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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

The board (the “Board”) of directors (the “Directors”) of Hybrid Kinetic Group Limited (the “Company”) would announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (together the “Group”) for the six months ended 30 June 2013 (the “Period”) together with the comparative figures for the corresponding period in 2012 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013

		Six months ended 30 June	
		2013	2012
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Continuing operations			
Revenue	3	24,036	17,154
Cost of sales		<u>(19,552)</u>	<u>(11,736)</u>
Gross profit		4,484	5,418
Other income		1,018	1,718
Distribution costs and general operating expenses		(41,256)	(80,734)
Impairment of goodwill		(9,625)	(4,867)
Change in fair value of other financial asset		(4,000)	10,000
Finance costs		<u>(996)</u>	<u>(1,172)</u>

		Six months ended 30 June	
		2013	2012
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Loss before income tax	<i>5</i>	(50,375)	(69,637)
Income tax credit	<i>6</i>	<u>329</u>	<u>1,210</u>
Loss for the period from continuing operations		(50,046)	(68,427)
Discontinued operations			
Profit for the period from discontinued operations	<i>7.2</i>	<u>–</u>	<u>9,282</u>
Loss for the period		(50,046)	(59,145)
Other comprehensive income			
Exchange differences on translation of financial statements of subsidiaries		450	100
Transfer of translation reserve to profit or loss on disposal of subsidiaries		<u>–</u>	<u>(5,415)</u>
Other comprehensive income for the period		<u>450</u>	<u>(5,315)</u>
Total comprehensive income for the period		<u>(49,596)</u>	<u>(64,460)</u>
Loss for the period attributable to:			
Owners of the Company		(48,663)	(55,937)
Non-controlling interests		<u>(1,383)</u>	<u>(3,208)</u>
		<u>(50,046)</u>	<u>(59,145)</u>

		Six months ended 30 June	
		2013	2012
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Total comprehensive income for the period			
attributable to:			
Owners of the Company		(48,213)	(61,252)
Non-controlling interests		(1,383)	(3,208)
		<u>(49,596)</u>	<u>(64,460)</u>
(Loss)/Earnings per share for (loss)/profit			
attributable to owners of the Company			
during the period			
	<i>8</i>		
From continuing and discontinued operations			
Loss per share – basic		<u>HK(0.50) cent</u>	<u>HK(0.67) cent</u>
Loss per share – diluted		<u>N/A</u>	<u>N/A</u>
From continuing operations			
Loss per share – basic		<u>HK(0.50) cent</u>	<u>HK(0.79) cent</u>
Loss per share – diluted		<u>N/A</u>	<u>N/A</u>
From discontinued operations			
Earnings per share – basic		<u>N/A</u>	<u>HK0.12 cent</u>
Earnings per share – diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

		As at 30 June 2013 <i>HK\$'000</i> (Unaudited)	As at 31 December 2012 <i>HK\$'000</i> (Audited)
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	10	46,715	50,546
Goodwill		16,795	26,420
Intangible assets		29,599	32,733
Prepayments and deposits		32,368	20,605
Other financial asset		20,000	24,000
		<u>145,477</u>	<u>154,304</u>
Current assets			
Inventories		44,237	37,853
Trade receivables	13	8,695	15,359
Bills receivable		100	–
Prepayments, deposits and other receivables		71,848	135,739
Tax recoverable		161	–
Pledged bank deposits		807	807
Cash and cash equivalents		233,331	21,006
		<u>359,179</u>	<u>210,764</u>

		As at 30 June 2013 <i>HK\$'000</i> (Unaudited)	As at 31 December 2012 <i>HK\$'000</i> (Audited)
	<i>Notes</i>		
Current liabilities			
Trade payables	14	28,101	28,932
Accruals and other payables		32,672	41,499
Borrowings		25,282	2,680
Bills payable		22,568	22,439
Tax payable		–	680
		<u>108,623</u>	<u>96,230</u>
Net current assets		<u>250,556</u>	<u>114,534</u>
Total assets less current liabilities		<u>396,033</u>	<u>268,838</u>
Non-current liabilities			
Deferred tax liabilities		<u>4,337</u>	<u>4,669</u>
Net assets		<u><u>391,696</u></u>	<u><u>264,169</u></u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	11	1,041,016	877,216
Reserves		<u>(658,349)</u>	<u>(611,256)</u>
		382,667	265,960
Non-controlling interests		<u>9,029</u>	<u>(1,791)</u>
Total equity		<u><u>391,696</u></u>	<u><u>264,169</u></u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2013

1. BASIS OF PREPARATION

This unaudited interim financial information (“The Unaudited Interim Financial Information”) has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and with the applicable disclosure provisions in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The Unaudited Interim Financial Information does not include all of the information required in the annual financial statement, and should be read in conjunction with the Group’s annual financial statements of the Company for the year ended 31 December 2012 (the “2012 Annual Financial Statements”).

The Unaudited Interim Financial Information for the six months ended 30 June 2013 was approved for issue by the board of directors on 30 August 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Unaudited Interim Financial Information has been prepared in accordance with the accounting policies and method of comparatives used in the 2012 Annual Financial Statements, except for the adoption of the new or revised Hong Kong Financial Reporting Standards (“HKFRSs”), which include individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations (“Int”). The adoption of these new or revised HKFRSs has had no material impact on the Group’s financial statements. The Group has not early adopted any new or revised HKFRSs that have been issued but are not yet effective.

3. REVENUE

Revenue, which is also the Group’s turnover, represents total invoiced value of goods supplied.

4. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Company's executive directors. The executive directors have identified the Group's product and service lines as operating segments as follows:

- (i) natural resources business;
- (ii) development and manufacturing of lithium-ion power battery; and
- (iii) development and manufacturing of hybrid vehicles.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

During the period ended 30 June 2012, the Group has discontinued its operations of environmental products and related business. These operations had been presented as discontinued operations and details have been set out in note 7.2 to the Unaudited Interim Financial Information.

For the six months ended 30 June 2013

	Natural resources business HK\$'000 (Unaudited)	Lithium-ion power batteries business HK\$'000 (Unaudited)	Hybrid vehicles business HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Revenue				
Sales to external customers	<u>–</u>	<u>24,036</u>	<u>–</u>	<u>24,036</u>
Segment results	<u>(4,973)</u>	<u>(16,647)</u>	<u>(13,999)</u>	<u>(35,619)</u>
Unallocated corporate income and expenses, net				(13,126)
Share-based compensation				<u>(1,630)</u>
Loss before income tax				(50,375)
Income tax credit				<u>329</u>
Loss for the period				<u><u>(50,046)</u></u>

For the six months ended 30 June 2012

	Natural resources business <i>HK\$'000</i> (Unaudited)	Lithium-ion power batteries business <i>HK\$'000</i> (Unaudited)	Hybrid vehicles business <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Revenue				
Sales to external customers	<u>–</u>	<u>17,154</u>	<u>–</u>	<u>17,154</u>
Segment results	<u>(7,075)</u>	<u>(1,828)</u>	<u>(24,581)</u>	(33,484)
Unallocated corporate income and expenses, net				(32,323)
Share-based compensation				<u>(3,830)</u>
Loss before income tax				(69,637)
Income tax credit				<u>1,210</u>
Loss for the period from continuing operations				(68,427)
Profit for the period from discontinued operations (note 7.2)				<u>9,282</u>
Loss for the period				<u>(59,145)</u>

Management determines the Group is domiciled in Hong Kong, which is the location of the Group's principal office.

At 30 June 2013, non-current assets (other than financial instruments) of HK\$104,000 (31 December 2012: HK\$128,000), HK\$83,367,000 (31 December 2012: HK\$96,715,000) and HK\$9,638,000 (31 December 2012: HK\$12,856,000) are located in Hong Kong, the People's Republic of China ("PRC") and the United States respectively.

For goodwill and intangible assets, the geographical location is based on the entities' areas of operation. The geographical location of other non-current assets (other than financial instruments) is based on the physical location of the asset.

5. LOSS BEFORE INCOME TAX

	Six months ended 30 June	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
<u>Continuing operations</u>		
Loss before income tax is arrived after charging/(crediting):		
Share-based compensation	1,630	3,830
Amortisation of intangible assets	2,124	2,890
Depreciation of property, plant and equipment	5,535	7,333
Impairment of intangible assets	–	5,575
Impairment of goodwill	9,625	4,867
Change in fair value of other financial asset	4,000	(10,000)
Research and development expenses	937	18,501

6. INCOME TAX CREDIT

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
<u>Continuing operations</u>		
Current tax – PRC Enterprise Income Tax	3	52
Deferred tax	(332)	(1,262)
Total income tax credit	<u>(329)</u>	<u>(1,210)</u>

For the six months ended 30 June 2013 and 2012, no provision for Hong Kong profits tax has been made in the financial statements as the Group did not derive any assessable profits in Hong Kong. Taxation on PRC and overseas profits has been calculated on the estimated assessable profit for those periods at the rates of taxation prevailing in the jurisdictions in which the Group operates.

7. DISCONTINUED OPERATIONS

7.1 Six months ended 30 June 2013

The Group had no discontinued operations during the six months ended 30 June 2013.

7.2 Six months ended 30 June 2012

On 22 December 2011, the Group entered into an agreement with a non-controlling shareholder of its subsidiary, Beijing Century Wanyeyuan Bio-Engineering Co., Limited (“Beijing Century”) to a disposal of the Group’s 65% equity interests in Beijing Century and its subsidiaries (collectively “Beijing Century Group”), which principally engaged in environmental products and related business. The disposal of Beijing Century Group was completed on 17 March 2012 and the Group had discontinued its operations in respect of environmental products and related business in accordance with HKFRS 5. For the period ended 30 June 2012, the profits on these discontinued operations amounted to HK\$9,282,000. Upon completion of disposal of Beijing Century Group, the Group has recognised a gain of HK\$12,164,000 in respect of disposal of subsidiaries.

An analysis of the results and cash flows of the discontinued operations for the period ended 30 June 2012 was as follows:

	<i>HK\$'000</i> (Unaudited)
Revenue	29
Cost of sales	<u>(11)</u>
Gross profit	18
Other income	2
Distribution cost and general operating expenses	(2,901)
Finance costs	<u>–</u>
Loss before income tax	(2,881)
Gain on disposal of subsidiaries (<i>note 12</i>)	12,164
Income tax expense	<u>(1)</u>
Profit for the period from discontinued operations	<u><u>9,282</u></u>
Cash flows from discontinued operations	
Net cash generated from operating activities	<u>174</u>
Net cash inflow	<u><u>174</u></u>

8. LOSS PER SHARE

The calculations of basic and diluted (loss)/earnings per share attributable to owners of the Company are based on the following data:

(Loss)/Earnings

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss)/Profit attributable to owners of the Company for the purpose of basic and diluted (loss)/earnings per share:		
Continuing operations	(48,663)	(66,265)
Discontinued operations	—	10,328
Total loss from continuing and discontinued operations	<u>(48,663)</u>	<u>(55,937)</u>

Number of shares

	2013	2012
	Number of	Number of
	shares	shares
	'000	'000
	(Unaudited)	(Unaudited)
Weighted average number of shares for the purpose of basic loss per share	<u>9,668,082</u>	<u>8,363,039</u>

Diluted loss per share for both periods was not presented because the impact of the exercise of the share options was anti-dilutive. Potential ordinary shares are dilutive when and only when their conversion into ordinary shares would increase loss per share attributable to owners of the Company.

9. INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2013 (Six months ended 30 June 2012: Nil).

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2013, the Group acquired property, plant and equipment of HK\$515,000 (Six months ended 30 June 2012: HK\$1,833,000). Save as property, plant and equipment disposed of upon the disposal of subsidiaries as mentioned in note 12, no other property, plant and equipment were disposed of during the six months ended 30 June 2013 and 2012.

11. SHARE CAPITAL

	At 30 June 2013 (Unaudited)		At 31 December 2012 (Audited)	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.10 each	<u>800,000,000,000</u>	<u>80,000,000</u>	<u>800,000,000,000</u>	<u>80,000,000</u>
<i>Issued and fully paid:</i>				
At beginning of period/year	8,772,159,756	877,216	7,312,159,756	731,216
Subscription of new shares during the period (<i>note</i>)	<u>1,638,000,000</u>	<u>163,800</u>	<u>1,460,000,000</u>	<u>146,000</u>
At end of period/year	<u>10,410,159,756</u>	<u>1,041,016</u>	<u>8,772,159,756</u>	<u>877,216</u>

Note:

Six months ended 30 June 2013

On 23 November 2012, the Group entered into agreements with three subscribers pursuant to which the subscribers agreed to subscribe for an aggregate of 1,638,000,000 new shares at the subscription price of HK\$0.10 per subscription share. The subscription of shares was completed on 26 March 2013 and the gross cash proceeds of HK\$163,800,000 have been received by the Group.

Six months ended 30 June 2012

On 27 January 2012, the Group entered into agreements with five subscribers pursuant to which the subscribers agreed to subscribe for an aggregate of 1,460,000,000 new shares at the subscription price of HK\$0.10 per subscription share. The subscription of shares was completed on 20 February 2012 and the gross cash proceeds of HK\$146,000,000 have been received by the Group.

12. DISPOSAL OF SUBSIDIARIES

As mentioned in note 7.2, the Group entered into an agreement with a non-controlling shareholder of its subsidiary (“the Purchaser”) to dispose of the Group’s 65% equity interests in Beijing Century Group at the consideration of RMB41,000,000 (equivalent to approximately HK\$50,553,000). The disposal of Beijing Century Group was completed on 17 March 2012. The net assets of Beijing Century Group at the date of disposal were as follows:

	Carrying amounts HK\$’000 (Unaudited)
Net assets disposed of:	
Property, plant and equipment	6,019
Prepaid land lease payments	1,380
Intangible assets	7,376
Inventories	6,435
Trade receivables	6,528
Prepayments, deposits and other receivables	2,883
Amount due from remaining group	6,975
Cash and cash equivalents	36,336
Trade payables	(3,225)
Accruals and other payables	(863)
Tax payables	(1)
	69,843
Non-controlling interests	(26,039)
	43,804
Release of translation reserve upon disposal of subsidiaries	(5,415)
Gain on disposal of subsidiaries (<i>note 7.2</i>)	12,164
Total consideration	<u>50,553</u>
Satisfied by	
Cash	<u>50,553</u>
Net cash outflow arising from disposal of subsidiaries	<i>HK\$’000</i> (Unaudited)
Cash consideration (<i>note</i>)	50,553
Cash and cash equivalents disposed of	(36,336)
	14,217
Remaining balance of the cash consideration receivable from the Purchaser (<i>note</i>)	(25,018)
Net cash outflow from disposal of subsidiaries during the period	<u>(10,801)</u>

Beijing Century Group contributed revenue of HK\$29,000 and net loss of HK\$2,882,000 to the Group for the period from 1 January 2012 to 17 March 2012 (being the effective date of disposal).

Note:

During the period ended 30 June 2012, the Group has received part of the cash consideration of HK\$25,535,000 from the Purchaser. The remaining balance of HK\$25,018,000 due from the Purchaser was included in prepayments, deposits and other receivables as at 31 December 2012. As at 30 June 2013, the Group had fully received the remaining balance of the consideration of HK\$25,018,000 from the Purchaser.

13. TRADE RECEIVABLES

As at 30 June 2013, the ageing analysis of the trade receivables (net of impairment) of the Group was as follows:

	As at 30 June 2013 <i>HK\$'000</i> (Unaudited)	As at 31 December 2012 <i>HK\$'000</i> (Audited)
0 – 30 days	1,785	5,762
31 – 90 days	5,753	666
91 – 180 days	1,157	4,283
Over 180 days	—	4,648
	<u>8,695</u>	<u>15,359</u>

The Group normally applies credit terms to its customers according to industry practice together with consideration of their creditability and repayment history. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables.

14. TRADE PAYABLES

As at 30 June 2013, the ageing analysis of the trade payables of the Group was as follows:

	As at 30 June 2013 <i>HK\$'000</i> (Unaudited)	As at 31 December 2012 <i>HK\$'000</i> (Audited)
0 – 180 days	13,734	9,810
Over 180 days	14,367	19,122
	<u>28,101</u>	<u>28,932</u>

15. CAPITAL COMMITMENT

As at 30 June 2013, the Group has the following capital commitments:

	As at 30 June 2013 <i>HK\$'000</i> (Unaudited)	As at 31 December 2012 <i>HK\$'000</i> (Audited)
Contracted but not provided for		
– Establishment of subsidiaries in the PRC	156,965	6,233
– Purchase of property, plant and equipment	81	81
– Research and development projects	17,450	17,450
	<u>174,496</u>	<u>23,764</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

The principal businesses of the Group during the Period included the environmental automobile and related business (comprising the automobile battery business and the environmental automobile business) and the natural resources business.

The Group's turnover and loss attributable to shareholders for the Period amounted to HK\$24 million (2012: HK\$17.5 million) and HK\$48.66 million (2012: HK\$55.94 million) respectively. The loss for the Period was mainly attributable to the general operating expenses and impairment of goodwill for the automobile battery business.

The general operating expenses for the Period decreased to HK\$41.26 million (2012: HK\$80.73 million) which consisted of, among others, the research and development expenses of HK\$0.94 million (2012: HK\$18.50 million), depreciation expenses of HK\$3.58 million (2012: HK\$7.33 million), share-based compensation of HK\$1.63 million (2012: HK\$3.83 million) and salary expenses of HK\$19.34 million (2012: HK\$23.69 million).

(a) *Environmental automobile and related business*

Automobile Battery Business

The Group engages in the automobile battery business through the Company's wholly owned subsidiary, Zhejiang GBS Energy Co., Ltd. (浙江佳貝思綠色能源有限公司) ("GBS"). GBS was acquired by the Group on 26 October 2010 pursuant to an acquisition agreement dated 18 April 2010 (as supplemented) (the "**Acquisition Agreement**"). For the Period, the turnover and the loss of this segment were approximately HK\$24.04 million and HK\$16.65 million as compared to the turnover of approximately HK\$17.15 million and the profit of approximately HK\$1.83 million in the same period of 2012. The impairment of goodwill for the business amounted to HK\$9.6 million (30 June 2012: HK\$4.87 million). No impairment of intangible assets for the business was recorded for the Period (30 June 2012: HK\$5.58 million).

During the Period, the external factors such as the decreasing selling price of lithium-ion electric battery of the domestic market in the PRC did affect the growth of the automobile battery industry generally. Increasing production cost also had a negative impact on the profit margin and affected the performance of this business segment. Despite the continuing attempts and efforts made by the management of GBS in expanding the market and controlling its manufacturing overhead, the business performance of GBS was far from satisfactory. As GBS had been operating at a loss for the financial years ended 31 December 2011 and 2012 and based on the results of GBS recorded for the Period, the Board is not optimistic at all that GBS could meet the guaranteed profit given by the ex-owners of GBS (the “**GBS Sellers**”) under the Acquisition Agreement of RMB35 million for the financial year ending 31 December 2013. The Board is of the view that the business operation is not expected to have much improvement and will continue to be restrained unless and until there is innovative breakthrough in battery architecture and technology.

As disclosed in the circular of the Company dated 30 August 2010, the Group had retained a total of 200,000,000 ordinary shares (the “**Retained Shares**”) of HK\$0.10 each in the Company (which were part of the consideration shares allotted and issued to the GBS Sellers at HK\$0.358 per ordinary share (the “**Contract Price**”) upon completion of the Acquisition Agreement) as security for the attainment of the profit guarantee given by the GBS Sellers. The Group is at liberty to dispose of the Retained Shares to compensate any shortfall in the profit guaranteed on a dollar-for-dollar basis but subject to a cap equivalent to 100% of the net proceeds derived from the disposal of the Retained Shares. Given that the Company’s shares had been traded well below the Contract Price, the Board does not consider that it is in the best interests of the Company for the time being to exercise its discretion to dispose of the Retained Shares to recoup any shortfall but will reserve all rights available to the Company for the non-attainment of the profit guarantee provided by the GBS Sellers as the last resort.

Meanwhile, the Group will continue to explore ways, such as transforming gradually the existing production process of GBS for the manufacture of power batteries and related products which are more advanced, value-added or diversified, to increase GBS’s competitiveness in the auto market. As the Board envisages that such enhancement is subject to technical compatibility with the more advanced products and additional capital having been invested in such transformation, the Group will closely examine and adjust the business strategies for this line of business.

On 23 November 2012, the Company entered into a cooperative agreement with Jiangsu NewHeadLine Development Group Co. Ltd (江蘇新海連發展集團有限公司), Lianyungang TianYang Automobile Co., Ltd (連雲港天洋汽車有限公司) and Lianyungang Economic and Technological Development Zone (連雲港經濟技術開發區) (“LETDZ”) in respect of the proposed establishment of a project company (namely, 連雲港正道新能源有限公司 (Hybrid Kinetic (Lianyungang) New Energy Limited, Inc.) (the “Project Company”) to be based in LETDZ, the Jiangsu Province, the PRC with an operating period of 20 years for the promotion and development of a new energy project (which involves the construction of production facilities for the production of key new energy automobile components including battery materials, super batteries, electric control systems and electrolyte)(the “New Energy Project”).

The Project Company was successfully established on 29 March 2013. The total investment amount and the total registered capital of the Project Company is US\$180,000,000 (equivalent to approximately HK\$1,404,000,000) and US\$60,000,000 (equivalent to approximately HK\$468,000,000) respectively. The Group would contribute 35% of the total registered capital of the Project Company in the amount of US\$21 million (equivalent to approximately HK\$163,800,000), representing the Group’s equity interest in the Project Company upon its establishment.

The initial business plan of the Project Company is to commence the construction of the production facilities in 2013 and, depending on the progress of implementation, trial or initial production in early 2015. During the Period, the Project Company had commenced the planning of developing the production facilities for advanced battery materials (電池材料) .

Environmental Automobile Business

The Group engages in the research and development of environmental automobile. For the Period, this business segment recorded no turnover (2012: nil), and a loss of approximately HK\$14 million (2012: HK\$24.58 million). The loss was mainly attributable to operating expenses incurred during the Period.

With the recent announcement of the Chinese Government of its plans to (i) boost the use of fuel-efficient and new-energy vehicles among government agencies and public transport and domestic auto industry with the target of bringing the market share of energy saving products to over 50% by 2015 and (ii) offer subsidies for purchases of new-energy vehicle, the Board will seek to gain strategic high ground to make use of this favourable policy.

(b) *Natural resources business*

The Group carries on its natural resources business mainly through Jilin Shengshi Mining Ltd. (吉林晟世礦業有限公司) (“Jilin Shengshi”), a subsidiary of the Company. For the Period, this business segment recorded no turnover (2012: nil), and a loss of HK\$4.97 million (2012: HK\$7.08 million) which was mainly attributable to operating expenses incurred during the Period. In 2012, a subsidiary of Jilin Shengshi, which then possessed certain exploration licences, had commenced an extensive survey on certain copper, aluminium and zinc mines located in the Jilin Province, the PRC. The outcome of the survey revealed that these mines were not economical feasible for future exploration, and the subsidiary, therefore, decided not to renew the exploration licenses upon their expiration.

During the Period, Jilin Shengshi provided management services to Garze Prefecture Rongxin Mining Co., Ltd. (“Rongxin Mining Co.”) in respect of, among others, the business operated by Rongxin Mining Co (including the conduct of survey to evaluate the exploration potential of a gold mine located in the Sichuan Province, the PRC in respect of which Rongxin Mining Co has an exploration right) pursuant to a management agreement entered into by Jilin Shengshi with Rongxin Mining Co. in September 2008 (and renewed in March 2012) for an extended term of three years until 2015. The survey and exploration of the gold mine revealed that the gold mine may have rich gold reserve, and its value for further exploration and potential extraction is being further assessed and examined by Rongxin Mining Co and Jilin Shengshi.

In January 2012, the Group appointed an agent in Angola, Africa to explore investment opportunities in the area of coal, timber and infrastructure in Africa. The Board had examined several investment proposals submitted by the agent but did not consider them worth pursuing. During the Period, the Group had terminated the appointment with the agent in Angola.

The development strategy for the Group's natural resources business had been subject to constant review and evaluation by the Group during the Period.

Prospects

The volatile global economic environment, if continues to persist, is not expected to generate momentum in the Company's automobile battery business. Notwithstanding the uncertainty in the global economic environment, the Directors remain prudently optimistic regarding its environmental automobile and related business. For the automobile battery business, the Group strives to enhance and enforce quality control and product safety measures for the production of its power battery and related products so as to meet the international standard. Due to keen competition in both the domestic and the overseas markets, the Group's automobile battery business would still be expected to be operating in a very challenging environment.

The Board considers that significant advance in battery architecture and the exploration and development of highly advanced new battery materials could be breakthrough for both the automobile battery business and the environmental automobile business of the Group, and will make dedicated efforts and allocate resources towards this direction.

The participation of the Group, and establishment of the Project Company (namely, 連雲港正道新能源有限公司 (Hybrid Kinetic (Lianyungang (New Energy Limited, Inc.) on 29 March 2013 with strategic joint venture partners in the development of the New Energy Project (which involves the development of key new and highly advanced automobile components, comprising battery materials (in particular, single layer grapheme (單層石墨烯), an ideal material for super battery), super batteries, electric control systems and electrolyte) pursuant to the cooperative agreement dated 23 November 2012 (as announced by the Company on 27 November 2012) is considered by the Board as an important milestone for the Group in the development of its environmental automobile and related business.

The Project Company is negotiating with certain parties to secure the right to the exclusive use of certain technology for the production and manufacture of highly advanced battery materials. The Board will make the necessary announcement(s) in accordance with the applicable Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as and when there is any significant progress in the negotiation.

In an executive meeting of the State Council of the PRC presided over by Premier Li Keqiang on 12 July 2013, China was to speed up the development of the energy-saving industry. The State Council vowed to promote the upgrading of energy-saving facilities, and accelerate construction of major energy-saving projects. It is anticipated that China will encourage and guide social capital, including private investments, to actively participate in the energy-saving sector, and promote the use of new-energy vehicles. The Board considers that the New Energy Project would benefit from this policy.

As regards the natural resources business, while the Group will try optimize the development potential of its natural resources business, the Group will constantly examine its business strategy and will not preclude the possibility of changing its business plan for this line of business (including but not limited to the reallocation of the Group's resources) so as to best align with the overall and long-term goals of the Group for the development of its other lines of business or ventures with better prospects or higher growth potential.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2013, the total equity of the Group amounted to approximately HK\$391.70 million (31 December 2012: HK\$264.17 million). The gearing ratio of the Group as at 30 June 2013 measured in terms of total liabilities divided by total equity was approximately 28.84% (31 December 2012: 38.19%). As at 30 June 2013, net current assets of the Group were approximately HK\$250.56 million (31 December 2012: HK\$114.53 million). The pledged bank deposits were approximately HK\$0.81 million (31 December 2012: HK\$0.81 million) while the cash and cash equivalents amounted to HK\$233.33 million (31 December 2012: HK\$21.01 million). The Group also had outstanding borrowings of approximately HK\$25.28 million (31 December 2012: HK\$2.68 million).

FUND RAISING ACTIVITIES AND USE OF PROCEEDS DURING THE PERIOD

On 26 March 2013, the Company allotted and issued an aggregate of 1,638,000,000 ordinary shares in the Company at HK\$0.10 each pursuant to, and upon completion of, the subscription transactions (the “Subscription”) contemplated under three several subscription agreements dated 23 November 2012 (as supplemented) entered into by the Company with three several subscribers with net proceeds of approximately US\$20,900,000 (equivalent to approximately HK\$163,000,000) raised from the Subscription. Please refer to the announcement dated 25 November 2012, the circular dated 11 January 2013 and the announcement dated 26 March 2013 of the Company for details.

As disclosed in the Company’s announcement dated 26 March 2013, the net proceeds raised from the Subscription would be applied towards the funding, in part, of the capital commitment agreed to be made by the Group towards the establishment of the Project Company for the promotion of the New Energy Project.

As at 30 June 2013, the Company utilized part of the net proceeds in the amount of approximately US\$1.68 million and contributed them, as part the Group’s agreed capital commitment, towards the establishment of the Project Company. The application of the net proceeds was in line with the intended use of net proceeds as previously disclosed.

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group had a total of 191 employees as at 30 June 2013 (31 December 2012: 209 employees). It has been the Group’s policy to ensure that the remuneration levels of its employees are reviewed and rewarded on a performance related basis within the general framework of the Group’s salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to employees of the Group to recognize their contributions to the Group or serve as an incentive to retain them for the development of the Group.

PLEDGE OF ASSETS

As at 30 June 2013, the Group had pledged its bank deposits of HK\$25.88 million (31 December 2012: HK\$0.81 million) to the Group's bankers to secure general banking facilities granted to the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

During the Period, almost all of the income and expenditure of the Group were denominated in Renminbi, Hong Kong dollar and United States dollar. The Group had no significant exposure to foreign exchange fluctuations and, therefore, had not taken any financial instruments for hedging purpose.

MATERIAL ACQUISITIONS AND DISPOSALS

There were no material acquisitions and disposals of the Group during the Period.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Period.

CORPORATE GOVERNANCE

Throughout the Period, the Company had complied with the code provisions and certain recommended best practices set out in the Corporate Governance Code which became effective on 1 April 2012 contained in Appendix 14 to the Listing Rules except for the following deviation.

CODE PROVISION E.1.2

The chairman of the Board should attend the annual general meeting and arrange for the chairman of each of the audit, remuneration and nomination committees (collectively the “Committees”) (as appropriate) or, in their absence, he should invite another member of the Committee or failing this his duly appointed delegate, to attend and be available to answer questions at the annual general meeting. The chairman of each of the Committees could not attend the annual general meeting (the “AGM”) of the Company held on 13 June 2013 due to business matters. Mr. Hui Wing Sang Wilson, being one of the executive Directors and the delegate appointed by the chairman of the Committees, attended the AGM to ensure effective communication with the shareholders of the Company.

DIRECTORS’ INTEREST IN CONTRACTS OF SIGNIFICANCE

During the Period, none of the Directors had material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party.

COMPETING INTERESTS

The Directors were not aware of any business or interest of any of the Directors, or the controlling shareholders of the Company and their respective associates (as defined in the Listing Rules) that competes or may compete, directly or indirectly, with the business of the Group for the Period.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “Model Code”) as its own code of conduct governing securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors confirmed to the Company their compliance with the required standards set out in the Model Code during the Period.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors’ knowledge, information and belief, the Company had maintained sufficient public float of not less than 25% of its total issued shares as required under the Listing Rules during the Period.

REVIEW OF FINANCIAL STATEMENTS

The interim results for the Period are unaudited and have not been reviewed by the auditor of the Company. The audit committee of the Company has reviewed with management of the Company the accounting principles and practices adopted by the Group, the internal controls and financial reporting matters of the Group, and the unaudited condensed consolidated financial statements of the Group for the Period.

PUBLICATION OF THE INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2013 will be published on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the website of the Company (<http://hk1188.etnet.com.hk/>) in due course.

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

Hong Kong, 30 August 2013

As at the date of this announcement, the Board comprises ten executive Directors, namely Dr Yeung Yung (Chairman), Dr Huang Chunhua (Deputy Chairman), Dr Jang Bor Zeng Bohr (Deputy Chairman), Dr Wang Chuantao (Chief Executive Officer), Mr Liu Stepehen Quan, Mr Hui Wing Sang, Wilson, Dr Zhamu Aruna, Dr Zhu Shengliang, Mr Xu Jianguo and Mr Li Zhengshan, one non-executive director, namely Dr Xia Tingkang, Tim and six independent non-executive directors, namely Mr Wong Lee Hing, Dr Song Jian, Dr Zhu Guobin, Mr Cheng Tat Wa, Dr Li Jianyong and Mr Chan Sin Hang.