HYBRID KINETIC GROUP LIMITED
正道集團有限公司

(incorporated in Bermuda with limited liability)

(Stock code: 1188)

ANNUAL RESULTS ANNOUNCEMENT 2013

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 2013 (the "Year") as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	**2013** *HK$'000*	2012 *HK$'000*
Continuing operations			
Revenue	*5*	**52,183**	43,039
Cost of sales		**(33,665)**	(27,640)
Gross profit		**18,518**	15,399
Other income		**6,761**	4,998
Distribution costs		**(3,400)**	(6,435)
General operating expenses		**(189,858)**	(129,995)
Impairment of goodwill		**(15,791)**	(7,692)
Change in fair value of other financial asset		**–**	8,000
Finance costs		**(2,301)**	(2,891)
Loss before income tax	*6*	**(186,071)**	(118,616)
Income tax (expense)/credit	*7*	**(355)**	497
Loss for the year from continuing operations		**(186,426)**	(118,119)
Discontinued operations			
Profit for the year from discontinued operations		**–**	9,282

	Notes	2013 HK$'000	2012 HK$'000
Loss for the year		**(186,426)**	(108,837)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements of foreign subsidiaries		**1,493**	759
– Exchange differences reclassified to profit or loss on disposal of foreign subsidiaries		**–**	(5,415)
Other comprehensive income for the year		**1,493**	(4,656)
Total comprehensive income for the year		**(184,933)**	(113,493)
Loss for the year attributable to:			
Owners of the Company		**(179,086)**	(103,414)
Non-controlling interests		**(7,340)**	(5,423)
		(186,426)	(108,837)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(177,593)**	(108,070)
Non-controlling interests		**(7,340)**	(5,423)
		(184,933)	(113,493)
(Loss)/Earnings per share for loss attributable to owners of the Company during the year	*9*		
From continuing and discontinued operations			
Loss per share – basic		**HK(1.79) cents**	HK(1.19) cents
Loss per share – diluted		**N/A**	N/A
From continuing operations			
Loss per share – basic		**HK(1.79) cents**	HK(1.29) cents
Loss per share – diluted		**N/A**	N/A
From discontinued operations			
Earnings per share – basic		**N/A**	HK0.10 cent
Earnings per share – diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**40,781**	50,546
Prepaid land lease payments		**–**	–
Goodwill		**11,900**	26,420
Intangible assets		**26,837**	32,733
Prepayments and deposits		**–**	20,605
Other investment		**9,815**	–
Other financial asset		**–**	24,000
		89,333	154,304
Current assets			
Inventories		**44,164**	37,853
Trade receivables	*10*	**28,392**	15,359
Bills receivable		**989**	–
Prepayments, deposits and other receivables		**337,438**	135,739
Amount due from a non-controlling shareholder of a subsidiary		**54,239**	–
Other financial asset		**24,000**	–
Derivative financial asset		**13,260**	–
Short-term investment		**8,876**	–
Pledged bank deposits		**807**	807
Cash and cash equivalents		**147,996**	21,006
		660,161	210,764
Current liabilities			
Trade payables	*11*	**32,349**	28,932
Accruals and other payables		**49,611**	41,499
Borrowings		**7,815**	2,680
Bills payable		**12,680**	22,439
Tax payable		**1,747**	680
		104,202	96,230
Net current assets		**555,959**	114,534
Total assets less current liabilities		**645,292**	268,838
Non-current liabilities			
Deferred tax liabilities		**4,005**	4,669
Net assets		**641,287**	264,169
EQUITY			
Equity attributable to owners of the Company			
Share capital		**1,041,116**	877,216
Reserves		**(695,075)**	(611,256)
		346,041	265,960
Non-controlling interests		**295,246**	(1,791)
Total equity		**641,287**	264,169

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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, Wanchai, 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;
- development and manufacturing of hybrid vehicles; and
- development of advanced batteries materials.

The financial statements for the year ended 31 December 2013 were approved for issue by the board of directors on 31 March 2014.

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 2013:

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle
HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 27 (2011)	Separate Financial Statements

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

HKFRSs (Amendments) – Annual Improvements 2010-2012 Cycle

The Basis of Conclusions for HKFRS 13 Fair Value Measurement was amended to clarify that short-term receivables and payables with no stated interest rate can be measured at their invoice amounts without discounting, if the effect of discounting is immaterial. This is consistent with the Group's existing accounting policy.

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 and those that may not. Tax on items of other comprehensive income is allocated and disclosed on the same basis.

The Group has adopted the amendments retrospectively for the financial year ended 31 December 2013. Items of other comprehensive income that may and may not be reclassified to profit and loss in the future have been presented separately in the consolidated statement of comprehensive income. The comparative information has been restated to comply with the amendments. As the amendments affect presentation only, there are no effects on the Group's financial position or performance.

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 accounting requirements in the existing HKAS 27 (2008) on other consolidation related matters are carried forward unchanged. As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption of the standard does not change the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

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.

As the new standard affects only disclosure, there is no effect on the Group's financial position and performance.

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. HKFRS 13 is applied prospectively.

The standard requires additional disclosures about fair value measurements. Comparative disclosures have not been presented in accordance with the transitional provisions of the standard.

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 HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
HKFRS 9	Financial Instruments
Amendments to HKFRS 9, HKFRS 7 and HKAS 39	Hedge Accounting
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle[3]
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle[2]

[1] *Effective for annual periods beginning on or after 1 January 2014*

[2] *Effective for annual periods beginning on or after 1 July 2014*

[3] *Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014*

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.

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 consolidated 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

3.2 Basis of measurement

The consolidated 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;

(iii) development and manufacturing of hybrid vehicles; and

(iv) development of advanced batteries materials.

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

For the year ended 31 December 2013

	Development of advanced batteries materials *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	–	–	52,183	–	52,183
Segment results	(4,853)	(9,823)	(16,144)	(14,092)	(44,912)
Unallocated corporate income and expense, net					(46,883)
Share-based compensation					(94,276)
Loss before income tax					(186,071)
Income tax expense					(355)
Loss for the year					(186,426)
Segment assets	355,417	20,285	185,705	3,949	565,356
Amount due from a non-controlling shareholder of a subsidiary					54,239
Unallocated corporate assets					129,899
Total assets					749,494
Segment liabilities	210	9,234	49,279	7,888	66,611
Unallocated corporate liabilities					28,029
Borrowings					7,815
Tax payable					1,747
Deferred tax liabilities					4,005
Total liabilities					108,207
Other segment information					
Interest income	53	–	914	3	970
Depreciation	(19)	(5)	(5,420)	(1,334)	(6,778)
Amortisation	–	–	(4,453)	–	(4,453)
Impairment of property, plant and equipment	–	–	–	(3,979)	(3,979)
Impairment of goodwill	–	–	(15,791)	–	(15,791)
Impairment of intangible assets	–	–	–	(1,446)	(1,446)
Provision for inventories	–	–	(1,847)	–	(1,847)
Additions to non-current assets (excluding financial instruments)	751	–	1,378	–	2,129

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				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
Other segment information				
Interest income	51	190	4	245
Depreciation	(486)	(5,438)	(1,347)	(7,271)
Amortisation	–	(3,700)	–	(3,700)
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

The Group's revenue 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)	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
– Hong Kong (domicile)	**–**	74	**93**	128
– People's Republic of China (the "PRC")	**17,489**	16,505	**73,659**	96,715
– United States ("US")	**11,536**	5,055	**5,766**	12,856
– Germany	**5,959**	1,483	**–**	–
– Korea	**12,543**	13,668	**–**	–
– Other locations	**4,656**	6,283	**–**	–
Total	**52,183**	43,068	**79,518**	109,699

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 2013, revenue from transactions with these three customers (2012: three customers) from the lithium-ion power batteries business segment (2012: lithium-ion power batteries business segment) amounted to 10% or more of the Group's revenue are as follows:

	2013	2012
	HK$'000	*HK$'000*
Customer A	**12,543**	13,668
Customer B *(note 1)*	**–**	6,508
Customer C	**11,536**	4,421
Customer D *(note 2)*	**6,555**	1,483

Notes:

1. No revenue is generated from this customer for the year ended 31 December 2013.

2. Revenue from this customer was less than 10% of the Group's revenue for the year ended 31 December 2012.

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	
	2013	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Sales of lithium-ion power batteries	**52,183**	43,039	**–**	–	**52,183**	43,039
Sales of bioorganic fertilizer	**–**	–	**–**	29	**–**	29
	52,183	43,039	**–**	29	**52,183**	43,068

6. Loss before income tax

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

	Continuing operations		Discontinued operations		Consolidated	
	2013	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Auditor's remuneration	**1,251**	1,248	**–**	5	**1,251**	1,253
Share-based compensation	**94,276**	3,830	**–**	–	**94,276**	3,830
Depreciation of property, plant and equipment	**11,051**	15,335	**–**	384	**11,051**	15,719
Amortisation of prepaid land lease payments	**–**	–	**–**	11	**–**	11
Amortisation of intangible assets	**4,453**	4,844	**–**	942	**4,453**	5,786
Impairment of property, plant and equipment	**4,235**	–	**–**	–	**4,235**	–
Impairment of goodwill	**15,791**	7,692	**–**	–	**15,791**	7,692
Impairment of intangible assets	**1,446**	5,575	**–**	–	**1,446**	5,575
Change in fair value of other financial asset	**–**	(8,000)	**–**	–	**–**	(8,000)
Change in fair value of derivative financial asset	**235**	–	**–**	–	**235**	–
Impairment of trade receivables	**1,244**	3,897	**–**	–	**1,244**	3,897
Research and development expenses	**1,580**	9,084	**–**	–	**1,580**	9,084
Gain on disposal of subsidiaries	**(859)**	–	**–**	(12,164)	**(859)**	(12,164)
Gain on disposal of property, plant and equipment	**(369)**	(165)	**–**	–	**(369)**	(165)
Discount on initial recognition of long-term non-interest bearing deposits	**–**	5,220	**–**	–	**–**	5,220
Cost of inventories recognised as expenses, including	**33,665**	27,640	**–**	11	**33,665**	27,651
– Provision for inventories	**1,847**	–	**–**	–	**1,847**	–
Operating lease charges in respect of land and buildings	**8,279**	10,435	**–**	222	**8,279**	10,657
Operating lease charges in respect of mineral mining lease	**–**	466	**–**	–	**–**	466

7. Income tax expense/credit

For the years ended 31 December 2013 and 2012, 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 PRC and 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:

	Continuing operations		**Discontinued operations**		**Consolidated**	
	2013	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Current tax – the PRC						
– Tax for the year	**1,019**	890	**–**	1	**1,019**	891
Deferred tax	**(664)**	(1,387)	**–**	–	**(664)**	(1,387)
Income tax expense/(credit)	**355**	(497)	**–**	1	**355**	(496)

8. Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2013 (2012: Nil) and the Company did not declare any interim dividend during the year (2012: Nil).

9. (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

	2013	2012
	HK$'000	*HK$'000*
(Loss)/Profit attributable to the owners of the Company for the purpose of basic (loss)/earnings per share		
Continuing operations	**(179,086)**	(112,696)
Discontinued operations	**–**	9,282
Total loss from continuing and discontinued operations	**(179,086)**	(103,414)

Number of shares

	2013	2012
	Number of shares	*Number of shares*
	'000	*'000*
Weighted average number of shares for the purpose of basic (loss)/earnings per share	**10,028,710**	8,712,160

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.

10. Trade receivables

	2013	2012
	HK$'000	*HK$'000*
Trade receivables	**33,688**	25,965
Less: Provision for impairment	**(5,296)**	(10,606)
Trade receivables, net	**28,392**	15,359

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:

	2013	2012
	HK$'000	*HK$'000*
At 1 January	**10,606**	6,660
Impairment loss charged to profit or loss	**1,244**	3,897
Bad debts written off	**(6,849)**	–
Exchange realignment	**295**	49
At 31 December	**5,296**	10,606

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 2013, based on the invoice date, is as follows:

	2013	2012
	HK$'000	*HK$'000*
0 – 30 days	**16,136**	5,762
31 – 90 days	**1,524**	666
91 – 180 days	**3,262**	4,283
Over 180 days	**7,470**	4,648
At 31 December	**28,392**	15,359

11. Trade payables

The ageing analysis of the trade payables of the Group as at 31 December 2013, based on the invoice date, is as follows:

	2013	2012
	HK$'000	*HK$'000*
0 – 180 days	**13,313**	9,810
Over 180 days	**19,036**	19,122
	32,349	28,932

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 lithium-ion power battery business, the environmental automobile business and the New Energy Project) and the natural resources business.

The Group's turnover and loss attributable to shareholders from continuing operations for the Year amounted to HK$52.18 million (2012: HK$43.04 million) and HK$179.09 million (2012: HK$112.70 million) respectively. The loss for the Year was mainly attributable to the general operating expenses and impairment of goodwill for the lithium-ion power battery business.

The general operating expenses from continuing operations for the Year increased to HK$189.9 million (2012: HK$129.99 million) which consisted of share-based compensation of HK$94.28 million (2012: HK$3.83 million), employee salary and benefit expenses of HK$41.9 million (2012: HK$47.94 million), depreciation expenses of HK$7.05 million (2012: HK$15.34 million) and the research and development expenses of HK$1.58 million (2012: HK$9.08 million).

(a) Environmental automobile and related business

Lithium-ion power Battery Business

The Group engages in the lithium-ion power 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"), which was acquired by the Group pursuant to the acquisition agreement dated 18 April 2010 (as supplemented) (the "Acquisition Agreement") from independent third parties (the "GBS Vendors"). For the Year, the turnover and the loss of this segment were approximately HK$52.18 million and HK$16.14 million respectively whereas in 2012, the turnover was HK$43.04 million and the loss was HK$8.67 million respectively. The loss for the Year was mainly attributable to the impairment of goodwill for the business amounted to HK$15.79 million.

Over the past years, mounting auto incidents in the PRC had 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, coupled with the decreasing selling price of lithium-ion power battery of the domestic market in the PRC, also had an adverse impact on the profit margin and affected the performance of this business segment.

The Board is of the view that the business operation of the Group's environmental automobile is not expected to have much improvement and will continue to be restrained unless and until there is innovative breakthrough in battery architecture and technology.

For the Year, the profit before tax of GBS amounted to approximately HK$4.07 million (equivalent to approximately RMB3.25 million), which did not meet the guarantee profit given by the GBS Vendors of RMB35,000,000 for the Year as stipulated in the Acquisition Agreement.

Pursuant to the Acquisition Agreement and as disclosed in the circular of the Company dated 30 August 2010, the Company had retained a total of 200,000,000 ordinary shares (the "Retained Shares") of HK$0.10 each in the Company (which were part of the consideration shares allotted and issued to the GBS Vendors at HK$0.358 per ordinary share (the "Contract Price") upon completion of the Acquisition Agreement as security for the attainment of the profit guarantee given by the GBS Vendors. The Group is at liberty to instruct the GBS Vendors to dispose of the Retained Shares to compensate any shortfall in the profit guaranteed on a dollar-for-dollar basis but subject to a cap equivalent to 100% of the net proceeds derived from the disposal of the Retained Shares. The number of Retained Shares to be sold would be determined at a share price which is (i) HK$0.358 each (that is, the Contract Price) or (ii) the same as the closing price on 31 December of the relevant financial year, whichever is the higher. The profit guarantee was not met and the Group has the right to receive 100% net proceeds from the disposal of the Retained Shares. Given that the Company's shares had been traded well below the Contract price, the Board does not consider that it is in the best interests of the Company for the time being to exercise its discretion to instruct the GBS Vendors to dispose of the Retained Shares to recoup the shortfall.

Notwithstanding the increasingly challenging operating environment, the 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 the 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.

New Energy Project

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）("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 (with the approved name of 連雲港正道新能源有限公司 (Hybrid Kinetic (Lianyungang) New Energy Limited, Inc.*) (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 advanced battery materials, super batteries, electric control systems and electrolyte) (the "New Energy Project").

The Project Company was successfully established on 29 March 2013. 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 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 Group's equity interest in the Project Company upon its establishment. As at 31 December 2013, the Group contributed US$8.5 million as paid-up capital in the Project Company, which is equivalent to approximately 18% of the total paid-up capital of the Project Company on 31 December 2013.

The turnover and loss of the Project Company consolidated into the Group's financial statement since the date of incorporation up to 31 December 2013 amounted to nil and HK$4.9 million respectively.

Following the establishment of the Project Company, TianYang (being one of the shareholders of the Project Company) indicated its intention to withdraw its investment in the Project Company as it intended to focus on its own business. The investment of TianYang in, and representing 33% of the registered capital of, the Project Company with the investment amount of US$19.8 million was subsequently transferred to and taken up by Golden West LLC.

On the other hand, Jiangsu NewHeadLine (being another shareholder of the Project Company) had been approached by Chimerica Technologies LLC which had expressed an interest in the investment in the Project Company and subsequently acquired 22% of the registered capital of the Project Company from Jiangsu NewHeadLine (representing an investment amount of US$13.2 million). Golden West LLC and Chimerica Technologies LLC became two of the shareholders in the Project Company. Immediately following the above changes in shareholders, the registered capital of the Project Company became held as to 35% by the Company, 10% by Jiangsu NewHeadLine, 33% by Chimerica Technologies LLC and 22% by Golden West LLC respectively.

As disclosed in the Company's announcement dated 30 January 2014, Golden West LLC and Chimerica Technologies LLC (the "Outgoing Shareholders") also subsequently withdrew their investment and participation in the Project Company and the New Energy Project. Before their exit, they held a total of 55% of the registered capital of the Project Company, and they withdrew from the Project Company an aggregate amount of RMB190,598,595, being the RMB equivalent of their investment of approximately US$31.3 million made to the Project Company.

Notwithstanding the withdrawal of the Outgoing Shareholders, it is the current intention of the Group and the remaining shareholder to the Project Company, Jiangsu NewHeadLine, to continue the pursuit of the New Energy Project through the Project Company.

The Project Company had reported the withdrawal of the Outgoing Shareholders to the officials of LETDZ, who expressed regret of the withdrawal. The launch of the New Energy Project through the establishment of the Project Company is of significant meaning to the LETDZ as the New Energy Project will bring positive economic benefit to the economy of LETDZ by, for instance, creating job opportunities, increasing tax revenues and enhancing the local's economic welfare generally. LETDZ is willing to continue its support in offering preference policies on, among others, tax and use of land, to the Project Company within the development zone to facilitate the development of the New Energy Project.

The Project Company had sought legal advice from a PRC attorney on the matter who recommended the Project Company to complete the change of shareholders with the local authorities and proceed with the reduction of the registered capital of the Project Company from US$60 million to US$27 million. The Project Company had initiated the process of the withdrawal of Outgoing Shareholders to the local government authorities. The process would first require the posting of an announcement of the withdrawal of Outgoing Shareholders in the local newspaper to ascertain whether there are any potential claims from creditors before the local government authorities would approve the change of shareholders. This process is anticipated to be completed by the end of April 2014. The Group is evaluating the impact of the withdrawal of the Outgoing Shareholders on the Project Company, the New Energy Project and/or the Group and will decide on the course to be taken.

The Group had discussed with Jiangsu NewHeadLine on various aspects regarding the management of the Project Company, the promotion and development of the New Energy Project and the timetable for its implementation with the aim of implementing the New Energy Project. The Project Company had completed the planning stage of a manufacturing plant for highly advanced battery materials with the technical assistance provided by certain parties owning the use of certain technology for the production and manufacture of highly advanced battery materials. The Project Company intended to launch the 1st phase of the construction of a plant for manufacturing of such highly advanced battery materials in April 2014 which is anticipated to be completed by the end of 2014. The construction will be funded by the internal fund from the Project Company and/or external source of funding (including but not limit to bank borrowings) Both LETDZ and the Project Company would work together and use their best efforts in coordinating such external funding.

The Project Company was closed to complete the negotiation with certain parties to secure the exclusive use of certain technology for the production and manufacture of highly advanced battery materials. There had been extensive communication of key technical issues including visits and participation in the design of the production plan. The Board will make the necessary announcement(s) in accordance with the applicable Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as and when there is any significant progress in the negotiation.

Environmental Automobile Business

The Group engages in the research and development of environmental automobile through its U.S. subsidiary, Hybrid Kinetic Motors Corp. For the Year, this business segment recorded a loss of approximately HK$14.09 million (2012: HK$19.25 million). The loss was mainly attributable by impairment of fixed assets of HK$3.98 million and impairment of intangible assets of HK$1.45 million.

Notwithstanding the outlook for 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.

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 Board expects the development of environmental automobile could gain ground in the future.

(b) Natural resources business

The Group carries on its natural resources business mainly through Jilin Shengshi Mining Ltd.（吉林晟世礦業有限公司）(“Jilin Shengshi”), a subsidiary of the Company. For the Year, this business segment recorded no turnover (2012: Nil), and a loss of HK$9.82 million (2012: HK$18.40 million) which was mainly attributable to operating expenses incurred during the Year. In 2012, a subsidiary of Jilin Shengshi, which then possessed certain exploration licences, had commenced an extensive survey on certain copper, aluminium and zinc mines located in the Jilin Province, the PRC. In 2013, the outcome of the survey revealed that these mines were not economical feasible for future exploration, and the subsidiary, therefore, decided not to renew the exploration licenses upon their expiration.

During the Year, Jilin Shengshi provided management services to Garze Prefecture Rongxin Mining Co., Ltd. (“Rongxin Mining Co.”) in respect of, among others, the business operated by Rongxin Mining Co (including the conduct of survey to evaluate the exploration potential of a gold mine located in the Sichuan Province, the PRC in respect of which Rongxin Mining Co has an exploration right) pursuant to a management agreement entered into by Jilin Shengshi with Rongxin Mining Co. in September 2008 (and renewed in March 2012) for an extended term of three years until 2015. The survey and exploration of the gold mine revealed that the gold mine may have rich gold reserve, and its value for further exploration and potential extraction is being further assessed and examined by Rongxin Mining Co and Jilin Shengshi. The Board was also later informed that more capital in terms of cash and kind was needed in order to exploit the potential gold reserve and the chance of commercial success was uncertain due to frequent earthquake in the mining area. The Board considered the resources should be best aligned with 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. On 16 December 2013, Jilin Shengshi terminated the management service agreement with Rongxin Mining Co. Rongxin Mining Co. had returned RMB10 million out of the deposit of RMB20 million paid. The remaining RMB10 million would be settled on or before 31 July 2014.

The development strategy for the Group’s natural resources business had been subject to constant review and evaluation by the Group during the Year.

PROSPECTS

The volatile global economic environment, if continues to persist, is not expected to generate momentum in the Company's automobile battery business. Notwithstanding the uncertainty in the global economic environment, the Directors remain prudently optimistic regarding its environmental automobile and related business. For the automobile battery business, the Group strives to enhance and enforce quality control and product safety measures for the production of its power battery and related products so as to meet the international standard. Due to keen competition in both the domestic and the overseas markets, the Group's automobile battery business would still be expected to be operating in a very challenging environment.

The Board considers that significant advance in battery architecture and the exploration and development of highly advanced new battery materials could be breakthrough for both the automobile battery business and the environmental automobile business of the Group, and will make dedicated efforts and allocate resources towards this direction.

The participation of the Group, through its investment in the Project Company in the development of the New Energy Project (which involves the development of key new and highly advanced automobile components, comprising battery materials (in particular, single layer grapheme（單層石墨烯）, an ideal material for super battery), super batteries, electric control systems and electrolyte) is considered by the Board as an important milestone for the Group in the development of its environmental automobile and related business.

In an executive meeting of the State Council of the PRC presided over by Premier Li Keqiang on 12 July 2013, China was to speed up the development of the energy-saving industry. The State Council vowed to promote the upgrading of energy-saving facilities, and accelerate construction of major energy-saving projects. It is anticipated that China will encourage and guide social capital, including private investments, to actively participate in the energy-saving sector, and promote the use of new-energy vehicles. The Board considers that the New Energy Project would benefit from this policy.

The Company had commenced extensive study of new-energy vehicles in the PRC and formulated strategy plan for possible adventure in this market.

As regards the natural resources business, while the Group will try optimize the development potential of its natural resources business, 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 the re-allocation 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 2013, the total equity of the Group amounted to approximately HK$641.29 million (31 December 2012: HK$264.17 million). The gearing ratio of the Group as of 31 December 2013 measured in terms of total liabilities divided by shareholders' equity was approximately 31.27% (31 December 2012: 37.94%). As of 31 December 2013, net current assets of the Group were approximately HK$555.96 million (31 December 2012: 114.53 million). The pledged bank deposits were approximately HK$0.81 million (31 December 2012: HK$0.81 million) while the cash and cash equivalents amounted to HK$147.99 million (31 December 2012: HK$21.01 million). The Group also had outstanding borrowings of approximately HK$7.82 million (31 December 2012: HK$2.68 million).

PLEDGE OF THE GROUP'S ASSETS

As of 31 December 2013, the Group had pledged its bank deposits of HK$0.81 million (31 December 2012: HK$0.81 million) and also machineries with carrying amount of Nil million (2012: HK$23.90 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/or United States dollars, and the Group had no significant exposure to foreign exchange fluctuations and therefor, had not taken any financial instruments for hedging purpose.

MATERIAL ACQUISITION OR DISPOSAL

There were no material acquisitions and disposals 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.

FUND RAISING ACTIVITIES AND USE OF PROCEEDS DURING THE YEAR

On 26 March 2013, the Company allotted and issued an aggregate of 1,638,000,000 ordinary shares in the Company at HK$0.10 each pursuant to, and upon completion of, the subscription transactions (the "Subscription") contemplated under three several subscription agreements dated 23 November 2012 (as supplemented) entered into by the Company with three several subscribers with net proceeds of approximately US$20,900,000 (equivalent to approximately HK$163,000,000) raised from the Subscription. Please refer to the announcement dated 25 November 2012, the circular dated 11 January 2013 and the announcement dated 26 March 2013 of the Company for details.

As disclosed in the Company's announcement dated 26 March 2013, the net proceeds raised from the Subscription would be applied towards the funding, in part, of the capital commitment agreed to be made by the Group towards the establishment of the Project Company for the promotion of the New Energy Project.

As at 31 December 2013, the Company utilized part of the net proceeds in the amount of approximately US$8.5 million and contributed them, as part the Group's agreed capital commitment, towards the establishment of the Project Company. The application of the net proceeds was in line with the intended use of net proceeds as previously disclosed.

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 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules except for the following deviation:

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 remuneration committee could not attend the annual general meeting (the "AGM") of the Company held on 13 June 2013 due to business matters. Mr. Hui Wing Sang Wilson, being one of the executive Directors and the delegate appointed by the chairman of the remuneration committee, attended the AGM to ensure effective communication with the shareholders of the Company.

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 had 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 2013 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.

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, 31 March 2014

As at the date of this announcement, the Board comprises ten 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, 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.

* *For identification purpose only*