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 2011

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 (the "Group") for the six months ended 30 June 2011 (the "Period") together with the comparative figures for the corresponding period in 2010 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

		Six months ended 30 June	
		2011	2010
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**32,246**	6,988
Cost of sales		**(20,495)**	(2,362)
Gross profit		**11,751**	4,626
Other income		**1,387**	1,023
Distribution costs and general operating expenses		**(99,485)**	(58,266)
Finance costs		**(248)**	–
Loss before income tax	*5*	**(86,595)**	(52,617)
Income tax expense	*6*	**(271)**	–
Loss for the period		**(86,866)**	(52,617)
Other comprehensive income			
Exchange differences on translation of financial statements of subsidiaries		**5,342**	213
Other comprehensive income for the period		**5,342**	213
Total comprehensive income for the period		**(81,524)**	(52,404)

	Notes	Six months ended 30 June 2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
Loss for the period attributable to:			
Owners of the Company		**(85,425)**	(52,354)
Non-controlling interests		**(1,441)**	(263)
		(86,866)	(52,617)
Total comprehensive income attributable to:			
Owners of the Company		**(81,000)**	(52,030)
Non-controlling interests		**(524)**	(374)
		(81,524)	(52,404)
Loss per share for loss attributable to owners of the Company during the period	*7*		
Loss per share – basic		**HK(1.17) cents**	HK(0.85) cent
Loss per share – diluted		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Notes	As at 30 June 2011 HK$'000 (Unaudited)	As at 31 December 2010 HK$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*9*	**75,168**	73,505
Prepaid land lease payments		**785**	758
Available-for-sale financial asset		**–**	–
Goodwill		**97,518**	97,518
Intangible assets		**56,548**	59,698
Prepayments and deposits		**20,108**	19,410
		250,127	250,889
Current assets			
Inventories		**31,658**	15,589
Trade receivables	*10*	**23,008**	27,683
Bills receivable		**896**	2,133
Prepayments, deposits and other receivables		**41,989**	43,973
Pledged bank deposits		**807**	3,143
Cash and cash equivalents		**84,692**	147,248
		183,050	239,769
Current liabilities			
Trade payables	*11*	**23,499**	11,214
Accruals and other payables		**36,270**	43,212
Amounts due to directors		**614**	671
Borrowings		**3,223**	13,624
Bills payable		**–**	2,336
Tax payable		**667**	45
		64,273	71,102
Net current assets		**118,777**	168,667
Total assets less current liabilities		**368,904**	419,556
Non-current liabilities			
Deferred tax liabilities		**6,434**	6,794
Net assets		**362,470**	412,762

	Notes	As at 30 June 2011 HK$'000 (Unaudited)	As at 31 December 2010 HK$'000 (Audited)
EQUITY			
Equity attributable to owners of the Company			
Share capital	*12*	**731,216**	730,916
Reserves		**(399,851)**	(349,783)
		331,365	381,133
Non-controlling interests		**31,105**	31,629
Total equity		**362,470**	412,762

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2011

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 for the six months ended 30 June 2011 was approved for issue by the board of directors on 30 August 2011.

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 2010 (the "2010 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, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Int"). The adoption of these new and revised HKFRSs has had no material impact on the Group's financial statements. The Group has not early adopted any new HKFRSs that have been issued but are not yet effective. The Unaudited Interim Financial Information should be read in conjunction with the 2010 Annual Financial Statements.

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) environmental products and related business;

(ii) natural resources business;

(iii) development and manufacturing of lithium-ion power battery; and

(iv) development and manufacturing of hybrid vehicles.

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

For the six months ended 30 June 2011

	Environmental products and related business *HK$'000* (Unaudited)	Natural resources business *HK$'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	**8,143**	**–**	**24,103**	**–**	**32,246**
Segment results	**1,404**	**(6,624)**	**1,497**	**(22,543)**	**(26,266)**
Unallocated corporate income and expense, net					**(29,439)**
Share-based compensation					**(30,890)**
Loss before income tax					**(86,595)**
Income tax expense					**(271)**
Loss for the period					**(86,866)**

For the 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			(52,617)

Management determines the Group is domiciled in Hong Kong, which is the location of the Group's principal office. Over 90% of the Group's revenues from external customers are attributable to a single geographical region, which is the People's Republic of China ("PRC").

At 30 June 2011, non-current assets (other than financial instruments) of HK$316,000 (31 December 2010: HK$996,000), HK$200,926,000 (31 December 2010: HK$190,926,000) and HK$28,777,000 (31 December 2010: HK$39,751,000) 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. 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	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss before income tax is arrived after charging:		
Share-based compensation	**30,890**	8,282
Amortisation of intangible assets	**5,297**	1,358
Depreciation of property, plant and equipment	**8,004**	4,918

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax – PRC Enterprise Income Tax	**631**	–
Deferred tax	**(360)**	–
Total income tax expense	**271**	–

For the six months ended 30 June 2011 and 2010, no provision for Hong Kong profits tax has been made as the Group did not derive any assessable profits for the period in Hong Kong. Taxation on overseas profits has been calculated on the estimated assessable profit for those periods at the rates of taxation prevailing in the countries in which the Group operates.

7. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK$85,425,000 (Six months ended 30 June 2010: HK$52,354,000) and on the weighted average of 7,309,922,000 (Six months ended 30 June 2010: 6,183,046,000) ordinary shares in issue during the period.

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.

8. INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2011 (Six months ended 30 June 2010: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2011, the Group acquired property, plant and equipment of HK$9,035,000 (Six months ended 30 June 2010: HK$12,726,000). No property, plant and equipment were disposed of during the period. For the six months ended 30 June 2010, property, plant and equipment with carrying amount of HK$1,000 were disposed of during the period.

10. TRADE RECEIVABLES

As at 30 June 2011, the ageing analysis of the trade receivables (net of impairment) of the Group was as follows:

	As at 30 June 2011 ***HK$'000*** **(Unaudited)**	As at 31 December 2010 *HK$'000* (Audited)
0 – 90 days	**13,025**	20,918
Over 90 days	**9,983**	6,765
	23,008	27,683

11. TRADE PAYABLES

As at 30 June 2011, the ageing analysis of the trade payables of the Group was as follows:

	As at 30 June 2011 ***HK$'000*** **(Unaudited)**	As at 31 December 2010 *HK$'000* (Audited)
0 – 90 days	**16,686**	6,807
Over 90 days	**6,813**	4,407
	23,499	11,214

12. SHARE CAPITAL

	At 30 June 2011 (Unaudited)		At 31 December 2010 (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**	800,000,000,000	80,000,000
Issued and fully paid:				
At beginning of period/year	**7,309,159,756**	**730,916**	5,828,210,464	582,821
Placement of shares during the period/year	**–**	**–**	798,300,000	79,830
Issue of shares on acquisition of a subsidiary	**–**	**–**	457,324,692	45,732
Shares issued from the employee share options scheme	**3,000,000**	**300**	225,324,600	22,533
At end of period/year	**7,312,159,756**	**731,216**	7,309,159,756	730,916

13. CAPITAL COMMITMENT

As at 30 June 2011, the Group has the following capital commitments:

	As at 30 June 2011	As at 31 December 2010
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Contracted but not provided for		
– Establishment of a subsidiary	**6,050**	5,840
– Purchase of property, plant and equipment	**–**	4,255
– Research and development projects	**36,036**	36,036
	42,086	46,131

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

The principal businesses of the Group during the Period included the environmental automobile and related business, the environmental products and related business, and the natural resources business.

The Group's turnover and loss attributable to shareholders for the Period amounted to HK$32.25 million (2010: HK$6.99 million) and HK$85.43 million (2010: loss of HK$52.35 million) respectively. The loss for the Period was mainly attributable to the costs and expenses incurred for the promotion and development of the environmental automobile project in the U.S. and China, which was still at an early investment stage.

Due to the new automobile power battery business, the general operating expenses for the Period increased to HK$99.49 million (2010: HK$58.27 million) which included depreciation expenses of HK$6.60 million (2010: HK$4.92 million), research and development expenses of HK$10.40 million (2010: N/A), travelling expenses of HK$4.68 million (2010: HK$4.58 million), exchange difference of HK$5.34 million (2010: HK$0.21 million), share-based compensation of HK$30.89 million for the share options issued during the Period (2010: HK$8.28 million) and salary expenses of HK$24.70 million (2010: HK$15.52 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"). For the six months ended 30 June 2011, the turnover and the profit of this business segment were approximately HK$24.10 million and HK$1.50 million respectively.

During the Period, the outlook for the environmental automobile market was weakened as unemployment in the U.S. and government measures to cool China's economy are damping demand in the car markets in the U.S. and China. The global or domestic demand in the PRC had not been as robust as expected. Certain quality and safety issues arose out of auto incidents happened in the PRC did affect the domestic market growth in the first half of 2011. Increasing costs of materials, manufacturing overhead and labour also had an impact on the profit margin and affected the performance of this business segment.

After a satisfactory year of 2010, our new automobile power battery business weakened notably in the first half of 2011 and the profit guarantee given by the sellers of GBS to the Group for the year ending 31 December 2011 may not be reached. While the Group will strive to optimize the profits for this segment of business, the Company may resort to dispose of some of the consideration shares issued by the Company to the GBS sellers and retained at completion of the acquisition of GBS as security for the attainment of the profit guarantee if the Company considers appropriate. Please refer to the circular of the Company issued on 30 August 2010 for details.

Environmental Automobile Business

The Group engages in the research and development of environmental automobile through its U.S. subsidiary, Hybrid Kinetic Motors Corp. For the six months ended 30 June 2011, this business segment recorded a loss of approximately HK$22.54 million. The loss was mainly attributable to research and development expenses of HK$8.47 million.

Hybrids and electric cars are still the trend and could get a lot of attention, but sales are not expected to rise substantially in two to three years to come. Growth will depend on the types of industry and governmental incentives put on the automobiles to encourage customers to buy. Although the Group remains optimistic for the auto market, the overall economic recovery in the U.S. promises to be slow while the automotive industry environment in China remains healthy, despite the overall economic slowdown worldwide. The Group is constantly evaluating, rationalizing and adapting its business strategies (through market concentration, market expansion and/or reallocation of resources) in the development of its environmental automobile business with a view to exploiting every emerging opportunities and adopting the Group's environmental automobile business into its targeted markets.

(b) Environmental products and related business

For the six months ended 30 June 2011, Beijing Century Wanyeyuan Bio-Engineering Co., Ltd.,（北京世紀萬業源生物工程有限公司）("Beijing Century"), a 65% owned subsidiary of the Company, recorded a turnover of approximately HK$8.14 million (2010: HK$6.99 million) and a profit of approximately HK$1.40 million (2010: (Loss) HK$0.55 million).

Leveraging on the leading research and development technology of biological pesticide products owned by Beijing Century, coupled with the Chinese government's favourable policies towards the development of the agricultural industry, it is expected that the Group's bio-organic fertilizer and environmental products business will maintain a stable development trend.

(c) 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 wholly owned subsidiary of the Company. For the six months ended 30 June 2011, this business segment recorded no turnover (2010: N/A). This business segment recorded a loss of HK$6.62 million (2010: 0.45) which was mainly attributable to operating expenses incurred during the Period. Currently, a subsidiary of Jilin Shengshi is the holder of two exploration licences which confer the right to conduct exploration work at certain copper mine (valid for the period from 16 December 2010 to 16 December 2012) and certain copper, aluminium and zinc mines (valid for the period from 16 December 2010 to 16 December 2012) located in the Jilin Province, the PRC. The Group is constantly reviewing the development strategy of its natural resources business and evaluating business potentials in this business segment.

PROSPECTS

The global economic environment has become more volatile in recent months and many expectations about the future have become uncertain. Most of the developed economies are having a structural challenge, high unemployment, high government debt, high inflation and it is affecting the growth in every sector of business everywhere. To meet the tough challenges ahead, the Group is constantly examining and rethinking its existing development strategy and may make such adjustments as the Company considers appropriate or expedient to maintain a competitive position under the fluctuation period. For its power battery business, the Group will continue to strive to enhance and enforce quality control and product safety measures for the production of its power battery and related products with an aim of meeting up with international standards. This strategy will not only help strengthen consumer confidence in, and competitiveness of, the Group's products but also help build allegiance to brand name in an effort to maximize earnings in the long term. Development of new products and innovation of technology will still be the Group's main emphasis in the near future.

With our shareholders' best interests in mind and in light of the recent global economic fluctuations and the fact that the U.S. economy has yet to recover back to normal, prudence dictates us to adapt our action plans or timetable and slow-track the development of our automobile business in the U.S. so as to place the Group in a better position to withstand financial and economic turbulence and turn any possible crisis into its opportunities. The Board will pay close attention to the global economy and the operating environment of the automobile industry, in particular in the U.S. and the PRC.

Competition in the bio-organic fertilizer and environmental products business is intense in the PRC market. The Group will try its best to improve the competitive edge of its products as China's food production is heavily dependent on its domestic agriculture industry and high quality and organic fertilizer and environmental products will help the Group expand its market share in this segment of business. The development of bio-organic fertilizer and environment at products in the PRC has been strongly encouraged and supported by the PRC government. The Group expects that the market will maintain a steady development trend in the near future.

As regards the natural resources business, the Company is examining the development strategy of this business segment. It may scale down gradually the Group's investment or operation in this business segment and focus on and reallocate resources to its other existing and relatively more promising businesses.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2011, the total equity of the Group amounted to approximately HK$362.47 million (31 December 2010: HK$412.76 million). The gearing ratio of the Group as at 30 June 2011 measured in terms of total liabilities divided by shareholders' equity was approximately 21.34% (31 December 2010: 20.44%). As at 30 June 2011, net current assets of the Group were approximately HK$118.78 million (31 December 2010: HK$168.67 million). The pledged bank deposits were approximately HK$0.81 million (31 December 2010: HK$3.14 million) while the cash and cash equivalents amounted to HK$84.69 million (31 December 2010: HK$147.25 million). The Group also had outstanding borrowings of approximately HK$3.22 million (31 December 2010: HK$13.62 million).

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group had a total of approximately 326 employees as at 30 June 2011. 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.

PLEDGE OF ON GROUP ASSETS

As at 30 June 2011, the Group had pledged its bank deposits of HK$0.81 million (31 December 2010: HK$3.14 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, and 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 Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except the chairman of the Board could not attend the annual general meeting ("AGM") of the Company held on 31 May 2011 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, attended the AGM to ensure effective communication with the shareholders of the Company.

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.

REVIEW OF FINANCIAL STATEMENTS

The interim results for the Period are unaudited and have not been reviewed by the auditors 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 2011 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 2011

As at the date of this announcement, the Board comprises ten 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 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, Dr Song Jian and Ms Chan Fung Yi.