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)

2014 Interim Report

* For identification purposes only

Corporate Information

Executive Directors
Mr. Yang Xin Min *(Chairman)*
Ms. Huang Yue Qin
Mr. Zhou Quan
Mr. Kwan Che Hang Jason

Non-executive Director
Mr. Wang Jia Wei

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

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

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

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

Auditors
RSM Nelson Wheeler

Principal Bankers
Agricultural Bank of China
Bank of China
China Minsheng Bank
The Hong Kong and Shanghai Banking Corporation Limited

Legal Advisers
Conyers Dill & Pearman, Cayman
Tung, Ng, Tse & Heung

Qualified Accountant and Company Secretary
Ms. Li Mei Kuen

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Hong Kong Branch Share Registrar
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Investor Services Limited
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17th Floor, Hopewell Centre
183 Queen's Road East
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Canadian Branch Share Registrar
Computershare Investor Services Inc
100 University Ave., 9th Floor
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Canada

Stock Name
Smartac GP CH

Stock Code
HKEX: 0395

The Board of Directors (the "Board") of Smartac Group China Holdings Limited (formerly known as Sino Dragon New Energy Holdings Limited, the "Company") presented the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2014 together with the comparative figures. The condensed consolidated interim financial statements (the "Interim Financial Statements") have not been audited, but have been reviewed by the Company's Audit Committee.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2014

		Unaudited	
		Six months ended 30 June	
		2014	2013
	Notes	***RMB'000***	*RMB'000*
Turnover	2	**51,442**	47,977
Cost of sales		**(36,328)**	(45,803)
Gross profit		**15,114**	2,174
Other income	3(a)	**1,090**	4,339
Change in fair value of derivative components of convertible bonds	14	**(273)**	1,329
Selling expenses		**(1,007)**	(1,416)
Administrative expenses		**(26,292)**	(12,424)
Other operating expenses		**—**	(103)
Loss from operations		**(11,368)**	(6,101)
Finance costs	3(b)	**(3,522)**	(3,634)
Loss before taxation	3	**(14,890)**	(9,735)
Income tax	4	**(335)**	(418)
Loss for the period		**(15,225)**	(10,153)

Condensed Consolidated Statement of Comprehensive Income *(Continued)*

For the six months ended 30 June 2014

		Unaudited	
		Six months ended 30 June	
		2014	2013
	Notes	***RMB'000***	*RMB'000*
Other comprehensive income for the period:			
Exchange differences on translating foreign operations		**(2,038)**	275
Total comprehensive income for the period		**(17,263)**	(9,878)
Attributable to:			
Owners of the Company		**(16,876)**	(9,876)
Non-controlling interests		**(387)**	(2)
		(17,263)	(9,878)
Dividends	5	**—**	—
Loss per share			
Basic *(RMB cents)*	6	**(0.53)**	(0.41)
Diluted *(RMB cents)*	6	**(0.53)**	(0.40)

Condensed Consolidated Statement of Financial Position

At 30 June 2014

	Notes	**Unaudited 30 June 2014 RMB'000**	Audited 31 December 2013 RMB'000
Non-current assets			
Property, plant and equipment	7	**87,582**	90,021
Investment property		**13,864**	14,050
Construction in progress		**531**	321
Prepaid land lease payments		**42,010**	42,539
Goodwill		**59,782**	59,782
Intangible assets	8	**99,103**	100,110
Long-term prepayments		**980**	987
Deferred tax assets		**2,133**	2,133
Total non-current assets		**305,985**	309,943
Current assets			
Inventories		**33,546**	31,943
Prepaid land lease payments		**469**	469
Trade and other receivables	9	**785,393**	429,768
Due from a director	18(b)	**—**	2,293
Pledged bank deposits	10	**—**	285,000
Bank and cash balances		**40,801**	32,157
Total current assets		**860,209**	781,630

Condensed Consolidated Statement of Financial Position *(Continued)*

At 30 June 2014

	Notes	**Unaudited 30 June 2014 RMB'000**	Audited 31 December 2013 RMB'000
Current liabilities			
Trade and other payables	12	**754,594**	643,301
Contingent payables		**22,529**	19,729
Due to directors	18(c)	**3,434**	1,866
Due to related parties	18(d)	**1,539**	2,138
Bank loans	13	**44,568**	71,100
Current tax liabilities		**18,563**	18,449
Total current liabilities		**845,227**	756,583
Net current assets		**14,982**	25,047
Total assets less current liabilities		**320,967**	334,990
Non-current liabilities			
Derivative financial instruments	14	**2,845**	2,510
Convertible bonds	14	**44,048**	41,147
Deferred tax liabilities		**22,935**	22,935
Total non-current liabilities		**69,828**	66,592
NET ASSETS		**251,139**	268,398

Condensed Consolidated Statement of Financial Position

(Continued)

At 30 June 2014

	Notes	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
Capital and reserves			
Share capital	16	**131,938**	131,938
Reserves		**89,214**	106,086
Equity attributable to Owners of the Company		**221,152**	238,024
Non-controlling interests		**29,987**	30,374
TOTAL EQUITY		**251,139**	268,398

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2014

		Unaudited	
		Six months ended 30 June	
		2014	2013
	Notes	***RMB'000***	*RMB'000*
Net cash generated from operating activities		**39,472**	27,248
Net cash (used in)/generated from investing activities		**(1,371)**	2,999
Net cash used in financing activities		**(28,198)**	(3,634)
Effects of exchange rate changes		**(1,259)**	(718)
Net increase in cash and cash equivalents		**8,644**	25,895
Cash and cash equivalents at 1 January		**32,157**	20,364
Cash and cash equivalents at 30 June	11	**40,801**	46,259

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

Unaudited
Six months ended 30 June 2014

	Share Capital	Share Premium	Merger Reserve	Statutory Reserves	Share-based payment Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total	Non-controlling Interest	Total Equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2014	**131,938**	**727,285**	**(11,085)**	**95,452**	**1,849**	**(1,225)**	**(706,190)**	**238,024**	**30,374**	**268,398**
Lapse of share options granted in prior years	**–**	**–**	**–**	**–**	**(90)**	**–**	**90**	**–**	**–**	**–**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**(2,038)**	**(14,838)**	**(16,876)**	**(387)**	**(17,263)**
Exchange alignment	**–**	**–**	**–**	**–**	**–**	**4**	**–**	**4**	**–**	**4**
At 30 June 2014	**131,938**	**727,285**	**(11,085)**	**95,452**	**1,759**	**(3,259)**	**(720,938)**	**221,152**	**29,987**	**251,139**

Unaudited
Six months ended 30 June 2013

	Share Capital	Share Premium	Merger Reserve	Statutory Reserves	Share-based payment Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total	Non- controlling Interest	Total Equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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
Lapse of share options granted in prior years	–	–	–	–	(6,415)	–	6,415	–	–	–
Total comprehensive income for the period	–	–	–	–	–	275	(10,151)	(9,876)	(2)	(9,878)
Exchange alignment	–	–	–	–	–	(2)	–	(2)	–	(2)
At 30 June 2013	118,041	668,945	(11,085)	95,452	1,894	(2,283)	(510,370)	360,594	(4)	360,590

Notes to the Unaudited Interim Financial Statements

(Expressed in Renminbi unless otherwise stated)

The following notes form an integral part of the Interim Financial Statements.

1. Basis of Preparation

Smartac Group China Holdings Limited (formerly known as Sino Dragon New Energy Holdings Limited, the "Company") was incorporated in the Cayman Islands on 18 July 2000 as an exempted company with limited liability under the Companies Law of the Cayman Islands. This interim condensed consolidated financial statements comprises the Company and its subsidiaries (together referred to as the "Group") and has been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting promulgated by the International Accounting Standards Board.

The interim financial statements do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"), and should be read in conjunction with the Group's annual financial statements as at 31 December 2013. The interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements.

The Group has adopted all the new and revised IFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2014. 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.

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

The preparation of the interim financial statements in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date process. Actual results may differ from these estimates.

The interim financial statements have been prepared under the historical cost convention. Items included in the financial statements of each entity comprising the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("functional currency"). For the purposes of presenting the interim financial statements, the Group adopted Renminbi as its presentation currency, rounded to the nearest thousand.

2. Turnover and Segment Information

Turnover represents the sales value of goods and services sold less returns, discounts and value added taxes and other sales taxes.

The Group has three reportable segments as follows:

(i) Zirconium segment - Manufacture and sale of zirconium chemicals, new energy materials and rechargeable batteries

(ii) O2O solutions segment - Sale of software and provision of O2O consultation service

(iii) Petrochemicals segment - Provision of petrochemicals storage and trading service

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

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

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

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

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

(a) Segment results, assets and liabilities

Information regarding the Group's reportable segments for the period is set out below:

	Zirconium segment (Unaudited) Six months ended 30 June		O2O Solutions segment (Unaudited) Six months ended 30 June		Petrochemicals segment (Unaudited) Six months ended 30 June		Total (Unaudited) Six months ended 30 June	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**24,295**	40,197	**21,591**	–	**5,556**	7,780	**51,442**	47,977
Inter-segment revenue	**–**	700	**–**	–	**–**	–	**–**	700
Reportable segment revenue	**24,295**	40,897	**21,591**	–	**5,556**	7,780	**51,442**	48,677
Reportable segment profit/(loss) before taxation	**(3,282)**	(6,443)	**3,394**	–	**(4,318)**	1,671	**(4,206)**	(4,772)
Interest income	**249**	287	**–**	–	**65**	4,004	**314**	4,291
Interest expenses	**–**	–	**(165)**	–	**(1,501)**	(1,934)	**(1,666)**	(1,934)
Depreciation and amortisation	**2,128**	3,325	**3,496**	–	**3,760**	4,298	**9,384**	7,623

	Zirconium segment		O2O Solutions segment		Petrochemicals segment		Total	
	(Unaudited)	(audited)	**(Unaudited)**	(audited)	**(Unaudited)**	(audited)	**(Unaudited)**	(audited)
	30 June	31 December	**30 June**	31 December	**30 June**	31 December	**30 June**	31 December
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment assets	**150,559**	153,421	**158,371**	73,115	**795,836**	802,125	**1,104,766**	1,028,661
Reportable segment liabilities	**(159,795)**	(158,227)	**(99,053)**	(15,524)	**(680,365)**	(681,468)	**(939,213)**	(855,219)

(b) **Reconciliation of reportable segment revenue, profit or loss, assets and liabilities**

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**51,442**	48,677
Elimination of inter-segment revenue	**—**	(700)
Consolidated turnover	**51,442**	47,977
Profit/(Loss)		
Reportable segment loss	**(4,206)**	(4,772)
Operating loss of other segment	**—**	—
Change in fair value of derivative component of convertible bonds	**(1,853)**	1,329
Change in fair value of contingent payables	**(2,800)**	—
Unallocated head office and corporate expenses	**(6,031)**	(6,292)
Consolidated loss before taxation	**(14,890)**	(9,735)

	30 June 2014 (unaudited) *RMB'000*	31 December 2013 (audited) *RMB'000*
Assets		
Total assets of reportable segment	**1,104,766**	1,028,661
Elimination of inter-segment assets	**(390)**	(395)
Unallocated amounts:		
Goodwill	**59,782**	59,782
Unallocated head office and corporate assets	**2,036**	3,525
Consolidated total assets	**1,166,194**	1,091,573
Liabilities		
Total liabilities of reportable segment	**939,213**	855,219
Elimination of inter-segment liabilities	**(96,439)**	(97,786)
Unallocated amounts:		
Convertible bonds	**44,048**	41,147
Derivative financial instruments	**2,845**	2,510
Contingent payables	**22,529**	19,729
Unallocated head office and corporate liabilities	**2,859**	2,356
Consolidated total liabilities	**915,055**	823,175

(c) Geographical Information

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Revenue		
PRC except Hong Kong	**25,849**	25,861
North America	**4,771**	9,060
Europe	**5,102**	1,828
Japan	**1,502**	9,178
Others	**14,218**	2,050
Consolidated turnover	**51,442**	47,977

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.

3. Loss Before Taxation

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

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
(a) Other income:		
Interest income	**314**	4,291
Government grants	**688**	—
Exchange gain	**56**	—
Others	**32**	48
	1,090	4,339
(b) Finance costs:		
Interest expenses on bank loans wholly repayable within five years	**1,666**	1,934
Imputed interest expenses on convertible bonds	**1,853**	1,700
Others	**3**	—
	3,522	3,634
(c) Staff costs:		
Salaries, wages and other benefits	**12,688**	7,420
Contributions to defined contribution retirement scheme	**1,318**	379
	14,006	7,799

	Unaudited Six months ended 30 June 2014 RMB'000	2013 RMB'000
(d) Other items:		
Amortisation		
— prepaid land lease payments	**529**	924
— intangible assets	**4,557**	2,574
Depreciation	**4,298**	4,129
Exchange loss	**—**	408
Operating lease charges in respect of the office premises in Hong Kong and PRC	**952**	412
Cost of inventories	**27,779**	38,416

4. Income Tax

	Unaudited Six months ended 30 June 2014 RMB'000	2010 RMB'000
Current tax - Hong Kong profits tax		
Provision for the period	**135**	—
Current tax - PRC enterprise income tax ("PRC EIT")		
Provision for the period	**200**	418
	335	418
Deferred tax		
Origination and reversal of temporary differences	**—**	—

(i) *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.*

(ii) *Hong Kong profits tax has been provided at a rate of 16.5% on the estimated assessable profit for the six months ended 30 June 2014. No provision for Hong Kong profits tax has been made for the six months ended 30 June 2013 as the Group did not generate any assessable profits arising in Hong Kong during that period.*

(iii) *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.*

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

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

Smartac Solutions (Suzhou) Ltd. ("SZYL") was recognised as an advance technology enterprise (高新技術企業) in 2011 and was entitled to enjoy an income tax concession at preferential rate of 15% effective from 1 January 2011. The applicable EIT rate SZYL applied for provision of income tax for each of the three years ended 31 December 2011, 2012 and 2013 was 15% and will be 25% from the year ending 31 December 2014 onwards.

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 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.

5. Dividends

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014 (Six months ended 30 June 2013: Nil).

6. Loss per Share

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

	Unaudited Six months ended 30 June **2014**	 2013
	RMB'000	*RMB'000*
Loss		
Loss for the purpose of calculating basic loss per share	**(14,838)**	(10,151)
Effect of interest saved on the liability component of convertible bonds	**1,853**	1,700
Effect of change in fair value of derivative component of convertible bonds	**273**	(1,329)
Effect of change in fair value of contingent payables	**2,800**	—
Loss for the purpose of calculating diluted loss per share	**(9,912)**	(9,780)

	Unaudited Six months ended 30 June 2014 No. of Shares	2013 No. of Shares
Weighted Average Number of Shares		
Weighted average number of ordinary shares (basic)	**2,806,947,850**	2,453,806,546
Effect of dilutive potential ordinary shares arising from outstanding share options	**—**	—
Effect of dilutive potential ordinary shares arising from outstanding convertible bonds	**—**	—
Effect of dilutive potential ordinary shares arising from contingent payables	**—**	—
Weighted average number of ordinary shares (diluted)	**2,806,947,850**	2,453,806,546

As the effect of the Company's outstanding share options, outstanding convertible bonds and contingent payables for the period ended 30 June 2014 was anti-dilutive, the Company did not include the effect of dilutive potential ordinary shares arising from the outstanding share options, convertible bonds and contingent payables in the weighted average number of ordinary shares for the purpose of calculating diluted loss per share.

7. Property, Plant and Equipment

During the six months ended 30 June 2014, the Group acquired items of property, plant and equipment with a cost of RMB1,169,000 (six months ended 30 June 2013: RMB440,000). During the six months ended 30 June 2014, the Group did not dispose any property, plant and equipment (Six months ended 30 June 2013: Nil).

At 30 June 2014, the Group was in the process of obtaining the relevant property ownership certificates of certain buildings in the PRC and Indonesia from the relevant government authorities, the carrying value of which amounted to approximately RMB7,597,000 (31 December 2013: RMB15,503,000).

At 30 June 2014, the carrying amount of property, plant and equipment pledged as security for the Group's notes payables and bank loans amounted to approximately RMB59,065,000 (31 December 2013: RMB68,802,000).

8. Intangible assets

	Technical know-how (unaudited) *(note a)* *RMB'000*	Operating license (unaudited) *(note b)* *RMB'000*	Software development costs (unaudited) *(note c)* *RMB'000*	Backlog (unaudited) *(note d)* *RMB'000*	Total (unaudited) *RMB'000*
Cost:					
At 1 January 2013	4,345	174,924	—	1,141	180,410
Acquisition of subsidiaries	—	—	24,000	—	24,000
Addition	—	—	1,283	—	1,283
At 31 December 2013, 1 January 2014	4,345	174,924	25,283	1,141	205,693
Addition	—	—	3,501	—	3,501
At 30 June 2014	4,345	174,924	28,784	1,141	209,194
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	—	22,562	—	—	22,562
At 31 December 2013 and 1 January 2014	4,345	99,676	421	1,141	105,583
Amortisation for the period	—	1,980	2,528	—	4,508
At 30 June 2014	4,345	101,656	2,949	1,141	110,091
Net book value:					
At 30 June 2014	—	73,268	25,835	—	99,103
At 31 December 2013	—	75,248	24,862	—	100,110

Notes:

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

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

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

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

9. Trade and Other Receivables

	30 June 2014 (unaudited) *RMB'000*	31 December 2013 (audited) *RMB'000*
Trade receivables	**33,125**	17,165
Less: Allowance for doubtful debts	**(1,475)**	(1,292)
	31,650	15,873
Advance payments to suppliers		
— petrochemical suppliers	**635,694**	382,376
— other suppliers	**2,145**	1,217
— other projects	**—**	1,751
Deposits and prepayments	**80,956**	1,311
Other receivables	**34,948**	27,240
	785,393	429,768

(a) Aging analysis

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

	30 June 2014 (unaudited)	31 December 2013 (audited)
	RMB'000	*RMB'000*
Within 3 months	**24,332**	12,124
3 to 6 months	**3,984**	2,663
6 months to 1 year	**2,531**	373
Over 1 year	**803**	713
	31,650	15,873

(b) Allowance for trade receivables

Movement of allowance for trade receivables is as follows:

	30 June 2014 (unaudited) ***RMB'000***	31 December 2013 (audited) *RMB'000*
At beginning of period/year	**1,292**	2,387
Acquisition of subsidiaries	**—**	674
Allowance for the period/year	**183**	19
Reversal of allowance	**—**	(1,788)
At end of period/year	**1,475**	1,292

10. Pledged Bank Deposits

As at 30 June 2014, nil bank deposits (31 December 2013: RMB285,000,000) have been pledged to banks to secure banking facilities granted to the Group. The deposits as at 31 December 2013 were at fixed interest rate, and therefore expose the Group to fair value interest rate risk. As at 31 December 2013, the pledged bank deposits were denominated in RMB.

11. Cash and Cash Equivalents

	30 June 2014 (unaudited) *RMB'000*	31 December 2013 (audited) *RMB'000*
Bank and Cash Balances	**40,801**	32,157

12. Trade and Other Payables

	30 June 2014 (unaudited) *RMB'000*	31 December 2013 (audited) *RMB'000*
Trade payables	**91,307**	16,514
Notes payable	**320,000**	585,000
	411,307	601,514
Receipts in advance from customers	**305,859**	3,670
Payables for construction costs and purchase of property, plant and equipment	**3,425**	3,551
Accruals and other payables	**34,003**	34,566
	754,594	643,301

(a) **Aging analysis**

The aging analysis of the trade payables, based on the date of receipt of goods, is as follows:

	30 June 2014 (unaudited) *RMB'000*	31 December 2013 (audited) *RMB'000*
Within 3 months	**42,108**	11,721
3 to 6 months	**45,647**	2,365
6 months to 1 year	**1,131**	768
Over 1 year	**2,421**	1,660
	91,307	16,514

(b) **Securities for notes payable**

As at 30 June 2014, the Group's notes payables of RMB320,000,000 (31 December 2013: RMB585,000,000) were secured by pledged bank deposits (note 10), charges over certain property, plant and equipment (note 7) and other guarantees as set out in note 13.

13. Bank Loans and Banking Facilities

The Group's bank loans are repayable within one year. The carrying amounts of the Group's bank loans are denominated in RMB, arranged at fixed interest rates of 6% p.a. (2013: 6%) and expose the Group to fair value interest rate risk.

(a) Bank loans of RMB35,000,000 (2013: RMB69,100,000) and note payables (note 12) of RMB320,000,000 (2013: RMB585,000,000) of petrochemicals segment are secured by:

— Charge over the machinery and equipment;

— Charge over pledged bank deposits (note 10);

— Guarantee provided by a related company, Shanghai Bokun Investments Co., Ltd. (note18 (e));

— Personal guarantees provided by Mr. Wang Jia Wei and Ms. Liu Chao Yin, an associate of Mr. Wang Jia Wei; and

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

(b) Bank loan of RMB9,568,000 (2013: RMB2,000,000) of O2O solutions segment is secured by:

— Charge over the building (note 7);

— Charge over the investment property; and

— Charge over the prepaid land lease payments.

14. Convertible Bonds

The Company issued 2 tranches, Tranche 1 CB and Tranche 2 CB, 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 CB with principal amount of HK$65,000,000 was converted into 144,444,444 ordinary shares of the Company.

As at 30 June 2014, the conversion right of Tranche 2 CB has not been exercised. Details of the outstanding convertible bonds are as follows:

	Tranche 2 CB
Principal amount	HK$65,000,000
Interest rate	Nil
Convertible into the Company's ordinary shares at HK$0.05 each (number of shares)	144,444,444
Conversion price per ordinary share	HK$0.45
Maturity date	6 January 2016

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

	Liability component (unaudited) *RMB'000*	Derivative component (unaudited) *RMB'000*	Total (unaudited) *RMB'000*
At 1 January 2013	38,778	1,622	40,400
Interest charged for the year	3,484	—	3,484
Change in fair value	—	945	945
Exchange differences	(1,115)	(57)	(1,172)
At 31 December 2013 and 1 January 2014	41,147	2,510	43,657
Interest charge for the period	1,853	—	1,853
Change in fair value	—	273	273
Exchange differences	1,048	62	1,110
At 30 June 2014	44,048	2,845	46,893

15. Equity-Settled Share-Based Transactions

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.

During the six months ended 30 June 2014 and the year ended 31 December 2013, no Options were granted under the New Scheme.

The terms and conditions of the unexpired and unexercised Options at 30 June 2014 are as follows:

	Date of grant	Exercise period	Number of Options: At 1 January 2014	Granted during the period	Exercised/ Lapsed during the period	At 30 June 2014	Exercise Price per share *HK$*
Directors							
Yang Xin Min	14/6/2011	14/6/2011-13/6/2016	1,600,000	—	—	1,600,000	0.818
Huang Yue Qin	14/6/2011	14/6/2011-13/6/2016	600,000	—	—	600,000	0.818
Zhou Quan	14/6/2011	14/6/2011-13/6/2016	600,000	—	—	600,000	0.818
Subtotal			2,800,000	—	—	2,800,000	
Non-Executive Director							
Wang Jia Wei	14/6/2011	14/6/2011-13/6/2016	600,000	—	—	600,000	0.818

	Date of grant	Exercise period	Number of Options: At 1 January 2014	Granted during the period	Exercised/ Lapsed during the period	At 30 June 2014	Exercise Price per share *HK$*
Independent Non-Executive Directors							
Cheng Faat Ting Gary	14/6/2011	14/6/2011- 13/6/2016	200,000	—	—	200,000	0.818
Ji Chang Ming (tesigned on 4 February 2014)	31/5/2010	31/5/2010- 30/5/2015	200,000	—	(200,000)	—	0.261
Ji Chang Ming (tesigned on 4 February 2014)	14/6/2011	14/6/2011- 13/6/2016	200,000	—	(200,000)	—	0.818
Poon Lai Yin Michael	14/6/2011	14/6/2011- 13/6/2016	200,000	—	—	200,000	0.818
Subtotal			800,000	—	(400,000)	400,000	
Employees	14/6/2011	14/6/2011- 13/6/2016	1,200,000	—	—	1,200,000	0.818
Total			5,400,000	—	(400,000)	5,000,000	

16. Share Capital

The Company has authorised capital of 8,000,000,000 ordinary shares at HK$0.05 each. As at 30 June 2014, 2,806,947,850 shares (31 December 2013: 2,806,947,850 shares) were issued and fully paid.

17. Commitments

(a) Capital Commitments

	30 June 2014 (unaudited) ***RMB'000***	31 December 2013 (audited) *RMB'000*
Property, plant and equipment		
Contracted but not provided for	**3,557**	2,223

(b) At 30 June 2014, the Group had a commitment of US$561,000 (31 December 2013: US$561,000) equivalent to approximately RMB3,486,000 (31 December 2013: RMB3,402,000), in respect of the outstanding capital contribution in P.T. Asia Prima Resources.

18. Material Related Party Transactions

(a) Transactions with related parties

Name of related parties	Relationship	Nature of transaction	30 June 2014 (unaudited) RMB'000	31 December 2013 (audited) RMB'000
Shanghai Bokun Investment Co., Ltd.	Controlled by a director of the Company	Motor vehicles service fee charged	**300**	690

(b) Due from a director

Name of director	Terms	30 June 2014 (unaudited) RMB'000	31 December 2013 (audited) RMB'000	Maximum amount outstanding during the period (unaudited) RMB'000
Yang Xin Min	Unsecured, interest-free and repayable on demand	**–**	2,293	**2,293**

(c) Due to directors

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

(d) Due to related parties

Name of related parties	Relationship	Terms	30 June 2014 (unaudited) *RMB'000*	31 December 2013 (audited) *RMB'000*
Shanghai Bokun Investment Co., Ltd.	Controlled by a director of the Company	Unsecured, interest-free and repayable on demand	–	1,000
Jiangsu Xinxing Chemicals Group Co., Ltd.	Controlled by a director of the Company	Unsecured, interest-free and repayable on demand	**1,138**	1,138
			1,138	2,138

(e) Guarantees provided by related parties for banking facilities

Details of guarantees provided by related parties to the Group for banking facilities are set out in Note 13.

(f) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors is as follows:

	Unaudited Six months ended 30 June	
	2014 *RMB'000*	2013 *RMB'000*
Short-term employee benefits	**1,608**	1,447

19. Non-adjusting Events After the Reporting Period

On 10 July 2014, the Company entered into a placing and subscription agreement ("Agreement") with Mr. Yang Xin Min, being an executive Director and the Chairman of the Board of the Company, and China Investment Securities International Brokerage Limited ("Placing Agent"). Pursuant to the Agreement, Mr. Yang Xin Min has (i) agreed to place, through the Placing Agent, up to 260,000,000 existing ordinary shares of HK$0.05 each ("Share(s)") of the Company beneficially owned by him at a price of HK$0.31 per Share; and (ii) conditionally agreed to subscribe for up to 260,000,000 new Shares at a price of HK$0.31 per Share. The placing and subscription was completed on 16 July 2014 and a total of 260,000,000 Shares were successfully placed. The net proceeds from the placing and subscription are approximately HK$79,020,000 (equivalent to approximately RMB63,368,000).

Save as disclosed above, there were no other material non-adjusting events after the reporting period.

20. Approval of the Unaudited Interim Financial Statements

The unaudited interim financial statements was approved and authorised for issue by the Board on 29 August 2014.

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.

Review of Results and Operations

Business Review

The fast growing popularity of smartphones brought along the rapid increase in mobile internet usage in most part of the world. With the strong economic growth in China during the past few years, the mobile internet usage in China seems to have grown 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. Most people used to access internet using desktop computers are now turning to using mobile devices and connect to internet via 3G/4G or Wi-Fi network. Furthermore, the research results also indicated that China mobile internet users are more likely to engage in a variety of mobile e-commerce (or "m-commerce") activities than smartphone users in other countries. 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. As the idea behind O2O is to find customers online and bring them into the physical stores, this sector becomes a natural consequence of the growth of m-commerce in China. 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 April 2014 and June 2014, the Company has announced that its indirect non-wholly owned subsidiary, Solomedia Digital (Shanghai) Limited ("Solomedia"), has entered into two agreements pursuant to which Solomedia will provide Wi-Fi system installation and post-installation maintenance and operation service in a total of 325 railway stations operated by the Guangzhou Railway (Group) Corporation and Beijing 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. The Group will not only establish the Wi-Fi system 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 from the fourth quarter of 2014 onwards.

During the six months ended 30 June 2014, the market for the Group's zirconium segment and petrochemicals segment remained sluggish. Both segments reported a decrease in turnover, as comparing to the same period in prior year, and a net loss for the current period. Given the unfavorable market conditions and the increasingly stringent government policies and regulations being imposed on chemicals-related industries, the Group's management is considering to gradually scale-down the operation of its zirconium segment and petrochemicals segment and will not rule out the possibility of ceasing or disposing the operation of the zirconium segment and petrochemicals segment in future. However, as of the date of this report, the board of directors did not make any decision or agree on any concrete plan in such respect. Further announcement will be made by the Company in accordance with the applicable regulatory requirements when appropriate.

Financial Review

During the six months ended 30 June 2014, the Group reported a consolidated revenue of RMB51,442,000, represented an increase of RMBRMB3,465,000 or 7% as compared to same period in prior year. The increase was mainly contributed by the new O2O solutions business which the Group had acquired 51% equity interest in November 2013. Revenue of zirconium segment (which included zirconium chemicals business and rechargeable batteries business) has decreased by 41% from RMB40,897,000 to RMB24,295,000, whereas the segment revenue of petrochemicals business has also dropped 28% from RMB7,780,000 to RMB5,556,000 in current period. The PRC government continues to tighten the controls and regulatory requirements over chemicals-related industries which made the operational environment extremely difficult for the Group's zirconium segment and reduced the competitiveness of the Group's products in the overseas market. On the other hand, the petrochemicals storage business had been negatively affected by the slowing down economic growth in the PRC, which had reduced the demand for petrochemicals storage facilities and reduction in rental income.

For the period under review, the Group generated a gross profit of RMB15,114,000, represented close to 6 times of the gross profit for the same period in prior year. The gross margin has also improved from 5% to 29%. The improvement in gross margin and increase in gross profit was resulted from relatively higher gross profit for O2O solutions business as the staff costs, its major expenses item, were all recorded as administrative expenses with no specific allocation to costs of sales. Hence, the gross margin of O2O solutions business is relatively higher than the other segments of the Group, but at the same time its administrative expenses expressed as a percentage of the total revenue is also relatively higher than the other segments.

The change in fair value of convertible bonds represented the change in fair value of the derivative component of the outstanding convertible bonds. Such fair value was determined with reference to the assessment made by independent valuer as at period end.

Selling expenses had decreased by RMB409,000 or 29% as compared to the same period in prior year, mainly because of the decrease in sales transactions for the zirconium segment.

Administrative expenses had increased from RMB12,424,000 for the same period in prior year to RMB26,292,000 in current period, represented an increase of 97%. This was mainly resulted from the increase in staff costs included in the administrative expenses of O2O solutions segment.

Certain items included in the finance cost in prior period had been reclassified to conform with the presentation in current period's financial statements. Finance costs mainly comprised the interest expenses on bank loans and imputed interest expenses on convertible bonds. Finance cost had decreased from RMB3,634,000 in prior period to RMB3,522,000 in current period which was mainly resulted from the reduced balance of outstanding bank loans in current period.

As at 30 June 2014, the balance of trade and other receivables was RMB785,393,000 which increased significantly from the balance of RMB429,768,000 as at 31 December 2013. Such increase mainly attributable to the balance of advance payment to petrochemicals suppliers which increased from RMB382,376,000 as of 31 December 2013 to RMB635,694,000 as of 30 June 2014.

Trade and other payables also increased from RMB643,301,000 as of 31 December 2013 to RMB754,594,000 as of 30 June 2014. The increased amount represented the net effect of (i) decrease in the balance of notes payable from RMB585,000,000 to RMB320,000,000; and (ii) increase in receipt in advance from customers from RMB3,670,000 to RMB305,859,000. These two items were both attributable to the petrochemicals trading business.

Prospects

Looking ahead, the Group will be focusing on developing and expanding the O2O solutions segment. Leveraging on its strength and expertise in software development, the Group's strategy is to provide tailor-made solutions to its customers for the purpose of enhancing and monitoring the operation of the customers' Wi-Fi systems. On the one hand, the Group will deploy significant resources and manpower in developing more advanced Wi-Fi software and solutions with intellectual property right which will generate stronger momentum for future growth. On the other hand, the Group will continue to establish strategic partnership relationship with globally renowned Wi-Fi hardware suppliers, aiming at delivering high quality and fast speed Wi-Fi systems with the Group's internally generated Wi-Fi operating software installed or built-in thereto. Year 2014 will be a critical year for the capital investment and construction in the Group's Wi-Fi and O2O business. It is expected that the post-installation Wi-Fi operation, which provides a valuable channel for interaction with consumers, will bring along numerous business opportunities to the Group and to its customers.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014.

Substantial Shareholders' and Directors' Interests in Securities

Substantial Shareholders' Interests in Securities

As at 30 June 2014, the register of shareholders maintained pursuant to the Securities and Futures Ordinance (the "SFO") shows that the following shareholders with interests representing 5% or more of the Company's issued share capital:

		Number of Shares				
Name of Shareholder	**Capacity**	**Personal Interest**	**Other Interests** *(Note 1)*	**Interest in Underlying Shares**	**Total Interests**	**Percentage of Total Share Capital**
Yang Xin Min	Beneficial	592,573,880	1,600,000	—	594,173,880	21.17%
Kwan Che Hang Jason *(Note 2 & 3)*	Beneficial	253,933,304	—	108,489,130	362,422,434	12.91%
Wang Jia Wei *(Note 4)*	Beneficial	160,000,000	600,000	144,444,444	305,044,444	10.87%

Notes:

1. *Other interests represented the number of underlying shares comprised in the share options granted to the Directors but remained outstanding as at 30 June 2014.*

2. *The 253,933,304 shares comprised (i)792,000 shares held by Mr. Kwan Che Hang Jason directly; and (ii) 253,141,304 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 253,141,304 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.*

Save as disclosed above, the Board is not aware of any persons directly or indirectly interested in 5% or more in the shares of the Company as recorded in the register required to be kept under the SFO.

Directors' Interests in Securities

As at 30 June 2014, the interests of the directors and chief executive of the Company in the securities of the Company and its associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to Divisions 7 and 8, stipulated in Section 341 of Part XV of the SFO (including interests or short positions which they were 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 contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Capacity	Number of Shares: Personal Interest	Other Interests (*Note 1*)	Interest in Underlying Shares	Total Interests	Percentage of Total Share Capital
Yang Xin Min	Beneficial	592,573,880	1,600,000	—	594,173,880	21.17%
Huang Yue Qin	Beneficial	—	600,000	—	600,000	0.02%
Zhou Quan	Beneficial	240,000	600,000	—	840,000	0.03%
Kwan Che Hang Jason *(Note 2 & 3)*	Beneficial	253,933,304	—	108,489,130	362,422,434	12.91%
Wang Jia Wei *(Note 4)*	Beneficial	160,000,000	600,000	144,444,444	305,044,444	10.87%
Cheng Faat Ting Gary	Beneficial	200,000	200,000	—	400,000	0.014%
Poon Lai Yin Michael	Beneficial	—	200,000	—	200,000	0.007%

Notes:

1. *Other interests represented the number of underlying shares comprised in the share options granted to the Directors but remained outstanding as at 30 June 2013.*

2. *The 253,933,304 shares comprised (i)792,000 shares held by Mr. Kwan Che Hang Jason directly; and (ii) 253,141,304 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 253,141,304 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.*

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 and, the Board may, at its discretion, grant share options ("Options") to the eligible persons as defined in the Old Scheme. The Old Scheme was terminated on 27 May 2011, 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.

Pursuant to the resolution passed by the shareholders of the Company in the Annual General Meeting held on 27 May 2011, a new Share Option Scheme (the "New Scheme") was approved and adopted and, the Board may, at its discretion, grant Options to the eligible persons as defined in the New Scheme. The New Scheme will expire on 27 May 2021.

During the period ended 30 June 2014, no Options have been granted under the New Scheme. Details of the Options outstanding as at 30 June 2014 were set out in note 15 to the Interim Financial Statements.

Liquidity and Financial Resources

As of 30 June 2014, the Group has a total cash and bank balances of approximately RMB40,801,000 (31 December 2013: RMB317,157,000, of which RMB285,000,000 has been pledged as security for the banking facilities granted to the petrochemicals segment). The balance of pledged deposits had been reduced to nil as at 30 June 2014, which was corresponding to the reduction in outstanding balance of notes payable from RMB585,000,000 as at 31 December 2013 to RMB320,000,000 as at 30 June 2014. Disregard of the pledged deposits, the Group's bank and cash balances had increased from RMB32,157,000 as at 31 December 2013 to RMB40,801,000 as at 30 June 2014.

At 30 June 2014, the Group had the following banking facilities:

(a) bank loans of RMB35,000,000 (31 December 2013: RMB69,100,000) and notes payable of RMB320,000,000 (31 December 2013: RMB585,000,000) of petrochemicals segment, which were secured by:

— charge over certain machinery and equipment with an aggregate carrying value as at 30 June 2014 of approximately RMB51,931,000 (31 December 2013: RMB53,568,000);

— guarantee provided by a related company beneficially owned by Mr. Wang Jia Wei, a director of the Company; and

— personal guarantee provided by Mr. Wang Jia Wei and Ms. Liu Chao Yin, an associate of Mr. Wang Jia Wei.

(As at 31 December 2013, the banking facilities of the petrochemicals segment was also secured by pledged bank deposits of RMB285,000,000 and the guarantee provided by a third party.)

(b) bank loans of RMB9,568,000 (31 December 2013: RMB2,000,000) of O2O solutions segment, which were secured by:

— charge over building with carrying amount as at 30 June 2014 of approximately RMB7,134,000 (31 December 2013: RMB7,234,000);

— charge over investment properties with carrying amount as at 30 June 2014 of approximately RMB13,864,000 (31 December 2013: RMB14,050,000); and

— charge over prepaid land lease payments with carrying amount as at 30 June 2014 of approximately RMB2,310,000 (31 December 2013: RMB2,341,000).

As at 30 June 2014, the Company had balances in advance payments to suppliers — petrochemical suppliers of RMB635,694,000 (31 December 2013: RMB382,376,000) and notes payable of RMB320,000,000 (31 December 2013: RMB585,000,000). Such balances were recorded for the petrochemicals business. 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 notes 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 customers. As at 30 June 2014, the Group's consolidated trade receivables had increased from RMB15,873,000 as at 31 December 2013 to RMB31,650,000, of which RMB10,603,000 were receivables related to the petrochemicals trading business. 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 turnover. Such recognition policy was consistent with that adopted in the prior year.

Contingent Liabilities

At 30 June 2014, the Group had no material contingent liabilities.

Employees

During the period ended 30 June 2014, the Group had an average of 354 employees (same period of 2013: 241 employees). In the first half year of 2014, the aggregate employee remuneration (including directors' fees) was approximately RMB14,006,000 (same period of 2013: RMB7,799,000). The staff cost has increased significantly in current period mainly because the average number of employees had increased after the Company completed the acquisition of 51% shareholding interest in the new O2O solutions business in November 2013. As the employees of this new segment are mainly software engineers and experienced programmers, the pay scale is relatively higher as compared to the workers in the manufacturing plants of the Group's zirconium and batteries businesses. Hence, the acquisition of the new O2O business had resulted in an increase of approximately 80% in total staff costs as compared to the same period in prior year. With a view of the rapid expansion of the O2O business segment, the Group is planning to further increase the number of headcounts in this segment during the second half year of 2014.

The Group offers competitive salary packages to its employees who are also eligible for incentives based on their individual performance supplementing the Group's overall remuneration and bonus systems.

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 for the six months ended 30 June 2014.

Pre-emptive Rights

There 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.

Material Litigation

During the six months ended 30 June 2014, the Company was not involved in any litigation or arbitration of any material importance.

Corporate Governance

Compliance with the Code on Corporate Governance Practices

During the six months period ended 30 June 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 except in respect of a code provision providing for 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.

Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code")

The Company has adopted a code of conduct regarding directors' securities transactions in terms as stringent as those set out in the Model Code. All Directors, following specific enquiries made by the Company, confirmed that they have complied with the required standard of dealings as set out therein throughout the six months period ended 30 June 2014.

Audit Committee

The Company set up an Audit Committee on 24 September 2002 with its written terms of reference being in compliance with the Rules set out in "A Guide for the Formation of An Audit Committee" issued by Hong Kong Institute of Certified Public Accountants. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. The Audit Committee along with the management have reviewed the accounting principles, standards and methods adopted by the Group, and has reviewed the unaudited Interim Financial Statements for the six months ended 30 June 2014.

By order of the Board
Yang Xin Min
Chairman

Hong Kong, 29 August 2014