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HYBRID KINETIC GROUP LIMITED
正道集團有限公司

(incorporated in Bermuda with limited liability)

(Stock code: 1188)

ANNUAL RESULTS ANNOUNCEMENT 2011

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 2011 (the "Year") as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	**2011** **HK$'000**	2010 HK$'000
Continuing operations			
Revenue	*5*	**70,440**	28,608
Cost of sales		**(41,581)**	(13,575)
Gross profit		**28,859**	15,033
Other income		**5,395**	3,457
Distribution costs		**(8,054)**	(4,303)
General operating expenses		**(171,591)**	(267,186)
Impairment of goodwill		**(63,406)**	–
Change in fair value of other financial asset		**16,000**	–
Finance costs		**(496)**	(1,788)
Loss before income tax	*6*	**(193,293)**	(254,787)
Income tax (expense)/credit	*7*	**(292)**	70
Loss for the year from continuing operations		**(193,585)**	(254,717)
Discontinued operations			
Profit for the year from discontinued operations	*8*	**–**	1,106

	Notes	2011 HK$'000	2010 HK$'000
Loss for the year		**(193,585)**	(253,611)
Other comprehensive income			
– Exchange differences on translation of financial statements of foreign subsidiaries		**3,331**	2,969
– Exchange differences reclassified to profit or loss on disposal of foreign subsidiaries		**–**	3,824
Other comprehensive income for the year		**3,331**	6,793
Total comprehensive income for the year		**(190,254)**	(246,818)
Loss for the year attributable to:			
Owners of the Company		**(191,178)**	(251,471)
Non-controlling interests		**(2,407)**	(2,140)
		(193,585)	(253,611)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(187,871)**	(245,610)
Non-controlling interests		**(2,383)**	(1,208)
		(190,254)	(246,818)
(Loss)/Earnings per share for loss attributable to owners of the Company during the year	*10*		
From continuing and discontinued operations			
Loss per share – basic		**HK(2.61) cents**	HK(3.82) cents
Loss per share – diluted		**N/A**	N/A
From continuing operations			
Loss per share – basic		**HK(2.61) cents**	HK(3.84) cents
Loss per share – diluted		**N/A**	N/A
From discontinued operations			
Earnings per share – basic		**N/A**	HK0.02 cent
Earnings per share – diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**68,169**	73,505
Prepaid land lease payments		**1,391**	758
Available-for-sale financial asset		**–**	–
Goodwill		**34,112**	97,518
Intangible assets		**51,450**	59,698
Prepayments and deposits		**19,097**	19,410
Other financial asset		**16,000**	–
		190,219	250,889
Current assets			
Inventories		**33,934**	15,589
Trade receivables	*11*	**31,985**	27,683
Bills receivable		**–**	2,133
Prepayments, deposits and other receivables		**29,950**	43,973
Pledged bank deposits		**11,735**	3,143
Tax recoverable		**1,405**	–
Cash and cash equivalents		**53,595**	147,248
		162,604	239,769
Current liabilities			
Trade payables	*12*	**26,779**	11,214
Accruals and other payables		**39,982**	43,212
Amounts due to directors		**723**	671
Borrowings		**3,262**	13,624
Bills payable		**21,856**	2,336
Tax payable		**–**	45
		92,602	71,102
Net current assets		**70,002**	168,667
Total assets less current liabilities		**260,221**	419,556
Non-current liabilities			
Deferred tax liabilities		**6,056**	6,794
Net assets		**254,165**	412,762
EQUITY			
Equity attributable to owners of the Company			
Share capital		**731,216**	730,916
Reserves		**(506,722)**	(349,783)
		224,494	381,133
Non-controlling interests		**29,671**	31,629
Total equity		**254,165**	412,762

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. General Information

Hybrid Kinetic Group Limited is an exempted company with limited liability incorporated 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").

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

– environmental products and related business;

– natural resources business;

– development and manufacturing of lithium-ion power battery; and

– development and manufacturing of hybrid vehicles.

The financial statements for the year ended 31 December 2011 were approved for issue by the board of directors on 30 March 2012.

2. Adoption of Hong Kong Financial Reporting Standards

2.1 In the current year, the Group has applied for the first time the following new/revised Hong Kong Financial Reporting Standards ("HKFRS"), which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2011:

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments
HKAS 24 (Revised)	Related Party Disclosures

Except as explained below, the adoption of the new/revised standards and interpretations has no significant impact on the Group's financial statements.

HKFRS 3 (Amendments) – Business Combinations

As part of the improvements to HKFRSs issued in 2010, HKFRS 3 has been amended to clarify that the option to measure non-controlling interests ("NCI") at either fair value or the NCI's proportionate share in the recognised amounts of the acquiree's identifiable net assets is limited to instruments that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. Other components of NCI are measured at their acquisition date fair value unless another measurement basis is required by HKFRSs.

HKAS 24 (Revised) – Related Party Disclosures

HKAS 24 (Revised) amends the definition of related party and clarifies its meaning. This may result in changes to those parties who are identified as being related parties of the reporting entity. The Group has reassessed the identification of its related parties in accordance with the revised definition. The adoption of HKAS 24 (Revised) has no impact on the Group's reported profit or loss, total comprehensive income or equity for any period presented.

HKAS 24 (Revised) also introduces simplified disclosure requirements applicable to related party transactions where the Group and the counterparty are under the common control, joint control or significant influence of a government, government agency or similar body. These new disclosures are not relevant to the Group because the Group is not a government related entity.

2.2 New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[2]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[3]
HKFRS 10	Consolidated Financial Statements[3]
HKFRS 12	Disclosure of Interests in Other Entities[4]
HKFRS 13	Fair Value Measurement[4]
HKAS 27 (2011)	Separate Financial Statements[4]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[5]
HKFRS 9	Financial Instruments[5]

[1] *Effective for annual periods beginning on or after 1 July 2011*
[2] *Effective for annual periods beginning on or after 1 January 2012*
[3] *Effective for annual periods beginning on or after 1 July 2012*
[4] *Effective for annual periods beginning on or after 1 January 2013*
[5] *Effective for annual periods beginning on or after 1 January 2015*

Amendments to HKFRS 7 – Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 improve the disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis.

HKFRS 9 – Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements.

HKFRS 13 – Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements.

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. The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the Group's financial statements.

3. Basis of preparation

3.1 Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Listing Rules.

3.2 Basis of measurement

The financial statements have been prepared under the historical cost basis except for financial instruments at fair value through profit or loss are stated at fair values.

3.3 Functional and presentation currency

The financial statements are presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company and all values are rounded to the nearest thousand ("HK$'000") unless otherwise stated.

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.

Further details regarding the results of these discontinued operations of indoor game centres and manufacture and sales of automobile axles, which had been fully disposed of during the year ended 31 December 2010, are set out in note 8.

For the year ended 31 December 2011

	Environmental products and related business *HK$'000*	Natural resources business *HK$'000*	Lithium-ion power batteries business *HK$'000*	Hybrid vehicles business *HK$'000*	Total *HK$'000*
Revenue					
Sales to external customers	**22,125**	**–**	**48,315**	**–**	**70,440**
Segment results	**2,359**	**(19,405)**	**(54,796)**	**(39,573)**	**(111,415)**
Unallocated corporate income and expense, net					**(50,988)**
Share-based compensation					**(30,890)**
Loss before income tax					**(193,293)**
Income tax expense					**(292)**
Loss for the year					**(193,585)**
Segment assets	**70,035**	**21,442**	**198,262**	**11,700**	**301,439**
Unallocated corporate assets					**51,384**
Total assets					**352,823**

	Environmental products and related business *HK$'000*	Natural resources business *HK$'000*	Lithium-ion power batteries business *HK$'000*	Hybrid vehicles business *HK$'000*	Total *HK$'000*
Segment liabilities	**4,330**	**9,418**	**46,922**	**8,800**	**69,470**
Unallocated corporate liabilities					**19,147**
Borrowings					**3,262**
Amounts due to directors					**723**
Deferred tax liabilities					**6,056**
Total liabilities					**98,658**
Other segment information					
Interest income	**246**	**29**	**–**	**7**	**282**
Depreciation	**(1,710)**	**(693)**	**(4,510)**	**(1,342)**	**(8,255)**
Amortisation	**(3,801)**	**–**	**(4,939)**	**–**	**(8,740)**
Impairment of goodwill	**–**	**(3,864)**	**(59,542)**	**–**	**(63,406)**
Impairment of trade receivables	**–**	**–**	**(6,660)**	**–**	**(6,660)**
Change in fair value of other financial assets	**–**	**–**	**16,000**	**–**	**16,000**

For the year ended 31 December 2010

	Environmental products and related business *HK$'000*	Natural resources business *HK$'000*	Lithium-ion power batteries business *HK$'000*	Hybrid vehicles business *HK$'000*	Total *HK$'000*
Revenue					
Sales to external customers	14,641	–	13,967	–	28,608
Segment results	(1,106)	(6,279)	1,388	(166,648)	(172,645)
Unallocated corporate income and expense, net					(73,860)
Share-based compensation					(8,282)
Loss before income tax					(254,787)
Income tax credit					70
Loss for the year from continuing operations					(254,717)
Profit for the year from discontinued operations *(Note 8)*					1,106
Loss for the year					(253,611)
Segment assets	29,450	50,370	232,287	31,075	343,182
Unallocated corporate assets					147,476
Total assets					490,658

	Environmental products and related business *HK$'000*	Natural resources business *HK$'000*	Lithium-ion power batteries business *HK$'000*	Hybrid vehicles business *HK$'000*	Total *HK$'000*
Segment liabilities	2,218	8,646	15,572	–	26,436
Unallocated corporate liabilities					30,326
Borrowings					13,624
Amounts due to directors					671
Tax payable					45
Deferred tax liabilities					6,794
Total liabilities					77,896
Other segment information					
Interest income	244	2	2	–	248
Depreciation	(1,419)	(647)	(648)	(757)	(3,471)
Amortisation	(4,193)	–	(771)	–	(4,964)

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		**Non-current assets (other than financial assets)**	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
– Hong Kong (domicile)	**–**	3,803	**500**	996
– PRC	**40,455**	20,588	**133,998**	190,732
– United States ("US")	**16,415**	3,469	**20,624**	39,751
– Other locations	**13,570**	748	**–**	–
Total	**70,440**	28,608	**155,122**	231,479

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.

For the year ended 31 December 2011, revenues from transactions with one customer (2010: two customers) from the lithium-ion power batteries business segment (2010: environmental products and related business segment) amounted to 10% or more of the Group's revenue. The amount of revenue from this customer amounted to HK$16,405,000 (2010: HK$4,350,000 and HK$3,470,000 from two customers respectively).

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

5. Revenue

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

	2011	2010
	HK$'000	*HK$'000*
Sales of lithium-ion power batteries	**48,315**	13,967
Sales of bioorganic fertilizer	**22,125**	14,641
	70,440	28,608

6. Loss before income tax

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

	2011	2010
	HK$'000	*HK$'000*
Auditor's remuneration	**1,443**	1,179
Share-based compensation	**30,890**	8,282
Depreciation of property, plant and equipment	**18,049**	11,367
Amortisation of prepaid land lease payments	**33**	26
Amortisation of intangible assets	**8,707**	4,938
Impairment of goodwill	**63,406**	–
Change in fair value of other financial asset	**(16,000)**	–
Impairment of trade receivables	**6,660**	–
Research and development expenses	**24,684**	148,708
Gain on disposal of subsidiaries	**–**	(1,106)
(Gain)/Loss on disposal of property, plant and equipment	**(450)**	22
Discount on initial recognition of long-term non-interest bearing deposits	**2,439**	–
Cost of inventories recognised as expenses	**41,581**	13,575
Operating lease charges in respect of land and buildings	**7,820**	4,328
Operating lease charges in respect of mineral mining lease	**350**	40

7. Income tax expense/credit

For the years ended 31 December 2011 and 2010, 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 those years at the rates of taxation prevailing in the countries in which the Group operates. Income tax expense/(credit) for the year was as follows:

	2011	2010
	HK$'000	*HK$'000*
Current Tax – PRC		
– Tax for the year	**1,030**	45
Deferred tax – PRC	**(738)**	(115)
Income tax expense/(credit)	**292**	(70)

8. Discontinued operations

Since 2009, the Group presented the indoor game centre and manufacture and sales of automobile axles business as discontinued operations in accordance with HKFRS 5. In 2010, deregistration of the subsidiaries previously engaged in operation of indoor game centre and manufacture and sales of automobile axles business had been completed. Upon completion of deregistration, the Group has recognised a gain of HK$1,106,000 in respect of disposal of subsidiaries, which was wholly attributable to owners of the Company . For the year ended 31 December 2010, no income and expense has been generated from these discontinued operations.

9. Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2011 (2010: Nil) and the Company did not declare any interim dividend during the year (2010: Nil).

10. (Loss)/Earnings per share

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

(Loss)/Earnings

	2011	2010
	HK$'000	*HK$'000*
(Loss)/Profit attributable to the owners of the Company for the purpose of basic (loss)/earnings per share		
Continuing operations	**(191,178)**	(252,577)
Discontinued operations	**–**	1,106
Total loss from continuing and discontinued operations	**(191,178)**	(251,471)

Number of shares

	2011	2010
	Number of shares '000	*Number of shares '000*
Weighted average number of shares for the purpose of basic (loss)/earnings per share	**7,311,034**	6,590,938

Diluted (loss)/earnings per share amount for both year's continuing and discontinued operations were 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 from continuing operations attributable to owners of the Company.

11. Trade receivables

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**38,645**	27,683
Less: Provision for impairment	**(6,660)**	–
Trade receivables, net	**31,985**	27,683

The Group normally applies credit terms to its customers according to industry practice together with consideration of their creditability and repayment history. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables.

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. Movement in the provision for impairment of trade receivables is as follows:

	2011	2010
	HK$'000	*HK$'000*
At 1 January	**–**	–
Impairment loss charged to profit or loss	**6,660**	–
At 31 December	**6,660**	–

At each of the reporting date, the Group's trade receivables were individually and collectively determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment provision was recognised. The Group does not hold any collateral over these balances.

The ageing analysis of the trade receivables of the Group as at 31 December 2011, based on the invoice date, is as follows :

	2011	2010
	HK$'000	*HK$'000*
0 – 30 days	**11,240**	11,772
31 – 90 days	**7,124**	9,146
91 – 180 days	**5,385**	4,694
Over 180 days	**8,236**	2,071
	31,985	27,683

12. Trade payables

The ageing analysis of the trade payables of the Group as at 31 December 2011, based on the invoice date, is as follows :

	2011	2010
	HK$'000	*HK$'000*
0 – 180 days	**12,788**	8,145
Over 180 days	**13,991**	3,069
	26,779	11,214

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

The principal businesses of the Group during the Year included the environmental automobile and related business (comprising the automobile battery business and the environmental automobile business), the environmental products and related business, and the natural resources business.

The Group's turnover and loss attributable to shareholders for the Year amounted to HK$70.44 million (2010: HK$28.61 million) and HK$191.18 million (2010: loss of HK$251.47 million) respectively. The loss for the Year was mainly attributable to the general operating expenses and impairment of goodwill for the automobile battery business.

The general operating expenses for the Year decreased to HK$171.59 million (2010: HK$267.19 million) which consisted of the research and development expenses of HK$24.68 million (2010: HK$148.71 million), depreciation expenses of HK$12.83 million (2010: HK$4.92 million), share-based compensation of HK$30.89 million for share options granted during the Year (2010: HK$8.28 million) and salary expenses of HK$47.07 million (2010: HK$39.76 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 Year, the turnover and the loss of this business segment were approximately HK$48.32 million (2010: HK$13.97 million) and HK$54.80 million (2010: profit of HK$1.39 million) respectively. The loss was mainly attributable to the impairment of goodwill for the business amounted to HK$59.54 million.

During the Year, mounting auto incidents happened in the PRC raised quality and safety concerns over both domestic as well as foreign autos and did affect the domestic market growth. Increasing costs of materials, manufacturing overhead and labour also had an impact on the profit margin and affected the performance of this business segment.

Our automobile power battery business lacked buoyancy and weakened notably in 2011. The demand for automobile batteries for the Year was not as robust as expected. Although there were advancements in battery technology during the Year, the growth in this line of business of the Group was and would continue to be restrained until significant breakthroughs in battery architecture and technology for electric and hybrid vehicles can be made.

Environmental Automobile Business

For the Year, this business segment recorded a loss of approximately HK$39.57 million (2010: HK$166.65 million). The loss was mainly attributable to research and development expenditures of HK$20.90 million.

Dependence on imported oil exceeds 50% for both the US and China, and both countries are keen to promote the introduction and adoption in the mass market of hybrid and pure electric vehicles in order to reduce their dependence on oil through the grant of different types of purchase incentives for hybrid and electric vehicles such as tax credits, subsidies and other incentives. The overall impact of hybrid and electric vehicles on global automotive industry, however, are yet to be seen as significant. The key obstacle to revolutionize the automobile industry is the lack of suitable batteries to power hybrid and electric vehicles, which the Group has been actively in search for relentlessly.

(b) Environmental products and related business

For the Year, Beijing Century Wanyeyuan Bio-Engineering Co., Ltd*.(北京世紀萬業源生物工程有限公司)("Beijing Century", together with its subsidiaries, the "Beijing Century Group"), a 65% owned subsidiary of the Company, recorded a turnover of approximately HK$22.13 million (2010: HK$14.64 million) and a profit of approximately HK$2.36 million (2010: Loss of HK$1.11 million).

Competition in the bio-organic fertilizer and environmental products business has been intense in the PRC market. The Board had re-evaluated the latest development of this business segment and the overall business environment and concluded that it is in the interests of the Company to discontinue the environmental products and related business of the Group. The business decision was carried out after arm-length's negotiation and the signing of the share transfer agreement by the Group with a connected person of the Company on 22 December 2011 pursuant to which the Group proposed to dispose (the "Disposal") of the Beijing Century Group. The Disposal was endorsed and approved by the independent shareholders of the Company at the special general meeting of the Company held on 16 March 2012. Please refer to the Company's announcements dated 22 December 2011 and 16 March 2012 and the Company's circular dated 28 February 2012 for details. The Disposal is expected to be completed in the first half of 2012 whereupon Beijing Century would cease to be a subsidiary of the Company and the Group would no longer have any interests in the Beijing Century Group.

(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") and Nevada Gold Holdings, Inc., being the subsidiaries of the Company. For the Year, this business segment recorded no turnover (2010: NIL). This business segment recorded a loss of HK$19.41 million (2010: HK$6.28 million) which was mainly attributable to operating expenses incurred during the Year. 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 development strategy for the Group's natural resources business and its business potential had been subject to constant review and evaluation by the Group during the Year.

PROSPECTS

The global economic environment is volatile and the pace of recovery is expected to be slow. The economic downturn has great impact on the business development of the Group. With our shareholders' best interests in mind, prudence dictates us to rethink our business strategies, adapt our action plans or implementation timetable. The Group will slow-track the development of its automobile business in the US. Environmental protection is still the trend and greener vehicles like hybrid and electric automobiles are still gaining much attention. Growth will depend on the types of industry and governmental incentives put on the automobiles to encourage customers to buy. As the policies of the US government and the Chinese government towards hybrid and electric vehicles are overall positive and favourable, the Group remains optimistic about the business potential of its environmental automobile business.

There is still much room for improvement for the lithium-ion batteries currently available on the markets (including those made by the Group) as an efficient power source for hybrid or pure electric vehicles. In light of the above, we will postpone the automotive project in Alabama, the US and will reactivate the project when the new-generation hybrid and electric cars is designed or developed by the Group. The management of the Company has been actively searching for new batteries that are safe, cost effective with both high and power density and best suited for our hybrid and pure electric vehicles. We will revisit the Alabama project when suitable batteries are identified. The process of identifying suitable batteries is satisfactory as we have found a couple of potential manufacturers whose power batteries products may meet all the requisite characteristics for our hybrid and electric vehicles. Meanwhile, the Group will continue its efforts in partnering with expertise in the research and development of electric drivetrain systems.

While the Company will continue its hybrid and electric vehicle development, the Board also considers it commercially sensible for the Company to broaden its business objectives to establish new businesses or acquire businesses with recurrent revenue and profitability and which will provide synergies or is complementary to the long-term business goal of the Company in becoming a pioneer and a market leader in the automobile industry in the world.

For the natural resources business, the Group will constantly review the development strategy for, and evaluate the business potential, of this sector of business.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the total equity of the Group amounted to approximately HK$254.17 million (31 December 2010: HK$412.76 million). The gearing ratio of the Group as at 31 December 2011 measured in terms of total liabilities divided by shareholders' equity was approximately 43.95% (31 December 2010: 20.44%). As at 31 December 2011, net current assets of the Group were approximately HK$70.00 million (31 December 2010: HK$168.67 million). The pledged bank deposits were approximately HK$11.74 million (31 December 2010: HK$3.14 million) while the cash and cash equivalents amounted to HK$53.60 million (31 December 2010: HK$147.25 million). The Group also had outstanding borrowings of approximately HK$3.26 million (31 December 2010: HK$13.62 million).

PLEDGE OF ON GROUP ASSETS

As at 31 December 2011, bank deposits of HK$11.74 million and machinery of HK$26.66 million (31 December 2010: bank deposits of HK$3.14 million) were pledged to secure the general banking facilities granted to the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The income and expenditure of the Group were mainly denominated in Renminbi, Hong Kong Dollar and United States Dollar. The Group had not taken any financial instruments for hedging purpose during the Year.

MATERIAL ACQUISITIONS AND DISPOSALS

Except for the entering into of a share transfer agreement on 22 December 2011 by the Group with a connected person for the disposal by the Group of its interests in the Beijing Century Group (which is principally engaged in the research and development in the field of bio-organic fertilizer for use in organic agriculture and the environmental products and related business) which was approved by the independent shareholders of the Company at the Company's special general meeting held on 16 March 2012, there was no material acquisitions and disposals of the Group occurred during the Year.

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 Year.

REPORT ON CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to ensure better transparency and protection of the interests of the Company and its shareholders as a whole and to enhance corporate value and accountability. The Company wishes to highlight that the Board will continue to devote efforts in ensuring effective leadership and control of the Company and the transparency and accountability of all operations.

Throughout the Year, the Company had complied with the code provisions and certain recommended best practices set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except for the deviation regarding code E1.2 of the CG Code in which 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 (the "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 and the chairman of 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 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 for the Year.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company has reviewed and discussed with the management of the Company regarding the consolidated financial statements of the Group for the Year.

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

The annual report of the Company for the Year containing all the information 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

Hong Kong, 30 March 2012

As at the date of this announcement, the Board comprises nine executive directors, namely Dr Yeung Yung (Chairman), Dr Huang Chunhua (Deputy Chairman), Dr Wang Chuantao (Chief Executive Officer), Mr Liu Stephen Quan, Mr Hui Wing Sang, Wilson, Dr Zhu Shengliang, Dr Zhang Zhenwei, Mr Xu Jianguo and Mr Li Zhengshan, two non-executive directors, namely Dr Xia Tingkang, Tim and Dr Zhu Guobin and four independent non-executive directors, namely Mr He Bangjie, Mr Wong Lee Hing, Dr Song Jian and Ms Chan Fung Yi.

* *For identification purpose only*