# HYBRID KINETIC GROUP LIMITED
# 正道集團有限公司

*(incorporated in Bermuda with limited liability)*

**(Stock code: 1188)**

# ANNUAL RESULT ANNOUNCEMENT 2009

## RESULTS

The board (the "Board") of directors (the "Directors") of Hybrid Kinetic Group Limited (the "Company") would announce the audited consolidated financial results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009 as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2009*

| | *Notes* | **2009** **HK$'000** | 2008 *HK$'000* |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | *5* | **10,393** | 324 |
| Cost of sales | | **(2,761)** | (86) |
| **Gross profit** | | **7,632** | 238 |
| Other income | | **1,823** | 5,568 |
| Distribution costs | | **(1,566)** | (2) |
| General operating expenses | | **(122,116)** | (68,577) |
| Impairment of goodwill | | **(12,546)** | (570) |
| Impairment of available-for-sale financial asset | | **–** | (2,178) |
| Impairment of property, plant and equipment | | **–** | (2,742) |
| **Loss before income tax** | *6* | **(126,773)** | (68,263) |
| Income tax expense | *7* | **–** | (6) |
| Loss for the year from continuing operations | | **(126,773)** | (68,269) |
| **Discontinued operations** | | | |
| Profit for the year from discontinued operations | *8.3* | **523** | 93,670 |

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **(Loss)/Profit for the year** | | **(126,250)** | 25,401 |
| **Other comprehensive income, including reclassification adjustments** | | **120** | 14,735 |
| **Other comprehensive income for the year** | | **120** | 14,735 |
| **Total comprehensive income for the year** | | **(126,130)** | 40,136 |
| **(Loss)/Profit for the year attributable to:** | | | |
| Equity holders of the Company | | **(125,076)** | 35,206 |
| Minority interests | | **(1,174)** | (9,805) |
| | | **(126,250)** | 25,401 |
| **Total comprehensive income for the year attributable to:** | | | |
| Equity holders of the Company | | **(124,982)** | 49,138 |
| Minority interests | | **(1,148)** | (9,002) |
| | | **(126,130)** | 40,136 |
| **(Loss)/Earnings per share for profit/(loss) attributable to the equity holders of the Company during the year** | *10* | | |
| **From continuing and discontinued operations** | | | |
| **(Loss)/Earnings per share – basic** | | **HK(2.26) cents** | HK0.67 cent |
| **(Loss)/Earnings per share – diluted** | | **N/A** | HK0.66 cent |
| **From continuing operations** | | | |
| **Loss per share – basic** | | **HK(2.27) cents** | HK(1.29) cent |
| **Loss per share – diluted** | | **N/A** | N/A |
| **From discontinued operations** | | | |
| **Earnings per share – basic** | | **HK0.01 cent** | HK1.96 cent |
| **Earnings per share – diluted** | | **HK0.01 cent** | HK1.94 cent |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2009*

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **28,838** | 26,454 |
| Land use rights | | **–** | – |
| Available-for-sale financial asset | | **–** | – |
| Goodwill | | **–** | – |
| Intangible assets | | **18,063** | 20,020 |
| Interest in an associate | | **–** | – |
| Prepayments and deposits | | **19,040** | 46,625 |
| | | **65,941** | 93,099 |
| **Current assets** | | | |
| Inventories | | **57** | 177 |
| Trade receivables | *11* | **1,534** | – |
| Prepayments, deposits and other receivables | | **84,118** | 12,890 |
| Pledged bank deposits | | **806** | 805 |
| Cash and cash equivalents | | **114,714** | 178,809 |
| | | **201,229** | 192,681 |
| **Current liabilities** | | | |
| Trade payables | *12* | **99** | – |
| Accruals and other payables | | **33,750** | 27,960 |
| Amounts due to related parties | | **2,799** | 1,095 |
| Amount due to a director | | **590** | 1,779 |
| Borrowings | | **1,890** | 1,897 |
| Provisions | | **–** | – |
| | | **39,128** | 32,731 |
| **Net current assets** | | **162,101** | 159,950 |
| **Net assets** | | **228,042** | 253,049 |
| **EQUITY** | | | |
| **Equity attributable to the Company's equity holders** | | | |
| Share capital | | **582,821** | 548,305 |
| Reserves | | **(379,303)** | (317,588) |
| | | **203,518** | 230,717 |
| Minority interests | | **24,524** | 22,332 |
| **Total equity** | | **228,042** | 253,049 |

## 1. General information

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

Pursuant to a special resolution passed on 26 January 2010, and with the approval of the Registrar of Companies of Bermuda given on 29 January 2010, the name of the Company was changed from "Far East Golden Resources Group Limited" to "Hybrid Kinetic Group Limited", and "正道集團有限公司" was adopted as the secondary name of the Company.

The principal activities of the Company and its subsidiaries (together referred to as the "Group") were:

– environmental products and related business; and

– natural resources business.

On 30 December 2009, the board of directors resolved that the Group would discontinue operation of indoor game centres and manufacture and sales of automobile axles with effective from 31 December 2009. Operation of indoor game centres and manufacture and sales of automobile axles represent separate major lines of the Group's businesses, and the operations and cash flows of which can be clearly distinguished from the rest of the Group. Therefore, in 2009, the Group presented, in its financial statements, these operations as discontinued operations in accordance with HKFRS 5.

On 22 October 2008, the Group had entered into an agreement with an independent third party to dispose of the entire equity interest in Ningbo Meili Assets Management Co., Limited and its subsidiaries (collectively "Ningbo Meili Group") which principally engaged in sales and repair of motor vehicles and sales of properties. The disposal of Ningbo Meili Group was completed on 22 December 2008 and the Group had discontinued its operations in sales and repair of motor vehicles and sales of properties thereafter. Sales and repair of motor vehicles and sales of properties represent separate major lines of the Group's businesses, and the operations and cash flows of which can be clearly distinguished from the rest of the Group. Therefore, since 2008, the Group presented, in its financial statements, these operations as discontinued operations in accordance with HKFRS 5.

Further details regarding the discontinued operations are set out in note 8.

The financial statements for the year ended 31 December 2009 were approved for issue by the board of directors on 27 April 2010.

## 2. Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (”HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The financial statements have been prepared on the historical cost.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

## 3. Adoption of new or amended HKFRSs

3.1 In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the “new HKFRSs”) issued by the HKICPA, which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 January 2009:

| | |
|---|---|
| HKAS 1 (Revised 2007) | Presentation of Financial Statements |
| HKAS 23 (Revised 2007) | Borrowing Costs |
| HKAS 27 (Amendment) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate |
| HKFRS 2 (Amendment) | Share-based Payment – Vesting Conditions and Cancellations |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| Various | Annual Improvements to HKFRSs 2008 |

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.

***HKAS 1 (Revised 2007) Presentation of Financial Statements***

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. It also gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses are unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income. HKAS 1 affects the presentation of owner changes in equity and introduces a "Statement of comprehensive income". Comparatives have been restated to conform to the revised standard. The Group has applied changes to its accounting polices on presentation of financial statements and segment reporting retrospectively. However, the changes to the comparatives have not affected the consolidated or parent company statement of financial position at 1 January 2008 and accordingly this statement is not presented.

***HKAS 27 (Amendment) Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate***

The amendment requires the investor to recognise dividends from a subsidiary, jointly controlled entity or associate in profit or loss irrespective the distributions are out of the investee's pre-acquisition or post-acquisition reserves. In prior years, the Company recognised dividends out of pre-acquisition reserves as a recovery of its investment in the subsidiaries, jointly controlled entity or associates (i.e. a reduction of the cost of investment). Only dividends out of post-acquisition reserves were recognised as income in profit or loss.

Under the new accounting policy, if the dividend distribution is excessive, the investment would be tested for impairment according to the Company's accounting policy on impairment of non-financial assets.

The adoption of this new policy has no impact on the current period results and financial position therefore. The new accounting policy has been applied prospectively as permitted by the amendment and comparatives have not been restated.

***HKFRS 7 (Amendment) Improving Disclosures about Financial Instruments***

The amendments require additional disclosures for financial instruments which are measured at fair value in the statement of financial position. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent of observable market data used in making the measurements. In addition, the maturity analysis for derivative financial liabilities is disclosed separately and should show remaining contractual maturities for those derivatives where this information is essential for an understanding of the timing of the cash flows. The Group has taken advantage of the transitional provisions in the amendment and has not provided comparative information in respect of the new requirements.

***HKFRS 8 Operating Segments***

The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns. Comparatives have been restated on a basis consistent with the new standard.

***Annual Improvements to HKFRSs 2008***

In October 2008, the HKICPA issued its first Annual Improvements to HKFRSs which set out amendments to a number of HKFRSs. There are separate transitional provisions for each standard.

3.2 At date of authorisation of these financial statements, certain new or amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new or amended HKFRSs have been issued but are not expected to have a material impact of the Group's financial statements.

***HKFRS 3 Business Combinations (Revised 2008)***

The standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree.

***HKFRS 9 Financial Instruments***

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors are currently assessing the possible impact of the new standard on the Group's results and financial position in the first year of application.

***HKAS 27 Consolidated and Separate Financial Statements (Revised 2008)***

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The directors do not expect the standard to have a material effect on the Group's financial statements.

## 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.

During the year, the Group has discontinued its operation of indoor game centres and manufacture and sales of automobile axles. In 2008, the Group had discontinued its operations in sales and repair of motor vehicles and sales of properties. These operations had been presented as discontinued operations in the financial statements. Further details regarding the results of these discontinued operations are set out in note 8 to the financial statements.

*For the year ended 31 December 2009*

| | Environmental products and related business | Natural resources business | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | | | |
| Sales to external customers | **10,393** | **–** | **10,393** |
| Segment results | **(3,101)** | **(2,646)** | **(5,747)** |
| Unallocated corporate income and expense, net | | | **(93,510)** |
| Share-based compensation | | | **(27,516)** |
| Loss for the year from continuing operations | | | **(126,773)** |
| Profit for the year from discontinued operations *(note 8.3)* | | | **523** |
| Loss for the year | | | **(126,250)** |
| Segment assets | **26,829** | **20,954** | **47,783** |
| Unallocated corporate assets | | | **219,387** |
| Total assets | | | **267,170** |
| Segment liabilities | **466** | **6,239** | **6,705** |
| Unallocated corporate liabilities | | | **27,144** |
| Borrowings | | | **1,890** |
| Amounts due to related parties | | | **2,799** |
| Amount due to a director | | | **590** |
| Total liabilities | | | **39,128** |
| Other segment information | | | |
| Interest income | **111** | **–** | **111** |
| Depreciation | **1,040** | **638** | **1,678** |
| Amortisation | **4,479** | **–** | **4,479** |
| Impairment of receivables | **726** | **–** | **726** |

For the year ended 31 December 2008

| | Environmental products and related business HK$'000 | Natural resources business HK$'000 | Total HK$'000 |
|---|---|---|---|
| Revenue | | | |
| Sales to external customers | 324 | – | 324 |
| Segment results | (1,130) | (5,366) | (6,496) |
| Unallocated corporate income and expense, net | | | (47,312) |
| Share-based compensation | | | (14,455) |
| Loss before income tax | | | (68,263) |
| Income tax expense | | | (6) |
| Loss for the year from continuing operations | | | (68,269) |
| Profit for the year from discontinued operations *(note 8.3)* | | | 93,670 |
| Profit for the year | | | 25,401 |
| Segment assets | 43,155 | 22,773 | 65,928 |
| Unallocated corporate assets | | | 219,852 |
| Total assets | | | 285,780 |
| Segment liabilities | 509 | 5,347 | 5,856 |
| Unallocated corporate liabilities | | | 22,104 |
| Borrowings | | | 1,897 |
| Amounts due to related parties | | | 1,095 |
| Amount due to a director | | | 1,779 |
| Total liabilities | | | 32,731 |
| Other segment information | | | |
| Interest income | 16 | 4 | 20 |
| Depreciation | 203 | 170 | 373 |
| Amortisation | 668 | – | 668 |
| Impairment of goodwill | – | 570 | 570 |

The Group's revenues from external customers and its non-current assets (other than financial instruments) are divided into the following geographical areas:

| | Revenue from external customers (including continuing and discontinued operations) | | Non-current assets (other than financial assets) | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| – Hong Kong (domicile) | **–** | – | **1,379** | 31,752 |
| – PRC | **11,213** | 374,805 | **24,658** | 28,300 |
| – United States ("US") | **–** | – | **22,218** | 16,422 |
| Total | **11,213** | 374,805 | **48,255** | 76,474 |

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.

During the year ended 31 December 2009, HK$3,184,000 or 28% of the Group's revenues depended on a single customer in the environmental products and related business segment. For the year ended 31 December 2008, there were no external customers whose transactions exceeded 10% of the Group's revenue.

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

## 5. Revenue

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

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Sales of motor vehicles | **–** | – | **–** | 338,191 | **–** | 338,191 |
| Repair and maintenance of motor vehicles | **–** | – | **–** | 35,088 | **–** | 35,088 |
| Sales of properties held for sale | **–** | – | **–** | 511 | **–** | 511 |
| Revenues from operation of indoor games centres | **–** | – | **820** | 691 | **820** | 691 |
| Sales of bioorganic fertilizer | **10,393** | 324 | **–** | – | **10,393** | 324 |
| | **10,393** | 324 | **820** | 374,481 | **11,213** | 374,805 |

## 6. Loss before income tax

Loss before income tax is arrived at after charging/(crediting):

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Auditors' remuneration | **982** | 1,150 | **4** | 4 | **986** | 1,154 |
| Share-based compensation | **27,516** | 14,455 | **–** | – | **27,516** | 14,455 |
| Depreciation of property, plant and equipment | **8,419** | 5,311 | **1** | 3,162 | **8,420** | 8,473 |
| Amortisation of land use rights | **–** | – | **–** | 80 | **–** | 80 |
| Amortisation of intangible assets | **4,479** | 668 | **–** | – | **4,479** | 668 |
| Impairment of available-for-sale financial asset | **–** | 2,178 | **–** | – | **–** | 2,178 |
| Impairment of goodwill | **12,546** | 570 | **–** | – | **12,546** | 570 |
| Impairment of property, plant and equipment | **–** | 2,742 | **–** | – | **–** | 2,742 |
| Impairment of trade receivables | **–** | – | **–** | 316 | **–** | 316 |
| Impairment of other receivables | **8,963** | 1,440 | **–** | 13,278 | **8,963** | 14,718 |
| Research and development expenses | **6,623** | – | **–** | – | **6,623** | – |
| Gain on disposal of subsidiaries | **–** | – | **–** | (113,896) | **–** | (113,896) |
| Loss/(Gain) on disposal of property, plant and equipment | **167** | – | **(5)** | (57) | **162** | (57) |
| Discount on initial recognition of long-term interest-free deposits | **–** | 3,468 | **–** | – | **–** | 3,468 |
| Cost of inventories recognised as expenses* | **2,761** | 86 | **187** | 353,877 | **2,948** | 353,963 |
| Operating lease charges in respect of land and buildings | **2,896** | 2,403 | **62** | 1,405 | **2,958** | 3,808 |

* *For the year ended 31 December 2008, cost of inventories recognised as expenses included HK$5,508,000 relating to impairment of inventories. For 2009, no impairment of inventory was provided for.*

## 7. Income tax expense

For the years ended 31 December 2009 and 2008, no provision for Hong Kong profits tax has been made in the financial statements as the Group did not derive any assessable profits for the year in Hong Kong. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

| | **Continuing operations** | | **Discontinued operations** | | **Consolidated** | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Current tax | | | | | | |
| – PRC | **–** | 6 | **19** | 1,328 | **19** | 1,334 |
| – Over-provision in prior years | **–** | – | **–** | (738) | **–** | (738) |
| Income tax expense | **–** | 6 | **19** | 590 | **19** | 596 |

## 8. Discontinued operations

8.1 As mentioned in note 1, 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, in 2009, the Group presented, in its financial statements, these operations as discontinued operations in accordance with HKFRS 5. The Group has also re-presented the disclosure for comparatives presented in the financial statements so that the disclosures relate to these operations that have been discontinued by the reporting date for the latest period presented. For the year ended 31 December 2009, the profit on these discontinued operations amounted to HK$523,000 (2008: loss of HK$884,000).

8.2 As mentioned in note 1, on 22 October 2008, the Group had entered into an agreement with an independent third party to dispose of the entire equity interest in Ningbo Meili Group, which principally engaged in sales and repair of motor vehicles and sales of properties. The disposal of Ningbo Meili Group was completed on 22 December 2008 and the Group had discontinued its operations in sales and repair of motor vehicles and sales of properties thereafter. Sales and repair of motor vehicles and sales of properties 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, since 2008, the Group presented, in its financial statements, these operations as discontinued operations in accordance with HKFRS 5. For the year ended 31 December 2008, the loss on these discontinued operations amounted to HK$19,342,000.

8.3 The profit/(loss) for the year from the discontinued operations is analysed as follows:

| | **2009** | 2008 | | |
|---|---|---|---|---|
| | **Operation of indoor game centres and manufacture and sales of automobile axles** | Sales and repair of motor vehicles and sales of properties | Operation of indoor game centres and manufacture and sales of automobile axles | Total |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* |
| Profit/(loss) on discontinued operations *(note 8.4)* | **523** | (19,342) | (884) | (20,226) |
| Gain on disposal of subsidiaries | **–** | 113,896 | – | 113,896 |
| Profit for the year from discontinued operations | **523** | 94,554 | (884) | 93,670 |
| Attributable to: | | | | |
| – Equity holders of the Company | **523** | 103,908 | (884) | 103,024 |
| – Minority interests | **–** | (9,354) | – | (9,354) |
| | **523** | 94,554 | (884) | 93,670 |

8.4 An analysis of the results of the discontinued operations for the year is as follows:

**For the year ended 31 December 2009**

| | Operation of indoor game centres *HK$'000* | Manufacture and sales of automobile axles *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| Revenue | **820** | **–** | **820** |
| Cost of sales | **(187)** | **–** | **(187)** |
| Gross profit | **633** | **–** | **633** |
| Other income | **15** | **486** | **501** |
| General operating expenses | **(286)** | **(306)** | **(592)** |
| Profit before income tax | **362** | **180** | **542** |
| Income tax expense | **(19)** | **–** | **(19)** |
| Profit for the year | **343** | **180** | **523** |
| Cash flows (used in)/generated from discontinued operations | | | |
| Net cash flow from/(used in) operating activities | **28** | **(53)** | **(25)** |
| Net cash flow used in investing activities | **–** | **(5)** | **(5)** |
| Net cash (outflow)/inflow | **28** | **(58)** | **(30)** |

For the year ended 31 December 2008

| | Operation of indoor game centres<br>*HK$'000* | Manufacture and sales of automobile axles<br>*HK$'000* | Sales and repair of motor vehicles<br>*HK$'000* | Sales of properties<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|---|
| Revenue | 691 | – | 373,279 | 511 | 374,481 |
| Cost of sales | (152) | – | (353,125) | (600) | (353,877) |
| Gross profit/(loss) | 539 | – | 20,154 | (89) | 20,604 |
| Other income | 6 | – | 4,941 | 898 | 5,845 |
| Distribution costs | – | – | (7,171) | (151) | (7,322) |
| General operating expenses | (1,115) | (308) | (20,543) | (13,767) | (35,733) |
| Operating loss | (570) | (308) | (2,619) | (13,109) | (16,606) |
| Finance costs | – | – | (3,028) | (2) | (3,030) |
| Loss before income tax | (570) | (308) | (5,647) | (13,111) | (19,636) |
| Income tax expense | (6) | – | (584) | – | (590) |
| Loss for the year | (576) | (308) | (6,231) | (13,111) | (20,226) |
| Cash flows generated from/(used in) discontinued operations | | | | | |
| Net cash (used in)/from operating activities | (6) | 25 | (6) | (7,354) | (7,341) |
| Net cash used in investing activities | – | – | (3,006) | – | (3,006) |
| Net cash from financing activities | – | – | 18,146 | 57 | 18,203 |
| Net cash inflow/(outflow) | (6) | 25 | 15,134 | (7,297) | 7,856 |

## 9. Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2009 (2008: Nil) and the Company did not declare any interim dividend during the year (2008: Nil).

## 10. (Loss)/earnings per share

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

***(Loss)/Earnings***

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Loss)/Profit attributable to the equity holders of the Company for the purpose of basic and diluted (loss)/earnings per share | | |
| Continuing operations | **(125,599)** | (67,817) |
| Discontinued operations | **523** | 103,023 |
| Total (loss)/profit from continuing and discontinued operations | **(125,076)** | 35,206 |

***Number of shares***

| | **2009** | 2008 |
|---|---|---|
| | **Number of shares** | Number of shares |
| | ***'000*** | *'000* |
| Weighted average number of shares for the purpose of basic (loss)/earnings per share | **5,534,194** | 5,250,217 |
| Effect of dilutive potential shares: | | |
| – share options issued by the Company | **199,723** | 50,815 |
| Weighted average number of shares for the purpose of diluted (loss)/earnings per share | **5,733,917** | 5,301,032 |

Diluted loss per share for the current year's continuing and discontinued operations and both years' continuing operations 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 loss per share attributable to the equity holders of the Company.

## 11. Trade receivables

The ageing analysis of the trade receivables of the Group as at 31 December 2009, based on the invoice date, is as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 – 30 days | **1,023** | – |
| 31 – 90 days | **511** | – |
| | **1,534** | – |

## 12. Trade payables

The ageing analysis of the trade payables of the Group as at 31 December 2009, based on the invoice date, is as follows:

| | **2009** | 2008 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 – 180 days | **26** | – |
| Over 180 days | **73** | – |
| | **99** | – |

## MODIFICATION IN INDEPENDENT AUDITORS' REPORT

The Company's auditors, Messrs Grant Thornton, have modified their report on the Group's consolidated financial statements for year ended 31 December 2009. An extract of the emphasis of matter paragraphs in the independent auditors' report is as follows:

**Emphasis of matter in relation to view given by corresponding figures**

Without qualifying our opinion, we draw attention that we have expressed a disclaimer of opinion in our report on the consolidated financial statements for the year ended 31 December 2008.

The corresponding figures in the consolidated statement of comprehensive income for the year ended 31 December 2009 includes a profit for the year from discontinued operations of HK$93,670,000. As detailed in note 43.4 to the financial statements, on 22 October 2008, the Group had entered into a disposal agreement with an independent third party, to dispose of the entire equity interest in Ningbo Meili Assets Management Co., Limited and its subsidiaries (collectively "Ningbo Meili Group"). The disposal of Ningbo Meili Group was completed on 22 December 2008 (the "Disposal Date").

The books and records of Ningbo Meili Group were kept and maintained by the local management of Ningbo Meili Group, which were not made available to the Group's management subsequent to the Disposal Date. Under circumstances as explained above, we were not able to carry out procedures which we considered necessary on the books and records of Ningbo Meili Group, to satisfy ourselves as to the existence, completeness, accuracy and valuations of its assets of HK$331,428,000 and liabilities of HK$517,313,000 as at the Disposal Date and of its loss of HK$19,342,000 for the year ended 31 December 2008 up to the Disposal Date. Consequently, we were unable to satisfy ourselves as to whether the gain on disposal of HK$113,896,000 arising thereon, which had been included in the corresponding figures in the consolidated statement of comprehensive income for the year ended 31 December 2009, was fairly stated. Details of the loss of Ningbo Meili Group and the gain on disposal of Ningbo Meili Group for the year ended 31 December 2008 was set out in note 11.3 to the financial statements.

The above limitation on our scope of work happened in our audit of the Group's consolidated financial statements for the year ended 31 December 2008, which becomes the comparatives in the consolidated financial statements for the year ended 31 December 2009.

# MANAGEMENT DISCUSSION AND ANALYSIS AND DISCLOSURE OF ADDITIONAL INFORMATION

## BUSINESS REVIEW

### Overview

The principal business of the Group during the year include environmental products and related business, natural resources business, operation of indoor family entertainment game centers, manufacturing and selling automobile axles in the PRC and automobile business in the U.S..

The Group's turnover from continuing operations and loss attributable to shareholders for the year ended 31 December 2009 amounted to HK$10.39 million (2008: HK$0.32 million) and HK$125.08 million (2008: profit of HK$35.21 million) respectively.

As compared with the corresponding period in 2008, the turnover increased by approximately 3,108%. The increase in turnover was mainly due to the significant growth of environmental product business in the second half of 2009.

The general operating expenses of continuing operations for the year ended 31 December 2009 increased to HK$122.12 million (2008: HK$68.58 million) which include professional expenses of HK$16.49 million, research and development expenses of HK$6.62 million, share-based compensation of HK$27.52 million for the share options issued during the year and salary expenses of HK$27.27 million.

**(a) Prospective U.S. Automobile business**

To implement the development of U.S. automobile business, the Group incorporated a wholly-owned subsidiary (namely, Hybrid Kinetic Motors Corporation ("HKMC")) in the U.S. and a limited partnership (namely, Hybrid Kinetic Motors Project A, LP) during the year. Hybrid Kinetic Motors' project ("HK Motors Project") is the first motors project implemented by HKMC. On 6 October 2009, the Baldwin County Commission of the State of Alabama, the U.S., issued a non-legally binding letter of intent to HKMC signifying its intention to provide a 3,000 acre megasite property for the HK Motors Project. It symbolizes the development of HK Motors Project is under the auspices of the initiative of the State of Alabama. The Group also entered into memorandum of understanding with Shenyang-Eu Economic Development Zone in connection with the establishment of production plants for eco-friendly vehicles and systems in the area. The Board is of the view that, based on the future market demand and the series of economic stimulus policies by the U.S. Government, the automobile industry has high growth potential.

**(b) Environmental products and related business**

The Group participated in environmental products and related business mainly through its non-wholly owned subsidiary in Beijing, namely Beijing Century Wanyeyuen Bio-Engineering Co., Ltd. ("Beijing Century") and its subsidiary. Beijing Century recorded a turnover of HK$10.39 million for the year (2008: HK$0.32 million). This business segment recorded a loss of HK$3.10 million for the year (2008: HK$1.13 million) as a result of the amortisation of intangible assets of HK$4.48 million. In December 2009, Beijing Century had a significant growth in turnover and the business started to develop promising sales channel in the PRC.

As at 31 December 2009, Beijing Century has been granted the "High-tech Enterprise Certificate" by Beijing Science and Technology Committee, and the "Microorganisms Fertilizer Registration Certificate" and the "Bio-organic Fertilizer Registration Certificate" by the Ministry of Agriculture of China. It has also been awarded the "Invention Patent Certificate of Microbial Agents" and the "Invention Patent Certificate of Bio-organic Fertilizers" by the Patent Office of China. In mid-2009, the development of the Group's bio-organic fertilizers is fully supported by China's "National Agricultural Technology Extension and Service Center". A pilot demonstration was launched throughout the country. Building on the pilot demonstration, the Group believes that it is well positioned to rapidly expand the market share of its environment-friendly products in the nationwide bio-organic fertilizer markets.

**(c) Natural resources business**

During the year, Jilin Shengshi Mining Limited ("Jilin Shengshi"), a wholly owned subsidiary of the Company, has not recorded any revenue (2008: N/A) and a loss of HK$2.65 million (2008: Loss of HK$5.37 million). Currently, a subsidiary of Jilin Shengshi owns 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.

**(d) Game centers**

The Group continued to operate an indoor family entertainment game centers in the PRC. This business recorded turnover HK$0.82 million (2008: HK$0.69 million) and a profit before taxation of HK$0.36 million (2008: Loss before taxation of HK$0.57 million) for the year ended 31 December 2009. Since the indoor family entertainment business was not overly positive and even gloomy over the years, the Board discontinued the operation of the indoor family entertainment centre of the Group with effect from 31 December 2009.

**(e) Automobile axles**

The Group's 51% owned sino-foreign equity joint venture (the "JV") established in the PRC, namely Shenyang Liaohua Automobile Axles Company Ltd has suspended operations since the mid of 2004 as the result of re-allocation of plant. For the year ended 31 December 2009, the business recorded profit from operations of HK$0.18 million (2008: Loss of HK$0.31 million). Since the operation of the automobile axles business of the Group would not be revived, the Board closed down the automobile axles business of the Group with effect from 31 December 2009.

## PROSPECTS

With the increasing awareness of environmental protection issues, the voices requesting reduction of $CO_2$ emission become louder, resulting in a continuous increase in demand for hybrid electric vehicles globally. The U.S. government is actively encouraging the automobile industry to develop a new generation of hybrid automobiles and has nourished a favorable environment for the relevant measures. Hence, the Group is seizing this favorable opportunities to set our foothold in the U.S. automobile industry market.

In the future, the Group will treat the U.S. automobile business as its core business, and uses its project company, Hybrid Kinetic Motors Project A, LP, as the platform to develop the U.S. automobile business. The Group will further promote and consolidate its market position to enable itself to become the first enterprise specializing in the mass production of hybrid electric automobiles globally. At the same time, the Group will review and evaluate from time to time its master plan on the U.S. automobile business. By making reference to feasibility studies and taking into account of the market environment and other commercial conditions, it will consider to set up more production bases in different markets, especially those markets that are beneficial to the development of the Group's automobile business.

In January 2010, the Group set up a subsidiary, namely HKMC Equity Investment Fund Management Co., Ltd. ("HKMC Management") in Tianjin to explore the future businesses prospects of the automobile industry in China as well as its long-term strategic development. The Group believes that HKMC Management will lay down a solid foundation for the future development of automobile markets outside the U.S. The Board believes that a huge opportunity is emerging and the Group is in a good position to grab 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. It is expected that formal production will commence in 2013.

Another major business segment of the Group is the environmental products which can improve the environment, enhance the quality of cultivated land effectively and reduce the reliance on environment-destructive products like pesticides. Owing to the increasing concern in environmental protection and food safety in the PRC, market demand for our products is also increasing, and hence, the environmental products business has a considerable growth potential. The Board believes that relevant opportunities in the PRC market will be huge and our efforts have already earned the recognition from customers and governmental departments. Accordingly, the Group will allocate more resources to this business, and our current priority is to establish scalable plants and production lines in Shandong, and try to establish a much larger production and distribution network in the PRC in the coming year.

## FUND RAISING ACTIVITIES AND USE OF PROCEEDS DURING THE YEAR

As disclosed in the Company's announcement dated 15 December 2009, the Company completed the placing ("Placing") of 200,000,000 ordinary Shares and the top-up subscription ("Top-up Subscription") of the same number of Shares on 3 December 2009 and 15 December 2009 respectively. The issue price and net price of each Placing Share (and each Top-Up Subscription Share) is HK$0.265 (which represents a discount of about 11.67% to the closing price of HK$0.30 per Share as quoted on the Stock Exchange on 1 December 2009, being the last trading day of the Shares immediately before the Placing took place) and HK$0.241 respectively. The aggregate nominal value of the Placing Shares (and the Top-up Subscription Shares) is HK$20,000,000. The Placing Shares were placed by the placing agent to not fewer than six independent allottees who are independent of, and not connected nor acting in concert with (for the purpose of the Takeovers Code) any director(s), chief executive(s) or substantial shareholder(s) of the Company or any of its subsidiaries or any of their respective associates. Pursuant to the Placing and Top-up Subscription, the Company raised net proceeds of approximately HK$48 million, of which approximately HK$15 million was utilized as general working capital of the Group (which was in line with the disclosure made in the Company's announcements) and the balance of approximately HK$33 million was not utilized as at 26 April 2010.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, the total equity of the Group amounted to approximately HK$228.04 million (31 December 2008: HK$253.05 million). The gearing ratio of the Group as at 31 December 2009 measured in terms of total liabilities divided by shareholders' equity was approximately 19.23% (31 December 2008: 14.20%). As at 31 December 2009, net current assets of the Group were approximately HK$162.10 million (31 December 2008: HK$159.95 million). The pledged bank deposits were approximately HK$0.81 million (31 December 2008: HK$0.80 million) while the cash and cash equivalents amounted to HK$114.71 million (31 December 2008: HK$178.81 million). The Group also had outstanding borrowings of approximately HK$1.89 million (31 December 2008: HK$1.90 million).

## CHARGES ON GROUP ASSETS

As at 31 December 2009, bank deposits of HK$0.81 million (31 December 2008: 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 year .

## LOAN AGREEMENT

On 29 June 2009 (U.S. time), the Company entered into a loan agreement ("Loan Agreement") with HKMI in respect of the advancement of a loan ("Loan") in the principal amount of US$9 million (equivalent to approximately HK$69.80 million at the exchange rate US$1 = HK$7.76) by the Company to HKMI. The Loan is secured against the entire ownership interest of the sole member of HKMI. Repayment is entitled on demand and the Loan does not carry any interest. The purpose of the Loan is to provide initial general working capital to HKMI. The Directors believe that the granting of the Loan will not cause significant financial impact on the Group but will pave 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

**Acquisition of America's Center for Foreign Investment, LLC ("ACFI") (formerly known as "Alabama Center for Foreign Investment, LLC")**

In March 2009, the Group announced the acquisition of 80% equity interest in ACFI. The consideration for such acquisition is HK$7.8 million and payable by the issue and allotment of consideration shares of the Company. ACFI has been designated by the U.S. Citizenship and Immigration Services ("USCIS") of the U.S. Department of Homeland Security as regional center for the State of Alabama to participate in the Immigrant Investor Pilot Program (EB-5 visa category), an employment-creation visa program that offers foreign nationals the opportunity to become permanent residents in the U.S..

As disclosed in the Company's announcement dated 6 November 2009, ACFI has received approval from the USCIS to extend its geographical boundary from the State of Alabama (the initial designation by USCIS) into four neighbouring States of the U.S., namely Georgia, Florida, Mississippi and Tennessee. With the extension granted by USCIS, ACFI has become the largest EB-5 Regional Center in the U.S.. The Board considers that such extension signified the USCIS's confidence in ACFI and would help fortify the presence of the Group in the U.S..

**Possible very Substantial Acquisition and Connected Transaction – Strategic Participation in the development of HK Motors Project in U.S.**

In September 2009, the Group entered into a legally-binding limited partnership agreement and the corresponding ancillary agreements (the "Agreements"), to refine the arrangements involving the Group's participation of HK Motors Project in the U.S.. The Agreements were approved in the special general meeting of the Company on 26 January 2010. According to the Agreements, a newly established limited partnership ("Project Company") in the U.S. will raise fund in the maximum amount of approximately US$7.8 billion (equivalent to HK$60.45 billion) by way of private placement and the minimum subscription is US$500,000. Potential investors are entitled to subscribe for shares of the Company equivalent to US$650,000 (which represents an annual yield of 6%) at the prevailing share price after 5 years. The net proceeds expected to be raised will be used in the development of HK Motors Project, including but not limited to the payment of the costs of research, design and development of the vehicles to be manufactured by the Project Company, the acquisition of all the intellectual property rights and interests of planned development and design of natural gas and multi-fuel electric-drive hybrid propulsion system etc.

Save for the above transactions, there were no material acquisitions and disposals during the financial period.

## EVENTS AFTER THE REPORTING DATE

**Establishment of HKMC Equity Investment Fund Management Co., Ltd.**

In January 2010, the Company set up (through its wholly-owned subsidiary, HKMC) a wholly-foreign owned enterprise in the PRC, namely HKMC Equity Investment Fund Management Co., Ltd., to explore, undertake, or facilitate conducting business transaction in the PRC or with PRC enterprises, foreign investors (including financial investors and entrepreneurs) and organizing and procuring investment in the business opportunities identified by the Company in the PRC.

### Strategic Participation in the Development of the Automobile Project in the U.S.

On 26 January 2010, resolutions have been passed in the special general meeting of the Company to approve the Group's participation in the development of automobile project in the US. Details of the Group's participation in the development of automobile project in the US are set out in the Company's announcement dated 29 September 2009 and the Company's circular dated 29 December 2009.

### Placing of New Shares under Existing General Mandate

As disclosed in the Company's announcements dated 8 April 2010, the Company completed the placing of 338,300,000 new shares at HK$0.35 per share. Net proceeds of approximately HK$110.49 million was raised and is intended to be utilized by the Company as to 90% for research and development in automobile-related technology and 10% as general working capital of the Group.

### Grant of Share Options

On 15 April 2010, the Group has granted share options to subscribe for 60,000,000 ordinary shares of HK$0.10 each in the Company to certain employees and individuals under the share option scheme adopted by the Company on 12 June 2003. The fair value of the share options granted were amounted to approximately HK$8 million.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

## REPORT ON CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance that ensure better transparency, protection and promotion of the interests of the shareholders of the Company and the Company as a whole and to enhance corporate value and accountability.

The Company wishes to highlight the importance of its Board in ensuring effective leadership and control of the Company and the transparency and accountability of all operations.

Throughout the year, the Company has 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 the following deviations:

**(i) Code Provision A 2.1**

Pursuant to code A 2.1 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, will concurrently act as chief executive officer ("CEO") of the Company until a suitable candidate is identified to fill the vacancy left with the termination of the office of CEO of Mr. Wang Xiaolin with effect from 23 March 2009 (as disclosed in the Company's announcement dated 23 March 2009). The Board considers the current arrangement will not impair the balance of power and authority of the Board (which comprises six executive Directors and three independent non-executive Directors) and a strong independent element in the composition of the Board can and will still be maintained.

**(ii) Code Provision E 1.2**

Pursuant to code E 1.2 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 3 June 2009 due to business matters. Mr. Hui Wing Sang Wilson, being one of the executive Directors and the delegate appointed by the Committees, attended the AGM to ensure effective communication with the shareholders of the Company.

## 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. 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 for the year ended 31 December 2009.

## REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company comprising all independent non-executive Directors has reviewed and discussed with the management regarding the consolidated financial statements of the Group for the year ended 31 December 2009.

## PUBLICATION OF ANNUAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

All the financial and other related information for the year ended 31 December 2009 required by Appendix 16 to the Listing Rules will be published on the websites of the Company http://hk1188.etnet.com.hk and the Stock Exchange in due course.

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

27 April 2010

*As at the date of this announcement, the Board comprises six executive Directors, namely Dr. Yeung Yung (Chairman and Chief Executive Officer), Mr. Liu Quan (Deputy Chairman), Mr. Hui Wing Sang, Wilson, Dr. Zhu Shengliang, Dr. Wang Chuantao and Dr. Hou Junwen and three independent non-executive Directors, namely Mr. He Bangjie, Mr. Ting Kwok Kit, Johnny and Mr. Wong Lee Hing.*