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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)**

### **DISCLOSEABLE TRANSACTION SUBSCRIPTION OF EQUITY INTEREST IN JILIN MEILAI**

#### **THE SUBSCRIPTION**

On 27 May 2016, Ningbo Meilide, a wholly-owned subsidiary of the Company, entered into the Subscription Agreement with Tianfeng Investment, the Existing Shareholders and the Existing Shareholders Companies, pursuant to which Ningbo Meilide agreed to subscribe for 5% of the equity interest in Jilin Meilai at a consideration of RMB60,000,000.

#### **LISTING RULES IMPLICATIONS**

As one or more of the applicable percentage ratios (as defined under Chapter 14 of the Listing Rules) in respect of the Subscription exceeds 5% but are less than 25%, the Subscription constituted a discloseable transaction of the Company under Rule 14.06(2) of the Listing Rules and should have been subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

## **THE SUBSCRIPTION**

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### **Subscription Agreement**

#### ***Date***

27 May 2016

#### ***Parties involved***

- (1) Ningbo Meilide, a wholly-owned subsidiary of the Company, as subscriber;
- (2) Tianfeng Investment, as subscriber;
- (3) the Existing Shareholders, as guarantor; and
- (4) the Existing Shareholders Companies, as guarantor.

To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, Tianfeng Investment, the Existing Shareholders and the Existing Shareholders Companies are third parties independent of the Company and connected persons of the Company.

#### ***Subject matter of the Subscription Agreement***

Pursuant to the Subscription Agreement,

- (i) Ningbo Meilide agreed to subscribe for 5% of the equity interest in Jilin Meilai; and
- (ii) Tianfeng Investment agreed to subscribe for 20% of the equity interest in Jilin Meilai.

## ***Consideration***

The consideration for the Subscription by Ningbo Meilide is RMB60,000,000, which was agreed to be satisfied by Ningbo Meilide in cash in the following manner:

- (i) RMB30,000,000 be injected by Ningbo Meilide to Jilin Meilai within 5 calendar days of the date of the Subscription Agreement; and
- (ii) the remaining balance of RMB30,000,000 be injected by Ningbo Meilide to Jilin Meilai within 5 calendar days after Completion.

The consideration for the Subscription by Tianfeng Investment is RMB240,000,000, which was agreed to be satisfied by Tianfeng Investment in cash in the following manner:

- (i) RMB120,000,000 be injected by Tianfeng Investment to Jilin Meilai within 5 calendar days of the date of the Subscription Agreement; and
- (ii) the remaining balance of RMB120,000,000 be injected by Tianfeng Investment to Jilin Meilai within 5 calendar days after Completion.

The Consideration was determined after arm's length negotiation between the Subscribers and the Existing Shareholders with reference to (i) the then financial prospect of the Meilai Group; and (ii) the profit guarantee where the consolidated net profit after tax attributable to the shareholders of Jilin Meilai shall be no less than RMB160 million, RMB290 million and RMB470 million for the years ended 31 December 2016, 2017 and 2018 respectively (details of which are set out in the section headed "Profit Guarantee" below).

The Directors considered that the Consideration is fair and reasonable after taking into account the above factors. The Consideration was intended to be financed by internal resources of the Group.

## **Completion**

Jilin Meilai agreed to, within 7 business days after the injection from the Subscribers, complete the registration of the Subscriptions with the relevant governmental authorities. Completion was agreed to take place after completion of the relevant registration.

Upon completion of the Subscription Agreement, the shareholding structure of Jilin Meilai is as follows:

<b>Shareholders</b>	<b>Percentage of registered capital</b>
	%
Dunhua Meilai	60
Tianfeng Investment	20
Dunhua Far East	15
Ningbo Meilide	5
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The Consideration was fully settled on 2 August 2016 by the Company's internal resources and the Subscription was completed on 2 August 2016.

### ***Profit Guarantee***

Pursuant to the Subscription Agreement, the Guarantors covenanted and guaranteed to the Subscribers that the audited consolidated net profit after tax attributable to the shareholders of Jilin Meilai (based on the local audit reports prepared by an independent auditor as agreed by all parties to the Subscription Agreement) shall not be less than the profit targets (the "**Profit Guarantee**") as summarised below:

- (i) for the year ended 31 December 2016 shall be no less than RMB160 million with accumulated target net profit of RMB160 million;
- (ii) for the year ended 31 December 2017 shall be no less than RMB290 million with accumulated target net profit of RMB450 million; and
- (iii) for the year ended 31 December 2018 shall be no less than RMB470 million with accumulated target net profit of RMB920 million.

In the event that the actual net profit is less than the target net profit, the Guarantors shall pay the Subscribers any shortfall on a dollar-for-dollar basis (the “**Compensation Payable**”) based on the formula as follows:

$$\text{Compensation Payable} = \frac{\text{Accumulated target net profit} - \text{Accumulated actual net profit}}{\text{Accumulated target net profit}} \times \text{Consideration}$$

In the event the Guarantors did not have sufficient cash to settle the Compensation Payable, the Guarantors shall transfer the registered capital of Jilin Meilai to the Subscribers based on the formula as follows:

$$\text{Registered capital to be transferred} = \frac{\text{Total registered capital of Jilin Meilai}}{\text{RMB900 million}} \times (\text{Target net profit} - \text{Actual net profit})$$

In the event the Meilai Group successfully achieved the listing of its shares or the corporate restructuring for its proposed listing on or before 30 June 2018, the Profit Guarantee would lapse automatically. As at the date of this announcement and before 30 June 2018, the Meilai Group did not achieve such listing or corporate restructuring.

An independent auditor was agreed by all parties to the Subscription Agreement to be appointed within three months after the end of the financial year ended 31 December 2018 to issue the local audit reports for the Meilai Group. The Guarantors agreed to settle the Compensation Payable after the local audit reports of the Meilai Group for the three years ended 31 December 2018 were issued by the independent auditor.

#### *Latest status of the Profit Guarantee*

Based on the local auditor’s reports issued in March 2019, the accumulated actual 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. As such, the shortfall of the accumulated target net profit was approximately RMB974.4 million.

As the accumulated actual net profits are less than the accumulated target net profits for the three years ended 31 December 2018, the Compensation Payable by the Guarantors to Ningbo Meilide amounted to approximately RMB63,546,000 (being (the shortfall of accumulated net profits of approximately RMB974.4 million / RMB920 million) x RMB60 million).

As there was no specified deadline for the settlement of the Compensation Payable, the Group has assessed the recoverability of the Compensation Payable after ascertaining the respective amounts. When considering the possibility of recovering the Compensation Payable, the Group had taken into consideration the following factors:

- (i) in respect of the financial position of the Meilai Group, the financial performance of the Meilai Group may turnaround in the future as the unfavourable financial performance of the Meilai Group for the year ended 31 December 2018 was mainly attributable to the depreciation of Russian Ruble against Renminbi given the Meilai Group principally operated in Russia; and the decrease in market price of timber products due to the unexpected spike in global timber supply. In addition, the Meilai Group maintained sufficient assets as its total assets and net assets amounted to approximately RMB1,065.7 million and RMB202.0 million as at 31 December 2018 respectively based on local audit reports; and
- (ii) when making the investment, the intention of the Group was to be a passive investor in the Meilai Group, it was not the intention of the Group to further increase its shareholding in the Meilai Group through exercising its rights under the Subscription Agreement to request for the transfer of further equity interest of the Meilai Group from the Guarantors to the Group.

In view of the above assessment made, the Group and Tianfeng Investment held discussion with the Guarantors in relation to the respective compensation under the Profit Guarantee and negotiated on the settlement date of the Compensation Payable. After discussion between the parties and reviewing of the then latest unfavourable financial performance of the Meilai Group for the year ended 31 December 2018, the Group was aware that (i) the investment in Meilai Group represented the primary source of income for the Guarantors; and (ii) the Guarantors may not be able to settle the Compensation Payable together with the amount payable to Tianfeng Investment by the Guarantors under the same Profit Guarantee in a short period of time.

Accordingly, in October 2019, the parties to the Profit Guarantee confirmed in writing that the Compensation Payable to Ningbo Meilide of RMB63,546,000 be settled on or before 30 September 2020.

The Group agreed to allow the Guarantors to settle the Compensation Payable on or before 30 September 2020 as the Group considers that it is in the best interests of the Company and its shareholders to allow sufficient time for the Guarantors to settle the Compensation Payable after taking into account:

- (i) more time is required for the Guarantors to prepare for the settlement of the Compensation Payable and the amount payable to Tianfeng Investment by the Guarantors under the same Profit Guarantee; and
- (ii) the exercising of the right under the Subscription Agreement to transfer further equity interests of the Meilai Group from the Guarantors to the Group may bring further uncertainties on the financial performance of the Group, while the Group may recover the Consideration in full through the receipt of the Compensation Payable in cash.

As at the date of this announcement, the Compensation Payable remained outstanding.

#### *Recoverability of the Compensation Payable*

Given (i) the Group has the right to request the Existing Shareholders to transfer their equity interests in Jilin Meilai to the Group; and (ii) the Meilai Group maintained sufficient assets with its total assets and net assets amounted to approximately RMB1,065.7 million and RMB202.0 million as at 31 December 2018 respectively based on local audit report, the Group considers that its interest is protected by the profit guarantee arrangement. Nevertheless, it was not the intention of the Group to further increase its shareholding in the Meilai Group and therefore the Group allowed the Guarantors an extension of time to settle the Compensation Payable as disclosed above.

The Board is of the view that the Guarantors may have sufficient financial ability to settle the Compensation Payable in the event the financial performance of the Meilai Group recovers. Nevertheless, given the adversity under the COVID-19 epidemic in 2020, the Company has yet to receive the consolidated management accounts of the Meilai Group and therefore could not fairly assess the financial performance of the Meilai Group. Based on its preliminary assessment up to the date of this announcement, the Group considers the Compensation Payable may or may not be settled by 30 September 2020. Given the circumstances and as disclosed in the annual report of the Company for the year ended 31 December 2019, as at 31 December 2019, the Group has impaired the Compensation Payable in full for prudence sake.

The Company will continue to closely monitor the financial performance of the Meilai Group to consider whether further actions (including but not limited to exercising its rights under the Subscription Agreement to request the Existing Shareholders to transfer their equity interests held in Jilin Meilai to the Group or granting further extension of time to the Guarantors to settle the Compensation Payable) are necessary to ensure the obligations of the Guarantors under the Subscription Agreement are fulfilled.

#### *Recoverability of the equity interests in the Meilai Group*

The Company's investment in the Meilai Group was accounted for as equity investments at fair value through other comprehensive income. The Company had engaged an independent valuer for the valuation of the Group's equity interest in the Meilai Group as at 31 December 2019, where it was valued at approximately HK\$14.0 million. As such, the carrying amount of the Group's equity interest in the Meilai Group reduced from approximately HK\$23.0 million as at 31 December 2018 to approximately HK\$14.0 million, in which an impairment of approximately HK\$9.0 million had been recorded for the year ended 31 December 2019.

## **INFORMATION ON JILIN MEILAI**

Jilin Meilai is a company established in the PRC on 10 December 2014. The Meilai Group is principally engaged in timber and wood processing industries in the PRC.

### **Financial information of the Meilai Group**

Set out below is a summary of the consolidated financial information of the Meilai Group from 10 December 2014 (date of incorporation) to 31 December 2015.

**From 10 December 2014**  
**(date of incorporation)**  
**to 31 December 2015**  
*RMB'000*

Turnover	43,568
Profit before tax	4,745
Profit after tax	<u><u>3,555</u></u>

The unaudited net asset value of Jilin Meilai as at 31 December 2015 was approximately RMB13.6 million.



## **INFORMATION ON THE PARTIES TO THE SUBSCRIPTION AGREEMENT**

Tianfeng Investment is a limited liability partnership established in the PRC with registered share capital of approximately RMB2,410 million and is principally engaged in investment holding in the PRC. Based on publicly available information as at the date of this announcement, the ultimate controlling shareholder of Tianfeng Investment is China Merchants Bank Co., Ltd.

The Existing Shareholders Companies are investment vehicles established by the Existing Shareholders, who are citizens in the PRC. The Existing Shareholders are shareholders of a number of enterprises in the PRC in which all of them are related to timber or wood processing industries.

To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, Tianfeng Investment, the Existing Shareholders and the Existing Shareholders Companies are third parties independent of the Company and connected persons of the Company.

## **REASONS FOR AND BENEFITS OF THE SUBSCRIPTION**

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

The Company has been actively exploring investment opportunities to expand new income streams for the Group, the Directors believed that the Subscription may strengthen the financial performance of the Group.

The Directors are of the view that the terms of the Subscription Agreement were determined after arm's length negotiations between the parties thereto and are fair and reasonable and in the interests of the Company and its shareholders as a whole.

## **UPDATE ON THE GROUP'S INVESTMENT IN THE MEILAI GROUP**

Prior to the entering into of the Subscription Agreement, the Group had performed site visits, reviewed the then historical financial statements of the Meilai Group and the then market information and prospect of the timber industry. The Board is of the view that the due diligence work performed by the Group was sufficient and considered the then prospect of the Meilai Group was favourable. After the entering into of the Subscription Agreement, the net profit of Jilin Meilai increased from approximately RMB3.6 million for the year ended 31 December 2015 to approximately RMB101.3 million for the year ended 31 December 2016.

However, as a result of the negative impact from the factors, including but not limited to, (i) the depreciation of Russian Ruble against Renminbi; and (ii) the decrease in market price of timber products due to unexpected spike in global timber supply, the financial performance of the Meilai Group declined significantly for the year ended 31 December 2018.

Taking into account (i) the recent unfavourable financial performance of the Meilai Group; (ii) the failure of the Meilai Group in meeting the Profit Guarantee under the Subscription Agreement; (iii) the Group only holds 5% of the equity interest in the Meilai Group and (iv) the prevalence of the COVID-19 epidemic worldwide, the Board is of the view that the Group's equity interest in the Meilai Group may not strengthen the financial performance of the Group in the foreseeable future. However, the Company will closely monitor the financial performance of the Meilai Group to assess whether the Group shall exercise its rights under the Subscription Agreement to request for the transfer of equity interest in Jilin Meilai from the Guarantors to the Group and/or explore other opportunities to realise its investment in the Meilai Group.

## **LISTING RULES IMPLICATIONS**

As one or more of the applicable percentage ratios (as defined under Chapter 14 of the Listing Rules) in respect of the Subscription exceeds 5% but are less than 25%, the Subscription constituted a disclosable transaction of the Company under Rule 14.06(2) of the Listing Rules and should have been subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Given the equity investments in the Meilai Group would be accounted for as available-for-sale financial assets for the year ended 31 December 2016 (which would not have any accounting effect on the consolidated statement of profit or loss and other comprehensive income of the Group), the then management of the Company inadvertently misinterpreted the implication of the calculation of the size tests under Chapter 14 of the Listing Rules and did not take into account of the revenue ratio under the size tests calculation for the Subscription. As such, the Subscription was not notified and announced by the Company in a timely manner in accordance with the Listing Rules which constitutes a breach of Rule 14.34 of the Listing Rules.

## **REMEDIAL ACTIONS**

The Company deeply regrets its non-compliance with the Listing Rules but would like to stress that such non-compliance was inadvertent. The Company has no intention to withhold any information relating to the Subscription from the disclosure to the public, given the Subscription had been disclosed in the annual report of the Company for the year ended 31 December 2016.

The Company has taken the following remedial measures to prevent similar non-compliance from recurring in the future:

- (i) the Company will provide further guidance material and training, in particular, regarding how to define a transaction and proper calculation methodology of the percentage ratios relating to notifiable transactions under the Listing Rules for the Directors, senior management and the finance staff of the Group in order to strengthen and reinforce their existing knowledge with respect to notifiable transactions;
- (ii) the Company shall, as and when appropriate and necessary, seek legal and other professional advice to confirm the compliance requirements for any proposed transaction or event if necessary; and

(iii) the Company will issue a memorandum to the management of the Company reiterating the update on the internal control and compliance policies as stated above.

The Directors are of the view that the above measures could enhance the internal control of the Company and effectively prevent the occurrence of similar non-compliance in the future.

## DEFINITIONS

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

“Board”	the board of Directors
“Company”	Hybrid Kinetic Group Limited (正道集團有限公司), an exempted company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange
“connected persons”	has the same meaning ascribed to it under the Listing Rules
“Consideration”	the consideration of RMB60,000,000 for the Subscription
“Director(s)”	the director(s) of the Company
“Dunhua Meilai”	Dunhua City Meilai Timber Company Limited* (敦化市美來木業有限公司), a limited company established in Dunhua city, the PRC
“Dunhua Far East”	Dunhua City Far East Timber Resources Company Limited* (敦化市遠東林源木業有限公司), a limited company established in Dunhua city, the PRC
“Existing Shareholders”	Mr Cai Liubao (蔡留寶) and Ms Zhang Haiying (仇慧穎)
“Existing Shareholders Companies”	Dunhua Meilai and Dunhua Far East

“Group”	the Company and its subsidiaries
“Guarantors”	the Existing Shareholders and the Existing Shareholders Companies
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Jilin Meilai”	Jilin Meilai Zhongxin Timber Company Limited* (吉林美來中信木業有限公司), a company established in Jilin province, the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Meilai Group”	Jilin Meilai and its subsidiaries
“Ningbo Meilide”	Ningbo Meilide Consulting Co., Limited* (寧波美立德諮詢有限公司), a company established in Ningbo City, the PRC and a subsidiary of the Company
“PRC”	The People’s Republic of China, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi Yuan, the lawful currency of the PRC
“Shareholder(s)”	the shareholder(s) of the Company
“Subscribers”	Ningbo Meilide and Tianfeng Investment
“Subscription”	the subscription of 5% of equity interest in Jilin Meilai by Ningbo Meilide pursuant to the Subscription Agreement

“Subscription Agreement”	the subscription agreement dated 27 May 2016 entered into between Ningbo Meilide, Tianfeng Investment, the Existing Shareholders and the Existing Shareholders Companies
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianfeng Investment”	天風睿維（武漢）投資中心（有限合夥），a limited liability partnership established in Wuhan city, the PRC
“%”	per cent.

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

Hong Kong, 4 September 2020

*As at the date of this announcement, the Board comprises nine executive Directors, namely Dr Yeung Yung (Chairman), Mr Feng Rui (Chief Executive Officer), Dr Huang Chunhua (Deputy Chairman), Dr Wang Chuantao (Deputy Chairman), Mr Liu Stephen Quan, Dr Zhu Shengliang, Mr Li Zhengshan, Mr Ting Kwok Kit, Johnny and Mr Chen Xiao, one non-executive Director, namely Dr Xia 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.*

\* *For identification purposes only*