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 2010

The board (the "Board") of directors (the "Directors") of Hybrid Kinetic Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2010 (the "period") as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

		Six months ended 30 June	
		2010	2009
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Continuing operations			
Revenue	*3*	**6,988**	7,498
Cost of sales		**(2,362)**	(2,086)
Gross profit		**4,626**	5,412
Other income		**1,023**	1,305
Distribution costs and general operating expenses		**(58,266)**	(53,720)
Loss before income tax	*5*	**(52,617)**	(47,003)
Income tax expense	*6*	**–**	(936)

	Notes	Six months ended 30 June 2010 HK$'000 (Unaudited)	2009 HK$'000 (Unaudited)
Loss for the period from continuing operations		**(52,617)**	(47,939)
Discontinued operations			
Profit for the period from discontinued operations	*7*	**–**	150
Loss for the period		**(52,617)**	(47,789)
Other comprehensive income			
Exchange differences on translation of financial statements of subsidiaries		**213**	166
Other comprehensive income for the period		**213**	166
Total comprehensive income for the period		**(52,404)**	(47,623)
Loss for the period attributable to:			
Owners of the Company		**(52,354)**	(47,945)
Non-controlling interests		**(263)**	156
		(52,617)	(47,789)
Total comprehensive income attributable to:			
Owners of the Company		**(52,030)**	(47,820)
Non-controlling interests		**(374)**	197
		(52,404)	(47,623)

	Notes	Six months ended 30 June **2010** **(Unaudited)**	2009 (Unaudited)
(Loss)/Earnings per share for loss/(profit) attributable to owners of the Company during the period	*8*		
From continuing and discontinued operations			
Loss per share – basic		**HK(0.85) cent**	HK(0.87) cent
Loss per share – diluted		**N/A**	N/A
From continuing operations			
Loss per share – basic		**HK(0.85) cent**	HK(0.88) cent
Loss per share – diluted		**N/A**	N/A
From discontinued operations			
Earnings per share – basic		**N/A**	HK0.01 cent
Earnings per share – diluted		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Notes	**As at 30 June 2010** ***HK$'000*** **(Unaudited)**	As at 31 December 2009 *HK$'000* (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**36,757**	28,838
Available-for-sale financial asset		**–**	–
Goodwill		**–**	–
Intangible assets		**16,903**	18,063
Prepayments and deposits		**18,546**	19,040
		72,206	65,941
Current assets			
Inventories		**1,876**	57
Trade receivables	*10*	**3,026**	1,534
Prepayments, deposits and other receivables		**146,155**	84,118
Pledged bank deposits		**806**	806
Cash and cash equivalents		**293,259**	114,714
		445,122	201,229
Current liabilities			
Trade payables	*11*	**110**	99
Accruals and other payables		**33,940**	33,750
Amounts due to related parties		**2,812**	2,799
Amount due to a director		**430**	590
Borrowings		**3,070**	1,890
		40,362	39,128
Net current assets		**404,760**	162,101
Net assets		**476,966**	228,042
EQUITY			
Equity attributable to owners of the Company			
Share capital	*12*	**678,824**	582,821
Reserves		**(226,008)**	(379,303)
		452,816	203,518
Non-controlling interests		**24,150**	24,524
Total equity		**476,966**	228,042

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2010

1. BASIS OF PREPARATION

The unaudited interim financial information (the "Unaudited Interim Financial Information") of the Company and its subsidiaries, (collectively referred to as the "Group") 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 is presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company and all values are rounded to the nearest thousand ("HK$'000") unless otherwise stated.

The Unaudited Interim Financial Information for the six months ended 30 June 2010 was approved for issue by the board of directors on 31 August 2010.

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 annual financial statements of the Company for the year ended 31 December 2009 (the "2009 Annual Financial Statements"), except for the adoption of the new or amended Hong Kong Financial Reporting Standards ("HKFRSs"), which include individual Hong Kong Financial Reporting Standards, HKASs and Interpretations ("Int") as disclosed below. The Unaudited Interim Financial Information should be read in conjunction with the 2009 Annual Financial Statements.

In the current period, the Group has applied for the first time the following new or amended HKFRSs issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual financial period beginning on 1 January 2010.

HKFRS 3 (Revised 2008)	Business Combinations
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements
Various	Annual Improvements to HKFRSs 2009

Other than as noted below, the adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

HKFRS 3 (Revised 2008) Business Combinations ("HKFRS 3R")

HKFRS 3R introduced major changes to the accounting requirements for business combinations. It retains the major features of the purchase method of accounting, now referred to as the acquisition method. The most significant changes in the revised HKFRS 3R that had an impact on the Group's acquisitions in 2010 are as follows:

– Acquisition-related costs of the combination are recorded as an expense in profit or loss. Previously, these costs would have been accounted for as part of the cost of the acquisition.

– The assets acquired and liabilities assumed are generally measured at their acquisition-date fair values unless HKFRS 3R provides an exception and provides specific measurement rules.

– Any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration arrangement gives rise to a financial liability, any subsequent changes are generally recognised in profit or loss. Previously, contingent consideration was recognised at the acquisition date only if its payment was probable.

HKFRS 3R has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2010. Business combinations for which the acquisition date is before 1 January 2010 have not been restated. The adoption of HKFRS 3R did not have an impact in the Unaudited Interim Financial Information.

HKAS 27 (Revised 2008) Consolidated and Separate Financial Statements ("HKAS 27R")

The adoption of HKFRS 3R required that the revised HKAS 27R is adopted at the same time. HKAS 27R introduced changes to the accounting requirements for transactions with non-controlling interests (formerly called "minority interests") and the loss of control of a subsidiary. Similar to HKFRS 3R, the adoption of HKAS 27R is applied prospectively. The Group did not have transactions with non-controlling interests in the current period and did not dispose of any of its equity interests in its subsidiaries. Therefore, the adoption of HKAS 27R did not have an impact in the Unaudited Interim Financial Information.

Annual Improvements to HKFRSs 2009 ("2009 Improvements")

The 2009 Improvements made several minor amendments to HKFRSs. The only amendment relevant to the Group relates to HKAS 17 Leases. The amendment requires that leases of land are classified as finance or operating applying the general principles of HKAS 17. Prior to this amendment, HKAS 17 generally required a lease of land to be classified as an operating lease.

3. REVENUE

Revenue, which is also the Group's turnover, represents total invoiced value of goods supplied and services rendered. Revenue recognised during the period is as follows:

	Six months ended 30 June					
	Continuing operations		**Discontinued operations**		**Consolidated**	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenues from operation of indoor games centres	**–**	–	**–**	563	**–**	563
Sales of bio-organic fertilizer	**6,988**	7,498	**–**	–	**6,988**	7,498
	6,988	7,498	**–**	563	**6,988**	8,061

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) Environmental products and related business; and

(ii) Natural resources business.

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

In 2009, the Group had discontinued its operation of indoor game centres and manufacture and sales of automobile axles. These operations had been presented as discontinued operations in the Unaudited Interim Financial Information. Further details regarding the results of these discontinued operations were set out in note 7.

Six months ended 30 June 2010

	Environmental products and related business *HK$'000* (Unaudited)	Natural resources business *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Revenue			
Sales to external customers	**6,988**	**–**	**6,988**
Segment results	**(552)**	**(448)**	**(1,000)**
Unallocated income and expense, net			**(43,335)**
Share-based compensation			**(8,282)**
Loss before income tax			**(52,617)**
Income tax expense			**–**
Loss for the period from continuing operations			**(52,617)**
Profit for the period from discontinued operations			**–**
Loss for the period			**(52,617)**

Six months ended 30 June 2009

	Environmental products and related business HK$'000 (Unaudited)	Natural resources business HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Revenue			
Sales to external customers	7,498	–	7,498
Segment results	(6,684)	(839)	(7,523)
Unallocated income and expense, net			(26,761)
Share-based compensation			(12,719)
Loss before income tax			(47,003)
Income tax expense			(936)
Loss for the period from continuing operations			(47,939)
Profit for the period from discontinued operations			150
Loss for the period			(47,789)

For the six months ended 30 June 2010 and 2009, the Group's revenue is all derived in the People's Republic of China ("PRC").

At 30 June 2010, non-current assets (other than financial instruments) of HK$410,000 (31 December 2009: HK$1,379,000), HK$27,982,000 (31 December 2009: HK$24,658,000) and HK$25,268,000 (31 December 2009: HK$22,218,000) are located in the Hong Kong, PRC and the United States respectively.

The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the non-current assets (other than financial instruments) is based on the physical location of the asset.

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

5. LOSS BEFORE INCOME TAX

Loss before income tax is arrived after charging:

	Six months ended 30 June					
	Continuing operations		Discontinued operations		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Staff cost (including directors' emoluments)	**15,519**	10,920	**–**	194	**15,519**	11,114
Share-based compensation	**8,282**	12,719	**–**	–	**8,282**	12,719
Amortisation of intangible assets	**1,358**	1,349	**–**	–	**1,358**	1,349
Depreciation of property, plant and equipment	**4,918**	4,062	**–**	–	**4,918**	4,062

6. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (Six months ended 30 June 2009: Nil). Tax on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

	Six months ended 30 June					
	Continuing operations		Discontinued operations		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Current tax						
– PRC	**–**	936	**–**	7	**–**	943

7. DISCONTINUED OPERATIONS

As disclosed in note 11.1 to the 2009 Annual Financial Statements, on 30 December 2009, the board of directors resolved that the Group would discontinue operation of indoor game centre and manufacture and sales of automobile axles business with effect from 31 December 2009. Operation of indoor game centres and manufacture and sales of automobile axles represent separate major lines of businesses, and the operations and cash flows of which can be clearly distinguished from the rest of the Group. Therefore, for the six months ended 30 June 2009, the Group re-presented, in the Unaudited Interim Financial Information, these operations as discontinued operations in accordance with HKFRS 5 so that the disclosures relate to these operations that have been discontinued by the reporting date for the latest period presented.

For the six months ended 30 June 2010, the operation of indoor game centre and manufacture and sales of automobile axles business had been fully suspended and therefore no income and expenses were classified as discontinued operations in the Group's condensed consolidated statement of comprehensive income for the period.

An analysis of the results of the discontinued operations for the six months ended 30 June 2009 is as follows:

	Six months ended 30 June 2009 *HK$'000* (Unaudited)
Revenue	563
Cost of sales	(98)
Gross profit	465
Other income	1
Distribution costs and general operating expenses	(309)
Profit before income tax	157
Income tax expense	(7)
Profit for the period	150

8. LOSS PER SHARE

The calculations of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit/(Loss) attributable to owners of the Company for the purpose of basic (loss)/earnings per share		
Continuing operations	**(52,354)**	(48,095)
Discontinued operations	**–**	150
Total loss from continuing and discontinued operations	**(52,354)**	(47,945)

	Six months ended 30 June	
	2010	2009
	Number of shares	Number of shares
	'000	*'000*
	(Unaudited)	(Unaudited)
Weighted average number of shares for the purpose of basic (loss)/earnings per share	**6,183,046**	5,483,054
Effect of dilutive potential shares:		
– share options issued by the Company	**300,391**	–
Weighted average number of shares for the purpose of dilutive (loss)/earnings per share	**6,483,437**	5,483,054

Diluted loss per share for the six months ended 30 June 2010 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 reduce earnings per share attributable to owners of the Company.

For the six months ended 30 June 2009, diluted loss/profit per share from continuing operations and discontinued operations was not presented because the exercise price of the Company's share options were higher than the average market price per share for that period.

9. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (Six months ended 30 June 2009: Nil).

10. TRADE RECEIVABLES

As at 30 June 2010, the aging analysis of the trade receivables (net of impairment) of the Group was as follows:

	As at 30 June 2010	As at 31 December 2009
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
1 to 3 months	**2,733**	1,534
More than 3 months	**293**	–
	3,026	1,534

11. TRADE PAYABLES

As at 30 June 2010, the aging analysis of the trade payables of the Group was as follows:

	As at 30 June 2010	As at 31 December 2009
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
1 to 3 months	**19**	–
More than 3 months	**91**	99
	110	99

12. SHARE CAPITAL

	As at 30 June 2010 (Unaudited)		As at 31 December 2009 (Audited)	
	Number of shares	**Amount**	Number of shares	Amount
		HK$'000		*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each	**800,000,000,000**	**80,000,000**	30,000,000,000	3,000,000
Issued and fully paid:				
At beginning of period/year	**5,828,210,464**	**582,821**	5,483,054,464	548,305
Placement of shares during the period/year	**798,300,000**	**79,830**	200,000,000	20,000
Issue of shares on acquisition of a subsidiary	**–**	**–**	78,000,000	7,800
Employee share options scheme – proceeds from shares issued	**161,728,600**	**16,173**	67,156,000	6,716
At end of period/year	**6,788,239,064**	**678,824**	5,828,210,464	582,821

MANAGEMENT DISCUSSION AND ANALYSIS AND DISCLOSURE OF ADDITIONAL INFORMATION

BUSINESS REVIEW

Overview

The principal business of the Group during the period included environmental products and related business, natural resources business and automobile business. The Group's turnover from continuing operations and loss for the period attributable to shareholders for the first six months of 2010 amounted to HK$6.99 million (2009: HK$7.50 million) and HK$52.35 million (2009: HK$47.95 million) respectively.

As compared with the corresponding period in 2009, the turnover decreased by approximately 6.80% while the loss increased by 9.20%. The increase in loss was mainly due to the expenses incurred for the promotion and development of the new energy automobile projects. The general operating expenses of continuing operations for the six months ended 30 June 2010 increased to HK$58.27 million (2009: HK$54.03 million) which include professional expenses of HK$10.18 million (2009: HK$7.17 million), travelling expenses of HK$4.58 million (2009: HK$2.06 million), share-based compensation of HK$8.28 million (2009: HK$12.72 million) for the share options issued during the period and staff cost of HK$15.52 million (2009: HK$11.11 million).

(a) Environmental products and related business

During the period, Beijing Century Wanyeyuan Bio-Engineering Co., Ltd. ("Beijing Century"), a wholly-owned subsidiary of the Company, recorded a turnover of HK$6.99 million (2009: HK$7.50 million). This business sector recorded a loss of HK$0.55 million (2009: HK$6.68 million). At the beginning of the year, a factory was established in Shandong, the PRC to increase production of bio-organic fertilizer for supporting future demand. The Board believes that, with the establishment of the production facility, the production capacity of Beijing Century will be strengthened to meet future demand. This will place the Group in a better position to more rapidly expand the market share of its environmentally-friendly products in the nationwide bio-organic fertilizer markets.

(b) Natural resources business

During the period, Jilin Shengshi Mining Limited ("Jilin Shengshi"), a wholly owned subsidiary of the Company, had not recorded any revenue. Currently, a subsidiary of Jilin Shengshi is applying for the renewal of two mine exploration rights in Jilin. Other than holding and managing its own mine exploration rights, Jilin Shengshi also entered into management agreements with owners of mine exploration rights for providing mine management services by which Jilin Shengshi is entitled to a management fee which is basically calculated by reference to certain percentage of the distributable profits (if distributable profits has arisen) after tax of the mines which are the subject of the management agreements.

(c) Automobile business

During the period, the automobile business achieved significant progress in the research and development of new energy and eco-friendly vehicles. The Company's participation in the U.S. automobile project together with the ancillary structures and arrangements devised (including the model for financing the development of the U.S. automobile project) was approved by the Company's shareholders at the special general meeting held on 26 January 2010. These achievements enable the Company to stay competitive in the new-energy automobile industry.

PROSPECTS

As the world continues to place an important focus on environmental protection issues (especially for the automobile sector), and the rise of environmental consciousness which has become the "modern living" of the general public, it is expected that there will be substantial demand for environmentally friendly vehicles in the years ahead.

Accordingly, the Board considers that the diversification of the Group's business into the automobile sector is of great potential and is worthwhile to pursue. The Group will continue to strive to realize its strategic goal to develop and produce vehicles utilizing the most advanced natural gas and multi-fuel electric-hybrid propulsion systems, which reduce carbon dioxide emissions and increases mileage per gallon to standards above those set by global regulatory authorities.

Since the Group's decision to participate in the automobile industry, it has achieved certain important goals in the past six months. For instance, the Group has entered into collaboration with The American Public Gas Association and Natural Gas Vehicles for America in the automobile sector to promote the mass production and sale of natural gas-power hybrid passenger vehicles. This will help further promote the Group's market position to enable itself to become the first enterprise specializing in the mass production of hybrid electric automobiles globally. As one of the long-term business strategies of the Group, it targets to set up production bases in different countries, such as the U.S. and the PRC markets.

In April this year, the Group entered into an agreement for the proposed acquisition of GBS, a specialist enterprise in the manufacturing of lithium-ion batteries and power battery packs used in electric and hybrid electric vehicles. The acquisition, if materialized, will greatly enhance the research and development ("R&D") capabilities of the Group.

Furthermore, the Group entered into framework agreements with 安徽江淮汽車股份有限公司(transliterated into English as "Anhui Jianghuai Automobile Co., Ltd." for identification purpose)("JAC")and 合肥經濟技術開發區管理委員會 (transliterated into English as "The Administration Authority of the Hefei Economic Development Zone" ("Hefei ED Zone") for identification purpose) to further cooperate in the eco-friendly new energy automobile industry. The co-operation provides a huge driving force for business development in the future R&D, design and production of eco-friendly new energy motors and auto-related products and accessories.

HK Capital Company Ltd ("HK Capital") , a wholly-owned subsidiary of the Company in Tianjin, the PRC whose principal scope of business includes entrusted investment management and investment consultation, has been active is exploring the future business development of the automobile industry in China. The Group believes that a huge opportunity is emerging and it is in a good position to capture this opportunity as it is served by talented and experienced experts in the automobile industry from not only the U.S., but also other parts of the world, including Europe and the PRC.

FUND RAISING ACTIVITIES AND USE OF PROCEEDS DURING THE YEAR

The Group adopts a prudent approach for cash management and investment on uncommitted funds. The proceeds raised and utilised or remain unutilised as at 30 June 2010 are stated as follows:–

Date of announcement	Event	Net proceeds raised	Intended use of proceeds as announced	Actual use of proceeds
1, 2 and 15 December 2009	Placing and top-up subscription of 200 million new Shares	HK$48.19 million	General working capital of the Group	Approximately HK$39.92 million was utilized as general working capital of the Group
25 and 26 March, 8 April 2010	Placing of 338.3 million new Shares	HK$110.49 million	90% for research and development in automotive-related technology and 10% as general working capital	Approximately HK$61.80 million was utilized as research and development in automotive-related technology, & HK$9.90 million was utilized as general working capital of the automotive project
5 and 13 May 2010	Placing of 460 million new Shares	HK$160.99 million	Acquisition of the Target Company and general working capital of the Group	Not yet utilized

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2010, the total equity of the Group amounted to HK$476.97 million (31 December 2009: HK$228.04 million). The gearing ratio of the Group as at 30 June 2010 measured in terms of total liabilities divided by shareholders' equity was approximately 9.77% (31 December 2009: 19.23%). As at 30 June 2010, net current assets of the Group were approximately HK$404.76 million (31 December 2009: HK$162.10 million). The pledged bank deposits were approximately HK$0.81 million (31 December 2009: HK$0.81 million) while the cash and cash equivalents amounted to HK$293.26 million (31 December 2009: HK$114.71 million). The Group also had outstanding borrowings of approximately HK$3.07 million (31 December 2009: HK$1.89 million).

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group had a total of approximately 122 employees as at 30 June 2010. 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.

CHARGES OF GROUP ASSETS

As at 30 June 2010, bank deposits of HK$0.81 million (31 December 2009: HK$0.81 million) were pledged to secure the general banking facilities granted to the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

Almost all of the income and expenditure of the Group were denominated in Renminbi, Hong Kong Dollar and United States Dollar. The Group has not taken any financial instruments for hedging purpose during the period.

LOAN AGREEMENT

On 29 June 2009 (U.S. time), the Company entered into a loan agreement ("Loan Agreement") with Hybrid Kinetic Motors Investment, LLC ("HKMI") in respect of the advancement of a loan ("Loan") in the principal amount of US$9 million by the Company to HKMI. The Loan, which is non-interest bearing and repayable on demand, is secured against the entire ownership interest of the sole member of HKMI in HKMI. The purpose of the Loan is to provide initial general working capital to HKMI. The granting of the Loan does not cause significant financial impact on the Group and paves the way for future co-operation with HKMI in the development of the Group's business in the U.S. automobile industry.

MATERIAL ACQUISITIONS AND DISPOSALS

Very Substantial Acquisition of a PRC Power Battery Company

On 18 April 2010, the Company entered into an acquisition agreement (as subsequently varied, modified and/or supplemented by two several supplemental agreements dated 20 April 2010 and 6 June 2010) in relation to the proposed acquisition of GBS at a consideration of RMB180 million (equivalent to HK$204.7 million), which was yet to be completed as at the date of this announcement. GBS is a sino-foreign equity joint venture established in the Zhejiang Province and specializes in the development and manufacturing of LiFeMnPO4（磷酸亞鐵錳鋰）(a kind of lithium-ion power battery（鋰離子動力電池）) and power battery pack.

EVENT AFTER THE REPORTING DATE

On 23 July 2010, Hybrid Kinetic Power Battery Holdings Limited ("HK-Power"), a wholly-owned subsidiary of the Company, entered into a technology development agreement with GBS pursuant to which HK-Power agreed to engage GBS, and GBS agreed to undertake a research and development project relating to power battery for electric and hybrid vehicles at an agreed fee of RMB15 million.

On 3 August, 2010, the Group announced that HK Capital entered into a non-legal binding letter of intent with JAC to record the mutual understanding of establishing an equity joint ventures (the "EJV") for the development of eco-friendly new energy motors and auto-related products.

On 8 August, 2010, the Group announced that HK Capital entered into a framework agreement with JAC and another framework agreement with JAC and Hefei ED Zone relating to the proposed co-operation to establish EJV for development of eco-friendly new energy motors and auto-related products and confirming the parties' intention that the EJV (and the project to be carried out by the EJV) will be located in Hefei City of the Anhui Province, the PRC.

PURCHASE, SALES OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the period, the Company had complied with the code provisions and certain recommended best practices set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 to the Listing Rules, except for the following deviations:

(i) Code Provision A2.1

Pursuant to code A2.1 of the CG Code, the role of chairman and chief executive officer should be separate and should not be performed by the same individual.

Dr. Yeung Yung, the chairman of the Company and an executive Director, had acted as the chief executive officer of the Company from 23 March 2009 to 22 June 2010.

During such period, the temporary management structure did not impair the balance of power and authority of the Board and the Board's decision had been effectively carried out under the leadership of Dr. Yeung.

For maintaining a higher standards of corporate governance, the roles of the chairman and the chief executive officer has been segregated since the appointment of Dr. Wang Chuantao as the chief executive officer of the Company with effect from 23 June 2010 to comply with code A 2.1 of the CG Code.

(ii) Code Provision E1.2

Pursuant to code E1.2 of the CG Code, the chairman of the Board should attend the annual general meeting and arrange for the chairman of the audit, remuneration and nomination committees (collectively the "Committees") (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should be available to answer questions at any general meeting to approve a connected transaction or any transaction that is subject to independent shareholders' approval.

The chairman of the Board and the chairman of the Committees could not attend the annual general meeting ("AGM") of the Company held on 9 June 2010 due to business matters. Mr. Hui Wing Sang Wilson, being one of the executive Directors and the delegate appointed by the chairman of the Board and the chairman of the Committees, attended the AGM to ensure effective communication with the shareholders of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Director 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. After specific enquiry of all Directors, all Directors confirmed to the Company their compliance with the required standards set out in the Model Code for the six months ended 30 June 2010.

AUDIT COMMITTEE

The audit committee ("Audit Committee") of the Company has reviewed and discussed with management of the Company the accounting principles and practices adopted by the Group, internal controls and financial reporting matters. The Audit Committee has also reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2010.

PUBLICATION OF THE INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2010 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
Yeung Yung
Chairman

Hong Kong, 31 August 2010

As at the date of this announcement, the board of directors of the Company comprises eleven executive directors, namely Dr. Yeung Yung (Chairman), Dr. Huang Chunhua (Deputy Chairman), Dr. Wang Chuantao (Chief Executive Officer), Mr. Liu Stephen Quan, Mr. Hui Wing Sang, Wilson, Dr. Zhu Shengliang, Dr. Wang Wei, Dr. Zhang Zhenwei, Mr. Xu Jianguo, Mr. Li Zhengshan and Dr. Hong Shuguang, two non-executive directors, namely Dr. Xia Tingkang, Tim and Dr. Zhu Guobin and four independent non-executive directors, namely Mr. He Bangjie, Mr. Wong Lee Hing, Mr. Ting Kwok Kit, Johnny and Dr. Song Jian.