



HYBRID KINETIC GROUP LIMITED
正道集團有限公司

(Stock Code: 01188)

INTERIM REPORT 2011

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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
Dr. Hong Shuguang
Dr. Wang Wei (*resigned on 26 May 2011*)

Non-executive Directors

Dr. Xia Tingkan, Tim
Dr. Zhu Guobin

Independent Non-Executives Directors

Mr. He Bangjie
Mr. Wong Lee Hing
Dr. Song Jian
Ms. Chan Fung Yi (*appointed on 7 June 2011*)
Mr. Ting Kwok Kit, Johnny
(*retired with effect from 31 May 2011*)

AUDITOR

BDO Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS

East West Bank
(U.S. branch)
9550 Flair Drive
E1Monte CA91731

HSBC

PRINCIPAL OFFICE

Suites 1407-8, 14/F,
Great Eagle Centre
23 Harbour Road, Wanchai
Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HONG KONG LEGAL ADVISOR

Chiu & Partners
40th Floor, Jardine House,
1 Connaught Place,
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Securities Services (Bermuda) Limited
6 Front Street, Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
Shops 1712-1716,
17th Floor, Hopewell Centre,
183 Queen's Road East
Hong Kong

The board of directors (the "Board") of Hybrid Kinetic Group Limited (the "Company") hereby present to its shareholders this report with the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011 (the "Period").

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Notes	Six months ended 30 June	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (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)
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
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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 June 2011*

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(45,486)	(103,860)
Net cash used in investing activities	(9,035)	(12,067)
Net cash (used in) generated from financing activities	(10,059)	294,066
(Decrease)/Increase in cash and cash equivalents	(64,580)	178,139
Cash and cash equivalents at beginning of period	147,248	114,714
Effect of foreign exchange rate changes, net	2,024	406
Cash and cash equivalents at end of period	84,692	293,259

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 June 2011*

	Equity attributable to owners of the Company						Non-	Total
	Share capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Translation reserve HK\$'000 (Unaudited)	Equity		Total HK\$'000 (Unaudited)	controlling	equity
				compensation reserve HK\$'000 (Unaudited)	Accumulated losses HK\$'000 (Unaudited)		interests HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
At 1 January 2011	730,916	620,923	7,410	43,611	(1,021,727)	381,133	31,629	412,762
Transactions with owners								
Recognition of equity-settled share-based compensation	-	-	-	30,890	-	30,890	-	30,890
Proceeds from shares issued under share option scheme	300	42	-	-	-	342	-	342
Total transactions with owners	300	42	-	30,890	-	31,232	-	31,232
Loss for the period	-	-	-	-	(85,425)	(85,425)	(1,441)	(86,866)
Other comprehensive income								
Exchange differences on translation of financial statements of subsidiaries	-	-	4,425	-	-	4,425	917	5,342
Total comprehensive income	-	-	4,425	-	(85,425)	(81,000)	(524)	(81,524)
At 30 June 2011	731,216	620,965	11,835	74,501	(1,107,152)	331,365	31,105	362,470
	Equity attributable to owners of the Company						Non-	Total
	Share capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Translation reserve HK\$'000 (Unaudited)	Equity		Total HK\$'000 (Unaudited)	controlling	equity
				compensation reserve HK\$'000 (Unaudited)	Accumulated losses HK\$'000 (Unaudited)		interests HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
At 1 January 2010	582,821	345,874	1,549	43,530	(770,256)	203,518	24,524	228,042
Transactions with owners								
Issuance of new shares	79,830	211,075	-	-	-	290,905	-	290,905
Share issue expenses	-	(19,417)	-	-	-	(19,417)	-	(19,417)
Recognition of equity-settled share-based compensation	-	-	-	8,282	-	8,282	-	8,282
Proceeds from shares issued under share option scheme	16,173	12,720	-	(7,335)	-	21,558	-	21,558
Total transactions with owners	96,003	204,378	-	947	-	301,328	-	301,328
Comprehensive income								
Loss for the period	-	-	-	-	(52,354)	(52,354)	(263)	(52,617)
Other comprehensive income								
Exchange differences on translation of financial statements of subsidiaries	-	-	324	-	-	324	(111)	213
Total comprehensive income	-	-	324	-	(52,354)	(52,030)	(374)	(52,404)
At 30 June 2010	678,824	550,252	1,873	44,477	(822,610)	452,816	24,150	476,966

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 HK\$'000	Number of shares	Amount HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.10 each	800,000,000,000	80,000,000	800,000,000,000	80,000,000
<i>Issued and fully paid:</i>				
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 HK\$'000 (Unaudited)	As at 31 December 2010 HK\$'000 (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 AND OTHER INFORMATION

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: HK\$0.45 million) 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 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.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2011, according to the register kept by the Company pursuant to section 336 of the Securities and Futures Ordinance ("SFO") and so far as is known to, or can be ascertained after reasonable enquiry by the directors of the Company, the following parties had an interest or short position in the shares and underlying shares of the Company ("Shares") which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Nature of interest	Number of Shares	Percentage (Note 2)
Sun East LLC	Beneficial owner (Note 1)	2,213,268,989	30.27%
Yeung Yung	Interest of controlled corporation (Note 2)	2,213,268,989	30.27%
	Beneficial owner (Note 3)	10,000,000	0.14%
		2,223,268,989	30.41%

Notes:

1. Sun East LLC is owned as to 35% by Dr Yeung Yung (shared commonly with his wife under the laws of California, the US) and 65% by Mr Ma Manwai (alias Ma Manwai, Philip) and Mr Jimmy Wang (alias Wang Jian) as co-trustees for certain trusts established for the benefit of the children of Dr Yeung Yung on 30 December 2002. Dr Yeung Yung (as well as his spouse) was deemed to be interested in these 2,213,268,989 Shares held by Sun East LLC under Part XV of the SFO.
2. These 2,213,268,989 Shares are the same parcel of Shares held by Sun East LLC in which Dr Yeung Yung (as well as his spouse) is deemed interested under Part XV of the SFO.
3. These 10,000,000 Shares are directly held by Dr Yeung Yung, in which his spouse is deemed interested under Part XV of the SFO.
4. The percentage of shareholding is calculated on the basis of 7,312,159,756 Shares in issue as at 30 June 2011 and does not take into account any Shares which may fall to be allotted and issued upon exercise of any subscription rights attaching to any share options granted by the Company.

Save as disclosed above, no person, other than those Directors whose interests are set out in the section "Directors' and chief executive's interests and short positions" below, had registered an interest or short positions in the share capital or underlying shares of the Company that was required to be recorded under Section 336 of SFO.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

As at 30 June 2011, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules were as follow:

(1) Long positions in the ordinary share (each a "Share") of HK\$0.10 each in the Company

Name of director	Capacity	Number of Shares held	Percentage of the issued share capital of the Company (Note 1)
Yeung Yung	Interest of controlled corporation	2,213,268,989 (Note 2)	30.27%
	Beneficial owner	10,000,000	0.14%
Liu Stephen Quan	Family interest	241,760,000 (Note 3)	3.31%
	Beneficial owner	40,000,000	0.55%
Hui Wing Sang, Wilson	Beneficial owner	2,714,000	0.04%
Zhu Shengliang	Beneficial owner	5,333,883	0.07%
Li Zhengshan	Beneficial owner	8,700,000	0.12%

Notes:

- The percentage of shareholding is calculated on the basis of 7,312,159,756 Shares in issue as at 30 June 2011 and does not take into account any Shares which may fall to be allotted and issued upon exercise of any subscription rights attaching to any share options granted by the Company.
- These Shares are held by Sun East LLC. Sun East LLC is a limited liability company incorporated in California, the US, which is owned as to (i) 35% by Dr Yeung Yung (shared commonly with his spouse under the laws of California, the US) and (ii) 65% by Mr Ma Manwai (alias Ma Manwai, Philip) and Mr Jimmy Wang (alias Wang Jian) as co-trustees for certain trusts established for the benefit of the children of Dr Yeung Yung on 30 December 2002. Dr Yeung Yung (as well as his spouse) is deemed to be interested in these 2,213,268,989 Shares held by Sun East LLC under Part XV of the SFO.
- These Share are held by Fortune Venture Holding Limited, a company incorporated in the British Virgin Islands whose entire issued share capital is solely and beneficially owned by Ms Li Xiaoqin (the spouse of Mr Liu Stephen Quan). Mr Liu Stephen Quan is deemed to be interested in these 241,760,000 Shares held by his spouse by virtue of Part XV of the SFO.

All the interests stated above represent long positions.

(2) Interests in share options granted by the Company

Name of Director	Date of grant	Exercisable period	Exercise Price (HK\$)	Number of underlying Shares subject to Outstanding Options	Approximate percentage of shareholding (Note)
Yeung Yung	9 August 2005	29 August 2005 to 8 August 2015	0.102	11,140,000	
	6 February 2008	6 February 2008 to 5 February 2018	0.114	27,000,000	
	24 June 2009	24 June 2009 to 11 June 2013	0.123	40,000,000	
	26 May 2011	26 May 2011 to 11 June 2013	0.1338	35,000,000	
				113,140,000	1.55%
Huang Chunhua	24 June 2009	24 June 2009 to 11 June 2013	0.123	20,000,000	
	17 November 2009	17 November 2009 to 11 June 2013	0.295	10,000,000	
	26 May 2011	26 May 2011 to 11 June 2013	0.1338	35,000,000	
				65,000,000	0.89%
Wang Chuantao	24 June 2009	24 June 2009 to 11 June 2013	0.123	15,000,000	
	17 November 2009	17 November 2009 to 11 June 2013	0.295	10,000,000	
	26 May 2011	26 May 2011 to 11 June 2013	0.1338	20,000,000	
				45,000,000	0.62%
Liu Stephen Quan	26 May 2011	26 May 2011 to 11 June 2013	0.1338	10,000,000	0.14%

Name of Director	Date of grant	Exercisable period	Exercise Price (HK\$)	Number of underlying Shares subject to Outstanding Options	Approximate percentage of shareholding (Note)
Hui Wing Sang, Wilson	6 February 2008	6 February 2008 to 5 February 2018	0.114	27,000,000	
	24 June 2009	24 June 2009 to 11 June 2013	0.123	21,000,000	
	26 May 2011	26 May 2011 to 11 June 2013	0.1338	35,000,000	
				83,000,000	1.14%
Zhu Shengliang	9 August 2005	29 August 2005 to 8 August 2015	0.102	16,710,000	
	24 June 2009	24 June 2009 to 11 June 2013	0.123	1,290,000	
	10 July 2009	10 July 2009 to 11 June 2013	0.185	10,000,000	
	26 May 2011	26 May 2011 to 11 June 2013	0.1338	10,000,000	
				38,000,000	0.52%
Zhang Zhenwei	24 June 2009	24 June 2009 to 11 June 2013	0.123	7,500,000	
	26 May 2011	26 May 2011 to 11 June 2013	0.1338	15,000,000	
				22,500,000	0.31%
Xu Jianguo	15 April 2010	15 April 2010 to 11 June 2013	0.368	5,000,000	
	26 May 2011	26 May 2011 to 11 June 2013	0.1338	15,000,000	
				20,000,000	0.27%

Name of Director	Date of grant	Exercisable period	Exercise Price (HK\$)	Number of underlying Shares subject to Outstanding Options	Approximate percentage of shareholding (Note)
Li Zhengshan	9 August 2005	29 August 2005 to 8 August 2015	0.102	5,570,000	
	6 February 2008	6 February 2008 to 5 February 2018	0.114	5,000,000	
	24 June 2009	24 June 2009 to 11 June 2013	0.123	4,430,000	
	26 May 2011	26 May 2011 to 11 June 2013	0.1338	15,000,000	
				30,000,000	0.41%
Hong Shuguang	26 May 2011	26 May 2011 to 11 June 2013	0.1338	5,000,000	0.07%
Xia Tingkang, Tim	26 May 2011	26 May 2011 to 11 June 2013	0.1338	10,000,000	0.14%
Zhu Guobin	26 May 2011	26 May 2011 to 11 June 2013	0.1338	10,000,000	0.14%
He Bangjie	6 February 2008	6 February 2008 to 5 February 2018	0.114	2,000,000	
	10 July 2009	10 July 2009 to 11 June 2013	0.185	4,000,000	
				6,000,000	0.08%

Note: The percentage of shareholding is calculated on the basis of 7,312,159,756 Shares in issue as at 30 June 2011.

Save as disclosed above, none of the Directors or the chief executive of the Company had or were deemed to have any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 30 June 2011.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 15 March 1995 (the "1995 Scheme"), which was terminated on 12 June 2003, and a new share option scheme (the "2003 Scheme"), which is currently in force, was adopted by the Company on 12 June 2003.

The following share options were outstanding under the 1995 Scheme and the 2003 Scheme during the period from 1 January to 30 June 2011:

Name or Category of Participant	As at 1 January 2011	Reclassification during the Period	Shares options			As at 30 June 2011	Date of Grant	Exercise Price	Exercise Period
			Share options granted	lapsed/ cancelled during the Period	Share options exercised				
Director									
Yeung Yung	11,140,000	-	-	-	-	11,140,000	<i>Note 1</i>	<i>Note 1</i>	<i>Note 1</i>
	27,000,000	-	-	-	-	27,000,000	<i>Note 2</i>	<i>Note 2</i>	<i>Note 2</i>
	40,000,000	-	-	-	-	40,000,000	<i>Note 3</i>	<i>Note 3</i>	<i>Note 3</i>
	-	-	35,000,000	-	-	35,000,000	<i>Note 8</i>	<i>Note 8</i>	<i>Note 8</i>
Huang Chunhua	20,000,000	-	-	-	-	20,000,000	<i>Note 3</i>	<i>Note 3</i>	<i>Note 3</i>
	10,000,000	-	-	-	-	10,000,000	<i>Note 5</i>	<i>Note 5</i>	<i>Note 5</i>
	-	-	35,000,000	-	-	35,000,000	<i>Note 8</i>	<i>Note 8</i>	<i>Note 8</i>
Wang Chuantao	15,000,000	-	-	-	-	15,000,000	<i>Note 3</i>	<i>Note 3</i>	<i>Note 3</i>
	10,000,000	-	-	-	-	10,000,000	<i>Note 5</i>	<i>Note 5</i>	<i>Note 5</i>
	-	-	20,000,000	-	-	20,000,000	<i>Note 8</i>	<i>Note 8</i>	<i>Note 8</i>
Liu Stephen Qun	-	-	10,000,000	-	-	10,000,000	<i>Note 8</i>	<i>Note 8</i>	<i>Note 8</i>
Hui Wing Sang, Wilson	27,000,000	-	-	-	-	27,000,000	<i>Note 2</i>	<i>Note 2</i>	<i>Note 2</i>
	21,000,000	-	-	-	-	21,000,000	<i>Note 3</i>	<i>Note 3</i>	<i>Note 3</i>
	-	-	35,000,000	-	-	35,000,000	<i>Note 8</i>	<i>Note 8</i>	<i>Note 8</i>
Zhu Shengliang	16,710,000	-	-	-	-	16,710,000	<i>Note 1</i>	<i>Note 1</i>	<i>Note 1</i>
	1,290,000	-	-	-	-	1,290,000	<i>Note 3</i>	<i>Note 3</i>	<i>Note 3</i>
	10,000,000	-	-	-	-	10,000,000	<i>Note 4</i>	<i>Note 4</i>	<i>Note 4</i>
	-	-	10,000,000	-	-	10,000,000	<i>Note 8</i>	<i>Note 8</i>	<i>Note 8</i>
Zhang Zhenwei	7,500,000	-	-	-	-	7,500,000	<i>Note 3</i>	<i>Note 3</i>	<i>Note 3</i>
	-	-	15,000,000	-	-	15,000,000	<i>Note 8</i>	<i>Note 8</i>	<i>Note 8</i>
Xu Jianguo	5,000,000	-	-	-	-	5,000,000	<i>Note 6</i>	<i>Note 6</i>	<i>Note 6</i>
	-	-	15,000,000	-	-	15,000,000	<i>Note 8</i>	<i>Note 8</i>	<i>Note 8</i>
Li Zhengshan	5,570,000	-	-	-	-	5,570,000	<i>Note 1</i>	<i>Note 1</i>	<i>Note 1</i>
	5,000,000	-	-	-	-	5,000,000	<i>Note 2</i>	<i>Note 2</i>	<i>Note 2</i>
	4,430,000	-	-	-	-	4,430,000	<i>Note 3</i>	<i>Note 3</i>	<i>Note 3</i>
	-	-	15,000,000	-	-	15,000,000	<i>Note 8</i>	<i>Note 8</i>	<i>Note 8</i>
Hong Shuguang	-	-	5,000,000	-	-	5,000,000	<i>Note 8</i>	<i>Note 8</i>	<i>Note 8</i>

Name or Category of Participant	As at 1 January 2011	Reclassification during the Period	Shares options			As at 30 June 2011	Date of Grant	Exercise Price	Exercise Period
			Share options granted	lapsed/ cancelled/ during the Period	Share options exercised				
Xia Tingkang, Tim	-	-	10,000,000	-	-	10,000,000	Note 8	Note 8	Note 8
Zhu Guobin	-	-	10,000,000	-	-	10,000,000	Note 8	Note 8	Note 8
He Bangjie	2,000,000	-	-	-	-	2,000,000	Note 2	Note 2	Note 2
	4,000,000	-	-	-	-	4,000,000	Note 4	Note 4	Note 4
Ting Kwok Kit, Johnny	4,000,000	-	-	(4,000,000)	-	-	Note 4	Note 4	Note 4
Wang Wei	7,000,000	-	-	(7,000,000)	-	-	Note 5	Note 5	Note 5
	-	-	5,000,000	(5,000,000)	-	-	Note 8	Note 8	Note 8
Sub-Total	253,640,000	-	220,000,000	(16,000,000)	-	457,640,000			
Employee									
(other than Directors)	15,250,000	-	-	-	-	15,250,000	Note 1	Note 1	Note 1
(in aggregate)	34,800,000	-	-	-	(3,000,000)	31,800,000	Note 2	Note 2	Note 2
	82,702,000	-	-	-	-	82,702,000	Note 3	Note 3	Note 3
	24,000,000	-	-	-	-	24,000,000	Note 4	Note 4	Note 4
	44,000,000	-	-	-	-	44,000,000	Note 5	Note 5	Note 5
	53,500,000	-	-	(2,000,000)	-	51,500,000	Note 6	Note 6	Note 6
	-	-	191,000,000	-	-	191,000,000	Note 8	Note 8	Note 8
	-	-	3,000,000	-	-	3,000,000	Note 9	Note 9	Note 9
Sub-Total	254,252,000	-	194,000,000	(2,000,000)	(3,000,000)	443,252,000			
Other eligible participants:	15,000,000	-	-	-	-	15,000,000	Note 2	Note 2	Note 2
(in aggregate)	7,500,000	-	-	-	-	7,500,000	Note 3	Note 3	Note 3
	-	-	40,000,000	-	-	40,000,000	Note 7	Note 7	Note 7
	-	-	160,000,000	-	-	160,000,000	Note 8	Note 8	Note 8
	-	-	65,000,000	-	-	65,000,000	Note 9	Note 9	Note 9
Sub-Total	22,500,000	-	265,000,000	-	-	287,500,000			
Total:	530,392,000	-	679,000,000	(18,000,000)	(3,000,000)	1,188,392,000			

Notes:

1. These share options were granted on 9 August 2005 and are exercisable at a subscription price of HK\$0.102 per share at any time during the period of 10 years from 29 August 2005 to 8 August 2015.
2. These share options were granted on 6 February 2008 and are exercisable at a subscription price of HK\$0.114 per share at any time during the period of 10 years from 6 February 2008 to 5 February 2018.
3. These share options were granted on 24 June 2009 and are exercisable at a subscription price of HK\$0.123 per share at any time during the period of 4 years from 24 June 2009 to 11 June 2013.
4. These share options were granted on 10 July 2009 and are exercisable at a subscription price of HK\$0.185 per share at any time during the period of 3 years and 11 Months from 10 July 2009 to 11 June 2013.
5. These share options were granted on 17 November 2009 and are exercisable at a subscription price of HK\$0.295 per share at any time during the period of 3 years and 7 months from 17 November 2009 to 11 June 2013.
6. These share options were granted on 15 April 2010 and are exercisable at a subscription price of HK\$0.368 per share at any time during the period of 3.16 years from 15 April 2010 to 11 June 2013.
7. These share options were granted on 12 April 2011 and are exercisable at a subscription price of HK\$0.146 per share at any time during the period of 2.17 years from 12 April 2011 to 11 June 2013. The fair value of these share options at the date of grant was approximately amounted to HK\$1.82 million.

Fair value of share options granted on 12 April 2011 and assumptions:

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on Binomial Option Pricing Model.

	Measurement date
	12/04/2011
Fair value	HK\$0.045
Exercise price	HK\$0.146
Expected volatility	100.26%
Life of the Share Option	2.17 years
Risk-free interest rate	0.726%

For the purpose of determining the value of the share options, we have considered all the prominent factors affecting the value, including, but not limited to, the following:

- The relative rate at which the price of the underlying security moves up and down;
- The change in the value of an option for each dollar change in the market price of the underlying asset;
- The change in the option's price for a 1% change in volatility;
- The exercise price of the share options granted;
- The nature of the share options granted;
- The exercisable period of the share options granted;
- The expected dividend yield of the underlying securities; and
- Other factors materially affecting the value of the share option granted.

The option value varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of its fair value. The Company takes no responsibilities for the information of option value provided.

8. These share options were granted on 26 May 2011 and are exercisable at a subscription price of HK\$0.1338 per share at any time during the period of 2.05 years from 26 May 2011 to 11 June 2013. The fair value of these share options at the date of grant was approximately amounted to HK\$25.88 million.

Fair value of share options granted on 26 May 2011 and assumptions:

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on Binomial Option Pricing Model.

	Measurement date
	26/05/2011
Fair value	HK\$0.045
Exercise price	HK\$0.1338
Expected volatility	95.88%
Life of the Share Option	2.05 years
Risk-free interest rate	0.505%

For the purpose of determining the value of the share options, we have considered all the prominent factors affecting the value, including, but not limited to, the following:

- The relative rate at which the price of the underlying security moves up and down;
- The change in the value of an option for each dollar change in the market price of the underlying asset;
- The change in the option's price for a 1% change in volatility;
- The exercise price of the share options granted;
- The nature of the share options granted;
- The exercisable period of the share options granted;
- The expected dividend yield of the underlying securities; and
- Other factors materially affecting the value of the share option granted.

The option value varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of its fair value. The Company takes no responsibilities for the information of option value provided.

9. These share options were granted on 7 June 2011 and are exercisable at a subscription price of HK\$0.136 per share at any time during the period of 2.01 years from 7 June 2011 to 11 June 2013. The fair value of these share options at the date of grant was approximately amounted to HK\$3.19 million.

Fair value of share options granted on 7 June 2011 and assumptions:

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on Binomial Option Pricing Model.

	Measurement date
	07/06/2011
Fair value	HK\$0.047
Exercise price	HK\$0.136
Expected volatility	92.44%
Life of the Share Option	2.01 years
Risk-free interest rate	0.439%

For the purpose of determining the value of the share options, we have considered all the prominent factors affecting the value, including, but not limited to, the following:

- The relative rate at which the price of the underlying security moves up and down;
- The change in the value of an option for each dollar change in the market price of the underlying asset;
- The change in the option's price for a 1% change in volatility;
- The exercise price of the share options granted;
- The nature of the share options granted;
- The exercisable period of the share options granted;
- The expected dividend yield of the underlying securities; and
- Other factors materially affecting the value of the share option granted.

The option value varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of its fair value. The Company takes no responsibilities for the information of option value provided.

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.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

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

COMPETING INTERESTS

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

SECURITIES TRANSACTIONS BY DIRECTORS

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

SUFFICIENCY OF PUBLIC FLOAT

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

REVIEW OF FINANCIAL STATEMENTS

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

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

Hong Kong, 30 August 2011