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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)

**FULFILLMENT OF RESUMPTION GUIDANCE
AND
RESUMPTION OF TRADING**

Financial adviser of the Company



Reference is made to the Resumption Guidance Announcement of the Company dated 22 June 2021 in relation to the Resumption Guidance imposed by the Stock Exchange on the Company in respect of the resumption of trading in the Company's shares on the Stock Exchange. As at the date of this announcement, the Company has fulfilled all the Resumption Guidance to the satisfaction of the Stock Exchange.

RESUMPTION OF TRADING

Trading in the Shares on the Stock Exchange has been suspended since 1 April 2021. Since the Resumption Guidance has been fulfilled, the Company has made an application to the Stock Exchange for the resumption of trading of the Shares with effect from 9:00 a.m. on 27 April 2023 on the Stock Exchange.

1. BACKGROUND

References are made to:

- (i) the announcement of the Company dated 31 May 2021 in relation to the 2020 Annual Results;
- (ii) the announcement of the Company dated 22 June 2021 in relation to the Resumption Guidance;
- (iii) the announcements of the Company 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 business operations and the resumption progress of the Company; and
- (iv) the announcement of the Company dated 15 March 2023 in relation to the 2022 Annual Results.

Trading in the Shares on the Stock Exchange has been suspended since 1 April 2021. On 17 June 2021, the Company received the Resumption Guidance from the Stock Exchange, in which the Stock Exchange set out the following guidance for the resumption of trading in the Shares:

1. **Resumption Guidance 1:** address the issues giving rise to the disclaimer of opinion on the financial statements for FY2020, provide comfort that the Disclaimer of Opinion in respect of such issues would no longer be required and disclose sufficient information to enable investors to make an informed assessment of its financial positions as required under Rule 13.50A of the Listing Rules;
2. **Resumption Guidance 2:** demonstrate the Company's compliance with Rule 13.24 of the Listing Rules; and
3. **Resumption Guidance 3:** inform the market of all material information for the Company's shareholders and investors to appraise the Company's position.

2. FULFILMENT OF RESUMPTION GUIDANCE

The Board is pleased to announce that, the Company has fulfilled the requirements under the Resumption Guidance.

The details of the fulfilment of the Resumption Guidance are set out as follows:

1. Resumption Guidance 1

The following sets forth the details of the Disclaimer of Opinion and the views of the Board and the Audit Committee regarding the Disclaimer of Opinion:

(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 FY2022. 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 FY2022 were prepared on a going concern basis, the validity of which depends upon, among other matters, (i) the continuing financial support from Dr. Yeung, the major shareholder of the Company; and (ii) the ability of the Company to successfully raise funds for the Group at a level sufficient to finance the working capital of the Group.

Continuing financial support from Dr. Yeung

On 28 September 2022, the Company and Dr. Yeung entered into a shareholder's loan agreement, pursuant to which Dr. Yeung has agreed to make available a shareholder's loan in the amount of HK\$200.0 million (the "Shareholder's Loan") on or before 30 November 2022 to finance the working capital requirement of the Group.

Subsequently, on 1 February 2023, the Company and Dr. Yeung entered into a supplemental shareholder's loan agreement for extending the availability of the Shareholders' Loan to 31 December 2023.

In order to assess the financial ability of Dr. Yeung and the validity of the financial support from him, the evidence and supporting documents requested by the Auditor and provided by Dr. Yeung and the Company included, but not limited to, proof of funds of the Dr. Yeung demonstrating that he has the financial ability to provide support to the Company.

Other fundraising opportunities

As disclosed in the announcement of the Company dated 26 September 2022, the Company entered into a subscription agreement dated 20 September 2022 with 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, which is intended to be used for the settlement of the promissory notes to be issued by the Company under the Acquisition. On 31 March 2023, the Company and the Subscriber entered into a supplemental agreement, pursuant to which the Company and the Subscriber agreed to extend the deadline of completion of the above subscription to 30 September 2023.

In addition, during FY2022, the Company entered into non-legally binding memorandum of understanding with each of China Alpha Fund Management (HK) Limited and J-Stone Capital Limited, which are Independent Third Parties, pursuant to which China Alpha Fund Management (HK) Limited and J-Stone Capital Limited have conditionally agreed to subscribe for new shares of the Company in an aggregate consideration of HK\$300 million.

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 FY2022. As such, the Audit Committee agreed with the Management's view that the consolidated financial statements of the Group for FY2022 were prepared on a going concern basis.

With the continuing support from Dr. Yeung, together with the unwavering efforts and commitment of the 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 can manage to have sufficient working capital for the operation and development of the Group's business and resolve the disclaimer of opinion regarding the material uncertainty related to going concern.

The Audit Committee considered that the material uncertainties related to going concern can be resolved for FY2023 based on (a) the support from Dr. Yeung; (b) the above subscriptions; and (c) the Company's continued exploration of fundraising 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; and (ii) 18% equity interest in 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 for FY2021 and FY2022.

As disclosed in the announcement of the Company dated 19 October 2022, on 27 September 2022, the Group and an Independent Third Party entered into an equity transfer agreement in relation to the Ningbo JV Disposal.

As further disclosed in the announcement of the Company dated 13 December 2022, on the same date, the Group and an Independent Third Party entered into an equity transfer agreement in relation to the SUSTC Disposal.

The views of the Board and the Audit Committee on the disclaimer of opinion

The Audit Committee and the Board understood that the Auditor's disclaimer of opinion was due to insufficient audit evidence to ascertain the fair value of the investment in associates as at 31 December 2021 as a result of 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 FY2022.

Basis of resolving the disclaimer of opinion

As of 30 September 2022, given the Company has entered into the equity transfer agreement in relation to the Ningbo JV Disposal, the Group would cease to have any equity interest in Ningbo Joint Venture. Given the completion of the disposal was merely an administration process, it was highly certain that the Ningbo JV Disposal would be completed.

Based on the above and after the discussion with the Auditor, given that (i) the Group would cease to have any equity interest in Ningbo Joint Venture after the completion of the Ningbo JV Disposal; and (ii) the loss on the Ningbo JV Disposal would be recognised during FY2022, 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 auditor's report of the Company for FY2023.

As disclosed in the 2022 Results Announcement, upon the completion of the Ningbo JV Disposal, the Group ceased to have any equity interest in Ningbo Joint Venture.

(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 Meilai Investment. The carrying amount of equity interest in the Meilai Investment was approximately HK\$15.4 million as at 31 December 2021.

Background of the Meilai Subscription Agreement

Reference is made to the Meilai Announcement. On 27 May 2016, the Group and another independent third-party investor entered into 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.

In addition, according to the Meilai Subscription Agreement, the Meilai Guarantors covenanted and guaranteed to the Group that the accumulated audited consolidated net profit after tax attributable to the shareholders of Jilin Meilai should not be less than RMB160 million, RMB450 million, and RMB920 million, respectively, for each of the three years ended 31 December 2018. In the event the above profit guarantee is not fulfilled, the Meilai Guarantors shall make the Meilai Compensation Payable to the Group. 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 Meilai Compensation Payable amounted to approximately RMB63.5 million (equivalent to approximately HK\$71.0 million). As at 31 December 2021, the carrying amount of the Meilai Compensation Payable was approximately HK\$77.8 million.

Background of the Meilai Arbitration

On 29 September 2020, the Group applied to the Arbitration Commission to initiate the Meilai Arbitration. On 2 July 2021, the Arbitration Commission handed down the Meilai Arbitration Award, pursuant to which the Meilai Guarantors shall, within 30 days of the Meilai 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 Meilai Investment.

As the Meilai Guarantors had yet to fulfill the Meilai Arbitration Award, in September 2022, the Group had applied to the competent authority for an execution order against the Meilai Guarantors to enforce the Meilai Arbitration Award.

Based on publicly available information, (i) the Group noted that the Meilai 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 Meilai Guarantors in view of settling all or part of the Meilai Arbitration Award, but considered the Meilai Guarantors do not have the capability and is unlikely to have sufficient asset to settle any of the Meilai Arbitration Award. As such, the Company considered it is unlikely the Meilai Investment and the Meilai Compensation Payable will be recoverable. Accordingly, the Company provided impairment in full on the carrying amounts of the Meilai Investment and the Meilai Compensation Payable as at 30 September 2022.

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

Due to the dispute and the outcome of the Meilai Arbitration, the Meilai Group had not been cooperative and the Group could not obtain the latest consolidated management accounts of the Meilai Group for FY2020 and FY2021. The Group could only rely on the consolidated management accounts of the Meilai Group for FY2019 with management adjustments and could not provide sufficient information to the independent valuer for the valuation of the Meilai Group and the Meilai Compensation Payable.

Given (i) the difficulty in obtaining the audited financial statement of the Meilai Group for FY2021; and (ii) the Meilai Guarantors were yet to fulfill the Meilai 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 Meilai Compensation Payable as at 31 December 2021. Accordingly, the Auditor was unable to satisfy itself on the amount of impairment loss to be recognised on the Meilai Investment and the Meilai Compensation Payable in the income statement of the Group for FY2022.

The views of the Board and the Audit Committee on the disclaimer of opinion

The Board and Audit Committee understood that the Auditor had indicated that the grant of the Meilai Arbitration Award might only serve as a reference but could not be taken as substantial audit evidence as to the recoverability of the Meilai Compensation Payable as at 31 December 2021 because the Meilai Guarantors have yet to settle the Meilai Arbitration Award. Accordingly, the Auditor was unable to satisfy itself on the amount of impairment loss to be recognised on the Meilai Investment and the Meilai Compensation Payable in the income statement of the Group for FY2022.

Basis of resolving the disclaimer of opinion

As of 30 September 2022, based on the publicly available information as stated under the paragraph headed “Background information of the Meilai Arbitration”, after discussing with the Auditor, the Board and the Audit Committee consider it is unlikely the Meilai Guarantors have sufficient assets for settlement of the Meilai Arbitration Award. As such, the Company provided impairment in full on the Meilai Investment and the Meilai Compensation Payable as at 30 September 2022.

In view of the above and the 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 the Meilai 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 auditor’s report of the Company for FY2023.

As disclosed in the 2022 Results Announcement, 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 auditor’s report of the Company for FY2023.

(4) Intangible assets

Background information 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 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. 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 the sake of prudence, during FY2019, the Company provided impairment in full on the Intangible Assets.

During FY2022, as the entity holding the Intangible Assets has been disposed of by the Group, the Group no longer recognise the Intangible Assets in its consolidated financial statements upon the completion of the aforesaid disposal.

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 views of the Board and the Audit Committee on the disclaimer of opinion

Based on the above and the discussion with the Auditor, the Board and the Audit Committee understood the basis of disclaimer of opinion in relation to the carrying amount of the Intangible Assets as at 31 December 2021.

Basis of resolving the disclaimer of opinion

As of 30 September 2022, based on the above and the discussion with the Auditor, the Board and the Audit Committee 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 auditor's report of the Company for FY2023.

As disclosed in the 2022 Results Announcement, the disclaimer of opinion in relation to the Intangible Assets has been resolved and will not be carried forward to the auditor's report of the Company for FY2023.

(5) *Other receivables*

The other receivables mainly represented (i) VAT receivables which were generated during the daily operation and ordinary course of business of the Group's subsidiaries in the PRC; and (ii) the Overdue Receivables.

Background information 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 and subsequent VAT payables to offset the VAT receivables during the year ended 31 December 2021, for the sake of prudence, the Company provided impairment in full on the VAT receivables during FY2022.

Background information of the Overdue Receivables

The Overdue Receivables mainly represented (i) the consideration receivable from an Independent Third Party for the disposal of equity interest of an investment in a company in the PRC amounting to approximately HK\$24.5 million; (ii) the prepayments made to various vendors during the daily operation and ordinary course of business amounting to approximately HK\$12.1 million; and (iii) the down payments made to third parties for business development amounting to approximately HK\$2.4 million.

Reason leading to the disclaimer of opinion in relation to the VAT receivables and 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 counterparties, the Auditor could not satisfy itself in relation to the recoverability of the Overdue Receivables as at 31 December 2021.

The views of the Board and the Audit Committee on the disclaimer of opinion and the basis of resolving the disclaimer of opinion

As of 30 September 2022, based on the above and the discussion with the Auditor, the Board and the Audit Committee are of the view that, given the VAT receivables and the Overdue Receivables have been impaired in full, the disclaimer of opinion in relation to the VAT receivables and the Overdue Receivables has been resolved and will not be carried forward to the auditor's report of the Company for FY2023.

As disclosed in the 2022 Results Announcement, the disclaimer of opinion in relation to the VAT receivables and the Overdue Receivables has been resolved and will not be carried forward to the auditor's report of the Company for FY2023.

(6) *Disposal of subsidiaries*

Background information of the US Disposal

The Company entered into a number of sale and purchase agreements with Independent Third Parties to dispose of its investments in the US Subsidiaries in FY2021. The Group recorded a loss on the US Disposal of approximately HK\$3.9 million in FY2021.

Due to the hindrance of the COVID-19 pandemic and the subsequent omicron variant wave in the United States during FY2021, 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 loss on US Disposal in FY2021, and the financial results of the US Subsidiaries were no longer consolidated into the consolidated financial statements of the Group since then.

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 due to insufficient audit evidence to ascertain the completion of the US Disposal as the legal formalities of the US 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 FY2021.

The views of the Board and the Audit Committee on the disclaimer of opinion and the basis of resolving the disclaimer of opinion

As the registration of the US Disposal has been completed as at 30 September 2022, after the 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 auditor's report of the Company for FY2023.

As disclosed in the 2022 Results Announcement, the disclaimer of opinion in relation to the US Disposal has been resolved and will not be carried forward to the auditor's report of the Company for FY2023.

(7) *Prepayment to a supplier*

Background information

The prepayment to a supplier represents the XALT Prepayment pursuant to the XALT Supply Agreement and was the core of a lawsuit commenced by Townsend Ventures LLC, XALT Energy LLC and XALT Energy MI, LLC towards the Company and one of its wholly-owned subsidiary as disclosed under the paragraph headed "Other Information – Update on the legal proceedings against members of the Group" in the 2022 Annual Results and in the annual report of the Company for FY2021.

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.

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 XALT 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, 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 XALT Prepayment

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

The views of the Board and the Audit Committee on the disclaimer of opinion

The Board and the Audit Committee understood that, from the Auditor's audit perspective, the information available at this stage may not be sufficient for the Auditor to evaluate whether (i) any portion of the XALT Prepayment is recoverable and the carrying amount of the XALT Prepayment as at 31 December 2021 was fairly stated; (ii) the completeness of the disclosures of respective contingent liabilities as at 31 December 2021; and (iii) the impairment losses on the XALT Prepayment for FY2022 was fairly stated.

Basis of resolving the disclaimer of opinion

As of 30 September 2022, since the XALT Prepayment has been fully impaired and the disclaimer of opinion is only related to the comparative figure for the financial statement for FY2022, after discussion with the Auditor, the Board and the Audit Committee are of the view that the disclaimer of opinion in relation to the XALT Prepayment has been resolved and will not be carried forward to the auditor's report of the Company for FY2023.

As disclosed in the 2022 Results Announcement, the disclaimer of opinion in relation to the US Disposal has been resolved and will not be carried forward to the auditor's report of the Company for FY2023.

(8) Conclusion

As of 30 September 2022, based on the above and the discussion with the Auditor, the Board and the Audit Committee are of the view that, except for the material uncertainty related to going concern, the underlying issues for all other audit modifications have been resolved with no carry forward impact (other than comparative figures). Accordingly, the Company has fulfilled the requirements under Resumption Guidance 1.

As further disclosed in the extract of the auditor's report in the 2022 Results Announcement, except for the material uncertainty related to going concern, all audit modifications have been resolved and will not be carried forward to the auditor's report of the Company for FY2023.

2. Resumption Guidance 2

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 following sets forth the details of the Company's business plan to demonstrate that the business of the Group is of substance, viable, and sustainable.

(1) Existing technology and qualification of the Company

With years of research and development and prototype development, the Company possesses technology 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.

Currently, the Group possess all technologies in the powertrain and chassis system and body structure of an electric vehicle, including but not limited to (i) battery cells; (ii) electric motor control unit; (iii) electric motor and active suspension integrated system; and (iv) hood, body, trunk and door structure.

(2) *The proposed Acquisition*

Reference is made to the VSA Announcement in relation to the Acquisition.

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

On 28 August 2022, the Company entered into a sale and purchase agreement for the proposed Acquisition of the entire equity interest of Best Knob International Limited together with its subsidiaries, 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 (i) the Group's experience, know-how and technology in battery systems and designs of high-tech electric motor vehicles; and (ii) the transmission system and customer portfolio of HXL Group, the Company considers the Acquisition may create synergy effect by integrating the supply of the transmission parts of the HXL Group together with the batteries packs and system of the Group, while providing an excellent opportunity for expanding the sales channel for the batteries systems of the Group to leading automobile manufacturers in the PRC. As the HXL Group supplies different parts and components to automobile manufacturers including but not limited to state-owned enterprises and listed companies, the Acquisition could allow the Group to connect its battery pack to the transmission system and generators of the HXL Group and offer the whole package to the automobile manufacturers, which have already indicated their needs to the HXL Group in the past.

In addition, the Company is of the view that the Acquisition may facilitate the development of the electric vehicle in the following areas:

- (i) as HXL Group already possesses the production capability of a number of components, including but not limited to, gear shifting control units, battery pack cover and case, bumpers, door and trunk lid, instrument panels and seats, the Company may have access to such components in an efficient manner and a higher control on quality and timetable of the production schedule;
- (ii) the existing facilities of HXL Group is spacious which allows the modification or conversion of the existing facilities into assembly area in a more efficient manner; and
- (iii) as (a) the production capacity of HXL Group may allow the Company to achieve economies of scale of production; and (b) more of the components of electric vehicle can be produced by HXL Group, the cost of manufacturing the electric vehicles may be lower which in turn allow the Company to have higher flexibility in determining the selling price, thus increasing the competitiveness of the Company's electric vehicles.

The Company intends to utilise the manufacturing capability and assembly area of the HXL Group for the mass production process. It is expected that the Group may commence production in around 13 months upon completion of the Acquisition. Accordingly, assuming the Acquisition is completed on or before 30 June 2023, the Group is of the view that it may commence commercial production of electric vehicles by the end of 2024.

In the event the Acquisition materialise on or before 30 June 2023, the Company will issue a promissory notes in the principal amount of HK\$392 million as consideration for the Acquisition as disclosed in the VSA Announcement, where 40% and 60% of the promissory note (representing approximately HK\$156.8 million and HK\$235.2 million respectively) shall be settled within 180 days and 360 days upon issuance. In view of this, the Company expects to complete the Subscription or other fund raising activities to finance the settlement of the promissory note in accordance to its payment terms.

(3) License and approvals required for the production of electric vehicles

In order to transit into the industrialisation and production stage, automobile manufacturers in the PRC are generally required to register with regulatory authorities for three type of process, namely (i) registration for investment from NDRC; (ii) registration for production from MIIT; and (iii) registration of products with MIIT.

In the event the Company does not establish a new production facility and its own facilities, the Company would not be required to register with NDRC in respect of requirement (i) above.

In respect of requirement (ii) and (iii), as the authority will visit the production line and assembly area to verify the registration, such verification can only be made after the commencement of mass production process. Accordingly, the Company will proceed the registration with MIIT once the mass production procedure is ready to commence.

The Company is of the view that it will not experience any material difficulties in the registration process as the Company has successfully launched a number of concept and prototype vehicles in the past.

Upon gradual recovery of the impact of COVID-19 in the PRC and in the event the financing opportunities materialise, the Group is of the view that it 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 FY2023, it is expected that the Company may be able to launch mass production by the end of 2024.

(4) The Group's ability to launch the electric vehicles with existing production facilities

In the event the Acquisition was not completed, it is expected that the Company would not be able to enjoy the existing benefits of the HXL Group and may require additional time to reach the industrialisation stage in launching its electric vehicles given that:

- (i) the existing capacity of the Company is not sufficient to reach economies of scale for the mass production of electric vehicles, which in turn may increase the average cost of production of each of the electric vehicles, and ultimately the Company may have no choice but to sacrifice its competitiveness by increase the selling price of the electric vehicles in order to maintain profitability;
- (ii) the Company will need to outsource the manufacturing of more components to third parties, where the Company may have a lesser control on (a) the quality; and (b) production timetable; and
- (iii) the quality of the components of the electric vehicles are important to ensure each of the electric vehicles meet the performance and safety standards. In the event more components are outsourced to third parties, additional time may be required for the Company to liaise and collaborate with the third party manufacturers for quality assurance purpose.

Taking into account of the above factors, in the event (i) the Acquisition or other expansion plan fails to materialise; (ii) the Company has no choice but to rely on its existing production facilities and modify certain facilities into assembly facility; (iii) the Company has to procure and source more components from third party instead of production from its own or acquired facilities; and (iv) assuming the process begin in June 2023 after completion of the Subscription, the Company is of the view that it may be able to launch mass production in the second half of 2024.

Taking into account of the above, the following table sets forth the Group's milestones for the launching of the electric vehicle:

Milestone	Expected timetable
Begin renovation part of the existing facilities for assembly area	June 2023
Completion of renovation of the existing facilities	September 2023
Completion of major modification of the existing facilities	November 2023
Production of first engineering prototype from the assembly line	January 2024
Production of first engineering vehicle body in white (before painting)	March 2024
Field testing of the electric vehicles produced by the mass production line	July 2024
Finalisation of the manufacturing process with the issuance of production process manual	September 2024
Receipt of sales orders from customers	November 2024
Commencement of mass production	December 2024

(5) Conclusion

Based on the above, the Company is of the view that it has fulfilled the requirements under Resumption Guidance 2.

3. Resumption Guidance 3

Since the suspension of trading in the Shares, the Company has regularly published announcements to keep the Shareholders and investors of the Company informed of the status of the Company. The Board confirms that the Company has included all material information in relation to its business, financial performance, and operation management in (i) the annual results of the Group for the years ended 31 December 2021 and 2022; (ii) the interim results of the Group for the six months ended 30 June 2021 and 2022; (iii) the quarterly update announcements of the Company; and (iv) other disclosure documents published in accordance with the Listing Rules and other applicable regulatory requirements.

To the best knowledge of the Directors, as at the date of this announcement, there is no other information required to be disclosed under Part XIVA of the SFO and no other undisclosed information that is material for the Company's shareholders and other investors to appraise the Company's position. As such, the Company is of the view that it has fulfilled the requirements under Resumption Guidance 3.

RESUMPTION OF TRADING

Trading in the Shares on the Stock Exchange has been suspended since 1 April 2021. Since the Resumption Guidance has been fulfilled, the Company has made an application to the Stock Exchange for the resumption of trading of the Shares with effect from 9:00 a.m. on 27 April 2023 on the Stock Exchange.

DEFINITION

“2020 Annual Results”	audited annual results of the Group for FY2020
“2022 Annual Results”	audited annual results of the Group for FY2022
“2022 Annual Results Announcement”	the announcement of the Company published on 15 March 2023 in relation to the 2022 Annual Results
“Acquisition”	the proposed acquisition of the entire equity interest of the Target Company, which was disclosed in the VSA Announcement on 17 October 2022
“Arbitration Commission”	China International Economic and Trade Arbitration Commission
“Audit Committee”	the audit committee of the Company
“Auditor”	ZHONGHUI ANDA CPA Limited, the independent external auditor of the Company
“Board”	the board of Directors

“Company”	Hybrid Kinetic Group Limited, a company with limited liability incorporated in Bermuda whose Shares are listed on the Main Board of the Stock Exchange (Stock code: 01188)
“COVID-19”	Novel Coronavirus (COVID-19) or Novel Coronavirus Pneumonia, a respiratory illness caused by a new strain of coronavirus and characterized especially by fever, cough, and shortness of breath and may progress to pneumonia and respiratory failure
“Director(s)”	director(s) of the Company
“Disclaimer of Opinion”	the disclaimer of opinion in relation to the Group’s consolidated financial statements for FY2022 expressed by the Auditor
“Dr. Yeung”	Dr. Yeung Yung, the chairman and a major shareholder of the Company
“FY2019”	for the financial year ended 31 December 2019
“FY2020”	for the financial year ended 31 December 2020
“FY2021”	for the financial year ended 31 December 2021
“FY2022”	for the financial year ended 31 December 2022
“FY2023”	for the financial year ending 31 December 2023
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“HXL”	Hanxilong Auto Parts (Shanghai) Co., Ltd. (漢喜龍汽車零件(上海)有限公司), a company incorporated in the PRC with limited liability and a non-wholly owned subsidiary of the Target Company
“HXL Group”	HXL and its subsidiaries
“Independent Third Party(ies)”	third party(ies) who are not connected persons of the Group and who are independent of the Company and connected persons of the Company
“Intangible Assets”	certain technical know-how owned by the Group in relation to the battery technology of LTO (lithium titanate) cell
“Jilin Meilai”	Jilin Meilai Zhongxin Timber Company Limited* (吉林美來中信木業有限公司)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Management”	the management of the Company
“Meilai Announcement”	the announcement of the Company dated 4 September 2020 in relation to the Meilai Investment
“Meilai Arbitration”	an arbitration proceeding against the Guarantors by the Group in relation to the Meilai Compensation Payable and the return of investment cost in Meilai Group with interests
“Meilai Arbitration Award”	the award in relation to the Meilai Arbitration handed down by the Arbitration Commission

“Meilai Compensation Payable”	the compensation payable which is determined with reference to the formula disclosed in the Meilai Announcement and shall be made by the Meilai Guarantors on a dollar-for-dollar basis if the actual net profit is less than the target net profit
“Meilai Group”	Jilin Meilai and its subsidiaries
“Meilai Guarantors”	certain then shareholders of the Meilai Group
“Meilai Investment”	5% of the equity interest in the Meilai Group by the Group
“Meilai Subscription Agreement”	the subscription agreement dated 27 May 2016 entered into among the Group, an investor independent of the Group, and the then shareholders of Meilai Group
“MIIT”	The Ministry of Industry and Information Technology of the PRC
“NDRC”	The National Development and Reform Commission of the PRC
“Ningbo Joint Venture”	Ningbo Jingwei Power Battery Co., Ltd.
“Ningbo JV Disposal”	the disposal of 18% equity interest in Ningbo Joint Venture held by the Group to an Independent Third Party
“Overdue Receivables”	other receivables due from third parties which were overdue for more than a year, the composition of which has been disclosed under the paragraph headed “Background information of the Overdue Receivables”

“PRC”	the People’s Republic of China and, except where the context otherwise requires and only for the purpose of this announcement, references in this announcement to the PRC exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Resumption Guidance”	a letter issued by the Stock Exchange on 17 June 2021, in which the Stock Exchange set out the guidance for the resumption of trading in the Shares
“Resumption Guidance 1”	the guidance of “address the issues giving rise to the disclaimer of opinion on the financial statements for FY2020, provide comfort that the Disclaimer of Opinion in respect of such issues would no longer be required and disclose sufficient information to enable investors to make an informed assessment of its financial positions as required under Rule 13.50A of the Listing Rules” as stated in the Resumption Guidance
“Resumption Guidance 2”	the guidance of “demonstrate the Company’s compliance with Rule 13.24 of the Listing Rules” as stated in the Resumption Guidance
“Resumption Guidance 3”	the guidance of “inform the market of all material information for the Company’s shareholders and investors to appraise the Company’s position” as stated in the Resumption Guidance
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of nominal value of HK\$0.10 each in the share capital of the Company

“Shareholder(s)”	holder(s) of the Share(s)
“Shenzhen SUSTC”	Shenzhen SUSTC Fuel Cell Company Limited
“Subscriber”	M6 Investments L.L.C., a limited company incorporated in the United Arab Emirates and an independent third party to the Company
“SUSTC Disposal”	the disposal of 16.7% equity interest in Shenzhen SUSTC held by the Group to an Independent Third Party
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Best Knob International Limited, a limited company incorporated in Hong Kong, which is interested in 80% equity interest in HXL as at the date of this announcement
“United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdictions
“US Disposal”	the disposal of the Company’s investments in the US Subsidiaries
“US Legal Opinion”	legal opinion in respect of the laws of the United States on the feasibility of any arbitration proceedings against XALT
“US Subsidiaries”	several then subsidiaries of the Company in the United States
“VAT”	value-added tax
“VSA Announcement”	the announcement of the Company in relation to the acquisition of 100% of the issued shares of the Target Company, which was announced on 17 October 2022

“XALT”	collectively, Townsend Ventures LLC, XALT Energy LLC, and XALT Energy MI, LLC
“XALT Prepayment”	the prepayment made to XALT by the Group pursuant to the XALT Supply Agreement
“XALT Supply Agreement”	a supply agreement entered into between the Group and XALT dated 20 March 2015

By order of the Board
Hybrid Kinetic Group Limited
Yeung Yung
Chairman

Hong Kong, 26 April 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.