2014
Annual Report

Smartac
中國智能

Smartac Group China Holdings Limited
中國智能集團控股有限公司

(formerly known as 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)

(Stock code: 395)

*For identification purposes only

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Yang Xin Min *(Chairman)*
Ms. Huang Yue Qin
Mr. Kwan Che Hang Jason
Mr. Zhou Quan (resigned on 1 September 2014)

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
Mr. Yang Wei Qing (appointed on 26 September 2014)
Mr. Zhou Guang Yao (appointed on 4 February 2014 and resigned on 1 September 2014)
Prof. Ji Chang Ming (resigned on 4 February 2014)

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Wong Chi Wai, ACCA, HKICPA (appointed on 20 October 2014)
Ms. Li Mei Kuen, CPA (Aust.), HKICPA (resigned on 20 October 2014)

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

No. 68 Hongxin Road
Xushe Town
Yixing City
Jiangsu Province
PRC

No. 266 Beihai Road
Zhenhai District Xiepu Zhen Hua Gong Qu
Ningbo City
Zhejiang Province
PRC

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Dushuhu Higher Education Area
Suzhou Industrial Park
Jiangsu Province
PRC

PLACE OF BUSINESS AND CORRESPONDENCE ADDRESS IN HONG KONG

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LEGAL ADVISERS

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
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

CANADIAN BRANCH SHARE REGISTRAR

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

STOCK NAME

Smartac GP CH

STOCK CODE

Hong Kong Stock Exchange: 395

Financial Summary

	2014	2013	2012	2011	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**111,622**	101,669	156,577	223,855	153,234
Gross profit margin *(%)*	**25%**	11%	-2%	17%	8%
Loss attributable to shareholders	**(156,971)**	(206,105)	(200,362)	(234,097)	(144,739)
EBIT	**(149,764)**	(130,201)	(171,501)	(231,064)	(151,033)
EBITDA	**(110,761)**	(113,054)	(150,153)	(208,230)	(142,150)
Dividends – ordinary shares	**n/a**	n/a	n/a	n/a	n/a
Loss per share – basic *(RMB)*	**(0.0559)**	(0.0821)	(0.0817)	(0.0975)	(0.0821)
Loss per share – diluted *(RMB)*	**(0.0559)**	(0.0821)	(0.0818)	(0.1078)	(0.0821)
Debt-equity ratio	**82.6%**	291.3%	269.7%	123.3%	net cash position
Dividends payout ratio *(%)*	**n/a**	n/a	n/a	n/a	n/a
Ordinary shares *(shares)*	**3,336,947,850**	2,806,947,850	2,453,806,546	2,583,412,645	2,070,139,880
Bank and cash balances (including pledged deposits)	**93,119**	317,157	483,364	334,996	276,802
Cash per share *(RMB)*	**0.03**	0.11	0.20	0.13	0.13
Total assets	**538,553**	1,091,573	1,439,221	1,343,494	610,823
Net asset value	**271,031**	268,398	370,470	570,527	527,181
Net asset value per share *(RMB)*	**0.08**	0.10	0.15	0.22	0.25
Inventory turnover days	**131 days**	161 days	115 days	69 days	78 days
Debtors turnover days	**156 days**	47 days	40 days	40 days	58 days

Corporate Profile

Smartac Group China 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 20 May 2014 in order to signify the diversification of the Company's business into new O2O ("online to offline") solutions business.

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.

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.

Corporate Profile *(continued)*

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. This acquisition marked the first successful step for the expansion of the Company's business into the petrochemicals industry.

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 April, June and December 2014, the Company, through its indirect non-wholly owned subsidiary, Solomedia Digital (Shanghai) Limited ("Solomedia Shanghai")), has entered into three agreements pursuant to which Solomedia Shanghai will provide Wi-Fi system installation and post-installation maintenance and operation service in a total of more than 350 railway stations operated by the Guangzhou Railway (Group) Corporation, Beijing Railway Administration and Lanzhou Railway Administration respectively, in a number of provinces in China. This marked a significant step for the Group's advance into the mobile internet market. On the other hand, the Group is also promoting and providing such Wi-Fi system installation and/or operation service to big brands, chain-stores, large supermarkets, department stores and shopping malls, etc.

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 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 2014 to the shareholders of the Company.

2014 was a year of development of the Group, following the completion of acquisition of Smartac Group in November 2013, the Group has stepped into the industry of software development and provision of online to offline ("O2O") solutions during the year. Armed with the technical strength and experience of the Group in providing O2O solutions for traditional retailers, the Group has extended its O2O business into mobile internet market through providing service in design, construct, maintenance and operation of Wi-Fi network to a variety of business customers.

Through our indirectly non-wholly subsidiary in the PRC, three co-operation agreements were entered into in April, June and December 2014. Pursuant to those agreements, our subsidiary in PRC was responsible for the installation, post-installation maintenance and operation service of Wi-Fi Systems in a total of more than 350 railway stations operated by Guangzhou Railway (Group) Corporation, Beijing Railway Administration and Lanzhou Railway Administrative respectively. It marked a significant step for the Group’s advance into the mobile internet market through the Wi-Fi networks to be established in over 350 railway stations in a number of provinces operated by the abovementioned Railway Corporation/Administrations. Following the rapid development of high speed railway systems in PRC in recent years, more and more passengers are now choosing railways for business as well as leisure travel instead of airlines. Our Wi-Fi establishment located in various railway stations can get in touch with these passengers at the first sight of their arrival via free Wi-Fi access. Through their access to our Wi-Fi system, important data including the destinations, preferences, hobbies and interests of those passengers could be collected and analysed before they left their home cities. By analysing the data we have collected from those passengers, we can provide unique and tailor-made information such as tourist spots or coupons upon their arrival to the destinations. Those big data are valuable to certain retailers as advertisement and promotion of their shops can be accessed by customers who are interested in their products or foods, passengers can also be navigated to their shops by the system.

In view of the unfavorable market condition and continuously stringent policies and regulation requirements imposed by the PRC government over chemical-related industries, the operation environment became extremely difficult during the year. Percentage of sales contribution from Zirconium segment has further decreased as compared to 2013.

The petrochemicals segment also faced to the difficult market situation, both price and demand of petrochemical products continued to drop in recent year. Customers were unwilling to keep excess inventories in order to minimize the risk of loss arisen from further decrease in market value of those petrochemical products. Even the restoration of storage facilities, which was damaged by typhoon in October 2013, has been completed during the year, income from petrochemical segment was only maintained similar level as compared to 2013.

During the year, we have scaled down the size of operation of zirconium and petrochemical segment and dedicate more efforts in development O2O solutions business to grasp the business opportunity. Given the unfavorable market conditions and increasing stringent government policies and regulations, we do not rule out the possibility of ceasing or disposing the operation of the zirconium and petrochemical segments when there are signals the situation will be further deteriorated in the future. However, as of the date of this report, we did not have any decision or any concrete plan in such respect.

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

Caution regarding forward-looking statements

This Management Discussion and Analysis contains forward-looking statements which reflect the Company's current beliefs with respect to future events and are based on information currently available to the Company. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. When reviewing the Company's forward-looking statements, investors and others should not place undue reliance on these forward-looking statements and should carefully consider the foregoing factors and other uncertainties and potential events. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update the forward-looking statements. The Company has an ongoing obligation to disclose material information as it becomes available.

BUSINESS REVIEW

The fast growing popularity of smartphones brought to the rapid increase in mobile internet usage all over the world. At the result of the fast and strong growth of PRC economy in recent years, mobile internet application in PRC seems even faster and bigger than the other countries. According to certain research statistics, the total internet users in China used a mobile phone to access the internet has increased to approximately 78.5% by 2013. Along with the continuous improvement of 3G/4G network and development of public Wi-Fi network, more and more people used to access internet by desktop computers are now turning to using mobile devices and connect to internet which allows mobile devices users can access to internet almost any time in anywhere. Another unique characteristic of the mobile internet users in PRC are their widely addict to personal e-commerce (or "m-commerce"). Undoubtedly, China has a high potential to grow into the leader in m-commerce involvements. This predicted trend in Chinese e-commerce provides a favorable environment for the development and expansion of the Group's Online to Offline ("O2O") solutions business. Given the technical strength and experience of the Group in providing O2O solutions for traditional retailers, the Group has successfully extended its O2O business into mobile internet market through providing service in design, construct, maintenance and operation of Wi-Fi network to a variety of business customers.

In 2014, the Company has also implemented the development of Wi-Fi network. In April, June and December 2014, the Company, through its indirect non-wholly owned subsidiary, Solomedia Digital (Shanghai) Limited ("Solomedia Shanghai")), has entered into three agreements pursuant to which Solomedia Shanghai will provide Wi-Fi system installation and post-installation maintenance and operation service in a total of more than 350 railway stations operated by the Guangzhou Railway (Group) Corporation, Beijing Railway Administration and Lanzhou Railway Administration respectively, in a number of provinces in China. This marked a significant step for the Group's advance into the mobile internet market. On the other hand, the Group is also promoting and providing such Wi-Fi system installation and/or operation service to big brands, chain-stores, large supermarkets, department stores and shopping malls, etc. Function of the Wi-Fi network, was not only for establishment of the Wi-Fi system and just limited to providing of O2O solutions for its clients but will also assist them in collecting, analysing and making use of the big data collected through the Wi-Fi system for marketing initiatives. In the long-run, the Group is targeting to transform into a large scale Wi-Fi systems and big data operator and it is expected to generate considerable income by providing channels for distributors/providers of mobile contents (such as apps, games and videos, etc) to access their targeted customers – mobile internet users. The Group's management anticipated that the economic benefit and value of the new Wi-Fi business will be gradually materialised after the completion of Wi-Fi system installation in 2015.

In view of the unfavorable market condition and the strict policies and regulations imposed by the government, zirconium segment continued to constrict its business in recent years, turnover of zirconium segment was mainly trading zirconium products rather that production. Most of the production facilities were suspended during the year.

The petrochemicals segment was also facing difficult market situation, the price of petrochemicals products continued to drop in recent years. Customers preferred to reduce level of inventories in order to minimize the loss arisen from decrease in market value of petrochemical products.

In the year under review, the rechargeable batteries business reported a sales drop by approximately 35%, contribution of rechargeable batteries business was further decreased from 15% to group turnover in 2013 to only 9% in 2014.

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.

OUTLOOK

Facing to the unfavorable market condition of the Group's zirconium segment and petro-chemical segment, the Group's results for the year ended 31 December 2014 was not encouraging. The management still have confident to the O2O and integrated digital market solutions. After the completion of Wi-Fi installation in various railway stations, which were scheduled to be completed in 2015, the management believes that O2O and Wi-Fi network will step into a new phrase. At the same time, we will grasp the opportunities in the emerging O2O market that brought along to the Group by the Acquisition. After the year end at 21 January 2015, the Company entered into an investment agreement for the acquisition of 45.4% equity holding of Shanghai Zewei Information Technology Company Limited ("Zewei"). Zewei is a company incorporated in the PRC and its principal activitiy is integrated mobile marketing solutions.

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2014, the Group's consolidated turnover was approximately RMB111,622,000, represented an increase of approximately RMB9,953,000 or 10% as compared to 2013. The increase was mainly attributable to revenue generated from the new O2O solutions business acquired by the Group in November 2013. Currently the Group has 51% equity interest of the said O2O business.

Sales of zirconium chemicals and new energy materials was approximately RMB37,908,000 (2013: approximately RMB61,475,000), represented a decrease of approximately 38%. The PRC government continues to restrict the controls and regulation requirements over chemicals-related industries which made the operational environment of the Group's zirconium segment becomes extremely difficult, especially in the competitiveness in products exported sales to foreign countries. For example, products exported to Japan decreased approximately RMB13,814,000 or 82% from approximately RMB16,877,000 in 2013 to approximately RMB3,063,000 in the current year, represents approximately 59% of decrease in sales of zirconium segment. Revenue generated from sales of zirconium chemicals and new energy materials represents approximately 34% of the consolidated turnover for the year.

Sales of rechargeable batteries decreased from approximately RMB14,938,000 in 2013 to approximately RMB9,647,000 in the current year, represented a decrease of approximately 35%. Revenue generated from the rechargeable batteries segment represented approximately 9% of the consolidated turnover for the year.

The total revenue of Group's petrochemicals storage and trading businesses reported a drop in turnover in the current year as compared to same period in 2013. Revenue of petrochemicals storage and trading businesses were approximately RMB16,827,000 (2013: approximately RMB15,251,000) and approximately RMB556,000 (2013: approximately RMB2,657,000) respectively. Revenue from petrochemicals storage business represented an increase of 10% as compared to 2013 while revenue from petrochemicals trading business had sharply decreased by 79%. In view of the unfavorable market condition of petrochemical products in China, even the repair of the damaged oil tanks was completed during the year, turnover of petrochemicals storage has only increased by 10%. Price of petrochemical products had continued to drop in recent years, which reduced the trading volume and hence the commission income of the Group. Revenue generated from petrochemicals storage and trading businesses contributed 16% to the consolidated turnover.

The new O2O solution business segment, of which the Company completed the acquisition on 26 November 2013, contributed approximately RMB46,684,000 or 42% to the consolidated turnover in current year (2013: approximately RMB7,348,000 or 7%). Significant increase in turnover of O2O solutions business segment was mainly due to the full year effect as compared to revenue for two months' results in 2013. Turnover of O2O solutions business segment were mainly generated from two major areas, income from sales of self-developed software applications and provision of consultation and maintenance for hardware devices and software application. For the year ended 31 December 2014, Turnover for sales of software applications and provision of consultation and maintenance services were approximately RMB26,486,000 and RMB20,198,000 respectively.

Gross Profit and Gross Margin

The Group reported a consolidated gross profit for the year of approximately RMB28,632,000 (2013: approximately RMB11,392,000). The overall gross margin has improved from 11% in 2013 to 26%. The increase in gross profit and gross profit margin mainly resulted from relatively higher gross profit margin for O2O segment which average gross profit margin was usually over 40% because the major expenses of O2O business, the staff costs, were recorded as administrative expenses without any allocation to cost of sales.

During the year ended 31 December 2014, the Group suspended most of its production facilities and maintained minimum scale of its production plant in Yixing, Jiangsu, PRC and mainly engaged in the trading of zirconium products. Gross profit margin of sales of zirconium for both of 2013 and 2014 were approximately 7%. The rechargeable batteries business generated a gross profit of approximately RMB1,672,000 for the current year (2013: approximately RMB3,524,000), represented a drop by approximately 53%. The gross profit of petrochemicals segment had increased significantly from approximately RMB169,000 to approximately RMB4,118,000. The gross profit margin of petrochemicals segment was 24% (2013: 1%), which was mainly attributable to decrease in the amortisation and depreciation charges resulting from the impairment of operating license and plant and machinery in 2013.

The new O2O Solution segment generated a gross profit of approximately RMB18,871,000 for the year ended 31 December 2014, represented an increase of approximately RMB14,718,000. The gross profit margin of O2O segment was approximately 40%.

The average gross margin of the Group for the year was approximately 26% (2013: 11%).

Selling Expenses and Administrative Expenses

Selling expenses had increased by 48% from approximately RMB2,295,000 in 2013 to approximately RMB3,389,000 in current year, which was mainly attributable to full year effect as of O2O segment during the year.

Total administrative expenses had decreased from approximately RMB49,907,000 in 2013 to approximately RMB42,642,000 in 2014, represented a decrease of approximately RMB7,265,000.

Other operating expenses for the year were mainly represented by (i) allowance for other receivable of approximately RMB20,247,000; (ii) Change in fair value of contingent payables of approximately RMB11,430,000 and (iii) environmental contribution levies of approximately RMB23,000,000.

Capital Expenditure

The capital expenditures for the year ended 31 December 2014 and 2013 were approximately RMB22,994,000 and RMB4,765,000, respectively. The capital expenditures for 2014 were mainly attributable to the construction cost of approximately RMB20,165,000 for the railway Wi-Fi systems, other capital expenditures were mainly for integrated digital marketing solution segment. Capital expenditures for 2013 were mainly for petrochemicals storage facilities and O2O segment.

Liquidity and Financial Resources

As at 31 December 2014, the Group's bank and cash balances were approximately RMB93,119,000 (2013: approximately RMB32,157,000). The Company had completed the placing of 260,000,000 ordinary shares on 16 July 2014 which generated a net proceed of approximately RMB63,476,000 (equivalent to approximately HK$79,154,000), which was mainly used as general working including capital injection to an subsidiary company in PRC for the payment of the construction cost for the railway Wi-Fi systems.

On 23 December 2014, the Company had completed another placing of 300,000,000 ordinary shares which generated a net proceeds of approximately RMB72,490,000 (equivalent to approximately HK$90,359,000), which was mainly used as general working capital, including the remaining construction cost for railway Wi-Fi systems installation as stated above.

As at 31 December 2014, the Group had no pledged bank deposits (2013: approximately RMB285,000,000). During the year, the bank deposits were pledged to the bank by the Company's subsidiary engaged in petrochemicals business as security for its bank credit facilities. All pledged bank deposits were fully released and there was no pledged bank deposit as at 31 December 2014.

As at 31 December 2014, the Group's petrochemicals business had no interest-bearing bank borrowing (2013: RMB69,100,000) and had no outstanding note payable (2013: RMB585,000,000). The loan as at 31 December 2013 was repayable within one year and all denominated in Renminbi. The loan and bills facilities granted by the banks in 2013 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 2014, the Group's O2O Solution business had interest-bearing bank borrowings of RMB14,351,000 (2013: RMB2,000,000), which was denominated in RMB and repayable within one year and was secured by charge over the land, buildings and investment property of the O2O Solution segment.

As at 31 December 2014, 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 156 days in 2014, which has significantly increased as compared to 47 days in 2013. Reason of such variance was mainly due to an outstanding balance of account receivable of a customer of petrochemicals segment in October and November 2014 with amount of approximately RMB54,325,000 included in the balance of group accounts receivable as at 31 December 2014. Save and except for the above mentioned transactions, the Group's trade receivables turnover days was around 62 days in 2014, which was mainly due to the effect from the newly acquired O2O solutions business. 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 inventories balance as at 31 December 2014 decreased to approximately RMB27,647,000 (2013: approximately RMB31,943,000). The decrease was mainly resulted from decrease in inventories level for zirconium segment because of the pessimistic view towards it future market condition and the allowance of decrease in market value of zircon sand inventories of approximately RMB1,500,000 was recognized. Balance of inventories had also included the inventories of the newly acquired O2O Solution business amounted to approximately RMB4,106,000 (2013: approximately RMB2,997,000). Inventory turnover days had improved from approximately 161 days in 2013 to 131 days in 2014. Management will continue to closely monitor the inventory level.

As at 31 December 2014, the Group had no balance in advance payments to petrochemical suppliers (2013: approximately RMB382,376,000) and had no note payable (2013: RMB585,000,000) due to 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 recognizes 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 recognize the gross amount of sales and purchases in its profit and loss, but instead recognizes the margin as commission income in its revenue. The petrochemicals trading business had decreased significantly from approximately RMB2,657,000 in 2013 approximately RMB556,000 in 2014. Due to the unfavorable market condition of petrochemical products in China in recent years, the Group had temporary suspended the above arrangement in order to minimize the financial risks.

Share Capital Structure

During the two years ended 31 December 2013 and 2014, no options were granted or exercised. In current year, a total of 400,000 share options were lapsed.

On 16 July 2014, the Company issued 260,000,000 ordinary shares at a placing price of HK$0.31 per share pursuant to a top-up placing and subscription agreement dated 10 July 2014. The net proceed of approximately RMB63,476,000 (equivalent to approximately HK$79,154,000) mainly used as general working including capital injection to an subsidiary company in PRC for the payment of the construction cost for the railway Wi-Fi systems. On 23 December 2014, the Company had completed another placing of 300,000,000 ordinary shares to independent placees which generated a net proceeds of RMB72,490,000 (equivalent to approximately HK$90,359,000), which was mainly used as general working capital, including the remaining construction cost for railway Wi-Fi systems installation as stated above.

As at 31 December 2014, the total issued share capital of the Company was approximately RMB154,397,000 (approximately equivalent to HK$168,347,000) divided into 3,366,947,850 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 2014, the Group had no contingent liabilities (2013: Nil).

Pledge of Assets

As at 31 December 2014, the following assets of the Group were pledged as securities, among others, for the banking facilities granted by its bankers:

(i) land, buildings and investment property of the Group's new O2O Solution segment, with a total carrying value of approximately RMB55,764,000 (2013: approximately RMB23,625,000) as at 31 December 2014.

Human Resources

As at 31 December 2014, the Group had a total of approximately 440 employees (2013: approximately 370 employees). Total staff costs (including directors' emoluments) for the year was approximately RMB29,256,000 (2013: RMB22,179,000), representing approximately 26% of the Group's turnover (2013: approximately 22%). The significant increase in staff costs was mainly attributable to the inclusion of O2O business and further increase in staff head counts during the 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 65, 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. 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 46, 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 56, joined the Group in 1993 and has resigned in September 2014. 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. Zhou has resigned from the Company with effect from 1 September 2014.

Mr. Kwan Che Hang Jason, aged 47, 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, Mr. Kwan was assigned as the Regional Manager in Vietnam, and a year later he was assigned to work in the Shanghai subsidiary. In 1998, Mr. Kwan 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, Mr. Kwan 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.

NON-EXECUTIVE DIRECTOR

Mr. Wang Jia Wei, aged 59, 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 China. 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 47, 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 43, 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.

Profile of Directors and Senior Management *(continued)*

Mr. Yang Wei Qing, aged 38, a renowned internet economist, and is the founder and Chief Executive Officer of iResearch Consulting Group ("iResearch"). He is also the co-founder of China Venture Investment Consulting Group ("China Venture"). Mr. Yang obtained his Bachelor Degree from East China University of Science and Technology in 1998 and obtained his EMBA from Cheung Kong Graduate School of Business in 2010. Being enthusiastic about internet industry, Mr. Yang co-founded an internet marketing company, Wise Horse Marketing Company*, in 1999 and became one of the first generation internet business founders and an expert in China's internet marketing. Mr. Yang started his business in internet-related research and consulting by establishing iResearch at Shanghai in late 2002. iReserach has now developed into one of the most highly professional internet consulting firms in China, publishing almost 100 research reports related to internet industry every year and serving the major companies in internet industry, internet marketing business as well as providing research consultancy service in the application of internet for traditional business enterprises. In 2005, Mr. Yang, together with a business partner, co-founded China Venture, which mainly participates in the operation of investment websites and engages in fund raising, merger and acquisition projects. Mr. Yang is highly experienced in research and consulting for internet-related and internet marketing businesses.

Mr. Zhou Guang Yao, aged 64, was appointed as an independent non-executive director of the Company in February 2014 and has resigned in September 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. Mr. Zhou has resigned from the Company with effect from 1 September 2014.

Professor ("Prof.") Ji Chang Ming, aged 59, was appointed as an independent non-executive director of the Company in December 2009 and has resigned in February 2014. Prof. Ji has over 30 years of experience in research and development 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 management 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. Prof. Ji had resigned from the Company with effect from 4 February 2014.

SENIOR MANAGEMENT

Mr. Wong Chi Wai, aged 47, is the Financial Controller and Company Secretary of the Group. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants of the United Kingdom. Mr. Wong has over 16 years' experience in accounting and auditing fields. Before joining the Company, Mr. Wong was the Financial Controller, Company Secretary and Authorised Representative of Creative Energy Solutions Holdings Limited (Stock Code: 8109).

Ms. Wu Xi Hui, aged 46, 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.

Corporate Governance Report

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.

During the year ended 31 December 2014, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the following deviation:

Code Provision A.2.1 of the Corporate Governance Code stipulates that the roles of Chairman and Chief Executive Officer to be performed by different individuals. The deviation is deemed appropriate as the Company believes that the combination of the roles of Chairman and Chief Executive Officer promotes the efficient formulation and the implementation of the Company's strategies enabling the Group to grasp business opportunities efficiently and promptly. The Company considers that through the supervision of its Board and its independent non-executive directors, a balancing mechanism exists so that the interests of the shareholders are adequately and fairly represented.

According to Rule 3.10(1) of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors. During the period from 1 September 2014 to 25 September 2014, the Board of Directors comprised only two independent non-executive directors; failed to comply with the requirement of Rule 3.10(1).

According to Rule 3.21 of the Listing Rules, the audit committee must comprise of minimum of three members. During the period from 1 September 2014 to 25 September 2014, the audit committee comprised only two independent non-executive directors; failed to comply with the requirement of Rule 3.21.

On 26 September 2014, an independent non-executive director was appointed to the Board and the audit committee. The Company complied with the requirement of Rule 3.10(1) and Rule 3.21 respectively.

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 three 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. Kwan Che Hang Jason Mr. Zhou Quan (resigned on 1 September 2014)
NED	:	Mr. Wang Jia Wei *(Vice Chairman)*
INEDs	:	Dr. Cheng Faat Ting Gary Mr. Poon Lai Yin Michael Mr. Yang Wei Qing (appointed on 26 September 2014) Mr. Zhou Guang Yao (appointed on 4 February 2014 and resigned on 1 September 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 18 to 21.

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

Directors	**No. of meetings attended**
Mr. Yang Xin Min	11/11
Ms. Huang Yue Qin	11/11
Mr. Zhou Quan (resigned on 1 September 2014) *(Note 1)*	8/8
Mr. Kwan Che Hang Jason	11/11
Mr. Wang Jia Wei	0/11
Dr. Cheng Faat Ting Gary	11/11
Mr. Poon Lai Yin Michael	10/11
Mr. Yang Wei Qing (appointed on 26 September 2014) *(Note 1)*	2/2
Mr. Zhou Guang Yao (appointed on 4 February 2014 and resigned on 1 September 2014)	7/7
Prof. Ji Chang Ming (resigned on 4 February 2014)	1/1

Notes:

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

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 2013;

— 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 2015. The recommendation will be put forward for the approval of the shareholders of the Company at the Annual General Meeting to be held on 18 May 2015.

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 2014, the Company's external auditors received approximately RMB1,585,000 for annual audit service.

(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
Mr. Yang Wei Qing (appointed on 26 September 2014)	0/0	0/0	0/0
Mr. Zhou Guang Yao (appointed on 4 February 2014 and resigned on 1 September 2014)	0/0	0/0	0/0
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 and resigned on 1 September 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 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 43 to 44.

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 Chairmen 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 clear 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 2013 and Interim Report 2014 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) manufacture and sale of a wide range of zirconium chemicals, new energy materials and rechargeable batteries; (ii) development and sales of software and provision of online to offline ("O2O") consultation service; (iii) provision of petrochemicals storage and trading service; (iv) provision of digital advertising platform and related solutions.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2014 (the "Year") are set out in the consolidated statement of profit or loss and other comprehensive income on pages 45 to 46.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: Nil).

The register of members of the Company will be closed from 14 May 2015 (Thursday) to 18 May 2015 (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 18 May 2015, 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 13 May 2015 (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

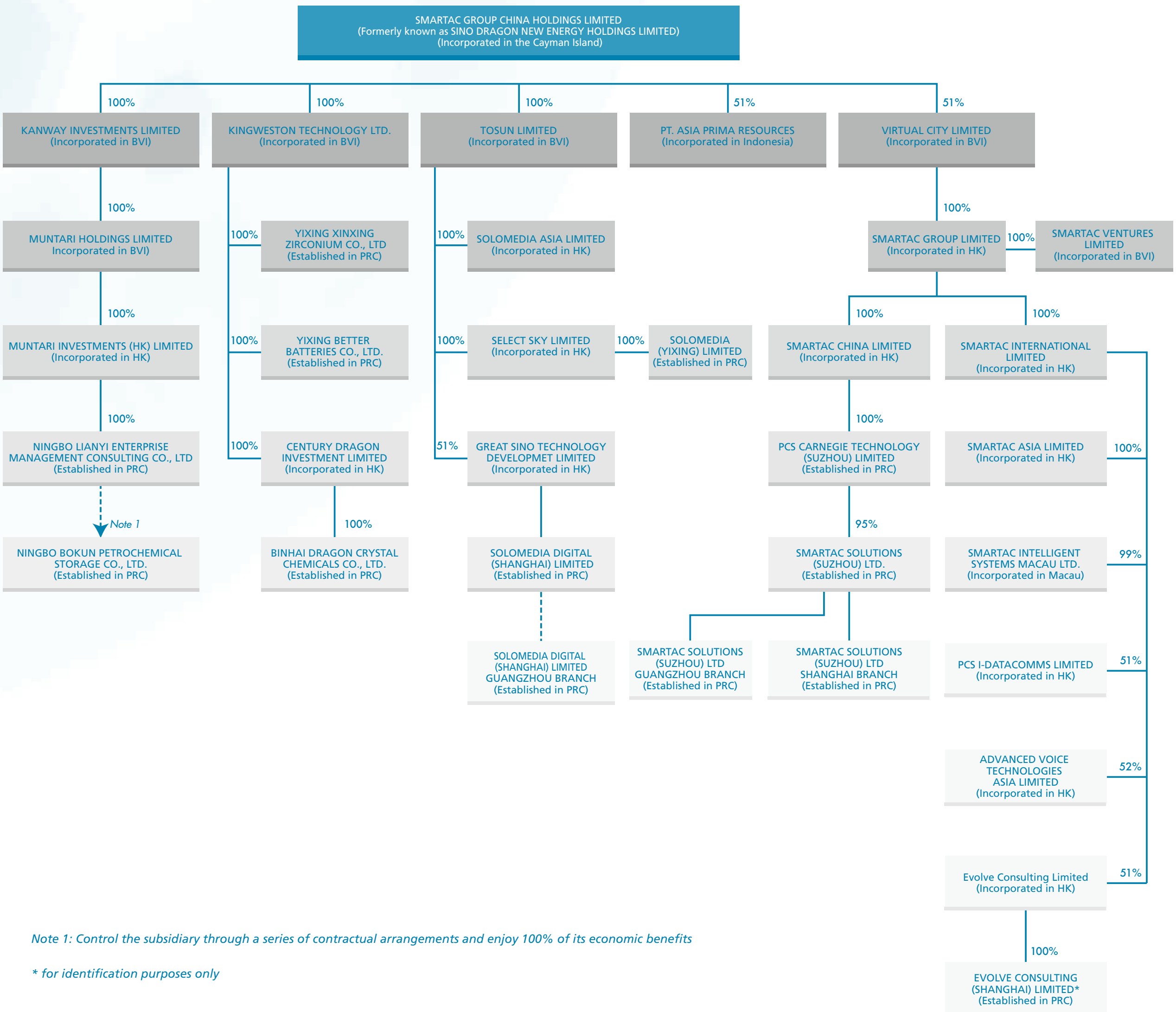
Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity on page 51.

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 2014 amounted to approximately RMB90,245,000 (2013: approximately RMB242,390,000).

GROUP STRUCTURE

As at 31 December 2014, 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*

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 18 to 21.

Executive Directors

Mr. Yang Xin Min, *Chairman and Managing Director*
Ms. Huang Yue Qin
Mr. Zhou Quan (resigned on 1 September 2014)
Mr. Kwan Che Hang Jason

Non-Executive Director

Mr. Wang Jia Wei, Vice Chairman

Independent Non-Executive Directors

Dr. Cheng Faat Ting Gary
Mr. Poon Lai Yin Michael
Mr. Yang Wei Qing (appointed on 26 September 2014)
Mr. Zhou Guang Yao (appointed on 4 February 2014 and resigned on 1 September 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 2014, 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 pursuant 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:

		Number of Shares				
Name of Director	**Capacity**	**Personal Interest**	**Other Interests** *(Note 1)*	**Interest In Underlying Shares**	**Total Interests**	**Approximate Percentage of Total Share Capital**
Yang Xin Min	Beneficial	592,573,880	1,600,000	—	594,173,880	17.65%
Huang Yue Qin	Beneficial	—	600,000	—	600,000	0.02%
Kwan Che Hang Jason *(Note 2 & 3)*	Beneficial	231,413,304	—	108,489,130	339,902,434	10.10%
Wang Jia Wei *(Note 4)*	Beneficial	160,000,000	600,000	144,444,444	305,044,444	9.06%
Cheng Faat Ting Gary	Beneficial	200,000	200,000	—	400,000	0.012%
Poon Lai Yin Michael	Beneficial	—	200,000	—	200,000	0.006%

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 2014.

2. The 231,413,304 shares comprised (i) 792,000 shares held by Mr. Kwan Che Hang Jason directly; and (ii) 230,621,304 shares 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 230,621,304 shares.

3. 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.

4. 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2014, 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 in 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				
Name of Shareholder	**Capacity**	**Personal Interest** *(Note 3)*	**Other Interests** *(Note 1)*	**Interest In Underlying Shares** *(Note 2 & 4)*	**Total Interests**	**Approximate Percentage of Total Share Capital**
Yang Xin Min	Beneficial	592,573,880	1,600,000	—	594,173,880	17.65%
Kwan Che Hang Jason *(Note 2 & 3)*	Beneficial	231,413,304	—	108,489,130	339,902,434	10.10%
Wang Jia Wei *(Note 4)*	Beneficial	160,000,000	600,000	144,444,444	305,044,444	9.06%

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 2014.

2. The 231,413,304 shares comprised (i) 792,000 shares held by Mr. Kwan Che Hang Jason directly; and (ii) 230,621,304 shares 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 230,621,304 shares.

3. 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.

4. 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.

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 2014 and 2013, no Options have been granted by the Company under the Old Scheme and the New Scheme.

Details of the movement of the Options granted and exercised during the year were as follows:

				Number of Options *(Note 1)*			
Name of Grantee	**Date of Grant**	**Exercisable Period**	**Subscription Price per Share** *(Note 1)*	**Outstanding as at 31 December 2013**	**Granted during the year**	**Exercised or Lapsed during the year**	**Outstanding as at 31 December 2014**
Executive Directors:							
Yang Xin Min	14 June 2011	14 June 2011 to 13 June 2016	HK$0.818	1,600,000	—	—	1,600,000
Huang Yue Qin	14 June 2011	14 June 2011 to 13 June 2016	HK$0.818	600,000	—	—	600,000
Zhou Quan (resigned on 1 September 2014	14 June 2011	14 June 2011 to 13 June 2016	HK$0.818	600,000	—	—	600,000
Subtotal				2,800,000	—	—	2,800,000
Non-Executive Director:							
Wang Jia Wei	14 June 2011	14 June 2011 to 13 June 2016	HK$0.818	600,000	—	—	600,000
Independent Non-Executive Directors							
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
Subtotal				800,000	—	(400,000)	400,000
Employees *(Note 2)*	14 June 2011	14 June 2011 to 13 June 2016	HK$0.818	1,200,000	—	—	1,200,000
Grand Total				5,400,000	—	(400,000)	5,000,000

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.

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 the following continuing connected transactions which were required to be disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

On 5 September 2014, the Company and Solomedia Digital (Shanghai) Limited (a company incorporated in the PRC, which is an indirect non-wholly owned subsidiary of the Company, "Solomedia") and Smartac Group Limited (Smartac Group, together with its direct or indirect wholly or non-wholly owned subsidiaries, collectively the "Sub-Contractor Group") entered into Master Sub-Contracting Agreement in relating to the provision of sub-contracting provided by the Sub-Contractor Group. The Sub-Contractor Group is directly owned by Virtual City Limited which in turn is owned as to 51% by the Company and 49% by China Software Services (Holdings) Limited. Since Mr. Kwan Che Hang Jason, director and shareholder of the Company, is also the controlling shareholder of China Software Services (Holdings) Limited, any company of the Sub-Contractor Group is therefore a connected person of the Company. As such, the transactions contemplated under the Master Sub-Contracting Agreement would constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

The Master Sub-Contracting Agreement had an initial term of three years and upon the expiration of the initial three-year term, be automatically renewed for successive periods of three years. According to the Master Sub-Contracting Agreement during the year, the aggregate services charged to Solomedia by the Sub-contractor Group in respect of Project management and installation service, Software Development Service were RMB4,818,572 and RMB13,162,393 respectively.

Our Independent Non-executive Directors have reviewed the continuing connected transactions set out above, and are of the view that the continuing connected transactions have been entered into under the following circumstances:

(i) in the ordinary and usual course of business;

(ii) on normal commercial terms or on terms no less favourable to the Group than terms offered to/by independent third parties; and

(iii) in accordance with the relevant agreements governing those transactions on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

RSM Nelson Wheeler, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 Auditors' Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. RSM Nelson Wheeler have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

In respect of the continuing connected transactions disclosed (the "Disclosed Continuing Connected Transactions"), the Company's auditors concluded that:

(i) nothing has come to the auditors' attention that causes them to believe that the Disclosed Continuing Connected Transactions have not been approved by the Company's board of directors.

(ii) nothing has come to the auditors' attention that causes them to believe that the transactions were not entered into, in all materials respects, in accordance with the relevant agreements governing such transactions.

(iii) with respect to the aggregate amount of each of the continuing connected transactions set out above, nothing has come to our attention that causes the auditors to believe that the Disclosure Continuing Connected Transactions have exceeded the maximum aggregate annual values disclosed in the Company's announcement dated 5 September 2014 in respect of the Disclosed Continuing Connected Transactions.

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 22 to 29.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2014, the aggregate turnover attributable to the largest customer and the five largest customers of the Group accounted for approximately 9% and 28% 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 9% and 31% 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 2014, the Group made RMB150,000 (2013: RMB100,000) 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
Yang Xin min
Executive Director

31 March 2015

RSM
Audit • Tax • Advisory

TO THE SHAREHOLDERS OF
SMARTAC GROUP CHINA HOLDINGS LIMITED
(FORMERLY KNOWN AS SINO DRAGON NEW ENERGY HOLDINGS LIMITED)
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Smartac Group China Holdings Limited (formerly known as Sino Dragon New Energy Holdings Limited) (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 45 to 144, which comprise the consolidated and Company statements of financial position as at 31 December 2014, 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 2014, 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

31 March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 RMB'000	2013 RMB'000
Turnover	7	**111,622**	101,669
Cost of sales		**(82,990)**	(90,277)
Gross profit		**28,632**	11,392
Fair value change of investment property	18	**32,590**	—
Other income	8	**6,133**	8,214
Selling expenses		**(3,389)**	(2,295)
Administrative expenses		**(42,642)**	(49,907)
Other operating expenses		**(57,551)**	(1,050)
Amortisation of long-term prepayments	24(ii)	**(21,744)**	—
Impairment of non-current assets	17(c)	**(91,793)**	(96,555)
Loss from operations		**(149,764)**	(130,201)
Finance costs	10	**(6,863)**	(7,205)
Loss before tax		**(156,627)**	(137,406)
Income tax expense	11	**(344)**	(68,699)
Loss for the year	12	**(156,971)**	(206,105)
Other comprehensive income for the year, net of tax			
Item that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(2,770)**	1,317
Total comprehensive income for the year		**(159,741)**	(204,788)

Consolidated Statement of Profit or Loss and Other Comprehensive Income *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	**2014** **RMB'000**	2013 RMB'000
Loss for the year attributable to:			
Owners of the Company		**(163,944)**	(206,016)
Non-controlling interests		**6,973**	(89)
		(156,971)	(206,105)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(166,776)**	(204,685)
Non-controlling interests		**7,035**	(103)
		(159,741)	(204,788)
Loss per share	16		
Basic *(cents)*		**(5.59)**	(8.21)
Diluted *(cents)*		**(5.59)**	(8.21)

Consolidated Statement of Financial Position

AT 31 DECEMBER 2014

	Note	**2014** **RMB'000**	2013 RMB'000
Non-current assets			
Property, plant and equipment	17	**26,525**	90,021
Investment property	18	**46,640**	14,050
Construction in progress	19	**28,683**	321
Prepaid land lease payments	20	**39,630**	42,539
Goodwill	21	**59,782**	59,782
Intangible assets	22	**69,396**	100,110
Long-term prepayments	24	**19,662**	987
Deferred tax assets	35	**—**	2,133
		290,318	309,943
Current assets			
Inventories	25	**27,647**	31,943
Current portion of long-term prepayments	24	**23,627**	—
Prepaid land lease payments	20	**1,060**	469
Trade and other receivables	26	**102,514**	429,768
Due from a director	27	**—**	2,293
Due from a related party	44(c)	**268**	—
Pledged bank deposits	28	**—**	285,000
Bank and cash balances	29	**93,119**	32,157
		248,235	781,630
Current liabilities			
Trade and other payables	30	**90,882**	643,301
Contingent payables	34	**31,742**	19,729
Derivative financial instruments	33	**5,247**	2,510
Due to directors	31	**5,008**	1,866
Due to related parties	44(c)	**35,269**	2,138
Bank loans	32	**14,351**	71,100
Current tax liabilities		**20,024**	18,449
		202,523	759,093
Net current assets		**45,712**	22,537
Total assets less current liabilities		**336,030**	332,480

Consolidated Statement of Financial Position *(continued)*

AT 31 DECEMBER 2014

	Note	2014 RMB'000	2013 RMB'000
Non-current liabilities			
Convertible bonds	33	**46,029**	41,147
Deferred tax liabilities	35	**18,970**	22,935
		64,999	64,082
NET ASSETS		**271,031**	268,398
Capital and reserves			
Share capital	37	**154,397**	131,938
Reserves	38(a)	**52,817**	106,086
Equity attributable to owners of the Company		**207,214**	238,024
Non-controlling interests		**63,817**	30,374
TOTAL EQUITY		**271,031**	268,398

Approved by the Board of Directors on 31 March 2015

Yang Xin Min
Director

Huang Yue Qin
Director

Statement of Financial Position of the Company

AT 31 DECEMBER 2014

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Investments in subsidiaries	23	**87,242**	87,242
Current assets			
Other receivables	26	**11,663**	11,179
Due from subsidiaries	23	**50,359**	201,611
Due from a director	27	**1,615**	-
Bank and cash balances	29	**80,428**	2,444
		144,065	215,234
Current liabilities			
Accruals and other payables	30	**1,323**	1,609
Contingent payables	34	**31,742**	19,729
Derivative financial instruments	33	**5,247**	2,510
Due to subsidiaries	23	**13**	22
Due to directors	31	**584**	281
		38,909	24,151
Net current assets		**105,156**	191,083
Total assets less current liabilities		**192,398**	278,325

Statement of Financial Position of the Company *(continued)*

AT 31 DECEMBER 2014

	Note	2014 RMB'000	2013 RMB'000
Non-current liabilities			
Convertible bonds	33	**46,029**	41,147
NET ASSETS		**146,369**	237,178
Capital and reserves			
Share capital	37	**154,397**	131,938
Reserves	38(b)	**(8,028)**	105,240
TOTAL EQUITY		**146,369**	237,178

Approved by the Board of Directors on 31 March 2015

Yang Xin Min
Director

Huang Yue Qin
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2014

	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 reserve** *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))*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total** *RMB'000*
At 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 *("VCL") (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 and 1 January 2014	**131,938**	**727,285**	**(11,085)**	**95,452**	**1,849**	**(1,225)**	**(706,190)**	**238,024**	**30,374**	**268,398**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(2,832)**	**(163,944)**	**(166,776)**	**7,035**	**(159,741)**
Capital contribution from non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**26,408**	**26,408**
Issue of new shares	**22,459**	**113,507**	**–**	**–**	**–**	**–**	**–**	**135,966**	**–**	**135,966**
Lapse of share options granted in prior years	**–**	**–**	**–**	**–**	**(90)**	**–**	**90**	**–**	**–**	**–**
Changes in equity for the year	**22,459**	**113,507**	**–**	**–**	**(90)**	**(2,832)**	**(163,854)**	**(30,810)**	**33,443**	**2,633**
At 31 December 2014	**154,397**	**840,792**	**(11,085)**	**95,452**	**1,759**	**(4,057)**	**(870,044)**	**207,214**	**63,817**	**271,031**

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(156,627)**	(137,406)
Adjustments for:			
Depreciation		**7,181**	9,628
Amortisation of prepaid land lease payments		**1,061**	1,924
Amortisation of intangible assets		**9,017**	5,569
Amortisation of long-term prepayments		**21,744**	—
Bank interest income		**(359)**	(7,969)
Interest expenses on bank loans wholly repayable within five years		**3,025**	3,702
Other finance costs		**21**	19
Interest expenses on convertible bonds measured at amortised cost		**3,817**	3,484
Allowance for inventories		**1,500**	12,300
Reversal of allowance for trade receivables		**(80)**	(1,788)
Reversal of other payables		**(6,624)**	—
Allowance for trade receivables		**498**	19
Allowance for other receivables		**20,247**	—
Impairment of non-current assets		**91,793**	96,555
Write-off of property, plant and equipment		**—**	5
Change in fair value of derivative component of convertible bonds		**2,653**	945
Change in fair value of contingent payables		**11,430**	—
Change in fair value of investment property		**(32,590)**	—
Foreign exchange gains		**(89)**	(192)
Operating loss before working capital changes		**(22,382)**	(13,205)
Decrease in inventories		**3,113**	2,392
Decrease in trade and other receivables		**311,306**	90,460
Decrease in due from a director		**2,293**	1,577
Increase in due from a related party		**(268)**	—
Decrease in trade and other payables		**(582,011)**	(277,690)
Increase/ (decrease) in due to directors		**3,142**	(1,067)
Increase/ (decrease) in due to related parties		**33,131**	(4,855)
Cash used in operations		**(251,676)**	(202,388)
Income taxes paid		**(601)**	(5,340)
Net cash used in from operating activities		**(252,277)**	(207,728)

	Note	**2014** **RMB'000**	2013 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in pledged bank deposits		**285,000**	160,000
Acquisition of subsidiaries, net of cash acquired	45	**—**	(1,541)
Purchases of property, plant and equipment		**(2,829)**	(4,765)
Proceeds from disposal of property, plant and equipment		**5**	—
Payment for construction in progress		**(20,165)**	(242)
Payment for intangible asset		**(8,456)**	(1,257)
Payment for long-term prepayments		**(41,981)**	—
Interests received		**359**	7,969
Decrease in non-pledged bank deposits with more than three months to maturity		**—**	18,000
Net cash generated from investing activities		**211,933**	178,164
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		**(110,135)**	(40,000)
Bank loans raised		**53,386**	69,100
Proceeds from issue of shares, net		**135,966**	16,516
Contribution from non-controlling interests		**26,408**	—
Interests and other finance cost paid		**(3,046)**	(3,721)
Net cash generated from financing activities		**102,579**	41,895
NET INCREASE IN CASH AND CASH EQUIVALENTS		**62,235**	12,331
Effect of foreign exchange rate changes		**(1,273)**	(538)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**32,157**	20,364
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**93,119**	32,157
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank and cash balances	29	**93,119**	32,157

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 consolidated financial statements.

On 19 May 2014, a special resolution was passed to change the name of the Company from Sino Dragon New Energy Holdings Limited to Smartac Group China Holdings Limited.

In the opinion of the directors of the Company, as at 31 December 2014, Mr. Yang Xin Min is the ultimate controlling party of the Company.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND REQUIREMENTS

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 2014. 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.

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

(a) Application of new and revised IFRSs

The following standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2014:

Amendment to IAS 36, Recoverable amount disclosures for non-financial assets

The amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units ("**CGUs**") is required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less costs of disposal is determined using a present value technique. The amendments do not have an impact on these consolidated financial statements as the recoverable amounts of assets or CGUs have been determined on the basis of their value in use.

Amendments to IFRS 2 (Annual Improvements to IFRSs 2010-2012 Cycle)

This amendment clarifies the definitions of "vesting condition" and "market condition" and adds definitions for "performance condition" and "service condition". The amendment is applicable prospectively to share-based payment transactions for which the grant date is on or after 1 July 2014 and had no effect on the Group's consolidated financial statements.

Amendments to IFRS 3 (Annual Improvements to IFRSs 2010-2012 Cycle)

This amendment, applicable prospectively to business combinations for which the acquisition date is on or after 1 July 2014, requires any contingent consideration that is classified as an asset or a liability (i.e. non-equity) to be measured at fair value at each reporting date with changes in fair value recognised in profit or loss. It had no effect on the Group's consolidated financial statements.

Amendments to IFRS 13 (Annual Improvements to IFRSs 2010-2012 Cycle)

This amendment to the standard's basis for conclusions only clarifies that the ability to measure certain short-term receivables and payables on an undiscounted basis is retained.

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

(b) New and revised IFRSs in issue but not yet effective

The Group has not early applied new and revised IFRSs that have been issued but are not yet effective for the financial year beginning on 1 January 2014. The directors anticipate that the new and revised IFRSs will be adopted in the Group's consolidated financial statements when they become effective. The Group is in the process of assessing, where applicable, the potential effect of all new and revised IFRSs that will be effective in future periods but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.

List of new and revised IFRSs in issue but not yet effective that are relevant to the Group's operation

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[2]
Amendments to IAS 1	Disclosure Initiative[4]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle[5]
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle[3]
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle[4]

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
3 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
4 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
5 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.

(c) New Hong Kong Companies Ordinance

The requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with all applicable IFRSs and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance.

These consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. investment property and certain financial instruments that are measured at fair value). Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

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

(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 returns.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Consolidation *(continued)*

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 relating to that subsidiary.

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 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any 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 sum of the consideration transferred 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 sum of the consideration transferred 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 sum of the consideration transferred in a business combination to calculate the goodwill.

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.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGUs containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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. The Company's functional currency is Hong Kong dollars ("**HK$**"). The directors consider that choosing RMB as the presentation currency best suits the need of shareholders and investors.

(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 value 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 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 other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of monetary items that form the part 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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.

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 and leasehold improvement	3.33%-33.33%
Machinery and equipment	4.55%-25%
Office equipment and fixtures	12.5%-33.33%
Motor vehicles	12.5%-25%

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

Construction in progress represents buildings under construction and plant and equipment 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 and work in progress 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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Trade and other receivables *(continued)*

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.

(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 and equity instruments are set out below.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

(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 consisting 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; this amount is carried as a derivative liability that is subsequently measured at fair value through profit or loss 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.

Transaction costs are apportioned between the liability and derivative components of the convertible loans 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) Contingent payables

Contingent payables are classified as financial liabilities as they are resulted from a contract under contingent consideration arrangement. The amount is initially recognised and subsequently measured at fair value. Change in fair value is recognised in profit or loss when it arises.

(v) 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 the lease term.

(v) Storage service income

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Revenue recognition *(continued)*

(vi) Service fee income

Service fee income is recognised when the services are rendered.

(p) 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.

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.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(q) Employee benefits

(i) Employee leaves 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.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Employee benefits *(continued)*

(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.

(r) 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.

(s) 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)*

(t) 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 of items of income or expense that are taxable or deductible in other years and items that are never taxable or 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Taxation *(continued)*

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.

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.

(u) 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) 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.

(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.

(v) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its assets except goodwill, investment property, deferred tax assets, inventories and receivables of which the impairment policies are set out in notes 3(b), 3(e), 3(t), 3(i) and 3(k) respectively, 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 CGU to which the asset belongs.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) 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 CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU 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 CGU in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(w) 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.

(x) 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 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 consolidated financial statements when material.

4. CRITICAL JUDGEMENT AND KEY ESTIMATES

Critical judgement in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgement that has the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred tax for investment property

For the purposes of measuring deferred tax for investment property 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 property is held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. Therefore, in determining the Group's deferred tax for investment property, the presumption that investment property measured using the fair value model is recovered through sale is rebutted.

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) Depreciation and impairment on property, plant and equipment

The Group determines the estimated useful lives, residual values 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 and residual values 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.

The Group assesses 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 of each CGU the property, plant and equipment belonged which requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. The carrying amount exceeded the recoverable amount of the property, plant and equipment, therefore, impairment loss of RMB60,067,000 (2013: RMB47,267,000) on property, plant and equipment was charged to profit or loss. Details of the impairment loss calculation are provided in note 17(c) to the consolidated financial statements.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(continued)*

Key sources of estimation uncertainty *(continued)*

(a) Depreciation and impairment on property, plant and equipment *(continued)*

The carrying amount of property, plant and equipment as at 31 December 2014 was RMB26,525,000 (2013: RMB90,021,000).

(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.

During the year, RMB344,000 (2013: RMB68,699,000) of income tax was charged to profit or loss based on the estimated profit.

(c) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU 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 CGU and a suitable discount rate in order to calculate the present value. No impairment was recognised during the year ended 31 December 2014. The carrying amount of goodwill at 31 December 2014 was RMB59,782,000 (2013: RMB59,782,000).

(d) Fair values of investment property

The Group appointed an independent professional valuer to assess the fair values of the investment property. 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 and inputs used are reflective of the current market conditions. The carrying amount of investment property as at 31 December 2014 was RMB46,640,000 (2013: RMB14,050,000) after recognition of the fair value change of RMB32,590,000 to the profit or loss during the year.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(continued)*

Key sources of estimation uncertainty *(continued)*

(e) Amortisation and impairment on intangible assets

The Group determines the estimated useful lives and related amortisation for the Group's intangible assets. The useful lives 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.

The Group assesses whether any indication of impairment in accordance with the accounting policy. The recoverable amounts of intangible assets have been determined based on value in use calculations of each CGU the intangible assets belonged which requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. The carrying amount exceeded the recoverable amount of the intangible assets, therefore, impairment loss of RMB30,397,000 (2013: RMB22,562,000) was charged to profit or loss. Details of the impairment loss calculation are provided in note 17(c) to the consolidated financial statements.

The carrying amount of intangible assets as at 31 December 2014 was RMB69,396,000 (2013: RMB100,110,000).

(f) Recoverability of internally-generated intangible asset

During the year, the Group reconsidered the recoverability of its internally-generated intangible asset arising from the Group's software development, which is included in its consolidated statement of financial position at 31 December 2014 at RMB28,505,000 (2013:RMB24,862,000). The project continues to progress in a very satisfactory manner, and customer reaction has reconfirmed the Group's previous estimates of anticipated revenues from the project. However, increased competitor activity has caused the Group to reconsider its assumptions regarding future market shares and anticipated margins on these products. Detailed sensitivity analysis has been carried out and the Group is confident that the carrying amount of the asset will be recovered in full, even if returns are reduced. This situation will be closely monitored, and adjustments made in future periods, if future market activity indicates that such adjustments are appropriate.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(continued)*

Key sources of estimation uncertainty *(continued)*

(g) 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.

During the year, allowance for trade and other receivables of RMB20,665,000, net of reversal, was recognised in profit or loss. The carrying amount of trade and other receivables as at 31 December 2014 was RMB102,514,000 (2013: RMB429,768,000).

(h) 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.

At 31 December 2014, allowance for slow-moving inventories amounted to RMB19,892,000 (2013: RMB18,403,000).

(i) Fair value of derivative component

As disclosed in note 33 to the consolidated financial statements, the fair value of the derivative component of the convertible bonds at the date of issue and the end of the reporting period were determined using binomial models. The application of binomial models requires the Group 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 prices of the Company and the potential dilution in the share prices 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 on the derivative component in the period in which such determination is made.

The carrying amount of the derivative component as at 31 December 2014 was RMB5,247,000 (2013: RMB2,510,000).

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(continued)*

Key sources of estimation uncertainty *(continued)*

(j) 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. The directors considered that, based on the cash flow projections and value in use calculations prepared for the impairment testing of property, plant and equipment related to certain segments, the Group may not generate taxation profits in the foreseeable future. During the year, the Group has reversed of approximately RMB2,105,000 (2013: RMB89,124,000) deferred tax asset recognised in previous years arising from impairment of property, plant and equipment.

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 certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in RMB, 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 will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2014, if the RMB had weakened 5 per cent against the US$ with all other variables held constant, consolidated loss after tax for the year would have been RMB203,000 (2013: RMB186,000) lower, arising mainly as a result of the foreign exchange difference on trade payables, trade receivables and bank and cash balances denominated in US$. If the RMB had strengthened 5 per cent against the US$ with all other variables held constant, consolidated loss after tax for the year would have been RMB203,000 (2013: RMB186,000) higher, arising mainly as a result of the foreign exchange difference on bank and cash balances denominated in US$.

5. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk

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

(i) Trade and other receivables

In respect of the petrochemical 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 petrochemical 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. Amounts due from a director and a related party are closely monitored by the other directors.

At 31 December 2014, the Group has a certain concentration of credit risk as 71% (2013: 8%) and 82% (2013: 36%) of the total trade receivables were due from the Group's largest debtor and the five largest debtors as at 31 December 2014 respectively. The Group does not hold any collateral over these balances.

(ii) Deposits with banks and bank and cash balances

The credit risk on 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**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2014				
Trade and other payables	**90,882**	**—**	**—**	**90,882**
Due to directors	**5,008**	**—**	**—**	**5,008**
Due to related parties	**35,269**	**—**	**—**	**35,269**
Bank loans	**14,814**	**—**	**—**	**14,814**
Convertible bonds	**—**	**52,104**	**—**	**52,104**
At 31 December 2013				
Trade and other payables	643,301	—	—	643,301
Due to directors	1,866	—	—	1,866
Due to related parties	2,138	—	—	2,138
Bank loans	72,231	—	—	72,231
Convertible bonds	—	—	50,825	50,825

5. FINANCIAL RISK MANAGEMENT *(continued)*

(c) Liquidity risk *(continued)*

	The Company			
	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2014				
Accruals and other payables	**1,323**	**—**	**—**	**1,323**
Due to subsidiaries	**13**	**—**	**—**	**13**
Due to directors	**584**	**—**	**—**	**584**
Convertible bonds	**—**	**52,104**	**—**	**52,104**
At 31 December 2013				
Accruals and other payables	1,609	—	—	1,609
Due to subsidiaries	22	—	—	22
Due to directors	281	—	—	281
Convertible bonds	—	—	50,825	50,825

(d) Interest rate risk

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

At 31 December 2014, 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 RMB860,000 lower/higher (2013: RMB62,000 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 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:

	2014 **RMB'000**	2013 RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**178,384**	363,341
Financial liabilities:		
Fair value through profit or loss:		
Financial derivative	**5,247**	2,510
Contingent payables	**31,742**	19,729
Financial liabilities at amortised cost	**153,532**	755,882

(f) Fair values

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:

Description	Fair value measurements as at 31 December 2014 using:			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Recurring fair value measurement:				
Investment property				
— Commercial PRC *(note 18)*	**—**	**—**	**46,640**	**46,640**
Recurring fair value measurement:				
Financial liabilities at fair value through profit or loss				
— Contingent payables *(note 34)*	**—**	**(31,742)**	**—**	**(31,742)**
— Derivative financial instruments *(note 33)*	**—**	**—**	**(5,247)**	**(5,247)**
	—	**(31,742)**	**(5,247)**	**(36,989)**

Description	Fair value measurements as at 31 December 2013 using:			
	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Recurring fair value measurement:				
Investment property				
— Commercial 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)

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 properties *RMB'000*	Contingent payables *RMB'000*	Derivatives financial instruments *RMB'000*	2014 Total *RMB'000*
At 1 January 2014	**14,050**	**(19,729)**	**(2,510)**	**(8,189)**
Transfer from level 3 measurement to level 2 measurement	**—**	**19,729**	**—**	**19,729**
Total gains or losses recognised in profit or loss (#)	**32,590**	**—**	**(2,653)**	**29,937**
Exchange difference	**—**	**—**	**(84)**	**(84)**
At 31 December 2014	**46,640**	**—**	**(5,247)**	**41,393**
(#) Include gains or losses for assets held at end of reporting period	**32,590**	**—**	**(2,653)**	**29,937**

6. FAIR VALUE MEASUREMENTS *(continued)*

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

	Assets/(liabilities) at fair value through profit or loss			
Description	Investment properties *RMB'000*	Contingent payables *RMB'000*	Derivatives financial instruments *RMB'000*	2013 Total *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)

During the year, contingent payables of RMB31,742,000 were transferred from measurement based on level 3 to level 2. Since profit guarantee in relation to the contingent payables were met, the number of shares to be issued can be determined and the share price can be determined based on the quoted market price at the end of the reporting period.

The total gains or losses recognised in profit or loss including those assets and liabilities at end of reporting period are presented in the face and administrative expense of the consolidated 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 2014:

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 2 fair value measurements

Description	Valuation technique	Inputs	Fair value 2014 *RMB'000*
Contingent payables	Income approach	VCL's 2014 net profit Share price at 31 December 2014	(31,742)

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 2014: *(continued)*

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value 2014 *RMB'000*
Investment properties — Commercial PRC	**Income capitalisation approach**	**Yield**	**6%**	**Higher of the yield, lower of fair value**	**46,640**
		Market rent	**Monthly rental RMB40.79/sq.m.**	**Higher of the market rental, higher of fair value**	
Derivatives financial instrument	**Binominal approach**	**Discount rate**	**12.39%**	**Increase in liability**	**(5,247)**
		Risk Free Rate	**0.13%**		
		Volatility	**69.74%**		

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

7. TURNOVER

	2014	2013
	RMB'000	*RMB'000*
Sales of zirconium and new energy materials	**37,908**	61,475
Sales of rechargeable batteries	**9,647**	14,938
Sales of software	**26,486**	6,120
Storage service income	**16,827**	15,251
Commission income	**556**	2,657
Consultation and maintenance service income	**20,198**	1,228
	111,622	101,669

8. OTHER INCOME

	2014	2013
	RMB'000	*RMB'000*
Bank interest income	**359**	7,969
Government grants	**1,718**	162
Net foreign exchange gain	**89**	—
Gross rental income from investment properties	**1,733**	29
Value-added tax ("**VAT**") refund	**1,628**	—
Others	**606**	54
	6,133	8,214

9. SEGMENT INFORMATION

The Group has four 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 online to offline ("O2O") consultation service
(iii)	Petrochemicals segment	—	Provision of petrochemicals storage and trading service
(iv)	Integrated digital marketing solutions segment	—	Provision of digital advertising platform and related solutions

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. Each of the above operating segments corresponds to related subsidiaries engaging in the respective segment activities.

Zirconium segment is attributable to Yixing Xinxing Zirconium Company Limited ("**YXZL**"), Binhai Dragon Crystal Chemicals Company Limited ("**BHDC**"), Yixing Better Batteries Company Limited ("**YBBL**") and P.T. Asia Prima Resources ("**APR**").

O2O solutions segment is attributable to Virtual City Limited ("**VCL**") and its subsidiaries.

Petrochemicals segment is attributable to Muntari Holdings Limited and its subsidiaries.

Integrated digital marketing solutions segment is mainly attributable to Tosun Limited, Select Sky Limited, Solomedia Asia Limited, Great Sino Technology Development Limited ("**GSTD**"), Solomedia Digital (Shanghai) Limited and 鴿子數碼科技(宜興)有限公司.

The accounting policies of the operating segments are the same as those described in note 3 to the financial statements. 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.

9. SEGMENT INFORMATION *(continued)*

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

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

	Zirconium segment		O2O solutions segment		Petrochemicals segment		Integrated digital marketing solutions segment		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Year ended 31 December										
Revenue from external customers	**47,555**	76,413	**46,684**	7,348	**17,383**	17,908	**–**	–	**111,622**	101,669
Segment (loss) / profit	**(65,135)**	(84,240)	**31,673**	(333)	**(72,958)**	(42,313)	**(25,627)**	–	**(132,047)**	(126,886)
Interest revenue	**252**	811	**18**	3	**87**	7,155	**2**	–	**359**	7,969
Interest expense	**–**	–	**238**	39	**2,787**	3,663	**–**	–	**3,025**	3,702
Depreciation and amortisation	**2,019**	6,449	**7,927**	790	**7,533**	9,903	**21,765**	–	**39,244**	17,142
Income tax (credit) / expense	**(149)**	–	**2,647**	128	**(322)**	433	**–**	–	**2,176**	561
Other material non-cash items:										
Impairment of assets	**24,543**	57,654	**–**	–	**67,250**	38,901	**–**	–	**91,793**	96,555
Allowance for inventories	**1,500**	12,300	**–**	–	**–**	–	**–**	–	**1,500**	12,300
Allowance for other receivables	**19,079**	–	**–**	–	**1,168**	–	**–**	–	**20,247**	–
Additions to segment non-current assets	**977**	771	**11,234**	1,323	**529**	4,196	**93,421**	–	**106,161**	6,290
At 31 December										
Segment assets	**83,457**	153,421	**120,101**	73,115	**113,553**	802,125	**85,529**	–	**402,640**	1,028,661
Segment liabilities	**(52,514)**	(158,227)	**(39,307)**	(15,524)	**(57,130)**	(681,468)	**(33,001)**	–	**(181,952)**	(855,219)

9. SEGMENT INFORMATION *(continued)*

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

	2014 RMB'000	2013 RMB'000
Revenue		
Total revenue of reportable segments and consolidated revenue	**111,622**	101,669

	2014 RMB'000	2013 RMB'000
Profit or loss		
Total loss of reportable segments	**(132,047)**	(126,886)
Unallocated amounts:		
Change in fair value of derivative component of convertible bonds	**(2,653)**	(945)
Change in fair value of contingent payables	**(11,430)**	—
Unallocated head office and corporate expenses	**(10,497)**	(9,575)
Consolidated loss before tax	**(156,627)**	(137,406)

	2014 RMB'000	2013 RMB'000
Assets		
Total assets of reportable segments	**402,640**	1,028,661
Elimination of intersegment assets	**(5,668)**	(395)
Unallocated amounts:		
Goodwill	**59,782**	59,782
Unallocated head office and corporate assets	**81,799**	3,525
Consolidated total assets	**538,553**	1,091,573

9. SEGMENT INFORMATION *(continued)*

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

	2014	2013
	RMB'000	*RMB'000*
Liabilities		
Total liabilities of reportable segments	**181,952**	855,219
Elimination of intersegment liabilities	**—**	(97,786)
Unallocated amounts:		
Convertible bonds	**46,029**	41,147
Derivative financial instruments	**5,247**	2,510
Contingent payables	**31,742**	19,729
Unallocated head office and corporate liabilities	**2,552**	2,356
Consolidated total liabilities	**267,522**	823,175

(iii) Geographical information:

	2014	2013
	RMB'000	*RMB'000*
Revenue		
PRC except Hong Kong	**65,494**	54,408
Hong Kong	**21,527**	4,758
North America	**9,057**	12,969
Europe	**10,022**	9,123
Japan	**3,063**	16,877
Others	**2,459**	3,534
Consolidated total revenue	**111,622**	101,669

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:

	2014	2013
	RMB'000	*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

	2014	2013
	RMB'000	*RMB'000*
Interest expenses on bank loans wholly repayable within five years	**3,025**	3,702
Imputed interest expenses on convertible bonds wholly payable within five years *(note 33)*	**3,817**	3,484
Others	**21**	19
	6,863	7,205

11. INCOME TAX EXPENSE

	2014 *RMB'000*	2013 *RMB'000*
Current tax - Hong Kong profits tax		
Provision for the year	**233**	156
Over-provision in prior year	**(16)**	(28)
	217	128
Current tax - PRC enterprise income tax ("**PRC EIT**")		
Provision for the year	**2,691**	433
Over-provision in prior year	**(732)**	—
	1,959	433
Deferred tax *(note 35)*	**(1,832)**	68,138
Income tax expenses	**344**	68,699

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 years ended 31 December 2014 and 2013.

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.

Smartac Solutions (Suzhou) Ltd.("**SZYL**") was recognised as an advance technology enterprise (高新科技企業) 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 of SZYL applied for provision of income tax for the years ended 31 December 2011, 2012 and 2013 was 15%. In 2014, SZYL has renewed its status being an advance technology enterprise and will enjoy the preferential rate of 15% for the years ended 31 December 2014, 2015 and 2016.

Macau Complementary Tax is calculated at the maximum progressive rate of 12% on the estimated assessable profit for the year. No provision for Macau Complementary Tax has been made in the consolidated financial statements as the relevant group entity had assessable profit less than the exemption threshold of MOP300,000.

The reconciliation between the income tax expense and the product of loss before tax multiplied by the PRC EIT rate is as follows:

	2014	2013
	RMB'000	*RMB'000*
Loss before tax	**(156,627)**	(137,406)
Tax at the PRC EIT rate of 25% (2013:25%)	**(39,157)**	(34,351)
Tax effect of income that is not taxable	**(25)**	(3)
Tax effect of expenses that are not deductible	**21,068**	1,065
Tax effect of temporary differences and tax losses not recognised	**21,422**	101,111
Tax effect of utilisation of tax losses not previously recognised	**(49)**	—
Tax effect of tax concession	**(2,782)**	1
Tax effect of tax credit	**125**	—
Over-provision in prior years	**(748)**	(28)
Tax effect of different tax rates of subsidiaries	**490**	904
Income tax expense	**344**	68,699

12. LOSS FOR THE YEAR

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

	2014 **RMB'000**	2013 RMB'000
Allowance for trade receivables	**498**	19
Allowance for other receivables	**20,247**	—
Allowance for inventories	**1,500**	12,300
Amortisation of intangible assets	**9,017**	5,569
Amortisation of prepaid land lease payments	**1,061**	1,924
Auditor's remuneration		
— Audit services	**1,585**	1,529
— Other services	**—**	229
	1,585	1,758
Change in fair value of derivative component of convertible bonds	**2,653**	945
Change in fair value of contingent payables	**11,430**	—
Cost of inventories sold *	**67,815**	72,449
Depreciation	**7,425**	9,654
Less: amount capitalised in software development costs	**(244)**	(26)
	7,181	9,628
Direct operating expenses of investment property that generate rental income	**1,110**	171
Directors' emoluments *(note 13)*	**2,376**	2,439
Environmental contribution levies	**23,000**	—
Impairment of construction in progress	**72**	26
Impairment of intangible assets	**30,397**	22,562
Impairment of prepaid land lease payment	**1,257**	26,700
Impairment of property, plant and equipment	**60,067**	47,267
Net foreign exchange (gain)/loss	**(89)**	800
Reversal of allowance for trade receivables	**(80)**	(1,788)
Write-off of property, plant and equipment	**—**	5
Operating leases charges in respect of		
— Office premises in Hong Kong	**1,194**	1,032
— Leasehold land in the PRC	**1,093**	3,981
— Others	**390**	—
	2,677	5,013
Staff costs (including directors' emoluments)		
— Salaries, bonus and allowances	**26,742**	21,274
— Provision for long service payments	**—**	15
— Retirement benefit scheme contributions	**2,514**	890
	29,256	22,179
Less: amount capitalised in software development costs	**(8,456)**	(1,257)
	20,800	20,922

* Cost of inventories sold includes staff costs, depreciation, amortisation and operating lease charges of approximately RMB6,106,000 (2013: RMB7,950,000) 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 2014

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	—	1,375	7	1,382
Ms Huang Yue Qin	—	388	7	395
Mr Zhou Quan *(note a)*	—	121	5	126
Mr Kwan Che Hang Jason	143	—	—	143
	143	1,884	19	2,046
Non-executive director				
Mr Wang Jia Wei	95	—	—	95
Independent Non-executive directors				
Dr Cheng Faat Ting Gary	82	—	—	82
Prof Ji Chang Ming *(note b)*	7	—	—	7
Mr Poon Lai Yin Michael	74	—	—	74
Mr Zhou Guang Yao *(note c)*	47	—	4	51
Mr Yang Wei Qing *(note d)*	21	—	—	21
	231	—	4	235
	469	1,884	23	2,376

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

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 Kwan Che Hang Jason *(note e)*	—	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)*

Notes :

(a) resigned on 1 September 2014

(b) resigned on 4 February 2014

(c) appointed on 4 February 2014 and resigned on 1 September 2014

(d) appointed on 26 September 2014

(e) appointed on 1 December 2013

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 2 (2013: 4) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining 3 (2013: 1) individual are set out below:

	2014 *RMB'000*	2013 *RMB'000*
Salaries and allowances	**1,298**	618
Discretionary bonus	**43**	154
Retirement benefit scheme contributions	**38**	12
	1,379	784

The emoluments fell within the following band:

	Number of individuals	
	2014	2013
Nil to HK$1,000,000 (equivalent to Nil to RMB796,000 (2013: RMB792,000))	**3**	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 RMB238,742,000 (2013: RMB183,110,000) 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 2014 (2013: Nil).

16. LOSS PER SHARE

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

	2014 ***RMB'000***	2013 *RMB'000*
Loss		
Loss for the purpose of calculating basic loss per share	**(163,944)**	(206,016)

	2014	2013
Number of shares		
Issued ordinary shares at 1 January	**2,806,947,850**	2,453,806,546
Effect of consideration shares issued	**—**	24,967,361
Effect of shares issued	**126,246,575**	29,315,068
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	**2,933,194,425**	2,508,088,975

The Company did not have any dilutive potential ordinary shares for the year ended 31 December 2014 as the effects (being considered individually) of convertible bond, unissued consideration shares and outstanding share options were anti-dilutive.

17. PROPERTY, PLANT AND EQUIPMENT

	The Group				
	Buildings and leasehold improvement *RMB'000*	**Machinery and equipment** *RMB'000*	**Office equipment and fixtures** *RMB'000*	**Motor vehicles** *RMB'000*	**Total** *RMB'000*
Cost					
At 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 and1 January 2014	247,704	614,673	5,888	10,015	878,280
Additions	576	1,441	1,728	—	3,745
Disposals	—	—	(7)	—	(7)
Transfer from construction in progress *(note 19)*	249	—	—	—	249
Exchange differences	—	—	15	—	15
At 31 December 2014	248,529	616,114	7,624	10,015	882,282

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

	The Group				
	Buildings and leasehold improvement	**Machinery and equipment**	**Office equipment and fixtures**	**Motor vehicles**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Accumulated depreciation and impairment					
At 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 losses *(note c)*	10,067	37,198	2	—	47,267
Write-off	—	—	(100)	—	(100)
Exchange differences	1	—	(6)	—	(5)
At 31 December 2013 and1 January 2014	230,357	546,864	3,151	7,887	788,259
Charge for the year	1,076	4,213	1,289	847	7,425
Impairment losses *(note c)*	8,978	51,089	—	—	60,067
Disposals	—	—	(2)	—	(2)
Exchange differences	—	—	8	—	8
At 31 December 2014	240,411	602,166	4,446	8,734	855,757
Carrying amount					
At 31 December 2014	8,118	13,948	3,178	1,281	26,525
At 31 December 2013	17,347	67,809	2,737	2,128	90,021

Notes:

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

(b) At 31 December 2014, the carrying amount of the Group's property, plant and equipment pledged as security for the Group's bank loans (note 32) amounted to approximately RMB6,839,000 (2013: RMB68,802,000).

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

Notes: (continued)

(c) The Group conducted an impairment testing on the carrying amounts of the non-current assets. Based on the valuation report prepared by Avista Valuation Advisory Limited ("**Avista**"), an independent firm of professional valuers, the impairment losses of non-current assets of the Group charged to profit or loss for the year ended 31 December 2014 are analysed as follows:

2014	**Attributable to zirconium segment** *RMB'000*	**Attributable to petrochemicals segment** *RMB'000*	**Total impairment loss** *RMB'000*
Property, plant and equipment	**23,214**	**36,853**	**60,067**
Construction in progress *(note 19)*	**72**	**—**	**72**
Intangible assets *(note 22)*	**—**	**30,397**	**30,397**
Prepaid land lease payments *(note 20)*	**1,257**	**—**	**1,257**
Charged to profit or loss	**24,543**	**67,250**	**91,793**

2013	Attributable to zirconium segment *RMB'000*	Attributable to petrochemicals segment *RMB'000*	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 payments *(note 20)*	26,700	—	26,700
Charged to profit or loss	57,654	38,901	96,555

The recoverable amounts of the CGUs the non-current assets belonged have been determined on the basis of their value in use calculation using discounted cash flow method. The key assumptions for the discounted cash flow method are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 3% (2013: 3%). This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from the Group's zirconium segment and petrochemicals segment are 14% (2013: 10%) and 16% (2013: 16%) respectively.

As the CGUs of zirconium segments and petrochemicals segment have been reduced to their recoverable amounts, any adverse change in assumption used in the calculation of recoverable amounts would result in further impairment losses.

18. INVESTMENT PROPERTY

	The Group	
	2014	2013
	RMB'000	*RMB'000*
At 1 January	**14,050**	—
Acquisition of subsidiaries *(note 45)*	**—**	14,050
Fair value gain	**32,590**	—
At 31 December	**46,640**	14,050

The fair value of the Group's investment property at 31 December 2014 was valued on income capitalisation approach by taking into account the net rental income of the existing lease and achievable in the existing market with due allowance for the reversionary income potential of the lease. The valuation was performed by Avista.

At 31 December 2013, the Group's investment property was valued on the replacement cost basis.

During the year, the directors change the valuation approach from replacement cost approach to income capitalisation approach which takes into consideration of the income generated from the investment property and reflects the current situation.

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:

	2014	2013
	RMB'000	*RMB'000*
PRC:		
Medium-term lease	**46,640**	14,050

At 31 December 2014, the investment property was pledged as security for the Group's bank loans (note 32(a)).

19. CONSTRUCTION IN PROGRESS

	The Group	
	2014	2013
	RMB'000	*RMB'000*
At 1 January	**321**	248
Additions	**28,683**	242
Transfer to property, plant and equipment *(note 17)*	**(249)**	(143)
Impairment loss *(note 17(c))*	**(72)**	(26)
At 31 December	**28,683**	321

The Group's construction in progress comprises costs incurred on computer hardware under construction and machinery and equipment pending installation.

20. PREPAID LAND LEASE PAYMENTS

	The Group	
	2014	2013
	RMB'000	*RMB'000*
At 1 January	**43,008**	69,281
Acquisition of subsidiaries *(note 45)*	**—**	2,351
Amortisation for the year	**(1,061)**	(1,924)
Impairment loss *(note 17(c))*	**(1,257)**	(26,700)
At 31 December	**40,690**	43,008
Current portion	**(1,060)**	(469)
Non-current portion	**39,630**	42,539

The Group's leasehold properties are located in the PRC and Indonesia under medium-lease of fifty years.

As at 31 December 2014, the prepaid land lease payments were pledged as security for the Group's bank loans of RMB2,285,000 (note 32(a)).

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 2013	255,573	—	—	255,573
Acquisition of subsidiaries *(note 45)*	—	56,093	3,689	59,782
At 31 December 2013, 1 January 2014,and 31 December 2014	255,573	56,093	3,689	315,355
Accumulated impairment losses				
At 1 January 2013, 31 December 2013 and 1 January 2014 and 31 December 2014	255,573	—	—	255,573
Carrying amount				
At 31 December 2014	—	56,093	3,689	59,782
At 31 December 2013	—	56,093	3,689	59,782

Goodwill acquired in a business combination is allocated, at acquisition, to the 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 on 6 January 2011. The goodwill arising from the acquisition is allocated to CGU of petrochemicals segment. The goodwill was fully impaired since the year ended 31 December 2012.

(b) The Group acquired 51% of the equity interest in VCL in 2013 as disclosed in note 45 to the consolidated 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 have been determined on the basis of their value in use calculations using discounted cash flow method. The key assumptions for the discounted cash flow method are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 3% (2013: 4%). This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from the Group's software development activities and hardware installation activities are 21% (2013: 17%) and 21% (2013: 18%) respectively.

22. INTANGIBLE ASSETS

	The Group				
	Technical know-how	Operating license	Software development costs	Backlog	Total
	(note (a))	*(note (b))*	*(note (c))*	*(note (d))*	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
At 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 and 1 January 2014	4,345	174,924	25,283	1,141	205,693
Addition	—	—	8,700	—	8,700
At 31 December 2014	4,345	174,924	33,983	1,141	214,393
Accumulated amortisation and impairment losses					
At 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 and 1 January 2014	4,345	99,676	421	1,141	105,583
Amortisation for the year	—	3,960	5,057	—	9,017
Impairment loss *(note 17(c))*	—	30,397	—	—	30,397
At 31 December 2014	4,345	134,033	5,478	1,141	144,997
Carrying amount					
At 31 December 2014	—	40,891	28,505	—	69,396
At 31 December 2013	—	75,248	24,862	—	100,110

22. INTANGIBLE ASSETS *(continued)*

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 was 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. Operating license belongs to the CGU of petrochemicals segment, details of the impairment testing on which are set out in note 17(c).

(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 was amortised over the estimated useful life of 1.4 years.

23. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2014	2013
	RMB'000	*RMB'000*
Unlisted investments, at cost	**117,986**	117,986
Less: Impairment loss *(note b)*	**(30,744)**	(30,744)
	87,242	87,242

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

23. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries as at 31 December 2014 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up capital/ registered capital	Percentage of ownership interest		Principal activities
			Direct	Indirect	
Kingweston Technology Limited	BVI	US$2,500,000	100%	—	Investment holding
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(BHDC)*	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
宜興倍特電池有限公司(YBBL)*	PRC	US$4,200,000	—	100%	Research, development, manufacturing and sales of rechargeable batteries
宜興新興鋯業有限公司(YXZL)*	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

23. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries as at 31 December 2014 are as follows: *(continued)*

Name of subsidiary	**Place of incorporation/ establishment**	**Issued and fully paid up capital/ registered capital**	**Percentage of ownership interest**		**Principal activities**
			Direct	Indirect	
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%	Provision of management consulting service
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)	Provision of petrochemicals storage and wholesale services
VCL	BVI	US$10,000	51%	—	Investment holding
Samrtac Group Limited	HK	HK$1	—	100%	Investment holding
Smartac International Limited	HK	HK$1	—	100%	Investment holding
Smartac Asia Limited	HK	HK$1,000	—	100%	Provision of communication system installation and system integration business
Smartac China Limited	HK	HK$1,162,500	—	100%	Investment holding
PCS I-Datacomms Limited	HK	HK$100,000	—	51%	Provision of structure cabling, IT infra-structure and system integration business and system maintenance
Advanced Voice Technologies Asia Limited	HK	HK$100,000	—	52%	Trading of voice mail telephone system and provision of maintenance services
Evolve Consulting Limited	HK	HK$10,000	—	51%	Provision of recruitment consulting services

23. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries as at 31 December 2014 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
怡峰商務諮詢(上海)有限公司* (Evolve Consulting (Shanghai) Limited)	PRC	US$110,000	—	100%	Provision of recruitment consulting 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	—	100%	Investment holding
蘇州盈聯智能科技股份有限公司* (Smartac Solutions (Suzhou) Ltd)	PRC	RMB19,000,000	—	95%	Software development
Smartac Intelligent Systems Macau Limited	Macau	MOP100,000	—	99%	Provision of communication system installation and system integration business
Smartac Ventures Limited	BVI	US$1	—	100%	Dormant
Tosun Limited	BVI	US$1	100%	—	Investment holding
Select Sky Limited	HK	HK$1	—	100%	Investment holding
Solomedia Asia Limited (formerly known as "Richtech Inc Limited")	HK	HK$1	—	100%	Dormant
GSTD	HK	HK$68,000,000	—	51%	Investment holding
鴿子數碼科技(上海)有限公司* (Solomedia Digital (Shanghai) Limited)	PRC	HK$150,000,000	—	51%	Provision of advertising, IT and networking services
鴿子數碼科技(宜興)有限公司*	PRC	HK$50,000,000	—	100%	Provision of advertising, IT and networking services

* 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 (namely Liu Chao Ying, Shen You, Wong Jia Wei and Shanghai Bokun Investment Company Limited) 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 NBBK's business of wholesale and storage of petrochemicals in the PRC. 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 is 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 NBLY's 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.

The principal activities of NBBK are provision of storage service and wholesale of petrochemical products. Please refer to note 9 for details of revenue and assets attributable to the petrochemical segment.

In the 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 2014, 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 information of 49% equity interests in GSTD and VCL Group held by non-controlling interests ("**NCI**") as at 31 December 2014 which was material to the Group. The financial information represents amounts before inter-company eliminations.

	GSTD	VCL Group	
Date of incorporation	13 December 2013	28 August 2013	
Place of incorporation	HK	BVI	
Principal place of business	HK	HK and the PRC	
% of ownership interests/voting rights held by NCI	49%	49%	
	2014	**2014**	2013
	RMB'000	***RMB'000***	*RMB'000*
At 31 December:			
Non-current assets	**76,048**	**29,550**	20,896
Current assets	**27,869**	**30,197**	21,847
Current liabilities	**(49,412)**	**(14,687)**	(14,635)
Net assets	**54,505**	**45,060**	28,108
Accumulated NCI	**26,707**	**20,189**	13,773
Year ended 31 December:			
(Loss)/profit and total comprehensive income	**(4)**	**13,706**	(82)
(Loss)/profit allocated to NCI	**(2)**	**6,288**	(119)
Net cash used in operating activities	**(4)**	**(2,114)**	(544)
Net cash used in investing activities	**(103,848)**	**(10,368)**	(1,310)
Net cash generated from financing activities	**103,307**	**11,766**	6,196
Net (decrease)/increase in cash and cash equivalents	**(545)**	**(716)**	4,342

24. LONG-TERM PREPAYMENTS

(i) Prepayment for acquisition of property, plant and equipment

As at 31 December 2013, the Group made prepayments of approximately RMB987,000 for the acquisition of machinery and equipment of zirconium segment for the manufacturing plants under development. The amount was transferred to property, plant and equipment during the year ended 31 December 2014.

(ii) Prepayment for operations of wireless networks at railway stations

During the year, the Group made prepayments of approximately RMB65,033,000 for operations of wireless networks at railway stations. The movement of prepayments is as follows:

	The Group	
	2014	2013
	RMB'000	*RMB'000*
At 1 January	**—**	—
Additions	**65,033**	—
Amortisation for the year	**(21,744)**	—
At 31 December	**43,289**	—
Current portion	**(23,627)**	—
Non-current portion	**19,662**	—

25. INVENTORIES

	The Group	
	2014	2013
	RMB'000	*RMB'000*
Raw materials	**31,916**	37,665
Work in progress	**6,206**	3,090
Finished goods	**9,417**	9,591
	47,539	50,346
Less: Allowance for inventories	**(19,892)**	(18,403)
	27,647	31,943

Reconciliation of allowance for inventories

	The Group	
	2014	2013
	RMB'000	*RMB'000*
At 1 January	**18,403**	6,400
Allowance for the year	**1,500**	12,300
Exchange difference	**(11)**	(297)
At 31 December	**19,892**	18,403

26. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables *(note (a))*	**78,387**	17,165	**—**	—
Less: Allowance for doubtful debts	**(1,710)**	(1,292)	**—**	—
	76,677	15,873	**—**	—
Advance payments to suppliers	**1,989**	385,344		
Deposits	**6,247**	1,012	**—**	—
Prepayments	**2,779**	299	**332**	—
Other receivables *(note (b))*	**14,822**	27,240	**109**	232
Dividend receivables	**—**	—	**11,222**	10,947
	102,514	429,768	**11,663**	11,179

(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 management.

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

	The Group	
	2014	2013
	RMB'000	*RMB'000*
Up to 3 months	**73,858**	12,124
3 to 6 months	**1,156**	2,663
6 months to 1 year	**755**	373
Over 1 year	**908**	713
	76,677	15,873

26. TRADE AND OTHER RECEIVABLES *(continued)*

(a) Trade receivables *(continued)*

Reconciliation of allowance for trade receivables:

	The Group	
	2014	2013
	RMB'000	*RMB'000*
At 1 January	**1,292**	2,387
Acquisition of subsidiaries	**—**	674
Allowance for the year	**498**	19
Reversal of allowance	**(80)**	(1,788)
At 31 December	**1,710**	1,292

As of 31 December 2014, trade receivables of approximately RMB10,350,000 (2013: RMB7,770,000) 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	
	2014	2013
	RMB'000	*RMB'000*
Up to 3 months	**8,332**	5,631
3 to 6 months	**633**	1,045
6 months to 1 year	**752**	381
Over 1 year	**633**	713
	10,350	7,770

26. TRADE AND OTHER RECEIVABLES *(continued)*

(a) Trade receivables *(continued)*

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

	The Group	
	2014	2013
	RMB'000	*RMB'000*
HK$	**6,835**	3,972
RMB	**62,940**	6,047
US$	**6,902**	5,854
	76,677	15,873

(b) At 31 December 2014, an allowance was made for estimated irrecoverable VAT receivables of approximately RMB16,839,000 (2013: Nil) and other receivable of approximately RMB3,408,000 (2013: Nil).

27. DUE FROM A DIRECTOR

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

		The Group		
Name	**Terms of loan**	**Balance at 31 December 2014**	**Balance at 1 January 2014**	**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	2,293

		The Company		
Name	**Terms of loan**	**Balance at 31 December 2014**	**Balance at 1 January 2014**	**Maximum amount outstanding during the year**
		RMB'000	*RMB'000*	*RMB'000*
Mr. Yang Xin Min	Unsecured, repayable on demand and interest-free	1,615	—	1,615

28. PLEDGED BANK DEPOSITS

At 31 December 2013, 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(b) to the consolidated financial statements. The pledged bank deposits were at fixed interest rate of 2.8% per annum and therefore exposed the Group to fair value interest rate risk.

As at 31 December 2013, all the pledged bank deposits were denominated in RMB.

29. BANK AND CASH BALANCES

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and on hand	**92,119**	14,657	**80,428**	2,444
Bank deposits	**1,000**	17,500	**—**	—
	93,119	32,157	**80,428**	2,444

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

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
US$	**85**	523	**—**	—
HK$	**86,026**	6,971	**80,428**	2,407
RMB	**6,915**	24,662	**—**	37
Others	**93**	1	**—**	—
	93,119	32,157	**80,428**	2,444

As at 31 December 2014, the Group's bank and cash balances denominated in RMB amounted to approximately RMB6,915,000 (2013: RMB24,662,000). 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	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**23,803**	16,514	**—**	—
Notes payables *(note)*	**—**	585,000	**—**	—
	23,803	601,514	**—**	—
Receipts in advance from customers	**1,968**	3,670	**—**	—
Payables for construction costs and purchase of property, plant and equipment	**11,998**	3,551	**—**	—
Other payables	**36,368**	10,303	**—**	—
Accrued expenses	**16,745**	24,263	**1,323**	1,609
	90,882	643,301	**1,323**	1,609

Note:

As at 31 December 2013, notes payables of RMB585,000,000 were secured by pledged bank deposits (note 28), machinery and equipment of approximately RMB53,568,000 and guarantees as set out in (note 32(b)).

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

	The Group	
	2014	2013
	RMB'000	*RMB'000*
Up to 3 months	**17,819**	11,721
3 to 6 months	**3,119**	2,365
6 months to 1 year	**785**	768
Over 1 year	**2,080**	1,660
	23,803	16,514

30. TRADE AND OTHER PAYABLES *(continued)*

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

	2014	2013
	RMB'000	*RMB'000*
RMB	**19,797**	599,179
HK$	**3,307**	1,830
US$	**699**	505
	23,803	601,514

31. DUE TO DIRECTORS

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

32. BANK LOANS AND BANKING FACILITIES

The analysis of the Group's bank loans is as follows:

	The Group	
	2014	2013
	RMB'000	*RMB'000*
Secured bank loans repayable within one year (i)	**11,956**	71,100
Bank invoice loans (ii)	**2,395**	—
	14,351	71,100

32. BANK LOANS AND BANKING FACILITIES *(continued)*

The carrying amounts of the Group's bank loans are denominated in the following currencies:

	2014	2013
	RMB'000	*RMB'000*
RMB	**11,956**	71,100
HK$	**1,260**	—
US$	**1,135**	—
	14,351	71,100

The average interest rates at 31 December were as follows:

		2014	2013
(i)	Bank loans	**7% to 8%**	6%
(ii)	Bank invoice loans	**4.75% to 6.25%**	N/A

The Group's bank loans are repayable within one year. All the loans are arranged at fixed interest rates and expose the Group to fair value interest rate risk.

(a) As at 31 December 2014, bank loans of RMB14,351,000 (2013: RMB2,000,000) are secured by:

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

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

— Charge over the investment property (note 18);

— Personal guarantee provided by a director of the Company (note 44(b)); and

— Charge over a property owned by a related company (note 44(b)).

32. BANK LOANS AND BANKING FACILITIES *(continued)*

(b) As at 31 December 2013, bank loans of RMB69,100,000 and notes payables of RMB585,000,000 (note 30) were secured by:

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

— Charge over pledged bank deposits (note 28);

— Guarantee provided by a related company (note 44(b));

— Guarantee provided by a third party; and

— Personal guarantees provided by a non-executive director of the Company and his spouse (note 44(b)).

33. CONVERTIBLE BONDS

The Company issued 2 tranches, Tranche 1 and Tranche 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.

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 rights of the convertible bond holders to convert Tranche 2 convertible bonds into ordinary shares are as follows:

— 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.

The Tranche 2 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 2013	38,778	1,622	40,400
Interest charge for the year *(note 10)*	3,484	—	3,484
Change in fair value	—	945	945
Exchange difference	(1,115)	(57)	(1,172)
At 31 December 2013 and 1 January 2014	41,147	2,510	43,657
Interest charge for the year *(note 10)*	3,817	—	3,817
Change in fair value	—	2,653	2,653
Exchange difference	1,065	84	1,149
At 31 December 2014	46,029	5,247	51,276

33. CONVERTIBLE BONDS *(continued)*

The interest charged for the year is calculated by applying an effective interest rate of 8.92% per annum (2013: 8.92% per annum) to the liability component.

The fair value of the liability component of the convertible bonds at 31 December 2014 was approximately HK$57,700,000 (equivalent to RMB46,252,000) (2013: HK$56,710,000 (equivalent to RMB44,343,000)). The fair value has been calculated by discounted cash flow method at a discount rate representing the market yield (level 2 fair value measurement).

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 Avista. The fair values are estimated using the binomial model (level 3 fair value measurement). The key assumptions used are as follows:

	31 December 2014	31 December 2013
Weighted average share price	**HK$0.37**	HK$0.28
Weighted average exercise price	**HK$0.45**	HK$0.45
Expected volatility	**70%**	83%
Expected life	**1.02 years**	2.02 years
Risk free rate	**0.13%**	0.33%
Expected dividend yield	**0%**	0%

34. CONTINGENT PAYABLES

Contingent payables represented Tranche B consideration shares offered to the vendor in the acquisition of VCL as disclosed in note 45. The fair value of Tranche B consideration shares was approximately RMB31,742,000 (equivalent to HK$39,599,000) (2013: RMB19,729,000 (equivalent to HK$25,232,000)) as at 31 December 2014.

35. DEFERRED TAX

The following are the deferred tax assets/(liabilities) recognised by the Group.

	Property, plant and equipment and other assets *RMB'000*	Future benefit of tax losses *RMB'000*	Intangible assets *RMB'000*	Investment property *RMB'000*	Total *RMB'000*
At 1 January 2013	97,383	38	(45,454)	—	51,967
Reclassification	(5,698)	—	5,698	—	—
Acquisition of subsidiaries	(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 and 1 January 2014	2,105	28	(21,888)	(1,047)	(20,802)
(Charged)/credited to profit or loss *(note 11)*	(2,525)	(28)	9,274	(4,889)	1,832
At 31 December 2014	(420)	—	(12,614)	(5,936)	(18,970)

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

	The Group	
	2014 **RMB'000**	2013 *RMB'000*
Deferred tax liabilities	**(18,970)**	(22,935)
Deferred tax assets	**—**	2,133
	(18,970)	(20,802)

At 31 December 2014, the Group has unused tax losses of approximately RMB175,542,000 (2013: RMB171,742,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses of approximately RMB175,542,000 (2013: RMB171,629,000) due to the unpredictability of future profit streams.

35. DEFERRED TAX *(continued)*

The unused tax losses of approximately RMB146,056,000 (2013: RMB142,902,000) will expire as follows:

	2014 **RMB'000**	2013 RMB'000
Year 2014	—	37,203
Year 2015	**14,271**	14,271
Year 2016	**8,799**	8,799
Year 2017	**49,937**	49,937
Year 2018	**32,863**	32,692
Year 2019	**40,186**	—
	146,056	142,902

Other tax losses may be carried forward indefinitely.

36. DEFINED CONTRIBUTION RETIREMENT PLAN

The Group operates a mandatory provident fund scheme (the "**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount of contribution of HK$1,500 (before 1 June 2014: HK$1,250) per employee and vest fully with employees when contributed into the MPF Scheme.

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 these subsidiaries. The only obligation of this subsidiary with respect to the central pension scheme is to meet the required contributions under the scheme.

The Group's total contributions to these schemes charged to the profit or loss during the year ended 31 December 2014 amounted to approximately RMB2,514,000 (2013: approximately RMB910,000) 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 1 January 2013, 31 December 2013, 1 January 2014 and 31 December 2014	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 2013	2,453,806,546	122,690	118,041
Issue of shares upon placement *(note a)*	100,000,000	5,000	3,947
Issue of consideration share in relation to acquisition of subsidiaries *(note b)*	253,141,304	12,657	9,950
At 31 December 2013 and 1 January 2014	2,806,947,850	140,347	131,938
Issue of shares upon placement *(note c)*	260,000,000	13,000	10,425
Issue of shares upon placement *(note d)*	300,000,000	15,000	12,034
At 31 December 2014	3,366,947,850	168,347	154,397

37. SHARE CAPITAL *(continued)*

Notes:

(a) 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 and the premium on the issue of shares, amounting to approximately RMB12,569,000 (equivalent to HK$15,925,000), net of share issue expenses of RMB454,000 (equivalent to HK$575,000), was credited to the Company's share premium account and RMB3,947,000 (equivalent to HK$5,000,000) was credited to share capital.

(b) On 26 November 2013, the Company issued 253,141,304 consideration shares to shareholders of VCL, as part of the consideration of the acquisition of 51% equity interest in VCL and its subsidiaries (the "**VCL Group**") (note 45), of which approximately RMB45,771,000 was credited to the share premium account and RMB9,950,000 (equivalent to HK$12,657,000) was credited to share capital.

(c) On 10 July 2014, Mr. Yang Xin Min, the ultimate controlling party, placed 260,000,000 ordinary shares of HK$0.05 each in the Company to independent third parties at a price of HK$0.31 per share. Mr. Yang Xin Min then subscribed for a total 260,000,000 new shares of HK$0.05 each in the Company at HK$0.31 per share. The placement was completed on 16 July 2014 and the premium on the issue of shares, amounting to approximately RMB53,051,000 (equivalent to HK$66,154,000), net of share issue expenses of RMB1,160,000 (equivalent to HK$1,446,000), was credited to the Company's share premium account and RMB10,425,000 (equivalent to HK$13,000,000) was credited to share capital.

(d) On 15 December 2014, the Company and Orient Securities (Hong Kong) Limited entered into a placing agreement in respect of the placement of 300,000,000 ordinary shares of HK$0.05 each at a price of HK$0.31 per share. The placement was completed on 23 December 2014 and the premium on the issue of shares, amounting to approximately RMB60,456,000 (equivalent to HK$75,359,000), net of share issue expenses of RMB2,119,000 (equivalent to HK$2,641,000), was credited to the Company's share premium account and RMB12,034,000 (equivalent to HK$15,000,000) 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 2013 and 2014.

The Group monitors capital using a gearing ratio, which are the Group's total debts (comprising trade and other payables, directors and bank loans, 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 2014 was 82.6% (2013: 291.3%).

38. RESERVES

(a) The Group

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

(b) The Company

	Share premium account	Share-based payment reserve	Foreign currency translation reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(note(c)(i))	*(note(c)(iv))*	*(note(c)(v))*		
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(a))*	12,569	—	—	—	12,569
Issue of consideration shares in relation to acquisition of VCL *(note 37(b) 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 and at 1 January 2014	727,285	1,849	(111,999)	(511,895)	105,240
Total comprehensive income for the year	—	—	11,967	(238,742)	(226,775)
Issue of new shares upon placement *(note 37(c) and (d))*	113,507	—	—	—	113,507
Lapse of share options granted in prior years	—	(90)	—	90	—
Changes in equity for the year	113,507	(90)	11,967	(238,652)	(113,268)
At 31 December 2014	840,792	1,759	(100,032)	(750,547)	(8,028)

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(r) 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.

39. SHARE-BASED PAYMENTS *(continued)*

Equity-settled share option scheme *(continued)*

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.

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 relevant for the year ended 31 December 2014 are as follows:

Date of grant	Grantee	Vesting period	Exercise period	Subscription Price per share *HK$*	No. of shares granted
14 June 2011	Directors	Immediate	14 June 2011 to 13 June 2016	0.818	3,800,000
14 June 2011	Employees	Immediate	14 June 2011 to 13 June 2016	0.818	1,200,000
Grand Total					5,000,000

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 relevant for the year ended 31 December 2014 are as follows: *(continued)*

	2014				
Grantee	**Outstanding at 1 January**	**Reclassified/ Expired during the year**	**Outstanding at 31 December**	**Exercisable at 31 December**	**Exercise price**
Directors	**200,000**	**(200,000)**	**—**	**—**	**HK$0.261**
Directors	**4,000,000**	**(200,000)**	**3,800,000**	**3,800,000**	**HK$0.818**
Employees	**1,200,000**	**—**	**1,200,000**	**1,200,000**	**HK$0.818**
	5,400,000	**(400,000)**	**5,000,000**	**5,000,000**	
Weighted average exercise price	**HK$0.80**	**HK$0.54**	**HK$0.82**	**HK$0.82**	

	2013				
Grantee	Outstanding at 1 January	Reclassified/ Expired 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	

39. SHARE-BASED PAYMENTS *(continued)*

Equity-settled share option scheme *(continued)*

The options outstanding at 31 December 2014 had an exercise price at HK$0.818 (2013: ranged from HK$0.261 to HK$0.818) and a weighted average remaining contractual life of approximately 1 year (2013: approximately 1 year).

40. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2014, additions to property, plant and equipment of approximately RMB249,000 and RMB916,000 were transferred from construction in progress and prepayments for acquisition of property, plant and equipment respectively. Besides, approximately RMB71,000 was transferred from prepayments for acquisition of property, plant and equipment to construction in progress.

In addition, approximately RMB23,052,000 addition to long-term prepayment for operations of wireless networks at railway stations and approximately RMB8,447,000 addition to construction in progress were included in other payables.

41. CAPITAL COMMITMENTS

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

	The Group	
	2014	2013
	RMB'000	*RMB'000*
Property, plant and equipment Contracted but not provided for	**36,409**	2,223

42. LEASE COMMITMENTS

At 31 December 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2014	2013
	RMB'000	*RMB'000*
Within one year	**4,969**	3,963
In the second to fifth year inclusive	**9,414**	9,103
After five years	**26,276**	28,351
	40,659	41,417

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 2014, the total future minimum lease expected to be received under non-cancellable operating leases are as follows:

	The Group	
	2014	2013
	RMB'000	*RMB'000*
Within 1 year	**2,552**	6,680
After 1 year but within 5 years	**2,216**	3,719
	4,768	10,399

The Group leases out the investment property 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 2014, the Company had a commitment of US$561,000 (2013: US$561,000) (equivalent to RMB3,444,000 (2013: RMB3,402,000)), in respect of the outstanding capital contribution in APR.

At 31 December 2014, the Group had commitments of RMB68,200,000 and RMB2,400,000 in respect of the outstanding payment for the long-term prepayments and deposit, respectively.

44. RELATED PARTIES TRANSACTIONS

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

(a) Transactions with related parties

Name of related parties	**Relationship**	**Nature of transaction**	**2014** ***RMB'000***	2013 *RMB'000*
Shanghai Bokun Investments Co., Ltd.	Controlled by a director of the company	Motor vehicles service fee charged	**600**	690

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

44. RELATED PARTIES TRANSACTIONS *(continued)*

(c) Amounts due from/(to) related parties

Name of related parties	Relationship	Terms	2014 RMB'000	2013 RMB'000
Shanghai Bokun Investments Co., Ltd.	Controlled by a director of the company	Unsecured, interest-free and repayable on demand	**(34,000)**	(1,000)
Jiangsu Xinxing Chemicals Co., Ltd.	Controlled by a director of the Company	Unsecured, interest-free and repayable on demand	**(1,138)**	(1,138)
Proactive Cyberspace Company Limited	Controlled by a director of the Company	Unsecured, interest-free and repayable on demand	**268**	—
PCS Telecom Limited	Controlled by a director of the Company	Unsecured, interest-free and repayable on demand	**(131)**	—

(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 consolidated financial statements.

45. ACQUISITION OF SUBSIDIARIES

Acquisition of VCL Group

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
Net identifiable assets shared by NCI			(26,382)

45. ACQUISITION OF SUBSIDIARIES *(continued)*

Acquisition of VCL Group *(continued)*

	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
	RMB'000	*RMB'000*	*RMB'000*
Net identifiable assets shared by the Group			27,460
Satisfied by:			
Tranche A consideration shares issued *(note (b))*			55,721
Tranche B unissued consideration shares *(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 Group. VCL is an investment holding company and its subsidiaries are principally engaged in (i) provision of O2O solutions and (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 VCL Group *(continued)*

Notes:

(a) As part of the consideration, the Company offered 2 tranches, Tranche A of 253,141,304 consideration shares and Tranche B of 108,489,130 consideration shares to the shareholders of VCL in exchange for the share capital of 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 2014. 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 "**2013 Agreement**") between the Company, China Software Service (Holdings) Limited ("**China Software**") and Mr. Kwan Che Hang, Jason. According to the clause of 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 ended 31 December 2014 in accordance with the Agreement 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 date of acquisition on 26 November 2013. The 2014 Profit Guarantee for the year ended 31 December 2014 has been met.

46. EVENT AFTER THE REPORTING PERIOD

On 21 January 2015, the Company, an independent individual (the "**Vendor**"), 天翼科技創業投資有限公司 ("**Tianyi Venture**") and 上海澤維資訊技術有限公司 ("**Zewei**"), entered into an investment agreement (the "**Agreement**").

Pursuant to the Agreement, the Company will (i) acquire RMB800,000 paid-up capital in Zewei from the Vendor at a consideration of RMB2,400,000; and (ii) inject a sum of RMB19,250,000 to Zewei as additional capital. Upon the completion of the Agreement, the Company, Tianyi Venture and the Vendor will hold 45.40%, 19.50% and 35.10% of equity interest in Zewei respectively.

Zewei is a company incorporated in the PRC and its principal activity is integrated mobile marketing solutions.

47. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 31 March 2015.