been made by the Company on the respective balance during the year ended 31 December 2022.

During the year ended 31 December 2022, the Company has also applied to the competent authority to enforce an arbitration award regarding the profit guarantee resulting from the profit guarantee arrangement in respect of Jilin Meilai Zhongxin Timber Company Limited* 吉林美來中信木業有限公司 ("**Jilin Meilai**", together with its subsidiaries, "**Meilai Group**") as disclosed in the announcement of the Company dated 4 September 2020 which is secured by the equity interest in the investment of the debtor. Despite a ruling was made by the relevant arbitration commission in favour of the Company and the Company has attempted to enforce the arbitration award to recover assets from the guarantors in view of settling all or part of the compensation payable by the guarantors to the Company, the competent authority considered the guarantors do not have the capability of settling any of the compensation payable to the Company. Accordingly, the Company made an impairment in full of HK$72,341,000 on the respective other receivables during the year ended 31 December 2022.

During the year ended 31 December 2022, certain of the trade and other receivables was long overdue from the counterparty, the Company internally assessed the recoverability of the trade and other receivables and made an impairment of approximately HK$38,116,000 on the trade and other receivables.

10. DIVIDENDS

The directors do not recommend or declare the payment of any dividend in respect of the years ended 31 December 2022 and 2021.

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$620,248,000 (2021: HK$55,239,000) and the weighted average number of 20,352,873,000 (2021: 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 years ended 31 December 2022 and 31 December 2021.

12. INVESTMENT IN ASSOCIATES

	2022	2021
	HK$'000	*HK$'000*
Unlisted investments:		
Share of net assets	**–**	167,154

Details of the Group's associates at 31 December 2022 and 2021 are as follows:

Name	**Place of incorporation/ registration**	**Percentage of the Company's indirect ownership interest**		**Principal activities**
		2022	2021	
Shenzhen SUSTC Fuel Cell Company Limited*	The PRC	**Nil**	16.7%	Environmental automobile and related business, the PRC
Ningbo Joint Venture*	The PRC	**Nil**	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	
	2022	2021	**2022**	2021
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At 31 December:				
Non-current assets	**–**	383,091	**–**	–
Current assets	**–**	575,321	**–**	28,093
Non-current liabilities	**–**	–	**–**	(26,602)
Current liabilities	**–**	(30,508)	**–**	(705)
Net assets	**–**	927,904	**–**	786
Group's share of net assets	**–**	167,023	**–**	131
Up to disposal/Year ended 31 December:				
Revenue	**–**	35,870	**–**	–
Loss for the year	**–**	(39,277)	**–**	–
Other comprehensive loss	**–**	36,757	**–**	21
Total comprehensive loss for the year	**–**	(2,520)	**–**	21
Dividends received from associates	**–**	–	**–**	–

During the year ended 31 December 2022, the Group disposed of the equity interest in Ningbo Joint Venture for a cash consideration of approximately HK$1,164,000, resulting in a net loss on disposal of an associate of approximately HK$159,566,000.

During the year ended 31 December 2022, the Group disposed of the equity interest in Shenzhen SUSTC Fuel Cell Company Limited for a cash consideration of approximately HK$18,631,000, resulting in a net gain on disposal of an associate of approximately HK$16,000,000.

13. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022	2021
	HK$'000	*HK$'000*
Unlisted equity security		
吉林美來中信木業有限公司	–	15,375
	–	15,375

The above investment is intended to be held for the medium to long-term. Designation of this investment as equity investment at fair value through other comprehensive income can avoid the volatility of the fair value changes of this investment 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 Jilin Meilai at a consideration of RMB60,000,000. Jilin Meilai 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 2022, the Group holds 5% (2021: 5%) equity interest in Jilin Meilai.

14. INVENTORIES

	2022	2021
	HK$'000	*HK$'000*
Raw materials	–	3
Finished goods	–	100
	–	103

15. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

	2022	2021
	HK$'000	*HK$'000*
Trade receivables	**892**	1,055
Less: impairment losses	**(892)**	–
	–	1,055
Prepayment to a supplier	**332,641**	332,641
Prepayments to others	**4,895**	12,995
Deposits and other receivables	**130,460**	124,711
Amounts due from directors	**–**	2,690
	467,996	473,037
Less: impairment loss	**(446,546)**	–
	21,450	473,037
	21,450	474,092

Trade receivables

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

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

	2022	2021
	HK$'000	*HK$'000*
0 to 60 days	**–**	1,055

Impairment of trade receivables

Reconciliation of loss allowance for trade receivables:

	2022	2021
	HK$'000	*HK$'000*
At beginning of the year	**–**	–
Impairment on other receivables	**(921)**	–
Currency realignment	**29**	–
	(892)	–

Impairment of other receivables

Reconciliation of loss allowance for other receivables:

	2022	2021
	HK$'000	*HK$'000*
At beginning of the year	**–**	–
Impairment on other receivables	**(442,177)**	–
Currency realignment	**(4,369)**	–
	(446,546)	–

As at 31 December 2022, included in other receivables mainly represents an approximately of HK$19,178,000 are receivables from disposal of investments in associates.

As at 31 December 2021, included in other receivables mainly represents i) an approximately of HK$24,490,000 are receivables from disposal of investments in joint venture, ii) an approximately of HK$77,812,000 are receivables incurred from the profits guaranteed arrangement which is secured by equity interest of the debtor and iii) other receivables to third parties approximately of HK$2,427,000 are unsecured, interest-free and repayable on demand.

The management of the Company monitored the collectability of these receivables closely with reference to their respective current creditworthiness and repayment records. As at 31 December 2022, 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

	2022	2021
	HK$'000	*HK$'000*
Trade payables	**5,567**	6,043
Amount due to a director	**1,165**	–
Accruals and other payables	**85,608**	85,084
	92,340	91,127

Trade payables

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

	2022	2021
	HK$'000	*HK$'000*
Over 360 days	**5,567**	6,043

Amount due to a director is unsecured, interest-free and repayable on demand.

17. LOAN FROM SHAREHOLDER

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

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 2022.

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 approximately HK$620,309,000 and operating cash outflow of approximately HK$17,020,000 for the year ended 31 December 2022 and as at 31 December 2022 the Group had net current liabilities of approximately HK$179,098,000 and net liabilities of approximately HK$179,518,000. 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 (i) the major shareholder has agreed to provide adequate funds and (ii) the completion of the subscription of new shares in the Company 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 (i) the validity of the financial support from the major shareholder and (ii) completion of the subscription of new shares in the Company as described above. There are no other satisfactory audit procedures that we could adopt to determine whether the major shareholder and the subscriber have 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 due to limited financial and corporate information provided by the management to verify whether the Group's share of loss of associates of approximately HK$nil and HK$7,070,000 for the years ended 31 December 2022 and 2021, 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$167,154,000 as at 31 December 2021 is fairly stated; (ii) the net losses on disposal of associates of approximately HK$143,566,000 for the year ended 31 December 2022 are fairly stated; and (iii) 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$15,375,000 of an equity investment at fair value through other comprehensive income as at 31 December 2021 is fairly stated due to the ongoing litigation and the Company could not obtain the financial information to measure the fair value of such equity investment. We were also not able to satisfy ourselves as to whether the fair value losses on equity investment at fair value through other comprehensive income of approximately HK$14,620,000 for the year ended 31 December 2022 are fairly stated, however we are satisfied that the balance of HK$nil of the equity investment at fair value through other comprehensive income as at 31 December 2022 is fairly stated.

In addition, as stated in note 23 to the consolidated financial statements, the Group had an other receivables amount of approximately HK$77,812,000 as at 31 December 2021 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 2021. We were also not able to satisfy ourselves as to whether the impairment losses on such other receivables of approximately HK$72,341,000 for the year ended 31 December 2022 are fairly stated, however we are satisfied that the balance of HK$nil of such other receivables as at 31 December 2022 is fairly stated.

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$nil as at 31 December 2021 due to limited supporting documents provided for key assumptions of the cash flow projection used for the measurement of the fair value of the intangible asset. Since the intangible assets have been disposed through disposal of subsidiary, we are satisfied that the balance of HK$nil of intangible assets as at 31 December 2022 is fairly stated.

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$51,678,000 as at 31 December 2021 due to limited information on the financial ability of the debtors and whether such other receivables will be recovered. We were also not able to satisfy ourselves as to whether the impairment loss on such other receivables of approximately HK$37,195,000 for the year ended 31 December 2022 is fairly stated, however we are satisfied that the balance of HK$nil of such other receivables as at 31 December 2022 is fairly stated.

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, given the recoverability of the prepayment is subject to the outcome of any negotiations or litigations which are yet to materialize as at 31 December 2021, 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 2021 is fairly stated; (ii) the recoverability of prepayment to a supplier of approximately HK$332,641,000 as at 31 December 2021; and (iii) the existence and completeness of the disclosures of contingent liabilities in relation to the prepayment to the supplier as at 31 December 2021. We were also not able to satisfy ourselves as to whether the impairment loss on prepayment to a supplier of approximately HK$332,641,000 for the year ended 31 December 2022 is fairly stated, however we are satisfied that the balance of HK$nil of prepayment to a supplier as at 31 December 2022 is fairly stated.

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$nil and HK$3,875,000 for the year ended 31 December 2022 and 2021 are fairly stated due to limited financial information of disposed subsidiaries provided by the management. 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 2022 and 2021 and the financial positions of the Group as at 31 December 2022 and 2021, 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 2022.

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$620.3 million and operating cash outflow of HK$17.0 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 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.

On 1 February 2023, the Company and the Major Shareholder entered into a shareholder's loan agreement, pursuant to which the Major Shareholder has agreed to make available a shareholder's loan in the amount of HK$200.0 million on or before 31 December 2023 to finance the working capital requirement of the Group.

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 and provided by the Major Shareholder and the Company 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 all possible financial alternatives including but not limited to equity financing, debt financing, rights issue, open offer or bank borrowings.

As disclosed in the announcement of the Company dated 26 September 2022, the Company entered into a subscription agreement dated 20 September 2022 with M6 Investments L.L.C., an independent third party (the "**Subscriber**"), pursuant to which the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for 2,000,000,000 new shares in the Company at the subscription price of HK$0.10 per share (the "**Subscription**"). The proceeds from the Subscription is intended to be used for the settlement of the promissory notes to be issued by the Company under the Acquisition (as defined below).

In addition, during the year ended 31 December 2022, the Company entered into non-legally binding memorandum of understanding with each of China Alpha Fund Management (HK) Limited, and J-Stone Capital Limited (the "**Potential Subscribers**"), corporations licensed to conduct type 4 (advising on securities) and type 9 (asset management) regulated activities in Hong Kong and independent third parties of the Company, pursuant to which the Potential Subscribers have conditionally agreed to subscribe for new shares of the Company in an aggregate consideration of HK$300 million. In the event the subscriptions by any of the Potential Subscribers materialise, the Company will publish further announcement(s) to notify the shareholders and potential investors as and when appropriate.

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 were 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 believes that, the Company will manage to have sufficient working capital for the operation and development of the Group's business, or in the event of resumption of trading of the shares of the Company, the Company will have sufficient capital to proceed with the Acquisition (as defined below) to accelerate the development of its electric vehicle 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 2023.

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 2023 based on (a) the Major Shareholder, who has been demonstrating his continued commitment and support towards the Group, entering into the shareholder's loan agreement with the Company; (b) the Subscription; and (c) the Company's continued exploration of fund raising opportunities and collaborations with potential business partners and investors, including but not limited to the potential subscription of shares by the Potential Subscribers.

2. Share of loss of associates and investment in associates

Background of disclaimer of opinion

The Company's investment in associates mainly represented the Company's (i) 16.7% equity interest in Shenzhen SUSTC Fuel Cell Company Limited ("**Shenzhen SUSTC**"); and (ii) 18% equity interest in Ningbo Jingwei Power Battery Co., Ltd. ("**Ningbo Joint Venture**"), the carrying amount of which amounted to approximately HK$167.2 million as at 31 December 2021.

Given the Company only held minority interests in the above associates 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 the associates during the years ended 31 December 2021 and 2022.

Ningbo Joint Venture

Ningbo Joint Venture is principally engaged in the research, development, production and sale of power batteries, batteries materials and control systems of motor, and the development of technology in manufacturing key parts of new energy vehicles.

As disclosed in the announcement of the Company dated 19 October 2022, on 27 September 2022, the Group entered into an equity transfer agreement in relation to the disposal of the 18% equity interest in Ningbo Joint Venture held by the Group to an independent third party to the Company (the "**Ningbo JV Disposal**").

Shenzhen SUSTC

Shenzhen SUSTC is principally engaged in the research, development, production and sale of power batteries, batteries materials and control systems of motor, and the development of technology in manufacturing key parts of new energy vehicles.

As disclosed in the announcement of the Company dated 13 December 2022, the Group entered into an equity transfer agreement in relation to the disposal of the entire equity interest in Shenzhen SUSTC held by the Group to an independent third party to the Company. (the "**SUSTC Disposal**").

Basis of resolving the disclaimer of opinion for the year ending 31 December 2023

Upon the completion of the Ningbo JV Disposal and the SUSTC Disposal, the Group ceased to have any equity interest in the Ningbo Joint Venture and Shenzhen SUSTC. The Group recorded loss of disposal of associates of approximately HK$143.6 million during the year ended 31 December 2022.

The Audit Committee and the Board understood that the Auditor's disclaimer of opinion was based on insufficient audit evidence to ascertain the fair value of the investment in associates as at 31 December 2021 due to limited operations of Ningbo Joint Venture and limited financial and corporate information provided by the management of Ningbo Joint Venture. Accordingly, the Auditor is unable to ascertain the respective amount of loss on disposal to be recognised in the income statement of the Company for the year ended 31 December 2022.

Based on the above and after discussion with the Auditor, given (i) the disposal of the equity interest in Ningbo Joint Venture and Shenzhen SUSTC; and (ii) the loss on disposal was recognised during the year ended 31 December 2022, the Board and the Audit Committee are of the view that the disclaimer of opinion in relation to share of loss of associates and investment in associates has been resolved and will not be carried forward to the year ending 31 December 2023.

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 2021 and 2022 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% of the equity interest in the Meilai Group by the Group (the "**Meilai Investment**"). On 27 May 2016, the Group and another independent third party investor entered into a subscription agreement (the "**Meilai Subscription Agreement**") with the then shareholders of the Meilai Group, pursuant to which the Group agreed to make the Meilai Investment at a consideration of RMB60 million (the "**Meilai 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$15.4 million as at 31 December 2021.

Profit Guarantee and Compensation Payable

Pursuant to the Meilai Subscription Agreement, certain then shareholders of the Meilai Group (the "**Guarantors**") covenanted and guaranteed to the Group that the accumulated audited consolidated net profit after tax attributable to the shareholders of of Jilin Meilai should not be less than RMB160 million, RMB 450 million and RMB920 million respectively for each of 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 the year ended 31 December 2018 and reclassified to other receivables for the year ended 31 December 2019 under the consolidated financial statements of the Company. As at 31 December 2021, the carrying amount of the Compensation Payable was approximately HK$77.8 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**"). On 2 July 2021, the Arbitration Commission handed down the award in relation to the Arbitration (the "**Arbitration Award**"), pursuant to which the Guarantors shall, within 30 days of the Arbitration Award, pay the Group RMB60.0 million together with interest at a rate of 12% per annum amounting to no less than approximately RMB33.0 million for buying back the Group's 5% equity interest in the Meilai Group.

As the Guarantors had yet to fulfill the Arbitration Award handed down by the Arbitration Commission, the Group had in September 2022 applied to the competent authority for an execution order against the Guarantors to enforce the Arbitration Award. In late 2022, while the competent authority issued a draft execution order, pursuant to which the Company has attempted to enforce such order to recover assets from the Guarantors, the competent authority further considered that the Guarantors do not have the capability of settling any of the compensation payable to the Company.

Based on publicly available information, (i) the Group noted that the Guarantors are designated by the competent authority as defaulted executees who are now restricted in spending and involved in a number of litigations; and (ii) the court and the relevant authority has attempted to execute orders to recover assets from the Guarantors in view of settling all or part of the Arbitration Award, but considered the Guarantors do not have the capability and is unlikely to have sufficient asset to settle any of the Arbitration Award. As such, the Company considered it is unlikely the Meilai Investment and Compensation Payable will be recoverable and accordingly the Company provided impairment in full on the carrying amounts during the year ended 31 December 2022.

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

Due to the dispute and the outcome of the Arbitration, the Meilai Group had not been cooperative and the Group could not obtain the latest consolidated management accounts of the Meilai Group for the years ended 31 December 2020 and 2021. 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 Compensation Payable.

Given (i) the difficulty in obtaining the audited financial statement of the Meilai Group for the year ended 31 December 2021; and (ii) the Guarantors were yet to fulfill the Arbitration Award, 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 as at 31 December 2021. Accordingly, the Auditor was also unable to satisfy itself on the amount of impairment loss to be recognised on the Meilai Investment and Compensation Payable in the income statement of the Group for the year ended 31 December 2022.

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

In assessing the recoverability of the Compensation Payable as at 31 December 2021, the Board and the Audit Committee are of the view that the Compensation Payable and the Meilai Investment could be recovered in the event the Arbitration Award is fulfilled by the Guarantors voluntarily or through enforcement or other orders applied or to be applied by the Group.

The Board and Audit Committee understood that the Auditor had indicated that the grant of the Arbitration Award might only serve as a reference but could not be taken as substantial audit evidence as to the recoverability of the Compensation Payable as at 31 December 2021 because the Guarantors have yet to fulfill the Arbitration Award.

As further publicly available information has come to light where (i) the Guarantors are designated as defaulted executees by the relevant authority who are now restricted in spending and involved in a number of litigations; and (ii) the court and the relevant authority has attempted to execute orders to recover assets from the Guarantors in view of settling all or part of the Arbitration Award, but considered the Guarantors do not have the capability of settling any of the Arbitration Award, after discussion with the Auditor, the Board and the Audit Committee consider it is unlikely the Guarantors have sufficient assets for settlement of the Arbitration Award. As such, the Company provided impairment in full on the Meilai Investment and Compensation Payable during the year ended 31 December 2022.

Based on the above and discussion with the Auditor, the Board and the Audit Committee are of the view that, given the Company has provided impairment in full on the Meilai Investment and Compensation Payable, the disclaimer of opinion in relation to the equity investments at fair value through other comprehensive income has been resolved and will not be carried forward to the Group's financial statements for the year ending 31 December 2023.

4. Intangible assets

Background of the intangible assets

The intangible assets represented certain technical know-how owned by the Group in relation to the battery technology of LTO (lithium titanate) cell (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. Due to the constraint in working capital of the Group and for prudence's sake, during the year ended 31 December 2019, the Company provided impairment in full on the Intangible Assets.

During the year ended 31 December 2022, as the entity holding the Intangible Assets has been disposed of by the Group, the Group no longer recognise the Intangible Assets on its financial statements.

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 2021.

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

Based on the above and discussion with the Auditor, the Board and the Audit Committee (i) understood the basis of disclaimer of opinion in relation to the carrying amount of the Intangible Assets as at 31 December 2021; and (ii) are of the view that the disclaimer of opinion in relation to the Intangible Assets has been resolved and will not be carried forward to the year ending 31 December 2023.

5. Other receivables

The other receivables mainly 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 ended 31 December 2021, the Company provided impairment in full on the VAT receivables for prudence's sake during the year ended 31 December 2022.

Background of the Overdue Receivables

The Overdue Receivables mainly represented (i) the consideration receivable from a third party (the "**Purchaser**") for the disposal of equity interest of an investment in a company in the PRC amounted to approximately HK$24.5 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) down payments 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

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 as at 31 December 2021.

As the Overdue Receivables remained outstanding and there is limited information on the financial capability of the vendors and the Purchaser, the Auditor could not satisfy itself in relation to the recoverability of the Overdue Receivables as at 31 December 2021.

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

Based on the above and discussion with the Auditor, the Board and the Audit Committee are of the view that, as the VAT receivables and Overdue Receivables were long overdue and it is unlikely the Group can recover such balances, the respective balances shall be impaired in full, so that the disclaimer of opinion in relation to the Overdue Receivables has been resolved and will not be carried forward to the Group's financial statements for the year ending 31 December 2023.

6. *Disposal of subsidiaries*

Background

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 "**US Disposal**") for the year ended 31 December 2021. The Group recorded a loss on disposal of the US Subsidiaries of approximately HK$3.9 million for the year ended 31 December 2021.

Due to the hindrance of the COVID-19 pandemic and the subsequent omicron variant wave in the United States during the year ended 31 December 2021, the registration and filing process of the US Disposal with the relevant authority had been inevitably delayed and is yet to be completed. Nevertheless, as such registration and filing process is only procedural, the Company recorded the US Disposal for the years ended 31 December 2021, 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 US 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 US Disposal for the as the legal formalities of the Disposal are yet to be completed as at 31 December 2021. As such, the Auditor was unable to satisfy itself in relation to the accuracy of the disclosure in relation to the US Disposal for the year ended 31 December 2021.

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

As the registration of the US Disposal has been completed during the year ended 31 December 2022, after discussion with the Auditor, the Board and the Audit Committee consider that the disclaimer of opinion in relation to the US Disposal has been resolved and will not be carried forward to the Group's financial statements for the year ending 31 December 2023.

7. Prepayment to a supplier

Background

The prepayment to a supplier (the “**Prepayment**”) represents the prepayment made to XALT pursuant to certain supply agreement (the “**Supply Agreement**”) and was the core of a lawsuit commenced by Townsend Ventures LLC, XALT Energy LLC and XALT Energy MI, LLC (collectively, “**XALT**”) towards the Company and one of its wholly-owned subsidiary as disclosed in “Other Information – Update on the legal proceedings against members of the Group” herein and in the annual report of the Company for the year ended 31 December 2021.

During the course of exploring commencement of arbitration proceedings against XALT, the Company had engaged legal counsel and sought legal opinion in respect of the laws of the United States on the feasibility of any arbitration proceedings (the “**US Legal Opinion**”).

According to the US Legal Opinion, under the laws of the State of Maryland, the limitation period of breach of contract claims is three years. Accordingly, any request of arbitration for any claims arising out of the Supply Agreement must be filed by 30 August 2020, being three years after the court’s order on the Company’s request to conduct arbitration.

The Board is of the view that, having considered the reasonable efforts made to search for the additional information to commence arbitration proceedings and possible mediation all these years and the Group’s financial condition and resources currently available to the Company, the Board has decided not to further pursue arbitration proceedings in this regard at this stage.

Reasons 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 Company may not commence any form of legal proceedings, the recoverability of the Prepayment is remote, the Auditor was yet to be satisfied on the recoverability of the Prepayment as at 31 December 2021.

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 discontinuation of legal proceedings against XALT did not and does not have any material impact on the business operations of the Group; and (ii) it is understandable, from the Auditor's audit perspective, that the information available at this stage may not be sufficient for the Auditor to evaluate whether (1) any portion of the Prepayment is recoverable and the carrying amount of the Prepayment as at 31 December 2021 was fairly stated; (2) the completeness of the disclosures of respective contingent liabilities as at 31 December 2021; and (3) the impairment losses on the Prepayment for the year ended 31 December 2022 was fairly stated.

Pursuant to the US Legal Opinion, as the Group and XALT did not follow through the arbitration process against each other over three years, each of the Group and XALT lost its rights to claim any damages or compensations from each other. Accordingly, the Board and the Audit Committee consider it is appropriate to provide impairment in full on the Prepayment during the year ended 31 December 2022.

Since the Prepayment has been fully impaired during the year ended 31 December 2022 and the disclaimer of opinion are only related to the comparative figure for the financial statement for the year ended 31 December 2022, after discussion with the Auditor, the Board and the Audit Committee the disclaimer of opinion in relation to the Prepayment has been resolved and will not be carried forward to the Group's financial statements for the year ending 31 December 2023.

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 development of electric vehicles for over a decade. 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.

The prolonged COVID-19 pandemic has, however, continued to pose significant challenges to the Group's research and development progress. In the first half of 2022, the Group experienced a number of adversities concurrently, a rare situation that the Group had never encountered previously. The governments of Hong Kong Special Administrative Region (the "**HKSAR**") and the People's Republic of China (the "**PRC**") have been implementing stringent social distancing measures since the beginning of the COVID-19 outbreak in 2019, lock down measures have also been further implemented in response to the 5th wave of the pandemic in light of an exponential rise in confirmed cases. This situation was aggravated by the uncertain macro-economic environment and generally cautious and conservative market sentiment, which had adversely affected the progress of the Group's research and development projects, and significantly hindered the negotiation progress with potential business partners or investors.

As a result of the aforementioned stringent social distancing and lock down measures implemented by the PRC and HKSAR governments, coupled with the uncertainties in the global economy, business and sales activities of the Group had been significantly disrupted during the Year. The Group recorded nil revenue and gross profit for the Year as compared to a revenue of HK$2.6 million and gross profit of HK$1.0 million as recorded for the year ended 31 December 2021.

The Group implemented effective and strict cost control policies, the distribution costs and general operating expenses for the Year decreased to approximately HK$33.9 million (2021: HK$46.1 million), which consisted of employee benefit expenses (including wages and salaries, pension costs and other benefits) of approximately HK$18.4 million (2021: HK$19.3 million) and depreciation expenses of approximately HK$0.5 million (2021: HK$4.1 million).

Nevertheless, the Company believes its continuous efforts and perseverance will bring the Group's business development back on track or even 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 2023, and will strive to achieve the next success milestone in the automotive industry.

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.

FINANCIAL REVIEW

The Group's revenue and gross profit for the Year amounted to approximately HK$Nil (2021: HK$2.6 million) and HK$Nil million (2021: HK$1.0 million). The loss attributable to shareholders for the Year amounted to approximately HK$620.3 million (2021: HK$55.3 million). The loss for the Year was mainly attributable to (i) the administrative expenses of approximately HK$33.9 million; (ii) loss on disposal of associates of approximately HK$143.6 million; and (iii) impairment loss on trade and other receivables of approximately HK$443.1 million.

The administrative expenses for the Year decreased to approximately HK$33.9 million (2021: HK$46.1 million) which was mainly attributed to net of (i) the decrease in depreciation expenses for the Year and (ii) the decrease in employee benefit expenses (including wages and salaries, pension costs and other benefits) from approximately HK$19.3 million for the year ended 31 December 2021 to HK$18.4 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 cautions during the pandemic. As such, business development had remained stagnant during the Year and there was no significant increase in the revenue and gross profit, or the financial performance, of the Group for the Year.

PROSPECT AND BUSINESS DEVELOPMENT OF THE GROUP

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

Development of electric vehicles

The Group is engaged in development of electric motor vehicle for over a decade.

After experiencing years of concept and prototype development, the Group possesses technological capabilities in all major areas and component for the production of an electric vehicle. After launching a series of prototypes and concept cars in various international car shows since 2017, the Group received positive feedbacks and continued to optimise the prototypes to improve the competitiveness of its product portfolio.

Building on the above success, the Company had formulated a plan to transit into the production stage. As such, the Group was exploring opportunities to enter into the stage of product and manufacturing process development, industrialisation and production. Nevertheless, the operation of the Group was significantly affected by the outbreak of COVID-19 as the collaboration between the international research and development team of the Group was restricted. In addition, the Group's negotiation with the business partners and authorities for the establishment of manufacturing bases were also inevitably suspended. The cautious investment sentiment has further stalled any negotiation progress with the business partners. As such, there has been no material development in the transition into the industrialisation since the outbreak of COVID-19.

Upon gradual recovery of the impact of COVID-19 in the PRC and in the event the financing opportunities materialise, the Group may commence its development plan for industrialisation, including but not limited to (i) renovation of the existing facilities for assembly area; (ii) procurement and fine-tuning of robotic arms for production; (iii) optimisation of manufacturing process and engineering parts of the components; and (iv) obtaining the relevant permissions and registration in mass production of electric vehicles in the PRC. In the event the above implementation plan realises on or before the second half of 2023, it is expected that the Company may be able to launch mass production by the end of 2024.

Proposed acquisition

To facilitate the development of electric vehicles and expansion of manufacturing capability of components of electric vehicles, the Group has continued to identity potential collaboration or acquisition opportunities.

On 28 August 2022, the Company entered into a sale and purchase agreement for a proposed acquisition of the entire equity interest of Best Knob International Limited together with its subsidiaries, (the "**Target Group**") (the "**Acquisition**"), which are principally engaged in manufacturing of automobile parts, including transmission gearbox, systems and accessories. Details of the Acquisition are disclosed in the announcement of the Company dated 17 October 2022.

Leveraging on the Group's experience, know-how and technology in battery systems and designs of high-tech electric motor vehicles, and the transmission system and customer portfolio of the Target Group, the Company considers the Acquisition may create synergy effect by (i) allowing the Group to expand its manufacturing capability for the industrialisation of its electric vehicles; (ii) expanding the sales channel of the Group's products to leading automobile manufacturers in the PRC; (iii) integrating the supply of transmission parts of the Target Group together with the battery packs and system of the Group; and (iv) accelerating the continuous research and development of battery and electric vehicle technologies.

In the event the above development plan materialises, the Company is confident that the Group will secure stable revenue stream to continue the development of electric vehicles and improve the profitability of the Group in the future.

Financing opportunities

On top of the ongoing financial support of the Major Shareholder, the Board has been proactively exploring all possible financial alternatives including but not limited to equity financing, debt financing, rights issue, open offer or bank borrowings, to finance its business development.

In particular, the Company entered into a subscription agreement for the Subscription in September 2022 as further set out in the section headed "Fund Raising Activities During the Year" below in this announcement. In addition, during the year ended 31 December 2022, the Company also entered into non-legally binding memorandum of understanding with the Potential Subscribers for potential subscriptions of new Shares in the aggregate consideration of HK$300 million.

In the event the above financing opportunities arise, the Company is confident that it will be able implement its business development plan to develop the electric vehicle business.

MATERIAL ACQUISITION OR DISPOSAL

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

(i) On 28 August 2022, the Company entered into a sale and purchase agreement for the Acquisition at a consideration of HK$392 million, which will be settled by the issuance of promissory notes in the principal amount of HK$392 million. As at the date of this announcement, the Company is in the course of conducting financial due diligence on the Target Group and the Acquisition is yet to be completed. Details of the Acquisition are disclosed in the announcements of the Company dated 17 October 2022 and 8 March 2023.

(ii) On 27 September 2022, the Group entered into an equity transfer agreement with an independent third party, pursuant to which the Group has agreed to sell and an independent third party has agreed to acquire 18% equity interest in the Ningbo Joint Venture at a consideration of RMB1.0 million. Details of the disposal are disclosed in the announcement of the Company dated 19 October 2022.

(iii) On 13 December 2022, the Group entered into an equity transfer agreement with an independent third party, pursuant to which the Group has agreed to sell and an independent third party has agreed to acquire 14.2857% equity interest in Shenzhen SUSTC at a consideration of RMB16.0 million. Details of the disposal are disclosed in the announcement of the Company dated 13 December 2022.

FUND RAISING ACTIVITIES DURING THE YEAR

On 20 September 2022, the Company and the Subscriber entered into a subscription agreement, pursuant to which the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for 2,000,000,000 new shares in of the Company at the subscription price of HK$0.10 per share (the "**Subscription**"). Details of the Subscription are disclosed in the announcement of the Company dated 26 September 2022. As at the date of this announcement, the Subscription are yet to be completed.

Save for the Subscription, the Company had not undertaken any fund raising activity.

CONTINGENT LIABILITIES

As at 31 December 2022, the Group did not have any material contingent liabilities.

SIGNIFICANT INVESTMENTS

The Group did not hold any material investments during the Year.

As at the date of this announcement, save as disclosed elsewhere in this announcement, the Group does not have any plan for material investment or capital assets for the year ending 31 December 2023.

IMPORTANT EVENTS AFTER REPORTING PERIOD

Save for the passing away of Dr Zhu Shengliang, an executive director of the Company as announced by the Company on 4 January 2023 and the shareholder's loan agreement entered into between the Company and the Major Shareholder on 1 February 2023 as disclosed in this announcement, there are no other important events affecting the Group which have occurred since the end of the Year up to the date of this announcement.

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

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

LIQUIDITY AND FINANCIAL RESOURCES, CAPITAL STRUCTURE AND TREASURY POLICY

As at 31 December 2022, the total defficiency in equity of the Group amounted to approximately HK$179.5 million (31 December 2021: Equity of HK$465.0 million).

The gearing ratio of the Group as at 31 December 2022 measured in terms of total liabilities divided by shareholders' equity was approximately 116.4% (31 December 2021: 45.1%).

As at 31 December 2022, the net current liabilities of the Group were approximately HK$179.1 million (31 December 2021: net current assets of HK$283.2 million). The cash and cash equivalents amounted to HK$7.5 million (31 December 2021: HK$16.4 million). The Group has an outstanding shareholder's loan of HK$114.3 million (31 December 2021: HK$114.5 million), which is unsecured, interest-free and repayable on demand.

As at 31 December 2022, no borrowing was made by the Group.

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 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 2022, none of the assets of the Group had been pledged (31 December 2021: Nil) 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 2022 (31 December 2021: 60 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. During the Year, staff costs (including Director's remuneration) was approximately HK$18.4 million (31 December 2021: approximately HK$19.3 million).

OTHER INFORMATION

Update on the legal proceedings against members of the Group

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 2020 annual report of the Company), the Company had continued to seek legal advice to prepare for the initiation of the arbitration proceedings while exploring possible mediation with XALT during the Year.

Having considered (i) the reasonable efforts made by the Group to search for the additional information to commence arbitration proceedings and possible mediation all these years; (ii) the US Legal Opinion in respect of the laws of the United States as disclosed herein; and (iii) the Group's financial condition and resources currently available to the Company, the Board has decided not to further pursue legal proceedings in this regard at this stage.

While it is not entirely within the control of the Company as to whether or when the legal dispute or civil lawsuit against the Group will be resolved or concluded, the Group will continue to make efforts to, among other things, (i) seek professional advice to explore possibilities of recovering any of the Prepayments; and (ii) 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 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.

RESUMPTION PROGRESS

References are made to (i) the Company's announcement dated 1 April 2021 in relation to the suspension of trading in the Shares on the Stock Exchange, (ii) the Company's announcement dated 22 June 2021 in relation to the guidance (the "**Resumption Guidance**") laid down by the Stock Exchange for the resumption of trading in the Shares (the "**Resumption**") and (iii) the Company's announcements dated 30 June 2021, 30 September 2021, 31 December 2021, 31 March 2022, 30 June 2022, 13 October 2022 and 9 January 2023 in relation to the quarterly updates on the Company's progress of Resumption.

Since the suspension of trading in the Shares, the Company has been actively identifying potential business opportunities for strategic investment, cooperation and/or collaboration with renowned organisations, 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 beneficial to the sustainable development, expansion and diversification of the Group's business. As detailed in the section headed "Prospect and business development of the Group" above, the Company had formulated a plan in developing its electric vehicle business, particularly the transition into the production stage and the proposed Acquisition to accelerate the development. Please refer to the potential Acquisition as disclosed in the announcement of the Company's announcement dated 17 October 2022. The Company has also been taking steps to explore and formulate viable solutions to address the Stock Exchange's concerns and fulfil the requirements of the Stock Exchange under the Resumption Guidance.

The Company will keep its shareholders and potential investors updated of the development of its business operations, its Resumption plan(s) and expected timetable, the progress of implementing the Resumption plan(s) (and any material changes thereof) as well as any other relevant matters as and when appropriate in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the requirements of the Stock Exchange.

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 has applied the principles and complied with the code provisions set out in Part 2 of the Corporate Governance Code as set out in Appendix 14 to 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 as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its own code of conduct governing securities transactions by the Directors. All Directors, after specific enquiries by the Company, had confirmed to the Company their compliance with the required standards set out in the Model Code during the Year.

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 2022 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 Monday, 22 May 2023 to Thursday, 25 May 2023 (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 Thursday, 25 May 2023. 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 Friday, 19 May 2023.

PUBLICATION OF 2022 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, 15 March 2023

As at the date of this announcement, the Board comprises five executive Directors, namely Dr Yeung Yung (Chairman), Mr Feng Rui (Chief Executive Officer), Mr Liu Stephen Quan, Mr Li Zhengshan 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.