SINO DRAGON NEW ENERGY HOLDINGS LIMITED
中國龍新能源控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(HKEX - Stock Code: 0395)

Annual Report 2013

* For identification purposes only

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Yang Xin Min *(Chairman)*
Ms. Huang Yue Qin
Mr. Zhou Quan
Mr. Kwan Che Hang Jason
(appointed on 1 December 2013)
Mr. Fang Guo Hong (resigned on 8 April 2013)

NON-EXECUTIVE DIRECTOR

Mr. Wang Jia Wei *(Vice Chairman)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Cheng Faat Ting Gary, CPA, HKICPA
Mr. Poon Lai Yin Michael
Prof. Ji Chang Ming (resigned on 4 February 2014)
Mr. Zhou Guang Yao (appointed on 4 February 2014)

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Ms. Li Mei Kuen, CPA (Aust.), HKICPA

AUDITORS

RSM Nelson Wheeler
Certified Public Accountants
29th Floor, Caroline Centre
Lee Gardens Two
28 Yun Ping Road
Causeway Bay
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China
China Minsheng Bank
The Hongkong & Shanghai Banking Corporation Limited

HEAD OFFICE AND PRINCIPAL PLACES OF BUSINESS

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Xushe Town
Yixing City
Jiangsu Province
PRC

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Ningbo City
Zhejiang Province
PRC

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PLACE OF BUSINESS AND CORRESPONDENCE ADDRESS IN HONG KONG

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LEGAL ADVISERS

Li & Partners
Conyers Dill & Pearman, Cayman

PRINCIPAL REGISTRAR

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
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Wan Chai
Hong Kong

CANADIAN BRANCH SHARE REGISTRAR

Computershare Investor Services Inc.
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Toronto, Ontario M5J 2Y1
Canada

STOCK NAME

Sino Dragon

STOCK CODE

Hong Kong Stock Exchange: 395

Financial Summary

	2013 *RMB'000*	2012 *RMB'000*	2011 *RMB'000*	2010 *RMB'000*	2009 *RMB'000*
Turnover	**101,669**	156,577	223,855	153,234	126,108
Gross profit margin *(%)*	**11%**	–2%	17%	8%	–16%
Loss attributable to shareholders	**(206,105)**	(200,362)	(234,097)	(144,739)	(296,430)
EBIT	**(130,201)**	(171,501)	(231,064)	(151,033)	(395,655)
EBITDA	**(113,054)**	(150,153)	(208,230)	(142,150)	(374,551)
Dividends — ordinary shares	**n/a**	n/a	n/a	n/a	n/a
Loss per share — basic *(RMB)*	**(0.0821)**	(0.0817)	(0.0975)	(0.0821)	(0.238)
Loss per share — diluted *(RMB)*	**(0.0821)**	(0.0818)	(0.1078)	(0.0821)	(0.238)
Debt-equity ratio	**291.3%**	269.7%	123.3%	net cash position	net cash position
Dividends payout ratio *(%)*	**n/a**	n/a	n/a	n/a	n/a
Ordinary shares *(shares)*	**2,806,947,850**	2,453,806,546	2,583,412,645	2,070,139,880	1,621,939,880
Bank and cash balances (including pledged deposits)	**317,157**	483,364	334,996	276,802	230,136
Cash per share *(RMB)*	**0.11**	0.20	0.13	0.13	0.14
Total assets	**1,091,573**	1,439,221	1,343,494	610,823	586,002
Net asset value	**268,398**	370,470	570,527	527,181	514,696
Net asset value per share *(RMB)*	**0.10**	0.15	0.22	0.25	0.32
Inventory turnover days	**161 days**	115 days	69 days	78 days	96 days
Debtors turnover days	**47 days**	40 days	40 days	58 days	85 days

Corporate Profile

Sino Dragon New Energy Holdings Limited (the "Company" or together with its subsidiaries the "Group"), was listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 October 2002. The Company, formerly known as China Zirconium Limited, changed to its current name on 12 October 2009 in order to signify the diversification of the Company's business into new energy-related business. The Group was one of the largest zirconium chemicals manufacturers and exporter in the PRC. Leveraging on its advantages in zirconium chemicals industry, the Group has extended its business into the production and sale of zirconium-related new energy materials (used as electrode materials for batteries) and rechargeable batteries.

The Group started its operations in 1977 and is based in Yixing, Jiangsu Province, the PRC. With over thirty years' development, the Group has successfully transformed from a small scale zirconium chemicals plant to an internationally renowned zirconium chemicals manufacturer with a sizable annual production capacity of over 40,000 tonnes of various types of zirconium chemicals and 1,500 tonnes of new energy materials. In 2004, the Group established a wholly-owned subsidiary in Yixing which specialised in the manufacture and sale of rechargeable batteries. It has developed and possessed intellectual property rights in the new type high temperature battery and power battery with zirconium additives. In 2007, the Group established a wholly-owned subsidiary in Binhai, Jiangsu Province, the PRC, which operated a newly established zirconium production plant. Moreover, the Group expanded further into zircon processing and refining business through the establishment of a joint venture in Indonesia.

Application of zirconium chemicals increased widely from originally two major usages in conventional sanitary ceramics and nuclear power applications to broad areas in mobile phone components, electronic products, optical fibres, textiles, paints, ceramics, optical glass, medical and pharmaceutical products, leather goods, paper goods and cosmetic materials, etc.

Corporate Profile *(continued)*

The Group's new energy materials products, including nickel hydroxide and hydrogen-storage alloy powder, are electrode materials for NiMH and NiCd batteries. Such products are supplied to battery manufacturers. The Group has also developed new type electrode material with intellectual property right.

The Group's products, with "Long Jing" as the registered trademark in the PRC, Japan, US & Hong Kong, has long been well-received by the international market. Products have been exported to Japan, US and Europe for 35 years, 23 years and 24 years, respectively. In 2001, the Group was accredited by the China Nonferrous Metals Association as the largest zirconium chemicals exporter in the PRC.

Along with the expansion of its business, the Group is also committed to improving operational efficiency and assuring high product quality. The Group has been awarded both the ISO14001 Environmental Management System Certification and the ISO9002 Quality Management System Certification. In 2003, the Group was also accredited as a state key high-tech enterprise. In addition, a number of the Group's products were appraised as high-tech products at state and provincial levels, among which the nanometric zirconium oxide and cerium zirconium compound were rated as Grand New Products by the state and were classified as "China Torch Programme" items.

In January 2011, the Company has completed the acquisition of the entire shareholding interest in Muntari Holdings Limited, an investment holding company principally engaged in the storage and wholesale business of petrochemicals through its wholly-owned subsidiaries and certain contractual arrangement in the PRC. It operated a petrochemical storage facility in Ningbo City, Zhejiang Province of the PRC, with a total capacity of 100,000 cubic meters.

In November 2013, the Company has further diversified its business through acquiring 51% equity interest in Virtual City Limited, an investment holding company principally engaged, through a group of subsidiaries (collectively be referred to as the "Smartac Group"), in (i) providing online to offline ("O2O") solutions by combining wireless technology and social network platforms; and (ii) software development. The Smartac Group has over 10 years' experience in developing enterprises communication software. With the support of the highly experienced software development team and strategic partnership with globally-renowned wifi network hardware suppliers, the Smartac Group will focus on providing solutions to the traditional retailers and enable them to compete with e-tailers through O2O strategies with SOLOMOCO (Social, Location, Mobile, Commercial) applications.

In future, the Group will not only aim at reinforcing its presence in existing business fields, but will also forge ahead in the emerging business, in particular in the O2O market. With the rapid growth of mobile internet users, O2O market in China is believed to be of bright prospect and great opportunities. The Group will redefine its development strategies, devotes additional resources and efforts into the new business opportunities brought in by the acquisition of the Smartac Group.

Chairman's Statement

On behalf of the Board of Directors (the "Board") of the Company, I herein present the annual results of the Company and its subsidiaries (collectively the "Group") for the financial year ended 31 December 2013 to the shareholders of the Company.

Year 2013 was a challenging year for the world economy. The global economy's recovery inched forward, with Eurozone in recession for much of the year and the unemployment rate in most of the developed countries remained high despite there were signs of improvement. Growth in major emerging markets, including China and India, was slowing in 2013 after decades of rapid expansion. Against this unfavorable backdrop in the global market, the manufacturing industry was still struggling in 2013.

Facing the unpromising economic environment in the export markets and the weakening demand in the Chinese domestic market, the Group's operating result was unsatisfactory in current year. Consolidated turnover of the Group declined as compared to 2012, which due to the decrease in turnover of both the zirconium chemicals business and petrochemicals business. Sales income of zirconium chemicals dropped dramatically in current year with the combined effect of decrease in both selling prices and sales volume. In addition, further depreciation of United States dollars against Renminbi also reduced the Group's export trade income as they were denominated in United States dollars.

The slowing domestic growth in the PRC has not only negatively affected the manufacturing sector but also lowered the demand for petrochemical products. High and volatile oil prices in the international market had inevitably affected the domestic price of major petrochemical products which in turn weakened the demand for petrochemical products and its storage facilities. Furthermore, the petrochemicals storage income had been driven further downwards by a powerful typhoon which slammed into Southeast China in early October. In Ningbo city, where the Group's petrochemical storage facilities were located, strong winds, heavy rains and flooding that came along with the powerful typhoon had damaged some of the Group's petrochemical storage facilities. As a result, the Group has to temporarily suspend the leases of some oil tanks for repairs. These factors led to the year-to-year decrease in 2013 on the turnover and net profit of the Group's petrochemical business.

In view of the unfavorable operating environment for chemicals manufacturing businesses in China in recent years, as well as the volatility of petrochemical market, the Group had made an important move into a new business in late 2013. In November 2013, the Company had completed the acquisition of 51% equity interest in Virtual City Limited (together with its subsidiaries be referred to as the "Smartac Group"). The Smartac Group is mainly engaged in software development and provision of online to offline ("O2O") solutions to its clients with primary focus in retail industry. The Smartac Group has set its mission as helping the traditional retailers to compete against the e-commerce businesses through the intelligent application of O2O solutions and Wifi operating systems which can gather, manage, analyze and make use of big data collected from customers. Although the Smartac Group's contribution to the Company's consolidated results was limited given the acquisition was completed close to year-end, the management is confident that this new business will have a good prospect and will bring promising return to the Group in future. Capitalizing on the strong foundation of the Smartac Group in software and network solutions development, the Group will seek opportunities in expanding coverage into other correlated fields, aiming at adding value to the business and improving profitability, so as to bring rewarding returns to our shareholders.

On behalf of the Board, I would like to express my most sincere thanks to all our staff for their valuable contributions and to our shareholders, customers, suppliers and business partners for your long-term support.

Yang Xin Min
Chairman

Management Discussion and Analysis

BUSINESS REVIEW

Despite the global economy was slowly turning the corner in 2013, the pace of recovery was just creeping in most of the developed countries. During the year, the political instability and financial uncertainty continue to have a negative impact on the Group's operating results. The Group's sales income dipped further down from last year's level, which was the combined result of declining market prices of various zirconium chemicals and the weakening demand for zirconium chemicals used in consumption products. Geographically, sales in the PRC market continued to contribute to approximately half of the Group's total sales income. The Group's sales in the North American and European markets in current year had dropped by more than half as compared to previous year. This reflected that the Group's customers, who were mainly consumption products manufacturers, in those two regions were still reluctant to fully resume the previous production level when the market condition is still unclear.

On the other hand, the Group has to face the challenges on the production side. The Group had been suffered from the under-capacity production in its zirconium production plants. The stringent environmental protection policies imposed by the PRC government against chemicals producers in general are unlikely to be released at least in the near future, which exerted significant pressure on the chemicals manufacturing industry and caused additional production costs. This led to the low production rate in the Group's zirconium production plants which resulted in an exceptionally high unit cost for most of the Group's zirconium products. In order to constrain the increase in cost and to maintain a reasonable profit margin for the zirconium products, the Group during the year had decided to suspend production of a few types of low-end zirconium products and in turn sourced from external suppliers. This decision had successfully improved the overall profitability of the Group, which turned from a negative gross margin in 2012 to a gross margin of approximately 11% in 2013.

Furthermore, the license approval process for Binhai zirconium production plant made no progress during 2013. The local government authorities were under pressure in approving industrial projects, in particular on those related to chemicals production. Given the unfavorable operating environment in Binhai and the unclear local policies on approval of operating licenses, the management considered that it would be in the best interest of the Group to cease the trial-scale production at Binhai plant. Since Binhai plant's product, zirconium oxychloride, was the feedstock for the production of medium and high-end zirconium chemicals at the Yixing plant, the Group had to rely on external supply of this basic zirconium product. Correspondingly, the Group had reduced its purchase of zircon sand in current year as it used zirconium oxychloride as raw material in its production process.

In October 2013, a powerful typhoon slammed into southeastern China with powerful winds and heavy rains that caused flooding and severe damages in Zhejiang province and adjacent regions. As the Group's petrochemical storage facilities were located at Ningbo city, Zhejiang province, the flooding has caused water damage to some of the facilities. As a result, the Group has to temporarily suspend the leases of some oil tanks for repairs during the period from October 2013 to end of the year which resulted in a drop in lease rental income for the year. The leases are expected to resume by stages in the first quarter of 2014.

In the year under review, the rechargeable batteries business reported a sales drop by approximately 13% but the overall gross margin had improved from 14% in 2012 to 17% in 2013. The Group will continue to maintain a stable operation of the batteries business and it will continue to contribute positively to the Group's revenue and cashflow in the long run.

During the year, the Group continues to suspend the operation of its zircon processing plant in Indonesia as there was minimal progress in the joint venture's attempt in acquiring mining rights in Kalimantan area. Given the unstable political environment in Indonesia, the negotiation process is expected to be lengthy and difficult. As the Group had redesigned the production process to use zirconium oxychloride sourced from external suppliers and thus reduced consumption of zircon sand, the management considered that it is beneficial to the Group to continue suspend the operation of the zircon processing plant in Indonesia.

On 26 November 2013, the Group completed the acquisition of 51% of equity interest in Virtual City Limited (the "Acquisition") and diversified its business into O2O solutions and software development fields. At completion of the Acquisition, the Company paid a cash consideration of HK$15,000,000 and issued the first tranche of consideration shares totaled to 253,141,304 shares of the Company as part of the consideration for the Acquisition. The second tranche of consideration shares will be issued when the profit guarantee provided by the vendor for the year ending 31 December 2014 is fulfilled, and it is subject to compensational adjustment should there be any shortfall in the actual net profit of Virtual City Limited and its subsidiaries as compared to the guaranteed amount. Details of the Acquisition were disclosed in the notes to the consolidated financial statements of the Company for the year ended 31 December 2013.

OUTLOOK

Although the Group's results for the year ended 31 December 2013 was not encouraging, the management is confident that the new business related to Smartac Group would have a rapid expansion in 2014. The Group will strive to maintain a stable operation of the existing businesses. At the same time, we will grasp the opportunities in the emerging O2O market that brought along to the Group by the Acquisition. It is believed that the fast development of mobile internet in China during the past two years will bring the e-commerce market into a new era with O2O commerce as the main focus. Riding on the strong foundation of the Smartac Group in communication software and O2O solutions development, the Group is advancing towards the target of becoming the leader in provision of integrated solutions and platform in the O2O market. The Group will actively seek for opportunities and strategic partners to expand and diversify the O2O solution business, both in higher speed and greater span, through various forms including technological cooperation and business joint ventures. Our ultimate aim is to bring greater value and higher return to our shareholders in the long run.

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2013, the Group's consolidated turnover was approximately RMB101,669,000, decreased by approximately RMB54,908,000 or 35% as compared to 2012. Sales of zirconium chemicals and new energy materials was approximately RMB61,475,000 (2012: approximately RMB114,185,000), represented a decrease of approximately 46%. The sharp decrease in sales of zirconium chemicals was mainly resulted from the decrease in export sales to the North American and European markets. Since the economic conditions in these regions remained sluggish throughout the year of 2013, the selling prices of zirconium chemicals in those regions continued to fall during the year. In addition, depreciation of USD exchange rate against Renminbi driven the selling prices for export sales (denominated in USD) even lower when translated into Renminbi, the Company dropped some unprofitable orders so as to constrain the negative impact on the overall profitability. This resulted in the overall drop in the sales revenue of zirconium business.

Sales of rechargeable batteries decreased from approximately RMB17,172,000 in 2012 to approximately RMB14,938,000, represented a year-to-year decrease of approximately 13%. The rechargeable batteries business contributed to approximately 15% of the consolidated turnover for the year.

The Group's petrochemicals storage and trading businesses reported a drop in turnover and net profit in 2013 as compared to prior year. Total revenue of petrochemicals storage and petrochemicals trading were approximately RMB15,251,000 (2012: approximately RMB17,872,000) and approximately RMB2,657,000 (2012: approximately RMB7,348,000), respectively, each represented approximately 15% and 3% of the consolidated turnover. The decrease in petrochemicals storage rental income was mainly due to the suspension of leases for some oil tanks after they were damaged by the typhoon and flooding in October 2013. The decline in petrochemicals trading commission income was mainly due to the unfavorable change in the market price of petrochemical products in China, which reduced the trading volume and hence the commission income of the Group.

The new O2O Solution business segment, of which the Company completed the acquisition on 26 November 2013, contributed approximately RMB7,348,000 or 7% to the consolidated turnover in current year. The low contribution made by the new business in current year because the Company only consolidated the new business's turnover for the period from the acquisition date to year end. It is expected that the new business will have a significant contribution to the Company's consolidated turnover in 2014 when the full year's results are consolidated into the Company's financial statements.

Gross Profit and Gross Margin

The Group reported a consolidated gross profit for the year of approximately RMB11,392,000 (2012: gross loss of approximately RMB2,744,000). The increase in gross profit mainly resulted from the improvements in gross margin of zirconium chemicals. In previous year, the Group's production in Yixing production plant used the zirconium oxychloride produced at Binhai plant as the raw materials of its production process. Due to the low production volume at Binhai plant, the costs were relatively high which led to a gross loss after such costs were included in the production cost of Yixing plant. During the current year, the Group suspended the production at Binhai plant and sourced the basic zirconium material from external suppliers. This proved to be a cost effective decision as it had reduced the overall cost of production for the Group's zirconium chemicals. As a result, the Group was able to turn the gross loss back into a gross profit position in current year. The rechargeable batteries business generated a gross profit of approximately RMB3,524,000 for the current year (2012: approximately RMB4,767,000), represented a drop by approximately 26%. The gross profit of petrochemicals segment had decreased from approximately RMB12,391,000 to approximately RMB4,555,000. Since the cost of petrochemicals storage business was rather fixed and would not reduce even if the storage rental income dropped, the reduction in storage rental income would lead to a significant drop of gross profit directly. The new O2O Solution segment generated a gross profit of approximately RMB4,153,000 for the period from 26 November to 31 December 2013. The average gross margin of the Group for the year was approximately 11% (2012: -2%).

Selling expenses and Administrative Expenses

Selling expenses had decreased from approximately RMB3,858,000 in 2012 to approximately RMB2,295,000 in 2013, mainly due to the contraction in business scale of the zirconium chemicals segment.

Total administrative expenses had increased from approximately RMB29,506,000 in 2012 to approximately RMB50,852,000 in 2013, represented an increase of approximately RMB21,346,000. The significant increase was mainly resulted from (i) the long service payment and compensational payment of approximately RMB6,392,000 made by the zirconium chemicals segment to some workers retired or retrenched during the year which had increased the staff costs included in administrative expenses in current year; and (ii) the allowance of approximately RMB12,300,000 provided for zircon sand inventories held by Binhai production plant recognised in the administrative expenses in current year. Another reason for the increase in administrative expenses was the inclusion of approximately RMB4,581,000 reported by the newly acquired O2O Solution business.

Capital Expenditure

The capital expenditures for the year ended 31 December 2013 and 2012 were approximately RMB6,290,000 and RMB21,918,000, respectively. The capital expenditures for 2013 were mainly for petrochemicals storage facilities and the newly acquired O2O Solution segment, whereas in 2012, it was mainly for the Binhai production plant.

Liquidity and Financial Resources

As at 31 December 2013, the Group's bank and cash balances were approximately RMB32,157,000 (2012: approximately RMB20,364,000). On 16 September 2013, the Company had completed the placing of 100,000,000 ordinary shares which generated a net proceed of approximately HK$20,925,000 (equivalent to approximately RMB16,515,000), which was mainly used in the payment of HK$15,000,000 as part of the consideration for the acquisition of equity interest in Virtual City Limited at completion date on 26 November 2013. The remaining balance of the net proceed was used for general working capital of the Company.

As at 31 December 2013, the Group had a pledged bank deposits balance of RMB285,000,000 (2012: RMB445,000,000), which was pledged to the bank by the Company's subsidiary engaged in petrochemicals business as security for its bank credit facilities. Taking into account of all the pledged deposits, deposits maturing beyond three months when placed and the cash and bank balances, the Group reported a total balance of approximately RMB317,157,000 (at 31 December 2012: approximately RMB483,364,000). The Group continued to maintain a stable financial position in current year.

As at 31 December 2013, the Group's petrochemicals business had interest-bearing bank borrowings of RMB69,100,000 (2012: RMB40,000,000) and outstanding bills payable of RMB585,000,000 (2012: RMB855,000,000). The loan was repayable within one year and all denominated in Renminbi. The loan and bills facilities granted by the banks were secured by (i) charge over certain petrochemicals storage facilities of the Group; (ii) guarantees provided by Shanghai Bokun Investments Co., Ltd., a company beneficially owned and controlled by Mr. Wang Jia Wei ("Mr. Wang"), a non-executive director and shareholder of the Company; and (iii) personal guarantees provided by Mr. Wang and Ms. Liu Chao Yin, an associate of Mr. Wang.

As at 31 December 2013, the Group's O2O Solution business had interest-bearing bank borrowings of RMB2,000,000, which was denominated in RMB and repayable within one year and secured by charge over the land, buildings and investment property of the O2O Solution segment.

As at 31 December 2013, the Company had an outstanding convertible bond which has a face value of HK$65,000,000 and can be converted into a maximum of 144,444,444 ordinary shares of the Company at a conversion price of HK$0.45 per share. The convertible bond will be matured on 6 January 2016.

The Group's trade receivables turnover days was around 47 days in 2013, which has increased from 40 days in 2012. This was partly due to the effect from the newly acquired O2O Solution business. As always, the management monitored closely on the receivables collection process and maintained strict controls over its outstanding receivables. The Group has not experienced significant bad debt problem on trade receivables and continued to maintain a healthy record of trade receivables turnover.

The inventory balance as at 31 December 2013 decreased to approximately RMB31,943,000 (2012: approximately RMB43,341,000). The decrease was mainly resulted from the decreased value of zircon sand inventories balance at the end of current year, after an allowance of approximately RMB12,300,000 was recognised. Balance of inventories had also included the inventories of the newly acquired O2O Solution business amounted to approximately RMB2,997,000. Inventory turnover days had increased from approximately 115 days in 2012 to 161 days in 2013. The increase was mainly due to the fact that one subsidiary of the O2O Solution segment needs to keep a certain level of inventories for use in its maintenance service provided to customers. Hence, the turnover days of the O2O Solution segment will be longer as compared to other companies that are keeping inventories for trading or manufacturing purposes. Management will continue to closely monitor the inventory level.

As at 31 December 2013, the Company had balances in advance payments to suppliers — petrochemical suppliers of approximately RMB382,376,000 (2012: approximately RMB463,238,000) and note payable of RMB585,000,000 (2012: RMB855,000,000). Both balances had decreased as compared to prior year because of the significant drop in petrochemicals trading business in current year. According to the normal practice in this industry, Ningbo Bokun (the Group's subsidiary engaged in petrochemicals business) has to make advance payments to suppliers in the form of bank bills to secure the petrochemicals needed to fulfill an order from an end-customer. When Ningbo Bokun issues bank bills to the suppliers, it recognises the amounts in the bills payable account and correspondingly in the advance payments to suppliers account. The balance of advance payments to suppliers would be reduced when the supplier delivers the goods to the end-customer. In these arrangements, Ninbo Bokun acts as an agent and therefore, it does not recognise the gross amount of sales and purchases in its profit and loss, but instead recognises the margin as commission income in its revenue.

Share Capital Structure

During the two years ended 31 December 2013 and 2012, no options were granted or exercised. In current year, a total of 23,080,000 share options were lapsed.

On 16 September 2013, the Company issued 100,000,000 ordinary shares at a placing price of HK$0.215 per share pursuant to a top-up placing and subscription agreement dated 6 September 2013. The net proceed of approximately HK$20,925,000 (equivalent to approximately RMB16,516,000) was mainly used to pay for the cash consideration of the acquisition of 51% equity interest in Virtual City Limited.

On 26 November 2013, the Company issued 253,141,304 ordinary shares to settle part of the consideration for the acquisition of 51% equity interest in Virtual City Limited.

As at 31 December 2013, the total issued share capital of the Company was HK$140,347,000 (approximately equivalent to RMB131,938,000) divided into 2,806,947,850 ordinary shares with a par value of HK$0.05 each.

Exposure to Foreign Exchange Risk

The Group is exposed to foreign currency risk primarily through currency exposures in sales and purchases that are denominated in United States Dollars ("US$") with respect of RMB and HK$ which are the Group's functional currencies. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities. It is the Group's policy that it will not engage in any speculative activities. During the year, the Group has not engaged in any hedging transactions.

Contingent Liabilities

As at 31 December 2013, the Group had no contingent liabilities (2012: Nil).

Pledge of Assets

As at 31 December 2013, the following assets of the Group were pledged as securities, among others, for the banking facilities granted by its bankers:

(i) bank deposits of RMB285,000,000 (2012: RMB445,000,000);

(ii) the petrochemicals storage facilities of the Group with a carrying value (net of impairment) of approximately RMB53,568,000 (2012: RMB70,921,000) as at 31 December 2013; and

(iii) land, buildings and investment property of the Group's new O2O Solution segment, with a total carrying value of approximately RMB23,625,000 (2012: not applicable) as at 31 December 2013.

Human Resources

As at 31 December 2013, the Group had a total of approximately 370 employees (2012: approximately 284 employees), of which approximately 130 were staff of the new O2O Solution business segment. Total staff costs (including directors' emoluments) for the year was approximately RMB22,179,000 (2012: RMB16,764,000), representing approximately 22% of the Group's turnover (2012: approximately 11%). The significant increase in staff costs was mainly because a total of approximately RMB6,392,000 long service payment and staff retrenchment payment was recognised as staff cost of the zirconium segment in current year. Whereas in 2012, there was no such expense being incurred and recognised. The reduction in total number of employees, excluding the headcounts of the new O2O Solution segment, was mainly due to the reduction in production workers for zirconium segment in current year.

Employees were remunerated based on their performance, experience and prevailing industry practice. Bonuses and rewards might also be awarded based on individual staff performance and in accordance with the Group's overall remuneration policies. The Group's management reviewed the remuneration policies and packages on a regular basis. The Remuneration Committee of the Company's Board of Directors is responsible for overseeing and reviewing the remuneration packages of the Directors and senior management.

Profile of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Yang Xin Min, aged 64, senior economist, is the founding Chairman, Managing Director and substantial shareholder of the Company. Mr. Yang graduated from the Beijing Economics Correspondence College. Since August 1977, Mr. Yang has been the General Manager of all predecessor entities of the Group's zirconium business. Mr. Yang has over 30 years' experience in the research, production management and international market development of zirconium chemicals. Mr. Yang is responsible for the formulation of the Group's overall business strategies and overseeing the daily operations of the Group.

Ms. Huang Yue Qin, aged 45, senior economist, is the General Manager and Head of the Sales, Purchasing and Marketing Departments of the Group's zirconium business. Ms. Huang joined the Group in 1991 and has over 10 years of import and export experience in the zirconium chemicals industry. Ms. Huang has frequently visited clients in the USA, Japan and Europe, and maintained very good relationship with the Group's overseas customers.

Mr. Zhou Quan, aged 55, joined the Group in 1993. Mr. Zhou is the Deputy General Manager of the Group's zirconium business and Better Batteries, mainly responsible for the management of safety, environmental protection and production of zirconium business and supervising the battery business. Mr. Zhou has extensive experience in business administration.

Mr. Kwan Che Hang Jason, aged 46, was appointed as an executive director of the Company in December 2013. Mr. Kwan was the founder and Chief Executive Officer of Smartac Group. He graduated in 1991 from the University of British Columbia, Canada with a Bachelor of Commerce degree and in 2010 from the EMBA program of Cheung Kong Graduate School of Business. During the period of his university studies, Mr. Kwan was the first Chinese Marketing Executive working for the Vancouver Board of Trade, as well as a part-time writer for the financial section of a local magazine. After graduation, Mr. Kwan joined the Jardines Group and was assigned to work in the IT division of the Jardines Group. In 1995, he was assigned as the Regional Manager in Vietnam, and a year later he was assigned to work in the Shanghai subsidiary. In 1998, he was promoted as the General Manager of Eastern China region where he worked until 1999.

In 2000, Mr. Kwan founded the Smartac Group and had opened 9 branch offices in China focusing on IT system integration business. In 2002, he was a member of the Executive Committee and the Chairman of the IT Committee of the Hong Kong Chamber of Commerce (Shanghai). In 2007, the Suzhou subsidiary of Smartac Group was selected as one of the key developing enterprises in the Suzhou Industrial Park ("SIP") and had been granted the right to construct an office block in the SIP which is now used as the PRC headquarter of Smartac Group. Mr. Kwan is highly experienced in providing services in mobile internet technology, Online to Offline (O2O) solutions and retail big data service operation.

Mr. Fang Guo Hong, aged 48, was appointed as an executive director and the Chief Operating Officer of the Company in November 2009 and had resigned in April 2013. Mr. Fang has nearly 20 years of experience in different companies engaging in manufacturing of various products, including insulation materials and fire-proof, wear-resistant materials mainly for use in power generating systems. He was also actively involved in the development of power industry wearable technology and has established a good network with the participants in the power industry in China. Mr. Fang was an executive director of Pan Asia Environmental Protection Group Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, during the period from March 2007 to March 2009.

NON-EXECUTIVE DIRECTOR

Mr. Wang Jia Wei, aged 58, was appointed as non-executive director and Vice Chairman of the Company in June 2011. Mr. Wang is the managing director of Ningbo Bokun Petrochemical Storage Co., Ltd. and Shanghai Bokun Investment Co., Ltd. Mr. Wang was a well-known athlete in the People's Republic of China (the "PRC"). He had been a major player and the principal coach of the National Men's Volleyball Team of the PRC. Mr. Wang graduated from Nippon Sport Science University in Japan, majoring in Sports Psychology. Upon returning to the PRC, he started to engage in investment and project management of petrochemicals storage business, in which he has nearly 10 years' experience.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Cheng Faat Ting Gary, aged 46, was appointed as an independent non-executive director of the Company in November 2001. He is the Chairman of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. In 2011, Dr. Cheng graduated with a Doctor of Business Administration from the City University of Hong Kong with research area in "Independent Non-Executive Director ("INED") and Corporate Governance". He is one of few practicing CPA in Hong Kong with DBA degree of research area concentrated in INED study. Dr. Cheng is a Fellow Certified Public Accountant in both Hong Kong and the United States of America ("USA") and a Certified Tax Advisor of the Taxation Institute of Hong Kong. Dr. Cheng received his Bachelor's degree in Accounting (Honours) and Master's degree of Business Administration from Southern Illinois University, USA, in 1992 and 1994 respectively. Dr. Cheng had worked at the audit division of the international accounting firm, PricewaterhouseCoopers, and has over 17 years of experience in financial reporting, business advisory, auditing, accounting, tax investigation and liquidation. Dr. Cheng is currently the Managing Director of Gary Cheng CPA Limited. He is also a founding member of CityU Eminence Society.

Mr. Poon Lai Yin Michael, aged 42, was appointed as an independent non-executive director of the Company in January 2010. Mr. Poon had acted as the Chief Financial Officer in two companies listed on the Growth Enterprise Market of the Stock Exchange since 2002, and was mainly responsible for the overall financial management, internal control function and accounting function. Mr. Poon has over 14 years of experience in financial reporting, business advisory, auditing, taxation, accounting, merger and acquisition. Mr. Poon is a fellow member of Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. He holds a Bachelor's degree in Administrative Studies with York University in Canada and a Master's degree in Practicing Accounting with Monash University in Australia. Mr. Poon had been working for an international accounting firm and was responsible for providing business advisory and assurance services for some listed clients. Mr. Poon is the independent non-executive director of China Uptown Group Company Limited (Stock code: 2330) since November 2006, and was the independent non-executive director of Sun International Resources Limited (Stock code: 8029) during the period from September 2008 to August 2011. Mr. Poon was the executive director and non-executive director of Celebrate International Holdings Limited (previously known as Hong Kong Life Group Holdings Limited, Stock code: 8212) during the period from October 2010 to July 2011 and from July 2011 to December 2011, respectively.

Mr. Zhou Guang Yao, aged 63, was appointed as an independent non-executive director of the Company in February 2014. Mr. Zhou has over 30 years' experience in electrical engineering. Mr. Zhou graduated from the Undergraduate Program of Power Plant and Power System at Shanghai University of Electric Power (the "SUEP", previously known as "Shanghai College of Electricity") in 1981. In 1990, Mr. Zhou obtained a Bachelor Degree of Electrical Engineering at Shanghai Jiao Tong University and completed the postgraduate program in Business Administration at Fudan University. Mr. Zhou started his career as a teacher in SUEP since 1981 and subsequently held various senior posts in the Party Committee of SUEP. Mr. Zhou is currently acting as the president of the Institute for Smart Grid Technology and the executive council chairman of the Smart Grid Industry-University-Research Cooperation Center at SUEP.

Professor ("Prof.") Ji Chang Ming, aged 58, was appointed as an independent non-executive director of the Company in December 2009 and had resigned in February 2014. Prof. Ji has over 30 years of experience in research and de-velopment of "Hydrology and Water Resources" specialty. Prof. Ji was graduated in 1978 at Wuhan University of Hydraulic and Electrical Engineering ("WUHEE", now known as Wuhan University), major in hydropower station dynamic system specialty. He continued his study in WUHEE and obtained his master degree and doctor's degree in hydrology and water resources in 1983 and 1988, respectively. Prof. Ji completed his postdoctoral research in the Department of Land, Air and Water Resources at University of California, Davis in 1990. Upon his return to China in 1990, Prof. Ji started to teach in WUHEE as associate professor. During the period from 1993 to 2004, Prof. Ji held various posts in WUHEE and Wuhan University including professor, PhD supervisor and a number of faculty man-agement positions. Prof. Ji is currently a professor and PhD supervisor in the Renewable Energy School of North China Electric Power University. He is also a supervisor of the PhD program (part-time basis) in Wuhan University. In addition, Prof. Ji is also acting as the executive or vice chairman or committee member for 4 academic societies (including the China Society of Natural Resources), the editorial committee member of 3 major journals (including Journal of Hydroelectric Engineering), and the judging panel expert of The State Science and Technology Awards, etc.

SENIOR MANAGEMENT

Ms. Li Mei Kuen, aged 45, is the Chief Financial Officer and Company Secretary of the Group. Ms. Li graduated from La Trobe University, Melbourne, Australia and received a bachelor degree in commerce (accounting). She is a member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. Before joining the Group in 2004, Ms. Li has worked in two international accounting firms for over 9 years. She has been actively involved in the audit, listing and due diligence engagements of companies in various industries and has extensive experience in auditing and financial reporting.

Ms. Wu Xi Hui, aged 45, graduated from Jiangsu Television University majoring in international trade and economics. Since joining the Group in 1991, Ms. Wu has been responsible for the financial function of the Group, and is currently the Finance Manager of Yixing Zirconium. She has extensive experience in financial management and has maintained good relationships with local and national tax authorities, customs departments, commodity inspection authorities, foreign exchange control authorities and various banks.

Ms. Sun Hong Di, aged 46, is the Deputy General Manager and Head of the Technology and Quality Control Department of the Group's zirconium business. Ms. Sun joined the Group in 1990 and has been responsible for quality control, analysis and monitoring of zirconium chemicals. Ms. Sun has been involved in devising the national quality standards for zirconium chemical products with the former Ministry of Chemical Industry of the PRC. Ms. Sun is the leader of the Group's working team for the ISO9002 accreditation and is also supervising the zirconium research and development works.

CORPORATE GOVERNANCE PRACTICE

The Company believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained.

Throughout the year, the Company has applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the "Code on CGP") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), except for the deviation in respect of the appointment of the same person as the Chairman and the Chief Executive Officer ("CEO") of the Company. The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

BOARD OF DIRECTORS

Composition

The Board is responsible for supervision of the management of the business and affairs, approval of strategic plans and reviewing of financial performance. The Board currently consists of four Executive Directors, one Non-executive director ("NED") and three Independent Non-executive Directors ("INEDs"):

Executive Directors	:	Mr. Yang Xin Min *(Chairman)*
		Ms. Huang Yue Qin
		Mr. Zhou Quan
		Mr. Kwan Che Hang Jason (appointed on 1 December 2013)
		Mr. Fang Guo Hong (resigned on 8 April 2013)
NED	:	Mr. Wang Jia Wei *(Vice Chairman)*
INEDs	:	Dr. Cheng Faat Ting Gary
		Mr. Poon Lai Yin Michael
		Mr. Zhou Guang Yao (appointed on 4 February 2014)
		Prof. Ji Chang Ming (resigned on 4 February 2014)

The Board membership is covered by professionally qualified and widely experienced personnel so as to bringing in valuable contribution and different professional advices and consultancy for the development of the Company. The number of INEDs represented one-third of the Board membership.

Biographies of all Directors are set out on pages 17 to 19.

Appointments, Re-election and Removal of Directors

Code provision A.4.1 of the Code on CGP stipulates that non-executive Directors should be appointed for a specific term, subject to re-election.

Code provision A.4.2 of the Code on CGP stipulates that all Directors appointed to fill a casual vacancy should be subject to election by Shareholders at the first general meeting after their appointment. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Each of the INEDs and the NED has entered into a service contract with the Company for a term of two years. At every annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, then the number nearest to but not less than one-third shall retire from office.

A Director appointed by the Board to fill a casual vacancy or as an addition shall hold office until the next annual general meeting.

Role and Function

Save for the Board meetings held between the Executive Directors during the normal course of business, the Board also conducted regular meetings of all board members during the year. Such Board meetings involve active participation, either in person or through other electronic means of communication, of a majority of the Directors. In addition, the Board members will also discuss on ad hoc issues through informal meetings and granted approval on material decisions by way of Board written resolutions in accordance with the Company's articles of association.

During the Year, five board meetings were held and the attendance of each Director is set out as follows:

Directors	**No. of meetings attended**
Mr. Yang Xin Min	5/5
Ms. Huang Yue Qin	5/5
Mr. Zhou Quan	5/5
Mr. Kwan Che Hang Jason *(Note 1)*	0/0
Mr. Fang Guo Hong (resigned on 8 April 2013) *(Note 1)*	1/1
Mr. Wang Jia Wei	2/5
Dr. Cheng Faat Ting Gary	5/5
Mr. Poon Lai Yin Michael	5/5
Prof. Ji Chang Ming (resigned on 4 February 2014)	5/5
Mr. Zhou Guang Yao (appointed on 4 February 2014) *(Note 2)*	N/A

Notes:

1. The no. of meetings attended were counted with reference to the applicable period in which the relevant Director was holding the office.

2. Mr. Zhou Guang Yao was appointed on 4 February 2014, hence the attendance record above was not applicable to his period of service.

INEDs

The Company has appointed three INEDs, with two of them possess recognised accounting professional qualifications in Hong Kong or overseas.

The Company has received annual confirmation of independence from each of the INEDs pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs are independent within the definition of the Listing Rules.

Chairman and CEO

Under the Code on CGP, the roles of Chairman and CEO should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing. Mr. Yang Xin Min has been the Chairman and the CEO of the Company since its incorporation and is in charge of the overall management of the Company and the Group. The Company considers that the combination of the roles of Chairman and CEO is conducive to strong and consistent leadership and can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to grasp business opportunities efficiently and promptly. The Company considers that through the supervision of its Board and its INEDs, a balancing mechanism between the Board and the management of the Company exists so that the interests of the shareholders are adequately and fairly represented.

BOARD COMMITTEES

There are three committees established under the Board:

(a) Audit Committee

The Audit Committee, comprises all INEDs of the Company, is chaired by Dr. Cheng Faat Ting Gary who is a professional accountant and has proven experience in audit, finance and accounting.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants, and have been updated on terms no less exacting than those set out in the Code on CGP. The primary duties of the Audit Committee are to ensure the objectivity and credibility of financial reporting and internal control procedures as well as to maintain an appropriate relationship with the external auditors of the Company. Each member of the Audit Committee has unrestricted access to the external auditors and all senior staff of the Group.

The Audit Committee held two meetings during the year, in particular, to review and discuss:

— the interim results and annual audited financial statements;

— the auditing and financial reporting matters, including the management letter from the external auditors in relation to the audit of the Group for the year ended 31 December 2012;

— the appointment of external auditors; and

— the effectiveness of internal control procedures.

All issues raised by the Audit Committee have been addressed by the management of the Company. The work and findings of the Audit Committee have been reported to the Board. During the year, no issues brought to the attention of the management of the Company were of sufficient importance to require disclosure in the Annual Report.

The Board agrees with the Audit Committee's proposal for the reappointment of RSM Nelson Wheeler as the Company's external auditors for 2014. The recommendation will be put forward for the approval of the shareholders of the Company at the Annual General Meeting to be held on 19 May 2014.

Full minutes of the Audit Committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the Audit Committee meetings will be sent to all members of the Audit Committee for their comment and record respectively.

During 2013, the Company's external auditors received approximately RMB1,529,000 for annual audit service and RMB229,000 for non-audit services.

(b) Remuneration Committee

The Remuneration Committee consists of the Chairman and two INEDs. The Remuneration Committee members were:

Dr. Cheng Faat Ting Gary *(Chairman)*
Mr. Yang Xin Min
Mr. Poon Lai Yin Michael (with effect from 4 February 2014)
Prof. Ji Chang Ming (resigned on 4 February 2014)

The Company formulated written terms of reference of the Remuneration Committee based on terms no less exacting than the required standard as set out in the Code on CGP. The Remuneration Committee is responsible for ensuring formal and transparent procedures for developing remuneration policies and overseeing the remuneration packages of the Directors and senior management. It takes into consideration on factors such as salaries paid by comparable companies, time commitment and responsibilities of Directors and senior management. The Remuneration Committee meets at least once a year. The Remuneration Committee had reviewed the remuneration packages of all Directors and made recommendation to the Board during the year.

The Company did not have any arrangement under which a Director has waived or agreed to waive any emoluments during the year.

(c) Nomination Committee

The Nomination Committee consists of the following members:

Dr. Cheng Faat Ting Gary *(Chairman)*
Mr. Poon Lai Yin Michael
Mr. Yang Xin Min (with effect from 4 February 2014)
Prof. Ji Chang Ming (resigned on 4 February 2014)

The Company formulated written terms of reference of the Nomination Committee based on terms no less exacting than the required standard as set out in the Code on CGP.

The Nomination Committee meets at least once a year. The Committee's members' primary roles and functions are to assess and recommend the appointment and re-appointment of Directors to the Board, as well as overseeing the appointment, management succession planning and performance evaluation of key senior management of the Company.

The Nomination Committee has reviewed and is of the opinion that the current size and composition of the Board is adequate to facilitate effective decision-making. The Nomination Committee is also satisfied that the Board comprises directors, who, as a group, provide the core competencies necessary to guide the Group.

A proposal for the appointment of a new Director will be considered and reviewed by the Nomination Committee. Candidates to be selected and recommended are those experienced, high caliber individuals. All candidates must be able to meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules.

A candidate who is to be appointed as an INED should also meet the independence criteria as set out in Rule 3.13 of the Listing Rules.

Attendance Record at Board Committee Meetings

The following table shows the attendance of Directors at the Board Committee meetings during the Year:

	No. of meetings attended		
Directors	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Mr. Yang Xin Min	N/A	1/1	N/A
Dr. Cheng Faat Ting Gary	2/2	1/1	1/1
Mr. Poon Lai Yin Michael	2/2	N/A	1/1
Prof. Ji Chang Ming (resigned on 4 February 2014)	2/2	1/1	1/1

Note: Mr. Zhou Guang Yao was appointed as a member of the Audit Committee on 4 February 2014, hence the attendance record above was not applicable to him.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct rules (the "Code of Conduct") regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules.

Having made specific enquiry with all Directors, the Company confirms that all the Directors have complied with the required standard set out in the Code of Conduct and the Model Code throughout the Year.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The statement of the auditors of the Company about their reporting responsibilities on the Group's financial statements is set out in the Independent Auditor's Report on pages 42 to 43.

INTERNAL CONTROLS

The Board is responsible for overseeing the Group's system of internal controls. However, such a system is designed to manage the Group's risks within an acceptable risk profile, rather than to eliminate the risk of failure and to achieve the business objectives of the Group. Accordingly, it can only provide reasonable assurance but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud. The Board is of the view that the system of internal controls in place for the Year and up to the date of issuance of the annual report and financial statements is sound and is sufficient to safeguard the interests of shareholders, customers and employees, and the Group's assets.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Board recognises the importance of good communications with all shareholders. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. The Chairmans of the Board, of the Audit Committee and of the Remuneration Committee are present to answer shareholders' questions. An annual general meeting circular is distributed to all shareholders at least 21 days before the annual general meeting. It sets out the procedures for conducting a poll and other relevant information of the proposed resolutions.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has announced its annual and interim results in a timely manner. Printed copies of the Annual Report 2012 and Interim Report 2013 were sent to all shareholders.

All the reports, announcements and circulars that had been filed by the Company with the regulatory authorities can be reviewed at and downloaded from the Company's website at www.chinazirconium.com.hk.

Directors' Report

PRINCIPAL ACTIVITIES

The Group is principally engaged in (i) the research, development, manufacture and sale of a wide range of zirconium chemicals, new energy materials and rechargeable batteries; (ii) petrochemicals storage and wholesale business; and (iii) development and sales of software and provision of online to offline ("O2O") consultation service.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2013 (the "Year") are set out in the consolidated statement of profit or loss and other comprehensive income on pages 44 to 45.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2013 (2012: Nil).

The register of members of the Company will be closed from 15 May 2014 (Thursday) to 19 May 2014 (Monday), both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify to attend and vote at the Company's annual general meeting to be held on 19 May 2014, all transfer documents accompanied by the relevant share certificates must be lodged with either one of the Company's branch share registrars listed below for registration by no later than 4:30 p.m. on 14 May 2014 (Wednesday):

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

In Canada:
Computershare Investor Services Inc.
100 University Ave., 9th Floor
Toronto, Ontario M5J 2Y1
Canada

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 4.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the Year are set out in note 17 to the financial statements.

SHARE CAPITAL AND CONVERTIBLE BONDS

Details of movements in the convertible bonds and share capital of the Company during the Year are set out in note 33 and 37 to the financial statements respectively.

RESERVES

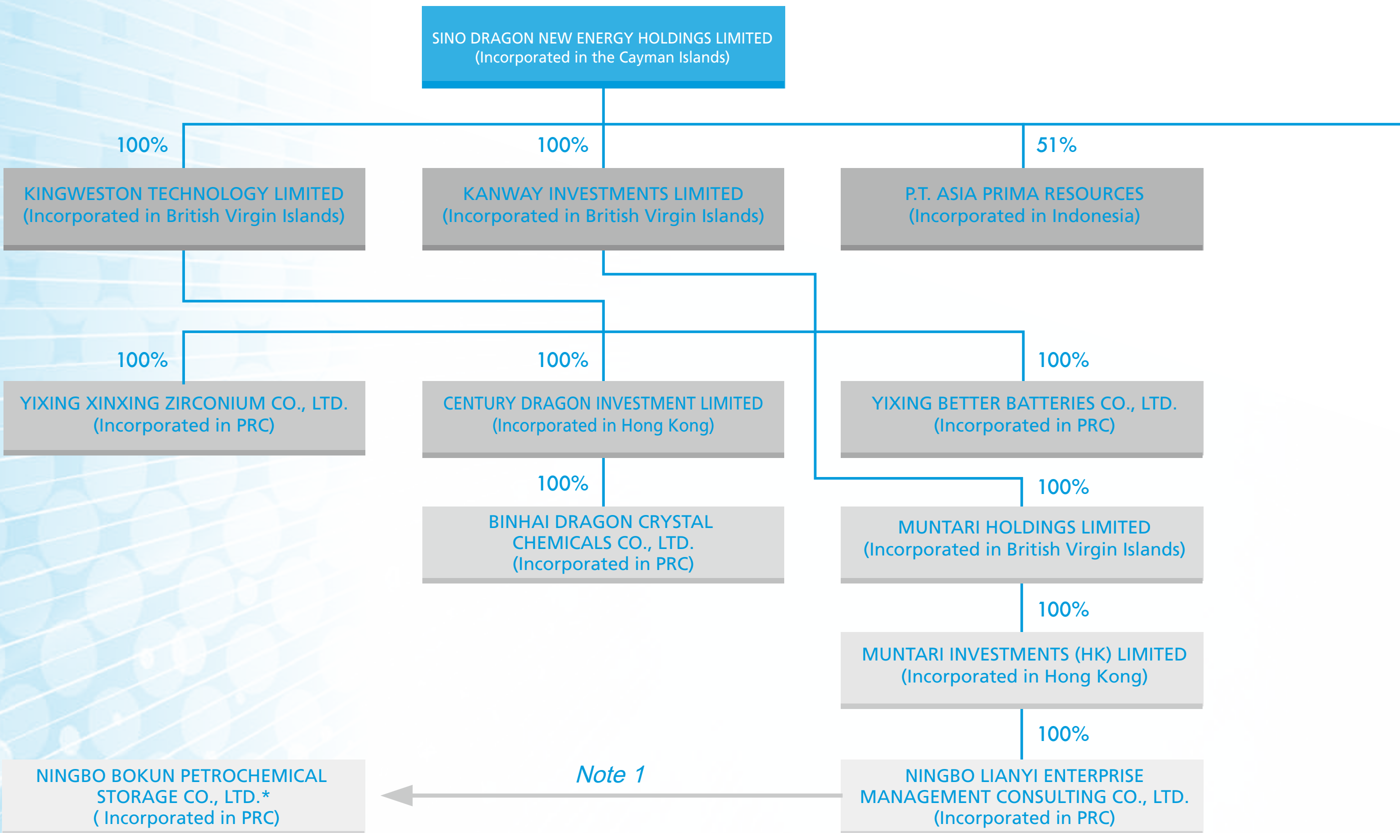
Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity on page 50.

DISTRIBUTABLE RESERVES

Pursuant to the Companies Law of the Cayman Islands and the Company's articles of association, in addition to the retained profits of the Company, the ordinary share premium account of the Company is also available for distribution to shareholders provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid. Accordingly, the Company's reserves available for distribution to shareholders as at 31 December 2013 amounted to approximately RMB242,390,000 (2012: approximately RMB329,824,000).

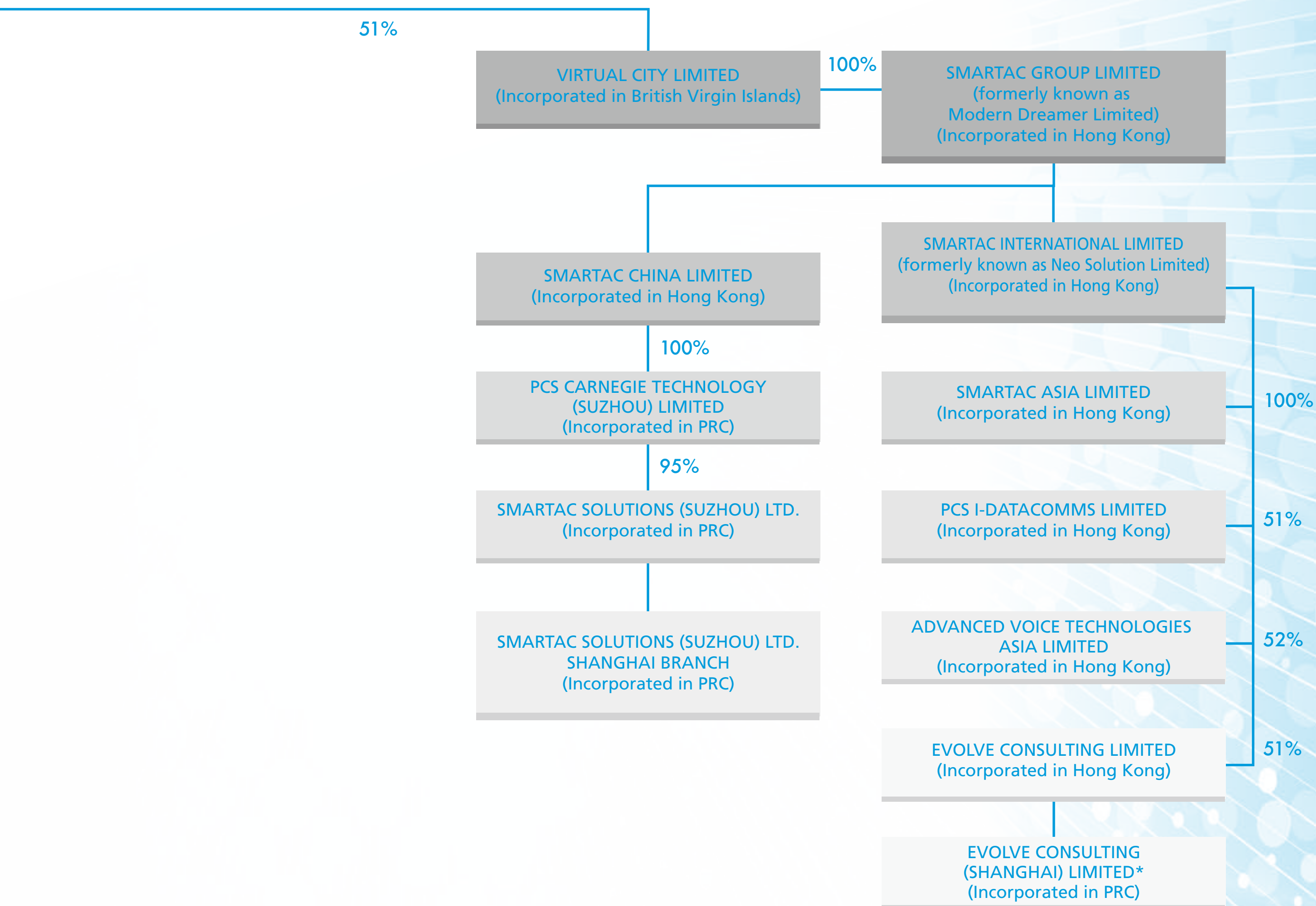
GROUP STRUCTURE

As at 31 December 2013, the Group's structure was as follows:



Note 1: Control the subsidiary through a series of contractual arrangements and enjoy 100% of its economic benefits

** for identification purposes only*


51%
VIRTUAL CITY LIMITED
(Incorporated in British Virgin Islands)
100%
SMARTAC GROUP LIMITED
(formerly known as
Modern Dreamer Limited)
(Incorporated in Hong Kong)
SMARTAC CHINA LIMITED
(Incorporated in Hong Kong)
SMARTAC INTERNATIONAL LIMITED
(formerly known as Neo Solution Limited)
(Incorporated in Hong Kong)
100%
PCS CARNEGIE TECHNOLOGY
(SUZHOU) LIMITED
(Incorporated in PRC)
SMARTAC ASIA LIMITED
(Incorporated in Hong Kong)
100%
95%
SMARTAC SOLUTIONS (SUZHOU) LTD.
(Incorporated in PRC)
PCS I-DATACOMMS LIMITED
(Incorporated in Hong Kong)
51%
SMARTAC SOLUTIONS (SUZHOU) LTD.
SHANGHAI BRANCH
(Incorporated in PRC)
ADVANCED VOICE TECHNOLOGIES
ASIA LIMITED
(Incorporated in Hong Kong)
52%
EVOLVE CONSULTING LIMITED
(Incorporated in Hong Kong)
51%
EVOLVE CONSULTING
(SHANGHAI) LIMITED*
(Incorporated in PRC)

DIRECTORS

The Directors who held office during the year and as at the date of this report are shown below. Their biographies are set out on pages 17 to 19.

Executive Directors

Mr. Yang Xin Min *(Chairman and Managing Director)*
Ms. Huang Yue Qin
Mr. Zhou Quan
Mr. Kwan Che Hang Jason (appointed on 1 December 2013)
Mr. Fang Guo Hong (resigned on 8 April 2013)

Non-Executive Director

Mr. Wang Jia Wei, Vice Chairman

Independent Non-Executive Directors

Dr. Cheng Faat Ting Gary
Mr. Poon Lai Yin Michael
Mr. Zhou Guang Yao (appointed on 4 February 2014)
Prof. Ji Chang Ming (resigned on 4 February 2014)

Each of the above Directors has entered into a service contract with the Company for an initial term of three or two years. Each service contract will continue thereafter unless terminated by either party thereto giving to the other at least three months' notice (Executive Directors) or one month's notice (Independent Non-executive Directors and Non-executive Director) in writing.

The Company has received from each of the Independent Non-Executive Directors a confirmation letter of his independence pursuant to paragraph 12B of Appendix 16 of the Listing Rules and considers each of the Independent Non-Executive Directors is independent.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2013, the interests of the Directors and the chief executive of the Company in the equity or debt securities and underlying shares of the Company or any associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO") which (a) were required to be notified to the Company and the Stock Exchange pur-suant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Name of Director	**Capacity**	**Number of Shares**				**Approximate Percentage of Total Share Capital**
		Personal Interest *(Note 3)*	**Other Interests** *(Note 1)*	**Interest In Underlying Shares** *(Note 2 & 4)*	**Total Interests**	
Yang Xin Min	Beneficial	592,573,880	1,600,000	—	594,173,880	21.17%
Huang Yue Qin	Beneficial	—	600,000	—	600,000	0.02%
Zhou Quan	Beneficial	240,000	600,000	—	840,000	0.03%
Kwan Che Hang Jason (appointed on 1 December 2013)	Beneficial	253,141,304	—	108,489,130	361,630,434	12.88%
Wang Jia Wei	Beneficial	210,000,000	600,000	144,444,444	355,044,444	12.65%
Cheng Faat Ting Gary	Beneficial	200,000	200,000	—	400,000	0.014%
Poon Lai Yin Michael	Beneficial	—	200,000	—	200,000	0.007%
Ji Chang Ming (resigned on 4 February 2014)	Beneficial	—	400,000	—	400,000	0.014%

Notes:

1. Other interests represented the number of underlying shares comprised in the share options granted to the Directors but remained outstanding as at 31 December 2013.

2. The 144,444,444 underlying shares were comprised in a convertible bond issued by the Company to Sinobright Petroleum Management Holding Co Limited ("Sinobright") on 6 January 2011. Mr. Wang Jia Wei was the sole beneficial owner of Sinobright and therefore was deemed to have an interest in the 144,444,444 underlying shares.

3. The 253,141,304 shares were held by China Software Services (Holdings) Limited ("CSS"). Mr. Kwan Che Hang Jason was the controlling shareholder of CSS and therefore was deemed to have an interest in the 253,141,304 shares.

4. The 108,489,130 shares (subject to adjustment) will be issuable by the Company to CSS when the profit guarantee provided on the consolidated net profit of Virtual City Limited and its subsidiaries for the year ending 31 December 2014 is fulfilled. Mr. Kwan Che Hang Jason was the controlling shareholder of CSS and therefore was deemed to have an interest in the 108,489,130 shares.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2013, so far as was known to the Directors and the chief executive of the Company, the following persons had an interest or short position in the shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

		Number of Shares				Approximate
Name of Shareholder	**Capacity**	**Personal Interest** *(Note 3)*	**Other Interests** *(Note 1)*	**Interest In Underlying Shares** *(Note 2 & 4)*	**Total Interests**	**Percentage of Total Share Capital**
Yang Xin Min	Beneficial	592,573,880	1,600,000	—	594,173,880	21.17%
Wang Jia Wei	Beneficial	210,000,000	600,000	144,444,444	355,044,444	12.65%
Kwan Che Hang Jason	Beneficial	253,141,304	—	108,489,130	361,630,434	12.88%

Notes:

1. Other interests represented the number of underlying shares comprised in the share options granted to the Directors but remained outstanding as at 31 December 2013.

2. The 144,444,444 underlying shares were comprised in a convertible bond issued by the Company to Sinobright Petroleum Management Holding Co Limited ("Sinobright") on 6 January 2011. Mr. Wang Jia Wei was the sole beneficial owner of Sinobright and therefore was deemed to have an interest in the 144,444,444 underlying shares.

3. The 253,141,304 shares were held by China Software Services (Holdings) Limited ("CSS"). Mr. Kwan Che Hang Jason was the controlling shareholder of CSS and therefore was deemed to have an interest in the 253,141,304 shares.

4. The 108,489,130 shares (subject to adjustment) will be issuable by the Company to CSS when the profit guarantee provided on the consolidated net profit of Virtual City Limited and its subsidiaries for the year ending 31 December 2014 is fulfilled. Mr. Kwan Che Hang Jason was the controlling shareholder of CSS and therefore was deemed to have an interest in the 108,489,130 shares.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors had any interest, either direct or indirect, in any business, which may compete or constitute a competition with the business of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors of the Company had a material interest, either direct or indirect, in any significant contract to which the Company or its holding companies or any of its subsidiaries was a party at the Year end or during the Year.

At no time during the Year was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

SHARE OPTIONS GRANTED PURSUANT TO THE SHARE OPTION SCHEME

Pursuant to the written resolution by the shareholders of the Company on 24 September 2002, the Share Option Scheme (the "Old Scheme") was approved and adopted. The Old Scheme was terminated by a resolution passed by the shareholders in the Company's annual general meeting held on 27 May 2011. No further options can be granted under the Old Scheme but in all other respects the provisions of the Old Scheme shall remain in full force and effect.

On 27 May 2011, the shareholders passed a resolution in the annual general meeting to approve and adopt a new Share Option Scheme (the "New Scheme") and the Board may, at its discretion, grant options ("Options") to Eligible Participants as defined in (ii) below.

(i) Purpose

The purpose of the New Scheme is to enable the Company to grant Options to Eligible Participants as incentives or rewards for their contribution to the Company and/or any of its subsidiaries. Through the New Scheme, the Company can motivate and reward the Eligible Participants who have contributed to the Company by enhancing its performance, improving its management and operation, and providing it with good advice and ideas.

(ii) Eligible Participants

The Eligible Participants of the New Scheme to whom Option(s) may be granted by the Board shall include any employees, Non-Executive Directors, Directors, advisors, consultants, and any shareholders of any members of the Group or any invested entities or any holders of any securities issued by any members of the Group or any invested entities.

(iii) Maximum number of shares

(a) The total number of Shares which may be issued upon exercise of all Options which may be granted under the New Scheme and any other share option schemes of the Company ("Scheme Mandate Limit") shall not exceed 10% of the total number of Shares in issue as at the date on which the New Scheme will be approved and adopted by the Shareholders, unless the Company obtains a refresh approval from the Shareholders pursuant to paragraph (b) below. Options lapsed in accordance with the terms of the New Scheme shall not be counted for the purpose of calculating whether the Scheme Mandate Limit has been exceeded.

(b) The Company may seek approval of the Shareholders in general meetings to renew the Scheme Mandate Limit provided that the Scheme Mandate Limit so renewed must not exceed 10% of the Shares in issue as at the date of the approval of the renewal by the Shareholders. Upon any such renewal, all Options granted under the New Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the New Scheme and any other share option schemes of the Company and exercised options) prior to the approval of such renewal shall not be counted for the purpose of calculating whether the renewed Scheme Mandate Limit has been exceeded. In seeking the approval, the Company shall send a circular to the Shareholders.

(c) The Company may grant Options to the Eligible Participant(s) beyond the Scheme Mandate Limit if the grant of such Options is specifically approved by the Shareholders in general meeting. In seeking such approval, a circular must be sent to the Shareholders containing a generic description of the identified Eligible Participant(s), the number and terms of the Options to be granted, the purpose of granting Options to the identified Eligible Participant(s), and how the terms of these Options serve such purpose.

Notwithstanding the above, the maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the New Scheme and options which may be granted under any other share option schemes of the Company shall not exceed 30% of the total number of Shares in issue from time to time.

(iv) Maximum entitlement of each Eligible Participant

(a) The total number of Shares issued and to be issued upon exercise of the Options granted under the New Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding Options) to each Eligible Participant in any 12-month period must not exceed 1% of the then total issued share capital of the Company (the "Individual Limit").

(b) Any further grant of Options to an Eligible Participant in excess of the Individual Limit (including exercised, cancelled and outstanding Options) in any 12-month period up to and including the date of such further grant must be subject to the Shareholders' approval in general meeting of the Company with such Eligible Participant and his associates abstaining from voting. A circular must be sent to the Shareholders disclosing the identity of the identified Eligible Participant(s), the number and terms of the Options granted and to be granted, the number and terms of Options to be granted to such identified Eligible Participant(s) must be fixed before the Shareholders' approval and the date of meeting of the Board for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price.

(v) Offer acceptance period and Option price

An offer of grant of an Option may be accepted by an Eligible Participant within 28 days from the date of the offer of grant of the Option. A consideration of HK$1.00 is payable on acceptance of the offer of grant of an Option. To the extent that the offer of grant of an Option is not accepted within twenty-eight (28) days from the date on which the offer for the grant of Options is made in the manner indicated herein, it will be deemed to have been irrevocably declined and lapsed automatically.

(vi) Timing for exercise of Options

An Option shall be exercisable in whole or in part and in accordance with the terms of the New Scheme at any time during a period to be determined and notified by the Directors to each Grantee, which period may commence on the day on which the offer for the grant of Options is made but shall end in any event not later than 10 years commencing from the date the Board makes an offer of the grant of an Option subject to the provisions for early termination thereof. The Directors have the discretion to impose a minimum period for which an Option has to be held before the exercise of the subscription rights attaching thereto on case by case basis.

(vii) Subscription price

Subject to the adjustment made in accordance with the terms of the New Scheme, the exercise price in respect of any particular Option shall be such price as determined by the Board in its absolute discretion at the time of making the offer of grant of an option (which shall be stated in the letter containing the offer of grant of an option) but in any case the exercise price must be at least the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

For the year ended 31 December 2013 and 31 December 2012, no Options have been granted by the Company under the Old Scheme and the New Scheme.

Details of the movement of the Options during the year were as follows:

Name of Grantee	Date of Grant	Exercisable Period	Subscription Price per Share *(Note 1)*	Number of Options *(Note 1)*: Outstanding as at 31 December 2012	Granted during the year	Exercised or Lapsed during the year	Outstanding as at 31 December 2013
Directors:							
Yang Xin Min	14 June 2011	14 June 2011 to 13 June 2016	HK$0.818	1,600,000	—	—	1,600,000
Zhou Quan	14 June 2011	14 June 2011 to 13 June 2016	HK$0.818	600,000	—	—	600,000
Huang Yue Qin	14 June 2011	14 June 2011 to 13 June 2016	HK$0.818	600,000	—	—	600,000
Cheng Faat Ting Gary	14 June 2011	14 June 2011 to 13 June 2016	HK$0.818	200,000	—	—	200,000
Ji Chang Ming	31 May 2010	31 May 2010 to 30 May 2015	HK$0.261	200,000	—	—	200,000
Ji Chang Ming	14 June 2011	14 June 2011 to 13 June 2016	HK$0.818	200,000	—	—	200,000
Poon Lai Yin Michael	14 June 2011	14 June 2011 to 13 June 2016	HK$0.818	200,000	—	—	200,000
Wang Jia Wei	14 June 2011	14 June 2011 to 13 June 2016	HK$0.818	600,000	—	—	600,000
Fang Guo Hong (resigned)	14 June 2011	14 June 2011 to 13 June 2013	HK$0.818	22,480,000	—	(22,480,000)	—
Subtotal				26,680,000	—	(22,480,000)	4,200,000
Employees *(Note 2)*	14 June 2011	14 June 2011 to 13 June 2016	HK$0.818	1,200,000	—	—	1,200,000
Consultant:							
Goldpac Investments Ltd.	15 August 2008	15 August 2008 to 15 August 2013	HK$0.33	600,000	—	(600,000)	—
Grand Total				28,480,000	—	(23,080,000)	5,400,000

Notes:

1. Certain Subscription Price per Share and number of Options shown in the table above had been restated to reflect the effect of the 1 to 20 subdivision of Shares which took effect from 9 November 2009.

2. For presentation in the table above, the 600,000 Options held by Mr. Li Fu Ping was regrouped from under the "Directors" heading to the "Employees" heading when he resigned from the position of Director but continued with his management role in the Company's subsidiary in September 2012.

CONNECTED TRANSACTIONS

During the year, the Group carried out certain related parties transactions, details of which are set out in note 44 to the financial statements.

These transactions fall within the de minimis provision under Rule 14A.31(2) of the Listing Rules because they were on normal commercial terms and the applicable percentage ratio was less than 0.1%. Accordingly, they were exempted from the reporting, announcement and independent shareholders' approval requirements contained in Chapter 14A of the Listing Rules.

Save as disclosed above, the Group had no other transactions which were required to be disclosed as connected transactions pursuant to the Listing Rules.

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 21 to 27.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2013, the aggregate turnover attributable to the largest customer and the five largest customers of the Group accounted for approximately 14% and 40% of the Group's total turnover for the Year respectively; and the aggregate purchases from the largest and the five largest suppliers of the Group accounted for approximately 18% and 54% of the Group's total purchases for the Year, respectively.

As far as the Directors are aware, none of the Directors of the Company, their respective associates (as defined in the Listing Rules), and the existing shareholders of the Company who own more than 5% of the Company's issued share capital, had any interests in the Group's five largest customers or suppliers at any time during the Year.

RESPONSIBILITY OF DIRECTORS ON FINANCIAL STATEMENTS

The Companies Ordinance requires the Directors to prepare financial statements for each financial year. Such financial statements should give a true and fair view of the state of affairs of the Company and of the Group as at the balance sheet date of a particular year and on the profit and loss of the Company and the Group for the year then ended. In preparing the financial statements, the Directors should:

(a) select and apply consistently appropriate accounting policies, make prudent, fair and reasonable judgement and estimation;

(b) report the reasons for any seriously deviation from accounting practice; and

(c) prepare the financial statements on going concern basis, unless it is inappropriate to assume the Company and the Group could continue to operate.

The Directors are responsible for the proper keeping of accounting record in order to secure assets of the Company and the Group. The Directors are also responsible for adopting reasonable measures to prevent and check any fraudulences and irregularities.

DONATIONS

For the year ended 31 December 2013, the Group made RMB100,000 (2012: RMB370,000) donations to charitable organisations and charity funds in the PRC.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

The is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors as at the latest practicable date prior to the issue of this report, the Company has maintained sufficient public float as required under the Listing Rules during the Year.

NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

There were no material non-adjusting events after the reporting period.

AUDITORS

RSM Nelson Wheeler retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of RSM Nelson Wheeler as the Company's auditors is to be proposed at the forthcoming annual general meeting.

By order of the Board
Huang Yue Qin
Executive Director

28 March 2014

Independent Auditor's Report

TO THE SHAREHOLDERS OF
SINO DRAGON NEW ENERGY HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Sino Dragon New Energy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 44 to 136, which comprise the consolidated and Company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Auditor's responsibility *(continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's results and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

28 March 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 *RMB'000*	2012 *RMB'000*
Turnover	7	**101,669**	156,577
Cost of goods sold		**(90,277)**	(159,321)
Gross profit/(loss)		**11,392**	(2,744)
Other income	8	**8,214**	31,610
Selling expenses		**(2,295)**	(3,858)
Administrative expenses		**(50,852)**	(29,506)
Other operating expenses		**(105)**	(542)
Impairment of non-current assets	17(c)	**(96,555)**	(146,244)
Impairment of goodwill	21	**—**	(20,217)
Loss from operations		**(130,201)**	(171,501)
Finance costs	10	**(7,205)**	(8,994)
Loss before tax		**(137,406)**	(180,495)
Income tax expense	11	**(68,699)**	(19,865)
Loss for the year	12	**(206,105)**	(200,360)
Other comprehensive income for the year, net of tax			
Item that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**1,317**	301
Total comprehensive income for the year		**(204,788)**	(200,059)

	Note	2013 RMB'000	2012 RMB'000
Loss for the year attributable to:			
Owners of the Company		**(206,016)**	(200,362)
Non-controlling interests		**(89)**	2
		(206,105)	(200,360)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(204,685)**	(200,061)
Non-controlling interests		**(103)**	2
		(204,788)	(200,059)
Loss per share	16		
Basic *(cents)*		**(8.21)**	(8.17)
Diluted *(cents)*		**(8.21)**	(8.18)

Consolidated Statement of Financial Position

AT 31 DECEMBER 2013

	Note	2013 RMB'000	2012 RMB'000
Non-current assets			
Property, plant and equipment	17	**90,021**	131,057
Investment property	18	**14,050**	—
Construction in progress	19	**321**	248
Prepaid land lease payments	20	**42,539**	67,404
Goodwill	21	**59,782**	—
Intangible assets	22	**100,110**	102,958
Long-term prepayments	24	**987**	983
Deferred tax assets	35	**2,133**	97,421
		309,943	400,071
Current assets			
Inventories	25	**31,943**	43,341
Prepaid land lease payments	20	**469**	1,877
Trade and other receivables	26	**429,768**	506,071
Due from a director	27	**2,293**	3,870
Current tax receivables		**—**	627
Pledged bank deposits	28	**285,000**	445,000
Non-pledged bank deposits with more than three months to maturity	28	**—**	18,000
Bank and cash balances	29	**32,157**	20,364
		781,630	1,039,150
Current liabilities			
Trade and other payables	30	**643,301**	910,390
Contingent payables	34	**19,729**	—
Due to directors	31	**1,866**	1,828
Due to related parties	44(c)	**2,138**	6,538
Bank loans	32	**71,100**	40,000
Current tax liabilities		**18,449**	24,141
		756,583	982,897
Net current assets		**25,047**	56,253
Total assets less current liabilities		**334,990**	456,324

	Note	**2013** **RMB'000**	2012 RMB'000
Non-current liabilities			
Derivative financial instruments	33	**2,510**	1,622
Convertible bonds	33	**41,147**	38,778
Deferred tax liabilities	35	**22,935**	45,454
		66,592	85,854
NET ASSETS		**268,398**	370,470
Capital and reserves			
Share capital	37	**131,938**	118,041
Reserves	38(a)	**106,086**	252,431
Equity attributable to owners of the Company		**238,024**	370,472
Non-controlling interests		**30,374**	(2)
TOTAL EQUITY		**268,398**	370,470

Approved by the Board of Directors on 28 March 2014

Yang Xin Min	**Huang Yue Qin**
Director	*Director*

Statement of Financial Position of the Company

AT 31 DECEMBER 2013

	Note	**2013** **RMB'000**	2012 RMB'000
Non-current assets			
Investments in subsidiaries	23	**87,242**	—
Current assets			
Other receivables	26	**11,179**	11,541
Due from subsidiaries	23	**201,611**	395,832
Due from a director	27	**—**	453
Bank and cash balances	29	**2,444**	195
		215,234	408,021
Current liabilities			
Accruals and other payables	30	**1,609**	1,106
Contingent payables	34	**19,729**	—
Due to subsidiaries	23	**22**	—
Due to directors	31	**281**	153
		21,641	1,259
Net current assets		**193,593**	406,762
Total assets less current liabilities		**280,835**	406,762

	Note	2013 RMB'000	2012 RMB'000
Non-current liabilities			
Derivative financial instruments	33	**2,510**	1,622
Convertible bonds	33	**41,147**	38,778
		43,657	40,400
NET ASSETS		**237,178**	366,362
Capital and reserves			
Share capital	37	**131,938**	118,041
Reserves	38(b)	**105,240**	248,321
TOTAL EQUITY		**237,178**	366,362

Approved by the Board of Directors on 28 March 2014

Yang Xin Min
Director

Huang Yue Qin
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2013

	Attributable to owners of the Company										
	Share capital *RMB'000* *(note 37)*	**Share premium account** *RMB'000* *(note 38(c)(i))*	**Merger reserve** *RMB'000* *(note 38(c)(ii))*	**Statutory reserves** *RMB'000* *(note 38 (c)(iii))*	**Share-based payment reserve** *RMB'000* *(note 38 (c)(iv))*	**Foreign currency translation reserve** *RMB'000* *(note 38 (c)(v))*	**Amount receivable in respect of consideration shares issued to the vendor** *RMB'000*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total** *RMB'000*
At 1 January 2012	123,332	746,929	(11,085)	95,452	18,006	(2,859)	(83,275)	(315,969)	570,531	(4)	570,527
Total comprehensive income for the year	—	—	—	—	—	301	—	(200,362)	(200,061)	2	(200,059)
Exchange alignment	—	—	—	—	—	2	—	—	2	—	2
Cancellation of consideration shares in relation to acquisition of Haney Holdings Limited *(note 37(a))*	(5,291)	(77,984)	—	—	—	—	83,275	—	—	—	—
Lapse of share options granted in prior years	—	—	—	—	(9,697)	—	—	9,697	—	—	—
Changes in equity for the year	(5,291)	(77,984)	—	—	(9,697)	303	83,275	(190,665)	(200,059)	2	(200,057)
At 31 December 2012 and 1 January 2013	**118,041**	**668,945**	**(11,085)**	**95,452**	**8,309**	**(2,556)**	**—**	**(506,634)**	**370,472**	**(2)**	**370,470**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**1,331**	**—**	**(206,016)**	**(204,685)**	**(103)**	**(204,788)**
Acquisition of subsidiaries *(note 45)*	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**30,479**	**30,479**
Issue of new shares	**3,947**	**12,569**	**—**	**—**	**—**	**—**	**—**	**—**	**16,516**	**—**	**16,516**
Issue of consideration shares in relation to acquisition of Virtual City Limited *(note 45)*	**9,950**	**45,771**	**—**	**—**	**—**	**—**	**—**	**—**	**55,721**	**—**	**55,721**
Lapse of share options granted in prior years	**—**	**—**	**—**	**—**	**(6,460)**	**—**	**—**	**6,460**	**—**	**—**	**—**
Changes in equity for the year	**13,897**	**58,340**	**—**	**—**	**(6,460)**	**1,331**	**—**	**(199,556)**	**(132,448)**	**30,376**	**(102,072)**
At 31 December 2013	**131,938**	**727,285**	**(11,085)**	**95,452**	**1,849**	**(1,225)**	**—**	**(706,190)**	**238,024**	**30,374**	**268,398**

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	**2013** **RMB'000**	2012 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(137,406)**	(180,495)
Adjustments for:			
Depreciation		**9,654**	13,068
Amortisation of prepaid land lease payments		**1,924**	1,714
Amortisation of intangible assets		**5,569**	8,280
Bank interest income		**(7,969)**	(11,858)
Interest income on prepayment to suppliers		**—**	(2,160)
Interest expenses on cash advance from related party		**—**	472
Interest expenses on bank loans wholly repayable within five years		**3,702**	2,720
Other finance costs		**19**	2,205
Interest expenses on convertible bonds measured at amortised cost		**3,484**	3,597
Allowance for/ (reversal of allowance for) inventories		**12,300**	(87)
Reversal of allowance for trade receivables		**(1,788)**	—
Allowance for trade receivables		**19**	1,788
Allowance for other receivables		**—**	85
Impairment of goodwill		**—**	20,217
Impairment of non-current assets		**96,555**	146,244
Write-off of property, plant and equipment		**5**	1,000
Change in carrying amount of liabilities component and fair value of derivative component of convertible bonds		**945**	(15,753)
Foreign exchange gains		**(192)**	(39)
Operating loss before working capital changes		**(13,179)**	(9,002)
Decrease/(increase) in inventories		**2,392**	(10,754)
Decrease/(increase) in trade and other receivables		**90,460**	(129,160)
Decrease/(increase) in due from a director		**1,577**	(908)
(Decrease)/increase in trade and other payables		**(277,690)**	298,177
Decrease in due to directors		**(1,067)**	(154)
Decrease in due to related parties		**(4,855)**	(9,600)
Cash (used in)/generated from operations		**(202,362)**	138,599
Income taxes paid		**(5,340)**	(897)
Net cash (used in)/generated from operating activities		**(207,702)**	137,702

Consolidated Statement of Cash Flows *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	**2013** **RMB'000**	2012 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease/(increase) in pledged bank deposits		**160,000**	(193,550)
Acquisition of subsidiaries, net of cash acquired	45	**(1,541)**	—
Purchases of property, plant and equipment		**(4,765)**	(18,483)
Payment for construction in progress		**(242)**	(2,339)
Payment for prepaid land lease payments		**—**	(1,096)
Payment for intangible asset		**(1,283)**	—
Decrease in long-term prepayments		**—**	3,832
Interests received		**7,969**	14,018
Decrease/(increase) in non-pledged bank deposits with more than three months to maturity		**18,000**	(1,000)
Net cash generated from/(used in) investing activities		**178,138**	(198,618)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		**(40,000)**	(60,000)
Bank loans raised		**69,100**	80,000
Proceeds from issue of shares		**16,516**	—
Interests and other finance cost paid		**(3,721)**	(5,397)
Net cash generated from financing activities		**41,895**	14,603
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**12,331**	(46,313)
Effect of foreign exchange rate changes		**(538)**	131
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**20,364**	66,546
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**32,157**	20,364
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances	29	**32,157**	20,364

1. GENERAL INFORMATION

The Company was incorporated on 18 July 2000 in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive P. O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is No. 68 Hongxin Road, Xushe Town, Yixing City, Jiangsu Province, the People's Republic of China ("**PRC**").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 23 to the financial statements.

In the opinion of the directors of the Company, as at 31 December 2013, Mr. Yang Xin Min is the ultimate controlling party of the Company.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised International Financial Reporting Standards ("**IFRSs**") that are relevant to its operations and effective for its accounting year beginning on 1 January 2013. IFRSs comprise International Financial Reporting Standards ("**IFRS**"); International Accounting Standards ("**IAS**"); and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years except as stated below.

a. Amendments to IAS 1 "Presentation of Financial Statements"

Amendments to IAS 1 titled Presentation of Items of Other Comprehensive Income introduce new optional terminology for statement of comprehensive income and income statement. Under the amendments to IAS 1 that were adopted by the Group, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

The amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

a. Amendments to IAS 1 "Presentation of Financial Statements" *(continued)*

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

b. IFRS 10 "Consolidated Financial Statements"

IFRS 10 "Consolidated Financial Statements" supersedes the requirements relating to consolidated financial statements in IAS 27 (Revised) "Consolidated and Separate Financial Statements" and Hong Kong (SIC) Interpretation 12 "Consolidation — Special Purpose Entities". IFRS 10 introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns. It clarifies the consolidation of an investee if the entity controls the investee on the basis of de facto circumstances.

The Group re-assessed the control conclusion for its investees as at 1 January 2013 and considered that the adoption of IFRS 10 did not result in any impact in changes in the consolidated amounts reported in the financial statements.

c. IFRS 12 "Disclosure of Interests in Other Entities"

IFRS 12 "Disclosure of Interests in Other Entities" specifies the disclosure requirements for subsidiaries, joint arrangements and associates, and introduces new disclosure requirements for unconsolidated structured entities.

The adoption of IFRS 12 only affects the disclosures relating to the Group's subsidiaries in the consolidated financial statements. IFRS 12 has been applied retrospectively.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

d. IFRS 13 "Fair Value Measurement"

IFRS 13 "Fair Value Measurement" establishes a single source of guidance for all fair value measurements required or permitted by IFRSs. It clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under market conditions, and enhances disclosures about fair value measurements.

The adoption of IFRS 13 only affects disclosures on fair value measurements in the consolidated financial statements. IFRS 13 has been applied prospectively.

The Group has not applied the new IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new IFRSs but is not yet in a position to state whether these new IFRSs would have a material impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with IFRSs and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment property, contingent payables and derivative financial instruments which are carried at their fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise their judgement in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements are disclosed in note 4 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's return.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Consolidation *(continued)*

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, available-for-sale investment), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Business combination and goodwill *(continued)*

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy 3(u) below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in Renminbi ("**RMB**") which is the Company's presentation currency and the functional currency of the principal operating subsidiaries of the Group.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Foreign currency translation *(continued)*

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

— Income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates for the period. (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in the other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) Property, plant and equipment

Buildings comprise mainly factories and offices. Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Property, plant and equipment *(continued)*

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	3.33%
Machinery and equipment	4.55% — 25%
Office equipment and fixtures	12.5% — 25%
Motor vehicles	12.5% — 25%

The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(e) Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value based on valuation by an external independent valuer. Gains or losses arising from changes in fair value of the investment property are recognised in profit or loss for the period in which they arise.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Operating leases

(i) The Group as lessee

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(ii) The Group as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

(g) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the Group's software development is recognised only if all of the following conditions are met:

— An asset is created that can be identified (such as software and new processes);

— It is probable that the asset created will generate future economic benefits; and

— The development cost of the asset can be measured reliably.

Internally generated intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 5 years. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

(h) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Intangible assets acquired in a business combination *(continued)*

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Amortisation of intangible assets is charged to profit or loss on a straight line basis over their estimated useful lives as follows:

Backlog	1.4 years
Technical know-how	5 years
Operating license	22 years
Software development costs	5 years

Both the period and method of amortisation are reviewed annually.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(l) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(m) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Financial liabilities and equity instruments *(continued)*

(i) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(ii) Convertible bonds

Convertible bonds which entitle the holder to convert the loans into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments that consist of a liability and a derivative component. At the date of issue, the fair value of the derivative component is determined using an option pricing model; and this amount is carried as a derivative liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption. The derivative component is subsequently measured at fair value with gains and losses recognised in profit or loss.

Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components on initial recognition.

(iii) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(iv) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Derivative financial instruments

Derivatives are initially is recognised and subsequently measured at fair value.

Changes in the fair value of derivatives are recognised in profit or loss as they arise.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with changes in fair value recognised in profit or loss.

(o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

(i) Sales of goods

Revenues from the sales of manufactured goods and trading of raw materials are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

(ii) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(iii) Commission income

Commission income is recognised when the service is rendered.

(iv) Rental income

Rental income is recognised on a straight-line basis over lease term.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Revenue recognition *(continued)*

(v) Storage service income

Storage service income is recognised when the related services are provided on a time proportion basis over the storage terms.

(vi) Service fee income

Service fee income is recognised when the services are rendered.

(vii) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received. Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

(p) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

(ii) Pension obligations

Obligation for contributions to the PRC local government defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Share-based payments

The Group issued equity-settled share-based payments to certain directors, employees and consultants.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Equity-settled share-based payments to consultants are measured at the fair value of the services rendered or if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and is recognised as an expense.

(r) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years, it further excludes items that are never taxable or deductible and included previous years item that were not taxable/deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Taxation *(continued)*

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax for such investment properties are measured based on the expected manner as to how the properties will be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(t) Related parties

A related party is a person or entity that is related to the Group.

(A) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Related parties *(continued)*

(B) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (A).

(vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(u) Impairment of assets

Intangible assets that have an indefinite useful life or not yet available for use are reviewed annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

At the end of each reporting period, the Group reviews the carrying amounts of its others assets except goodwill, investment property, deferred tax assets, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Impairment of assets *(continued)*

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(v) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Property, plant and equipment and depreciation

The Group determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Details of the impairment loss calculation are provided in note 21 to the financial statements.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(d) Impairment of property, plant and equipment

The Group assesses annually whether property, plant and equipment have any indication of impairment in accordance with the accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value in use calculations. These calculations require the use of judgement and estimates.

(e) Fair values of investment properties

The Group appointed an independent professional valuer to assess the fair values of the investment properties. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

(f) Intangible assets and amortisation

The Group determines the estimated useful lives and related amortisation for the Group's intangible assets. The useful live of intangible assets are assessed to be either finite or indefinite, based on the expected usage and technical obsolescence from the changes in the market demands or services output from the assets. Intangible assets with finite useful lives are amortised over the expected useful economic lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for the intangible assets with a finite useful life are reviewed by the management at least at the end of each reporting period.

(g) Impairment of intangible assets

Determining whether intangible assets is impaired requires an estimation of the value in use of the cash-generating unit to which intangible assets belonged. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Details of the impairment loss calculation are provided in note 22 to the financial statements.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(h) Allowance for trade and other receivables

The Group makes allowance for trade and other receivables based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Allowances arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

(i) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

(j) Fair value of derivative component

As disclosed in note 33 to the financial statements, the fair values of the derivative component of the convertible bond at the date of issue and the end of the reporting period were determined using binomial models. The application of binomial models requires the Company to estimate the prominent factors affecting the fair value, including but not limited to, the expected life of the derivative component, the expected volatility of the share values of the Company and the potential dilution in the share values of the Company. Where the estimation on these factors is different from those previously estimated, such differences will impact the fair value gain or loss of the derivative component in the period in which such determination is made.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(k) Recognition of deferred tax assets

Recognition of deferred tax assets, which principally relates to deductible temporary differences and tax losses, depends on whether it is probable that future taxable profits or taxable temporary differences will be available against which deferred tax assets can be utilised. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a reversal of deferred tax assets may arise, which will be recognised in profit or loss for the period in which such a reversal takes place. During the year, the Group has reversed approximately of RMB89,124,000 deferred tax asset recognised in previous years arising from impairment of property, plant and equipment. The directors considered that, based on the cash flow projects and value-in-use calculations prepared for the impairment test of property, plant and equipment, the Group may not generate taxation profits in the foreseeable future. As disclosed in note 4(d), these calculations required the use of judgement and estimates.

(l) Deferred tax for investment properties

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred tax for investment properties, the directors have adopted the presumption that investment properties measured using the fair value model are recovered through sale.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in RMB, Hong Kong dollars ("**HK$**") and United States dollars ("**US$**"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

5. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk

The carrying amount of the pledged and non-pledged bank deposits, bank and cash balances, trade and other receivables and due from a director included in the statement of financial position represents the Group's maximum exposure to credit risk in relation to Group's financial assets.

(i) Trade and other receivables

In respect of the petrochemicals business, the Group is exposed to credit risk from both the suppliers of the petrochemicals and the end-customers. The credit risk exposure to the suppliers arises when the Group makes advance payments to the suppliers in the form of bank bills to secure the petrochemicals needed to fulfil an order from an end-customer. The credit exposure to the supplier ends when the supplier delivers the goods to the end-customer. From this time until settlement of the trade receivables, the Group is exposed to the credit risk of the end-customer. In these arrangements, the Group acts as an agent and therefore it does not recognise the gross amount of sales and purchase in its profit or loss, but instead recognises the margin as commission income. Advance payments are made to independent suppliers with high reputation in the industry and good track record with the Group. At the same time, management has a credit policy in place to manage the credit risk from customers through monitoring their settlement within the credit period such that the obligations under the bank bills issued to the suppliers would be met when they fall due.

In respect of the Group's business other than the petrochemicals business, the Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Amount due from a director is closely monitored by the other directors.

At the end of the reporting period, the Group has a certain concentration of credit risk as 8% (2012: 19%) and 36% (2012: 67%) of the total trade receivables were due from the Group's largest debtor and the five largest debtors as at 31 December 2013 respectively. The Group does not hold any collateral over these balances.

(ii) Deposits with banks and bank and cash balances

The credit risk on pledged and non-pledged bank deposits and bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

5. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of financial liabilities is as follows:

	The Group		
	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2013			
Trade and other payables	**643,301**	—	—
Contingent payables	**19,729**	—	—
Due to directors	**1,866**	—	—
Due to related parties	**2,138**	—	—
Bank loans	**72,231**	—	—
Convertible bonds	—	—	**50,825**
Derivative financial instruments	—	—	**2,510**
At 31 December 2012			
Trade and other payables	910,390	—	—
Due to directors	1,828	—	—
Due to related parties	6,538	—	—
Bank loans	40,900	—	—
Convertible bonds	—	—	52,268
Derivative financial instruments	—	—	1,622

5. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Liquidity risk *(continued)*

	The Company		
	Less than 1 year *RMB'000*	**Between 1 and 2 years** *RMB'000*	**Between 2 and 5 years** *RMB'000*
At 31 December 2013			
Accruals and other payables	**1,609**	**—**	**—**
Contingent payables	**19,729**	**—**	**—**
Due to subsidiaries	**22**	**—**	**—**
Due to directors	**281**	**—**	**—**
Convertible bonds	**—**	**—**	**50,825**
Derivative financial instruments	**—**	**—**	**2,510**
At 31 December 2012			
Accruals and other payables	1,106	—	—
Due to directors	153	—	—
Convertible bonds	—	—	52,268
Derivative financial instruments	—	—	1,622

(d) Interest rate risk

The Group's exposure to interest rate risk arises from its bank balances and a bank loan. These balances and loan bear interests at variable rates varied with the then prevailing market condition.

At 31 December 2013, if interest rates at that date had been 100 basis points higher/lower with all other variables held constant, consolidated loss after tax for the year would have been RMB62,000 lower/higher (2012: RMB155,000 lower/higher), arising mainly as a result of higher/lower interest income/expenses on bank deposits and bank loans.

Other than the bank balances and a bank loan as mentioned above, the Group's deposits and other bank loans bear interest at fixed interest rates and therefore are subject to fair value interest rate risks.

5. FINANCIAL RISK MANAGEMENT *(continued)*

(e) Categories of financial instruments at 31 December 2013

	2013 *RMB'000*	2012 *RMB'000*
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**363,341**	523,516
Financial liabilities:		
Fair value through profit or loss:		
Derivative financial instruments	**2,510**	1,622
Contingent payables	**19,729**	—
Financial liabilities at amortised cost	**755,882**	996,372

(f) Fair values

Except as disclosed in note 6, the carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

6. FAIR VALUE MEASUREMENTS

Fair value is 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. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

6. FAIR VALUE MEASUREMENTS *(continued)*

(a) Disclosure of level in fair value hierarchy at 31 December 2013:

	Fair value measurements as at 31 December 2013 using:			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Recurring fair value measurement:				
Asset at fair value through profit or loss				
— Investment property				
— Commercial in the PRC *(note 18)*	**—**	**—**	**14,050**	**14,050**
Recurring fair value measurement:				
Financial liabilities at fair value through profit or loss				
— Contingent payables *(note 34)*	**—**	**—**	**(19,729)**	**(19,729)**
— Derivative financial instruments *(note 33)*	**—**	**—**	**(2,510)**	**(2,510)**
	—	**—**	**(22,239)**	**(22,239)**

	Fair value measurements as at 31 December 2012 using:			
Description	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Recurring fair value measurement:				
Financial liabilities at fair value through profit or loss				
— Derivative financial instruments *(note 33)*	**—**	**—**	**(1,622)**	**(1,622)**

6. FAIR VALUE MEASUREMENTS *(continued)*

(b) Reconciliation of assets / liabilities measured at fair value based on level 3:

Description	Assets/(liabilities) at fair value through profit or loss			
	Investment property	Contingent payables	Derivative financial instruments	2013 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2013	—	—	(1,622)	(1,622)
Total gains or losses recognised in profit or loss (#)	—	—	(945)	(945)
Additions on acquisition of subsidiaries	14,050	(19,729)	—	(5,679)
Exchange difference	—	—	57	57
At 31 December 2013	14,050	(19,729)	(2,510)	(8,189)
(#) Include gains or losses for assets held at end of reporting period	—	—	(945)	(945)

6. FAIR VALUE MEASUREMENTS *(continued)*

(b) Reconciliation of assets / liabilities measured at fair value based on level 3: *(continued)*

Description	Assets/(liabilities) at fair value through profit or loss			
	Investment property *RMB'000*	Contingent payables *RMB'000*	Derivative financial instruments *RMB'000*	2012 Total *RMB'000*
At 1 January 2012	—	—	(17,440)	(17,440)
Total gains or losses recognised in profit or loss (#)	—	—	15,858	15,858
Exchange difference	—	—	(40)	(40)
At 31 December 2012	—	—	(1,622)	(1,622)
(#) Include gains or losses for assets held at end of reporting period	—	—	15,858	15,858

The total gains or losses recognised in profit or loss including those for assets held at end of reporting period are presented in other income or administrative expenses in the statement of profit or loss and other comprehensive income.

6. FAIR VALUE MEASUREMENTS (continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2013:

The Group's financial controller is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The financial controller reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board of Directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with recognised professional qualifications and recent experience to perform the valuations.

Level 3 fair value measurements

Description	Valuation technique	Significant Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value 2013 RMB'000
Investment property — Commercial PRC	Replacement cost approach	Price per square metre	Land RMB520/sq.m. Structure RMB2,460/sq.m.	Increase in fair value	14,050
Contingent payables	Income approach	Expected shortfall	HK$0-3million	Decrease in liability	(19,729)
Derivative financial instruments	Binominal approach	Discount rate	7%	N/A	(2,510)

Description	Valuation technique	Significant Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value 2012 RMB'000
Derivative financial instruments	Binominal approach	Discount rate	7%	N/A	(1,622)

7. TURNOVER

The Group's turnover which represents sales of goods to customers, revenue from commission income, consultation service income and storage service income are as follows:

	2013	2012
	RMB'000	*RMB'000*
Sales of zirconium and new energy materials	**61,475**	114,185
Sales of rechargeable batteries	**14,938**	17,172
Sales of software and consultation service income	**7,302**	—
Storage service income	**15,251**	17,872
Commission income	**2,657**	7,348
Others	**46**	—
	101,669	156,577

8. OTHER INCOME

	2013	2012
	RMB'000	*RMB'000*
Bank interest income	**7,969**	11,858
Interest income on prepayments to suppliers	**—**	2,160
Government grants	**162**	1,528
Net foreign exchange gain	**—**	18
Change in carrying amount of liability component and fair value of derivative component of convertible bonds *(note 33)*	**—**	15,753
Others	**83**	293
	8,214	31,610

Government grants represented subsidies for the support of business development of certain subsidiaries by local government authorities. There are no unfulfilled conditions and other contingencies attached to those government grants.

9. SEGMENT INFORMATION

The Group has three reportable segments as follows:

(i)	Zirconium segment	—	Manufacture and sale of zirconium chemicals, new energy materials and rechargeable batteries
(ii)	O2O solutions segment	—	Sale of software and provision of O2O consultation service
(iii)	Petrochemicals segment	—	Provision of petrochemicals storage and trading service

The Group disclosed segment information based on operating subsidiaries prior to year 2012. The Group acquired Virtual City Limited and its subsidiaries (note 45) during the year. Virtual City Limited and its subsidiaries are principally engaged in online to offline ("**O2O**") solutions and software development, which was a different operating segment, therefore management adopted the above new headings for segment reporting for the year ended 31 December 2013. Each of the above operating segments corresponds to related subsidiaries engaging in the respective segment activities.

Petrochemicals segment is wholly attributable to Muntari Holdings Limited and its subsidiaries while zirconium segment is attributable to Yixing Xinxing Zirconium Company Limited, Binhai Dragon Crystal Chemicals Company Limited, Yixing Better Batteries Company Limited and P.T. Asia Prima Resources as previously referred.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Segment profits or losses do not include corporate income and expenses. Segment assets do not include goodwill and corporate assets. Segment liabilities do not include convertible bonds, derivative financial instruments, contingent payables and corporate liabilities.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

9. SEGMENT INFORMATION *(continued)*

(i) Information about reportable segments' profit or loss, assets and liabilities:

	Zirconium segment		O2O solutions segment		Petrochemicals segment		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Year ended 31 December								
Revenue from external customers	**76,413**	131,357	**7,348**	–	**17,908**	25,220	**101,669**	156,577
Segment loss	**(84,240)**	(77,547)	**(333)**	–	**(42,313)**	(89,718)	**(126,886)**	(167,265)
Interest revenue	**811**	360	**3**	–	**7,155**	13,658	**7,969**	14,018
Interest expense	**–**	–	**39**	–	**3,663**	5,397	**3,702**	5,397
Depreciation and amortisation	**6,449**	9,124	**790**	–	**9,903**	13,930	**17,142**	23,054
Income tax expense	**–**	–	**128**	–	**433**	2,896	**561**	2,896
Other material non-cash items:								
Impairment of assets	**57,654**	51,561	**–**	–	**38,901**	94,683	**96,555**	146,244
Allowance for inventories	**12,300**	–	**–**	–	**–**	–	**12,300**	-
Additions to segment non-current assets	**771**	12,952	**1,323**	–	**4,196**	8,966	**6,290**	21,918
At 31 December								
Segment assets	**153,421**	255,370	**73,115**	–	**802,125**	1,191,530	**1,028,661**	1,446,900
Segment liabilities	**(158,227)**	(168,832)	**(15,524)**	–	**(681,468)**	(957,396)	**(855,219)**	(1,126,228)

9. SEGMENT INFORMATION *(continued)*

(ii) Reconciliations of reportable segments' revenue, profit or loss, assets and liabilities:

	2013 **RMB'000**	2012 *RMB'000*
Revenue		
Total revenue of reportable segments and consolidated revenue	**101,669**	156,577

	2013 **RMB'000**	2012 *RMB'000*
Profit or loss		
Total loss of reportable segments	**(126,886)**	(167,265)
Unallocated amounts:		
Change in carrying amount of liabilities component and fair value of derivative component of convertible bonds	**(945)**	15,753
Impairment of goodwill	**—**	(20,217)
Unallocated head office and corporate expenses	**(9,575)**	(8,766)
Consolidated loss before tax	**(137,406)**	(180,495)

	2013 **RMB'000**	2012 *RMB'000*
Assets		
Total assets of reportable segments	**1,028,661**	1,446,900
Elimination of intersegment assets	**(395)**	(13,981)
Unallocated amounts:		
Goodwill	**59,782**	—
Unallocated head office and corporate assets	**3,525**	6,302
Consolidated total assets	**1,091,573**	1,439,221

9. SEGMENT INFORMATION *(continued)*

(ii) Reconciliations of reportable segments' revenue, profit or loss, assets and liabilities: *(continued)*

	2013	2012
	RMB'000	*RMB'000*
Liabilities		
Total liabilities of reportable segments	**855,219**	1,126,228
Elimination of intersegment liabilities	**(97,786)**	(99,608)
Unallocated amounts:		
Convertible bonds	**41,147**	38,778
Derivative financial instruments	**2,510**	1,622
Contingent payables	**19,729**	—
Unallocated head office and corporate liabilities	**2,356**	1,731
Consolidated total liabilities	**823,175**	1,068,751

(iii) Geographical information:

	2013	2012
	RMB'000	*RMB'000*
Revenue		
PRC except Hong Kong	**54,408**	77,800
North America	**12,969**	24,092
Europe	**9,123**	22,992
Japan	**16,877**	17,701
Others	**8,292**	13,992
Consolidated total revenue	**101,669**	156,577

In presenting the geographical information, revenue is based on the locations of the customers.

The Group's non-current assets are substantially located in the PRC.

9. SEGMENT INFORMATION *(continued)*

(iv) Revenue from major customers:

	2013 **RMB'000**	2012 RMB'000
Customer A	**14,633**	—
Customer B	**10,092**	—

Each of the major customers represents a single external customer whose sale transaction amount is 10% or more of the revenue of the Group.

10. FINANCE COSTS

	2013 **RMB'000**	2012 RMB'000
Interest expenses on cash advance from related party	**—**	472
Interest expenses on bank loans wholly repayable within five years	**3,702**	2,720
Imputed interest expenses on convertible bonds wholly payable within five years *(note 33)*	**3,484**	3,597
Others	**19**	2,205
	7,205	8,994

11. INCOME TAX EXPENSE

	2013 RMB'000	2012 RMB'000
Current tax - Hong Kong profits tax		
Provision for the year	**156**	—
Over-provision in prior year	**(28)**	—
	128	—
Current tax - PRC enterprise income tax ("**PRC EIT**")		
Provision for the year	**433**	3,781
Over-provision in prior year	**—**	(885)
	433	2,896
Deferred tax *(note 35)*	**68,138**	16,969
Provision for the year	**68,699**	19,865

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands ("**BVI**"), the Group is not subject to any income tax in the Cayman Islands and BVI.

Hong Kong profits tax has been provided at a rate of 16.5% on the estimated assessable profit for the year ended 31 December 2013. No provision for Hong Kong profits tax has been made for the year ended 31 December 2012 as the Group did not generate any assessable profits arising in Hong Kong during that year.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group's subsidiaries operate, based on existing legislation, interpretation and practices in respect thereof.

11. INCOME TAX EXPENSE *(continued)*

The new PRC EIT law (the "**New Tax Law**") that was passed by the Tenth National People's Congress on 16 March 2007 introduced various changes which included the unification of the EIT for domestic and foreign enterprises at 25%. The New Tax Law was effective from 1 January 2008.

As a production-oriented foreign investment enterprise ("**FIE**"), Yixing Better Batteries Company Limited ("**YBBL**") had kicked off its tax holiday (the "**Tax Holiday**") under the old PRC EIT regime in 2008. As such, YBBL was exempted from PRC EIT in 2009. The unexpired Tax Holiday enjoyed by FIE established before 16 March 2007 is allowed to continue after implementation of PRC Tax Law until expiry of the Tax Holiday. As such, the applicable EIT rate of YBBL is 12.5% in years 2010 to 2012 and 25% thereafter.

Smartac Solutions (Suzhou) Ltd. ("**SZYL**") was recognised as an advance technology enterprise (高新技術企業) in 2011 and was entitled to enjoy an income tax concession at preferential rate of 15% effective from 1 January 2011. The applicable EIT rate SZYL applied for provision of income tax for the years ended 2011, 2012 and 2013 was 15% and will be 25% from the year ended 2014 onwards.

The reconciliation between the income tax expense and the product of loss before tax multiplied by the weighted average tax rate of the consolidated companies is as follows:

	2013 ***RMB'000***	2012 *RMB'000*
Loss before tax	**(137,406)**	(180,495)
Tax at the weighted average tax rate	**(33,446)**	(43,266)
Tax effect of income that is not taxable	**(3)**	(2,824)
Tax effect of expenses that are not deductible	**1,065**	42,642
Tax effect of temporary differences and tax losses not recognised	**101,111**	24,208
Tax concession	**—**	(10)
Over-provision in prior years	**(28)**	(885)
Income tax expense	**68,699**	19,865

12. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging/(crediting) the following:

	2013 RMB'000	2012 RMB'000
Allowance for trade receivables	**19**	1,788
Allowance for other receivables	**—**	85
Allowance for inventories	**12,300**	—
Amortisation of intangible assets	**5,569**	8,280
Amortisation of prepaid land lease payments	**1,924**	1,714
Auditor's remuneration		
— Audit services	**1,529**	1,396
— Other services	**229**	—
	1,758	1,396
Change in fair value of derivative component of convertible bonds	**945**	—
Cost of inventories sold *	**72,449**	137,075
Depreciation	**9,654**	13,068
Directors' emoluments *(note 13)*	**2,439**	2,459
Impairment of goodwill	**—**	20,217
Impairment of construction in progress	**26**	—
Impairment of intangible assets	**22,562**	56,064
Impairment of prepaid land lease payment	**26,700**	—
Impairment of property, plant and equipment	**47,267**	94,142
Net foreign exchange loss	**800**	—
Reversal of allowance for inventories	**—**	(87)
Reversal of allowance for trade receivables	**(1,788)**	—
Write-off of property, plant and equipment	**5**	1,000
Operating leases charges in respect of		
— Office premises in Hong Kong	**1,032**	727
— Leasehold land in PRC	**3,981**	3,824
	5,013	4,551
Staff costs (including directors' emoluments)		
— Salaries, bonus and allowances	**21,274**	15,884
— Provision for long service payments	**15**	—
— Retirement benefit scheme contributions	**890**	880
	22,179	16,764

* Cost of inventories sold includes staff costs, depreciation, amortisation and operating lease charges of approximately RMB7,950,000 (2012: RMB15,909,000) which are included in the amounts disclosed separately above.

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of each director were as follows:

For the year ended 31 December 2013

Name of director	Fees	Salaries and allowances	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors				
Mr. Yang Xin Min	—	1,409	6	1,415
Ms. Huang Yue Qin	—	417	6	423
Mr. Zhou Quan	—	258	6	264
Mr. Fang Guo Hong *(note a)*	—	—	—	—
Mr. Kwan Che Hang Jason *(note b)*	—	12	—	12
	—	2,096	18	2,114
Non-executive director				
Mr. Wang Jia Wei	95	—	—	95
Independent Non-executive directors				
Dr. Cheng Faat Ting Gary	79	—	—	79
Prof. Ji Chang Ming	80	—	—	80
Mr. Poon Lai Yin Michael	71	—	—	71
	230	—	—	230
	325	2,096	18	2,439

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

The emoluments of each director were as follows:

For the year ended 31 December 2012

Name of director	Fees	Salaries and allowances	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors				
Mr. Yang Xin Min	—	1,420	4	1,424
Mr. Li Fu Ping *(note c)*	—	140	4	144
Ms. Huang Yue Qin	—	349	4	353
Mr. Zhou Quan	—	202	4	206
Mr. Fang Guo Hong	—	—	—	—
	—	2,111	16	2,127
Non-executive director				
Mr. Wang Jia Wei	98	—	—	98
Independent Non-executive directors				
Dr. Cheng Faat Ting Gary	81	—	—	81
Prof. Ji Chang Ming	80	—	—	80
Mr. Poon Lai Yin Michael	73	—	—	73
	234	—	—	234
	332	2,111	16	2,459

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

Notes :

(a) Resigned on 8 April 2013

(b) Appointed on 1 December 2013

(c) Resigned on 10 September 2012

During the year, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out below as an inducement to join or upon joining the Group or as compensation for loss of office.

The five highest paid individuals in the Group during the year included 4 (2012: 4) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 1 (2012: 1) individual are set out below:

	2013 *RMB'000*	2012 *RMB'000*
Salaries and allowances	**618**	634
Discretionary bonus	**154**	159
Retirement benefit scheme contributions	**12**	11
	784	804

The emoluments fell within the following band:

	Number of individuals	
	2013	2012
Nil to HK$1,000,000 (equivalent to Nil to RMB792,000 (2012: RMB804,000))	**1**	1

14. LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss for the year attributable to owners of the Company included a loss of approximately RMB183,110,000 (2012: RMB102,326,000) which has been dealt with in the financial statements of the Company (note 38(b)).

15. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2013 (2012: Nil).

16. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the following:

	2013	2012
	RMB'000	*RMB'000*
Loss		
Loss for the purpose of calculating basic loss per share	**(206,016)**	(200,362)
Effect of interest saved on the liability component of convertible bonds outstanding	**3,484**	3,597
Effect of carrying amount of liability component and fair value of derivative component of convertible bonds	**945**	(15,753)
Loss for the purpose of calculating diluted loss per share	**(201,587)**	(212,518)

	2013	2012
Number of shares		
Issued ordinary shares at 1 January	**2,453,806,546**	2,583,412,645
Effect of consideration shares issued/(cancelled)	**24,967,361**	(129,606,099)
Effect of shares issued	**29,315,068**	—
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**2,508,088,975**	2,453,806,546
Effect of dilutive potential ordinary shares arising from convertible bonds and unissued consideration shares outstanding	**—**	144,444,444
Weighted average number of ordinary shares for the purpose of calculating diluted loss per share	**2,508,088,975**	2,598,250,990

The Company did not have any dilutive potential ordinary shares for the year ended 31 December 2013 as the effects (being considered individually) of convertible bond and unissued consideration shares were anti-dilutive.

For the year ended 31 December 2012 and 2013, as the effect of the Company's outstanding share options were anti-dilutive, the Company did not include the effect of such dilutive potential ordinary shares arising from the outstanding share options in the weighted average number of ordinary share for the purpose of calculating diluted loss per share.

17. PROPERTY, PLANT AND EQUIPMENT

	The Group				
	Buildings RMB'000	Machinery and equipment RMB'000	Office equipment and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost					
At 1 January 2012	218,049	531,386	3,862	8,503	761,800
Additions	3,364	14,678	75	366	18,483
Transfer from construction in progress *(note 19)*	11,286	20,670	—	—	31,956
Transfer from long-term prepayments	6,420	45,051	—	—	51,471
Write-off	—	(1,200)	—	—	(1,200)
Exchange differences	—	—	(10)	—	(10)
At 31 December 2012 and 1 January 2013	239,119	610,585	3,927	8,869	862,500
Additions	5	4,088	54	618	4,765
Acquisition of subsidiaries *(note 45)*	8,437	—	2,004	528	10,969
Write-off	—	—	(105)	—	(105)
Transfer from construction in progress *(note 19)*	143	—	—	—	143
Exchange differences	—	—	8	—	8
At 31 December 2013	247,704	614,673	5,888	10,015	878,280
Accumulated depreciation and impairment					
At 1 January 2012	206,275	372,740	1,491	6,490	586,996
Charge for the year	587	11,293	477	711	13,068
Impairment loss *(note c)*	10,386	82,899	857	—	94,142
Transfer from construction in progress *(note 19)*	2,008	2,890	—	—	4,898
Transfer from long term prepayment	—	32,549	—	—	32,549
Write-off	—	(200)	—	—	(200)
Exchange differences	—	—	(10)	—	(10)
At 31 December 2012 and 1 January 2013	219,256	502,171	2,815	7,201	731,443
Charge for the year	1,033	7,495	440	686	9,654
Impairment loss *(note c)*	10,067	37,198	2	—	47,267
Write-off	—	—	(100)	—	(100)
Exchange differences	1	—	(6)	—	(5)
At 31 December 2013	230,357	546,864	3,151	7,887	788,259
Carrying amount					
At 31 December 2013	17,347	67,809	2,737	2,128	90,021
At 31 December 2012	19,863	108,414	1,112	1,668	131,057

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Notes:

(a) The Group's buildings and machinery are located in the PRC and Indonesia under medium term leases.

(b) At 31 December 2013, the Group was still in the process of obtaining the relevant property ownership certificates of certain buildings in the PRC and Indonesia from the relevant government authorities, the carrying value of which amounted to approximately RMB15,503,000 (2012: RMB16,899,000).

At 31 December 2013, the carrying amount of property, plant and machinery pledged as security for the Group's notes payables (note 30) and the Group's bank loans (note 32) amounted to approximately RMB68,802,000 (2012: RMB70,921,000).

(c) The Group conducted an impairment test of the carrying amounts of the non-current assets. Based on the valuation report prepared by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional valuers ("**LCH**"), the Group recognised an impairment loss of approximately RMB96,555,000 (2012: RMB146,244,000) for the non-current assets. The recoverable amounts of the non-current assets have been determined on the basis of their value in use calculation using cash flow projection prepared based on the financial budgets approved by the directors covering a five-year period.

The key assumptions used for the value in use calculation in relation to the non-current assets of zirconium segment are:

	2013	2012
Growth rate	**3%**	3%
Discount rate	**10%**	11%

The directors determined the growth rate based on the expectation for market development. The growth rate does not exceed the average long-term growth rate for the business which it operates. The discount rate used is pre-tax rate that reflects specific risks relating to zirconium industry.

The key assumptions used for the value in use calculation details of the impairment test of goodwill and related non-current assets of petrochemicals segment are disclosed in note 21(a).

(d) The impairment losses of non-current assets of the Group charged to profit or loss for the year ended 31 December 2013 can be further analysed as follows:

2013	**Attributable to zirconium segment** *RMB'000*	**Attributable to petrochemicals segment** *RMB'000* (note 21(a))	**Total impairment loss** *RMB'000*
Property, plant and equipment	**30,928**	**16,339**	**47,267**
Construction in progress *(note 19)*	**26**	**—**	**26**
Intangible assets *(note 22)*	**—**	**22,562**	**22,562**
Prepaid land lease payment *(note 20)*	**26,700**	**—**	**26,700**
Charged to profit or loss	**57,654**	**38,901**	**96,555**

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Notes: (continued)

(d) *(continued)*

2012	Attributable to zirconium segment *RMB'000*	Attributable to petrochemicals segment *RMB'000* *(note 21(a))*	Total impairment loss *RMB'000*
Property, plant and equipment	55,523	38,619	94,142
Construction in progress *(note 19)*	—	—	—
Intangible assets *(note 22)*	—	56,064	56,064
Long-term prepayments	(3,962)	—	(3,962)
Charged to profit or loss	51,561	94,683	146,244

18. INVESTMENT PROPERTY

	The Group 2013 ***RMB'000***
At 1 January	**—**
Acquisition of subsidiaries *(note 45)*	**14,050**
At 31 December	**14,050**

The fair value of the Group's investment property at date of acquisition was valued on the replacement cost basis by LCH.

The directors determined the fair value of the Group's investment property at 31 December 2013 is close to the fair value of the Group's investment property at date of acquisition.

The fair value of the Group's investment property is within level 3 of the fair value hierarchy.

The Group's investment property at its carrying amounts is analysed as follows:

	2013 ***RMB'000***	2012 *RMB'000*
PRC:		
Medium-term lease	**14,050**	—

At 31 December 2013, investment property was pledged as security for the Group's bank loans (note 32(b)).

19. CONSTRUCTION IN PROGRESS

	The Group	
	2013	2012
	RMB'000	*RMB'000*
At 1 January	**248**	24,967
Additions	**242**	2,339
Transfer to property, plant and equipment *(note 17)*	**(143)**	(31,956)
Impairment loss transferred to property, plant and equipment *(note 17)*	**—**	4,898
Impairment loss *(note 17(c))*	**(26)**	—
At 31 December	**321**	248

The Group's construction in progress comprises costs incurred on buildings under construction and plant and machinery pending installation.

20. PREPAID LAND LEASE PAYMENTS

	The Group	
	2013	2012
	RMB'000	*RMB'000*
At 1 January	**69,281**	62,679
Additions	**—**	1,096
Acquisition of subsidiaries *(note 45)*	**2,351**	—
Impairment loss *(note 17(c))*	**(26,700)**	—
Transfer from long-term prepayments	**—**	7,220
Amortisation for the year	**(1,924)**	(1,714)
At 31 December	**43,008**	69,281
Current portion	**(469)**	(1,877)
Non-current portion	**42,539**	67,404

The Group's prepaid land lease payments represent payments for land use rights in the PRC and Indonesia under medium term leases.

At 31 December 2013, prepaid land lease payment with carrying amount of RMB2,341,000 was pledged as security for the Group's bank loans (note 32(b)).

21. GOODWILL

	The Group			
		O2O solutions segment		
	Petrochemicals segment	**Software development**	**Hardware installation**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(note a)	*(note b)*	*(note b)*	
Cost				
At 1 January 2012, 31 December 2012 and 1 January 2013	255,573	—	—	255,573
Acquisition of subsidiaries *(note 45)*	—	56,093	3,689	59,782
At 31 December 2013	255,573	56,093	3,689	315,355
Accumulated impairment losses				
At 1 January 2012	235,356	—	—	235,356
Impairment loss *(note (a))*	20,217	—	—	20,217
At 31 December 2012, 1 January 2013 and 31 December 2013	255,573	—	—	255,573
Carrying amount				
At 31 December 2013	—	56,093	3,689	59,782
At 31 December 2012	—	—	—	—

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("**CGUs**") that are expected to benefit from that business combination.

21. GOODWILL *(continued)*

Notes:

(a) The Group acquired 100% equity interest in Muntari Holdings Limited and its subsidiaries (NBLY and NBBK) on 6 January 2011. The goodwill arising from the acquisition is allocated to CGU of petrochemicals segment.

The recoverable amount of the CGU of petrochemicals segment as at 31 December 2013 was determined on the basis of the value in use calculation using cash flow projections prepared based on the financial budgets approved by the directors covering a five-year period. Cash flow beyond the five-year period was extrapolated using an estimated rate as stated below. The key assumptions used for the value in use calculation are:

	2013	2012
Growth rate	**3%**	3%
Discount rate	**16%**	14%

The management determined the growth rate based on past performance and expectation on petrochemicals market. The growth rate is based on long-term average economic growth rate of the geographical area, i.e. the PRC, in which the subsidiaries of the CGU operate. The discount rate used is pre-tax rate that reflects specific risks relating to the petrochemicals market.

The principal activities of the operating subsidiaries of the petrochemicals segment were engaged in storage and wholesale business of petrochemicals in Ningbo, the PRC. The directors considered that there was impairment loss as at 31 December 2012 and 31 December 2013 due to lower market rental rate and lower demand for petrochemical storage facilities in Ningbo, in the PRC.

The impairment losses were computed as the shortfall between the recoverable amount of petrochemicals segment and its carrying amount, including goodwill as at 31 December 2012, based on the valuation report prepared by LCH. Given that the impairment loss was larger than the carrying amount of goodwill, the impairment loss was allocated against goodwill first and then to other relevant assets listed below. The impairment losses of non-current assets of petrochemicals segment charged to profit or loss for the year ended 31 December 2013 of approximately RMB38,901,000 (2012: RMB94,683,000) can be further analysed as follows:

	The Group	
	2013	2012
	RMB'000	*RMB'000*
Property, plant and equipment *(note 17(d))*	**16,339**	38,619
Intangible assets *(note 22)*	**22,562**	56,064
Charged to profit or loss	**38,901**	94,683

As the CGU has been reduced to its recoverable amount, any adverse change in assumptions used in the calculation of recoverable amount would result in further impairment losses.

21. GOODWILL *(continued)*

Notes: (continued)

(b) The Group acquired 51% of the equity interest in VCL Group as disclosed in note 45 to the financial statements. The goodwill arising from the acquisition is allocated to CGU of software development and CGU of hardware installation respectively.

The recoverable amounts of the CGUs of software development and hardware installation as at 31 December 2013 were determined on the basis of their value in use calculations using cash flow projections prepared based on the financial budgets approved by the directors covering a five-year period. Cash flows beyond the five-year period was extrapolated using estimated rates as stated below.The key assumptions for the value in use calculations are:

	Software development *(note (i))*	**Hardware installation** *(note (ii))*
Growth rate	**4%**	**4%**
Discount rate	**17%**	**18%**

(i) The management determined the growth rate based on past performance and expectation on I.T. related market. The growth rate does not exceed the average long-term growth rate for the business in which the CGU operates. The discount rate used is pre-tax rate that reflects specific risks relating to the software development industry.

(ii) The management determined the growth rate based on past performance. The growth rate does not exceed the average long-term growth rate for the business in which the CGU operates. The discount rate used is pre-tax rate that reflects specific risks relating to similar companies in the industry.

22. INTANGIBLE ASSETS

	The Group				
	Technical know-how (note a) RMB'000	Operating license (note b) RMB'000	Software development costs (note c) RMB'000	Backlog (note d) RMB'000	Total RMB'000
Cost					
At 1 January 2012, 31 December 2012 and 1 January 2013	4,345	174,924	—	1,141	180,410
Acquisition of subsidiaries *(note 45)*	—	—	24,000	—	24,000
Addition	—	—	1,283	—	1,283
At 31 December 2013	4,345	174,924	25,283	1,141	205,693
Accumulated amortisation and impairment losses					
At 1 January 2012	4,342	7,951	—	815	13,108
Amortisation for the year	3	7,951	—	326	8,280
Impairment loss *(note 17(c))*	—	56,064	—	—	56,064
At 31 December 2012 and 1 January 2013	4,345	71,966	—	1,141	77,452
Amortisation for the year	—	5,148	421	—	5,569
Impairment loss *(note 17(c))*	—	22,562	—	—	22,562
At 31 December 2013	4,345	99,676	421	1,141	105,583
Carrying amount					
At 31 December 2013	—	75,248	24,862	—	100,110
At 31 December 2012	—	102,958	—	—	102,958

Notes:

(a) Technical know-how mainly represents a production technology in respect of rechargeable batteries acquired from a third party at a cost of RMB3,500,000 in 2003 and is amortised over the estimated useful life of 5 years.

(b) Operating license represents the license to operate the wholesale and storage of petrochemicals granted by the PRC government authorities and is amortised over the estimated useful life of 22 years.

(c) Software development costs represent the self-developed software for sales and is amortised over the estimated useful life of 5 years.

(d) Backlog represents the operating lease contracts signed with customer in respect of the petrochemicals storage business and is amortised over the estimated useful life of 1.4 years.

23. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2013	2012
	RMB'000	*RMB'000*
Unlisted investments, at cost	**117,986**	30,744
Less: Impairment loss *(note b)*	**(30,744)**	(30,744)
	87,242	—

The amounts due from/(to) subsidiaries are unsecured, interest free and repayable on demand.

Particulars of the subsidiaries as at 31 December 2013 are as follows:

Name of subsidiary	**Place of incorporation/ establishment**	**Issued and fully paid up capital/ registered capital**	**Percentage of ownership interest** Direct	Indirect	**Principal activities**
Kingweston Technology Limited	BVI	US$2,500,000	100%	—	Investment holding
P.T. Asia Prima Resources ("**APR**")	Indonesia	US$1,900,000	51%	—	Separation, processing and refining of zircon sand, contracting and management of mining concession and the sale of zircon products
濱海龍晶化工有限公司 (Binhai Dragon Crystal Chemicals Company Limited)*	PRC	US$12,410,550	—	100%	Research, development, manufacturing and sales of zirconium compounds
Century Dragon Investment Limited	Hong Kong ("**HK**")	HK$15,000,000	—	100%	Leasing of the Group's office premises in HK, provision of administrative services and general trading in HK

23. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries as at 31 December 2013 are as follows: *(continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up capital/ registered capital	Percentage of ownership interest Direct	Indirect	Principal activities
宜興倍特電池有限公司 (Yixing Better Batteries Company Limited)*	PRC	US$4,200,000	—	100%	Research, development, manufacturing and sales of rechargeable batteries
宜興新興鋯業有限公司 (Yixing Xinxing Zirconium Company Limited)*	PRC	US$13,100,000	—	100%	Research, development, manufacturing and sales of zirconium compounds, electronic materials, electronics ceramics and new energy materials
Kanway Investments Limited ("**KW**")	BVI	US$50,000	100%	—	Investment holding
Muntari Holdings Limited#	BVI	US$1	—	100%	Investment holding
Muntari Investments (HK) Limited#	HK	HK$1	—	100%	Investment holding
寧波聯易企業管理諮詢有限公司 (Ningbo Lianyi Enterprise Management Consultancy Company Limited) ("**NBLY**")*#	PRC	RMB1,500,000	—	100%	Management consulting
寧波市博琨石化倉儲有限公司 (Ningbo Bokun Petrochemical Storage Company Limited) ("**NBBK**")*#	PRC	RMB50,000,000	—	Note (a)	Petrochemicals storage and wholesale
Virtual City Limited ("**VCL**")	BVI	US$10,000	51%	—	Investment holding
Samrtac Group Limited (formerly known as "Modern Dreamer Limited")	HK	HK$1	—	51%	Investment holding
Smartac International Limited (formerly known as "Neo Solution Limited")	HK	HK$1	—	51%	Investment holding

23. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries as at 31 December 2013 are as follows: *(continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up capital/ registered capital	Percentage of ownership interest Direct	Percentage of ownership interest Indirect	Principal activities
Smartac Asia Limited	HK	HK$1,000	—	51%	Providing communication system installation and system integration business
Smartac China Limited	HK	HK$1,162,500	—	51%	Investment holding
PCS I-Datacomms Limited	HK	HK$100,000	—	26%	Providing structure cabling, IT infra-structure and system integration business and system maintenance.
Advanced Voice Technologies Asia Limited	HK	HK$100,000	—	27%	Trading of voice mail telephone system and provision of maintenance services
Evolve Consulting Limited	HK	HK$10,000	—	26%	Provision of recruitment consulting services
怡峰商務諮詢(上海)有限公司 (Evolve Consulting (Shanghai) Limited)*	PRC	US$110,000	—	26%	Provision of human resources consultancy services
盈聯卡內基信息科技(蘇州)有限公司 (PCS Carnegie (Suzhou) Co., Ltd.)*	PRC	US$150,000	—	51%	Investment holding
蘇州盈聯智能科技股份有限公司* (Smartac Solutions (Suzhou) Ltd.) ("**SZYL**")*	PRC	RMB19,000,000	—	48%	Software development

* These subsidiaries are foreign investment enterprises established pursuant to the law of the PRC.

The financial statements of these subsidiaries were audited by Ernst & Young Hua Ming LLP.

23. INVESTMENTS IN SUBSIDIARIES *(continued)*

Notes:

(a) Pursuant to the exclusive management consultancy service agreement ("**the Service Agreement**") entered into among NBLY, NBBK and the shareholders of NBBK on 1 July 2010, NBBK has granted a 10-year exclusive right (which can be extended for 10 years each time without any consideration) to NBLY to provide exclusive management consultancy services to NBBK for managing the business of wholesale and storage of petrochemicals in the PRC of NBBK. The Service Agreement provides that without the written consent of NBLY, NBBK shall not accept the same or similar services provided by any third party. To guarantee the performance of the obligations of NBBK and the shareholders of NBBK under the Service Agreement, NBBK and the shareholders of NBBK granted a right to NBLY that, as permissible under the then PRC laws and regulations, NBLY can purchase the entire or partial equity interest in NBBK or assets of NBBK or the assets of NBBK distributed to the shareholders of NBBK upon bankruptcy or liquidation of NBBK.

On 1 July 2010, all the shareholders of NBBK have authorised, through the Power of Attorney, NBLY to act as their exclusive agent and attorney with respect to the matters including but not limited to (i) attending shareholder's meeting of NBBK; (ii) exercising all the shareholder's rights and shareholder's voting rights; and (iii) designating and appointing the directors and other key management members of NBBK. By way of the Service Agreement and the Power of Attorney, NBLY will be entitled to enjoy 100% economic benefit from NBBK.

On 1 July 2010, NBLY, the shareholders of NBBK, and NBBK entered into the Share Charge Agreement, pursuant to which the shareholders of NBBK pledged their respective equity interests in NBBK to guarantee the performance of the obligations of NBBK and the shareholders of NBBK under the Service Agreement.

On 1 July 2010, NBLY, the shareholders of NBBK, and NBBK also entered into the Exclusive Option Agreement pursuant to which (i) the shareholders of NBBK irrevocably granted NBLY or the person designated by NBLY an exclusive right to, at its full discretion, purchase the entire or partial equity interest in NBBK at no consideration or the lowest price at such time as permissible under the then PRC laws; and (ii) NBLY or the person designated by NBLY will receive dividends and other form of economic benefits distributed on the basis of shares held by the shareholders of NBBK.

In opinion of the directors, NBLY has control over NBBK through the above agreements.

(b) In late December 2009, the zircon sand processing plant area of APR was sealed off by the local government authority of Indonesia, pending for the investigation of certain mineral supplies being made to the plant by certain suppliers without proper mining license. Based on available facts and circumstances, the directors of the Company were of the view that there was no indication of potential litigation against APR or the Group in respect of this matter at the reporting date. As the Group was uncertain on when APR would resume access to the zircon sand processing plant, the directors of the Company decided to make a full provision for the impairment losses of the assets of APR totalling RMB9,138,000 as at 31 December 2009.

On 22 February 2011, Indonesian National Police issued a notice of termination of investigation to APR, stating that the investigation was terminated and no criminal case was resulted from the investigation. As the operation of APR was still under suspension and there was no concrete plan for re-opening of the plant as at 31 December 2012 and 2013, the Company's directors considered that it was appropriate to maintain the full provision for the impairment losses on the assets of APR.

23. INVESTMENTS IN SUBSIDIARIES *(continued)*

Notes: (continued)

(c) The following table shows financial information of VCL Group that has non-controlling interests ("**NCI**") material to the Group (note 45). The financial information represents amounts before inter-company eliminations.

	VCL Group
	2013
	RMB'000
Country of incorporation of VCL	**BVI**
Principal place of businesses	**HK & the PRC**
% of ownership interests / voting rights held by NCI	**49%**
At 31 December 2013:	
Non-current assets	**20,896**
Current assets	**21,847**
Current liabilities	**(14,635)**
Net assets	**28,108**
Accumulated NCI	**13,773**
For the period from 26 November 2013 (date of acquisition) to 31 December 2013:	
Loss and total comprehensive income	**(82)**
Loss allocated to NCI	**(119)**
Net cash used in operating activities	**(544)**
Net cash used in investing activities	**(1,310)**
Net cash generated from financing activities	**6,196**

24. LONG-TERM PREPAYMENTS

As at 31 December 2013, the Group had made prepayments of approximately RMB987,000 (2012: RMB983,000), for the acquisition of machinery and equipment for the manufacturing plants under development.

25. INVENTORIES

	The Group	
	2013	2012
	RMB'000	*RMB'000*
Raw materials	**19,262**	30,307
Work in progress	**3,090**	2,590
Finished goods	**9,591**	10,444
	31,943	43,341

Reconciliation of allowance for inventories:

	The Group	
	2013	2012
	RMB'000	*RMB'000*
At 1 January	**6,400**	6,487
Allowance for inventories	**12,300**	—
Reversal of allowance	**—**	(87)
Exchange difference	**(297)**	—
At 31 December	**18,403**	6,400

26. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables *(note a)*	**17,165**	12,534	**—**	—
Bills receivables	**—**	150	**—**	—
Less: Allowance for doubtful debts	**(1,292)**	(2,387)	**—**	—
	15,873	10,297	**—**	—
Advance payments to suppliers				
— petrochemical suppliers	**382,376**	463,238	**—**	—
— other suppliers	**1,217**	1,098	**—**	—
— other projects	**1,751**	—	**—**	—
Deposits and prepayments	**1,311**	5,699	**—**	—
Other receivables *(note b)*	**27,240**	25,739	**232**	283
Dividend receivables	**—**	—	**10,947**	11,258
	429,768	506,071	**11,179**	11,541

(a) Trade receivables

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 90 days. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors and senior managment.

The ageing analysis of trade receivables, based on invoice date, and net of allowance, is as follows:

	The Group	
	2013	2012
	RMB'000	*RMB'000*
Up to 3 months	**12,124**	9,791
3 to 6 months	**2,663**	—
6 months to 1 year	**373**	305
Over 1 year	**713**	51
	15,873	10,147

26. TRADE AND OTHER RECEIVABLES *(continued)*

(a) Trade receivables *(continued)*

Reconciliation of allowance for trade receivables:

	The Group	
	2013	2012
	RMB'000	*RMB'000*
At 1 January	**2,387**	599
Acquisition of subsidiaries	**674**	—
Allowance for the year	**19**	1,788
Reversal of allowance	**(1,788)**	—
At 31 December	**1,292**	2,387

As of 31 December 2013, trade receivables of approximately RMB7,770,000 (2012: RMB1,127,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	The Group	
	2013	2012
	RMB'000	*RMB'000*
Up to 3 months	**5,631**	771
3 to 6 months	**1,045**	55
6 months to 1 year	**381**	250
Over 1 year	**713**	51
	7,770	1,127

26. TRADE AND OTHER RECEIVABLES *(continued)*

(a) Trade receivables *(continued)*

The carrying amounts of the Group's trade and bills receivables are denominated in the following currencies:

	The Group	
	2013	2012
	RMB'000	*RMB'000*
HK$	**3,972**	—
RMB	**6,047**	5,424
US$	**5,854**	4,873
	15,873	10,297

(b) Other receivables

At 31 December 2013, no other receivable was individually determined to be impaired (2012: approximately RMB85,000).

27. DUE FROM A DIRECTOR

Amounts due from a director disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

The Group

Name	**Terms of advance**	**Balance at 31 December 2013**	**Balance at 1 January 2013**	**Maximum amount outstanding during the year**
		RMB'000	*RMB'000*	*RMB'000*
Mr. Yang Xin Min	Unsecured, repayable on demand and interest-free	2,293	3,870	3,870

The Company

Name	**Terms of advance**	**Balance at 31 December 2013**	**Balance at 1 January 2013**	**Maximum amount outstanding during the year**
		RMB'000	*RMB'000*	*RMB'000*
Mr. Yang Xin Min	Unsecured, repayable on demand and interest-free	—	453	453

28. PLEDGED BANK DEPOSITS AND NON-PLEDGED BANK DEPOSITS WITH MORE THAN THREE MONTHS TO MATURITY

The Group's pledged bank deposits represented deposit pledged to banks to secure banking facilities granted to the Group as set out in notes 30 and 32 to the financial statements.

The bank deposits are at fixed interest rate as below and therefore expose the Group to fair value interest rate risk.

	The Group	
	2013	2012
Pledged bank deposits	**2.80%**	2.80%
Non-pledged bank deposits with more than three months to maturity	**3.05%**	2.85%

As at 31 December 2013 and 2012, all the bank deposits are denominated in RMB.

29. BANK AND CASH BALANCES

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and on hand	**14,657**	20,364	**2,444**	195
Bank deposits	**17,500**	—	**—**	—
	32,157	20,364	**2,444**	195

29. BANK AND CASH BALANCES (continued)

The carrying amounts of the Group's and Company's bank and cash balances are denominated in the following currencies:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
US$	**523**	1,010	**—**	1
Hong Kong dollars ("HK$")	**6,971**	789	**2,407**	173
RMB	**24,662**	18,543	**37**	—
Others	**1**	22	**—**	21
	32,157	20,364	**2,444**	195

As at 31 December 2013, the Group's bank and cash balances denominated in RMB amounted to approximately RMB24,662,000 (2012: RMB18,543,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

30. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**16,514**	8,725	**—**	—
Note payables	**585,000**	855,000	**—**	—
	601,514	863,725	**—**	—
Receipts in advance from customers	**3,670**	1,162	**—**	—
Payables for construction costs and purchase of property, plant and equipment	**3,551**	16,100	**—**	—
Accruals and other payables	**34,566**	29,403	**1,609**	1,106
	643,301	910,390	**1,609**	1,106

30. TRADE AND OTHER PAYABLES *(continued)*

The ageing analysis of the Group's trade payables, based on the date of receipt of goods, is as follows:

	The Group	
	2013	2012
	RMB'000	*RMB'000*
Up to 3 months	**11,721**	6,784
3 to 6 months	**2,365**	801
6 months to 1 year	**768**	421
Over 1 year	**1,660**	719
	16,514	8,725

The carrying amounts of the Group's trade and note payables are denominated in the following currencies:

	2013	2012
	RMB'000	*RMB'000*
RMB	**599,179**	863,670
HK$	**1,830**	—
US$	**505**	55
	601,514	863,725

As at 31 December 2013, the Group's notes payables of RMB585,000,000 (2012: RMB 855,000,000) were secured by pledged bank deposits (note 28), machinery and equipment (note 17(b)) and other guarantees as set out in note 32 to the financial statements.

31. DUE TO DIRECTORS

The amounts due to directors are unsecured, interest-free and repayable on demand.

32. BANK LOANS AND BANKING FACILITIES

The Group's bank loans are repayable within one year. The carrying amounts of the Group's bank loans are denominated in RMB, arranged at fixed interest rates of 6% p.a. (2012: 6%) and expose the Group to fair value interest rate risk.

(a) Bank loans of RMB69,100,000 (2012: RMB40,000,000) and note payables (note 30) of RMB585,000,000 (2012: RMB855,000,000) of petrochemicals segment are secured by:

— Charge over the machinery and equipment (note 17(b));

— Charge over pledged bank deposits (note 28);

— Guarantee provided by a related company, Shanghai Bokun Investments Co., Ltd. (note 44(b));

— Guarantee provided by a third party for the year ended 31 December 2013; and

— Personal guarantees provided by Mr. Wang Jia Wei and Ms. Liu Chao Yin, an associate of Mr. Wang Jia Wei (note 44(b)).

(b) Bank loan of RMB2,000,000 (2012: Nil) of O2O solutions segment is secured by:

— Charge over the building (note 17(b));

— Charge over the investment property for the year ended 31 December 2013 (note 18);

— Charge over the prepaid land lease payments (note 20);

33. CONVERTIBLE BONDS

The Company issued 2 tranches, Tranche 1 and 2, of convertible bonds at 100% of the principal amount of HK$65,000,000 for each tranche (totalling HK$130,000,000), as part of the consideration for the acquisition of Muntari Holdings Limited and its subsidiaries on 6 January 2011. The convertible bonds are interest-free and unsecured.

Pursuant to the share transfer agreement signed on 4 November 2010 between the Company, KW, Sinobright Petroleum Management Holding Co. Limited ("**Sinobright**") and Mr. Wang Jiawei (the "**2010 Agreement**"), Sinobright guaranteed that the aggregate audited net profit after taxation and non-controlling interests but before extraordinary items of NBBK and NBLY as adjusted in accordance with the Agreement shall not be less than HK$30 million ("**2010 Consideration Adjustment**") for the financial year ended 31 December 2010 and HK$33 million ("**2011 Consideration Adjustment**") for the financial year ended 31 December 2011, respectively. In the event that NBBK and NBLY fail to meet the 2010 Consideration Adjustment or 2011 Consideration Adjustment, Sinobright shall indemnify the Company by deducting the compensation amount from the convertible bonds in accordance with the Agreement. The directors confirmed that the 2010 Consideration Adjustment and 2011 Consideration Adjustment had been met.

33. CONVERTIBLE BONDS *(continued)*

The rights of the convertible bond holders to convert the convertible bonds into ordinary shares are as follows:

— Conversion rights regarding Tranche 1 of convertible bonds are exercisable at any time after 15 days from the date of the board meeting for approving the audited financial statements of NBLY and NBBK, (both are group entities of Muntari Group of petrochemicals segment), for the financial year ended 31 December 2010 up to 10 business days prior to its maturity date on 6 January 2016.

— Conversion rights regarding Tranche 2 of convertible bonds are exercisable at any time after 15 days from the date of the board meeting for approving the audited financial statements of NBLY and NBBK for the financial year ended 31 December 2011 up to 10 business days prior to its maturity date on 6 January 2016.

— If a convertible bond holder exercises its conversion rights, the Company is required to deliver ordinary shares at a conversion price of HK$0.45 per share.

The convertible bond holders are not entitled to redeem the convertible bonds before their maturity date. On the other hand, the Company shall have the right to redeem all, but not some only, of the convertible bonds outstanding at an amount equivalent to the principal amount of the convertible bonds in its sole and absolute discretion at any time after 30 months of the issue date of the convertible bonds.

The convertible bonds of either tranche, in respect of which conversion rights have not been exercised, will be redeemed at face value on the maturity date.

On 16 June 2011, Tranche 1 of convertible bonds with principal amount of HK$65,000,000 was converted into 144,444,444 ordinary shares of the Company.

33. CONVERTIBLE BONDS *(continued)*

The amounts from the issue of the convertible bonds have been split between the liability component and derivative component as follows:

	The Group and the Company		
	Liability component	**Derivative component**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2012	35,391	17,440	52,831
Interest charge for the year *(note 10)*	3,597	—	3,597
Change in carrying amount and fair value *(note 8)*	105	(15,858)	(15,753)
Exchange difference	(315)	40	(275)
At 31 December 2012 and 1 January 2013	38,778	1,622	40,400
Interest charge for the year *(note 10)*	3,484	—	3,484
Change in fair value *(note 12)*	—	945	945
Exchange difference	(1,115)	(57)	(1,172)
At 31 December 2013	41,147	2,510	43,657

The interest charged for the year is calculated by applying an effective interest rate of 8.92% (2012: 8.92%) to the liability component per annum.

The fair value of the liability component of the convertible bonds at 31 December 2013 was approximately HK$56,710,000 (equivalent to RMB44,343,000) (2012: HK$52,992,000 (equivalent to RMB42,612,000)). The derivative component is measured at its fair value at the date of issue and at the end of each reporting period. The fair value has been determined by LCH. The fair values are estimated using the binomial model. The key assumptions used are as follows:

	31 December 2013	31 December 2012
Weighted average share price	**HK$0.28**	HK$0.18
Weighted average exercise price	**HK$0.45**	HK$0.45
Expected volatility	**83%**	70%
Expected life	**2.02 years**	3.02 years
Risk free rate	**0.33%**	0.12%
Expected dividend yield	**0%**	0%

34. CONTINGENT PAYABLES

Contingent payables represented the Tranche B consideration shares offered to the vendor in the acquisition of subsidiaries as disclosed in note 45. The fair value of the Tranche B consideration shares is approximately RMB19,729,000 as at the date of acquisition (note 45(c)) and 31 December 2013.

35. DEFERRED TAX

The following are the deferred tax assets and liabilities recognised by the Group.

	Property, plant and equipment and other assets	Future benefit of tax losses	Intangible assets	Investment property	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2012	112,823	3,921	(47,808)	—	68,936
(Charged)/credited to profit or loss *(note 11)*	(15,440)	(3,883)	2,354	—	(16,969)
At 31 December 2012 and 1 January 2013	97,383	38	(45,454)	—	51,967
Reclassification	(5,698)	—	5,698	—	—
Acquisition of subsidiaries *(note 45)*	(456)	—	(3,128)	(1,047)	(4,631)
(Charged)/credited to profit or loss *(note 11)*	(89,124)	(10)	20,996	—	(68,138)
At 31 December 2013	2,105	28	(21,888)	(1,047)	(20,802)

The following is the analysis of the deferred tax balances (after offset) for statement of financial position purposes:

	The Group	
	2013	2012
	RMB'000	*RMB'000*
Deferred tax liabilities	**(22,935)**	(45,454)
Deferred tax assets	**2,133**	97,421
	(20,802)	51,967

35. DEFERRED TAX *(continued)*

At 31 December 2013, the Group has unused tax losses of approximately RMB171,742,000 (2012: RMB144,626,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB113,000 (2012: RMB150,000) of such losses. No deferred tax asset has been recognised in respect of the remaining approximately RMB171,629,000 (2012: RMB144,476,000) due to the unpredictability of future profit streams.

The unused tax losses of approximately RMB142,902,000 (2012: RMB110,210,000) will expire as follows:

	2013	2012
	RMB'000	*RMB'000*
Year 2014	**37,203**	37,203
Year 2015	**14,271**	14,271
Year 2016	**8,799**	8,799
Year 2017	**49,937**	49,937
Year 2018	**32,692**	—
	142,902	110,210

Other tax losses may be carried forward indefinitely.

36. DEFINED CONTRIBUTION RETIREMENT PLAN

The Group participates in a Mandatory Provident Fund Scheme ("**the MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000.

The employees of the Group's subsidiaries established in the PRC are members of a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of this subsidiary. The only obligation of this subsidiary with respect to the central pension scheme is to meet the required contributions under the scheme.

36. DEFINED CONTRIBUTION RETIREMENT PLAN *(continued)*

The Group's total contributions to these schemes charged to the profit or loss during the year ended 31 December 2013 amounted to approximately RMB910,000 (2012: approximately RMB880,000) representing contributions payable by the Group to the schemes at the appropriate rates set by the local government of the subsidiaries.

37. SHARE CAPITAL

	The Company	
	Number of shares	Nominal value of shares
		HK$'000
Authorised:		
Ordinary shares of HK$0.05 each		
At 31 December 2012, 1 January 2013 and 31 December 2013	8,000,000,000	400,000

	Number of shares	Nominal value of shares	Nominal value of shares
		HK$'000	*RMB'000*
Issued and fully paid:			
At 1 January 2012	2,583,412,645	129,170	123,332
Cancellation of consideration shares in relation to acquisition of Haney Holdings Limited *(note a)*	(129,606,099)	(6,480)	(5,291)
At 31 December 2012 and 1 January 2013	2,453,806,546	122,690	118,041
Issue of shares upon placement *(note b)*	100,000,000	5,000	3,947
Issue of consideration shares in relation to acquisition of subsidiaries *(note c)*	253,141,304	12,657	9,950
At 31 December 2013	2,806,947,850	140,347	131,938

37. SHARE CAPITAL *(continued)*

Notes:

(a) On 30 July 2012, an extraordinary general meeting was held by the Company. A special resolutions was passed to approve the deed of settlement (the "**Deed of Settlement**") signed among the Company, KW and Mr. Wang Xiaoping Peter dated 25 May 2012 to cancel a total of 129,606,099 ordinary shares which were surrendered by Mr. Wang Xiaoping Peter at nil consideration. The consideration shares issued to him in relation to the acquisition of Haney Holdings Limited was also cancelled with effect from 30 July 2012 in accordance with the Deed of Settlement.

(b) On 6 September 2013, the Company and China Investment Securities International Brokerage Limited entered into a placing and subscription agreement in respect of the placement of 100,000,000 ordinary shares of HK$0.05 each at a price of HK$0.215 per share. The placement was completed on 16 September 2013. The premium on the issue of shares, amounting to approximately RMB12,569,000 (equivalent to approximately HK$15,925,000), net of share issue expenses of RMB454,000 (equivalent to approximately HK$575,000), was credited to the Company's share premium account and RMB3,947,000 was credited to share capital.

(c) On 26 November 2013, the Company issued 253,141,304 consideration shares to shareholders of Virtual City Limited, as part of the consideration of 51% equity interest in VCL Group (note 45), of which approximately RMB45,771,000 was credited to the share premium account and RMB9,950,000 was credited to share capital.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, if any, return capital to shareholders, issue new shares, or sell assets to reduce debt. No changes were made in the objectives, policies and processes during the year ended 31 December 2012 and 2013.

The Group monitors capital using a gearing ratio, which is the Group's total debts (comprising trade and other payables, contingent payables, due to directors and related companies, bank loans, derivative financial instruments and convertible bonds) over its total equity. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2013 was 291.3% (2012: 273.6%).

38. RESERVES

(a) The Group

The amounts of the Group's reserves and movements therein are presented in the Group's statement of profit or loss and other comprehensive income and statement of changes in equity.

(b) The Company

	Share premium account	Share-based payment reserve	Foreign currency translation reserve	Amount receivable in respect of consideration shares issued to the vendor	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(note(c)(i))	*(note(c)(iv))*	*(note(c)(v))*			
At 1 January 2012	746,929	18,006	(88,258)	(83,275)	(242,616)	350,786
Total comprehensive income for the year	—	—	(5,430)	—	(102,326)	(107,756)
Cancellation of consideration shares pursuant to the Deed of Settlement in relation to acquisition of Haney Holdings Limited *(note 37(a))*	(77,984)	—	—	83,275	—	5,291
Lapse of share options granted in prior years	—	(9,697)	—	—	9,697	—
Changes in equity for the year	(77,984)	(9,697)	(5,430)	83,275	(92,629)	(102,465)
At 31 December 2012 and at 1 January 2013	668,945	8,309	(93,688)	—	(335,245)	248,321
Total comprehensive income for the year	—	—	(18,311)	—	(183,110)	(201,421)
Issue of new shares upon placement *(note 37(b))*	12,569	—	—	—	—	12,569
Issue of consideration shares in relation to acquisition of Virtual City Limited *(notes 37(c) and 45)*	45,771	—	—	—	—	45,771
Lapse of share options granted in prior years	—	(6,460)	—	—	6,460	—
Changes in equity for the year	58,340	(6,460)	(18,311)	—	(176,650)	(143,081)
At 31 December 2013	727,285	1,849	(111,999)	—	(511,895)	105,240

38. RESERVES *(continued)*

(c) Nature and purpose of reserves

(i) Share premium account

Share premium represents premium arising from the issue of shares at a price in excess of their par value. Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Merger reserve

The merger reserve of the Group arose as a result of the Group reorganisation implemented in preparation for the listing of the Company's shares in 2002 and represented the difference between the nominal value of the aggregate capital of the subsidiaries combined under the group reorganisation over the nominal value of the share capital of the Company issued in exchange therefore.

(iii) Statutory reserve

The statutory reserve, which is non-distributable, is appropriated from the profit after taxation of the Group's PRC subsidiaries under the applicable laws and regulations in the PRC.

(iv) Share-based payment reserve

The share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 3(q) to the financial statements.

(v) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(c) to the financial statements.

39. SHARE-BASED PAYMENTS

Equity-settled share option scheme

Pursuant to the written resolution passed by the shareholders of the Company on 24 September 2002, the share option scheme (the "**Old Scheme**") was approved and adopted and, the board of directors may, at its discretion, grant options to any director (whether executive or non-executive and whether independent or not), any employee (whether full-time or part-time), any consultant or adviser of or to the Company or the Group (whether on an employment or contractual or honorary basis and whether paid or unpaid).

Pursuant to the resolution passed by the shareholders of the Company in the annual general meeting held on 27 May 2011, the Old Scheme was terminated such that no further options could thereafter be offered under the Old Scheme but in all other respects and provisions of the Old Scheme shall remain in full force and effect, while a new share option scheme (the "**New Scheme**") was approved and adopted and, the board of directors may, at its discretion, grant options to the eligible persons as defined in the New Scheme.

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants include the full-time and part-time employees, directors and full-time and part-time business consultants of the Company and the shareholders of the Group. The New Scheme became effective on 27 May 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of shares options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date of the offer of the share options or the expiry date of the New Scheme, if earlier.

39. SHARE-BASED PAYMENTS *(continued)*

Equity-settled share option scheme *(continued)*

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares on the date of the offer.

Share options do not confer rights on the holder to dividends or to vote at shareholders' meetings.

Details of the specific categories of options are as follows:

Date of grant	Grantee	Vesting period	Exercise period	Subscription Price per share HK$	No. of shares granted
15 August 2008	Consultants	Immediate	15 August 2008 to 15 August 2013	0.330	600,000
31 May 2010	Directors	Immediate	31 May 2010 to 30 May 2015	0.261	200,000
3 December 2010	Consultants	Immediate	3 December 2010 to 2 December 2013	0.680	51,000,000
14 June 2011	Director	Immediate	14 June 2011 to 13 June 2013	0.818	22,480,000
14 June 2011	Directors	Immediate	14 June 2011 to 13 June 2016	0.818	4,600,000
14 June 2011	Employees	Immediate	14 June 2011 to 13 June 2016	0.818	600,000
21 July 2011	Consultants	Immediate	21 July 2011 to 20 July 2013	0.860	5,000,000
Grand Total					84,480,000

If the options remain unexercised after an exercise period from the date of grant, the options expire. Options are forfeited if the employee leaves the Group.

39. SHARE-BASED PAYMENTS *(continued)*

Equity-settled share option scheme *(continued)*

Details of the specific categories of options are as follows:

For the year ended 31 December 2013

Grantee	Outstanding at 1 January	Reclassified/ Expired during the year	Forfeited during the year	Outstanding at 31 December	Exercisable at 31 December	Exercise price
Directors	200,000	—	—	200,000	200,000	HK$0.261
Directors	27,080,000	(23,080,000)	—	4,000,000	4,000,000	HK$0.818
Employees	600,000	600,000	—	1,200,000	1,200,000	HK$0.818
Consultants	600,000	(600,000)	—	—	—	HK$0.330
	28,480,000	(23,080,000)	—	5,400,000	5,400,000	
Weighted average exercise price	HK$0.80	HK$0.81	—	HK$0.80	HK$0.80	

For the year ended 31 December 2012

Grantee	Outstanding at 1 January	Expired during the year	Forfeited during the year	Outstanding at 31 December	Exercisable at 31 December	Exercise price
Directors	200,000	—	—	200,000	200,000	HK$0.261
Directors	27,080,000	—	—	27,080,000	27,080,000	HK$0.818
Employees	600,000	—	—	600,000	600,000	HK$0.818
Consultants	600,000	—	—	600,000	600,000	HK$0.330
Consultants	34,000,000	(34,000,000)	—	—	—	HK$0.680
Consultants	5,000,000	—	(5,000,000)	—	—	HK$0.860
	67,480,000	(34,000,000)	(5,000,000)	28,480,000	28,480,000	
Weighted average exercise price	HK$0.75	HK$0.68	HK$0.86	HK$0.80	HK$0.80	

39. SHARE-BASED PAYMENTS *(continued)*

Equity-settled share option scheme *(continued)*

The options outstanding at 31 December 2013 had an exercise price which ranged from HK$0.261 to HK$0.818 (2012: HK$0.261 to HK$0.860) and a weighted average remaining contractual life of approximately 1 year (2012: approximately 1 year).

40. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2013, the Group did not have any material non-cash transaction.

During the year ended 31 December 2012, additions to property, plant and equipment, net of impairment losses, and prepaid land lease payment of approximately RMB18,922,000 and RMB7,220,000 respectively were transferred from long-term prepayments.

41. CAPITAL COMMITMENTS

The Group's capital commitments at the end of the reporting period are as follows:

	The Group	
	2013	2012
	RMB'000	*RMB'000*
Property, plant and equipment		
Contracted but not provided for	**2,223**	2,223

42. LEASE COMMITMENTS

At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2013	2012
	RMB'000	*RMB'000*
Within 1 year	**3,963**	3,205
In the 2 to 5 years inclusive	**9,103**	9,764
After 5 years	**28,351**	30,425
	41,417	43,394

The Group leases offices and land under operating lease with fixed rental. The lease runs for an initial period of 3 to 25 years, with an option to renew when all terms are renegotiated.

At 31 December 2013, the total future minimum lease expected to be received under non-cancellable operating leases are as follows:

	The Group	
	2013	2012
	RMB'000	*RMB'000*
Within 1 year	**6,680**	5,633
After 1 year but within 5 years	**3,719**	417
	10,399	6,050

The Group leases out a number of items of property, plant and equipment under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease after the date at which time all terms are negotiated. Lease payments are usually adjusted every year to reflect market rentals. None of the leases includes contingent rentals.

43. OTHER COMMITMENT

At 31 December 2013, the Group had a commitment of US$561,000 (2012: US$561,000) equivalent to approximately RMB3,402,000 (2012: RMB3,497,000), in respect of the outstanding capital contribution in APR.

44. RELATED PARTIES TRANSACTIONS

In addition to those related party transaction and balances disclosed elsewhere in the financial statements, the Group had entered into the following transactions with its related parties during the year.

(a) Transaction with related parties

Name of related parties	Relationship	Nature of transaction	2013 RMB'000	2012 RMB'000
Shanghai Bokun Investment Co., Ltd.	Controlled by a director of the Company	Motor vehicles service fee charged	**690**	975
Shanghai Chuangsheng Petrochemical Industry Co., Ltd.	Common key management personnel	Interest on cash advance charged	**—**	472

44. RELATED PARTIES TRANSACTIONS *(continued)*

(b) Details of guarantees provided by related parties to the Group for banking facilities are as set out in note 32 to the financial statements.

(c) Amounts due to related parties

Name of related parties	Relationship	Terms	2013 RMB'000	2012 RMB'000
Shanghai Bokun Investment Co., Ltd.	Controlled by a director of the Company	Unsecured, interest-free and repayable on demand	**1,000**	5,400
Jiangsu Xinxing Chemicals Co., Ltd.	Controlled by a director of the Company	Unsecured, interest-free and repayable on demand	**1,138**	1,138
			2,138	6,538

(d) The compensation to the Group's key management personnel, including amounts paid to the Company's directors and certain of the highest paid employees, is disclosed in note 13 to the financial statements.

45. ACQUISITION OF SUBSIDIARIES

Acquisition of Virtual City Limited ("VCL") and its subsidiaries

Details of assets acquired and liabilities assumed as at the acquisition date were as follows:

	Pre-acquisition carrying amounts *RMB'000*	**Fair value adjustments** *RMB'000*	**Recognised values on acquisition** *RMB'000*
Property, plant and equipment *(note 17)*	7,394	3,575	10,969
Prepaid land lease *(note 20)*	2,213	138	2,351
Investment property *(note 18)*	7,066	6,984	14,050
Inventories	2,997	—	2,997
Intangible assets *(note 22)*	3,144	20,856	24,000
Trade and other receivables	12,388	—	12,388
Deferred tax assets *(note 35)*	102	—	102
Current tax receivables	55	—	55
Bank and cash balances	10,251	—	10,251
Identifiable assets acquired			77,163
Trade and other payables	(12,161)	—	(12,161)
Bank loans	(2,000)	—	(2,000)
Current taxation	(330)	—	(330)
Deferred tax liabilities (note 35)	—	(4,733)	(4,733)
NCI	(2,756)	(1,341)	(4,097)
Identifiable liabilities assumed			(23,321)
Fair value of net identifiable assets			53,842
Fair value of net identifiable assets shared by NCI			(26,382)
Fair value of net identifiable assets shared by the Group			27,460

45. ACQUISITION OF SUBSIDIARIES *(continued)*

Acquisition of Virtual City Limited ("VCL") and its subsidiaries *(continued)*

	RMB'000
Satisfied by:	
Tranche A consideration shares issued *(note (b))*	55,721
Tranche B consideration shares to be issued *(note (c))*	19,729
Cash	11,792
Consideration	87,242
Goodwill *(note 21)*	59,782
Net cash outflow on acquisition:	
Purchase consideration settled in cash	11,792
Cash and cash equivalents acquired	(10,251)
Net cash outflow on acquisition	1,541

On 26 November 2013, the Company acquired 51% of the entire equity interest in VCL and its subsidiaries (the "**VCL Group**"). VCL is an investment holding company and its subsidiaries are principally engaged in (i) provision of O2O solutions (ii) software development.

The VCL Group contributed a turnover of approximately RMB7,781,000 and loss of approximately RMB403,000 to the Group for the period from 26 November 2013 to 31 December 2013. If the acquisition had occurred on 1 January 2013, the Group's turnover would have been approximately RMB130,649,000, and loss for the year would have been approximately RMB201,706,000.

45. ACQUISITION OF SUBSIDIARIES *(continued)*

Acquisition of Virtual City Limited ("VCL") and its subsidiaries *(continued)*

Notes:

(a) As part of the consideration, the Company issued Tranche A of 253,141,304 consideration shares and will issue Tranche B of 108,489,130 consideration shares to the vendor in exchange for 51% equity interest in VCL.

(b) Tranche A consideration shares were issued on 26 November 2013. The fair value of Tranche A consideration shares issued was calculated based on the closing price of the Company's shares on 26 November 2013 of HK$0.28 per share.

(c) Tranche B consideration shares were not yet issued as at 31 December 2013. The fair value of Tranche B consideration shares was subject to the compensation amount adjustment pursuant to the share transfer agreement signed on 21 October 2013 (the "**Agreement**") between the Company, China Software Service (Holdings) Limited ("**China Software**") and Mr. Kwan Che Hang, Jason. According to the 2013 Agreement, China Software guaranteed that the aggregate audited net profit after taxation of VCL Group based on their consolidated financial statements prepared under IFRSs for the financial year ending 31 December 2014 shall not be less than HK$15 million ("**2014 Profit Guarantee**"). In the event that VCL Group fails to meet the 2014 Profit Guarantee, China Software shall indemnify the Company by deducting the compensation amount from the consideration shares to be issued in accordance with the Agreement. The fair value of the Tranche B consideration shares were valued by LCH at HK$25,232,000 (equivalent to RMB19,729,000) as at the completion date of acquisition on 26 November 2013.

46. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 28 March 2014.