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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)

SUBSCRIPTION OF CONVERTIBLE BOND UNDER GENERAL MANDATE

Financial adviser to the Company



THE SUBSCRIPTION

On 29 May 2023 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the Convertible Bond in the principal amount of HK\$100,000,000 at the Conversion Price of HK\$0.10 per Conversion Share.

The Conversion Shares will be allotted and issued by the Company to the Subscriber under the General Mandate.

As at the date of this announcement, the Company has 20,352,872,747 Shares in issue. Upon full exercise of the Conversion Rights attaching to the Convertible Bond at the initial Conversion Price of HK\$0.10 per Conversion Share, a total of 1,000,000,000 Conversion Shares will be allotted and issued, representing approximately (i) 4.91% of the existing total issued Shares as at the date of this announcement; and (ii) 4.68% of the total issued Shares as enlarged by the allotment and issue of the Conversion Shares (assuming there are no other changes in the total number of issued Shares between the date of this announcement other than the allotment and issue of the Conversion Shares).

The gross proceeds from the Subscription amount to approximately HK\$100.0 million, while the net proceeds from the Subscription are estimated to be approximately HK\$99.5 million after deducting the estimated expenses for the Subscription. The Company intends to apply (i) 50% of the net proceeds for the settlement of the promissory notes to be issued by the Company under the Acquisition; (ii) 30% of the net proceeds as to working capital of the Company for business development; and (iii) 20% of the net proceeds as to general working capital of the Company.

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares. No application will be made by for the listing of the Convertible Bond on the Stock Exchange or any other stock exchange.

Completion of the Subscription is conditional upon fulfilment and/or waiver (as the case maybe) of the conditions precedent under the Subscription Agreement as set out in the paragraphs headed “Conditions Precedent” below, the Subscription may or may not proceed. Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.

THE SUBSCRIPTION

On 29 May 2023 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the Convertible Bond in the principal amount of HK\$100,000,000 at the Conversion Price of HK\$0.10 per Conversion Share.

The Subscription Agreement

Principal terms and conditions of the Subscription Agreement are summarised as follows:

Date

29 May 2023 (after trading hours)

Parties

- (i) The Company, as the issuer; and
- (ii) Mr. Zhou Zuan (周祖安), as the Subscriber.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, the Subscriber is a third party independent of the Company and its connected persons.

Subscription

Pursuant to the Subscription Agreement, the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue to the Subscriber, the Convertible Bond in the principal amount of HK\$100,000,000.

Principal terms and conditions of the Convertible Bond

Issuer:	The Company
Principal Amount:	HK\$100,000,000
Maturity Date:	The date falling on the second anniversary of the date of issue (the " Issue Date ") of the Convertible Bond (the " Maturity Date ").
Interest:	5% per annum on the outstanding principal amount of the Convertible Bond payable on the Maturity Date.

Conversion upon maturity: All outstanding principal amount of the Convertible Bond shall be converted into Conversion Shares on the Maturity Date, other than the portion of the Convertible Bond which has already been redeemed by the Company or converted into Conversion Shares pursuant to the terms and conditions of the Convertible Bond.

The Company shall not issue to the Bondholder any Conversion Shares in the event the exercise of the Conversion Rights will result in the Bondholder and parties acting in concert with it (as defined under the Takeovers Code), in aggregate, control or be interested in 30% or more of the voting rights of the Company.

The Bondholder has also undertaken not to exercise the Conversion Rights which will result in the Bondholder and parties acting in concert with it (as defined under the Takeovers Code), in aggregate, control or be interested in 30% or more of the voting rights of the Company.

Conversion Price: The initial Conversion Price being HK\$0.10 per Conversion Share, subject to adjustment(s) upon occurrence of certain events as summarised in the paragraph headed "Adjustment to the Conversion Price" below.

Adjustment to the Conversion Price: The initial Conversion Price shall be adjusted if any event listed below arises:

- (a) if and whenever there is an alteration to the nominal value of the Shares as a result of consolidation and sub-division;

- (b) if and whenever the Company issues any Shares to Shareholder(s) by way of capitalisation of profits or reserves other than Shares issued in lieu of the whole or a part of cash dividend;
- (c) if and whenever the Company makes any capital distribution (in such terms as defined in the conditions of the Convertible Bond) to Shareholders;
- (d) if and whenever the Company offers to Shareholder(s) new Shares for subscription by way of rights, or a granting to the Shareholders any options or warrants to subscribe for new Shares at a price per Share which is less than 90% of the market price per Share at the date of the announcement of the terms of the offer or grant;
- (e) if and whenever the Company issues wholly for cash any securities which are convertible into or exchangeable for or carry rights of subscription for new Shares, in any case the relevant consideration per new Shares initially receivable is less than 90% of the market price per Share at the date of announcement of the terms of issue of such securities;
- (f) if and whenever there is/are modification(s) of the rights of conversion, exchange or subscription attaching to any such securities mentioned in subparagraph (e) above arises, so that the relevant consideration per new Share is less than 90% of the market price per Share at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription;

- (g) if any whenever the Company issues for cash or assets any Shares at a price per Share not more than 90% of the market price per Share at the date of announcement of the terms of issue of such Shares; or
- (h) if the Company considers that it would be appropriate for an adjustment to be made due to event(s) not mentioned above, or the relevant adjustment(s) to be made pursuant to sub-paragraph (a) to (g) above should be made at any other time, the Company shall appoint a recognised financial adviser to determine and audit the adjustment(s) (or non-adjustment) to the Conversion Price on a fair and reasonable basis;

provided however that the Conversion Price shall not be less than the par value of a Share.

Conversion Rights and
Conversion Period:

The Conversion Rights attaching to the whole or part (must be in multiple of HK\$1,000,000) of the outstanding principal amount of Convertible Bond may be exercised, at the option of the Bondholder, at any time after the Issue Date up to but excluding the Maturity Date.

In the event that the total outstanding principal amount of the Convertible Bond held by the Bondholder is less than HK\$1,000,000, the Bondholder may exercise the Conversion Rights attaching to the entire remaining outstanding principal amount of the Convertible Bond.

Conversion Shares:

Assuming the Conversion Rights attached to the Convertible Bond are exercised in full at the initial Conversion Price, a total of 1,000,000,000 Conversion Shares will be allotted and issued, which represent:

- (a) approximately 4.91% of the issued Shares as at the date of this announcement; and

- (b) approximately 4.68% of the issued Shares as enlarged by the issue of the Conversion Shares (assuming there is no other change in the number of issued Shares between the date of this announcement and the full conversion of the Convertible Bond).

The Conversion Shares will be issued under the General Mandate.

Events of default:

If any of the events specified below occurs, the Bondholder has the right to give notice to the Company that the Convertible Bond is immediately due and payable at its principal amount then outstanding:

- (a) the Company fails to pay such Bondholder the principal and/or interest on the Convertible Bond when due unless the non-payment is due solely to administrative or technical error and payment is made within seven Business Days of the due date thereof;
- (b) a default is made by the Company in the performance or observance of any obligation contained in the Convertible Bond on its part and such default cannot be remedied or remains unremedied in the opinion of the Bondholder for the period of 14 days next following the service by any Bondholder on the Company of relevant notice;
- (c) an encumbrancer takes possession or a receiver, administrator or other similar officer is appointed over the whole or a material part of the undertaking, property, assets or income of the Company or its subsidiaries;

- (d) the Company or its subsidiaries is unable to pay its debts due to banks as and when they fall due; or as the case maybe, is unable to repay within any relevant grace period granted;
- (e) the Company or its subsidiaries is unable to repay the amount payable or indicated as payable to the financial institutions, on or before maturity, under any current or future guarantees obtained;
- (f) the Company or its subsidiaries is unable to pay its debts as they fall due or agrees to the appointment of any receiver, administrator or liquidator over the whole or a material part of the undertaking, property, assets or income of the Company or its subsidiaries, or the Company or its subsidiaries undergoes any restructuring or enter into any composition with its creditors;
- (g) any resolution is passed or any order of court of competent jurisdiction is made that the Company be wound up or dissolved or the Company disposes of all or substantially all of its assets, otherwise, in any such case, than for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reorganisation;
- (h) the Company goes bankrupt or is wound-up;
- (i) the seeking of consent or the announcement of deferred repayment to the Bondholder by the Company or its subsidiaries, or the seizure, mandatory acquisition or confiscation of all or most of the assets of the Company or its subsidiaries; or

(j) trading of Shares on the Stock Exchange is suspended for a consecutive period of 30 days or more.

Voting: The Bondholder will not be entitled to attend or vote at any meeting of the Company by reason only of it being the holder of the Convertible Bond.

Redemption: The Company may redeem the Convertible Bond before the Maturity Date by issuing a notice to the Bondholder in writing three Business Days prior to the date of redemption.

Transferability: The Convertible Bond may not be transferred by the Bondholder without the prior written consent of the Company.

Ranking: The Convertible Bond constitute general, unconditional and unsubordinated obligations of the Company and shall rank *pari passu* with all other present and future unsecured and unsubordinated obligations of the Company. The Conversion Shares will in all respects rank *pari passu* with the Shares already in issue on the date of conversion of the Convertible Bond.

Application for listing: No application will be made by the Company to the Stock Exchange or any other stock exchange for the listing of the Convertible Bond.

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Conversion Price

The initial Conversion Price of HK\$0.10 per Conversion Shares represents:

- (i) a premium of approximately 244.8% over the closing price of HK\$0.029 per Share as quoted on the Stock Exchange on 29 May 2023, being the date of the Subscription Agreement;
- (ii) a premium of approximately 233.3% over the closing price of HK\$0.03 per Share as quoted on the Stock Exchange on 25 May 2023, being the last trading day immediately preceding the date of the Subscription Agreement; and
- (iii) a premium of approximately 233.3% over the average closing price of HK\$0.03 per Share as quoted on the Stock Exchange for the five trading days immediately preceding the date of the Subscription Agreement.

The initial Conversion Price was determined after arm's length negotiations between the Company and the Subscriber with reference to, among other things, the par value and the prevailing market price per Share and future prospect of the Company.

Taking into account the estimated expenses for the Subscription, the net conversion price is approximately HK\$0.0995 per Conversion Share.

Conditions precedent

Completion shall be subject to the fulfilment of the following conditions:

- (a) the Stock Exchange having granted the approval for the listing of, and permission to deal in, the Conversion Shares; and
- (b) any other necessary approvals, consents and/or waivers by the relevant governmental or regulatory authorities or bodies or such other third parties as may be required by applicable laws, rules or regulations for the Subscription having been obtained.

The Company and the Subscriber may jointly waive the condition precedent (b) above.

Completion

Completion shall take place within seven Business Days after the date of fulfilment of the conditions precedent as set out above (or after such other date as the parties may agree).

General Mandate to allot and issue the Conversion Shares

The Conversion Shares will be issued under the General Mandate. The maximum number of Shares that can be issued under the General Mandate is 4,070,574,549 Shares, being 20% of the total number of Shares in issue as at the date of the annual general meeting of the Company held on 25 May 2023.

As at the date of this announcement, the Company has not allotted or issued any Shares under the General Mandate. Accordingly, the issue of the Conversion Shares is not subject to any Shareholders' approval.

Information on the Subscriber

The Subscriber, Mr. Zhou Zuan, is a PRC citizen who has investments in the medical and technological industry. To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, the Subscriber is a third party independent of the Company and its connected persons.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND USE OF PROCEEDS

The Group is principally engaged in the development of high-tech electric motor vehicles, development and sales of battery management systems and spare parts and development of advanced batteries materials.

Reference is made to the announcement of the Company dated 17 October 2022 in relation to the Acquisition. On 28 August 2022, the Company entered into a sale and purchase agreement in relation to the Acquisition, pursuant to which the Company has conditionally agreed to acquire the entire equity interest of Best Knob International Limited, a limited company incorporated in Hong Kong, the non-wholly owned subsidiary of which is a company incorporated in the PRC principally engaged in the manufacturing of automobile parts, including transmission gearbox, systems and accessories in the PRC, at a consideration of HK\$392 million which will be settled by the issuance of promissory notes by the Company.

The gross proceeds from the Subscription will be HK\$100.0 million and the net proceeds from the Subscription, after deduction of the expenses related to the Subscription of approximately HK\$0.5 million, is estimated to be approximately HK\$99.5 million. The Company intends to apply (i) 50% of the net proceeds for the settlement of the promissory notes to be issued by the Company as part of the consideration of the Acquisition; (ii) 30% of the net proceeds as to working capital for business development; and (iii) 20% of the net proceeds as to general working capital of the Company.

The Directors consider the terms and conditions of the Subscription Agreement and the Convertible Bonds, which were negotiated on an arm's length basis between the Company and the Subscriber, are on normal commercial terms between the parties thereto, are fair and reasonable, and in the interests of the Company and Shareholders as a whole.

Fund raising activities of the Company in the past 12 months

Save for the proposed subscription of new Shares under general mandate as disclosed in the announcements of the Company dated 26 September 2022, 16 February 2023 and 8 March 2023 which is yet to be completed, the Company has not conducted any fund raising activities in the past twelve months immediately prior to the date of this announcement.

Effect on the shareholding structure of the Company

As at the date of this announcement, the Company has 20,352,872,747 Shares in issue. The following table illustrates the shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after conversion in full of the Convertible Bond (assuming that there will be no other change to the total issued share capital of the Company between the date of this announcement and upon the full conversion of the Convertible Bond), for illustrative purpose only:

Name of Shareholders	As at the date of this announcement		Immediately after conversion in full of the Convertible Bond (assuming that there will be no other change to the total issued share capital of the Company between the date of this announcement and upon the full conversion of the Convertible Bond)	
	Number of issued Shares	Approximate %	Number of issued Shares	Approximate %
Sun East LLC (Note 1)	2,673,071,189	13.13	2,673,071,189	12.52
Directors				
Dr. Yeung Yung (Note 2)	68,140,000	0.34	68,140,000	0.32
Liu Stephen Quan (Note 3)	291,760,000	1.43	291,760,000	1.37
Li Zhengshan	26,270,000	0.13	26,270,000	0.12
Chen Xiao	25,000,000	0.12	25,000,000	0.12
Cheng Tat Wa	1,300,000	0.006	1,300,000	0.006
Chan Sin Hang	500,000	0.002	500,000	0.002
The Subscriber	–	–	1,000,000,000	4.68
Public Shareholders	17,266,831,558	84.84	17,266,831,558	80.86
	<u>20,352,872,747</u>	<u>100.00</u>	<u>21,352,872,747</u>	<u>100.00</u>

Notes:

1. Sun East LLC is owned as to 35% by Dr. Yeung Yung (shared commonly with his spouse under the laws of California, the US) and 65% by Mr. Ma Manwai (alias Ma Manwai, Philip) and Mr Jimmy Wang (alias Wang Jian) as co-trustees for certain trusts established for the benefit of the children of Dr. Yeung Yung on 30 December 2002. Dr. Yeung Yung (as well as his spouse) was deemed to be interested in these 2,673,071,189 Shares held by Sun East LLC under Part XV of the SFO.
2. These Shares were held by Dr. Yeung Yung in his personal capacity as the beneficial owner.
3. Among these 291,760,000 Shares, 281,760,000 Shares were indirectly owned by certain trusts of which Mr. Liu Stephen Quan were the founder of and the children of Mr. Liu were eligible beneficiaries of the trust. Mr. Liu was therefore deemed to be interest in these Shares by virtue of Part XV of the SFO. The remaining 10,000,000 Shares were held by Mr. Liu in his personal capacity as the beneficial owner.

Completion of the Subscription is conditional upon fulfilment and/or waiver (as the case maybe) of the conditions precedent under the Subscription Agreement as set out in the paragraph headed “Conditions Precedent” above, the Subscription may or may not proceed. Shareholders and potential investors of the Company should exercise caution when dealing in securities of the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“Acquisition”	the conditional acquisition of the entire equity interest of Best Knob International Limited, a limited company incorporated in Hong Kong, at a consideration of approximately HK\$392 million pursuant to a sale and purchase agreement dated 28 August 2022 entered into by the Company, Best Knob International Limited, a limited company incorporated in Belize, and Chang Da International Limited, a limited company incorporate in Hong Kong. Further details of this acquisition have been set out in the announcement of the Company dated 17 October 2022
“Board”	the board of Directors
“Bondholder”	any person who for the time being is the registered holder of the Convertible Bond
“Business Day	any day (excluding Saturdays and any day on which a tropical cyclone warning No.8 or above or a “black” rainstorm warning signal is hoisted or remains hoisted in Hong Kong at any time between 9 a.m. and 5 p.m.) on which banks generally are open for business in Hong Kong
“Company”	Hybrid Kinetic Group Limited, a company incorporated in the Bermuda with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange (Stock code: 1188)

“Completion”	the completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement
“connected person(s)”	has the meaning as ascribed to it under the Listing Rules
“Convertible Bond”	the 2-year convertible bond in the principal amount of HK\$100,000,000 with 5% interest per annum to be issued by the Company and subscribed by the Subscriber pursuant to the Subscription Agreement
“Conversion Price”	HK\$0.10 per Conversion Share, subject to adjustments in accordance with terms and conditions of the Convertible Bond
“Conversion Rights”	the rights attached to the Conversion Bond for the conversion of the Convertible Bond into the Conversion Share at the Conversion Price
“Conversion Share(s)”	the new Share(s) which may be allotted and issued upon exercise of the Conversion Rights
“Director(s)”	the director(s) of the Company
“General Mandate”	the general mandate granted to the Directors pursuant to the ordinary resolution passed by the Shareholders at the annual general meeting of the Company held on 25 May 2023 to allot, issue and otherwise deal with up to 4,070,574,549 Shares, representing 20% of the total number of the issued Shares as at the date of the said annual general meeting
“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
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“PRC”	the People’s Republic of China
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Share(s)”	the ordinary share(s) of HK\$0.10 each in the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Mr. Zhou Zuan (周祖安)
“Subscription”	the subscription of the Convertible Bond by the Subscriber pursuant to the terms and conditions of the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 25 May 2023 entered into between the Company and the Subscriber in respect of the Subscription
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“%”	per cent

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

Hong Kong, 29 May 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.