Annual Report
2014


正美丰业

# ZMFY Automobile Glass Services Limited
# 正美豐業汽車玻璃服務有限公司

*(Incorporated in the Cayman Islands with limited liability)*

*Stock Code: 8135*

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**


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# Corporate Information

## DIRECTORS

### Executive Directors

Ms. Xia Lu *(Chief Executive Officer)*
Mr. He Changsheng
Mr. Li Honglin

### Non-Executive Director

Ms. Natsu Kumiko *(Chairman)*

### Independent Non-Executive Directors

Mr. Chen Jinliang
Mr. Han Shaoli
Mr. Jiang Bin

## LEGAL ADVISERS

As to Hong Kong law:
Tung & Co., Solicitors
In association with Jia Yuan Law Office
Office 1601, 16th Floor
LHT Tower
31 Queen's Road Central
Hong Kong

As to PRC law:
Beijing Tian Ping Law Firm
Room 402, Building 9
Unit 9, Yiping Commercial Street
No. 2 Taoranting Road
Xicheng District
Beijing
China

## AUDITORS

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

## COMPLIANCE ADVISER

Quam Capital Limited

## AUTHORISED REPRESENTATIVES

Ms. Xia Lu
Mr. Sum Sui Lun

## COMPANY SECRETARY

Mr. Sum Sui Lun
*HKICPA, CPA Australia*

## COMPLIANCE OFFICER

Mr. Li Honglin

## AUDIT COMMITTEE MEMBERS

Mr. Jiang Bin *(Chairman)*
Mr. Chen Jinliang
Mr. Han Shaoli

## REMUNERATION COMMITTEE MEMBERS

Mr. Han Shaoli *(Chairman)*
Mr. Chen Jinliang
Mr. He Changsheng

## NOMINATION COMMITTEE MEMBERS

Mr. Chen Jinliang *(Chairman)*
Mr. Jiang Bin
Ms. Xia Lu

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No.12 Fengbei Road
Fengtai District
Beijing
China

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

2318 Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

## PRINCIPAL BANKERS

China Construction Bank
Beijing Rural Commercial Bank

## HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

## WEBSITE ADDRESS

http://www.zmfy.com.hk

## STOCK CODE

8135

# Chairman's Statement

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of ZMFY Automobile Glass Services Limited (the "**Company**"), I hereby present the audited annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2014.

In 2014, China economy recorded an overall steady growth with the slowing GDP growth, representing an increase of 7.4% over the previous year. The national economy ran smoothly under the new normal situation, and the structural adjustment presented a positive change. In 2014, the number of vehicle production and sales exceeded 23,000,000, yet represented a decrease compared to that in 2013. Given the number of vehicle ownership in China is still maintained at the level of about 100 per thousand individuals, there is room for improvement compared with the developed countries. For the next few years, the number of vehicle ownership will continue to grow steadily, bringing demand for the automobile glass installation/repair services.

The main market growth drivers of the automobile glass installation/repair services in China include the potential for further growth in China's domestic automobile penetration; an increase in the pace of urbanisation in China leading to an increase in overall purchasing power; and the growth in the number of insured vehicles and hence an increase in consumer demand for after-sales services since repair/replacement fees can be partly covered by the automobile annual insurance.

Insurance companies are currently one of the major clients of the Group, and we cooperate with more than 30 insurance companies in China. With the advance of urbanisation, the insurance industry in China will be driven to develop, which means that consumer demand for automobile insurance and glass breakage insurance will also increase accordingly. These demands will radiate from developed cities into second-tier and third-tier cities, therefore, the future development strategy of the Company will expand to other second-tier and third-tier cities, including Daqing, Heilongjiang province, China.

Resulting from rising purchasing power and safety awareness, consumers have imposed more substantive requirements on the price, products and quality of automobile glass installation/repair services. Growth in safety awareness among consumers causes them to pay more attention to the quality and safety of automobile glass repair services. Specialised automobile glass sales, installation/repair services will replace small automobile installation service providers with low standards to meet the new market expectations for higher quality. The emphasis on supply of quality automobile glass, specialised service crews, and extensive service networks, enables the Group to provide more efficient service with better quality.

For the year ended 31 December 2014, the Group's revenue from sales of automobile glass with installation/repair services decreased from approximately RMB144,214,000 to approximately RMB135,193,000, representing a year-on-year reduction rate of approximately 6.3% or approximately RMB9,021,000. The decrease in revenue was principally attributed to the reduction in demand for our automobile glass sales, installation/repair services caused by the business decline of 4S stores and repair factories, plus the continuous negative impact of the vehicle purchase restrictions imposed by some local governments (such as Beijing and Tianjin) to alleviate the pressure of the traffic for environmental protection. Taking Beijing as an example, the growth rate of 2.8% in vehicle sales in 2014 was far lower than the national growth rate of 12.4%; in addition, the traffic administrative department severely punished those who breached the relevant rules, and the improvement in drivers' awareness of security and law-abiding reduced the occurrence rate of traffic accidents, all contributing to the reduction in the revenue.

Resulting from the increased demand for original glass and imported glass rapidly, the significant growth in demand for our imported glass and original glass caused the material cost to increase. The Group's segment profit of sales of automobile glass with installation/repair services reduced approximately 26.2% to approximately RMB35,158,000 this year from approximately RMB47,641,000 in last year; the gross profit margin decreased from approximately 39.4% for last year to approximately 29.4% for the current year.

Moreover, revenue from the trading of automobile glass in 2014 decreased at a rate of 52.8% from approximately RMB23,223,000 in 2013 to approximately RMB10,969,000 in 2014. Gross profit reduced at a rate of 71.1% from approximately RMB4,021,000 in 2013 to approximately RMB1,161,000 in 2014. Gross profit margin decreased from approximately 17.3% in 2013 to approximately 10.6% in 2014, which was mainly attributable to the more fierce market competition caused by the reducing demand, and the Group decreased the trading business of automobile glass in response to the market change accordingly.

The Group started to engage in the photovoltaic installation area since the second half of 2014 and recorded a revenue of RMB4,542,000. The profit was RMB709,000 and the gross profit margin was 15.6%. On 10 July 2014, the Group completed the acquisition of 49% equity interest of Polaron Solartech Corp., of which the main business was the provision of installation service of solar system. Through this investment and cooperation, the Group can obtain the technological support from this company to enable us to explore these services in China.

The Group recorded a loss of approximately RMB12,094,000 for the current year, representing a decrease of approximately 230.0% from the profit of approximately RMB9,302,000 in last year which mainly resulted from the customers' preference for the imported automobile glass with higher price and quality over local products. Although there was a difference between prices, the insurance company still maintained the insurance compensation unchanged, causing the gross profit received from the automobile glass sales, installation/repair services to reduce. In addition, the increase in price of imported automobile glass was another reason why the gross profit and gross profit margin reduced. The decrease in wholesale business to industry peers in Beijing, traders of automobile glass and repair factories resulted in the reduction in revenue, while the professional and intermediary fees, such as the financial consultant charge, attorney fee and assessment cost, significantly increased on the other hand leading to the net loss in current year.

The Group's top management is putting efforts to improve productivity and operational efficiency to speed up the development of our business. Since the vehicle purchase restriction was imposed in first-tier cities, the Group began to pay attention to the second-tier and third-tier cities and developed the strategic layout for entry into the Northeast market with Heilongjiang chosen as the springboard. Under the current economic situation, the Group encountered many difficulties in 2014, however, the management believes that the Group will continue to tackle challenges and improve its competitive advantages so as to improve profit margin and bring returns for shareholders.

Our competitive strengths are our dedicated and experienced management and high quality technical teams that have in-depth knowledge and experience in the automobile glass sales, installation/repair industry and our exploration into the new energy sector. The Directors are prudently optimistic about the prospects and future development of the Group.

**Natsu Kumiko**
*Chairman*

25 March 2015

# **Management** Discussion and Analysis

## INTRODUCTION

The Group is principally engaged in the sales of automobile glass with installation/repair services and trading of automobile glass in China, but does not itself manufacture glass. The automobile glass installation/repair services of the Group are provided either at the service centres of the Group to walk-in customers, or by the Group's motorcade service teams at locations in China to customers requiring door-to-door services. The Group is also engaged in the trading of automobile glass whereby the Group purchases the automobile glass from its automobile glass suppliers and then re-sells to industry peers and traders of automobile glass in China. Currently, the Group is also engaged in the provision of installation services of photovoltaic system in China.

As at 31 December 2014, the Group operated 29 service centres in six cities in China, including Beijing, Sanhe (Hebei), Tianjin, Hangzhou, Shenyang and Shenzhen. The Group also had over 110 motorcade service teams stationed at service centres for the provision of automobile glass installation/repair services to customers requiring door-to-door services. The Group cooperated with over 30 insurance companies by providing automobile glass with installation/repair services to individuals insured by those insurance companies. The Group provides automobile glass installation/repair services for various types of private and public motor vehicles and possesses a comprehensive collection of automobile glass catering for a wide range of motor vehicles and hence customers in China. The Group's main customer types include insurance companies, corporate customers and individual customers. Besides, the Group started to operate installation of photovoltaic system for entities and individuals in China from the second half of 2014. The Group employed experienced technicians and trained up new technical staff to install photovoltaic system for customers in China and the Group also provided design and consultant services in respect of photovoltaic system installation.

## BUSINESS REVIEW

The Group's total revenue for the year ended 31 December 2014 amounted to approximately RMB135,193,000, representing a decrease of approximately RMB9,021,000 or 6.3% as compared to that of approximately RMB144,214,000 in 2013. Overall gross profit decreased by approximately RMB14,634,000 or 28.3% to approximately RMB37,028,000 in 2014 from approximately RMB51,662,000 in 2013. The gross profit margin in 2014 decreased to approximately 27.4% from approximately 35.8% in 2013. The total comprehensive loss attributable to owners of the Company in 2014 amounted to approximately RMB13,098,000, while the total comprehensive profit attributable to owners of the Company was approximately RMB8,646,000 in 2013.

Analysis of revenue, gross profit and gross profit margin is as follows:

| | Revenue Year ended 31 December | | | Gross Profit Year ended 31 December | | | Gross Profit Margin Year ended 31 December | |
|---|---|---|---|---|---|---|---|---|
| | **2014** | 2013 | Change | **2014** | 2013 | Change | **2014** | 2013 |
| | **RMB'000** | RMB'000 | % | **RMB'000** | RMB'000 | % | **%** | % |
| Sales of automobile glass with installation/ repair services | **119,682** | 120,991 | (1.1) | **35,158** | 47,641 | (26.2) | **29.4** | 39.4 |
| Trading of automobile glass | **10,969** | 23,223 | (52.8) | **1,161** | 4,021 | (71.1) | **10.6** | 17.3 |
| Provision of installation services of photovoltaic system | **4,542** | – | – | **709** | – | – | **15.6** | – |
| Total | **135,193** | 144,214 | (6.3) | **37,028** | 51,662 | (28.3) | **27.4** | 35.8 |

### Sales of Automobile Glass with Installation/Repair services

Revenue from sales of automobile glass with installation/repair services was the main source of revenue, representing approximately 88.5% of the Group's total revenue in 2014 (2013: 83.9%). It is expected to remain as the Group's principal source of income for the foreseeable future. Revenue from sales of automobile glass with installation/repair services are provided either at the Group's service centres to walk-in customers, or by the Group's motorcade service teams to customers requiring door-to-door services in China.

Revenue from sales of automobile glass with installation/repair services decreased by approximately RMB1,309,000 or 1.1% from approximately RMB120,991,000 in 2013 to approximately RMB119,682,000 in 2014. The decrease was mainly due to the decrease of revenue generated from 4S stores which encountered a decline in their business during the year.

Gross profit from sales of automobile glass with installation/repair services in 2014 amounted to approximately RMB35,158,000, representing a decrease of approximately 26.2% as compared to 2013, which was approximately RMB47,641,000. Gross profit margin decreased from approximately 39.4% in 2013 to approximately 29.4% in 2014. The decrease in gross profit and gross profit margin is mainly attributable to more customers preferring the imported automobile glass with higher price and quality instead of domestic products yet the insurance companies maintained the insurance claim amount in spite of the price differences that caused the gross profit of sales of automobile glass with installation/repair services to decrease. Moreover, the increase in purchase price of imported automobile glass was another reason to cause the gross profit and gross profit margin to drop.

## Trading of Automobile Glass

Trading of automobile glass refers to the Group purchasing automobile glass from its automobile glass suppliers and then re-selling the same to industry peers and traders of automobile glass in China. Revenue from the trading of automobile glass in 2014 was approximately RMB10,969,000, representing a decrease of approximately 52.8% as compared to that of approximately RMB23,223,000 in 2013. The drop is mainly a result of the decrease in revenue from industry peers and traders of automobile glass and automobile repair garages located in Beijing which encountered a decline in their businesses during the year.

Gross profit from trading of automobile glass decreased by approximately RMB2,860,000 or 71.1% from approximately RMB4,021,000 in 2013 to approximately RMB1,161,000 in 2014. Gross profit margin decreased from approximately 17.3% in 2013 to approximately 10.6% in 2014 which was mainly due to the reduction in selling price of trading of automobile glass in Beijing arising from keen competition during the current year.

## Review by segment

| | Northern China (excluding Shenyang) | | | Shenyang | | | Hangzhou | | | Shenzhen | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2014 RMB'000** | 2013 RMB'000 | Change % | **2014 RMB'000** | 2013 RMB'000 | Change % | **2014 RMB'000** | 2013 RMB'000 | Change % | **2014 RMB'000** | 2013 RMB'000 | Change % | **2014 RMB'000** | 2013 RMB'000 | Change % |
| Revenue | **119,252** | 135,213 | (11.8) | **3,867** | 4,802 | (19.5) | **2,955** | 4,199 | (29.6) | **9,119** | – | – | **135,193** | 144,214 | (6.3) |
| Gross profit | **32,760** | 49,178 | (33.4) | **940** | 1,357 | (30.7) | **854** | 1,127 | (24.2) | **2,474** | – | – | **37,028** | 51,662 | (28.3) |
| Gross profit margin | **27.5%** | 36.4% | | **24.3%** | 28.3% | | **28.9%** | 26.8% | | **27.1%** | – | | **27.4%** | 35.8% | |

Northern China (excluding Shenyang) segment includes Beijing, Tianjin, Sanhe (Hebei) and revenue generated from these areas represents 88.2% of the Group's total revenue. Revenue from Northern China (excluding Shenyang) segment decreased by approximately 11.8% from approximately RMB135,213,000 to approximately RMB119,252,000 for the year ended 31 December 2014. The decrease was mainly attributable to the decrease in revenue from trading of automobile glass to industry peers, traders and automobile repair garages located in Beijing which encountered a decline in their businesses. Gross profit decreased by approximately 33.4% from approximately RMB49,178,000 to approximately RMB32,760,000 and gross profit margin decreased from approximately 36.4% to approximately 27.5% for the year ended 31 December 2014. This is mainly attributable to more customers preferring the imported automobile glass with higher price and quality instead of domestic products yet the insurance companies maintained the insurance claim amount in spite of the price differences that caused the gross profit of sales of automobile glass with installation/repair services to decrease. Moreover, a decrease in average selling price of trade of automobile glass arising from keen competition in Beijing market also caused the gross profit and gross profit margin to decrease.

Revenue of Shenyang segment decreased by approximately 19.5% from approximately RMB4,802,000 to approximately RMB3,867,000 for the year ended 31 December 2014. The gross profit decreased by approximately 30.7% from approximately RMB1,357,000 to approximately RMB940,000 and gross profit margin decreased from approximately 28.3% to approximately 24.3% for the year ended 31 December 2014. The decrease in the gross profit and gross profit margin of the Shenyang segment was mainly attributable to the decrease in revenue from the sales of automobile glass with installation/repair service business; however, the related cost of sales decreased with lesser proportion since some costs, such as staff costs, rental and utilities, did not proportionately decrease with revenue.

Revenue of Hangzhou segment decreased by approximately 29.6% from approximately RMB4,199,000 to approximately RMB2,955,000 for the year ended 31 December 2014. This was mainly due to the decline in trading of automobile glass resulted from keen competition in the Hangzhou area. Gross profit decreased by 24.2% from approximately RMB1,127,000 to approximately RMB854,000 resulted from the reduction in average selling price of trading of automobile glass because of keen competition. Gross profit margin increased from approximately 26.8% to approximately 28.9% for the year ended 31 December 2014. This is mainly due to cost control policy imposed on the sale of automobile glass with installation/repair services.

On 15 January 2014, the Group acquired 100% equity interest in Shenzhen Xinyida Automobile Glass Company Limited (深圳市信義達汽車玻璃有限公司) **("Shenzhen Xinyida")** which is located in Shenzhen with four branches that are engaged in the sales of automobile glass as well as installation/repair services and the trading of automobile glass. The revenue from Shenzhen segment amounted to approximately RMB9,119,000 and gross profit amounted to approximately RMB2,474,000 with gross profit margin of approximately 27.1% for the year ended 31 December 2014.

### Selling and Distribution Costs

Selling and distribution costs increased by approximately 17.7% from approximately RMB15,164,000 in 2013 to approximately RMB17,852,000 in 2014. The increase was mainly due to the increase in incentives to sales staff to promote the services of the Group and the increase in headcount of sales staff as a result of the acquisition of Shenzhen Xinyida and the set up of two subsidiaries in Tianjin and two branches in Beijing and Tianjin with aggregate amount increased by approximately RMB1.5 million, during the year. Selling and distribution costs also include the amortisation of the intangible assets and an increase in rental incurred as a result of the acquisition of Shenzhen Xinyida amounting to approximately RMB1.0 million, which were not incurred in 2013.

### Administrative Expenses

The Group's administrative expenses mainly consist of professional fees, staff costs (including Directors' remunerations), depreciation, amortisation, rental and meeting/conference expenses. The total administrative expenses increased by approximately 35.7% from approximately RMB21,657,000 in 2013 to approximately RMB29,398,000 in 2014. The increase was mainly due to the increase in professional fees to financial advisors and legal consultants which amounted to approximately RMB9.2 million during the year. Moreover, Directors' emoluments increased by approximately RMB871,000 as compared to 2013 because there were only four months Directors' emoluments incurred in 2013 after listing on 3 September 2013.

### Finance Cost and Income, Net

Finance cost decreased from approximately RMB215,000 in 2013 to approximately RMB9,000 in 2014 due to exchange losses relating to cash and cash equivalents in 2013. The increase in finance income from approximately RMB112,000 in 2013 to RMB303,000 in 2014 was a result of the increase in cash and cash equivalents deposited in the banks of China.

### Share of Loss of Investment Accounted for Using the Equity Method

It represents share of loss of investment of 49% equity interest in a joint venture entity, namely Polaron Solartech Corp., which is located in Canada and is engaged in the provision of installation services of solar system in Canada.

### Income Tax Expenses

Income tax expenses decreased by approximately 67.1% from approximately RMB5,410,000 in 2013 to approximately RMB1,781,000 in 2014. The decrease was mainly due to the decrease in profit before income tax of the subsidiaries in China for the current year.

### Profit/(Loss) for The Year

The Group recorded a loss of approximately RMB12,094,000, representing a decrease by approximately 230.0% for the current year as compared to the profit of approximately RMB9,302,000 in last year. The decrease mainly resulted from the decrease in gross profit of sales of automobile glass with installation/repair services and decrease in gross profit from trading of automobile glass to the industry peers and traders of automobile glass and automobile garages in Beijing during the current year. Moreover, additions of significant professional fees to financial advisors and legal consultants also reduced the net profit of the Group.

### Current Ratio

The Group's current ratio as at 31 December 2014 was 11.1, as compared with 12.1 as at 31 December 2013. The slight decrease was mainly due to increase in other payable and accruals.

### Capital Structure

As at 31 December 2014, the Group had net assets of approximately RMB228,698,000 (2013: RMB139,678,000), comprising non-current assets of approximately RMB127,225,000 (2013: RMB46,114,000), and current assets of approximately RMB123,722,000 (2013: RMB109,165,000). The Group recorded a net current asset position of approximately RMB112,556,000 (2013: RMB100,114,000), primarily consisting of cash and cash equivalents of approximately RMB54,821,000 (2013: RMB52,399,000), inventories of approximately RMB38,001,000 (2013: RMB31,949,000), trade and other receivables of approximately RMB30,638,000 (2013: RMB24,759,000) and amount due from a Director of nil (2013: RMB58,000). Major current liabilities are trade and other payables of approximately RMB10,557,000 (2013: RMB6,212,000), tax payable of approximately RMB9,000 (2013: RMB2,839,000) and amount due to a Director of approximately RMB600,000 (2013: Nil).

### Liquidity and Financial Resources

As at 31 December 2014, the Group's cash and cash equivalents amounted to approximately RMB54,821,000, representing a net increase of approximately RMB2,422,000 as compared to that of approximately RMB52,399,000 as at 31 December 2013. The gearing ratio of the Group as at 31 December 2014 is 1.5% which mainly arose from convertible bonds of RMB3,460,000 (2013: Nil). The Group satisfied their working capital needs principally from internally generated cash flow from operating activities and net proceeds from issuance of 80,000,000 new shares to Xinyi Automobile Glass (BVI) Company Limited on 16 May 2014. Net cash outflow from operating activities amounted to approximately RMB15,720,000 (2013: cash inflow RMB13,768,000) as a result of operating loss in the current year. As at 31 December 2014, the Group had no bank borrowings (2013: Nil).

### Convertible bonds

On 14 November 2014, the Company issued 54,690,647 1% convertible bonds at HK$1.112 per share of HK$60,816,000 (equivalent to RMB48,000,000) in exchange for the deposit in relation to the acquisition of a property. The bonds mature three years from the issue date at the nominal value of HK$60,816,000 (equivalent to RMB48,000,000) or can be converted into shares at the holder's option at HK$1.112 per share. On 17 November 2014, the holder of the convertible bonds has completed the conversion of 50,000,000 shares at conversion price of HK$1.112 per share and the remaining convertible bonds of 4,690,647 as at 31 December 2014 with a value of approximately RMB3,460,000. The fair value of convertible bonds were assessed by an independent valuer and determined at the Board of Directors' approval date of the convertible bonds.

### Pledge of Assets

As at 31 December 2014, the Group has no assets pledged for bank borrowings or for other purpose (2013: Nil).

### Contingent Liabilities

Except as disclosed in note 33 to the consolidated financial statements, the Group did not have any significant contingent liabilities as at 31 December 2014 (2013: Nil).

### Capital Commitments

Save as disclosed in note 28 to the consolidated financial statements, the Group did not have any significant capital commitments, as at 31 December 2014.

### Total Comprehensive Income/(Loss) Attributable to Owners of the Company and Net Profit/(Loss) Margin

Total comprehensive loss attributable to the owners of the Company for the year ended 31 December 2014 amounted to approximately RMB13,098,000 (2013: Income of RMB8,646,000), representing a decrease of approximately 251.5% as compared to 2013. Net profit/(loss) margin of the Group dropped from 6.4% in 2013 to (8.9)% in 2014.

### Foreign Exchange Risk

The Group mainly operates in China with most of the transactions settled in Renminbi. Part of the Group's cash and bank deposits are denominated in Hong Kong Dollars. The foreign exchange rate risk with respect to HK$ is disclosed in note 3.1 to the consolidated financial statements. During the year ended 31 December 2014, the Group did not hedge any exposure in foreign currency risk.

### Employees and Remuneration Policy

As at 31 December 2014, the Group employed a total of 439 employees (2013: 357 employees) situated in China. The Group's emolument policy is formulated based on industry practices and performance of individual employees. During the year ended 31 December 2014, the total staff costs (including Directors' emoluments) amounted to approximately RMB31,851,000 (2013: RMB25,232,000). The Group has adopted a share option scheme (the "**Scheme**") for its employees. Since the adoption of the Scheme, no share options have been granted, exercised, lapsed or cancelled, and as at 31 December 2014, no share options under the Scheme were outstanding.

### Significant Investments Held

On 10 July 2014, the Group completed the acquisition of 49% equity interest in Polaron Solartech Corp. ("**Polaron**") from Polaron International Inc. ("**PII**") at a consideration of approximately RMB5,686,000. Polaron was engaged in the provision of installation services of solar system in Canada. Pursuant to the sales and purchase agreement, PII guaranteed the Group the annual net profit of CAD100,000 and CAD200,000 for the years ended 31 December 2014 and 2015 ("**Guaranteed Profits**"). When the Guaranteed profits of Polaron were not met, PII would reimburse the amount of Guaranteed Profits to the Group to the extent of the 49% shareholding. The amount to be reimbursed of approximately RMB262,000 was accounted for as available- for- sale investment as at 31 December 2014.

### Future Plans for Material Investments or Capital Assets

On 19 October 2014, the Group entered into a sale and purchase agreement (the "**Daqing Acquisition Agreement**") to acquire a property with a 4-storey commercial complex located in Sa'ertu District, Daqing City, Heilongjiang Province, China with a total gross floor area of approximately 4,445 square meters at a consideration of RMB48,000,000 settled through the issuance of convertible bonds which were convertible into 54,690,647 conversion shares (the "**Daqing Acquisition**"). On 17 November 2014, the bonds holder has completed the conversion of 50,000,000 shares and 4,690,647 conversion shares has not yet been converted as at the date of this report. The property will be used to set up a new service centre and warehouse which is in line with the Group's strategy of expanding its business operations in China and could allow the Group to secure a prime and strategic location to expand its sales network. As disclosed in note 28 to the consolidated financial statements, the Group will spend around RMB3.0 million for leasehold improvement in this property funded by the Group's internal working capital.

As disclosed in note 23 to the consolidated financial statements, on 19 December 2013, the Group entered into an agreement with Wuqing Development Area General Corporation (天津新技術產業園區武清開發區總公司) to tender a land with total area of 20,000 sq.m in Tianjin Wuqing Development Area with cost of approximately RMB5.5 million for building a warehouse for logistic purpose; the tender will be expired in 2015. The source of funds will be financed by the Group's internal working capital.

Save as disclosed above and the business plan as disclosed in this report, the Group had no other plan for material investment or capital assets as at 31 December 2014.

### Material Acquisition and Disposal

Save as disclosed below and in note 32 to the consolidated financial statements, no other material acquisition or disposal of subsidiaries and associated companies was entered into by the Group during the year.

### Litigation

### Legal proceedings against Mr. Lau Sik Yuen and Ms. DY Melanie

On 10 November 2014, the Company issued a writ of summons against Mr. Lau Sik Yuen as the 1st defendant and Ms. DY Melanie as the 2nd defendant in the Court of First Instance in the High Count of the Hong Kong Special Administrative Region (the "**Court**"), in relation to their breaches of confidence and fiduciary duties as director and alternate director respectively of the Company by unauthorised disclosure to third party(ies) of information concerning the Daqing Acquisition prior to the publication of the announcement of the Company dated 20 October 2014 in relation to the Daqing Acquisition. The Company has appointed a firm of solicitors in Hong Kong to take the relevant legal action.

### Legal proceedings by Xinyi Automobile Glass (BVI) Company Limited ("Xinyi Glass (BVI)")

On 24 December 2014, the Company received an originating summons dated 23 December 2014 (the "**Originating Summons**") issued by Xinyi Glass (BVI) in the Court against the following persons:

(a) the Company as the 1st Defendant;

(b) the vendor in the Daqing Acquisition Agreement (the "**Vendor**"), as the 2nd Defendant;

(c) Xia Lu, who is an executive Director and the chief executive officer of the Company, as the 3rd Defendant;

(d) He Changsheng, who is an executive Director, as the 4th Defendant;

(e) Li Honglin, who is an executive Director, as the 5th Defendant;

(f) Natsu Kumiko, who is a non-executive Director and the chairman of the Company, as the 6th Defendant;

(g) Fong William, who was an independent non-executive Director on 23 December 2014 but resigned on 5 January 2015, as the 7th Defendant;

(h) Chen Jinliang, who is an independent non-executive Director, as the 8th Defendant;

(i) Ling Kit Wah Joseph, who is a former independent non-executive Director, as the 9th Defendant; and

(j) Aleta Global Limited, who is the holder of the convertible bond nominated by the Vendor, as the 10th Defendant.

In the Originating Summons, Xinyi Glass (BVI) seeks, among others, the following orders:

(1) the Daqing Acquisition Agreement be declared void or, in the alternative, voidable;

(2) the convertible bond issued to satisfy the consideration of the Daqing Acquisition Agreement, the conversion shares already allotted and issued to Aleta Global Limited and the remaining conversion shares to be allotted and issued to Aleta Global Limited as at the date of the Originating Summons be declared void or, in the alternative, voidable;

(3) in the event that the Daqing Acquisition Agreement and the convertible bond are declared voidable, the Company, the Vendor and/or Aleta Global Limited be compelled to terminate and/or rescind the same; and

(4) in the alternative, damages from the existing executive and non-executive Directors and certain existing and former independent non-executive Directors.

The Originating Summons is returnable at the Court on Wednesday, 15 April 2015 at 9:30 a.m. The Company has appointed a firm of solicitors in Hong Kong to contest the same.

## PROSPECTS

The Group was listed on the Growth Enterprise Market (the "**GEM**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 3 September 2013 (the "**Listing**") and further issued new shares to one of the existing shareholders, Xinyi Glass (BVI) on 16 May 2014. The funds raised from the Listing and further issuance of new shares have laid a solid foundation for the future development of the Group. Looking ahead, the Group is striving to strengthen its position in the automobile glass installation/repair service industry in China and further expand its business operation in China. Depending on the demand for the Group's services and the growth of the automobile glass installation/repair industry in China, the Group plans to expand its existing business by setting up new service centres to provide automobile glass installation/repair services in China.

The Group also plans to expand its business through strategic merger and acquisition, alliance, joint venture or other form of collaboration with partners which are complementary to the Group's expansion strategy. The Group is targeting merger or acquisition opportunities in China such as Shenzhen, Shanghai, Guangzhou and Northeast of China which can strengthen the Group's network of service centres in such locations, increase the Group's market share and reinforce the Group's brand image. On 15 January 2014, the Group has completed the acquisition of 100% equity interest in Shenzhen Xinyida which is located in Shenzhen and is principally engaged in the sales of automobile glass as well as installation/repair services and the trading of automobile glass in China. The total consideration for the acquisition amounted to RMB16.0 million.

On 10 July 2014, the Group has completed an acquisition of 49% equity interest in Polaron Solartech Corp. which is principally engaged in the provision of installation services of solar system in Canada. Through this investment and collaboration, the Group can obtain technical support from that company which will be beneficial to the Group's development of these services in China market.

On 19 October 2014, the Group has entered into the Daqing Acquisition Agreement with an independent third party to purchase a property with a 4-storey commercial complex located in Sa'ertu District, Daqing City, Heilongjiang Province, China with a total gross floor area of approximately 4,445 square meters, at the consideration of RMB48,000,000 (equivalent to approximately HK$60,816,000) which was satisfied by the issue of the convertible bonds upon completion. The property will be used to set up a new service centre and warehouse which is in line with the Group's strategy of expanding its business operations in China and could allow the Group to secure a prime and strategic location to expand its sales network.

### Overall Market Condition in Beijing in 2014

Approximately 80% of the Group's business is derived from the Beijing market. At the end of 2013, vehicle ownership in Beijing was 5.437 million (source: 2013 Beijing National Economy and Social Development Statistical Communique jointly published by the Beijing Municipal Bureau of Statistics and the Chief Investigation Team of the National Bureau of Statistics of China). Currently, vehicle ownership is 5.5 million (source: 12 September 2014, Beijing News Bureau, released on 11 September 2014, in which the growth rate for vehicles in Beijing was derived). From January to September 2014, vehicle ownership increased by 1.16%.

In 2014, Beijing implemented new regulations for vehicles from outside provinces entering the capital. The temporary permit to enter the capital for vehicles from outside provinces is only valid for 7 days, and the permit must be renewed weekly if the vehicle is to be driven in the capital for prolonged periods. The application office is situated outside the 6th Ring Road, and yellow label vehicles from outside provinces are not allowed to enter the capital. This completely limits the possibility of vehicles from outside provinces to be driven in the capital for prolonged periods. Prior to 2014, vehicles with licenses from outside provinces only need to apply for a temporary permit at the Beijing Vehicle Management Office, which could be used in Beijing for half a year. This led to workers from outside provinces working in Beijing to purchase vehicles at home to use in Beijing. There are also Beijing residents who were unable to draw for a license in Beijing and applied for outer province licenses. Vehicles in these categories account for a high number of vehicles in Beijing and thus these policies were introduced. In consideration of such factors, the actual number of vehicles in Beijing has decreased, with vehicle ownership in 2014 displaying negative growth.

New annual vehicle inspection policies in Beijing increased the inspection period, meaning new personal vehicles under six years now undergo inspection at the end of sixth year instead of inspection every two years. Glass on vehicles must be inspected during annual inspections, and broken glass must be replaced. Some people now choose not to replace it, which has objectively reduced the volume of glass changed.

In recent years, high-speed railway development in Beijing has connected Beijing with cities such as Tianjin, Shanghai and Shenzhen, which reduced the number of long distance buses in Beijing. The decrease of damage to glasses on long distance buses also affects our business growth.

As the techniques for repairing automobile glasses have become more and more mature, some customers may choose to repair the glasses if the glasses are not severely damaged without replacement, which may lead to a decrease in the business of installation of automobile glasses.

The business transition to high-speed railway transportation for road transportation companies has caused a decrease in the number of delivery fleet thus reducing the number of damage to glasses on trucks, which in turn affects our business growth.

### Daqing Complements Beijing Weakness

From the above statistics, due to the high growth of vehicles in Beijing in recent years, it has become the city with the highest vehicle ownership, and has clogged the roads of Beijing. The immense pressure from deteriorating environments and congested roads has led to policies which limit the purchase and usage of vehicles in Beijing to be introduced constantly. In 2015, vehicle ownership in Beijing will be limited to within 5.6 million, with a growth rate of only 1.8%. In the future, the ownership of vehicles in Beijing will enter a stable period.

To realise stable business growth in the future, the Group must seek out markets with development potential. Rapid growth of vehicles will shift to second-tier and third-tier cities. Per capita GDP in Daqing is ranked fifth in the country, with high range vehicles, great market development potential and vehicle ownership growth of 81.48% between 2010 to 2014. In the future, vehicle growth rate will keep rising; in addition, Daqing is situated in an extremely cold area with a high rate of vehicle glass damage and essentially lesser competition in this area that will bring us with new development opportunities.

We seek to establish an automobile glass services company in Daqing because we see a future in the Daqing vehicle aftermarket. In the future, the Group will utilise Daqing as a fulcrum to enter the Heilongjiang market and set up shops in Harbin and Jiamusi to enable the Group to better serve the Heilongjiang Province. It is estimated that it will take five to six years for the Group to establish a complete sales network in the three Eastern provinces and ultimately become a vehicle aftermarket services platform with leading equipment within the country and international first-rate service capabilities.

Besides, the Group is also exploring other business opportunities in order to maximise the shareholders' value. On 16 May 2014, the Group has completed the issue of 80,000,000 new ordinary shares (equivalent to 20% of the issued share capital of the Company immediately before the issue of the new shares) to Xinyi Glass (BVI), a wholly-owned subsidiary of Xinyi Glass Holdings Limited, at a subscription price of HK$0.55 per share. The aggregate net proceeds amounted to approximately RMB35.0 million which will be used to support (i) the project in relation to the provision of installation service of photovoltaic system, (ii) the business development of Shenzhen Xinyida and (iii) setting up of warehouse and logistics centre of the Group.

To further promote the Group's brand image and enhance its reputation, the Group plans to strengthen its marketing efforts in terms of brand-building, advertising, public relation and other means of promotion. The marketing activities of the Group are aimed at boosting its reputation in providing a wide range of high quality of automobile glass with installation/repair services to customers. In order to achieve these objectives, the Group intends to enhance brand awareness through increasing advertising across a variety of media, including radio, advertising displays on internet as well as generating publicity through distributing press releases. The management is currently optimising the Group's resources in order to expand its existing business and capture more business opportunities to strengthen its overall growth.

## CORPORATE GOVERNANCE PRACTICES

Recognising the importance of a listed company's responsibilities to enhance its transparency and accountability, the Company is committed to maintain a high standard of corporate governance in the interests of its shareholders. The Company devotes to best practice on corporate governance and to comply to the extent practicable, with the code provisions as set out in the Corporate Governance Code (the "**Code**") contained in Appendix 15 to the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**").

Throughout the year ended 31 December 2014 and up to the date of this report, the Company has complied with all the code provisions, save and except for the following deviations and non-compliances:

(1) Under code provision A.7.1 of the Code, for board meetings as far as practicable, an agenda and accompanying board papers should be sent, in full, to all Directors at least 3 days before the intended date of meeting (or other agreed period).

Board meetings of the Company were convened on short notice on certain occasions in the year ended 31 December 2014. However, it was noted by the Directors that the matters to be transacted therein required urgent attention and thus the Board considered that short notice of the meetings was reasonable.

(2) Under code provision E.1.2 of the Code, the chairman of the Board should attend the annual general meeting and she should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In addition, under code provision A.6.7 of the Code, independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders.

Regarding the annual general meeting of the Company held on 9 May 2014 and the extraordinary general meeting of the Company held on the same day, Ms. Natsu Kumiko, a non-executive Director and the chairman of the Board was not able to attend due to her unavoidable business engagement. Mr. Chen Jinliang, an independent non-executive Director and the chairman of the nomination committee and Mr. Ling Kit Wah Joseph, an independent non-executive Director and the chairman of the remuneration committee were also not able to attend due to unavoidable business engagement. Notwithstanding the above, there were other Directors present in the general meetings.

(3) Pursuant to Rules 5.05(1), 5.05(2), 5.05A, 5.28 and 5.34 of the GEM Listing Rules and code provision A.5.1 of the Code, (i) the Board is required to have at least three independent non-executive Directors, at least one of whom must have appropriate professional qualifications or accounting or related financial management expertise, and represent at least one-third of the Board; (ii) the audit committee should be chaired by an independent non-executive Director and comprise a minimum of three members, at least one of whom is an independent non-executive Director meeting the requirement set out in Rule 5.05(2) of the GEM Listing Rules; (iii) the remuneration committee must be chaired by an independent non-executive Director and comprise a majority of independent non-executive Directors; and (iv) the nomination committee should comprise a majority of independent non-executive Directors.

Mr. Ling Kit Wah Joseph resigned as an independent non-executive Director, a member of the audit committee and the chairman of the remuneration committee of the Company with effect from 20 October 2014. Mr. Fong William resigned as an independent non-executive Director, a member of the nomination committee and the chairman of the audit committee of the Company with effect from 5 January 2015. Upon the resignations of Mr. Ling Kit Wah Joseph and Mr. Fong William, the Company could not comply with Rules 5.05(1), 5.05(2), 5.05A, 5.28 and 5.34 of the GEM Listing Rules and code provision A.5.1 of the Code.

Pursuant to Rules 5.06, 5.33 and 5.36 of the GEM Listing Rules, the Company had to appoint new independent non-executive Directors to replace the vacancies within three months after the respective resignation of Mr. Ling Kit Wah Joseph and Mr. Fong William. The Company had applied for a waiver from strict compliance with Rules 5.05(1), 5.05A, 5.28 and 5.34 of the GEM Listing Rules and was granted the waiver and an extension of the grace period under Rules 5.06, 5.33 and 5.36 of the GEM Listing Rules on the condition that the proposed independent non-executive Director appointments will be completed on or before 27 February 2015. The Company appointed Mr. Han Shaoli and Mr. Jiang Bin as independent non-executive Directors to replace the vacancies on 13 February 2015.

(4) Pursuant to Rule 5.14 of the GEM Listing Rules, the Company must appoint as its company secretary an individual who, by virtue of his academic or professional qualifications or relevant experience, is capable of discharging the functions of company secretary.

Mr. Leung Ting Yuk resigned as the company secretary with effect from 17 February 2015. Upon Mr. Leung Ting Yuk's resignation, the position of company secretary fell vacant. The Company appointed Mr. Sum Sui Lun as company secretary to replace the vacancy on 2 March 2015.

The Company will continue to review its corporate governance practices in order to enhance its corporate governance standard, to comply with the increasingly tightened regulatory requirements and to meet the rising expectations of shareholders and investors.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all the Directors, all the Directors confirmed that they have complied with the required standard of dealings and code of conduct concerning securities transactions by the directors throughout the year ended 31 December 2014.

## BOARD COMPOSITION

The Board comprises seven Directors, three of whom are executive Directors, one is a non-executive Director and three are independent non-executive Directors. The members of the Board throughout the year and up to the date of this report are as follows:

### Executive Directors

Ms. Xia Lu *(Chief Executive Officer)*
Mr. He Changsheng
Mr. Li Honglin

### Non-Executive Directors

Ms. Natsu Kumiko *(Chairman)*
Mr. Lau Sik Yuen *(Resigned on 29 December 2014)*

### Independent Non-Executive Directors

Mr. Chen Jinliang
Mr. Han Shaoli *(Appointed on 13 February 2015)*
Mr. Jiang Bin *(Appointed on 13 February 2015)*
Mr. Fong William *(Resigned on 5 January 2015)*
Mr. Ling Kit Wah Joseph *(Resigned on 20 October 2014)*

### Alternate Director

Ms. Dy Melanie *(alternate to Mr. Lau Sik Yuen, appointed by Mr. Lau Sik Yuen with effect from 19 October 2014 and removed by Mr. Lau Sik Yuen on 26 November 2014)*

The biographical details of the Directors and other senior management are disclosed in the section headed "Biographical Details of Directors and Senior Management" on pages 28 to 30 in this annual report. The composition of the Board is well balanced. Each of the Directors has relevant expertise and extensive corporate and strategic planning experiences that can contribute to the business of the Group. Save as disclosed in the paragraphs headed "CORPORATE GOVERNANCE PRACTICES" above, the Company has complied with Rules 5.05(1), 5.05(2) and 5.05A of the GEM Listing Rules throughout the year relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board, and at least one of them having appropriate professional qualifications or accounting or related financial management expertise. All independent non-executive Directors also met the guidelines for assessment of their independence pursuant to Rule 5.09 of the GEM Listing Rules. The Board has received an annual confirmation of independence from each of the independent non-executive Directors. The Company considers all the independent non-executive Directors to be independent.

## THE BOARD

The Board is responsible for the leadership and control of, and promoting the success of the Company. This is achieved by setting up corporate and strategic objectives and policies, and the monitoring and evaluations of operating activities and financial performance of the Company.

All the Directors carry out their duties in good faith and in compliance with applicable laws and regulations, taking decisions objectively and acting in the interests of the Company and its shareholders at all times.

The Chief Executive Officer (the "**CEO**") is the sister-in-law of the Chairman.

## RESPONSIBILITIES AND DELEGATION OF FUNCTIONS

The Company has formalised and adopted written terms on the division of functions reserved to the Board and those delegated to the management. The Board reserves for its decision all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary (the "**Company Secretary**") and senior management of the Company, with a view to ensuring compliance with Board procedures and all applicable laws and regulations. Any Director may request independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request being made to the Board. The day-to-day management, administration and operations of the Company are delegated to the CEO and senior management of the Company. The Board has delegated a schedule of responsibilities to these officers for the implementation of Board decisions. The Board periodically reviews the delegated functions and work tasks. Prior to entering into any significant transactions, the aforesaid officers have to obtain the Board's approval.

## COMPANY SECRETARY

For the year ended 31 December 2014, Mr. Leung Ting Yuk has received relevant professional trainings of not less than 15 hours to update his skills and knowledge.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to code provision A.2.1 of the Code, the roles of the Chairman and the CEO should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and the CEO should be clearly established and set out in writing. To ensure a balance of power and authority, the Company fully supports the division of responsibility between the Chairman and the CEO. The roles of the Chairman and the CEO are segregated and performed by Ms. Natsu Kumiko and Ms. Xia Lu, respectively.

## APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the executive Directors or the non-executive Director has entered into a service contract with the Company for an initial term of three years with effect from 3 September 2013, the date on which the shares of the Company were listed on the GEM of the Stock Exchange (the "**Listing Date**") which shall be renewed and extended automatically for successive terms of one year and may be terminated by either party by giving not less than three months' prior written notice to determine the same.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years commencing from (i) the Listing Date (in respect of Mr. Chen Jinliang) or (ii) 13 February 2015 (in respect of Mr. Jiang Bin and Mr. Han Shaoli), subject to termination in certain circumstances as stipulated in the relevant letters of appointment.

Mr. Ling Kit Wah Joseph, Mr. Lau Sik Yuen and Mr. Fong William have resigned on 20 October 2014, 29 December 2014 and 5 January 2015 respectively by giving written notice.

The Directors are subject to retirement by rotation in accordance with the Company's articles of association. According to the Company's articles of association, one-third of the Directors are required to retire from office at each annual general meeting, provided that every Director shall be subject to retirement by rotation at least once in every three years. The Directors to retire every year shall be those who have been longest in office since their last re-election or appointment.

## BOARD DIVERSITY POLICY

The Company adopted a board diversity policy (the "**Board Diversity Policy**") throughout the year ended 31 December 2014. A summary of this Board Diversity Policy, together with the measureable objectives set for implementing this Board Diversity Policy, and the progress made towards achieving those objectives are disclosed as below.

### Summary of the Board Diversity Policy

The Company recognised and embraced the benefits of having a diverse Board to the quality of its performance. The Board Diversity Policy aimed to set out the approach to achieve diversity on the Board. In designing the Board's composition, Board diversity has been considered from a number of measurable aspects including gender, age, ethnicity, knowledge and experience. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

### Measurable Objectives

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

### Implementation and Monitoring

The Nomination Committee reviewed the Board's composition under diversified perspectives, and monitored the implementation of the Board Diversity Policy annually.

The Nomination Committee has reviewed the Board Diversity Policy to ensure its effectiveness and considered that the Group achieved the Board Diversity Policy throughout the year ended 31 December 2014.

## BOARD MEETING, GENERAL MEETING AND PROCEDURES

The Board meets regularly and additional meetings are convened when necessary by the Board; 16 board meetings and 3 general meetings were held throughout the year ended 31 December 2014. The following is the Directors' attendance record of the board meetings held by the Board and the general meetings of the Company:

| | Number of attendance/ number of Board meetings | Number of attendance/ number of general meetings |
|---|---|---|
| Ms. Xia Lu | 16/16 | 1/3 |
| Mr. He Changsheng | 16/16 | 1/3 |
| Mr. Li Honglin | 16/16 | 1/3 |
| Ms. Natsu Kumiko | 15/16 | 1/3 |
| Mr. Lau Sik Yuen *(Resigned on 29 December 2014)* | 10/15 | 2/3 |
| Ms. Dy Melanie *(Alternate to Mr. Lau Sik Yuen, appointed by Mr. Lau Sik Yuen with effect from 19 October 2014 and removed by Mr. Lau Sik Yuen on 26 November 2014)* | 1/9 | 0/0 |
| Mr. Fong William *(Resigned on 5 January 2015)* | 15/16 | 3/3 |
| Mr. Chen Jinliang | 15/16 | 1/3 |
| Mr. Ling Kit Wah Joseph *(Resigned on 20 October 2014)* | 4/4 | 0/2 |
| Mr. Jiang Bin *(Appointed on 13 February 2015)* | 0/0 | 0/0 |
| Mr. Han Shaoli *(Appointed on 13 February 2015)* | 0/0 | 0/0 |

Board members were provided with complete, adequate and timely information to allow them to fulfill their duties properly.

Schedules for annual Board meetings and draft agenda of each Board meeting are sent to all Directors in advance. Notice of at least 14 days is given for a regular Board meeting. For other Board and committee meetings, reasonable notice is generally given. Board papers together with all appropriate, complete and reliable information are dispatched to all Directors at least three days before each regular Board meeting to ensure that the Directors have sufficient time to review the related documents and be adequately prepared for the meeting (save as disclosed in the paragraphs headed "CORPORATE GOVERNANCE PRACTICES" above).

The Company Secretary is responsible for keeping minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to all Directors for comments within a reasonable time after each meeting and the final versions are open for Directors' inspection. The Company's articles of association contains provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

## CONTINUOUS PROFESSIONAL DEVELOPMENT

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group and such induction materials will also be provided to newly appointed Directors shortly upon their appointment as Directors. All Directors have been updated on the latest developments regarding the GEM Listing Rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. Continuing briefings and professional development to Directors will be arranged whenever necessary.

Pursuant to code provision A.6.5 of the Code, for the financial year ended 31 December 2014, all Directors had participated in continuous professional development in the following manner:

| | **Type of trainings** |
|---|---|
| Ms. Xia Lu | B, C |
| Mr. He Changsheng | B, C |
| Mr. Li Honglin | B, C |
| Ms. Natsu Kumiko | C |
| Mr. Lau Sik Yuen *(Resigned on 29 December 2014)* | A, B, C |
| Mr. Fong William *(Resigned on 5 January 2015)* | A, B, C |
| Mr. Chen Jinliang | C |
| Mr. Ling Kit Wah Joseph *(Resigned on 20 October 2014)* | A, B, C |
| Mr. Jiang Bin *(Appointed on 13 February 2015)* | C |
| Mr. Han Shaoli *(Appointed on 13 February 2015)* | C |

A: attending internal briefing session in relation to corporate governance
B: attending seminars/courses/conference to develop professional skills and knowledge
C: reading materials in relation to regulatory update

## BOARD COMMITTEES

The Board has established three board committees, namely the audit committee (the "**Audit Committee**"), remuneration committee (the "**Remuneration Committee**") and nomination committee (the "**Nomination Committee**"), with written terms of reference which are available for viewing on the website of the Stock Exchange and the Company to assist them in the efficient implementation of their functions. Specific responsibilities have been delegated to the above committees.

## AUDIT COMMITTEE

The Company established the Audit Committee on 9 August 2013 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and the Code. The primary duties of the Audit Committee are mainly to review the accounting policy, financial position and financial reporting procedures of the Company; to communicate with external audit firms; to assess the performance of internal financial and audit personnel; and to assess the internal control of the Company.

As disclosed in the paragraphs headed "CORPORATE GOVERNANCE PRACTICES" above, upon the resignations of Mr. Ling Kit Wah Joseph and Mr. Fong William with effect from 20 October 2014 and 5 January 2015 respectively, the Company could not comply with Rule 5.28 of the GEM Listing Rules relating to the Audit Committee to be chaired by an independent non-executive Director and comprising a minimum of three members, at least one of whom is an independent non-executive Director meeting the requirements set out in Rule 5.05(2) of the GEM Listing Rules. The Company appointed Mr. Han Shaoli and Mr. Jiang Bin to replace the vacancies on 13 February 2015.

As at the date of this report, the Audit Committee has three members comprising Mr. Jiang Bin (Chairman), Mr. Chen Jinliang, and Mr. Han Shaoli. The Audit Committee had reviewed the final results of the Group for the year ended 31 December 2014, the annual report of the Group for the year ended 31 December 2014, interim results and report for the six months ended 30 June 2014, the quarterly results and reports for the periods ended 31 March 2014 and 30 September 2014. The Audit Committee had reviewed the Group's internal control system for the year. The Group's final results for the year ended 31 December 2014 had been reviewed by the Audit Committee before submission to the Board for approval. Members of the Audit Committee were of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules and that adequate disclosure have been made.

The change of the members of the Audit Committee during the year ended 31 December 2014 and up to the date of this report and the attendance of each member at the Audit Committee meetings held during the year ended 31 December 2014 are set out below. Figures on the right indicate the maximum number of meetings held in the period in which the individual was a member of the Audit Committee during the year ended 31 December 2014.

| | **Number of attendance/ number of meetings** |
|---|---|
| Mr. Fong William *(Resigned on 5 January 2015)* | 4/4 |
| Mr. Chen Jinliang | 4/4 |
| Mr. Ling Kit Wah Joseph *(Resigned on 20 October 2014)* | 3/3 |
| Mr. Jiang Bin *(Appointed on 13 February 2015)* | 0/0 |
| Mr. Han Shaoli *(Appointed on 13 February 2015)* | 0/0 |

## REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 9 August 2013 with written terms of reference in compliance with the Code. The primary duties of the Remuneration Committee include mainly: (i) reviewing the terms of the remuneration package of each Director and member of senior management, (ii) reviewing and evaluating the performance of individual executive Directors for determining the amount of bonus (if any) payable to them, and (iii) making recommendations to the Board on remuneration packages of individual executive Directors and senior management and remuneration of non-executive Directors.

As at the date of this report, the Remuneration Committee has three members comprising Mr. Han Shaoli (Chairman), Mr. He Changsheng and Mr. Chen Jinliang. The remuneration of the Directors was determined with reference to their respective experience, responsibilities with the Group and general market conditions. Throughout the year ended 31 December 2014, one meeting of the Remuneration Committee was held to review the remuneration package of the Directors and senior management of the Group.

The change of the members of the Remuneration Committee during the year ended 31 December 2014 and up to the date of this report and the attendance of each member at the Remuneration Committee meeting held during the year ended 31 December 2014 are set out below. Figures on the right indicate the maximum number of meetings held in the period in which the individual was a member of the Remuneration Committee during the year ended 31 December 2014.

| | **Number of attendance/ number of meeting** |
|---|---|
| Mr. Han Shaoli *(Appointed on 13 February 2015)* | 0/0 |
| Mr. Ling Kit Wah Joseph *(Resigned on 20 October 2014)* | 1/1 |
| Mr. He Changsheng | 1/1 |
| Mr. Chen Jinliang | 1/1 |

## NOMINATION COMMITTEE

The Company established the Nomination Committee on 9 August 2013 with written terms of reference in compliance with the Code. The primary duties of the Nomination Committee include the review of the structure, size and composition (including the skills, knowledge and experience) of the Board on at least annually and to make recommendations on any proposed change to the Board to complement the Company's corporate strategy, identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, and assess the independence of independent non-executive Directors. In reviewing and recommending the appointment of new Directors, the Nomination Committee would seek to identify the competencies required to enable the Board to fulfill its responsibilities. The Nomination Committee reviews the Board's composition under diversified perspectives, and monitors the implementation of the Board Diversity Policy annually.

As at the date of this report, the Nomination Committee has three members comprising Mr. Chen Jinliang (Chairman), Mr. Jiang Bin and Ms. Xia Lu. Throughout the year ended 31 December 2014, one meeting of the Nomination Committee was held to review the structure, composition of the Board and the succession plan for the Board.

The change of the members of the Nomination Committee during the year ended 31 December 2014 and up to the date of this report and the attendance of each member at the Nomination Committee meeting held during the year ended 31 December 2014 are set out below. Figures on the right indicate the maximum number of meetings held in the period in which the individual was a member of the Nomination Committee during the year ended 31 December 2014.

| | **Number of attendance/ number of meeting** |
|---|---|
| Mr. Chen Jinliang | 1/1 |
| Mr. Fong William *(Resigned on 5 January 2015)* | 1/1 |
| Ms. Xia Lu | 1/1 |
| Mr. Jiang Bin *(Appointed on 13 February 2015)* | 0/0 |

## CORPORATE GOVERNANCE

The Board is entrusted with the overall responsibility of developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board; reviewing and monitoring the training and continuous professional development of the Directors and senior management; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to the Company's employees and Directors; and reviewing the Company's compliance with the Code and disclosure in the Corporate Governance Report.

Throughout the year ended 31 December 2014, the Board reviewed and monitored the training and continuous professional development of the Directors and Company Secretary to comply with the Code and the GEM Listing Rules. Further, the Board also reviewed and monitored the Group's policies and practices on compliance with legal and regulatory requirements and noted that the Group has complied with the relevant legal and regulatory requirements in all material respects for the year (save as disclosed in the paragraphs headed "CORPORATE GOVERNANCE PRACTICES" above). The Board noted the non-compliance incidents in respect of certain loan transactions to a connected person and has considered and implemented new measures on the internal control system. The Board also reviewed the employees manual applicable to the employees of the Company. Lastly, the Board reviewed the Company's compliance with the Code and the disclosure of the Corporate Governance Report.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's financial statements for each financial year and to ensure that the financial statements are prepared in accordance with statutory requirements and applicable accounting standards. The statement by the auditors of the Company about their responsibilities for the financial statements is set out in the Independent Auditor's Report contained in this annual report. The Board also ensures the timely publication of the financial statements. The Directors, having made appropriate enquiries, confirm that they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

## INDEPENDENT AUDITOR'S REMUNERATION

The amount of fees charged by the auditors generally depends on the scope and volume of the auditors' work. For the year ended 31 December 2014, the remuneration paid or payable to the auditors of the Company in respect of the statutory audit services was approximately HK$1,699,000 (equivalent to approximately 1,353,000) (2013: HK$1,000,000 (equivalent to approximately RMB792,000)) and non-audit services was nil (2013: approximately HK$2,328,000 (equivalent to approximately RMB1,844,000)).

## INTERNAL CONTROL

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets. The internal control system of the Group aims to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The senior management shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the Audit Committee on any findings and measures to address the variances and identified risks.

The Board has conducted review of its internal control system to ensure an effective and adequate internal control system in place. The Directors consider that the Company has implemented a series of procedures for safeguarding the Company's assets against unauthorised use or misappropriation, maintaining accounting records properly and ensuring the reliability of financial information.

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company has established a range of communication channels between itself and its shareholders, and investors. These include answering questions through the annual general meeting, the publication of annual, interim and quarterly reports, notices, announcements and circulars, the Company's website at www.zmfy.com.hk and meetings with investors and analysts.

## SHAREHOLDERS' RIGHT

As one of the measures to safeguard shareholders' interest and rights, separate resolutions can be proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. All resolutions put forward at shareholders' meeting will be voted by poll pursuant to the GEM Listing Rules and the poll voting results will be posted on the GEM website and the Company's website after the relevant shareholders' meeting.

### Procedures for shareholders to convene an extraordinary general meeting

Pursuant to article 64 of the articles of association of the Company, an extraordinary general meeting of the Company ("**EGM**") may be convened by the Board on requisition of one or more shareholders (the "**Requisitionist(s)**") holding at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meeting (the "**Requisition**"). Such Requisition shall be made in writing to the Directors or the Company Secretary and sent to the Company's principal place of business in Hong Kong (details of which are set out in the section headed "Corporate Information" of this annual report). For the purpose of requiring an EGM to be called by the Directors, such Requisition must state the object of business to be transacted at the meeting and must be signed by the Requisitionists. The EGM shall be held within two months after the deposit of such Requisition. If the Board fails to proceed to convene such EGM within 21 days of the deposit of such Requisition, the Requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to the Requisitionist(s) by the Company.

### Procedures for raising enquiries

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's Hong Kong branch share registrar (details of which are set out in the section headed "Corporate Information" of this annual report).

For putting forward any enquiries to the Board, shareholders may send written enquiries to the Company. Shareholders may send their enquiries or requests in respect of their rights to the Company's principal place of business in Hong Kong.

Shareholders are reminded to lodge their questions together with their detailed contact information for prompt response from the Company if it deems appropriate.

### Procedures and contact details for putting forward proposals at shareholders' meetings

To put forward proposals at a general meeting of the Company, shareholder should lodge a written notice of his/her/its proposal (the "**Proposal**") with his/her/its detailed contact information to the Company's principal place of business in Hong Kong.

The identity of such shareholder and his/her/its request will be verified with the Company's Hong Kong branch share registrar and upon confirmation by the Hong Kong branch share registrar that the request is proper and in order and made by a shareholder of the Company, the Board will determine in its sole discretion whether the Proposal may be included in the agenda for the general meeting to be set out in the notice of meeting.

The notice period to be given to all the shareholders of the Company for consideration of the Proposal raised by such shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

(1) Notice of not less than 21 clear days and not less than 20 clear business days in writing if the Proposal requires approval in an annual general meeting;

(2) Notice of not less than 21 clear days and not less than 10 clear business days in writing if the Proposal requires approval by way of a special resolution in an extraordinary general meeting; and

(3) Notice of not less than 14 clear days and not less than 10 clear business days in writing if the Proposal requires approval in an extraordinary general meeting other than by way of a special resolution of the Company.

The Group has no significant change in constitutional documents during the year.

## DIRECTORS

### Executive Directors

**Ms. Xia Lu (夏路)**, aged 56, is the founder of the Group, and was appointed as the Director on 8 February 2013 and redesignated as an executive Director on 28 February 2013. Ms. Xia is also the chief executive officer of the Company, a member of the Nomination Committee and is a director of certain subsidiaries of the Group. Ms. Xia was one of the founders of the Group and is responsible for the Group's overall strategic planning, business development, day-to-day operational management and administration. Ms. Xia graduated with a bachelor's degree at 北京師範學院中文系 (Chinese Department of Beijing Normal College*) in 1981, and in 1991 she also obtained a postgraduate degree in political economics (政治經濟學) from 北京師範大學 (Beijing Normal University*). Ms. Xia has approximately 23 years of experience in the automobile glass industry. Prior to setting up the Group in 1999, Ms. Xia developed the automobile glass business through operation of an automobile glass entity where she accumulated practical operating and management experience in the automobile glass installation/repair service industry. Ms. Xia founded the Group in 1999, and has devoted herself to the continuous development of the Group and played a significant role in the growth of the Group's business. Ms. Xia is the sister-in-law of Ms. Natsu.

**Mr. He Changsheng (賀長生)**, aged 56, is an executive Director appointed on 28 February 2013. Mr. He is also a member of the Remuneration Committee and is a director of certain subsidiaries of the Group. Mr. He is responsible for managing the Group's overall operation and supervising the Group's procurement of the Group. Mr. He obtained a bachelor's degree in mechanical engineering from 清華大學分校 (Tsinghua University (Branch School)*) in January 1983. He was qualified as an engineer in March 1989. Mr. He has more than 10 years of experience in automobile glass and fitting industry. Mr. He joined the Group in 1999 as deputy general manager. Since then, Mr. He has devoted himself to the continuous development of the Group and played a significant role in the growth of the Group's business. Before joining the Group, Mr. He worked as division manager of the technology department of 北京市出租汽車公司第三分公司 (Beijing Taxi Company Third Branch*) from 1983 to 1991, which was later renamed as 北京市出租汽車集團有限責任公司 (Beijing Taxi Group Company Limited*).

**Mr. Li Honglin (李洪林)**, aged 51, is an executive Director appointed on 28 February 2013. Mr. Li is also the compliance officer of the Company and is a director of certain subsidiaries of the Group. Mr. Li is responsible for the Group's management of the technical support department and the operation of a subsidiary in Tianjin and other branches. Mr. Li joined the Group in 1999 as the business manager. Since then, Mr. Li has devoted himself to the continuous development of the Group and played a significant role in the growth of the Group's business. Before joining the Group, Mr. Li worked in 崇文區(糧食部) (government's food department in Beijing*) from 1979 to 1999. Mr. Li Honglin graduated with a high school certificate at 河北冀州市中學 (Jizhou City High School, Hebei Province*) in 1979.

### Non-executive Directors

**Ms. Natsu Kumiko (夏久美子)**, formerly known as Ms. Kondo Kumiko (近藤久美子), aged 35, is a non-executive Director appointed on 28 February 2013. She was appointed as the Chairman of the Board on 9 August 2013. She is also one of the controlling shareholders of the Company. Ms. Natsu is taking part in the planning of the Group's business development. She obtained an examination certificate from the Ministry of Education, Culture, Sports, Science and Technology, Japan, in September 2002. She has approximately ten years of management experience in trading industry. Ms. Natsu is the sister-in-law of Ms. Xia. Before joining the Group, Ms. Natsu carried on her own business and set up KIT Limited in 2003 engaging in trading business, she also set up KIT USA Co., Ltd. in 2011 which engaged in the media business including operating magazines, map publishing and websites.

Ms. Natsu is interested in 220,000,000 shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**") as at 31 December 2014.

* *For identification purpose only*

## Independent non-executive Directors

**Mr. Jiang Bin (姜斌)**, aged 44, is an independent non-executive Director appointed on 13 February 2015. Mr. Jiang is also a member of the Nomination Committee and the chairman of the Audit Committee. Mr. Jiang has over 15 years of professional experiences in accounting, auditing and financial consulting. Mr. Jiang obtained a bachelor degree in economics from Renmin University of China in July 1993. He obtained a master degree in money and banking from Graduate School of Chinese Academy of Social Sciences in April 1999. He obtained the qualification of Chinese Certified Public Accountant in 1999. Mr. Jiang worked as an assistant accountant, chief accountant and assistant general manager in 北辰國際經濟技術合作公司 (Beijing North Star International Economy Technical Collaboration Company*) from August 1993 to January 1996. He worked as an assistant auditor, project manager, senior project manager and audit manager in 中華會計師事務所 (Beijing ZhongHua Certified Public Accountants*) from January 1996 to October 2000. He worked as a department manager of the audit department, deputy general manager and vice chief accountant in 中瑞岳華會計師事務所有限公司 (Beijing Office of RSM China Certified Public Accountants*) from October 2000, and has been a partner since 2007. He was also an independent non-executive director of Shunfeng International Clean Energy Limited (stock code: 1165), a company listed on the Main Board of the Stock Exchange, from February 2013 to July 2013.

**Mr. Han Shaoli (韓少立)**, aged 44, is an independent non-executive Director appointed on 13 February 2015. Mr. Han is also a member of the Audit Committee and the chairman of the Remuneration Committee. Mr. Han obtained a bachelor degree in automotive engineering from Wuhan University of Technology in June 1993. He taught at the Wuhan University of Technology from July 1993 to April 1997. Mr. Han worked as the intermediate underwriter of Hubei Branch of 中國平安財產保險股份有限公司 (Ping An Property & Casualty Insurance Company of China Ltd.*) from April 1997 to March 2000. He worked as the manager of the automobile insurance department in the Beijing Branch of 華泰財產保險股份有限公司 (Huatai Insurance Company of China Limited*) from March 2000 to March 2004. Mr. Han worked as the general manager of 廣州同益保險公估有限公司 (Guangzhou Tongyi Insurance Assessment Limited*) from March 2004 to June 2006. He worked as the deputy managing director and managing director of 廣州天信保險公估有限公司 (Guangzhou Tianxin Insurance Assessment Limited*) from June 2006 to May 2010. Mr. Han was engaged in the claims quality management in the Auto Accident and Health Claim Department Claims Centre in the headquarters of 中國平安財產保險股份有限公司 (Ping An Property & Casualty Insurance Company of China Ltd.*) from August 2010 to November 2011. He has worked as a manager of the Auto Accident and Health Claim Department Claims Centre in the Hubei Branch of 中國平安財產保險股份有限公司 (Ping An Property & Casualty Insurance Company of China Ltd.*) since November 2011.

**Mr. Chen Jinliang (陳金良)**, aged 57, is an independent non-executive Director appointed on 9 August 2013. Mr. Chen is also the chairman of the Nomination Committee and a member of each of the Remuneration Committee and Audit Committee. Mr. Chen obtained a bachelor's degree in economics management from 北京市委黨校 (Beijing Municipal Party Committee College*) in 1991. He then obtained a postgraduate degree in monetary banking in 中國人民大學 (Renmin University of China*) in March 1999. In July 2003, Mr. Chen obtained another postgraduate degree in economics management in 北京市委黨校 (Beijing Municipal Party Committee College*). Mr. Chen has more than 8 years of experience in the retail banking industry. Mr. Chen joined 中國光大銀行 (China Everbright Bank*) as a sub-branch manager in August 1999, and then was promoted to become the branch manager and the party secretary of 中國光大銀行 (China Everbright Bank*) in April and August 2007, respectively, where he was responsible for overseeing the overall operations of the branch. Then he served as the Beijing branch manager of 大連銀行 (Bank of Dalian*). After which, he has become the chairman of 北京飛龍融資租賃有限公司 (Beijing Hover Dragon Financial Leasing Co., Ltd.*) since April 2013 till now. He was awarded 全國金融五一勞動獎章 (National Financial Labour Award*) and 全國五一勞動獎章 (National Labour Award*) in April 2002 and 2003, respectively.

* *For identification purpose only*

## SENIOR MANAGEMENT

**Mr. Yu Fei (于飛)**, aged 43, is the manager of the sales and marketing department of the Group. Mr. Yu has approximately 17 years of experience in the automobile glass industry. Mr. Yu joined the Group in 1996 as a manager of the marketing and insurance department of the Group. He is currently responsible for strategic planning on sales and marketing of the Group, as well as business development and insurance settlement with insurance companies. Mr. Yu obtained a bachelor's degree in corporate management from the 中央財經大學 (Central University of Finance and Economics*), then known as 中央財政金融學院 (Central University of Finance*) in July 1996. Mr. Yu is the nephew of Ms. Xia.

**Ms. Bai Wen (白雯)**, aged 51, is the manager of the finance department of the Group. Ms. Bai has approximately 6 years of experience in the automobile glass industry. Ms. Bai is also a director of 北京正美豐業汽車服務有限公司 (Beijing Zhengmei Fengyi Automobile Service Co., Ltd.*), a subsidiary of the Group. Ms. Bai joined the Group in April 2007 as an accounting manager of the financial department. She is currently responsible for managing the finance department and preparing financial statements of the Group. Ms. Bai obtained a bachelor's degree in accounting from 中國人民大學 (Remin University of China*) in July 2000.

**Mr. Lau Shing (劉成)**, aged 58, is the deputy general manager and capital operation manager of the Group. Mr. Lau has approximately 20 years of experience in corporate administration, financial and capital management and investment management in various industries. Mr. Lau joined the Group in July 2012 as the deputy general manager and capital operation manager and is currently responsible for strategic planning, development, budgeting, and capital operation. Mr. Lau graduated with a bachelor's degree in geological and mineral exploitation from 長春地質學院 (Changchun College of Geology*) in January 1982. He also completed the Financial Advisers' International Qualification of the Chartered Insurance Institute in June 2008. Prior to joining the Group in July 2012, Mr. Lau worked as an assistant engineer at 中華人民共和國地質礦產部 (Ministry of Geology and Mineral Resources*) in July 1983 and was promoted to the position of engineer in August 1988. He then accumulated management experience in various industries such as financial services, investments and entertainment during the year of 1990 to 2001. In December 2002, Mr. Lau acted as a dealer's representative of AIG Financial Advisor Services, Limited. He then joined Tralaco Technology Limited as managing director from January 2005 to August 2007. In March 2007, he joined TG Holborn (HK) Limited as a consultant. He also subsequently acted as a representative for TG Holborn (HK) Limited which is licensed to carry out type 4 (advising on securities) regulated activity under SFO. He was appointed as one of the 32nd session council members of the Hopeh and Shantung Natives (H.K.) Association in August 2010.

**Mr. Sum Sui Lun (沈瑞麟)**, aged 43, is the company secretary and chief financial officer of the Company. Mr. Sum graduated from the University of Adelaide, Australia in 1993 with a bachelor degree in commence. He has over 20 years of experience in audit area, and is an associate member of CPA Australia and the Hong Kong Institute of Certified Public Accountants since 2000 and 2002 respectively. He worked as a senior manager in an international audit firm from 1997 to 2007 and another international audit firm from 2007 to 2010, during which he was manager-in-charge for the auditing work of various listed companies and initial public offering projects. Mr. Sum then worked as the corporate controller of both Duoyuan Global Water Inc. and Duoyuan Printing Inc., companies which were formerly listed on the New York Stock Exchange, from May 2010 to December 2014.

* *For identification purpose only*

The Directors are pleased to present their report and the audited financial statements of ZMFY Automobile Glass Services Limited (the "**Company**") and its subsidiaries (together, the "**Group**") for the year ended 31 December 2014.

## Comparison of Business Objectives with Actual Business Progress

The following is a comparison of the Group's business objectives as set out in the Company's prospectus dated 27 August 2013 (the "**Prospectus**") with actual business progress up to 31 December 2014.

| Business objectives | Planned progress up to 31 December 2014 | Actual business progress up to 31 December 2014 |
|---|---|---|
| **Expand the existing business of the Group by setting up new service centres in China** | To set up new service centres in Beijing (1), Tianjin (2), Hangzhou (1) and Shenyang (1) | The Group has established one service centre in Hangzhou, two service centres in Beijing and one new service centre in Tianjin up to 31 December 2014 with aggregate capital spending on these four new service centres amounting to approximately RMB7,230,000 (equivalent to approximately HK$9,100,000) as at 31 December 2014, mainly covering purchase of inventories, rental deposit, decoration, purchase of fixed assets. One of the newly set up service centres in Beijing in 2014 replaced the proposed location in Tianjin formerly stated in the Prospectus. Meanwhile, the Group is searching for a suitable location to establish another service centre in Shenyang as stated in the Prospectus. |
| **Explore merger and acquisition opportunities and business collaboration opportunities with partners in the automobile glass installation/repair service industry** | To select merger or acquisition targets in the southern part of China such as Shenzhen and Guangzhou – the Directors believe such merger or acquisition can strengthen the Group's network of service centres in strategic locations, increase the Group's market share and conform to the Group's brand image | On 15 January 2014, the Group has completed the acquisition of 100% equity interest in Shenzhen Xinyida Automobile Glass Company Limited, which is located in Shenzhen and is principally engaged in the sales of automobile glass with installation/repair services and the trading of automobile glass in China. The total consideration for the acquisition amounted to RMB16.0 million (equivalent to approximately HK$20.4 million). An excess amount of HK$9.5 million was funded by the Group's internal working capital. |
| | To explore business cooperation opportunities such as forming alliance or joint venture with local industry partners for setting up new service centre(s) in second or third-tier cities | |
| **Enhance marketing activities to promote brand awareness and broaden the Group's customer base** | To enhance brand awareness through increasing advertising activities through various media, including radio, advertising displays on the internet and press releases | The Group has spent approximately RMB736,000 (equivalent to approximately HK$925,000) for advertising on radio to promote the Group's brand image and enhance its reputation. |

## USE OF PROCEEDS

On 3 September 2013, the Company issued 100,000,000 new shares by placing for listing (the "**Share Placing**"). All such shares issued were ordinary shares and the 100,000,000 new shares were issued at HK$0.45 per share. The net proceeds of the Share Placing received by the Company were approximately HK$32,639,000 (equivalent to approximately RMB25,761,000).

During the period from the latest practicable date (the "**LPD**") (as defined in the Prospectus) to 31 December 2014, the net proceeds from the Share Placing had been applied as follows:

| | Business objectives as stated in the Prospectus for the period from the LPD to 31 December 2014 | Planned use of proceeds as stated in the Prospectus from the LPD to 31 December 2014 (HK$ million) (Note) | Actual use of proceeds from the LPD to 31 December 2014 (HK$ million) |
|---|---|---|---|
| 1. | Setting up new service centres | 11.2 | 9.1 |
| 2. | Merger, acquisitions and business collaboration | 10.9 | 10.9 |
| 3. | General working capital | 2.3 | 2.3 |
| Total | | 24.4 | 22.3 |

Note: This sum represents an aggregate amount of the planned use of proceeds as stated in the Prospectus from the LPD to 31 December 2014 being adjusted based on the amount of actual net proceeds in the same manner and proportion as shown in the Prospectus.

The Directors will constantly evaluate the Group's business objectives and will change or modify plans against the changing market condition to ascertain the business growth of the Group.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries are principally engaged in the sales of automobile glass with installation/repair services and the trading of automobile glass in China. The principal activities and other particulars of the Company's subsidiaries are set out in note 15 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group are set out in the consolidated statement of comprehensive income on pages 46 to 47.

The Directors did not recommend the payment of a dividend for the year ended 31 December 2014.

## RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in note 22 to the consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 12 to the consolidated financial statements.

## CAPITALISATION OF INTEREST

The Group has no interest capitalised during the year.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 21 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2014, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB190,693,000 (2013: RMB124,635,000) as set out in note 22 to the consolidated financial statements.

## CLOSURE OF THE REGISTER OF MEMBER

The register of members of the Company will be closed from Friday, 8 May 2015 to Tuesday, 12 May 2015, both dates inclusive, during which period no transfer of shares (the "**Shares**") of the Company could be registered for determination of entitlement of shareholders of the Company to the attendance at the forthcoming annual general meeting of the Company.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the past five financial years, as extracted from the audited financial statements in this annual report and the Prospectus is set out on page 112 of this annual report. This summary does not form part of the audited consolidated financial statements.

## INTERESTS OF THE COMPLIANCE ADVISER

As notified by Quam Capital Limited ("**Quam Capital**"), the compliance adviser of the Company, except for the compliance adviser agreement entered into between the Company and Quam Capital dated 13 August 2013 and the financial adviser agreement entered into between the Company and Quam Capital in relation to a connected transaction regarding the issue of new shares to a substantial shareholder of the Company as disclosed in the announcement of the Company dated 28 March 2014, neither Quam Capital nor its directors, employees or close associates (as defined under the GEM Listing Rules) had any interests in relation to the Company or any member of the Group which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules as at 31 December 2014.

## PRE-EMPTIVE RIGHTS

There are no provisions 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.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 32.1% (2013: 33.8%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 13.2% (2013: 14.6%) of the total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 45.6% (2013: 48.9%) of the total purchase for the year and goods supplied from the Group's largest supplier included therein amounted to approximately 21.4% (2013: 27.5%) of the total purchase for the year. A substantial shareholder of the Company, Xinyi Glass Holdings, through Xinyi Glass (BVI), is one of the top 5 suppliers.

Save for as disclosed above, none of the Directors or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

## SHARE OPTION SCHEME

The share option scheme enables the Company to grant options to any full-time or part-time employees of the Company or any members of the Group (the "**Participants**"). The purpose of the Scheme is for the Group to reward, retain and motivate the Participants to strive for future development and expansion of the Group. The Company conditionally adopted a share option scheme (the "**Scheme**") on 9 August 2013 whereby the Board are authorised, at their absolute discretion and subject to the terms of the Scheme, to grant options to subscribe for the shares of the Company to the Participant. The Scheme will be valid and effective for a period of ten years commencing from the date on which the Scheme is adopted.

As at the date of this report, the total number of shares available for issue under the Scheme is 40,000,000 shares, representing 7.55% of the issued share capital of the Company.

Upon acceptance of an option to subscribe for shares granted pursuant to the Scheme (the "**Option**"), the Participant shall pay HK$1.00 to the Company by way of consideration for the grant. The Option will be offered for acceptance for a period of 28 days from the date on which the Option is granted. The subscription price for the shares under the Scheme will be a price determined by the Board in its absolute discretion at the time of grant of the relevant Option and notified to each Participant and shall be no less than the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the date on which the relevant Option is granted which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which the relevant Option is granted; and (iii) the nominal value of a share of the Company.

The Company shall be entitled to issue options, provided that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme does not exceed 10% of the shares in issue from the Listing Date. The Company may at any time refresh such limit, subject to the shareholders' approval and issue of a circular in compliance with the GEM Listing Rules, provided that the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the shares in issue at the time. An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof. Unless otherwise determined by the Board, there is no minimum period for which an Option must be held before it can be exercised.

Subject to the provisions of the Scheme, the total number of Shares issued and to be issued upon exercise of the Options granted to each Participant (including exercised, cancelled and outstanding Options) in any 12-month period shall not exceed 1% of the relevant class of securities of the Company in issue.

Since the adoption of the Scheme, no share options have been granted, exercised, lapsed or cancelled, and as at 31 December 2014, no share options under the Scheme were outstanding.

## DIRECTORS

The directors during the year and up to the date of this report were:

### Executive Directors

Ms. Xia Lu *(Chief Executive Officer)*
Mr. He Changsheng
Mr. Li Honglin

### Non-Executive Directors

Ms. Natsu Kumiko *(Chairman)*
Mr. Lau Sik Yuen *(Resigned on 29 December 2014)*

### Independent Non-Executive Directors

Mr. Chen Jinliang
Mr. Han Shaoli *(Appointed on 13 February 2015)*
Mr. Jiang Bin *(Appointed on 13 February 2015)*
Mr. Fong William *(Resigned on 5 January 2015)*
Mr. Ling Kit Wah Joseph *(Resigned on 20 October 2014)*

### Alternate Director

Ms. Dy Melanie *(alternate to Mr. Lau Sik Yuen, appointed by Mr. Lau Sik Yuen with effect from 19 October 2014 and removed by Mr. Lau Sik Yuen on 26 November 2014)*

Pursuant to Article 84(1) of the Company's article of association, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation and shall be eligible for re-election. Every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Pursuant to Article 83(3) of the Company's articles of association, any Director appointed by the Board to fill casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting.

By virtue of Articles 84(1) and 83(3) of the articles of the association of the Company, Ms. Xia Lu, Ms. Natsu Kumiko, Mr. Jiang Bin and Mr. Han Shaoli will retire at the forthcoming annual general meeting. Ms. Xia Lu, Ms. Natsu Kumiko, Mr. Jiang Bin and Mr. Han Shaoli, being eligible, will offer themselves for re-election at the annual general meeting.

## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and senior management of the Group are disclosed in the section headed "Biographical Details of Directors and Senior Management" on pages 28 to 30 of this annual report.

## DIRECTORS' SERVICE AGREEMENTS

Each of the executive Directors or the non-executive Director has entered into a service contract with the Company for an initial term of three years with effect from the Listing Date, all of which shall be renewed and extended automatically for successive terms of one year unless and until terminated by not less than three months' prior notice in writing served by either party on the other or by payment of three months' fixed salary in lieu of such notice to determine the same.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years commencing from (i) the Listing Date (in respect of Mr. Chen Jinliang) or (ii) 13 February 2015 (in respect of Mr. Jiang Bin and Mr. Han Shaoli), all of which shall be automatically renewed and extended for successive terms of one year and may be terminated by either party by giving at least three months' written notice. The appointments are subject to the provisions of the articles of association with regard to vacation of office of directors, removal and retirement by rotation of directors.

Apart from the foregoing, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in note 8 to the consolidated financial statements of this annual report, none of the Directors or controlling shareholders or any of their subsidiaries had material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2014.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2014, the Directors were not aware of any business or interest of each of the Directors, controlling shareholders and their respective close associates (as defined in the GEM Listing Rules) that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

## NON-COMPETITION UNDERTAKING

On 9 August 2013, the Company has entered into a Deed of Non-competition Undertaking with Ms. Natsu Kumiko and Lu Yu Global Limited ("**Lu Yu**") (collectively, the "**controlling shareholders**"), in favour of the Group pursuant to which each of the controlling shareholders irrevocably and unconditionally covenants and undertakes with the Company that, during the period from the Listing Date and up to the date on which the controlling shareholders and/or her/its associates cease to beneficially own (i) more than 30% of the issued share capital of the Company or (ii) any interests in the direct or indirect corporate shareholders of the Company which in turn beneficially own more than 30% of the issued share capital of the Company, each of the controlling shareholders shall not, and shall procure that none of her/its associates shall, directly or indirectly, establish, invest, involve in, engage in, manage, operate or otherwise hold any right or interest, directly or indirectly, in the business of provision of automobile glass installation/repair services and the trading of automobile glass in China, and such other business conducted or carried on by the Group from time to time within China and such other places as the Group may conduct or carry on business from time to time.

The Deed of Non-competition Undertaking has become effective from 3 September 2013.

The Company has received the confirmation from the controlling shareholders in respect of their compliance with the terms of the Deed of Non-competition Undertaking for the year ended 31 December 2014.

The independent non-executive Directors has reviewed and confirmed that the controlling shareholders have complied with the Deed of Non-competition Undertaking and the Deed of Non-competition Undertaking has been enforced by the Company in accordance with its terms for the year ended 31 December 2014.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2014, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meanings of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange, pursuant to the required standard of dealings by directors of listed issuer referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

### Long positions in the ordinary Shares of the Company (the "Shares") and underlying Shares of the Company

| Name of director | Nature of interest | Number of Shares and underlying Shares held | Approximate percentage of shareholding (%) |
|---|---|---|---|
| Natsu Kumiko | Interest in a controlled corporation | 220,000,000 (Note 1) | 41.5 |

Note:

(1) Lu Yu Global Limited ("**Lu Yu**"), a company incorporated in the BVI on 21 April 2011 and an investment holding company, is wholly and beneficially owned by Ms. Natsu Kumiko ("**Ms. Natsu**") and Ms. Natsu is a non-executive Director and the Chairman of the Company. Ms. Natsu is deemed to be interested in 220,000,000 Shares held by Lu Yu by virtue of her 100% shareholding interest in Lu Yu.

Save as disclosed above, as at 31 December 2014, none of the Directors and chief executive of the Company had any other interests or short positions in any Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer referred to Rule 5.46 of the GEM Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as is known to the Directors, as at 31 December 2014, the following persons (not being a Director or chief executive of the Company) had, or were deemed to have interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

### Long positions in the Shares and underlying Shares of the Company

| Name of shareholder | Nature of interest | Number of Shares and underlying Shares held | Approximate percentage of shareholding (%) |
|---|---|---|---|
| Lu Yu (Note 1) | Beneficial owner | 220,000,000 | 41.5 |
| Xia Chengzhen (Note 2) | Interest of spouse | 220,000,000 | 41.5 |
| Xinyi Automobile Glass (BVI) Company Limited ("**Xinyi Glass (BVI)**") (Note 3) | Beneficial owner | 140,000,000 | 26.4 |
| Xinyi Glass Holdings Limited ("**Xinyi Glass Holdings**") (Note 4) | Interest in a controlled corporation | 140,000,000 | 26.4 |
| Aleta Global Limited ("**Aleta**") (Note 5) | Beneficial owner<br>Other | 4,690,647<br>50,000,000 | 0.9<br>9.4 |
| Wang Yao Min (Note 6) | Other | 54,690,647 | 10.3 |
| 薛呈祥 (Xue Chengxiang*) (Note 7) | Person having a security interest in shares | 54,690,647 | 10.3 |

Notes:

(1) Lu Yu, a company incorporated in the BVI on 21 April 2011 and an investment holding company is wholly and beneficially owned by Ms. Natsu.

(2) Mr. Xia Chengzhen ("**Mr. Xia**") is the spouse of Ms. Natsu and Ms. Natsu holds 100% of the issued share capital in Lu Yu which in turn holds 220,000,000 Shares. Therefore, Mr. Xia is deemed to be interested in the Shares in which Ms. Natsu is interested. Mr. Xia Chengzhen is the younger brother of Ms. Xia Lu, the chief executive officer of the Company.

(3) Xinyi Glass (BVI), a company incorporated in the BVI on 13 June 2002 and an investment holding company, is wholly and beneficially owned by Xinyi Glass Holdings.

* *For identification purpose only*

(4) Xinyi Glass Holdings, a company holding all the issued shares of Xinyi Glass (BVI) and is therefore deemed to be interested in 140,000,000 Shares held by Xinyi Glass (BVI).

(5) Pursuant to the corporate substantial shareholder notice filed by Aleta on 27 November 2014, the interests include 4,690,647 Shares in long position, which were held in physically settled unlisted derivatives.

(6) Pursuant to the individual substantial shareholder notice filed by Wang Yao Min on 27 November 2014, the interests include 4,690,647 Shares in long position, which were held in physically settled unlisted derivatives.

(7) Pursuant to the individual substantial shareholder notice filed by 薛呈祥 (Xue Chengxiang*) on 27 November 2014, the interests include 4,690,647 Shares in long position, which were held in physically settled unlisted derivatives.

Save as disclosed above, as at 31 December 2014, the Directors are not aware of any other persons (other than a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

## CORPORATE GOVERNANCE

Save as disclosed in the paragraphs headed "CORPORATE GOVERNANCE PRACTICES" in the Corporate Governance Report, the Company has complied with the code provisions as set out in the Code throughout the year ended 31 December 2014 and up to the date of this report.

## EMOLUMENT POLICY

The emolument policy of the employees and senior management of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence. The emoluments of the Directors are decided by the Remuneration Committee, having regard to market competitiveness, individual performance and achievement. No option was granted, exercised or lapsed under the share option scheme of the Company for the year ended 31 December 2014.

The remuneration of the senior management (including the Directors) of the Group by band for the year ended 31 December 2014 is set out below:

| **Remuneration bands** | **Number of senior management** |
|---|---|
| Nil to RMB795,700 (HK$ Nil to HK$1,000,000) | 4 |
| RMB795,701 to RMB1,193,550 (HK$1,000,001 to HK$1,500,000) | 1 |
| | 5 |

Further details of the Directors' remuneration and the five highest paid employees are set out in note 8 to the consolidated financial statements.

* *For identification purpose only*

## RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group for the year ended 31 December 2014 are set out in note 31 to the consolidated financial statements. Save for the purchase of inventories from fellow subsidiaries of Xinyi Glass Holdings (which is further summarised in the paragraph headed "Continuing Connected Transactions" below) and interest income on loans to a director (which is summarised in the paragraph headed "Connected Transactions" below), all other related party transactions constitute continuing connected transactions exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules in respect of the purchase of inventories from the fellow subsidiaries of Xinyi Glass Holdings.

## CONTINUING CONNECTED TRANSACTIONS

Xinyi Glass Holdings was indirectly interested in 26.4% of the share capital of the Company, the transactions entered into by the Group with Xinyi Glass Holdings and its subsidiaries (the "**Xinyi Glass Group**") constituted non-exempt continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules. Details of such continuing connected transactions and the principal terms of the relevant agreement are set out below:

On 1 January 2013, the Group entered into a framework supply agreement with Xinyi Glass (Tianjin) Co., Ltd. (as amended and supplemented by a supplemental agreement dated 17 June 2013, together, the "**Supply Agreement**") pursuant to which, Xinyi Glass Group has agreed to supply automobile glass (the "**Xinyi Goods**") to the Group upon request from time to time, for a term of three (3) years commencing from 1 January 2013 and ending on 31 December 2015.

The supply of the Xinyi Goods by Xinyi Glass Group to the Group shall be made upon request by the Group from time to time. Purchase orders will be made by the Group with detailed terms and conditions specifying the type of goods, the specifications, the quantity and the selling price which shall be determined by the parties with reference to the prevailing market price of the relevant type of goods supplied and on the basis that the terms (including, among others, the selling prices) shall be no less favourable to the Group than the terms available from the independent third parties for same or similar goods. The maximum aggregate annual amount (inclusive of tax) of the purchase price payable by the Group to Xinyi Glass Group in respect of the supply of the Xinyi Goods under the Supply Agreement should not exceed the applicable limits of RMB26.0 million, RMB28.0 million and RMB31.0 million for the years ended 31 December 2013 and 2014 and the year ending 31 December 2015, respectively. The amount of total purchases (inclusive of tax) from Xinyi Glass Group for the year ended 31 December 2014 under the Supply Agreement amounted to approximately RMB15,617,000 (2013: RMB19,568,000).

### Confirmation of independent non-executive Directors of the Company

The Independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that these transactions:

(1) have been entered into in the ordinary and usual course of business of the Group;

(2) have been entered into either on normal commercial terms or better;

(3) have been entered into in accordance with the relevant agreements on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(4) have not exceeded the annual cap for the year ended 31 December 2014 as disclosed in the Prospectus.

### Confirmation of auditors of the Company

PricewaterhouseCoopers, 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 "*Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules*" issued by the Hong Kong Institute of Certified Public Accountants. PricewaterhouseCoopers 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 20.54 of the GEM Listing Rules.

## CONNECTED TRANSACTIONS

On 3 January 2014, the Group's wholly-owned subsidiary, Beijing Zhengmei Fengye Automobile Glass Installation Co., Ltd. ("**Beijing Zhengmei Installation**") entered into a loan agreement with an executive Director of the Group (the "**Borrower**"), pursuant to which Beijing Zhengmei Installation conditionally agreed to make loan in the amount of RMB4,000,000 available to the Borrower for a term of one month commencing on 6 January 2014 and ending on 5 February 2014 at an interest rate of 6.44% per annum.

The loan generated interest income for the Company within a short period of time, and was beneficial to the Group. The above loan has been repaid by the Borrower on 21 January 2014.

The Company has failed to comply with the announcement requirement under Rule 20.33 of the GEM Listing Rules on a timely manner. The Company has published the relevant announcement on 24 March 2014 and has implemented new measures on the internal control system.

## PUBLIC FLOAT

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

## EVENTS AFTER THE REPORTING PERIOD

There are no events with materiality occuring after the reporting period.

## AUDITORS

The consolidated financial statements of the Company for the year ended 31 December 2014 have been audited by PricewaterhouseCoopers, who will retire, and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

There has been no change in auditors in any of the preceding three years.

On behalf of the Board
**Xia Lu**
*Executive Director*

Hong Kong, 25 March 2015

羅兵咸永道

**TO THE SHAREHOLDERS OF ZMFY AUTOMOBILE GLASS SERVICES LIMITED**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of ZMFY Automobile Glass Services Limited (the "**Company**") and its subsidiaries (together, the "**Group**"), set out on pages 46 to 111, which comprises the consolidated and company statement of financial position as at 31 December 2014, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, 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.

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 judgment, 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.

*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong*
*T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2014, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 25 March 2015

# **Consolidated** Statement of Comprehensive Income

| | Note | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|---|
| Revenue | 5 | **135,193** | 144,214 |
| Cost of sales | 7 | **(98,165)** | (92,552) |
| **Gross profit** | | **37,028** | 51,662 |
| Other gain/(loss), net | 6 | **44** | (26) |
| Selling and distribution costs | 7 | **(17,852)** | (15,164) |
| Administrative expenses | 7 | **(29,398)** | (21,657) |
| | | **(10,178)** | 14,815 |
| Finance income | 9 | **303** | 112 |
| Finance cost | 9 | **(9)** | (215) |
| Finance income/(cost), net | 9 | **294** | (103) |
| Share of loss of investment accounted for using the equity method | 14 | **(429)** | – |
| (Loss)/profit before income tax | | **(10,313)** | 14,712 |
| Income tax expense | 10 | **(1,781)** | (5,410) |
| **(Loss)/profit for the year** | | **(12,094)** | 9,302 |
| **Other comprehensive loss:** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Change in value of available-for-sale investment | 19 | **262** | – |
| Currency translation differences | | **(723)** | (18) |
| **Total comprehensive (loss)/income for the year** | | **(12,555)** | 9,284 |

# **Consolidated** Statement of Comprehensive Income

| | Note | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|---|
| **(Loss)/profit attributable to:** | | | |
| Owners of the Company | | **(12,637)** | 8,664 |
| Non-controlling interests | | **543** | 638 |
| | | **(12,094)** | 9,302 |
| **Total comprehensive (loss)/income attributable to:** | | | |
| Owners of the Company | | **(13,098)** | 8,646 |
| Non-controlling interests | | **543** | 638 |
| | | **(12,555)** | 9,284 |
| **(Loss)/earnings per share attributable to owners of the Company for the year (expressed in RMB cents per share)** | | | |
| Basic (loss)/earnings per share | 11 | **(2.83)** | 2.60 |
| Diluted (loss)/earnings per share | 11 | **(2.83)** | 2.60 |

| | Note | **Year ended 31 December** | |
|---|---|---|---|
| | | **2014 RMB'000** | 2013 RMB'000 |
| Dividends | 29 | **–** | – |

The notes on pages 54 to 111 are integral parts of these consolidated financial statements.

# **Consolidated** Statement of Financial Position

| | Note | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **19,619** | 20,573 |
| Intangible assets | 13 | **32,323** | 17,200 |
| Investment accounted for using the equity method | 14 | **4,817** | – |
| Prepayments and other receivables | 18 | **70,466** | 8,341 |
| | | **127,225** | 46,114 |
| **Current assets** | | | |
| Inventories | 17 | **38,001** | 31,949 |
| Trade and other receivables | 18 | **30,638** | 24,759 |
| Available-for-sale investment | 19 | **262** | – |
| Amount due from a director | 31(b) | **–** | 58 |
| Cash and cash equivalents | 20 | **54,821** | 52,399 |
| | | **123,722** | 109,165 |
| **Total assets** | | **250,947** | 155,279 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 21 | **4,193** | 3,157 |
| Reserves | 22 | **219,037** | 132,037 |
| | | **223,230** | 135,194 |
| Non-controlling interests | 25 | **5,468** | 4,484 |
| **Total equity** | | **228,698** | 139,678 |

| | Note | **2014** **RMB'000** | 2013 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 23 | **10,557** | 6,212 |
| Amount due to a director | 31(b) | **600** | – |
| Income tax payable | | **9** | 2,839 |
| | | **11,166** | 9,051 |
| **Non-current liabilities** | | | |
| Deferred government grant | 23 | **1,000** | 1,000 |
| Deferred tax liabilities | 24 | **6,623** | 5,550 |
| Convertible bonds | 26 | **3,460** | – |
| | | **11,083** | 6,550 |
| **Total liabilities** | | **22,249** | 15,601 |
| **Total equity and liabilities** | | **250,947** | 155,279 |
| **Net current assets** | | **112,556** | 100,114 |
| **Total assets less current liabilities** | | **239,781** | 146,228 |

The notes on pages 54 to 111 are integral parts of these consolidated financial statements.

The consolidated financial statements on pages 46 to 111 were approved by the Board of Directors on 25 March 2015 and signed on its behalf.

**Xia Lu**
*Director*

**He Changsheng**
*Director*

# **Statement** of Financial Position

| | Note | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current asset** | | | |
| Investments in subsidiaries | 15 | **217,204** | 117,367 |
| **Current assets** | | | |
| Amount due from a subsidiary | 31(b) | **5,807** | – |
| Prepayments and other receivables | 18 | **1,261** | 89 |
| Cash and cash equivalents | 20 | **36** | 11,972 |
| | | **7,104** | 12,061 |
| **Total assets** | | **224,308** | 129,428 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 21 | **4,193** | 3,157 |
| Reserves | 22 | **213,172** | 124,645 |
| **Total equity** | | **217,365** | 127,802 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 23 | **2,004** | 746 |
| Amount due to a director | 31(b) | **600** | – |
| Amount due to a subsidiary | 31(b) | **879** | 880 |
| | | **3,483** | 1,626 |
| **Non-current liabilities** | | | |
| Convertible bonds | 26 | **3,460** | – |
| **Total liabilities** | | **6,943** | 1,626 |
| **Total equity and liabilities** | | **224,308** | 129,428 |
| **Net current assets** | | **3,621** | 10,435 |
| **Total assets less current liabilities** | | **220,825** | 127,802 |

The notes on pages 54 to 111 are integral parts of these consolidated financial statements.

The consolidated financial statements on pages 46 to 111 were approved by the Board of Directors on 25 March 2015 and signed on its behalf.

**Xia Lu**
*Director*

**He Changsheng**
*Director*

# **Consolidated** Statement of Changes in Equity

| | Note | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Share capital RMB'000 | Share premium RMB'000 | Other reserves RMB'000 | Retained earnings RMB'000 | Subtotal RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **Balance at 1 January 2013** | | – | – | 59,180 | 38,608 | 97,788 | 3,096 | 100,884 |
| **Comprehensive income** | | | | | | | | |
| Profit for the year | | – | – | – | 8,664 | 8,664 | 638 | 9,302 |
| **Other comprehensive income** | | | | | | | | |
| Currency translation differences | | – | – | (18) | – | (18) | – | (18) |
| **Total comprehensive (loss)/income** | | – | – | (18) | 8,664 | 8,646 | 638 | 9,284 |
| **Transactions with equity owners of the Company recognised directly in equity** | | | | | | | | |
| Share issued pursuant to Group Reorganisation and Capitalisation | | 2,368 | 104,254 | (106,622) | – | – | – | – |
| Shareholder's contributions | | – | – | 2,999 | – | 2,999 | – | 2,999 |
| Issuance of shares upon placing, net of share issuing expenses | | 789 | 24,972 | – | – | 25,761 | – | 25,761 |
| Appropriation to PRC statutory reserve | | – | – | 1,149 | (1,149) | – | – | – |
| Dividends paid | | – | – | – | – | – | (230) | (230) |
| Increase in share capital of a subsidiary | | – | – | – | – | – | 980 | 980 |
| **Balance at 31 December 2013** | | 3,157 | 129,226 | (43,312) | 46,123 | 135,194 | 4,484 | 139,678 |

# **Consolidated** Statement of Changes in Equity

| | | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Note | Share capital RMB'000 | Share premium RMB'000 | Other reserves RMB'000 | Retained earnings RMB'000 | Subtotal RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **Balance at 1 January 2014** | | 3,157 | 129,226 | (43,312) | 46,123 | 135,194 | 4,484 | 139,678 |
| **Comprehensive income** | | | | | | | | |
| (Loss)/Profit for the year | | – | – | – | (12,637) | (12,637) | 543 | (12,094) |
| Change in value of available-for-sale investment | 19 | – | – | 262 | – | 262 | – | 262 |
| Currency translation differences | | | | | | | | |
| – Group | | – | – | (283) | – | (283) | – | (283) |
| – Joint venture | | – | – | (440) | – | (440) | – | (440) |
| **Total comprehensive (loss)/income** | | – | – | (461) | (12,637) | (13,098) | 543 | (12,555) |
| **Transactions with equity owners of the Company recognised directly in equity** | | | | | | | | |
| Issuance of new shares | 21(e) | 640 | 34,302 | – | – | 34,942 | – | 34,942 |
| Issuance of convertible bonds | 26 | – | – | 29,942 | – | 29,942 | – | 29,942 |
| Exercise of convertible bonds issued by the Company | 21(f), 26 | 396 | 43,627 | (7,773) | – | 36,250 | – | 36,250 |
| Set up of a new subsidiary | | – | – | – | – | – | 980 | 980 |
| Appropriation to PRC statutory reserve | | – | – | 429 | (429) | – | – | – |
| Dividends paid | | – | – | – | – | – | (539) | (539) |
| **Balance at 31 December 2014** | | 4,193 | 207,155 | (21,175) | 33,057 | 223,230 | 5,468 | 228,698 |

The notes on page 54 to 111 are integral parts of these consolidated financial statements.

# **Consolidated** Statement of Cash Flows

| | Note | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **Net cash (used in)/generated from operations** | 30 | **(10,557)** | 19,035 |
| Income tax paid | | **(5,163)** | (5,267) |
| **Net cash (used in)/generated from operating activities** | | **(15,720)** | 13,768 |
| **Cash flows from investing activities** | | | |
| Payment for the purchase of property, plant and equipment | | **(3,893)** | (4,229) |
| Proceeds from disposal of property, plant and equipment | 30 | **335** | 96 |
| Prepayment for the acquisition of a subsidiary | 18, 32 | **–** | (8,000) |
| Interest received | 9 | **236** | 54 |
| Proceeds from government grant | 23 | **–** | 1,000 |
| Deposit for land use right | 18 | **(1,000)** | – |
| Payment for acquisition of a subsidiary | 32 | **(7,781)** | – |
| Payment for acquisition of an investment accounted for using the equity method | 14 | **(5,686)** | – |
| **Net cash used in investing activities** | | **(17,789)** | (11,079) |
| **Cash flows from financing activities** | | | |
| Dividends paid | 25 | **(539)** | (3,474) |
| Proceeds from issuance of shares upon placing/share subscription, net | 21(e), (d) | **34,942** | 25,761 |
| Repayment of amount due to a director and her close family members | 31(d) | **–** | (712) |
| Increase in loans to a director | 31(d) | **–** | (6,000) |
| Repayment of loans from a director | 31(d) | **–** | 6,000 |
| Proceeds from non-controlling interest for capital injection of a subsidiary | | **980** | 980 |
| Shareholder's contribution | 22(b) | **–** | 2,999 |
| Advance from a director | 31(d) | **600** | – |
| **Net cash generated from financing activities** | | **35,983** | 25,554 |
| **Net increase in cash and cash equivalents** | | **2,474** | 28,243 |
| Cash and cash equivalents at beginning of the year | | **52,399** | 24,389 |
| Effect of foreign exchange | | **(52)** | (233) |
| **Cash and cash equivalents at end of the year** | 20 | **54,821** | 52,399 |

The notes on pages 54 to 111 are integral parts of these consolidated financial statements.

## 1 Corporate information and basis of presentation

### General information

ZMFY Automobile Glass Services Limited (the "**Company**") is a limited liability company incorporated in 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 Company is an investment holding company and its subsidiaries are principally engaged in the sales of automobile glass with installation services, the trading of automobile glass and provision of installation service of photovoltaic system in the People's Republic of China (the "**PRC**"). The Company and its subsidiaries are collectively known as "the Group" in these consolidated financial statements.

The consolidated financial statements are presented in thousands of Renminbi ("**RMB'000**"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 25 March 2015.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") and have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and the debt component of the convertible bonds which are carried at fair value.

In accordance with the transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit" as set out in sections 76 to 87 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), the consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management 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.

## 2 Summary of significant accounting policies *(Continued)*

### 2.1 Basis of preparation *(Continued)*

(a) Revised standards and new interpretations to existing standards that are mandatory for the financial year beginning 1 January 2014 but they are either not relevant or have no significant impact to the Group's operations:

| | |
|---|---|
| Amendment to HKAS 32 | Financial Instruments: Presentation on Asset and Liability Offsetting |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | Consolidation for Investment Entities |
| Amendment to HKAS 36 | Impairment of Assets on Recoverable Amount Disclosures |
| Amendment to HKAS 39 | Financial Instruments: Recognition and Measurement – Novation of Derivatives |
| HK(IFRIC) 21 | Levies |
| Amendment to HKAS 19 | Defined Benefit Plans (1) |

(b) New/revised standards that have been issued but are not yet effective for the financial year beginning 1 January 2014 and have not been adopted by the Group:

| | |
|---|---|
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation (2) |
| Amendments to HKAS 16 and HKAS 41 | Bearer Plants (2) |
| Amendments to HKFRS 10 and HKAS 28 | Sale and Contribution of Assets Between an Investor and Its Associate or Joint Venture (2) |
| Amendment to HKAS 27 | Separate Financial Statements (2) |
| Amendment to HKFRS 11 | Accounting for acquisitions of interest in joint operations (2) |
| HKFRS 14 | Regulatory Deferral Accounts (2) |
| HKFRS 15 | Revenue from Contracts with Customers (4) |
| HKFRS 9 | Financial Instruments (5) |
| Annual Improvements Project | Annual Improvements 2010-2012 Cycle (1) |
| Annual Improvements Project | Annual Improvements 2011-2013 Cycle (1) |
| Annual Improvements Project | Annual Improvements 2012-2014 Cycle (3) |

(1) These standards are effective for accounting period beginning on or after 1 July 2014.
(2) These standards are effective for accounting period beginning on or after 1 January 2016.
(3) These standards are effective for accounting period beginning on or after 1 July 2016.
(4) These standards are effective for accounting period beginning on or after 1 January 2017.
(5) These standards are effective for accounting period beginning on or after 1 January 2018.

The Group has commenced, but not yet completed, an assessment of the impact of the applicable amendments on its results of operations and financial positions.

## 2 Summary of significant accounting policies *(Continued)*

### 2.1 Basis of preparation *(Continued)*

In addition, 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 and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

### 2.2 Subsidiaries

*2.2.1 Consolidation*

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

## 2 Summary of significant accounting policies *(Continued)*

### 2.2 Subsidiaries *(Continued)*

*2.2.1 Consolidation (Continued)*

(a) Business combinations *(Continued)*

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

*2.2.2 Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.3 Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations in each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

## 2 Summary of significant accounting policies *(Continued)*

### 2.3 Joint arrangements *(Continued)*

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors and the chief financial officer who make strategic decisions.

### 2.5 Foreign currency translation

*(a) 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**") since majority of the Group's operation are carried out in RMB. The Company's functional currency is HK dollars ("**HK$**") since majority of the activities of the Company are conducted in HK$.

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the consolidated statement of comprehensive income within "Finance (cost)/income, net". All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "Other gain/(loss), net" in the consolidated statement of comprehensive income.

## 2 Summary of significant accounting policies *(Continued)*

### 2.5 Foreign currency translation *(Continued)*

*(c) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that consolidated balance sheet;

(ii) Income and expenses for each statement of comprehensive income are translated at average exchange rates (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 rate on the dates of the transactions); and

(iii) All resulting exchange differences are recognised in other comprehensive income.

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. Exchange differences arising are recognised in other comprehensive income.

### 2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 20 years |
| Leasehold improvements | Shorter of the lease term or 5 years |
| Motor vehicles | 5 years |
| Office equipment | 3-5 years |

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

## 2 Summary of significant accounting policies *(Continued)*

### 2.6 Property, plant and equipment *(Continued)*

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other gain/(loss), net" in the consolidated statement of comprehensive income.

### 2.7 Intangible assets

*(a) Goodwill*

Goodwill arising on the acquisition of businesses represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

The Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised exceeding the cost of the business combination is recognised immediately in the consolidated statement of comprehensive income.

*(b) Trademark*

Trademark acquired in a business combination are recognised at fair value at the acquisition date. Trademark has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademark over its estimated useful life of 10-20 years.

*(c) Customer relationships*

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over the expected life of the customer relationship for 7 years.

### 2.8 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2 Summary of significant accounting policies *(Continued)*

### 2.9 Financial assets

*(a) Classification of financial assets*

The Group classifies its financial assets as loan and receivables and available-for-sale assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the consolidated balance sheet (Notes 2.13 and 2.14).

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

*(b) Recognition and measurement*

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Available-for-sale financial assets are subsequently carried at fair value. Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income.

### 2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

## 2 Summary of significant accounting policies *(Continued)*

### 2.11 Impairment of financial assets

*Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "**loss event**") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

*Assets classified as available for sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated statement of comprehensive income.

## 2 Summary of significant accounting policies *(Continued)*

### 2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises of the automobile glass. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

### 2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand and deposits held at call with banks, other short-term highly liquid investments with original maturities for less than three months or less.

### 2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax from the proceeds.

### 2.16 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## 2 Summary of significant accounting policies *(Continued)*

### 2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings 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 end of the reporting period.

### 2.18 Borrowing costs

General and specific 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 added to 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.

All other borrowing costs are recognised in the consolidated statement of comprehensive income in the period in which they are incurred.

### 2.19 Share based payment transactions

Issuance of convertible bonds is accounted for as share-based payment transactions.

If the identifiable consideration received by the Group appears to be less than the fair value of the convertible bonds issued, the Group measures the unidentifiable services received (to be received) as the difference between the fair value of the convertible bonds issued and that of the identifiable consideration received, and the difference is recognised in profit or loss immediately unless qualified for capitalisation.

The debt component (i.e. the bondholder's right to demand payment in cash) of the convertible bond will be accounted for as a cash-settled share-based payment transactions while the equity component (i.e. the bondholder's right to demand settlement in the Group's shares) of the convertible bond will be accounted for as an equity-settled share-based payment transaction. The Group first measures the fair value of the debt component, and then the equity component equals the residual value. Subsequent to initial recognition, the Group measures the fair value of the debt component at the end of each reporting period and the date of settlement, with any changes in fair value recognised in profit or loss for the period. The equity component is not re-measured subsequent to initial recognition.

## 2 Summary of significant accounting policies *(Continued)*

### 2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

*(a) Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

*(b) Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

## 2 Summary of significant accounting policies *(Continued)*

### 2.20 Current and deferred income tax *(Continued)*

*(c) Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 2.21 Employee benefits

*(a) Pension obligations*

Hong Kong

The Group operates a defined contribution Mandatory Provident Fund Scheme (the "**MPF Scheme**") which is registered under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. The assets of the MPF Scheme are held in a separately administered fund. The MPF Scheme is generally funded by payments from employees and by the Group.

The Group's contributions to the MPF Scheme are expensed as incurred and are reduced by the employer's voluntary contribution forfeited from the MPF Scheme by those employees who leave the scheme prior to vesting fully in the contributions.

PRC

The Group companies in the PRC participate in defined contribution retirement plans and other employee social security plans, including pension, medical, other welfare benefits, organised and administered by the relevant governmental authorities for employee in the PRC. The Group contributes to these plans based on certain percentages of the total salary of employees, subject to a certain ceiling, as stipulated by the relevant regulations.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

## 2 Summary of significant accounting policies *(Continued)*

### 2.21 Employee benefits *(Continued)*

*(b) Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

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

### 2.22 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle or transfer the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services performed and goods sold, stated net of discounts, returns and value-added taxes.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities. The Group bases its estimates of returns on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

## 2 Summary of significant accounting policies *(Continued)*

### 2.23 Revenue recognition *(Continued)*

Revenue from sales of automobile glass is recognised when the customer has accepted the goods and the related risks and rewards of ownership.

Revenue from the provision of automobile glass installation/repair services is recognised when services are provided.

Revenue from the provision of installation service of photovoltaic system is recognised by reference to the stage of completion, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. Stage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transactions.

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

### 2.24 Government grants

Grants from the government are recognised at their fair value in the consolidated statement of comprehensive income where there is a reasonable assurance that the grant will be received and the Group has complied with all attached conditions.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

### 2.25 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the landlord are classified as operating leases. Payments made under operating leases (net of any incentives received from the landlord) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

### 2.26 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's and the company's financial statements in the period in which the dividends are approved by the company's shareholders or directors, where appropriate.

## 3 Financial risk management

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, cash flow interest rate risk and fair value interest rate risk, credit risk and liquidity 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 exchange rate risk*

The Group is exposed to foreign exchange translation risk with respect to HK$. Foreign exchange risk arises mainly from recognised assets and liabilities.

At 31 December 2014, if HK$ had weakened/strengthened by 5% against RMB with all other variables held constant, pre-tax loss for the year would have been approximately RMB647,000 higher/lower (2013: pre-tax profit for the year would have been approximately RMB790,000 lower/higher) mainly as a result of foreign exchange losses/gains on translation of bank deposits.

The Group does not use any derivative financial instruments to hedge its exposure to foreign exchange risk.

*(b) Cash flow interest rate risk and fair value interest rate risk*

The Group's interest rate risk arises from cash at bank and the convertible bonds. Cash at bank at variable rates expose the Group to cash flow interest rate risk but the impact to the financial statements of the Group is minimal.

As at 31 December 2014, if the interest rate of the convertible bonds had been 100 basis point higher/lower with all other variables held constant, loss for the year would have been RMB35,000 higher/lower as a result of a increase/decrease in the interest rate.

## 3 Financial risk management *(Continued)*

### 3.1 Financial risk factors *(Continued)*

*(c) Credit risk*

Credit risk of the Group mainly arises from cash and cash equivalents and trade and other receivables. The carrying amounts of these balances on the consolidated statement of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2014, 16% (2013: 20%) of the Group's cash at banks were deposited in financial institutions with no credit rating provided by Standard and Poor's. During the year ended 31 December 2014, the Group transferred majority of the Group's cash at bank to financial institutions located in the PRC with a minimum rating of "A-" or above and only maintained sufficient deposit in these financial institutions without credit rating in order to satisfy the payments which required to be settled through these bank accounts. Management does not expect any losses arising from non-performance by these counterparties as at the balance sheet date.

Trade receivables of the Group as at 31 December 2014 represent amounts due from various insurance companies and other customers who all have no recent history of default. Debtors of the Group may be affected by the unfavorable economic conditions, which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of receivables. To the extent that information is available, management has properly reflected revised estimate of expected future cash flows in their impairment assessments.

The credit quality of the customers is assessed based on its financial position, past experience and other factors. The Group has policies in place to ensure that sales of products are made to customers with appropriate credit histories.

As at 31 December 2014, the Group had a concentration of credit risk given that the largest 5 trade debtors accounted for 26% (2013: 40%) of the Group's total year end trade receivables balance. However, the Group does not believe that the credit risk in relation to these customers is significant because they have no history of default in recent years.

The Group performs periodic credit evaluations of its customers. The Group's experience in collection of trade and other receivables falls within the recorded allowances and management is of the opinion that provision for uncollectible receivables is not necessary.

Management considers the credit risk on other receivables is minimal after considering the financial conditions of these counterparties. Management has performed assessment over the recoverability of these balances and do not expect any losses from non-performance by these companies.

## 3 Financial risk management *(Continued)*

### 3.1 Financial risk factors *(Continued)*

*(d) Liquidity risk*

The Group's primary cash requirements have been the payment for operating costs and purchase of inventories. The Group mainly finances its working capital requirements through internal resources.

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure it maintains sufficient cash and cash equivalents in the short and long term.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet dates to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Within 1 year or on demand RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **At 31 December 2014** | | | | |
| Trade and other payables | **3,920** | **–** | **–** | **3,920** |
| Amount due to a director | **600** | **–** | **–** | **600** |
| Convertible bond – debt component | **41** | **41** | **4,153** | **4,235** |
| | **4,561** | **41** | **4,153** | **8,755** |
| **At 31 December 2013** | | | | |
| Trade and other payables | 2,363 | – | – | 2,363 |
| | 2,363 | – | – | 2,363 |
| **Company** | | | | |
| **At 31 December 2014** | | | | |
| Trade and other payables | **2,004** | **–** | **–** | **2,004** |
| Amount due to a director | **600** | **–** | **–** | **600** |
| Amount due to a subsidiary | **879** | **–** | **–** | **879** |
| Convertible bonds – debt component | **41** | **41** | **4,153** | **4,235** |
| | **3,524** | **41** | **4,153** | **7,718** |
| **At 31 December 2013** | | | | |
| Trade and other payables | 746 | – | – | 746 |
| Amount due to a subsidiary | 880 | – | – | 880 |
| | 1,626 | – | – | 1,626 |

## 3 Financial risk management *(Continued)*

### 3.2 Capital management

The Group's primary 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, to support the Group's stability and growth; to earn a margin commensurate with the level of business and market risks in the Group's operation and to maintain a net cash position.

The Group's management considers capital comprises consolidated capital and reserves. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

### 3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2014 by level of inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

| | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **Assets** | | | |
| Available-for-sale investment | – | – | 262 |
| **Liabilities** | | | |
| Convertible bonds | – | – | 3,460 |

There were no transfers between level 1, 2 and 3 during the year.

## 4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### (a) Useful lives and depreciation expenses of property, plant and equipment and intangible assets

The Group's management determines the estimated useful lives, and related depreciation and amortisation charges for its property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. Management will increase the depreciation and amortisation charges where useful lives are less than previously estimated lives. It will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in useful lives and therefore depreciation and amortisation expense in future periods.

### (b) Impairment of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable such as declines in asset's market value and significant increase in interest rates that may affect the discount rate used in calculating the asset's recoverable amount. The recoverable amounts have been determined based on fair value less cost to sell calculations or market valuations. These calculations require the use of judgments and estimates.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continuing use of the asset in the business; (iii) whether a decline in asset's market value, increase in interest rates or other market rates that may affect the discount rate used in calculating the asset's recoverable amount; (iv) whether there are any assets being obsolete or any plan to discontinue or restructure; and (v) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations.

## 4 Critical accounting estimates and judgements *(Continued)*

### (c) Leasehold improvements on leased premises

The Group operates service centers, warehouses and office buildings on leased premises in the PRC which are located on collectively-owned land that are not permitted to be sold, transferred or leased to others for the non-agricultural use. The unauthorised and illegal occupancy of the said lands may result in land return order, demolition order, confiscation of the existing buildings and facilities constructed on the said land. Management considered that such problem is unlikely to cause any interruption or termination of the leases or to have a material effect on the carrying amounts of the related leasehold improvements of RMB3,929,982 (2013: RMB3,864,888) as at 31 December 2014. Moreover, the controlling shareholder of the Company has agreed to keep the Group indemnified for any losses that the Group may suffer from any failure of the Group's subsidiaries in obtaining licence or permit to use the related properties. Accordingly, no impairment for such leasehold improvements is considered necessary to be made according to the Group's accounting policies.

### (d) Estimated write-downs of inventories to net realisable value

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. Provisions are made for inventories where events or changes in circumstances indicate that the balances may not be realised. The identification of obsolescence requires the use of judgement and estimates. Where the estimate is different from the original amount, such difference will impact the carrying value of inventories and net realisable value for the periods in which such estimate is changed. In addition, management has assessed the realisability of the inventories and considers that the provision for inventories impairment is adequate and reasonable at each balance sheet date.

### (e) Impairment of receivables

The Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. The assessment is based on the credit history of its clients and other debtors and the current market condition, and requires the use of judgements and estimates. Management reassesses the provision at each balance sheet date.

### (f) Current and deferred income tax

The Group is subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes in each of these jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. 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.

Deferred income tax assets relating to certain temporary differences are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimates, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimates is changed.

## 4 Critical accounting estimates and judgements *(Continued)*

### (g) Fair value of convertible bonds

The Group appointed an independent valuer to assess the fair value of convertible bonds, which is determined using valuation techniques including reference to discounted cash flow analysis. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

### (h) Implication of litigation claims

During the year ended 31 December 2014, Xinyi Automobile Glass (BVI) Company Limited ("Xinyi Glass") issued an originating summons (the "Originating Summons") and instituted proceedings in the Court of First Instance of the Hong Kong Special Administrative Region against the Company, the vendor of the Daqing property, the holder of the convertible bonds, the existing executive and non-executive directors and certain existing and former independent non-executive directors, with respect to the acquisition of a property in Daqing ("Acquisition") as detailed in Note 26.

Pursuant to the Originating Summons, Xinyi Glass has concerns that the terms of the Acquisition may not serve the best interests of the Company and the shareholders as a whole and it has doubt on the legality surrounding the Acquisition. Accordingly, Xinyi Glass seeks the following orders:

(i) the acquisition agreement to be declared void or, in the alternative, voidable;

(ii) the convertible bonds issued to satisfy the consideration of the Acquisition, the conversion shares already allotted and issued to the vendor of the Daqing property as at the date of the Originating Summons be declared void or, in the alternative, voidable; and

(iii) in the event that the acquisition agreement and the convertible bonds are declared voidable, the Company and the vendor be compelled to terminate and/or rescind the same;

(iv) in the alternative, damages from the existing executive and non-executive directors and certain existing and former independent non-executive directors.

Management has consulted legal advisors in both the PRC and Hong Kong in response to the Originating Summons. The Directors have thoroughly revisited the situations based on the advices of the PRC and Hong Kong legal advisors, and considered that the demands (i) to (iii) are unattainable and demand (iv) does not impact the Company nor the Group. Accordingly, the Directors considered that the pending litigation will not have material adverse impact to the consolidated financial statements as at 31 December 2014.

## 5 Segment reporting

The chief operating decision-maker ("**CODM**") has been identified as the Executive Directors and the Chief Financial Officer collectively. CODM reviews the Group's internal reporting in order to assess performance and allocate resources.

Management determines its operating segments based on the reports reviewed by CODM that are used to make strategic decisions. These reports include segment revenue and segment results. Operating segment result represents the gross profit that is reviewed by CODM. Unallocated expenses represent other gain/(loss), net, selling and distribution costs and administrative expenses.

CODM considers the business from a geographical aspect. Presentation of information on the basis of operating segments and segment revenue is based on the geographical presence of customers. Segment assets and liabilities are not regularly reported to the Group's CODM and therefore information of reportable segment assets and liabilities is not presented in the consolidated financial statements.

As at 31 December 2014, the Group's non-current assets were entirely held in the PRC. For the year ended 31 December 2014, revenue from the Group's largest customer amounted to approximately 13% (2013: 15%) of the Group's total revenue.

| | **Northern China (excluding Shenyang)** | | **Shenyang** | | **Hangzhou** | | **Shenzhen** | | **Reportable segments 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 |
| **Turnover-revenue from:** | | | | | | | | | | |
| Sales of automobile glass with installation/repair services | **107,105** | 115,334 | **2,070** | 3,082 | **2,370** | 2,575 | **8,137** | – | **119,682** | 120,991 |
| Trading of automobile glass | **51,617** | 21,893 | **2,135** | 2,420 | **1,054** | 1,893 | **986** | – | **55,792** | 26,206 |
| Provision of installation services of photovoltaic system | **4,542** | – | **–** | – | **–** | – | **–** | – | **4,542** | – |
| Inter-segment sales | **(44,012)** | (2,014) | **(338)** | (700) | **(469)** | (269) | **(4)** | – | **(44,823)** | (2,983) |
| Revenue from external customers | **119,252** | 135,213 | **3,867** | 4,802 | **2,955** | 4,199 | **9,119** | – | **135,193** | 144,214 |
| **Results of reportable segments** | **32,760** | 49,178 | **940** | 1,357 | **854** | 1,127 | **2,474** | – | **37,028** | 51,662 |
| Depreciation | **4,670** | 4,157 | **95** | 39 | **125** | 70 | **130** | – | **5,020** | 4,266 |
| Amortisation | **1,517** | 1,517 | **–** | – | **–** | – | **791** | – | **2,308** | 1,517 |
| Provision/(Reversal of provision) for obsolete inventories | **–** | (3) | **–** | – | **–** | – | **16** | – | **16** | (3) |
| Capital expenditure | **3,708** | 3,662 | **22** | 252 | **88** | 315 | **7,017** | – | **10,835** | 4,229 |

## 5 Segment reporting *(Continued)*

A reconciliation of results of reportable segments to (loss)/profit for the year is as follows:

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| **Results of reportable segments** | **37,028** | 51,662 |
| Unallocated income | **–** | – |
| Unallocated expenses | **(47,206)** | (36,847) |
| | **(10,178)** | 14,815 |
| Finance income | **303** | 112 |
| Finance cost | **(9)** | (215) |
| Share of loss of investment accounted for using the equity method | **(429)** | – |
| **(Loss)/profit before income tax** | **(10,313)** | 14,712 |

## 6 Other gain/(loss), net

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Gain/(loss) on disposal of property, plant and equipment (Note 30) | **66** | (26) |
| Fair value loss on convertible bonds (Note 26) | **(22)** | – |
| | **44** | (26) |

## 7 Expenses by nature

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Cost of inventories (Note 17) | **69,222** | 69,125 |
| Auditor's remuneration | **1,551** | 1,207 |
| Advertising and marketing | **736** | 1,631 |
| Business tax and surcharges | **2,570** | 3,284 |
| Staff costs (including directors' emoluments) (Note 8) | **31,851** | 25,232 |
| Depreciation (Note 12) | **5,020** | 4,266 |
| Amortisation (Note 13) | **2,308** | 1,517 |
| Rental expenses | **6,594** | 5,298 |
| Fuels | **3,709** | 2,854 |
| Utilities | **1,099** | 964 |
| Provision/(Reversal of provision) for obsolete inventories | **16** | (3) |
| Transportation | **2,369** | 1,517 |
| Meeting and conference expenses | **2,201** | 1,339 |
| Tools and liveries | **791** | 916 |
| Office expenses | **1,540** | 1,266 |
| Listing expenses | **–** | 5,923 |
| Professional fee | **10,030** | 866 |
| Others | **3,808** | 2,171 |
| | **145,415** | 129,373 |

## 8 Employee benefit expenses (including directors' emoluments)

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Salaries, wages and other benefits | **28,415** | 21,609 |
| Contributions to defined contribution retirement, other social security plans and housing fund (Note) | **3,436** | 3,623 |
| | **31,851** | 25,232 |

Note: No forfeited contribution is available to reduce the contribution payable in future years.

## 8 Employee benefit expenses (including directors' emoluments) *(Continued)*

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in the defined contribution retirement benefit schemes and other social security plans, including pension, medical and other welfare benefits organised by the local authority whereby the PRC subsidiaries are required to make contributions to the schemes based on certain percentages of the eligible employees' salaries.

The local government authority is responsible for the entire pension obligations payable to the retired employees. The Group has no other obligations for payments of retirement, housing fund and other post-retirement benefits of employees other than the contributions described above.

### (a) Directors' emoluments

The remuneration of each director of the Company paid/payable by the Group for 31 December 2014 and 2013 is set out below:

| | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Employer's contribution to pension plan RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Year ended 31 December 2014** | | | | |
| **Executive directors** | | | | |
| Xia Lu (Chief Executive Officer) | 152 | 310 | – | 462 |
| He Changsheng | 56 | 201 | 12 | 269 |
| Li Honglin | 56 | 142 | 12 | 210 |
| **Non-executive directors** | | | | |
| Natsu Kumiko (Chairman) | 122 | – | – | 122 |
| Lau Sik Yuen (Resigned on 29 December 2014) | 120 | – | – | 120 |
| **Independent non-executive directors** | | | | |
| Fong William (Resigned on 5 January 2015) | 123 | – | – | 123 |
| Chen Jinliang | 123 | – | – | 123 |
| Ling Kit Wah Joseph (Resigned on 20 October 2014) | 93 | – | – | 93 |
| Total | 845 | 653 | 24 | 1,522 |

## 8 Employee benefit expenses (including directors' emoluments) *(Continued)*

### (a) Directors' emoluments *(Continued)*

| | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Employer's contribution to pension plan RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Year ended 31 December 2013** | | | | |
| **Executive directors** | | | | |
| Xia Lu (Chief Executive Officer) | 47 | 218 | – | 265 |
| He Changsheng | 16 | 71 | 12 | 99 |
| Li Honglin | 16 | 69 | 12 | 97 |
| **Non-executive directors** | | | | |
| Natsu Kumiko (Chairman) | 38 | – | – | 38 |
| Lau Sik Yuen | 38 | – | – | 38 |
| **Independent non-executive directors** | | | | |
| Fong William | 38 | – | – | 38 |
| Chen Jinliang | 38 | – | – | 38 |
| Ling Kit Wah Joseph | 38 | – | – | 38 |
| Total | 269 | 358 | 24 | 651 |

During the years ended 31 December 2014 and 2013, none of the directors waived the remuneration and there were no amounts paid or payable by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

### (b) Individuals with highest emoluments

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2014 include three directors (2013: 3) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two individuals during the years ended 31 December 2014 and 2013 are as follows:

| | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|
| Salaries, wages and other benefits | **1,439** | 1,233 |
| Contributions to defined contribution retirement plans | **42** | 137 |
| | **1,481** | 1,370 |

## 8 Employee benefit expenses (including directors' emoluments) *(Continued)*

### (b) Individuals with highest emoluments *(Continued)*

The emoluments fell within the following band:

| | 2014 | 2013 |
|---|---|---|
| Nil – RMB795,700 (HK$ Nil – HK$1,000,000) | 1 | 1 |
| RMB795,701 – RMB1,193,550 (HK$1,000,001 – HK$1,500,000) | 1 | 1 |

During the year ended 31 December 2014, none of the five individuals with highest emoluments waived the remuneration and there were no amounts paid or payable by the Group to them as inducement to join or upon joining the Group or as compensation for loss of office.

## 9 Finance income/(cost), net

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Finance cost: | | |
| Interest expense on convertible bonds | (9) | – |
| Exchange losses relating to cash and cash equivalents | – | (215) |
| | (9) | (215) |
| Finance income: | | |
| Interest income on bank deposits | 236 | 54 |
| Interest income on loan to a director | – | 58 |
| Exchange gains relating to cash and cash equivalents | 67 | – |
| | 303 | 112 |
| Finance income/(cost), net | 294 | (103) |

## 10 Income tax expense

The Group is not subject to taxation in the Cayman Islands and the British Virgin Islands.

There is no assessable profit subject to Hong Kong profits tax for the year ended 31 December 2014 (2013: Nil).

Subsidiaries in the PRC are subject to the PRC corporate income tax at a rate of 25% for the year ended 31 December 2014 (2013: 25%).

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Current income tax | | |
| – Current year | 2,283 | 6,640 |
| – Under/(over)-provision in prior years | 50 | (646) |
| Deferred income tax (Note 24) | (552) | (584) |
| Income tax expenses | 1,781 | 5,410 |

## 10 Income tax expense *(Continued)*

The taxation on the Group's (loss)/profit before income tax differs from the theoretical amount that would arise using the taxation rate applicable to profits in the respective countries as follows:

| | **2014** | 2013 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| (Loss)/profit before income tax | **(10,313)** | 14,712 |
| Calculated at domestic tax rates applicable to (loss)/profits in the respective countries | **665** | 4,458 |
| Expenses not deductible | **981** | 1,336 |
| Tax loss for which no deferred income tax asset was recognised | **281** | 262 |
| Under/(over)-provision in prior years | **50** | (646) |
| Utilisation of previously unrecognised tax losses | **(196)** | – |
| Income tax expense | **1,781** | 5,410 |

## 11 (Loss)/earnings per share

### (a) Basic

Basic (loss)/earnings per share is calculated by dividing the results attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

| | **2014** | 2013 |
|---|---|---|
| (Loss)/profit attributable to owners of the Company (RMB'000) | **(12,637)** | 8,664 |
| Weighted average number of ordinary shares in issue (thousands) | **446,575** | 332,603 |
| Basic (loss)/earnings per share (in RMB cents) | **(2.83)** | 2.60 |

### (b) Diluted

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares include the convertible bonds. The convertible bonds are assumed to have been converted into ordinary shares, and the net (loss)/profit is adjusted to eliminate the interest expense less the tax effect.

Diluted loss per share for the year ended 31 December 2014 is the same as the basic loss per share as the conversion of potential dilutive ordinary shares in relation to convertible bonds would have an anti-dilutive effect to the basic loss per share.

Diluted earnings per share for the year ended 31 December 2013 was the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the year.

## 12 Property, plant and equipment

| | Buildings RMB'000 | Leasehold improvements RMB'000 | Motor vehicles RMB'000 | Office equipment RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Year ended 31 December 2013** | | | | | |
| Opening net book amount | 8,931 | 5,635 | 4,942 | 1,224 | 20,732 |
| Additions | – | 2,092 | 1,918 | 219 | 4,229 |
| Depreciation charge (Note 7) | (477) | (1,717) | (1,716) | (356) | (4,266) |
| Disposals (Note 30) | – | – | (122) | – | (122) |
| Closing net book amount | 8,454 | 6,010 | 5,022 | 1,087 | 20,573 |
| **Year ended 31 December 2013** | | | | | |
| Cost | 9,566 | 8,656 | 7,801 | 1,782 | 27,805 |
| Accumulated depreciation | (1,112) | (2,646) | (2,779) | (695) | (7,232) |
| Net book amount | 8,454 | 6,010 | 5,022 | 1,087 | 20,573 |
| **Year ended 31 December 2014** | | | | | |
| Opening net book amount | **8,454** | **6,010** | **5,022** | **1,087** | **20,573** |
| Acquisition of a subsidiary (Note 32) | **–** | **–** | **181** | **38** | **219** |
| Additions | **–** | **2,609** | **1,032** | **475** | **4,116** |
| Depreciation charge (Note 7) | **(477)** | **(2,431)** | **(1,714)** | **(398)** | **(5,020)** |
| Disposals (Note 30) | **–** | **–** | **(269)** | **–** | **(269)** |
| Closing net book amount | **7,977** | **6,188** | **4,252** | **1,202** | **19,619** |
| **Year ended 31 December 2014** | | | | | |
| Cost | **9,566** | **11,265** | **8,142** | **2,295** | **31,268** |
| Accumulated depreciation | **(1,589)** | **(5,077)** | **(3,890)** | **(1,093)** | **(11,649)** |
| Net book amount | **7,977** | **6,188** | **4,252** | **1,202** | **19,619** |

Depreciation expenses for the year ended 31 December 2014 of approximately RMB3,016,000, RMB914,000 and RMB1,090,000 were included in cost of sales, selling and distribution costs and administrative expenses, respectively.

Depreciation expenses for the year ended 31 December 2013 of approximately RMB2,335,000, RMB957,000 and RMB974,000 were included in cost of sales, selling and distribution costs and administrative expenses, respectively.

## 13 Intangible assets

| | Goodwill | Trademark | Customer relationships | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Year ended 31 December 2013** | | | | |
| Opening net book amount | – | 14,224 | 4,493 | 18,717 |
| Amortisation (Note 7) | – | (758) | (759) | (1,517) |
| Closing net book amount | – | 13,466 | 3,734 | 17,200 |
| **At 31 December 2013** | | | | |
| Cost | – | 15,150 | 5,505 | 20,655 |
| Accumulated amortisation | – | (1,684) | (1,771) | (3,455) |
| Net book amount | – | 13,466 | 3,734 | 17,200 |
| **Year ended 31 December 2014** | | | | |
| Opening net book amount | **–** | **13,466** | **3,734** | **17,200** |
| Acquisition of a subsidiary (Note 32) | **10,931** | **2,400** | **4,100** | **17,431** |
| Amortisation (Note 7) | **–** | **(987)** | **(1,321)** | **(2,308)** |
| Closing net book amount | **10,931** | **14,879** | **6,513** | **32,323** |
| **At 31 December 2014** | | | | |
| Cost | **10,931** | **17,550** | **9,605** | **38,086** |
| Accumulated amortisation | **–** | **(2,671)** | **(3,092)** | **(5,763)** |
| Net book amount | **10,931** | **14,879** | **6,513** | **32,323** |

Amortisation of approximately RMB2,308,000 (2013: RMB1,517,000) is included in selling and distribution costs in the consolidated statement of comprehensive income.

### Impairment tests for goodwill

For the goodwill arising from the acquisition during the year, the Group has assessed that there is no indication of impairment after the consideration of both external and internal sources of information. The Group will perform impairment assessment for goodwill for the newly acquired business annually.

## 13 Intangible assets *(Continued)*

### Impairment tests for non-financial assets (excluding the newly acquired Shenzhen operations)

As the Group recorded a decline in profitability comparing with prior year, management considers there is indication for impairment for non-financial assets other than the newly acquired Shenzhen operations.

Management has performed impairment assessment for non-financial assets including the trademark, customer relationship and property, plant and equipment.

The recoverable amount of cash generating units (the "CGUs") is determined based on value in use calculation. The calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate of 4%. The growth rate does not exceed the long-term average growth rate for the businesses in which the CGUs operate.

The key assumptions used in calculating the recoverable amount are as follows:

| | |
|---|---|
| Growth rate of revenue | 14% on average |
| Gross margin | 29% on average |
| Pre-tax discount rate | 18% |

The budgeted gross margin and average annual growth rate of revenue are based on past performance and its expectation of market development. The discount rate used is pre-tax and reflects specific risks related to the operations of the Group.

The recoverable amount as at 31 December 2014 exceeds the carrying amount of this CGU by RMB10,527,000. A reduction in annual growth rate to 12% would remove the remaining headroom.

## 14 Investment accounted for using the equity method

### Investment in joint venture

| | **2014** **RMB'000** |
|---|---|
| As at 1 January | **–** |
| Addition | **5,686** |
| Share of loss | **(429)** |
| Exchange translation difference | **(440)** |
| As at 31 December | **4,817** |

## 14 Investment accounted for using the equity method *(Continued)*

The joint venture listed below has share capital consisting solely of ordinary shares, which is held directly by the Group.

### Nature of investment in joint venture

| Name of entity | Place of incorporation | % of ownership | Nature of the relationship | Measurement method |
|---|---|---|---|---|
| Polaron Solartech Corp. ("**Polaron**") | Canada | 49% | Note i | Equity |

Note i: On 10 July 2014, the Group completed the acquisition of 49% equity interest in Polaron from Polaron International Inc. ("PII") at a consideration of approximately RMB5,686,000. Polaron was engaged in the provision of installation services of solar system in Canada. Pursuant to the sales and purchase agreement, PII guaranteed the Group the annual net profit of CAD100,000 and CAD200,000 for the years ended 31 December 2014 and 2015 ("Guaranteed Profits"). When the Guaranteed Profits of Polaron were not met, PII would reimburse the amount of Guaranteed Profits to the Group to the extent of the 49% shareholding. The amount to be reimbursed of approximately RMB262,000 was accounted for as available-for-sale investment at the balance sheet date.

Polaron is a private company and there is no quoted market price available for its shares.

The Group has no commitment and contingent liabilities relating to the interest in the joint venture.

### Summarised financial information for the joint venture

Set out below are the financial information for Polaron which is accounted for using equity method.

*Summarised balance sheet*

| | 2014<br>RMB'000 |
|---|---|
| **Non-current** | |
| Property, plant and equipment | 74 |
| Trade and other receivables | 8 |
| | 82 |
| **Current** | |
| Cash and cash equivalents | 1,377 |
| Inventories | 1,009 |
| Trade and other receivables | 277 |
| Total current assets | 2,663 |
| Current liabilities | (161) |
| **Net assets** | 2,584 |

## 14 Investment accounted for using the equity method *(Continued)*

### Summarised financial information for the joint venture *(Continued)*

*Summarised statement of comprehensive income*

| | 2014 RMB'000 |
|---|---|
| Revenue | **1,288** |
| Depreciation | **(7)** |
| Interest income | **1** |
| Loss from operations | **(876)** |

### Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture.

### Summarised financial information

| | 2014 RMB'000 |
|---|---|
| Net assets as at acquisition date | **126** |
| Loss for the period | **(876)** |
| Exchange translation difference | **22** |
| Net liabilities as at 31 December | **(728)** |
| Investment in joint venture at 49% | **(357)** |
| Goodwill | **5,174** |
| Carrying value | **4,817** |

## 15 Investments in subsidiaries

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Unlisted shares, at cost | **106,622** | 106,622 |
| Interests in subsidiaries | **110,582** | 10,745 |
| | **217,204** | 117,367 |

## 15 Investments in subsidiaries *(Continued)*

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

| Name of company | Place of incorporation/ registration and operation and kind of legal entity | Issued and paid-in capital/ registered capital | Equity interest held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| Yu Sheng Investments Limited | British Virgin Islands, limited liability company | USD10,000 | 100% | – | Investment holding |
| Chang Hong Investments (HK) Limited 長洪投資(香港)有限公司 | Hong Kong, limited liability company | HK$1 | – | 100% | Investment holding |
| Beijing Zhengmei Fengye Automobile Service Co., Ltd. 北京正美豐業汽車服務有限公司 | Beijing, PRC, limited liability company | RMB50,000,000 | – | 100% | Sales and trading of automobile glass |
| Beijing Zhengmei Fengye Automobile Glass Installation Co., Ltd. 北京正美豐業汽車玻璃安裝有限公司 | Beijing, PRC, limited liability company | RMB500,000 | – | 100% | Provision of installation service of automobile glass |
| Zhengmei Fengye (Tianjin) Automobile Glass Co., Ltd. 正美豐業(天津)汽車玻璃有限公司 | Tianjin, PRC, limited liability company | RMB2,000,000 | – | 51% | Sales and trading of automobile glass; provision of installation service of automobile glass |
| Zhengmei Haida (Tianjin) Automobile Glass Sales Co., Ltd 正美海達(天津)汽車玻璃銷售有限公司 | Tianjin, PRC, limited liability company | RMB2,000,000 | – | 51% | Sales and trading of automobile glass; provision of installation service of automobile glass |
| Shenyang Zhengmei Automobile Glass Co., Ltd. 瀋陽正美汽車玻璃有限公司 | Shenyang, PRC, limited liability company | RMB2,000,000 | – | 51% | Sales and trading of automobile glass; provision of installation service of automobile glass |
| Shenzhen Xinyida Automobile Glass Co., Ltd. 深圳信義達汽車玻璃有限公司 | Shenzhen, PRC, limited liability company | RMB6,000,000 | – | 100% | Sales and trading of automobile glass; provision of installation service of automobile glass |

## 15 Investments in subsidiaries *(Continued)*

| Name of company | Place of incorporation/ registration and operation and kind of legal entity | Issued and paid-in capital/ registered capital | Equity interest held by the Company Directly | Equity interest held by the Company Indirectly | Principal activities |
|---|---|---|---|---|---|
| Tianjin Zhengmei Glass Technology Co., Ltd 天津正美玻璃科技有限公司 | Tianjin, PRC, limited liability company | HK$38,000,000 | – | 100% | Sales and trading of automobile glass; provision of installation service of automobile glass |
| Tianjin Fenye New Energy Technology Co., Ltd. (Note) 天津豐業新能源科技有限公司 | Tianjin, PRC, limited liability company | RMB3,000,000 | – | 100% | Provision of installation services of photovoltaic system |
| Zhengmei Haida (Tianjin) Automobile Glass Technology Co., Ltd (Note) 正美海達(天津)汽車玻璃科技有限公司 | Tianjin, PRC, limited liability company | RMB2,000,000 | – | 51% | Sales and trading of automobile glass; provision of installation service of automobile glass |

Note: The companies are newly incorporated in 2014.

Interest in subsidiaries represents equity funding by the Company to the respective subsidiaries and is measured in accordance with the Company's accounting policy for investment in subsidiaries.

## 16 Financial instruments by category

The Group and Company's financial instruments include the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Loan and receivables** | | | | |
| Trade and other receivables | **18,642** | 19,654 | **15** | – |
| Cash and cash equivalents | **54,821** | 52,399 | **36** | 11,972 |
| Amount due from a director (Note 31(b)) | **–** | 58 | **–** | – |
| Amount due from a subsidiary (Note 31(b)) | **–** | – | **5,807** | – |
| **Available-for-sale assets** | | | | |
| Available-for-sale investment (Note 19) | **262** | – | **–** | – |
| | **73,725** | 72,111 | **5,858** | 11,972 |

## 16 Financial instruments by category *(Continued)*

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Financial liabilities at amortised cost** | | | | |
| Trade and other payables | **3,920** | 2,363 | **2,004** | 746 |
| Amount due to a director (Note 31(b)) | **600** | – | **600** | – |
| Amount due to a subsidiary (Note 31(b)) | **–** | – | **879** | 880 |
| **Liabilities at fair value through profit or loss** | | | | |
| Convertible bonds (Note 26) | **3,460** | – | **3,460** | – |
| | **7,980** | 2,363 | **6,943** | 1,626 |

## 17 Inventories

| | **2014** | 2013 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Finished goods | **38,001** | 31,949 |

The cost of inventories recognised as expense in "cost of sales" amounted to approximately RMB69,222,000 for the year ended 31 December 2014 (2013: RMB69,125,000).

## 18 Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Trade and bill receivables | **16,388** | 18,149 | **–** | – |
| Prepayments (Note) | | | | |
| – Third parties | **82,396** | 13,408 | **1,246** | 89 |
| – Related parties (Note 31(b)) | **66** | 38 | **–** | – |
| Deposits and other receivables (Note) | | | | |
| – Third parties | **2,254** | 654 | **15** | – |
| – Related parties | **–** | 851 | **–** | – |
| | **101,104** | 33,100 | **1,261** | 89 |
| Less: non-current portion | | | | |
| – Prepayments | **(69,466)** | (8,341) | **–** | – |
| – Deposit | **(1,000)** | – | **–** | – |
| Current portion | **30,638** | 24,759 | **1,261** | 89 |

## 18 Trade and other receivables *(Continued)*

Note: The prepayments, deposits and other receivables comprise the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Prepayment for purchase of inventories | **6,886** | 2,096 | **–** | – |
| Prepayment for rental | **2,805** | 2,511 | **–** | – |
| Prepayment for acquisition of a subsidiary | **–** | 8,000 | **–** | – |
| Prepayment for acquisition of property, plant and equipment | **–** | 223 | **–** | – |
| Deposit for acquisition of a property (Note 26) | **69,466** | – | **–** | – |
| Others | **3,305** | 616 | **1,246** | 89 |
| | **82,462** | 13,446 | **1,246** | 89 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Deposit for land use right (Note 23(i)) | **1,000** | – | **–** | – |
| Purchase rebate receivable | **795** | 1,232 | **–** | – |
| Others | **459** | 273 | **15** | – |
| | **2,254** | 1,505 | **15** | – |

The majority of the Group's sales are with credit terms of 60 to 150 days and the ageing analysis of the trade receivables based on invoice date is as follows:

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| 0 – 30 days | **8,067** | 11,061 |
| 31 – 60 days | **3,613** | 4,929 |
| 61 – 90 days | **1,967** | 1,232 |
| Over 90 days | **2,741** | 927 |
| Total | **16,388** | 18,149 |

## 18 Trade and other receivables *(Continued)*

As at 31 December 2014, trade receivables of approximately RMB2,141,000 (2013: RMB974,000) were past due but not impaired. No provision was made for impairment of trade receivables (2013: Nil). These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

| | **Group** | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| 61 – 90 days | **58** | 47 |
| Over 90 days | **2,083** | 927 |
| Total | **2,141** | 974 |

Trade and other receivables balances are denominated in the following currencies:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| RMB | **99,764** | 33,011 | **–** | – |
| HK$ | **1,340** | 89 | **1,261** | 89 |
| Total | **101,104** | 33,100 | **1,261** | 89 |

The maximum exposure to credit risk at the reporting date is the carrying value of each class of trade and other receivables mentioned above. The Group does not hold any collateral over these balances.

The carrying amounts of trade and other receivables approximate their fair values.

## 19 Available-for-sale investment

| | **Group** | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| At 1 January | **–** | – |
| Addition | **262** | – |
| At 31 December | **262** | – |

The available-for-sale investment is denominated in CAD and approximated to its fair value. The details are shown in Note 14.

## 20 Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash on hand | **409** | 412 | **–** | – |
| Cash at bank | **54,412** | 51,987 | **36** | 11,972 |
| Total | **54,821** | 52,399 | **36** | 11,972 |

Cash and bank balances are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| RMB | **41,827** | 23,945 | **–** | – |
| HK$ | **12,994** | 28,454 | **36** | 11,972 |
| Total | **54,821** | 52,399 | **36** | 11,972 |

The conversion of Renminbi denominated balances into foreign currencies and the remittance of these funds out of the PRC is subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

## 21 Share capital

| | | 2014 | | 2013 | |
|---|---|---|---|---|---|
| | Note | **Number of shares** | **RMB'000** | Number of shares | RMB$'000 |
| Authorised: | | | | | |
| Ordinary shares of HK$0.01 each | | **780,000,000** | **6,094** | 780,000,000 | 6,094 |
| Issued and fully paid: | | | | | |
| As at 1 January | | **400,000,000** | **3,157** | – | – |
| Issue of new shares upon incorporation of the Company | (a) | **–** | **–** | 1 | – |
| Shares issued pursuant to Reorganisation | (b) | **–** | **–** | 29,999,999 | 237 |
| Shares issued pursuant to the capitalisation issue | (c) | **–** | **–** | 270,000,000 | 2,131 |
| New shares issued upon listing | (d) | **–** | **–** | 100,000,000 | 789 |
| Issuance of new shares | (e) | **80,000,000** | **640** | – | – |
| Exercise of convertible bonds issued by the Company | (f) | **50,000,000** | **396** | – | – |
| As at 31 December | | **530,000,000** | **4,193** | 400,000,000 | 3,157 |

## 21 Share capital *(Continued)*

Notes:

(a) Upon incorporation of the Company, the authorised share capital was HK$390,000 divided into 39,000,000 ordinary shares of HK$0.01 each. 1 share was issued on incorporation at par.

(b) On 9 August 2013, the Company acquired 80% of the equity interests of Yu Sheng from Lu Yu and 20% of the equity interests of Yu Sheng from Xinyi Glass and as consideration, the Company issued and allotted 23,999,999 and 6,000,000 new shares of the Company at HK$0.01 each at par to Lu Yu and Xinyi Glass, respectively, credited as fully paid.

(c) Pursuant to the Shareholders' Resolution dated 9 August 2013, the Company capitalised an amount of HK$2,700,000 equivalent to approximately RMB2,131,000, standing to the credit of its share premium account in paying up in full at par 270,000,000 shares. The new ordinary shares issued rank pari passu with the existing shares in all respects.

(d) On 3 September 2013, in connection with the placing of shares of the Company, an aggregate of 100,000,000 new ordinary shares with par value of HK$0.01 each, totaling HK$1,000,000 (equivalent to approximately RMB789,000), were issued at a price of HK$0.45 per share for a total cash consideration of HK$45,000,000 (equivalent to approximately RMB35,508,000), with issuance costs amounted to RMB9,747,000. This resulted in share premium of RMB24,972,000.

(e) On 28 March 2014, the Company and Xinyi Glass (BVI) entered into a subscription agreement pursuant to which both parties agreed that Xinyi Glass (BVI) to subscribe 80,000,000 ordinary shares of HK$0.01 each in the Company. On 16 May 2014, Xinyi Glass (BVI) completed the subscription of shares at a price of HK$0.55 per share for a total consideration of approximately HK$44,000,000 (equivalent to RMB35,222,000) with issuance costs amounted to approximately HK$350,000 (equivalent to RMB280,000). This resulted in an increase in share capital of approximately RMB640,000 and share premium of approximately RMB34,302,000.

(f) On 14 November 2014, the Company and an independent third party entered into a sale and purchase agreement to purchase a property at a consideration of RMB48,000,000, which was satisfied by the issuance of convertible bonds by the Company. The convertible bonds were convertible into 54,690,647 conversion shares as detailed in Note 26. On 17 November 2014, the holder completed the conversion of 50,000,000 shares at the conversion price of HK$1.112 per share.

## 22 Reserves

The reserves of the Group as at 31 December 2013 are analysed as follows:

| | | Group | | | | | |
|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the Company | | | | | |
| | Note | Share premium RMB'000 | Capital reserve RMB'000 | PRC statutory reserve RMB'000 | Exchange reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
| **Balance at 1 January 2013** | | – | 56,139 | 3,080 | (39) | 38,608 | 97,788 |
| **Comprehensive income** | | | | | | | |
| Profit for the year | | – | – | – | – | 8,664 | 8,664 |
| **Other comprehensive loss** | | | | | | | |
| Currency translation differences | | – | – | – | (18) | – | (18) |
| **Total comprehensive (loss)/income** | | – | – | – | (18) | 8,664 | 8,646 |
| **Transactions with equity owners of the Company recognised directly in equity** | | | | | | | |
| Shares issued pursuant to Group Reorganisation | | 104,254 | (106,622) | – | – | – | (2,368) |
| Shareholder's contributions | (b) | – | 2,999 | – | – | – | 2,999 |
| Issuance of shares upon placing, net of share issuing expenses | | 24,972 | – | – | – | – | 24,972 |
| Appropriation to PRC statutory reserve | (a) | – | – | 1,149 | – | (1,149) | – |
| **Balance at 31 December 2013** | | 129,226 | (47,484) | 4,229 | (57) | 46,123 | 132,037 |

## 22 Reserves *(Continued)*

The reserves of the Group as at 31 December 2014 are analysed as follows:

| | | Group<br>Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Share premium RMB'000 | Capital reserve RMB'000 | PRC statutory reserve RMB'000 | Convertible bonds RMB'000 | Available-for-sale investment RMB'000 | Exchange reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
| **Balance at 1 January 2014** | | 129,226 | (47,484) | 4,229 | – | – | (57) | 46,123 | 132,037 |
| **Comprehensive income** | | | | | | | | | |
| (Loss) for the year | | – | – | – | – | – | – | (12,637) | (12,637) |
| **Other comprehensive loss** | | | | | | | | | |
| Change in value of available-for-sale investment | | – | – | – | – | 262 | – | – | 262 |
| Currency translation differences | | – | – | – | – | – | (723) | – | (723) |
| **Total comprehensive income/ (loss)** | | – | – | – | – | 262 | (723) | (12,637) | (13,098) |
| **Transactions with equity owners of the Company recognised directly in equity** | | | | | | | | | |
| Issuance of new shares, net proceed | | 34,302 | – | – | – | – | – | – | 34,302 |
| Issuance of convertible bonds | | – | – | – | 29,942 | – | – | – | 29,942 |
| Exercise of convertible bonds issued by the Company | | 43,627 | – | – | (7,773) | – | – | – | 35,854 |
| Appropriation to PRC statutory reserve | (a) | – | – | 429 | – | – | – | (429) | – |
| **Balance at 31 December 2014** | | 207,155 | (47,484) | 4,658 | 22,169 | 262 | (780) | 33,057 | 219,037 |

## 22 Reserves *(Continued)*

The reserves of the Company as at 31 December 2013 are analysed as follows:

| | | Company | | | | | |
|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the Company | | | | | |
| | Note | Share premium RMB'000 | Capital reserve RMB'000 | Exchange reserve RMB'000 | Other reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
| **Balance at 1 January 2013** | | – | – | – | – | – | – |
| **Comprehensive loss** | | | | | | | |
| Loss for the year | | – | – | – | – | (7,590) | (7,590) |
| **Other comprehensive income** | | | | | | | |
| Currency translation differences | | – | – | 10 | – | – | 10 |
| **Total comprehensive income/(loss)** | | – | – | 10 | – | (7,590) | (7,580) |
| **Transactions with equity owners of the Company recognised directly in equity** | | | | | | | |
| Shares issued pursuant to Group Reorganisation | | 104,254 | – | – | – | – | 104,254 |
| Shareholder's contributions | (b) | – | 2,999 | – | – | – | 2,999 |
| Issuance of shares upon placing, net of share issuing expenses | | 24,972 | – | – | – | – | 24,972 |
| **Balance at 31 December 2013** | | 129,226 | 2,999 | 10 | – | (7,590) | 124,645 |

## 22 Reserves *(Continued)*

The reserves of the Company as at 31 December 2014 are analysed as follows:

| | | Company<br>Attributable to owners of the Company | | | | | |
|---|---|---|---|---|---|---|---|
| | Note | Share premium RMB'000 | Capital reserve RMB'000 | Exchange reserve RMB'000 | Convertible bonds RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
| **Balance at 1 January 2014** | | 129,226 | 2,999 | 10 | – | (7,590) | 124,645 |
| **Comprehensive loss** | | | | | | | |
| Loss for the year | | – | – | – | – | (11,871) | (11,871) |
| **Other comprehensive income** | | | | | | | |
| Currency translation differences | | – | – | 300 | – | – | 300 |
| **Total comprehensive income/(loss)** | | – | – | 300 | – | (11,871) | (11,571) |
| **Transactions with equity owners of the Company recognised directly in equity** | | | | | | | |
| Issuance of new shares, net proceed | | 34,302 | – | – | – | – | 34,302 |
| Issuance of convertible bonds | | – | – | – | 29,942 | – | 29,942 |
| Exercise of convertible bonds issued by the Company | | 43,627 | – | – | (7,773) | – | 35,854 |
| **Balance at 31 December 2014** | | 207,155 | 2,999 | 310 | 22,169 | (19,461) | 213,172 |

## 22 Reserves *(Continued)*

### (a) PRC statutory reserve

As required by the relevant PRC rules and regulation, the Group is required to transfer 10% of its profit after tax to statutory reserve until the reserve balance reaches 50% of the registered capital. Appropriations to the reserves were approved by the respective boards of directors and made before distribution of dividend to the shareholders.

For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

### (b) Capital reserve

During the year ended 31 December 2013, Ms. Natsu Kumiko, the controlling shareholder of ZMFY has reimbursed the listing expenses of HK$3,800,000 (equivalent to approximately RMB2,999,000) to the Group as a result of the selling of her existing shares of the Group upon listing.

## 23 Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Current: | | | | |
| Trade payables | | | | |
| – Third parties | **925** | 1,173 | **–** | – |
| – Related parties (Note 31(b)) | **157** | – | **–** | – |
| Value-added tax payable | **1,855** | 1,511 | **–** | – |
| Salaries payable | **4,672** | 2,338 | **–** | – |
| Receipt in advance | **110** | – | **–** | – |
| Other payables and accruals | **2,838** | 1,190 | **2,004** | 746 |
| | **10,557** | 6,212 | **2,004** | 746 |
| Non-current: | | | | |
| Deferred government grant (Note i) | **1,000** | 1,000 | **–** | – |
| Total | **11,557** | 7,212 | **2,004** | 746 |

Note i:

On 19 December 2013, the Group entered into an agreement with Wuqing Development Area General Corporation (天津新技術產業園區武清開發區總公司) to tender a land with total area of 20,000 sq.m in Tianjin Wuqing Development Area with cost of approximately RMB5.5 million. The Group has not yet acquired the piece of land as at 31 December 2013. The Group is awarded with a government grant of RMB3.1 million for the construction of infrastructure. The Group received RMB1.0 million from Wuqing Development Area General Corporation on 31 December 2013 and this amount has been recognised as deferred government grant. For the remaining RMB2.1 million, 50% will be received within 30 working days when the Group settles the land cost of RMB5.5 million; and remaining 50% will be received within 7 working days when the construction of infrastructure is completed. On 27 January 2014, the Group has paid a deposit to Wuqing Development Area General Corporation amounting to RMB1,000,000 for the purchase of the land.

## 23 Trade and other payables *(Continued)*

Payment terms granted by suppliers are within 90 days since the invoice date or cash on delivery.

The ageing analysis of trade payables at 31 December 2014 based on invoice date is as follows:

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| 0 – 30 days | **537** | 1,105 |
| 31 – 60 days | **369** | 30 |
| 61 – 90 days | **63** | 38 |
| Over 90 days | **113** | – |
| Total | **1,082** | 1,173 |

Trade and other payables are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| RMB | **9,533** | 6,397 | **–** | – |
| HK$ | **2,018** | 809 | **2,004** | 746 |
| USD | **6** | 6 | **–** | – |
| Total | **11,557** | 7,212 | **2,004** | 746 |

## 24 Deferred taxation

The analysis of deferred tax assets and deferred tax liabilities is as follows:

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Deferred income tax assets: | | |
| – to be recovered within 12 months | **213** | 332 |
| Deferred income tax liabilities: | | |
| – to be settled after more than 12 months | **(5,877)** | (4,960) |
| – to be settled within 12 months | **(959)** | (922) |
| | **(6,836)** | (5,882) |
| Deferred income tax liabilities (net) | **(6,623)** | (5,550) |

## 24 Deferred taxation *(Continued)*

The net movement on the deferred tax account is as follows:

| | Group 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| At the beginning of year | **(5,550)** | (6,134) |
| Acquisition of a subsidiary (Note 32) | **(1,625)** | – |
| Credited to the consolidated statement of comprehensive income (Note 10) | **552** | 584 |
| At the end of year | **(6,623)** | (5,550) |

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

| | Accruals RMB'000 | Receivable RMB'000 | Government grant RMB'000 | Depreciation allowances RMB'000 | Intangible assets RMB'000 | Withholding tax RMB'000 | Fair value gain on property, plant and equipment RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2013 | 272 | (200) | – | (815) | (4,679) | (150) | (562) | (6,134) |
| Credited/(charged) to the consolidated statement of comprehensive income (Note 10) | 60 | 200 | (185) | (70) | 379 | 150 | 50 | 584 |
| At 31 December 2013 | 332 | – | (185) | (885) | (4,300) | – | (512) | (5,550) |
| At 1 January 2014 | **332** | **–** | **(185)** | **(885)** | **(4,300)** | **–** | **(512)** | **(5,550)** |
| Acquisition of a subsidiary (Note 32) | **–** | **–** | **–** | **–** | **(1,625)** | **–** | **–** | **(1,625)** |
| Credited/(charged) to the consolidated statement of comprehensive income (Note 10) | **(119)** | **(21)** | **–** | **66** | **576** | **–** | **50** | **552** |
| At 31 December 2014 | **213** | **(21)** | **(185)** | **(819)** | **(5,349)** | **–** | **(462)** | **(6,623)** |

## 24 Deferred taxation *(Continued)*

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefits through the future taxable profits is probable. As at 31 December 2014, the Group had potential deferred tax assets not recognised amounting to approximately RMB970,000 (2013: RMB689,000) in respect of tax losses as it is uncertain whether these tax losses will be utilised in the foreseeable future. These cumulative tax losses of approximately RMB5,877,000 (2013: RMB4,176,000) can be carried forward indefinitely.

As at 31 December 2014, deferred income tax liabilities of approximately RMB5,604,000 (2013: RMB2,685,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of subsidiaries. Such amounts are permanently reinvested.

## 25 Non-controlling interests

The total non-controlling interests for the year ended 31 December 2014 is approximately RMB5,468,000 (2013: RMB4,484,000), of which RMB1,087,000 (2013: RMB970,000) is attributed to Zhengmei Fengye (Tianjin) Automobile Glass Co., Ltd., RMB1,769,000 (2013: RMB1,574,000) is attributed to Zhengmei Haida (Tianjin) Automobile Glass Sales Co., Ltd., RMB1,519,000 (2013: RMB1,940,000) is attributed to Shenyang Zhengmei Automobile Glass Co., Ltd. and RMB1,093,000 (2013: Nil) is attributed to Zhengmei Haida (Tianjin) Automobile Glass Technology Co., Ltd.

### Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group.

*Summarised balance sheet*

| | Zhengmei Fengye (Tianjin) Automobile Glass Co., Ltd. | | Zhengmei Haida (Tianjin) Automobile Glass Sales Co., Ltd. | | Shenyang Zhengmei Automobile Glass Co., Ltd. | | Zhengmei Haida (Tianjin) Automobile Glass Technology Co., Ltd | |
|---|---|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Current** | | | | | | | | |
| Assets | **2,153** | 2,169 | **3,704** | 3,231 | **3,246** | 3,839 | **2,220** | – |
| Liabilities | **(603)** | (543) | **(365)** | (455) | **(351)** | (171) | **(69)** | – |
| Total current net assets | **1,550** | 1,626 | **3,339** | 2,776 | **2,895** | 3,668 | **2,151** | – |
| **Non-current** | | | | | | | | |
| Assets | **668** | 353 | **286** | 452 | **206** | 291 | **78** | – |
| Liabilities | **–** | – | **(14)** | (16) | **–** | – | **–** | – |
| Total non-current net assets | **668** | 353 | **272** | 436 | **206** | 291 | **78** | – |
| Net assets | **2,218** | 1,979 | **3,611** | 3,212 | **3,101** | 3,959 | **2,229** | – |

## 25 Non-controlling interests *(Continued)*

### Summarised financial information on subsidiaries with material non-controlling interests *(Continued)*

*Summarised income statement*

| | Zhengmei Fengye (Tianjin) Automobile Glass Co., Ltd. | | Zhengmei Haida (Tianjin) Automobile Glass Sales Co., Ltd. | | Shenyang Zhengmei Automobile Glass Co., Ltd. | | Zhengmei Haida (Tianjin) Automobile Glass Technology Co., Ltd | |
|---|---|---|---|---|---|---|---|---|
| | **2014 RMB'000** | 2013 RMB'000 | **2014 RMB'000** | 2013 RMB'000 | **2014 RMB'000** | 2013 RMB'000 | **2014 RMB'000** | 2013 RMB'000 |
| Revenue | **3,801** | 4,023 | **5,444** | 5,016 | **4,205** | 5,502 | **1,967** | – |
| Profit before income tax | **298** | 274 | **531** | 737 | **351** | 751 | **286** | – |
| Income tax expense | **(59)** | (55) | **(133)** | (196) | **(110)** | (209) | **(57)** | – |
| Post-tax profit | **239** | 219 | **398** | 541 | **241** | 542 | **229** | – |
| Total comprehensive income | **239** | 219 | **398** | 541 | **241** | 542 | **229** | – |
| Total comprehensive income allocated to non-controlling interests | **117** | 107 | **195** | 265 | **118** | 266 | **113** | – |
| Dividend paid to non-controlling interests | **–** | – | **–** | 230 | **539** | – | **–** | – |

*Summarised cash flows*

| | Zhengmei Fengye (Tianjin) Automobile Glass Co., Ltd. | | Zhengmei Haida (Tianjin) Automobile Glass Sales Co., Ltd. | | Shenyang Zhengmei Automobile Glass Co., Ltd. | | Zhengmei Haida (Tianjin) Automobile Glass Technology Co., Ltd | |
|---|---|---|---|---|---|---|---|---|
| | **2014 RMB'000** | 2013 RMB'000 | **2014 RMB'000** | 2013 RMB'000 | **2014 RMB'000** | 2013 RMB'000 | **2014 RMB'000** | 2013 RMB'000 |
| **Cash flows from operating activities** | | | | | | | | |
| Cash generated from/(used in) operations | **669** | 219 | **427** | 481 | **1,180** | (51) | **(756)** | – |
| Income tax paid | **(72)** | (34) | **(142)** | (193) | **(138)** | (226) | **(26)** | – |
| Net cash generated from/(used in) operating activities | **597** | 185 | **285** | 288 | **1,042** | (277) | **(782)** | – |
| Net cash used in investing activities | **(544)** | (43) | **(42)** | (329) | **(22)** | (250) | **(80)** | – |
| Net cash (used in)/generated from financing activities | **–** | – | **–** | 530 | **(1,100)** | 1,000 | **2,000** | – |
| **Net increase/(decrease) in cash and cash equivalents** | **53** | 142 | **243** | 489 | **(80)** | 473 | **1,138** | – |
| Cash and cash equivalents at beginning of the year | **428** | 286 | **597** | 108 | **627** | 154 | **–** | – |
| Cash and cash equivalents at end of the year | **481** | 428 | **840** | 597 | **547** | 627 | **1,138** | – |

The information above is the amount before inter-company eliminations.

## 26 Convertible bonds

| | Group and Company | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| **Non-current** | | |
| Convertible bonds | **3,460** | – |

On 14 November 2014, the Company issued 54,690,647 1% convertible bonds at HK$1.112 per share of HK$60,816,000 (equivalent to RMB48,000,000) in exchange for the deposit in relation to the acquisition of a property. The bonds mature three years from the issue date at the nominal value of HK$60,816,000 (equivalent to RMB48,000,000) or can be converted into shares at the holder's option at HK$1.112 per share. The fair value of the liability component and equity conversion component were assessed by an independent valuer and determined at the Board of Directors' approval date of the convertible bonds.

On 17 November 2014, the holder of the convertible bonds has completed the conversion of 50,000,000 shares at the conversion price of HK$1.112 per share, and the fair value of the equity component of approximately RMB7,773,000 and fair value of liability component of approximately RMB36,250,000 were transferred to share capital of approximately RMB396,000 and share premium of approximately RMB43,627,000.

The convertible bonds recognised in the statement of financial position are calculated as follows:

| | Group and Company | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Fair value of convertible bonds issued on 14 November 2014 | **69,466** | – |
| Equity component (Note 22) | **(29,942)** | – |
| Fair value of liability component | **39,524** | – |
| Exercise of convertible bonds issued by the Company | **(36,250)** | – |
| Fair value loss on convertible bonds (Note 6) | **22** | – |
| Exchange translation difference | **164** | – |
| Liability component at 31 December 2014 | **3,460** | – |

Note: The fair value of the liability component was estimated at the Board of Directors' approval date using an equivalent market interest rate for a similar bond without conversion option. The residual amount is assigned as the equity component and is included in the shareholders' equity.

Changes in fair values of financial liabilities at fair value through profit or loss are recorded in other gain/(loss), net in the consolidated statement of comprehensive income.

## 27 Operating lease commitments

At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within 1 year | **3,973** | 4,961 | **–** | – |
| After 1 year but within 5 years | **13,677** | 10,492 | **–** | – |
| Over 5 years | **7,159** | 4,780 | **–** | – |
| Total | **24,809** | 20,233 | **–** | – |

Certain leases have escalation clauses and rent-free periods.

## 28 Capital commitments

Capital commitments outstanding at the balance sheet date not provided for are as follows.

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Authorised but not contracted for | | | | |
| – Consideration for leasehold improvement in Daqing property | **3,000** | – | **–** | – |
| | **3,000** | – | **–** | – |
| Contracted but not provided for | | | | |
| – Consideration for acquisition of a subsidiary | **–** | 8,000 | **–** | – |
| – Consideration for acquisition of a land (Note 23) | **4,500** | 5,500 | **–** | – |
| | **4,500** | 13,500 | **–** | – |

## 29 Dividends

No dividend has been paid or declared by the Company during the year ended 31 December 2014 (2013: Nil).

## 30 Note to consolidated statement of cash flows

| | Note | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/profit before income tax | | **(10,313)** | 14,712 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 12 | **5,020** | 4,266 |
| Amortisation of intangible assets | 13 | **2,308** | 1,517 |
| Provision for slow moving inventories | 7 | **16** | (3) |
| Interest income | 9 | **(303)** | (112) |
| Interest expense | 9 | **9** | 215 |
| Fair value loss on convertible bonds | 6 | **22** | – |
| (Gain)/loss on disposal of property, plant and equipment (Note) | | **(66)** | 26 |
| Share of loss of investment accounted for using the equity method | 14 | **429** | – |
| | | **(2,878)** | 20,621 |
| Changes in working capital: | | | |
| Increase in trade and other receivables | | **(3,546)** | (3,537) |
| (Increase)/decrease in inventories | | **(2,096)** | 5,474 |
| (Decrease)/increase in trade and other payables | | **(2,037)** | (3,523) |
| **Net cash (used in)/generated from operations** | | **(10,557)** | 19,035 |

Note: Proceeds from disposal of property, plant and equipment

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Net book amount (Note 12) | **269** | 122 |
| Gain/(loss) on disposal of property, plant and equipment (Note 6) | **66** | (26) |
| Proceeds from disposal of property, plant and equipment | **335** | 96 |

### Non-cash transactions

The principal non-cash transaction is the issuance of convertible bonds as consideration for the deposit for the acquisition of a property and the subsequent exercise of the convertible bonds (Note 26).

## 31 Related parties transactions

As at 31 December 2014, the Group regards Lu Yu, a company incorporated in the British Virgin Islands, as the ultimate holding company. The ultimate controlling shareholder of the Group is Ms. Natsu Kumiko, sister-in-law of Ms. Xia Lu, who holds 41.5% (2013: 55%) of the equity interests of the Group.

During the year ended 31 December 2014, the directors are of the view that related parties of the Group include the following parties:

| Name of party | Relationship |
|---|---|
| **Shareholders:** | |
| Lu Yu Global Limited | Ultimate Holding Company |
| Ms. Natsu Kumiko | Ultimate Controlling Shareholder and director of the Company |
| Xinyi Automobile Glass (BVI) Company Limited ("Xinyi") | Non-controlling shareholder |
| | |
| **Fellow subsidiaries of non-controlling shareholder:** | |
| 信義汽車玻璃(深圳)有限公司上海分公司 | Fellow Subsidiary of Xinyi |
| 信義玻璃(天津)有限公司 | Fellow Subsidiary of Xinyi |
| 東莞奔迅汽車玻璃有限公司(原信義汽車部件(東莞)有限公司) | Fellow Subsidiary of Xinyi |
| 信義汽車玻璃(深圳)有限公司天津分公司 | Fellow Subsidiary of Xinyi |
| 信義汽車部件(蕪湖)有限公司 | Fellow Subsidiary of Xinyi |
| 信義汽車玻璃(深圳)有限公司 | Fellow Subsidiary of Xinyi |
| 信義光伏產業(安徽)控股有限公司 | Fellow Subsidiary of Xinyi |
| 深圳市信義房地產開發有限公司 | Fellow Subsidiary of Xinyi |
| | |
| **Directors:** | |
| Ms. Xia Lu | Director of the Company |
| Mr. He Changsheng | Director of the Company |
| Mr. Li Honglin | Director of the Company |
| Ms. Natsu Kumiko | Director of the Company |
| Mr. Lau Sik Yuen (Resigned on 29 December 2014) | Director of the Company |
| Mr. Fong William (Resigned on 5 January 2015) | Director of the Company |
| Mr. Chen Jinliang | Director of the Company |
| Mr. Ling Kit Wah Joseph (Resigned on 20 October 2014) | Director of the Company |

## 31 Related parties transactions *(Continued)*

### (a) Transactions with related parties

**Group**

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Sales of inventories to a fellow subsidiary of Xinyi (Note) | **19** | 23 |
| Purchases of inventories from fellow subsidiaries of Xinyi (Note) | **15,617** | 19,568 |
| Interest income on loan to a director (Note) | **–** | 58 |
| Rental expenses paid to non-controlling interest shareholders (Note) | **50** | 55 |
| Rental expenses paid to a fellow subsidiary of Xinyi (Note) | **160** | – |

Note: Transactions are conducted in the ordinary course of business at prices and terms based on mutual agreement.

### (b) Balances with related parties

**Group**

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Amount due from a director | **–** | 58 |
| Amounts due to fellow subsidiaries of Xinyi | **157** | – |
| Amount due to a director | **600** | – |
| Prepayment to a fellow subsidiary of Xinyi | **41** | 13 |
| Prepayment to a non-controlling interest | **25** | 25 |
| Purchase rebates receivable from fellow subsidiaries of Xinyi | **–** | 851 |

**Company**

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Amount due from a subsidiary | **5,807** | - |
| Amount due to a subsidiary | **879** | 880 |
| Amount due to a director | **600** | – |

The amount due from a subsidiary, other than the amounts classified as interests in subsidiaries and the amount due to a subsidiary are unsecured, interest free and repayable on demand. These balances are denominated in HKD and RMB, respectively. The carrying amounts approximate the fair value.

## 31 Related parties transactions *(Continued)*

### (c) Key management personnel compensation

The Group defines directors as key management personnel and remuneration for key management personnel, including amounts paid to the Group's directors, are disclosed in Note 8(a) and 8(b).

### (d) Movement of balance with a director and her close family members

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| At the beginning of the year | – | 712 |
| Payment to a director and her close family members | – | (712) |
| Loan to a director (Note a) | – | 6,000 |
| Advance from a director (Note b) | **(600)** | – |
| Repayment of loan from a director | – | (6,000) |
| At the end of the year | **(600)** | – |
| Maximum amount due from a director during the year | – | 6,000 |

Note a: Loan to a director was unsecured, interest bearing at 6.44% per annum and repayable within 3 months. The loan was denominated in RMB.

Note b: Advance from a director is unsecured, interest-free and repayable on demand. The balance is denominated in HK$. The carrying amount approximates to its fair value.

## 32 Business combinations

On 15 January 2014, the Group acquired 100% equity interest in Shenzhen Xinyida Automobile Glass Company Limited ("**Shenzhen Xinyida**") at a consideration of RMB16,000,000. Shenzhen Xinyida is located in Shenzhen and is principally engaged in the sales and trading of automobile glass and provision of installation services to public transportation service providers in Shenzhen.

As a result of the acquisition, the Group is expected to increase its market share and strengthen its network of service centres in strategic locations. It also expects to reduce costs through economies of scale. The goodwill of approximately RMB10,931,000 arising from the acquisition is primarily attributable to the Group's strategic objectives to capitalise the business growth in the PRC.

## 32 Business combinations *(Continued)*

The following table summarises the consideration paid for the acquisition of Shenzhen Xinyida, the fair value of assets acquired and liabilities assumed at the acquisition date.

| | RMB'000 |
|---|---|
| **Consideration:** | |
| – Cash | 16,000 |
| | |
| **Recognised amount of identifiable assets acquired and liabilities assumed** | |
| Cash and cash equivalents | 219 |
| Inventories | 3,972 |
| Trademark (Note 13) | 2,400 |
| Customer relationship (Note 13) | 4,100 |
| Property, plant and equipment (Note 12) | 219 |
| Trade and other receivables | 2,157 |
| Trade and other payables | (6,373) |
| Deferred tax liabilities (Note 24) | (1,625) |
| | |
| Total identifiable net assets | 5,069 |
| | |
| Goodwill (Note 13) | 10,931 |
| | |
| **Net cash outflow on acquisition of business during the year:** | |
| Cash consideration paid | 16,000 |
| Cash and cash equivalents acquired | (219) |
| Prepayment in prior year | (8,000) |
| | |
| | 7,781 |

The revenue included in the consolidated statement of comprehensive income since 15 January 2014 contributed by Shenzhen Xinyida was approximately RMB9,119,000. Shenzhen Xinyida also contributed profit of approximately RMB846,000.

Had Shenzhen Xinyida been consolidated from 1 January 2014, the consolidated statement of comprehensive income would show pro-forma revenue of approximately RMB135,584,000 and loss of approximately RMB12,202,000.

## 33 Contingent liabilities

During the year ended 31 December 2014, Xinyi Automobile Glass (BVI) Company Limited ("Xinyi Glass") issued an originating summons (the "Originating Summons") and instituted proceedings in the Court of First Instance of the Hong Kong Special Administrative Region against the Company, the vendor of the Daqing property, the holder of the convertible bonds, the existing executive and non-executive directors and certain existing and former independent non-executive directors, with respect to the acquisition of a property in Daqing ("Acquisition") as detailed in Note 26.

Pursuant to the Originating Summons, Xinyi Glass has concerns that the terms of the Acquisition may not serve the best interests of the Company and the shareholders as a whole and it has doubt on the legality surrounding the Acquisition. Accordingly, Xinyi Glass seeks the following orders:

(i) the acquisition agreement to be declared void or, in the alternative, voidable;

(ii) the convertible bonds issued to satisfy the consideration of the Acquisition, the conversion shares already allotted and issued to the vendor of the Daqing property as at the date of the Originating Summons be declared void or, in the alternative, voidable;

(iii) in the event that the acquisition agreement and the convertible bonds are declared voidable, the Company and the vendor be compelled to terminate and/or rescind the same; and

(iv) in the alternative, damages from the existing executive and non-executive directors and certain existing and former independent non-executive directors.

Management has consulted legal advisors in both the PRC and Hong Kong in response to the Originating Summons. The Directors have thoroughly revisited the situations based on the advices of the PRC and Hong Kong legal advisors, and considered that the demands (i) to (iii) are unattainable and demand (iv) does not impact the Company nor the Group. Accordingly, the Directors considered that the pending litigation will not have material adverse impact to the consolidated financial statements as at 31 December 2014.

# **Five** Year Financial Summary

The financial information for the years ended 31 December 2010 and 2009 was not disclosed as the consolidated financial statements for the Group have not been prepared for these years. The audited results of the Group for the years ended 31 December 2014 and 2013 and the audited assets and liabilities of the Group as at 31 December 2014 and 2013 are those set out in the published financial statements for the years ended 31 December 2014 and 2013, respectively.

## RESULTS

| | **2014** | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 |
| Revenue | **135,193** | 144,214 | 136,954 | 45,446 |
| (Loss)/profit before tax | **(10,313)** | 14,712 | 20,665 | 43,686 |
| Income tax | **(1,781)** | (5,410) | (5,580) | (3,742) |
| (Loss)/profit for the year | **(12,094)** | 9,302 | 15,085 | 39,944 |
| Attributable to: | | | | |
| Owners of the Company | **(12,637)** | 8,664 | 14,367 | 39,723 |
| Non-controlling interests | **543** | 638 | 718 | 221 |

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | **2014** | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 |
| Total assets | **250,947** | 155,279 | 122,821 | 106,418 |
| Total liabilities | **(22,249)** | (15,601) | (21,937) | (36,177) |
| Non-controlling interests | **(5,468)** | (4,484) | (3,096) | (2,378) |

The summary above does not form part of the audited consolidated financial statements.