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 2018

The board of directors (the "Board" or the "Directors") of Hybrid Kinetic Group Limited (the "Company") would like to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (together the "Group") for the six months ended 30 June 2018 (the "Period") together with the comparative figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**35,451**	525
Cost of sales		**(28,894)**	(88)
Gross profit		**6,557**	437
Other income		**3,975**	3,721
Distribution costs and general operating expenses		**(193,500)**	(175,752)
Share of results of associates		**307**	(1,239)
Share of profit of a joint venture		**55**	–

	Notes	Six months ended 30 June **2018** ***HK$'000*** **(Unaudited)**	 2017 *HK$'000* (Unaudited)
Loss before tax		**(182,606)**	(172,833)
Income tax expense	*5*	**(15)**	(137)
Loss for the period	*6*	**(182,621)**	(172,970)
Other comprehensive (loss)/income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations – Group		**(9,198)**	8,623
Exchange differences on translating foreign operations – associates		**(1,935)**	1,542
Other comprehensive (loss)/income for the period		**(11,133)**	10,165
Total comprehensive loss for the period		**(193,754)**	(162,805)
Loss for the period attributable to:			
Owners of the Company		**(181,002)**	(171,314)
Non-controlling interests		**(1,619)**	(1,656)
		(182,621)	(172,970)
Total comprehensive loss for the period attributable to:			
Owners of the Company		**(191,722)**	(161,987)
Non-controlling interests		**(2,032)**	(818)
		(193,754)	(162,805)
Loss per share	*8*		
Basic and diluted *(cents per share)*		**0.89**	0.84

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	At 30 June 2018 HK$'000 (Unaudited)	At 31 December 2017 HK$'000 (Audited and restated)
Non-current assets			
Property, plant and equipment	*9*	**61,130**	70,638
Investment in associates		**541,467**	547,494
Investment in a joint venture	*10*	**23,756**	–
Equity investments at fair value through other comprehensive income		**59,526**	60,310
Prepayments		**98,370**	63,368
		784,249	741,810
Current assets			
Inventories		**49,270**	75,408
Finance lease receivables		**541**	1,753
Trade and other receivables	*11*	**495,618**	480,959
Derivative financial instrument		**46,346**	46,957
Pledged bank deposits		**2,007**	2,007
Bank and cash balances		**98,409**	311,781
		692,191	918,865
Current liabilities			
Trade and other payables	*12*	**69,636**	61,827
Net current assets		**622,555**	857,038
NET ASSETS		**1,406,804**	1,598,848
Capital and reserves			
Share capital		**2,035,287**	2,033,787
Reserves		**(663,671)**	(472,159)
Equity attributable to owners of the Company		**1,371,616**	1,561,628
Non-controlling interests		**35,188**	37,220
TOTAL EQUITY		**1,406,804**	1,598,848

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. GENERAL INFORMATION

Hybrid Kinetic Group Limited was incorporated in Bermuda as an exempted company with limited liability. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The address of its principal place of business is Suites 1407-8, 14th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (together referred to as the "Group") were development of high-tech electric motor vehicles, development and sales of battery management systems and spare parts and development of advanced batteries materials.

2. BASIS OF PREPARATION

These condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

These condensed financial statements should be read in conjunction with the 2017 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2017 except as stated below.

(a) Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Group are classified under the following categories:

– Financial assets at amortised cost;

– Equity investments at fair value through other comprehensive income; and

– Investments at fair value through profit or loss.

(i) Financial assets at amortised cost

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

- the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

(ii) Equity investments at fair value through other comprehensive income

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that are not held for trading as at fair value through other comprehensive income.

Equity investments at fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising from changes in fair values recognised in other comprehensive income and accumulated in the equity investment revaluation reserve. On derecognition of an investment, the cumulative gains or losses previously accumulated in the equity investment revaluation reserve are not reclassified to profit or loss.

Dividends on these investments are recognised in profit or loss, unless the dividends clearly represent a recovery of part of the cost of the investment.

(iii) Investments at fair value through profit or loss

Financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost and the conditions of debt investments at fair value through other comprehensive income unless the Group designates an equity investment that is not held for trading as at fair value through other comprehensive income on initial recognition.

Investments at fair value through profit or loss are subsequently measured at fair value with any gains or losses arising from changes in fair values recognised in profit or loss. The fair value gains or losses recognised in profit or loss are net of any interest income and dividend income. Interest income and dividend income are recognised in profit or loss.

(b) Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost and lease receivables. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("lifetime expected credit losses") for trade receivables, contract assets and lease receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables, contract assets and lease receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

(c) Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

– the customer simultaneously receives and consumes the benefits provided by the Group's performance;

– the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

– the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (the "HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2018. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards (the "HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years except as stated below:

HKFRS 9 (2014) "Financial Instruments"

Available-for-sale investments are now classified as equity investments at fair value through other comprehensive income.

HKFRS 9 (2014) has been applied retrospectively and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	31 December 2017 *HK$'000*	**1 January 2017** *HK$'000*
Decrease in available-for-sale investments	(60,310)	(72,188)
Increase in equity investments at fair value through other comprehensive income	60,310	72,188
Decrease in accumulated losses	26,939	10,678
Increase in equity investment revaluation reserve	(26,939)	(10,678)

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of those new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

4. REVENUE AND SEGMENT INFORMATION

Information about reportable segment profit or loss, assets and liabilities:

	High-tech electric motor vehicles *HK$'000* (Unaudited)	Battery management systems and spare parts *HK$'000* (Unaudited)	Advanced batteries materials *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Period ended 30 June 2018:				
Revenue	**42**	**35,409**	**–**	**35,451**
Segment loss	**(57,428)**	**(26,194)**	**(7,014)**	**(90,636)**
At 30 June 2018:				
Segment assets	**829,684**	**47,223**	**3,312**	**880,219**
Segment liabilities	**12,110**	**8,159**	**58**	**20,327**
Period ended 30 June 2017:				
Revenue	525	–	–	525
Segment loss	(38,664)	(44,071)	(2,178)	(84,913)
At as 31 December 2017:				
Segment assets (audited)	900,145	67,294	4,472	971,911
Segment liabilities (audited)	12,700	9,568	222	22,490

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

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue:		
Total revenue of reportable segments and consolidated revenue	**35,451**	525
Profit or loss:		
Total loss of reportable segments	**(90,636)**	(84,913)
Corporate and unallocated profit or loss	**(91,970)**	(86,973)
Share-based payment	**–**	(947)
Income tax expense	**(15)**	(137)
Consolidated loss for the period	**(182,621)**	(172,970)

	At 30 June	At 31 December
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited and restated)
Assets:		
Total assets of reportable segments	**880,219**	971,911
Corporate and unallocated assets:		
– Equity investments at fair value through other comprehensive income	**59,526**	60,310
– Bank and cash balances held by the Group's headquarter	**29,726**	103,803
– Others	**506,969**	524,651
Consolidated total assets	**1,476,440**	1,660,675
Liabilities:		
Total liabilities of reportable segments	**20,327**	22,490
Corporate and unallocated liabilities		
– Others	**49,309**	39,337
Consolidated total liabilities	**69,636**	61,827

Breakdown of revenue:

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Sales of battery management systems and spare parts	**35,409**	89
Revenue from contracts with customers	**35,409**	89
Interest income from finance lease	**42**	436
Total	**35,451**	525

Disaggregation of revenue from contracts with customers:

	Six months ended 30 June 2018			
Segments	**High-tech electric motor vehicles**	**Battery management systems and spare parts**	**Advanced batteries materials**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Geographical markets				
PRC	**–**	**35,409**	**–**	**35,409**
Major products				
Lithium batteries	**–**	**35,409**	**–**	**35,409**
Timing of revenue recognition				
At a point in time	**–**	**35,409**	**–**	**35,409**

Segments	High-tech electric motor vehicles	Battery management systems and spare parts	Advanced batteries materials	Total
	Six months ended 30 June 2017			
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Geographical markets				
PRC	89	–	–	89
Major products				
Lithium batteries	89	–	–	89
Timing of revenue recognition				
At a point in time	89	–	–	89

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax – PRC Enterprise Income Tax		
– Provision for the period	**15**	137

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit in Hong Kong during the period (2017: HK$Nil).

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

6. LOSS FOR THE PERIOD

The Group's loss for the period is stated after charging the following:

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**28,894**	88
Depreciation	**14,708**	9,395
Operating lease charges in respect of land and buildings	**23,331**	15,309
Research and development costs	**17,809**	6,494
Staff costs including directors' emoluments		
– Salaries, bonus and allowances	**81,098**	61,337
– Equity-settled share-based payments	**–**	947
– Retirement benefits scheme contributions	**5,503**	2,381
	86,601	64,665

7. DIVIDENDS

The Directors do not recommend or declare the payment of any dividend in respect of the periods ended 30 June 2018 and 2017.

8. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for period attributable to owners of the Company of approximately HK$181,002,000 (2017: approximately HK$171,314,000) and the weighted average number of 20,351,271,000 (2017: 20,337,872,000) ordinary shares in issue during the period.

Diluted loss per share

The effects of all potential ordinary shares are anti-dilutive during the both periods.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately HK$11,332,000 (2017: approximately HK$6,795,000).

10. INVESTMENT IN A JOINT VENTURE

During the six months ended 30 June 2018, 寧波正道星控股權投資合伙企業（有限合伙）, a non-wholly owned subsidiary of the Company, entered into a joint venture agreement (the "JV Agreement") with 北京威卡威汽車零部件股份有限公司 ("Beijing WKW") for the establishment of 寧波正道京威控股有限公司 (the "JV"). The Group and Beijing WKW had collectively contributed RMB40,000,000 in the JV. The JV is a limited liability company established in the PRC under the PRC Law, which does not have quoted market price in an active market. The Group intended to hold the investment for long-term capital appreciation and had no intention to dispose of the investment in the near future. As at 30 June 2018, the Group held 50% equity interest in the JV.

11. TRADE AND OTHER RECEIVABLES

	At 30 June 2018	At 31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**9,425**	28,413
Prepayments	**414,638**	373,386
Deposits and other receivables	**71,555**	76,588
Amounts due from directors	**–**	2,572
	495,618	480,959

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

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

	At 30 June 2018	At 31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 30 days	**9,425**	9,471
31 to 60 days	**–**	9,471
61 to 90 days	**–**	9,471
	9,425	28,413

12. TRADE AND OTHER PAYABLES

	At 30 June 2018	At 31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**7,625**	8,168
Accruals and other payables	**61,630**	53,021
Amount due to a director	**381**	638
	69,636	61,827

Trade payables

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

	At 30 June 2018	At 31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 180 days	**–**	312
181 to 360 days	**–**	6,825
Over 360 days	**7,625**	1,031
	7,625	8,168

MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER INFORMATION

Overview

During the Period, the principal businesses of the Group included the development and/or sales of:

- battery management systems and spare parts;
- high-tech electric motor vehicles; and
- advanced batteries materials, including key new energy automobile components and single and few-layer graphene.

The Group's revenue for the Period amounted to approximately HK$35.5 million (of which approximately HK$35.4 million was derived from the sale of battery management systems and spare parts and the remaining was from interest income from our finance leasing business) as compared to approximately HK$0.5 million in the same period of last year. The gross profit for the Period amounted to approximately HK$6.6 million as compared to approximately HK$0.4 million in the same period of last year. The gross profit for the Period was primarily attributable to the sale of battery management systems and spare parts. The loss attributable to shareholders for the Period amounted to approximately HK$181.0 million (2017: HK$171.3 million). The loss for the Period was mainly attributable to operating and administrative expenses.

The distribution costs and general operating expenses for the Period increased to approximately HK$193.5 million (2017: HK$175.8 million) which consisted of research and development expenses of HK$17.8 million (2017: HK$6.5 million), operating lease charges in respect of land and buildings of HK$23.3 million (2017: HK$15.3 million), employee benefit expense (including wages and salaries, pension costs and other benefits) of HK$86.6 million (2017: HK$64.7 million) and depreciation expenses of HK$14.7 million (2017: HK$9.4 million).

Battery management systems and spare parts

The Group has been engaging in the automotive batteries business since 2011.

The Group identifies, secures or sources from time to time quality manufacturers and/or suppliers worldwide with high-level engineering capabilities and/or manufacturing capacities for the Group's automotive innovations and products.

We consider the Group's environmental automobile and related businesses will be restrained unless there is innovative breakthrough in battery architecture and technology. In this respect, we have 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 strength in the development of, among other things, advanced and high quality batteries, battery management systems and related technologies. For instance, the Lithium Titanate Oxide battery and battery systems which we have been developing have a relatively stable structure, a higher battery charge and discharge current (C-rate), a longer life cycle and more excellent environmental tolerance (function from -30˚Cto 55˚C) to better alleviate safety concerns.

Currently, the Group has its own manufacturing facilities in Lianyungang, Jiangsu Province, the PRC for the processing of battery cells and assembling of batteries and spare parts into battery management systems. As part of the manufacturing process of the battery management systems, the Group sources battery cells from certain designated suppliers, and provide the necessary expertise, technical know-how and support to such suppliers so as to aid them in building production lines that are developed and tailored for the manufacture and supply of battery cells exclusively to the Group.

For the Period, the total revenue derived from the sales of battery management systems and spare parts amounted to approximately HK$35.4 million (2017: NIL). The increase was mainly due to a rise in the volume of sales orders from the Group's customers.

High-tech electric motor vehicles

The Company has a long-term commitment to the global automobile industry. We believe that the demand for high-tech, clean and sustainable transportation will continue to grow under the global trend of urbanisation and proactive imposition of environmental regulation.

– ***Continuous brand building – debut of new concept car***

Following its collaboration in 2016 with Pininfarina S.p.A. ("Pininfarina") (a recognized world leading company in the field of design, engineering, prototyping and niche manufacturing of motor vehicles) in the design and development of new show cars based on the micro-turbine range extender developed by the Group for presentation at the car shows in Geneva and Shanghai in 2017, the Group entered into a contract with Pininfarina in February 2017 to cooperate further in the production of a new type of micro-turbine range extender electric sedan (H600). The Group has delivered the required technical specification of powertrain and other key components for the frame construction of the prototype H600. The work is currently in prototype development stage to fine-tune and complete the frame construction of the micro-turbine range extender electric vehicle by installing all the key components into the prototype vehicle.

Following the global debut of the luxury sedan H600, the 5 seat SUV (sport-utility vehicle) K550, and the 7 seat SUV K750 and with the continuous collaboration with Pininfarina during the Period, the Group had further refined the identity of the Hybrid Kinetic brand and proudly presented in the 2018 Geneva motor show its fourth new concept car (2018 HKGT) which inherited the tradition of the classic Italian GT (grand tourer) and infused with Hybrid Kinetic's eco-sustainable technology. With the Group's advanced powertrain technology applied, the 2018 HKGT is dubbed as a car with two souls as it offers two different modes of experience: "race" for moments of solitary and hedonistic sports driving, and "cruise" for great routes to be shared with family.

The participation in the international car shows has solicited interests from a number of potential strategic partners (including assets fund entities and municipal authorities in the PRC) to explore possible business or other collaborations with the Group. These collaborations, if materialised, are conducive to the development of the Group's high-tech electric motor vehicles business and its penetration into other provinces of China with untapped potential.

The Group has a valid business license for the operation of finance leasing business in the PRC. To complement the development of its high-tech electric motor vehicles business, the Group will continue to provide finance leasing arrangement to potential customers, which is expected to help promote the sale and use of electric motor vehicles and bring steady interest income for the Group.

– ***Establishment of manufacturing base with strategic alliance***

During the Period, the Group had gained support of a PRC municipal government towards the proposed implementation of a business plan regarding the establishment of a manufacturing base in its district for the research and production of new energy automobiles and other key new energy vehicles components (including power batteries and range extender). The auspices of the PRC municipal government is expected to create a more favourable business environment for the implementation of the Group's business plan.

For the Period, the revenue and the loss of this segment were approximately HK$0.04 million (2017: HK$0.5 million) and HK$57.4 million (2017: HK$38.7 million) respectively.

Advanced Batteries Materials

The Group is dedicated to the research and development of advanced batteries materials and has an experienced team of experts with diverse expertise in energy management, system controls, power conversion and energy storage technologies for automobiles. During the Period, leveraging their combined expertise, the Group has continued its efforts in the research and development of single and few-layer graphene, which is an ideal material for super batteries, electronic traction motor and power electronic system for use in electric vehicles. The battery material is still under its research and development stage and did not generate any revenue for the Period.

– ***Other research project with academic and research institution***

  One of the Group's ongoing research projects is a 7-year project with the University of California focusing on graphene materials for automobile applications, which is expected to be completed in 2020.

– ***Protection of intellectual property rights***

  To protect its intellectual property rights, the Group is in the course of applying for patent registration in respect of its proprietary interest in an invention (namely, "Nanoporous Graphene Naowires and Producing Methods and Application of the Same").

For the Period, there was no revenue recorded from this segment of business (2017: Nil).

PROSPECTS

The Company has a long-term commitment to the global automobile industry.

The PRC government is keen on combating air pollution and narrowing the competitive gap between the global rivals and its domestic automakers. To this end, the PRC government has postponed implementing tough new sales quotas for new energy vehicles (NEVs), which cover all electric battery vehicles (including electric plug-in hybrids), and set goals for NEVs to make up at least one-fifth of the PRC auto sales by the end of the next two decades. Besides, the Chinese government will extend tax rebate on purchases of NEVs until the end of 2020, and the Ministry of Finance of the PRC has announced that tax exemption for NEVs will be extended until the end of 2020. These are welcoming policies and incentives for the PRC automobile industry, as they are expected to spark a flurry of electric car deals and new launches of new models of NEVs, and prompt automakers to look for concrete and solid technology for the manufacturing of NEVs. We are fully confident about the market potentials for the development of NEVs in the foreseeable future.

We believe that we have prepared the Group for the golden opportunities as the Group has been developing, among other things, technologies of powertrain, series of batteries and micro-turbine range extender and equipped itself with the capability of manufacturing the whole NEV on its own and formulated business strategies to cater for the need of, and the anticipated demand from, the vast of the market. Having said that, we will not be complacent about our present ability and capability and will continue to strive for further technological advancement in the development of NEVs (through, among others, entering into series of development stage for NEVs through co-operation and other forms of strategic alliance, and setting up production lines at strategic locations for the manufacture of NEVs, which may or may not require additional funding requirement), build up and maintain good relations and business connections with governmental authorities, existing business partners as well as potential strategic alliances (including other automakers).

We believe our business plans, our persistence in following our business philosophy to bring ideas, innovations and changes to the automobile industry and our unwavering efforts will allow us to better pursue and diversify our businesses, widen our income streams and ultimately create long-term values for all our stakeholders.

MATERIAL ACQUISITION OR DISPOSAL

The Group did not have material acquisition or disposal of assets during the Period and any future plans for material investment or capital assets (other than the existing projects and those disclosed in this announcement).

OTHER INFORMATION AND EVENTS AFTER THE REPORTING PERIOD

On 16 July 2018, the Group entered into three several conditional equity transfer agreements in relation to the disposal of its entire interest in 浙江佳貝思綠色能源有限公司 (Zhejiang GBS Energy Co., Ltd.*)("GBS") (representing an aggregate of 25% of the entire equity interest of GBS) for a total consideration of RMB88,614,062.38 (equivalent to approximately HK$106,408,000) (the "GBS Disposal"). The GBS Disposal constituted a very substantial disposal for the Company under Chapter 14 of the Listing Rules. The GBS Disposal was yet to be completed as at the date of this announcement.

Please refer to the Company's announcement dated 16 July 2018 and the Company's circular dated 27 August 2018 for details.

OTHER INFORMATION – UPDATE ON THE LEGAL PROCEEDINGS IN THE US AGAINST MEMBERS OF THE GROUP

As at the date of this announcement, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

For the sake of completeness and as disclosed and updated in the Company's announcements dated 26 March 2017 and 14 November 2017 and the Company's annual report for the year ended 31 December 2017 regarding, among other things, the lawsuit commenced by Townsend Ventures LLC, XALT Energy LLC and XALT Energy MI, LLC (collectively, "XALT") against the Company and one of its wholly-owned subsidiaries, Billion Energy Holdings Limited ("Billion Energy"), the supply agreement dated 20 March 2015 entered into between Billion Energy and XALT Energy MI, LLC for the supply of battery cells was at the core of a civil lawsuit (the "Lawsuit") commenced by XALT in the United States District Court for the Northern District of Maryland (the "U.S. District Court"), located in Baltimore Maryland. In August 2017, the U.S. District Court granted the Company's motion to compel that all claims in the Lawsuit be subject to binding arbitration in Hong Kong, before the Hong Kong International Arbitration Centre. The U.S. District Court ordered the Lawsuit stayed, and administratively closed, unless and until there is a conclusion to such an arbitration. The U.S. District Court therefore will not preside over the Lawsuit, although it may consider an application to enter a judgment if and when there is a final order after arbitration before the Hong Kong Arbitration Centre. The parties to the Lawsuit are ordered to report back to the U.S. District Court after conclusion of any arbitration proceeding in Hong Kong. Since the U.S. District Court's order was issued and as at the date of this announcement, XALT has not, to the Company's knowledge, taken any steps to initiate such an arbitration.

As at the date of this announcement, the Company was not aware of any active, open litigation between the Company and XALT relating to the claims stated in the Lawsuit, and there is no assurance that any such proceeding will or will not be commenced.

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

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

FUND RAISING ACTIVITIES AND USE OF PROCEED DURING THE PERIOD

During the Period, the Company had not undertaken any fund raising activity.

LIQUIDITY, FINANCIAL RESOURCES, CAPITAL STRUCTURE AND TREASURY POLICY

As at 30 June 2018, the total equity of the Group amounted to approximately HK$1,406.8 million (31 December 2017: HK$1,598.9 million).

The gearing ratio of the Group as at 30 June 2018 measured in terms of total liabilities divided by shareholders' equity was approximately 5.08% (31 December 2017: 3.96%).

As at 30 June 2018, net current assets of the Group were approximately HK$622.6 million (31 December 2017: HK$857.0 million). The pledged bank deposits were approximately HK$2.0 million (31 December 2017: HK$2.0 million). The cash and cash equivalents amounted to HK$98.4 million, included in which approximately HK$18.87 million and HK$69.80 million was denominated in Renminbi and United States dollar, respectively. (31 December 2017: HK$311.7 million, included in which approximately HK$102.7 million and HK$191.78 million was denominated in Renminbi and United States dollar, respectively).

The Group adopts a conservative and balanced treasury policy in cash and financial management. The Group's cash is generally placed as deposits mostly denominated in Hong Kong dollars, United States dollars or Renminbi. To manage liquidity risk, the Group regularly reviews liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

PLEDGE OF THE GROUP'S ASSETS

As at 30 June 2018, the Group had pledged its bank deposits of HK$2.0 million (31 December 2017: HK$2.0 million) to the Group's bankers to secure corporate credit cards 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, Euro, Hong Kong dollars and/or United States dollars, and the Group had no significant exposure to foreign exchange fluctuations and therefore, had not taken any financial instruments for hedging purpose.

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group had a total of approximately 284 employees as at 30 June 2018 (31 December 2017: 294 employees). It has been the Group's policy to ensure that the remuneration levels of the Directors and its employees are reviewed and rewarded on a performance-related basis within the general framework of the Group's salary and bonus system. Share options may also be granted to the Directors and employees of the Group to attract, retain and incentivise them to work and make contribution towards the long term growth and development of the Group.

CORPORATE GOVERNANCE

Throughout the Period, the Company had applied the principles and complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

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 by the Company, all Directors confirmed to the Company their compliance with the required standards set out in the Model Code during the Period.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company had reviewed and discussed with the management of the Company the Group's condensed consolidated financial statements for the Period. The interim results of the Group for the Period are unaudited and have been reviewed by the auditors of the Company.

PUBLICATION OF THE INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2018 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, 31 August 2018

As at the date of this announcement, the Board comprises ten executive Directors, namely Dr Yeung Yung (Chairman), Mr Xu Jianguo (Chief Executive Officer), Mr Hui Wing Sang, Wilson (Deputy Chairman), 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 six independent non-executive Directors, namely Dr Song Jian, Dr Zhu Guobin, Mr Cheng Tat Wa, Dr Li Jianyong, Mr Chan Sin Hang and Mr Lee Cheung Yuet, Horace.

* *For identification purpose only*