HYBRID KINETIC GROUP LIMITED
正道集團有限公司

(incorporated in Bermuda with limited liability)

(Stock code: 1188)

ANNUAL RESULTS ANNOUNCEMENT 2012

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 2012 (the "Year") as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Continuing operations			
Revenue	5	**43,039**	48,315
Cost of sales		**(27,640)**	(36,161)
Gross profit		**15,399**	12,154
Other income		**4,998**	4,184
Distribution costs		**(6,435)**	(6,622)
General operating expenses		**(129,995)**	(157,470)
Impairment of goodwill		**(7,692)**	(63,406)
Change in fair value of other financial asset		**8,000**	16,000
Finance costs		**(2,891)**	(493)
Loss before income tax	6	**(118,616)**	(195,653)
Income tax credit/(expense)	7	**497**	(274)
Loss for the year from continuing operations		**(118,119)**	(195,927)
Discontinued operations			
Profit for the year from discontinued operations	8	**9,282**	2,342

	Notes	2012 HK$'000	2011 HK$'000
Loss for the year		**(108,837)**	(193,585)
Other comprehensive income			
– Exchange differences on translation of financial statements of foreign subsidiaries		**759**	3,331
– Exchange differences reclassified to profit or loss on disposal of foreign subsidiaries		**(5,415)**	–
Other comprehensive income for the year		**(4,656)**	3,331
Total comprehensive income for the year		**(113,493)**	(190,254)
Loss for the year attributable to:			
Owners of the Company		**(103,414)**	(191,178)
Non-controlling interests		**(5,423)**	(2,407)
		(108,837)	(193,585)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(108,070)**	(187,871)
Non-controlling interests		**(5,423)**	(2,383)
		(113,493)	(190,254)
(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(1.19) cents**	HK(2.61) cents
Loss per share – diluted		**N/A**	N/A
From continuing operations			
Loss per share – basic		**HK(1.29) cents**	HK(2.64) cents
Loss per share – diluted		**N/A**	N/A
From discontinued operations			
Earnings per share – basic		**HK0.10 cent**	HK0.03 cent
Earnings per share – diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**50,546**	68,169
Prepaid land lease payments		**–**	1,391
Available-for-sale financial asset		**–**	–
Goodwill		**26,420**	34,112
Intangible assets		**32,733**	51,450
Prepayments and deposits		**20,605**	19,097
Other financial asset		**24,000**	16,000
		154,304	190,219
Current assets			
Inventories		**37,853**	33,934
Trade receivables	*11*	**15,359**	31,985
Prepayments, deposits and other receivables		**135,739**	29,950
Tax recoverable		**–**	1,405
Pledged bank deposits		**807**	11,735
Cash and cash equivalents		**21,006**	53,595
		210,764	162,604
Current liabilities			
Trade payables	*12*	**28,932**	26,779
Accruals and other payables		**41,499**	39,982
Amounts due to directors		**–**	723
Borrowings		**2,680**	3,262
Bills payable		**22,439**	21,856
Tax payable		**680**	–
		96,230	92,602
Net current assets		**114,534**	70,002
Total assets less current liabilities		**268,838**	260,221
Non-current liabilities			
Deferred tax liabilities		**4,669**	6,056
Net assets		**264,169**	254,165
EQUITY			
Equity attributable to owners of the Company			
Share capital		**877,216**	731,216
Reserves		**(611,256)**	(506,722)
		265,960	224,494
Non-controlling interests		**(1,791)**	29,671
Total equity		**264,169**	254,165

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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 Group were:

– natural resources business;

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

– development and manufacturing of hybrid vehicles.

On 22 December 2011, the Group entered into an agreement with a non-controlling shareholder of its subsidiary, Beijing Century Wanyeyuan Bio-Engineering Co., Limited ("Beijing Century") to a disposal of the Group's 65% equity interests in Beijing Century and its subsidiaries (collectively "Beijing Century Group"), which principally engaged in environmental products and related business. The disposal of Beijing Century Group was completed on 17 March 2012. Environmental products and related business 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, 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 2012 were approved for issue by the board of directors on 28 March 2013.

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs")

2.1 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 Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2012:

Amendments to HKFRS 7	Disclosure – Transfer of Financial Assets Instruments

The adoption of the new/revised standards and interpretations has no significant impact on the Group's financial statements.

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.

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle[2]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 27 (2011)	Separate Financial Statements[2]

[1] *Effective for annual periods beginning on or after 1 July 2012*
[2] *Effective for annual periods beginning on or after 1 January 2013*
[3] *Effective for annual periods beginning on or after 1 January 2014*
[4] *Effective for annual periods beginning on or after 1 January 2015*

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 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) natural resources business;

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

(iii) development and manufacturing of hybrid vehicles.

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

As mentioned in note 1, the Group has discontinued its environmental products and related business. Further details regarding the results of discontinued operations of environmental products and related business, which had been fully disposed of during the year ended 31 December 2012, are set out in note 8.

For the year ended 31 December 2012

	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	–	43,039	–	43,039
Segment results	(18,402)	(8,668)	(19,246)	(46,316)
Unallocated corporate income and expense, net				(68,470)
Share-based compensation				(3,830)
Loss before income tax				(118,616)
Income tax credit				497
Loss for the year from continuing operations				(118,119)
Profit for the year from discontinued operations *(Note 8)*				9,282
Loss for the year				(108,837)
Segment assets	29,714	197,892	17,214	244,820
Unallocated corporate assets				120,248
Total assets				365,068
Segment liabilities	9,704	52,258	9,144	71,106
Unallocated corporate liabilities				22,444
Borrowings				2,680
Deferred tax liabilities				4,669
Total liabilities				100,899
<u>Other segment information</u>				
Interest income	51	190	4	245
Depreciation	(486)	(5,438)	(1,347)	(7,271)
Amortisation	–	(3,700)	(2)	(3,702)
Impairment of goodwill	–	(7,692)	–	(7,692)
Impairment of trade receivables	–	(3,897)	–	(3,897)
Impairment of intangible assets	–	(5,575)	–	(5,575)
Change in fair value of other financial asset	–	8,000	–	8,000
Additions to non-current assets (excluding financial instruments)	–	1,846	11	1,857

For the year ended 31 December 2011

	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	–	48,315	–	48,315
Segment results	(19,405)	(54,796)	(39,573)	(113,774)
Unallocated corporate income and expense, net				(50,989)
Share-based compensation				(30,890)
Loss before income tax				(195,653)
Income tax expense				(274)
Loss for the year from continuing operations				(195,927)
Profit for the year from discontinued operations				2,342
Loss for the year				(193,585)
Segment assets	21,442	198,262	11,700	231,404
Unallocated corporate assets				121,419
Total assets				352,823
Segment liabilities	9,418	46,922	8,800	65,140
Unallocated corporate liabilities				23,477
Borrowings				3,262
Amounts due to directors				723
Deferred tax liabilities				6,056
Total liabilities				98,658
Other segment information				
Interest income	29	–	7	36
Depreciation	(693)	(4,510)	(1,342)	(6,545)
Amortisation	–	(4,939)	–	(4,939)
Impairment of goodwill	(3,864)	(59,542)	–	(63,406)
Impairment of trade receivables	–	(6,660)	–	(6,660)
Change in fair value of other financial asset	–	16,000	–	16,000
Additions to non-current assets (excluding financial instruments)	–	16,425	215	16,640

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)	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
– Hong Kong (domicile)	**74**	–	**128**	500
– the PRC	**16,505**	40,455	**96,715**	133,998
– United States ("US")	**5,055**	16,415	**12,856**	20,624
– Korea	**13,668**	4,770	**–**	–
– Other locations	**7,766**	8,800	**–**	–
Total	**43,068**	70,440	**109,699**	155,122

The geographical location of customers is based on the location of customers. 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 assets.

For the year ended 31 December 2012, revenue from transactions with three customers (2011: one customer) from the lithium-ion power batteries business segment (2011: Lithium-ion power batteries business segment) amounted to 10% or more of the Group's revenue. The amount of revenue from these three customers amounted to HK$13,668,000, HK$6,508,000 and HK$4,421,000 respectively (2011: HK$16,405,000 from one customer).

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:

	Continuing operations		Discontinued operations		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Sales of lithium-ion power batteries	**43,039**	48,315	**–**	–	**43,039**	48,315
Sales of bioorganic fertilizer	**–**	–	**29**	22,125	**29**	22,125
	43,039	48,315	**29**	22,125	**43,068**	70,440

6. Loss before income tax

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

	Continuing operations		Discontinued operations		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Auditor's remuneration	**1,248**	1,431	**5**	12	**1,253**	1,443
Share-based compensation	**3,830**	30,890	**–**	–	**3,830**	30,890
Depreciation of property, plant and equipment	**15,335**	16,338	**384**	1,711	**15,719**	18,049
Amortisation of prepaid land lease payments	**–**	–	**11**	33	**11**	33
Amortisation of intangible assets	**4,844**	4,939	**942**	3,768	**5,786**	8,707
Impairment of goodwill	**7,692**	63,406	**–**	–	**7,692**	63,406
Impairment of intangible assets	**5,575**	–	**–**	–	**5,575**	–
Change in fair value of other financial asset	**(8,000)**	(16,000)	**–**	–	**(8,000)**	(16,000)
Impairment of trade receivables	**3,897**	6,660	**–**	–	**3,897**	6,660
Research and development expenses	**9,084**	24,651	**–**	33	**9,084**	24,684
Gain on disposal of subsidiaries	**–**	–	**(12,164)**	–	**(12,164)**	–
Gain on disposal of property, plant and equipment	**(165)**	(450)	**–**	–	**(165)**	(450)
Discount on initial recognition of long-term non-interest bearing deposits	**5,220**	2,439	**–**	–	**5,220**	2,439
Cost of inventories recognised as expenses	**27,640**	36,161	**11**	5,420	**27,651**	41,581
Operating lease charges in respect of land and buildings	**10,435**	6,934	**222**	886	**10,657**	7,820
Operating lease charges in respect of mineral mining lease	**466**	350	**–**	–	**466**	350

7. Income tax credit/expense

For the years ended 31 December 2012 and 2011, 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 (credit)/expense for the year was as follows:

	Continuing operations		Discontinued operations		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Current tax – PRC						
– Tax for the year	**890**	1,012	**1**	18	**891**	1,030
Deferred tax – PRC	**(1,387)**	(738)	**–**	–	**(1,387)**	(738)
Income tax (credit)/expense	**(497)**	274	**1**	18	**(496)**	292

8. Discontinued operations

As mention in note 1, on 22 December 2011, the Group entered into an agreement to dispose of the Group's 65% equity interests in Beijing Century Group, which principally engaged in environmental products and related business. The disposal of Beijing Century Group was completed on 17 March 2012 and the Group had discontinued its operations in respect of environmental products and related business in accordance with HKFRS 5. The Group has also re-presented the disclosure for comparatives presented in the financial statements so that the disclosures related to these operations that have been discontinued by the reporting date for the latest period presented. For the year ended 31 December 2012, the profits on these discontinued operations amounted to HK$9,282,000 (2011: HK$2,342,000). Upon completion of disposal of Beijing Century Group, the Group has recognised a gain of HK$12,164,000 (2011: Nil) in respect of disposal of subsidiaries.

An analysis of the results and cash flows of the discontinued operations for the year is as follows:

	2012	2011
	HK$'000	*HK$'000*
Revenue	**29**	22,125
Cost of sales	**(11)**	(5,420)
Gross profit	**18**	16,705
Other income	**2**	1,211
Distribution costs	**(76)**	(1,432)
General operating expenses	**(2,825)**	(14,121)
Finance costs	**–**	(3)
(Loss)/profit before income tax	**(2,881)**	2,360
Gain on disposal of subsidiaries	**12,164**	–
Income tax expense	**(1)**	(18)
Profit for the year from discontinued operations	**9,282**	2,342
Cash flows from discontinued operations		
Net cash flows from/(used in) operating activities	**174**	(2,628)
Net cash flows used in investing activities	**–**	(743)
Net cash flows used in financing activities	**–**	(3)
Net cash inflow/(outflow)	**174**	(3,374)

9. Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2012 (2011: Nil) and the Company did not declare any interim dividend during the year (2011: Nil).

10. (Loss)/Earnings per share

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

(Loss)/Earnings

	2012	2011
	HK$'000	*HK$'000*
(Loss)/Profit attributable to the owners of the Company for the purpose of basic (loss)/earnings per share		
Continuing operations	**(112,696)**	(193,520)
Discontinued operations	**9,282**	2,342
Total loss from continuing and discontinued operations	**(103,414)**	(191,178)

Number of shares

	2012	2011
	Number of shares'000	*Number of shares'000*
Weighted average number of shares for the purpose of basic (loss)/earnings per share	**8,712,160**	7,311,034

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

	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**25,965**	38,645
Less: Provision for impairment	**(10,606)**	(6,660)
Trade receivables, net	**15,359**	31,985

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:

	2012	2011
	HK$'000	*HK$'000*
At 1 January	**6,660**	–
Impairment loss charged to profit or loss	**3,897**	6,660
Exchange realignment	**49**	–
At 31 December	**10,606**	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 2012, based on the invoice date, is as follows:

	2012	2011
	HK$'000	*HK$'000*
0 – 30 days	**5,762**	11,240
31 – 90 days	**666**	7,124
91 – 180 days	**4,283**	5,385
Over 180 days	**4,648**	8,236
At 31 December	**15,359**	31,985

12. Trade payables

The ageing analysis of the trade payables of the Group as at 31 December 2012, based on the invoice date, is as follows:

	2012	2011
	HK$'000	*HK$'000*
0 – 180 days	**9,810**	12,788
Over 180 days	**19,122**	13,991
	28,932	26,779

MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER INFORMATION

BUSINESS OVERVIEW

Overview

The principal business 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 from continuing operations for the Year amounted to HK$43.04 million (2011: HK$48.32 million) and HK$112.70 million (2011: HK$193.52 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 from continuing operations for the Year decreased to HK$129.99 million (2011: HK$157.47 million) which consisted of the research and development expenses of HK$9.08 million (2011: HK$24.68 million), depreciation expenses of HK$15.35 million (2011: HK$16.38 million), share-based compensation of HK$3.83 million share options (2011: HK$30.89 million) and employee benefit expenses of HK$42.38 million (2011: HK$40.53 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 segment were approximately HK$43.04 million and HK$8.67 million respectively whereas in 2011, the turnover was HK$48.32 million and the loss was HK$54.80 million respectively. The loss for the Year was mainly attributable to the impairment of goodwill for the business amounted to HK$7.69 million.

During the Year, mounting auto incidents in the PRC raised quality and safety concerns over both the 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.

The prevailing market condition has caused the Group's automobile battery business (operated through GBS) to lack its buoyance. As the Board envisages that the growth in this line of business of the Group would continue to be restrained until significant and proven breakthrough in battery architecture and technology for electric and hybrid vehicles can be made, the Group has slowed down the pace of business expansion of GBS. The Group will constantly examine and adjust the business strategies for this line of business.

Having said that, PRC remains an important area for investment and growth for the Group. The automobile components sector (in particular, new energy automobile components) in the PRC presents a wealth of attractive investment opportunities and is likely to flourish in the future. The Group has been in constant discussions with local PRC authorities, entities and entrepreneurs with a view to exploring the business prospects of this sector in the PRC and the form of participation or co-operation and means of financing that will best serve the interests of the Company and its shareholders.

On 23 November 2012, the Company entered into a cooperative agreement with Jiangsu NewHeadLine Development Group Co., Ltd.*（江蘇新海連發展集團有限公司）("**Jiangsu NewHeadLine**"), LianYunGang TianYang Automobile Co., Ltd.*（連雲港天洋汽車有限公司）("**LianYunGang TianYang**") and Lianyungang Economic and Technological Development Zone*（連雲港經濟技術開發區）("**LETDZ**") in respect of the proposed establishment of a project company (the "**Project Company**") to be based in LETDZ, the Jiangsu Province, the PRC with an operating period of 20 years for the promotion and development of a new energy project (which involves the construction of production facilities for the production of key new energy automobile components including battery materials, super batteries, electric control systems and electrolyte) (the "**New Energy Project**"). The total investment amount and the total registered capital of the Project Company is US$180,000,000 (equivalent to approximately HK$1,404,000,000) and US$60,000,000 (equivalent to approximately HK$468,000,000) respectively. The Group would invest in, and contribute 35% of the total registered capital of the Project Company in the amount of US$21 million (equivalent to approximately HK$163,800,000), representing the equity interests to be owned by the Group in the Project Company upon its establishment and following such agreed contribution.

Depending on the progress of implementation and if the business to be carried on by the Project Company could go as planned successfully and given the high potential of the PRC auto market, the parties to the cooperative agreement envisage that the total investment amount of the New Energy Project may reach RMB10,000,000,000 (equivalent to approximately HK$12,444,000,000). Such investment amount is an initial capital budget estimated by LETDZ after consultation with the other parties to the cooperative agreement for the execution of the New Energy Project within the entire economic zone (including but not limited to land acquisitions and capital expenditure) with a balanced approach of investment and development towards five several categories of products associated with, or for use in, the manufacture of new energy motors battery. These categories of products include (i) battery materials, (ii) automobile batteries, (iii) electric machinery, (iv) electric-control system and (v) electrolytes with the capital amount of up to RMB2,000,000,000 (equivalent to approximately HK$2,488,800,000) allocated for each of the products. With this initial budget, LETDZ and the Project Company will work together and use their best efforts in coordinating such external sources of funding (including but not limit to bank borrowings) that may be available for the optimal implementation of the New Energy Project within the economic zone.

The initial business plan of the Project Company is to commence the construction of its production facilities in 2013 and trial or initial production in early 2015.

Environmental Automobile Business

The Group engages in the research and development of environment automobile through its U.S. subsidiary, Hybrid Kinetic Motors Corp. For the Year, this business segment recorded a loss of approximately HK$19.25 million (2011: HK$39.57 million). The loss was mainly attributable by research and development expenses of HK$5.44 million.

Notwithstanding the outlook for the hybrids and electric cars did not show much improvement in the Year as compared to last year, the Board believes new energy automobiles are still the major driver of the environmental automobile industry and will seek to gain strategic high ground in it.

(b) Environmental products and related business

On 22 December 2011, the Group entered into an agreement with a non-controlling shareholder of its subsidiary, 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”, which was principally engaged in environmental products and related business.) for the disposal of the Group’s 65% equity interests in Beijing Century. The Group ceased this business operation with effect from March 2012.

(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 (2011: nil), and a loss of HK$18.40 million (2011: HK$19.41 million) which was mainly attributable to operating expenses incurred during the Year. A subsidiary of Jilin Shengshi had conducted extensive survey on certain copper, aluminum and zinc mines located in the Jilin Provinces, the PRC. The outcome of the survey revealed that these mines were not economical feasible for further exploration, and the subsidiary decided not to renew the exploration licenses it held upon their expiration.

Jilin Shengshi entered into a management agreement with Garze Prefecture Rongxin Mining Co., Ltd. (“Rongxin Mining Co.”) and its shareholders in 2008 for the provision of management services in respect of the business operated by, and general administrative affairs of, Rongxin Mining Co., and conducting survey to explore the development potential of its gold mine located at Sichuan Province, the PRC. In December 2009, Rongxin Mining Co. obtained the exploration right of the gold mine. After conducting certain survey and exploration, the Board is of the preliminary views that the gold mine may have rich gold reserve and is worth pursuing further for its exploration potential. In March 2012, the Group extended the management agreement for another three years and paid an additional security deposit of RMB9 million. The security deposit is unsecured, interest free and refundable to Jilin Shengshi in accordance with the management agreement (totaling RMB20 million as at 31 December 2012).

PROSPECTS

In 2012, the global economic environment was more volatile and many expectations about the future had become uncertain. Most of the developed economies are having a structural challenge, high unemployment, high government debts, high inflation and it is affecting the growth in every sector of business everywhere. To meet the tough challenges ahead, the Group is constantly examining and rethinking its existing development strategy and may make such adjustments as the Company considers appropriate or expedient to maintain a competitive position under the fluctuation period. For its automobile battery business, the Group will continue to enhance and enforce quality control and product safety measures for the production of its power battery and related products so as to meet up with international standards. One of the highly advanced new battery materials which the Group has identified and considers it to be instrumental to the development of new energy motors is single layer grapheme（單層石墨烯）, which is a very light and ideal material for super batteries.

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

Notwithstanding the uncertainty in the global economic environment, the Directors remain prudently optimistic regarding its environmental automobile and related business. The Directors believe that, if the New Energy Project as disclosed above could be successfully implemented, it would bring tide of economic and social benefits to LETDZ and establish an impressive, world-class production base (both in terms of scale and technology advancement) in LETDZ for the development of highly advanced new battery materials instrumental to new energy motors, and pave the way for a sound and repaid development of new energy automobiles and automotive components, both in the PRC and globally on the one hand. On the other hand and with the Group's participation in the development of the Project Company, this would allow the Group to apply, with an emphasis on environmental stewardship and innovation, the latest new energy technology in the production of key automobile components for the manufacture of customer-oriented, affordable, new energy automobiles that are tailored for consumer use, and move the Group a big step forward in the development of its automobile business.

As regards the natural resources business, while the Group will try optimize the development potential of its natural resources business (as with other lines of business engaged by the Group), the Group will constantly examine its business strategy and will not preclude the possibility of changing its business plan for this line of business (including but not limited to a reallocation of the Group's resources) so as to best align with the overall and long-term goals of the Group for the development of its other lines of business or ventures with better prospects or higher growth potential.

LIQUIDITY AND FINANCIAL RESOURCES

As of 31 December 2012, the total equity of the Group amounted to approximately HK$264.17 million (31 December 2011: HK$254.17 million). The gearing ratio of the Group as of 31 December 2012 measured in terms of total liabilities divided by shareholders' equity was approximately 37.94% (31 December 2011: 43.95%). As of 31 December 2012, net current assets of the Group were approximately HK$114.53 million (31 December 2011: 70.00 million). The pledged bank deposits were approximately HK$0.81 million (31 December 2011: HK$11.74 million) while the cash and cash equivalents amounted to HK$21.01 million (31 December 2011: HK$53.60 million). The Group also had outstanding borrowings of approximately HK$2.68 million (31 December 2011: HK$3.26 million).

PLEDGE OF THE GROUP ASSETS

As of 31 December 2012, the Group had pledged its bank deposits of HK$0.81 million (31 December 2011: HK$11.74 million) and also machineries with carrying amount of HK$23.9 million (2011: HK$26.7 million) to the Group's bankers to secure general banking facilities granted to the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

During the Year, almost all of the income and expenditure of the Group were denominated in Renminbi, Hong Kong dollar and United States dollars, and the Group had no significant exposure to foreign exchange fluctuations and thereof, had not taken any financial instruments for hedging purpose.

MATERIAL ACQUISITION OR DISPOSAL

Except for (i) the disposal of the Beijing Century Group completed in March 2012; and (ii) the proposed investment of the Group in the Project Company to participate in the promotion and development of the New Energy Project as contemplated under the cooperative agreement entered into by the Group on 23 November 2012 (which transaction, if materialized, would allow the Group to gain control in the Project Company and make it accounted for as the Company's subsidiary) as disclosed above, there was no material acquisition or disposal of the Group 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.

OTHER INFORMATION AND EVENTS AFTER THE REPORTING PERIOD

As announced by the Company on 26 March 2013, the subscription by Sun East LLC (the substantial shareholder of the Company) and two independent subscribers of an aggregate of 1,638,000,000 new ordinary shares (the "**Subscription Shares**") of HK$0.10 each in the Company at the subscription price of HK$0.10 per Subscription Shares pursuant to three several subscription agreements entered into with the Company on 23 November 2012 (as, if applicable, supplemented) were completed. The net proceeds raised from the subscription of the Subscription Shares amounted to approximately US$20,900,000 (equivalent to approximately HK$163,000,000) which would be applied by the Company for funding the capital commitment agreed to be made by the Group towards the establishment of the Project Company as disclosed above.

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 adopted and complied with the code provisions (the "Code Provisions") and certain recommended best practices set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except for the following deviations:

Code Provision E.1.2

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 their absence, he should invite another member of the Committee or failing this his duly appointed delegate, to attend and be available to answer questions at the annual general meeting. The chairman of the Committees could not attend the annual general meeting (the "AGM") of the Company held on 23 May 2012 due to business matters. Mr. Hui Wing Sang Wilson, being one of the executive Directors and the delegate appointed by the chairman of the Committees, attended the AGM to ensure effective communication with the shareholders of the Company.

Code Provision A.2.7

The chairman of the Company should at least annually hold meetings with the non-executive Directors (including independent non-executive Directors) without the executive Directors' present. During the Year and due to overseas or other engagements of the non-executive or independent non-executive Directors, the chairman of the Company was only able to meet with one of the independent non-executive Directors. Nevertheless, the chairman of the Company has encouraged and provided channels for each of the non-executive Directors to communicate with him by whatever means and at any time should he so wishes to exchange views on, and to ensure efficient and effective communication relating to, any aspects relating to the Company and any affairs of the Group.

Further details of the Company's corporate governance practices will be disclosed in the Corporate Governance Report contained in the annual report of the Company for the Year.

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. All Directors, after specific enquiries by the Company, confirmed to the Company their compliance with the required standards set out in the Model Code during 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.

SCOPE OF WORK OF BDO LIMITED ON THIS PRELIMINARY ANNOUNCEMENT

The figures in respect of the preliminary announcement of the Group's results for the Year ended 31 December 2012 have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on this preliminary announcement.

* *For identification purpose only*

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, 28 March 2013

As at the date of this announcement, the Board comprises eleven executive Directors, namely Dr Yeung Yung (Chairman), Dr Huang Chunhua (Deputy Chairman), Dr Jang Bor Zeng Bohr (Deputy Chairman), Dr Wang Chuantao (Chief Executive Officer), Mr Liu Stepehen Quan, Mr Hui Wing Sang, Wilson, Dr Zhamu Aruna, Dr Zhu Shengliang, Dr Zhang Zhenwei, Mr Xu Jianguo and Mr Li Zhengshan, one non-executive director, namely Dr Xia Tingkang, Tim and six independent non-executive directors, namely Mr Wong Lee Hing, Dr Song Jian, Dr Zhu Guobin, Mr Cheng Tat Wa, Dr Li Jianyong and Mr Chan Sin Hang.