Annual Report 2016

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

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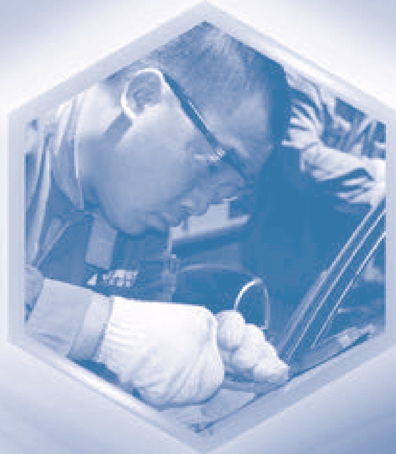

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Corporate Information

DIRECTORS

Executive Directors

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

Non-Executive Directors

Mr. Xia Xiufeng *(Chairman)*
Mr. Liu Mingyong
Mr. Lo Chun Yim

Independent Non-Executive Directors

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

LEGAL ADVISERS

Chiu & Partners (as to Hong Kong laws)
40th Floor, Jardine House
1 Connaught Place
Central, Hong Kong

AUDITOR

BDO Limited
Certified Public Accountants
25/F, Wing On Centre
111 Connaught Road Central
Hong Kong

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
Mr. Liu Mingyong

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

Corporate Information

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 2016.

FINANCIAL PERFORMANCE

During the year, the revenue of the Group for the year ended 31 December 2016 was approximately RMB131,245,000, representing an increase of approximately 0.04% as compared with that in 2015. The revenue was mainly derived from sales of automobile glass with installation/repair services. The total comprehensive loss attributable to owners of the Company was approximately RMB57,823,000 for the year ended 31 December 2016, representing a decrease of approximately 34.7% as compared with that in 2015 of approximately RMB88,557,000.

The Group would like to share more details of the Group's performance, financial position and other information in the year 2016 with shareholders in the following section of management discussion and analysis.

BUSINESS PROSPECT AND LOOKING FORWARD

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. 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.

Currently, the Group is also engaged in the provision of installation services of photovoltaic system in China and has completed several photovoltaic system installation services projects in Beijing, Shenzhen, Liaoning and Sichuan for the past three years.

Although there has been a slowdown of economic growth in China, it remains as one of the fastest growing economy in the world. The Group believes that the rising standard of living in China will continue to increase the demand of automobiles and related services. The Group will explore any opportunities to cooperate with more business partners who are strong in the market to develop Online-To-Offline ("O2O") services so as to enhance the coverage of the Group's services in the region.

Our O2O Commerce is the use of online platform and 24 hours hotline to draw potential customers from online channels to our 28 physical services centres in six cities in China or the provision of door-to-door services to online customers through our over motorcade service teams which stationed at service centres.

To further promote the Group's band image and enhance its reputation, the Group intends to enhance brand awareness through increasing advertising across a variety of media, including radio show, advertising displays on internet and WeChat platform. The management is currently optimising the Group's resources in order to expand its existing business.

APPRECIATION

On behalf of the Board, I am grateful for the perseverance and resilience of our staff in such a difficult time and would like to give thanks to all of them for their unswerving efforts. I also take this opportunity to express heartfelt gratitude to all shareholders, investors and business partners for their patience, understanding and continued support during this adverse period of time.

Xia Xiufeng
Chairman

21 March 2017

BUSINESS REVIEW

The Group's total revenue for the year ended 31 December 2016 amounted to approximately RMB131,245,000, representing an increase of approximately RMB52,000 or 0.04% as compared to that of approximately RMB131,193,000 in 2015. Overall gross profit decreased by approximately RMB7,115,000 or 29.3% to approximately RMB17,207,000 in 2016 from approximately RMB24,322,000 in 2015. The gross profit margin in 2016 decreased to approximately 13.1% from approximately 18.5% in 2015. The total comprehensive loss attributable to owners of the Company was decreased by 34.7% to approximately RMB57,823,000 (2015: RMB88,557,000).

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	
	2016	2015		**2016**	2015		**2016**	2015
	RMB'000	RMB'000	Change %	**RMB'000**	RMB'000	Change %	**%**	%
Sales of automobile glass with installation/repair services	**98,721**	108,336	(8.9)	**16,477**	22,899	(28.0)	**16.7**	21.1
Trading of automobile glass	**14,711**	12,856	14.4	**974**	999	(2.5)	**6.6**	7.8
Provision of installation services of photovoltaic system	**17,813**	10,001	78.1	**(244)**	424	(157.5)	**(1.4)**	4.2
Total	**131,245**	131,193	0.04	**17,207**	24,322	(29.3)	**13.1**	18.5

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 75.2% of the Group's total revenue in 2016 (2015: 82.6%). 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 RMB9,615,000 or 8.9% from approximately RMB108,336,000 in 2015 to approximately RMB98,721,000 in 2016. The decrease was mainly due to (i) the decrease in frequency of extreme weather such as storm, hailing and snowing days in both Beijing and Tianjin cities in the second half of 2016 but the frequency of red alert air pollution in 2016 were longer than the same period of 2015, the combined effect caused the decrease in sales of automobile glass; and (ii) the insurance companies reduced the claimed price for individual insured customer to install and replace certain models of the damaged automobile glass.

Gross profit from sales of automobile glass with installation/repair services in 2016 amounted to approximately RMB16,477,000 (2015: RMB22,899,000), representing a decrease of approximately 28.0% as compared to 2015. Gross profit margin decreased from approximately 21.1% in 2015 to approximately 16.7% in 2016. The decrease in gross profit and gross profit margin was mainly attributable to (i) more customers preferring the original automobile glass with higher price instead of homogenous products sold by the Group, (ii) since the Group provides automobile glass installation/repair service to individuals insured by insurance companies in accordance with the price list mutually agreed by the insurance companies and the Group, the insurance company would often require the Group to lower the price for the products/services provided in spite of the price differences that caused the gross profit of sales of automobile glass with installation/repair services to decrease; and (iii) in addition, some indirect fixed costs such as salaries and wages, depreciation costs and rental expenses, increased the average cost of sales, which in turn also brought down the gross profit margin together with the decrease of sales of automobile glass and installation/repair services.

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 2016 was approximately RMB14,711,000 (2015: RMB12,856,000), representing an increase of approximately 14.4% as a result of the bulk sales of long aged products.

Gross profit from trading of automobile glass decreased by approximately RMB25,000 or 2.5% from approximately RMB999,000 in 2015 to approximately RMB974,000 in 2016. Gross profit margin decreased from approximately 7.8% in 2015 to approximately 6.6% in 2016 which was mainly due to the reduction in selling price of long aged products.

Provision of installation services of photovoltaic system

The Group started to engage in the photovoltaic system installation services since 2014 and we operate on a project-by-project basis. Revenue from provision of installation services of photovoltaic system in 2016 was approximately RMB17,813,000 (2015: RMB10,001,000), which was mainly representing the remaining revenue recognition for a photovoltaic system installation project started in 2015 and completed in 2016.

Gross profit from provision of installation services of photovoltaic system was approximately RMB424,000 in 2015, while gross loss was approximately RMB244,000 in 2016 which was mainly due to the decrease of photovoltaic system projects to cover the indirect costs in the second half of 2016.

Review by segment

	Northern China (excluding Shenyang)			Shenyang			Hangzhou			Shenzhen			Total		
	2016 RMB'000	2015 RMB'000	Change %	**2016 RMB'000**	Period ended 21 December 2015 RMB'000	Change %	**2016 RMB'000**	2015 RMB'000	Change %	**2016 RMB'000**	2015 RMB'000	Change %	**2016 RMB'000**	2015 RMB'000	Change %
Revenue	**120,661**	118,033	2.2	–	1,448	(100)	**2,162**	2,396	(9.8)	**8,422**	9,316	(9.6)	**131,245**	131,193	0.04
Gross Profit	**15,700**	21,534	(27.1)	–	27	(100)	**95**	148	(35.8)	**1,412**	2,613	(46.0)	**17,207**	24,322	(29.3)
Gross profit margin	**13.0%**	18.2%		–	1.9%		**4.4%**	6.2%		**16.8%**	28.0%		**13.1%**	18.5%	

The Northern China (excluding Shenyang) segment includes Beijing, Tianjin, Sanhe (Hebei) and revenue generated from these areas represents 91.9% of the Group's total revenue. Revenue from the Northern China (excluding Shenyang) segment increased by approximately 2.2% from approximately RMB118,033,000 in 2015 to approximately RMB120,661,000 for the year ended 31 December 2016. The increase was mainly attributable to the increase of revenue from photovoltaic system installation services. Gross profit decreased by approximately 27.1% from approximately RMB21,534,000 in 2015 to approximately RMB15,700,000 in 2016 and gross profit margin decreased from approximately 18.2% in 2015 to approximately 13.0% for the year ended 31 December 2016. This is mainly attributable to (i) more customers preferring the original automobile glass with higher price instead of homogenous products sold by our Group, (ii) since the Group provides automobile glass installation/repair service to individuals insured by insurance companies in accordance with the price list mutually agreed by the insurance companies and the Group, the insurance company would often require the Group to lower the price for the products/services provided in spite of the price differences that caused the gross profit of sales of automobile glass with installation/repair services to decrease; and (iii) some indirect fixed costs such as salaries and wages, depreciation costs and rental expenses, increased the average cost of sales, which in turn also brought down the gross profit margin together with the decrease of sales of automobile glass installation/repair services.

Revenue of the Hangzhou segment decreased by approximately 9.8% from approximately RMB2,396,000 in 2015 to approximately RMB2,162,000 for the year ended 31 December 2016. This was mainly due to the decline of both sales and trading of automobile glass as a result of keen competition in the Hangzhou area. Gross profit decreased by 35.8% from approximately RMB148,000 in 2015 to approximately RMB95,000 in 2016 as a result of the reduction in average selling price of trading of automobile glass because of keen competition. Gross profit margin decreased from approximately 6.2% in 2015 to approximately 4.4% for the year ended 31 December 2016. The decrease in the gross profit and gross profit margin of the Hangzhou segment is mainly due to decrease in both sales and trading of automobile glass whereas the related costs, such as rental expenses, staff costs and utilities, decreased with lesser proportion.

Due to the entrance of new competitors in automobile glass installation/repair service business in Shenzhen during the year ended 31 December 2016, the revenue from the Shenzhen segment amounted to approximately RMB8,422,000 for the year ended 31 December 2016, which represents a decrease of approximately 9.6% as compared to that of approximately RMB9,316,000 for the year ended 31 December 2015. Gross profit decreased by 46.0% from approximately RMB2,613,000 in 2015 to approximately RMB1,412,000 in 2016. Gross profit margin decreased from approximately 28.0% in 2015 to approximately 16.8% for the year ended 31 December 2016. This was mainly attributable to provision of approximately RMB353,000 made for obsolete inventories during the year.

Other Gain/Loss, Net

Other gain/loss, net mainly represent provision for impairment on property, plant and equipment of approximately RMB3,879,000 and provision for impairment on intangible assets of approximately RMB7,947,000. Details of such impairment are disclosed in notes 13 and 14 to the consolidated financial statements.

Selling and Distribution Costs

Selling and distribution costs decreased by approximately 4.3% from approximately RMB27,846,000 in 2015 to approximately RMB26,647,000 in 2016. The decrease was mainly due to the decrease in advertising and marketing expenses of approximately RMB1,316,000.

Administrative Expenses

The Group's administrative expenses mainly consist of professional fees, staff costs (including Directors' remunerations and share-based payments expenses), depreciation and rental expenses. The total administrative expenses increased by approximately 2.0% from approximately RMB40,813,000 in 2015 to approximately RMB41,635,000 in 2016. The increase was mainly due to the increase in employee share-based payments expenses of approximately RMB8,033,000 but legal and professional fees were reduced by approximately RMB6,360,000 compared with the corresponding period in 2015.

Impairment Loss on Daqing Property

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, the PRC (the "**Daqing Property**") with a total gross floor area of approximately 4,445 square meters at a consideration of RMB48,000,000 which was settled through the issuance of convertible bonds convertible into 54,690,647 conversion shares (the "**Daqing Acquisition**"). The fair value of the convertible bonds was approximately RMB69,466,000 which was assessed by an independent valuer and determined at the Board approval date of the convertible bonds. As the Daqing Property was yet registered to the local authority in 2014, the corresponding amount of RMB69,466,000 was treated as a prepayment under non-current assets as at 31 December 2014. In 2015, an impairment loss of RMB21,614,000 was recognised in other gain/loss, net to write down the carrying amount of the Daqing Property to its recoverable amount of RMB46,490,000 as a result of the significant economic slowdown in Daqing. The recoverable amount of the Daqing Property, as at 31 December 2015, was assessed by an independent valuer by using direct comparison approach estimated with reference to similar assets adjusted for differences in condition. Details of such impairment are disclosed in note 13 to the consolidated financial statements.

Impairment Loss on Intangible Assets and Property, Plant and Equipment

As the Group recorded a decline in profitability during the year ended 31 December 2016, management considers that there is indication for impairment for its non-financial assets, whilst the Daqing Property has been separately assessed as set out above. For the purpose of impairment testing, trademark, customer relationships and property, plant and equipment (excluding the Daqing Property) are allocated to the cash generating unit ("**CGU**"). The recoverable amounts of CGUs are determined by value-in-use calculation based on cash flow projections from formally approved budgets covering a five-year period. In order to determine the recoverable amounts of the CGUs, management made reference to the valuation report, issued by an independent valuer and identified impairment loss on intangible assets and property, plant and equipment of approximately RMB7,947,000 (2015: RMB19,833,000) and approximately RMB3,879,000 (2015: RMB27,135,000) respectively. Details of such impairment are disclosed in notes 13 and 14 to the consolidated financial statements.

Finance (Cost)/Income, Net

The finance cost, net, for the year ended 31 December 2016 amounted to approximately RMB80,000 (2015: Income of RMB326,000), and the increase in finance cost was mainly attributable to exchange losses recognised in 2016.

Income Tax Credit

Income tax credit decreased by approximately 46.9% from approximately RMB5,001,000 in 2015 to approximately RMB2,656,000 for the year ended 31 December 2016. The decrease was mainly attributable to the decline of deferred income tax liabilities during the year.

Loss for the Year

As a combined result of the factors above, the loss attributable to the owners of the Company during the year was approximately RMB60,525,000 while the loss was approximately RMB89,981,000 for the same period of 2015.

Current Ratio

The Group's current ratio as at 31 December 2016 was 5.4, as compared with 8.3 as at 31 December 2015. The decrease was mainly due to decrease in trade and other receivables and cash and cash equivalents.

Capital Structure

As at 31 December 2016, the Group had net assets of approximately RMB130,158,000 (2015: RMB191,285,000), comprising non-current assets of approximately RMB59,176,000 (2015: RMB72,974,000), and current assets of approximately RMB87,092,000 (2015: RMB140,899,000). The Group recorded a net current asset position of approximately RMB70,982,000 (2015: RMB123,944,000), primarily consisting of cash and cash equivalents of approximately RMB28,535,000 (2015: RMB49,535,000), inventories of approximately RMB31,005,000 (2015: RMB37,534,000) and trade and other receivables of approximately RMB27,303,000 (2015: RMB53,430,000). Major current liabilities are trade and other payables of approximately RMB11,663,000 (2015: RMB16,841,000), income tax payables of approximately RMB2,000 (2015: RMB114,000) and convertible bonds of approximately RMB4,445,000 (2015: classified as non-current liabilities of RMB3,882,000).

Liquidity and Financial Resources

As at 31 December 2016, the Group's cash and cash equivalents amounted to approximately RMB28,535,000, representing a net decrease of approximately RMB21,000,000 as compared to that of approximately RMB49,535,000 as at 31 December 2015. The gearing ratio of the Group as at 31 December 2016 is 3.4% (2015: 2.0%) which mainly arose from convertible bonds of RMB4,445,000 (2015: RMB3,882,000). Net cash outflow from operating activities amounted to approximately RMB8,535,000 (2015: cash outflow RMB55,209,000) as a result of operating loss in the current year. As at 31 December 2016, the Group had no bank borrowings (2015: Nil). In view of the Group's current level of cash and bank balances, funds generated internally from our operations, the Board is confident that the Group will have sufficient resources to meet its finance needs for its operations.

Convertible Bonds

On 14 November 2014, the Company issued 54,690,647 shares pursuant to the exercise of conversion rights attached to the convertible bonds (the "**Bonds**") in the principle amount of HK$60,816,000 (equivalent to RMB48,000,000) in exchange for the deposit in relation to the acquisition of the Daqing Property. The maturity date of the Bonds fall on the third anniversary from the date of issue of the Bonds. On 17 November 2014, the holder of the Bonds has completed the conversion of 50,000,000 shares at conversion price of HK$1.112 per share and the remaining Bonds of 4,690,647 as at 31 December 2014 had a value of approximately RMB3,460,000. The fair value of the Bonds were assessed by an independent valuer and determined at the Board approval date of the Bonds.

On 2 September 2015, the Company has allotted and issued 106,000,000 new shares (the "**Share Subscription**") to an independent third party. Pursuant to the terms of the Bonds dated 14 November 2014, the Share Subscription caused adjustment to the conversion price of the Bonds from HK$1.112 per share to HK$1.07 per share and the number of conversion shares has been adjusted from 4,690,647 shares to 4,874,766 shares. As of 31 December 2016, the fair value of the Bonds was approximately RMB4,445,000 (31 December 2015: RMB3,882,000). Under the general mandate granted by the shareholders to the Directors on 9 May 2014, the Company has 309,353 shares remain unissued before such adjustment, which is sufficient to cover the additional 184,119 conversion shares, and 125,234 shares will remain unissued under the general mandate after such adjustment.

Pledge of Assets

As at 31 December 2016, the Group has pledged one of the Group's properties in Beijing with net book value of approximately RMB4,174,000 as at 31 December 2016 to guarantee one of the Group's suppliers of imported glass for a bank loan of RMB2,000,000 for a period of 12 months and will be ended on 18 August 2017. Except as disclosed above, the Group did not have any other assets pledged for bank borrowings or for other purpose (2015: 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 2016 and 2015.

Capital Commitments

The Group did not have any significant capital commitments, as at 31 December 2016 and 2015.

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 29.1(a) to the consolidated financial statements. During the year ended 31 December 2016, the Group did not hedge its exposure to foreign exchange.

Employees and Remuneration Policy

As at 31 December 2016, the Group employed a total of 427 employees (2015: 447 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 2016, the total staff costs (including Directors' emoluments) amounted to approximately RMB48,429,000 (2015: RMB38,704,000).

The Group has adopted a share option scheme (the "**Option Scheme**") for its employees. Since the adoption of the Option Scheme, no share options have been granted, exercised, lapsed or cancelled, and as at 31 December 2016, no share options under the Option Scheme were outstanding.

On 12 October 2015, the Group adopted a share award scheme (the "**Award Scheme**") for its employees. On 12 November 2015, the Group granted 41,300,000 award shares to 16 employees (the "**Selected Participants**") under the Award Scheme. The award shares will be vested in full to the Selected Participants respectively in five tranches each over six years, with approximately 10% to be vested on the first tranche, 20% to be vested on each of the second and third tranches and 25% to be vested on each of the fourth and fifth tranches. During the year, 900,000 award shares have been forfeited as a result of resignation of an employee and 3,590,000 award shares have been vested to employees on 31 August 2016.

Future Plans for Material Investments or Capital Assets

As of 31 December 2016, the Group has utilised the share subscription proceeds of approximately RMB2.9 million to set up the preliminary sales platform on mobile phone. The Group is in the process of setting up the internet sales platform and will further develop the mobile phone platform and integrate these platforms to our enterprise resource planning system.

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 2016. However, the Group will continue to explore new opportunity in other industries.

Material Acquisition and Disposal

During the year ended 31 December 2016, the Group has no material acquisition and disposal of subsidiaries, affiliated companies or other significant investments.

Litigation

Legal proceedings against Mr. Lau Sik Yuen and Ms. Dy Melanie

On 10 November 2014, the Company commenced proceedings in the Court of First Instance of the Hong Kong Special Administrative Region (the "**Court**") against Mr. Lau Sik Yuen as the first defendant and Ms. Dy Melanie as the second defendant (Action No. 2266 of 2014, the "**Action**"), in relation to their breaches of duty of confidentiality and fiduciary duties as director and alternate director of the Company respectively by unauthorised disclosure of information concerning the Daqing Acquisition to third party(ies) 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 act on its behalf in the Action.

The Company has reached settlement with Mr. Lau and Ms. Dy to discontinue the Action. On 6 March 2017, the Court granted an order for the discontinuance of the 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 former non-executive Director and the chairman of the Company, as the 6th Defendant;

(g) Fong William, who is a former independent non-executive Director, 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 Bonds 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 Bonds 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 Bonds 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 Company has appointed a firm of solicitors in Hong Kong to contest the same. As of the report date, the litigation is still ongoing but no step has been taken by Xinyi Glass to prosecute the same against all the defendants since 12 November 2015.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

Recognising the importance of a listed company's responsibilities to enhance its transparency and accountability, the Company is committed to maintaining 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 2016, the Company has complied with all the code provisions set out under the Code.

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 directors throughout the year ended 31 December 2016.

BOARD COMPOSITION

The Board comprises nine Directors, three of whom are executive Directors, three are non-executive Directors 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

Mr. Xia Xiufeng *(Chairman)*
Mr. Liu Mingyong
Mr. Qi Dianjiang *(Appointed on 30 September 2015 and ceased to be a Director on 25 February 2016)*
Mr. Lo Chun Yim *(Appointed on 22 March 2016)*

Independent Non-Executive Directors

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

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 24 to 27 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**") was the sister-in-law of Ms. Natsu Kumiko (the past Chairman) and is the elder sister of Mr. Xia Xiufeng (the current 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

The Company Secretary (Mr. Sum Sui Lun) is responsible for facilitating communications among Directors as well as with the management. A brief biography of the Company Secretary is set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

For the year ended 31 December 2016, Mr. Sum Sui Lun 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 (i) the Chairman and (ii) the CEO are segregated and performed by Mr. Xia Xiufeng and (ii) Ms. Xia Lu, respectively.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the executive Directors 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 non-executive Directors has entered into a service contract or letter of appointment with the Company for an initial term of three years with effect from (i) 16 July 2015 (in respect of Mr. Xia Xiufeng); or (ii) 30 September 2015 (in respect of Mr. Liu Mingyong); or (iii) 22 March 2016 (in respect of Mr. Lo Chun Yim), 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. Qi Dianjiang has ceased to be a Director on 25 February 2016 due to the fact that his re-election as a director was not passed in general meeting for the year ended 31 December 2015.

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 2016. A summary of this Board Diversity Policy, together with the measurable 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

The following measurable objectives have been set for implementing the Board Diversity Policy:

(a) at least 33% of the members of the Board shall have attained education from university or obtained accounting or other professional qualifications; and

(b) at least 33% of the members of the Board shall be independent non-executive Directors.

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 would review the Board Diversity Policy to ensure its effectiveness and considered that the Group has achieved the measurable objectives for implementing the Board Diversity Policy throughout the year ended 31 December 2016.

BOARD MEETING, GENERAL MEETING AND PROCEDURES

The Board meets regularly and additional meetings will be convened when considered necessary by the Board; 5 board meetings and 1 general meeting were held throughout the year ended 31 December 2016. The following is the Directors' attendance record of the board meetings and the general meetings of the Company:

	Number of attendance/ number of Board meetings	Number of attendance/ number of general meetings
Ms. Xia Lu	5/5	1/1
Mr. He Changsheng	5/5	1/1
Mr. Li Honglin	4/5	1/1
Mr. Xia Xiufeng	5/5	1/1
Mr. Liu Mingyong	1/5	1/1
Mr. Qi Dianjiang *(Appointed on 30 September 2015 and ceased to be a Director on 25 February 2016)*	0/1	0/1
Mr. Chen Jinliang	4/5	1/1
Mr. Jiang Bin	4/5	1/1
Mr. Han Shaoli	4/5	1/1
Mr. Lo Chun Yim	0/3	0/1

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 2016, all Directors had participated in continuous professional development in the following manner:

	Type of trainings
Ms. Xia Lu	A, B
Mr. He Changsheng	A, B
Mr. Li Honglin	A, B
Mr. Xia Xiufeng	A, B
Mr. Liu Mingyong	A, B
Mr. Qi Dianjiang *(Appointed on 30 September 2015 and ceased to be a Director on 25 February 2016)*	B
Mr. Chen Jinliang	A, B
Mr. Jiang Bin	A, B, C
Mr. Han Shaoli	A, B
Mr. Lo Chun Yim	B

A: attending internal briefing session in relation to corporate governance

B: reading materials in relation to regulatory update

C: attending seminars/courses/conference to develop professional skills and knowledge

BOARD COMMITTEES

The Board has established three board committees, namely the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**") and the 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 at the date of this report, the Audit Committee has four members comprising of three independent non-executive Directors and one non-executive Director, namely Mr. Jiang Bin (Chairman), Mr. Chen Jinliang, Mr. Han Shaoli and Mr. Liu Mingyong. The Audit Committee had reviewed the final results of the Group for the year ended 31 December 2016, the annual report of the Group for the year ended 31 December 2016, interim results and report for the six months ended 30 June 2016, the quarterly results and reports for the periods ended 31 March 2016 and 30 September 2016. The Audit Committee had reviewed the Group's risk management and internal control system for the year. Based on the review conducted by the Audit Committee during the year ended 31 December 2016, 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 the risk management and internal control system of the Group are effective and adequate.

There has not been any change of the members of the Audit Committee during the year ended 31 December 2016 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 2016 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 2016.

	Number of attendance/ number of meetings
Mr. Jiang Bin *(Chairman)*	4/4
Mr. Chen Jinliang	4/4
Mr. Han Shaoli	4/4
Mr. Liu Mingyong	1/4

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 of two independent non-executive Directors and one executive Director, namely Mr. Han Shaoli (Chairman), Mr. Chen Jinliang and Mr. He Changsheng. 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 2016, one meeting of the Remuneration Committee was held to review the remuneration package and terms of service contracts of the Directors and senior management of the Group.

There is no change of the members of the Remuneration Committee during the year ended 31 December 2016 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 2016 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 2016.

	Number of attendance/ number of meeting
Mr. Han Shaoli *(Chairman)*	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 changes 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 of two independent non-executive Directors and one executive Director, namely Mr. Chen Jinliang (Chairman), Mr. Jiang Bin and Ms. Xia Lu. Throughout the year ended 31 December 2016, one meeting of the Nomination Committee was held to review the structure, composition of the Board, the succession plan for the Board and proposed appointments of Directors.

There is no change of the members of the Nomination Committee during the year ended 31 December 2016 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 2016 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 2016.

	Number of attendance/ number of meeting
Mr. Chen Jinliang *(Chairman)*	1/1
Ms. Xia Lu	1/1
Mr. Jiang Bin	1/1

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 2016, 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 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

Each of the Directors understand and acknowledge his responsibility for the preparation of the consolidated financial statements, which give a true and fair view of the financial position and the financial performance of the Group 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 (Cap.622). 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 2016, the remuneration paid or payable to the auditors of the Company in respect of the statutory audit services was approximately HK$1,200,000 (equivalent to approximately RMB1,029,000) (2015: HK$1,158,000 (equivalent to approximately RMB973,000)).

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining an adequate risk management and internal control system to safeguard shareholder investments and Company assets. The risk management and 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 risk management and internal control system to ensure an effective and adequate risk management and 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, ensuring the reliability of financial information and ensuring the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

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 Requisitionist(s). 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.

During the year ended 31 December 2016, there is no change in the Company's constitutional documents.

Biographical Details of Directors and Senior Management

Directors

Executive Directors

Ms. Xia Lu (夏路), aged 58, is the founder of the Group, and was appointed as a 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 26 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 elder sister of Mr. Xia Xiufeng (Non-executive Director), aunt of Mr. Yu Fei (senior management) and the sister-in-law of Ms. Natsu Kumiko, a controlling shareholder of the Company. Ms. Xia is also the director of Lu Yu Global Limited, a controlling shareholder of the Company.

Ms. Xia is interested in 10,000,000 shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**") as at 31 December 2016.

Mr. He Changsheng (賀長生), aged 58, 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 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 13 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. He is interested in 10,500,000 shares of the Company within the meaning of Part XV of the SFO as at 31 December 2016.

Mr. Li Honglin (李洪林), aged 53, 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.

Mr. Li is interested in 4,500,000 shares of the Company within the meaning of Part XV of the SFO as at 31 December 2016.

* *For identification purpose only*

Biographical Details of Directors and Senior Management

Non-executive Directors

Mr. Xia Xiufeng (夏秀峰), also known as Mr. Osaka Masami, aged 56, is a non-executive Director appointed on 16 July 2015. He is also the chairman of the Company and the director of sales of 天津豐業新能源科技有限公司 (Tianjin Fengye New Energy Technology Co., Ltd.*), an indirect wholly-owned subsidiary of the Company. Mr. Xia served in the army under the 國防科學技術委員會 (Commission of Science and Technology for National Defence*) in the PRC from 1977 to 1981. Mr. Xia then worked as an officer at the 北京市科學技術委員會計算中心 (Computing Center of the Beijing Municipal Science and Technology Commission*) from August 1981 to August 1987. He also attended 北京市西城區職工大學 (Beijing Xicheng District Vocational College*) from September 1983 to July 1987 and graduated in Chinese studies. Mr. Xia later completed a course in Japanese language studies at 日本東京學院 (Academy of Tokyo*) from October 1987 to March 1989. He furthered his education in social studies as a graduate student at the 日本東京學藝大學 (Tokyo Gakugei University*) from April 1989 to March 1991. Mr. Xia was the president of 日本全日通株式會社 (Zennitsu Co., Ltd.*) from September 1992 to October 2010. He is currently engaged in management positions of various companies, including the chairman of 日本ISA株式會社 (ISA Co., Ltd.*) since December 1996, the chairman of ISA Co., Limited (ISA(香港)有限公司*) since December 2009, a director of Hirokou Co., Limited (宏幸實業(香港)有限公司) since December 2010 and a director of Zennitsu Co., Limited (香港全日通有限公司*) since May 2014. Mr. Xia is the younger brother of Ms. Xia Lu (Executive Director) and the brother-in-law of Ms. Natsu Kumiko (Controlling Shareholders).

Mr. Xia is interested in 1,000,000 shares of the Company within the meaning of Part XV of the SFO as at 31 December 2016.

Mr. Liu Mingyong (劉明勇), aged 46, is a non-executive Director appointed on 30 September 2015. He is also a member of the Audit Committee. Mr. Liu obtained a bachelor's degree in economics from the School of Economics and Trade at 中國礦業大學 (China University of Mining and Technology*) in July 1992. He obtained the qualification of senior accountant in 2004. Mr. Liu worked as the finance supervisor at 中國地方煤炭總公司 (China Local Coal Corporation*) from May 1992 to July 1995. He then worked as the finance manager at 中國鄉鎮企業投資開發有限公司 (China Township Enterprise Investment & Development Company Limited*) from August 1995 to July 1998. Mr. Liu worked as the finance general manager at 豪力機械(中國)有限公司 (Haoli Machinery (China) Co., Ltd.*) from August 1998 to October 1999. He joined 北京海淀科技發展有限公司 (Beijing Haidian Science & Technology Development Co., Ltd.*) since November 1999 and became the deputy general manager in March 2014 and was in charge of the company's financial, investment and real estate businesses. From October 2006 to May 2011, Mr. Liu served successively as supervisor, director and the vice chairman at 中墾農業資源開發股份有限公司 (Zhongken Agricultural Resource Development Co., Ltd.*), a company listed on the Shanghai Stock Exchange (stock code: 600313) and now known as 中農發種業集團股份有限公司 (Zhongnongfa Seed Industry Group Co., Ltd*). Since October 2010 and June 2013 respectively, he was also a director at 北京三聚環保新材料股份有限公司 (Beijing Sanju Environmental Protection and New Materials Co., Ltd.*), a company listed on the Shenzhen Stock Exchange (stock code: 300072), and 北京海科融通支付服務股份有限公司 (Beijing Haike Rongtong Payment Services Co., Ltd.*).

Mr. Lo Chun Yim (盧春熖), aged 47, is a non-executive Director appointed on 22 March 2016. He is a substantial shareholder of the Company interested in approximately 16.04% of the total issued share capital of the Company as at 31 December 2016. Mr. Lo has extensive experience in investment management. Mr. Lo is currently a director of Rise Grace Development Limited ("**Rise Grace**"), a company incorporated in Hong Kong with limited liability which is principally engaged in the provision of investment consultancy services, and Diamond Galaxy Limited ("**Diamond Galaxy**"), a company incorporated in the British Virgin Islands with limited liability, both of which are substantial shareholders of the Company.

As at 31 December 2016, Mr. Lo is the sole beneficial shareholder of Diamond Galaxy, which is the sole beneficial shareholder of Rise Grace, and therefore he is interested in the 106,000,000 shares held by Rise Grace within the meaning of Part XV of the SFO.

* *For identification purpose only*

Biographical Details of Directors and Senior Management

Independent non-executive Directors

Mr. Jiang Bin (姜斌), aged 46, 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 17 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 46, 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 59, 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 11 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 45, is the manager of the sales and marketing department of the Group. Mr. Yu has approximately 20 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 Lu.

Ms. Bai Wen (白雯), aged 53, is the manager of the finance department of the Group. Ms. Bai has approximately 9 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 Fengye 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 (Renmin University of China*) in July 2000.

Mr. Lau Shing (劉成), aged 60, is the deputy general manager and capital operation manager of the Group. Mr. Lau has approximately 23 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 years 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 the 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 45, 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 commerce. He has over 20 years of experience in audit, 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 2016.

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 2016.

Business objectives	Planned progress up to 31 December 2016	Actual business progress up to 31 December 2016
Expand the existing business of the Group by setting up new service centres in China	To set up new service centres in Beijing (3), Tianjin (2), Hangzhou (1), Shenyang (1), Shandong (1) and Hebei (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 2016 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 2016, mainly covering purchase of inventories, rental deposit, decoration and 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 Daqing to replace the proposed location in Shenyang formerly 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 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	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.
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 RMB3,135,000 (equivalent to approximately HK$3,657,000) 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 way of placing (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 2016, 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 2016	**Planned use of proceeds as stated in the Prospectus from the LPD to 31 December 2016** (HK$ million) (Note)	**Actual use of proceeds from the LPD to 31 December 2016** (HK$ million)
1. Setting up new service centres	19.4	9.1
2. Merger, acquisitions and business collaboration	10.9	10.9
3. General working capital	2.3	2.3
Total	32.6	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 2016 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 32 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 52 to 53.

The Directors did not recommend the payment of a dividend for the year ended 31 December 2016.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in note 20 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEMES

Detail of retirement schemes of the Group are set up under note 4(r) to the consolidated financial statement.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 13 to the consolidated financial statements.

CAPITALISATION OF INTEREST

The Group has no interest capitalised during the year ended 31 December 2016.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 19 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2016, 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 RMB209,831,000 (2015: RMB227,761,000) as set out in note 20 to the consolidated financial statements.

CLOSURE OF THE REGISTER OF MEMBER

The register of members of the Company will be closed from Thursday, 4 May 2017 to Tuesday, 9 May 2017, both dates inclusive, during which period no transfer of 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. In order to qualify for attending the annual general meeting, all transfers of shares of the Company accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Tuesday, 2 May 2017.

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 126 of this annual report. This summary does not form part of the audited consolidated financial statements.

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 2016, 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 39.9% (2015: 35.4%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 13.3% (2015: 12.8%) of the total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 55.0% (2015: 48.5%) of the total purchase for the year and goods supplied from the Group's largest supplier included therein amounted to approximately 23.2% (2015: 20.7%) 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 interest in the Group's five largest customers or suppliers.

BUSINESS REVIEW

A review of the development, performance and position of the business of the Company and the principal risks and uncertainties faced by the Company are set out in pages 6 to 13 of this report and note 29 to the consolidated financial statements.

During the year ended 31 December 2016, there was no incidence of non-compliance with the relevant laws and regulations that have a significant impact on the Group's business.

Disclosures related to the Group's environmental policies and performances are included in the Environmental, Social and Governance Report on page 42 to 47 of the annual report.

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 is authorised, at its 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 6.05% 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 2016, no share options under the Scheme were outstanding.

SHARE AWARD SCHEME

On 12 October 2015, the Company adopted a share award scheme (the "**Award Scheme**") for its employees. On 12 November 2015, the Group granted 41,300,000 award shares to 16 employees (the "**Selected Participants**") under the Award Scheme. The award shares will be vested in full to the Selected Participants respectively in five tranches each over six years, with approximately 10% to be vested on the first tranche, 20% to be vested on each of the second and third tranches and 25% to be vested on each of the fourth and fifth tranches. During the year, 900,000 award shares granted under the Award Scheme was forfeited as a result of the resignation of an employee and the first tranche of 3,590,000 award shares has been vested on 31 August 2016.

Name of Selected Participant	Position	Number of Award Shares granted	Forfeited during the year	Vested during the year and as at 31 December 2016
Xia Lu	Chief executive officer and executive Director	10,000,000	–	1,000,000
He Changsheng	Executive Director	10,000,000	–	1,000,000
Li Honglin	Executive Director	4,500,000	–	450,000
Xia Xiufeng	Chairman and non-executive Director	1,000,000	–	0
Yu Fei	Director of subsidiary and nephew of Xia Lu	3,000,000	–	300,000
Bai Wen	Director of subsidiary	1,500,000	–	150,000
Other employees	Managers	11,300,000	(900,000)	690,000
Total		41,300,000	(900,000)	3,590,000

Save as disclosed above, at no time during the year ended 31 December 2016 was the Company or its holding company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS

The directors during the year ended 31 December 2016 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

Mr. Xia Xiufeng *(Chairman)*
Mr. Liu Mingyong
Mr. Lo Chun Yim
Mr. Qi Dianjiang *(Appointed on 30 September 2015 and ceased to be a Director on 25 February 2016)*

Independent Non-Executive Directors

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

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 as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company 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, Mr. Han Shaoli and Mr. Jiang Bin will retire at the forthcoming annual general meeting. Ms. Xia Lu, Mr. Han Shaoli and Mr. Jiang Bin, 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 24 to 27 of this annual report.

DIRECTORS' SERVICE AGREEMENTS

Each of the executive Directors 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 non-executive Directors has entered into a service contract or letter of appointment with the Company for an initial term of three years with effect from (i) 16 July 2015 (in respect of Mr. Xia Xiufeng); or (ii) 30 September 2015 (in respect of Mr. Liu Mingyong); or (iii) 22 March 2016 (in respect of Mr. Lo Chun Yim), all of which shall be automatically renewed and extended for successive terms of one year and may be terminated by either party 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), all of which shall be automatically renewed and extended for successive terms of one year and may be terminated by either party 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. No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 9 to the consolidated financial statements, none of the Directors (or an entity connected with the Directors) or controlling shareholders or any of their subsidiaries had material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party subsisting during the year ended 31 December 2016.

MANAGEMENT CONTRACT

The Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year ended 31 December 2016.

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2016.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2016, the Directors were not aware of any business or interest of each of the Directors, controlling shareholders and their respective close associates (as defined under 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 2016.

The independent non-executive Directors have 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 2016.

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 2016, 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 meaning 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 issuers as 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

	Nature of interest				
Name of Director	**Beneficial interests**	**Beneficiary of a trust**	**Interest of a controlled corporation**	**Total interests**	**Approximate percentage of Shareholding (%)**
					(Note 3)
He Changsheng	1,500,000	9,000,000 (Note 1)	–	10,500,000	1.59%
Li Honglin	450,000	4,050,000 (Note 1)	–	4,500,000	0.68%
Xia Lu	1,000,000	9,000,000 (Note 1)	–	10,000,000	1.51%
Xia Xiufeng	–	1,000,000 (Note 1)	–	1,000,000	0.15%
Lo Chun Yim	–	–	106,000,000 (Note 2)	106,000,000	16.04%

Note:

(1) These Shares represented 9,000,000, 4,050,000, 9,000,000 and 1,000,000 Shares granted to Mr. He Changsheng, Mr. Li Honglin, Ms. Xia Lu and Mr. Xia Xiufeng, respectively, on 12 November 2015 pursuant to the share award scheme of the Company adopted on 12 October 2015 which were unvested as at 31 December 2016 pursuant to the terms and conditions of the award. The award shares will be vested in full to those Directors respectively in five tranches each over six years. These Shares were registered in the name of Computershare Hong Kong Trustees Limited, the trustee of the share award scheme. Therefore, each of Mr. He Changsheng, Mr. Li Honglin, Ms. Xia Lu and Mr. Xia Xiufeng was deemed to be interested in the Shares in which Computershare Hong Kong Trustees Limited was interested by virtue of the SFO.

(2) These Shares were held by Rise Grace Development Limited ("**Rise Grace**"), a company incorporated in Hong Kong on 5 November 2009 and an investment holding company. Rise Grace was wholly and beneficially owned by Diamond Galaxy Limited, which was in turn wholly and beneficially owned by Mr. Lo Chun Yim, a non-executive director of the Company. Mr. Lo Chun Yim was deemed to be interested in all the Shares in which Rise Grace was interested by virtue of the SFO.

(3) The approximate percentage of shareholding is calculated based on the total number of issued Shares of the Company as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, none of the Directors or the 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 issuers as referred to in 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 2016, 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 (%)
			(Note 7)
Lu Yu Global Limited ("**Lu Yu**") (Note 1)	Beneficial owner	216,000,000	32.68%
Natsu Kumiko ("**Ms. Natsu**") (Note 1)	Interest in a controlled corporation	216,000,000	32.68%
Xia Chengzhen (Note 2)	Interest of spouse	216,000,000	32.68%
Xinyi Automobile Glass (BVI) Company Limited ("**Xinyi Glass (BVI)**") (Note 3)	Beneficial owner	120,360,000	18.21%
Xinyi Glass Holdings Limited ("**Xinyi Glass Holdings**") (Note 3)	Interest in a controlled corporation	120,360,000	18.21%
Rise Grace (Note 4)	Beneficial owner	106,000,000	16.04%
Diamond Galaxy Limited (Note 4)	Interest in a controlled corporation	106,000,000	16.04%
Aleta Global Limited	Beneficial owner	4,690,647	0.71%
("**Aleta**") (Note 5)	Other	50,000,000	7.56%
Wang Yao Min (Note 6)	Other	54,690,647	8.27%

Notes:

(1) Lu Yu, a company incorporated in the British Virgin Islands (the "**BVI**") on 21 April 2011 and an investment holding company, was wholly and beneficially owned by Ms. Natsu. Ms. Natsu was deemed to be interested in the 216,000,000 Shares held by Lu Yu by virtue of the SFO.

(2) Mr. Xia Chengzhen was the spouse of Ms. Natsu and he was deemed to be interested in the Shares in which Ms. Natsu was interested by virtue of the SFO.

(3) Xinyi Glass (BVI), a company incorporated in the BVI on 13 June 2012 and an investment holding company, was wholly and beneficially owned by Xinyi Glass Holdings. Therefore, Xinyi Glass Holdings was deemed to be interested in all the Shares in which Xinyi Glass (BVI) was interested by virtue of the SFO.

(4) These Shares were held by Rise Grace, which was wholly and beneficially owned by Diamond Galaxy Limited. Therefore, Diamond Galaxy Limited was deemed to be interested in all the Shares in which Rise Grace was interested by virtue of the SFO.

(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. Pursuant to the terms of the instrument of the convertible bond in the principal amount of HK$60,816,000 issued on 14 November 2014, the number of shares falling to be issued under the outstanding Convertible Bond was adjusted from 4,690,647 Shares to 4,874,766 shares with effect from 3 September 2015, as a result of the subscription of Shares on 2 September 2015, details of which were disclosed in the announcement of the Company dated 2 September 2015.

(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. Pursuant to the terms of the instrument of the convertible bond in the principal amount of HK$60,816,000 issued on 14 November 2014, the number of shares falling to be issued under the outstanding Convertible Bond was adjusted from 4,690,647 Shares to 4,874,766 shares with effect from 3 September 2015, as a result of the subscription of Shares on 2 September 2015, details of which were disclosed in the announcement of the Company dated 2 September 2015. Aleta was wholly and beneficially owned by Wang Yao Ming. As such, Wang Yao Ming was deemed to be interested in all the Shares held by Aleta by virtue of SFO.

(7) The approximate percentage of shareholding is calculated based on the total number of issued Shares of the Company as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, the Directors were 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 2016.

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 2016. During the year, certain share awards were granted to the Directors and employees.

The remuneration of the senior management (including the Directors) of the Group by band for the year ended 31 December 2016 is set out below:

Remuneration bands	**Number of senior management**
Nil to RMB857,000 (HK$ Nil to HK$1,000,000)	8
RMB857,001 to RMB1,285,000 (HK$1,000,001 to HK$1,500,000)	2
Over RMB1,285,000 (Over HK$1,500,000)	3
	13

Further details of the Directors' remuneration and the five highest paid employees are set out in note 9 to the consolidated financial statements.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group for the year ended 31 December 2016 are set out in note 30 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), 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

As at 31 December 2016, Xinyi Glass Holdings was indirectly interested in 18.21% of the share capital of the Company, as such, 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.

On 29 December 2015, the Group entered into a framework supply agreement with Xinyi Automobile Parts (Tianjin) Co., Ltd. (the "**New Supply Agreement**") pursuant to which, Xinyi Glass Group has agreed to supply the Xinyi Goods to the Group upon request from time to time, for a term of three (3) years commencing from 1 January 2016 and ending on 31 December 2018.

The purchases of the Xinyi Goods from Xinyi Glass Group will be on an order-by-order basis, subject to the terms and conditions set out therein as follows: (i) at prices to be agreed between Xinyi Glass Group and the Group from time to time, which in any event shall be no less favourable than the then prevailing market price of the same type and quality of the products for comparable quantity; and (ii) on normal and usual commercial terms which are no less favourable than those applicable to the purchases of the same type and quality of the products for comparable quantity by the Group from independent third parties. Under the New Supply Agreement, 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 should not exceed the applicable limits of RMB27.0 million, RMB28.0 million and RMB29.0 million for the years ending 31 December 2016, 2017 and 2018, respectively. The amount of total purchases (inclusive of tax) from Xinyi Glass Group for the year ended 31 December 2016 under the New Supply Agreement amounted to approximately RMB15,560,000 (2015: RMB18,456,000).

Confirmation of independent non-executive Directors

The Independent non-executive Directors have, for the purpose of Rule 20.53 of GEM Listing Rules 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 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 2016.

The Company also confirmed that it has complied with the disclosure requirements as applicable to the aforementioned continuing connected transactions under Chapter 20 of the GEM Listing Rules.

Confirmation of auditor of the Company

BDO Limited, the Company's auditor, was 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. BDO Limited 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

Save as disclosed in note 30 to the consolidated financial statements, no other material connected transactions incurred during the year.

PUBLIC FLOAT

Based on 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.

INDEMNITY OF DIRECTORS

A permitted indemnity provision (within the meaning in Section 469 of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) that provides for indemnity against liability incurred by Directors and executive officers of the Group is currently in force and was in force throughout the year ended 31 December 2016.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 34 to the consolidated financial statements, no other material events taken by the Company or by the Group after 31 December 2016.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2016 have been audited by BDO Limited, 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.

On behalf of the Board
Xia Lu
Executive Director

Hong Kong, 21 March 2017

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Introduction

The Board is pleased to present the first Environmental, Social and Governance (ESG) report of the Company. It has been prepared in accordance with ESG reporting guides set out by Appendix 20 of the GEM Listing Rule. The report disclose our performance and progress for the year ended 31 December 2016 and covers the Company's ESG approach, strategy, priorities and objectives. This report has been reviewed and approved by the Board to ensure all material issues and impacts are fairly presented.

The Group understands the importance of ESG report and is strived to incorporate sustainability standards into our business. The following report will be mainly organized into two parts, namely environmental protection and social commitment.

Report Scope

This report covers (i) all major operations of the Group, namely the sales of automobile with installation/repair services and trading of automobile glass in the PRC and (ii) the following subsidiaries of our Group:

1. Beijing Zhengmei Fengye Automobile Service Co., Ltd.
   北京正美豐業汽車服務有限公司

2. Beijing Zhengmei Fengye Automobile Glass Installation Co., Ltd.
   北京正美豐業汽車玻璃安裝有限公司

3. Zhengmei Fengye (Tianjin) Automobile Glass Co., Ltd.
   正美豐業（天津）汽車玻璃有限公司

4. Zhengmei Haida (Tianjin) Automobile Glass Sales Co., Ltd
   正美海達（天津）汽車玻璃銷售有限公司

5. Shenzhen Xinyida Automobile Glass Co., Ltd.
   深圳信義達汽車玻璃有限公司

6. Beijing Fengye Zhengmei New Energy Technology Company Limited
   北京豐業正美新能源科技有限公司

7. Tianjin Zhengmei Glass Technology Co., Ltd.
   天津正美玻璃科技有限公司

8. Tianjin Fengye New Energy Technology Co., Ltd.
   天津豐業新能源科技有限公司

9. Zhengmei Haida (Tianjin) Automobile Glass Technology Co., Ltd
   正美海達（天津）汽車玻璃科技有限公司

The Group and its culture

The Group aims to become the leading brand in automobile glass services in the PRC by providing professional and reliable services to the clients for achieving win-win situation for the Group and the clients. The Group's business objective is to strengthen its position in the automobile glass installation/repaired services industries in the PRC by further expanding its business operations in the PRC.

The environmental and social aspects also take a vital role for the development of the business of the Group in the PRC as there has been growing concerns regarding environmental protection and corporate responsibility by local community and government.

The Group has over 20 years of experience in automobile glass installation and repair industry and always focuses on services performance to use the best technique and latest technology equipment to serve our clients within the shortest time. Currently, the Group operates 29 service centers providing automobile glass installation and repair services, and also engages in the trading of automobile glass in six cities in the PRC, namely Beijing, Hangzhou, Shenyang, Tianjin, Sanhe and Shenzhen.

The management also considers that the success of the business of the Group would largely depend on the satisfaction of our clients which were achieved and contributed by the services provided by our staff. The Group has promoted the people oriented culture and committed to provide fair and transparency performance assessment for all level of staff. The Group is also committed to provide good working environment to promote employee's loyalty, passion and dedicated spirit. Our employees are proud to be part of our 110 motorcade services team of the Group.

The Group believes that being a socially responsible employer and building up an environmental friendly culture would assist the Group to win the support of local community for future development of the Group.

A. Environmental Protection

A.1 Emission

The Company is governed by, and has complied with the Environmental Protection Law of the People's Republic of China. During the year ended 31 December 2016, the Group has not received any notice or warning in relation to pollution in respect of the Group's business operations.

The Group is committed towards continually improving our environmental protection and to minimise environmental impact from our business operations. The Group has established three major policies to reduce the emission of carbon dioxide, waste water and disposal of land waste illustrated as follow:

Installation of photovoltaic generator on the service centers

The Group has established policies to invest resources into the carbon emission reduction project by installing photovoltaic generator on the rooftop of the services centers operated by the Group. During the year ended 31 December 2016, the Group has installed 932 photovoltaic pieces which can generate 231.5Kwh electricity at 12 of our service centres. The installation of photovoltaic panel provides the resource for generating clean and sustainable electricity without greenhouse gas emission.

Implementation of automobile glass recycling program

As an automobile glass installation and repair services provider, our business does not generate significant greenhouse gas emission but certain non-hazardous waste may be produced during our process of installation and repair and the damaged or broken automobile glass will be replaced and disposed by us on behalf of our client. The Group has established policy for our service center to collect and recycle the waste glass. During the year ended 31 December 2016, the Group has recycled approximately 75,000 piece of waste automobile glass and represented approximately 95% of automobile glass installed in our service centers.

Restrict room temperature control

In order to save and efficiently use energy to achieve the reduction of greenhouse gas emission, the Group has strongly required all office and service centers to maintain the room temperature not lower than 26 degree celsius during summer and not higher than 23 degrees celsius during winter.

The Group has complied the rules and regulations in the PRC to ensure all automobile exhaust gas emission is qualified, waste water is properly connected to municipal sewage system and all land waste is either sent to glass recycling agent or municipal solid waste management plant during the provision of services. During the year ended 31 December 2016, the Group has complied with the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Urban Drainage and Sewage Treatment Ordinance and the Environmental Protection Law of the People's Republic of China regarding the operations of the Group in PRC. The Group will continue to seek alternative environmental friendly resources and materials to reduce the emission of air, water and land waste.

A.2 Use of Resources

The resources used by the Group are principally attributed to the materials and resources used in the 29 service centers i.e. automobile glass, electricity, water and other installation materials. The Group has implemented several major programs to reduce the use of natural resource:

(a) Installation of photovoltaic generator on the rooftop of the service centre;

(b) Employees are encouraged to adopt water saving habits;

(c) Employees are encouraged to reduce paper use by using recycle paper when printing;

(d) Control room temperature to not lower than 26 degree celsius during summer and not higher than 23 degree celsius during winter.

The Group will continually perform regular assessments in order to develop better green office practices.

A.3 The Environmental and Natural Resources

This aspect is not applicable to the Group's operation, as a service-based company, the Group has minimal impact on the environment and use of natural resources.

B. Social Commitment

B.1 Employment and Labour Practices

The Group is committed in a good workplace practice for our employees as they continue to be the driving force behind our Group. The Company's practices and policies with respect to: (i) compensation and dismissal; (ii) recruitment and promotion; (iii) working hours; (iv) rest periods; (v) equal opportunity; (vi) diversity; (vii) anti-discrimination; and (viii) welfare and other benefits have complied with the Labor Law of the People's Republic of China ("Labour Law"), Labor Contract Law of the People's Republic of China and other relevant laws and regulations. We have followed Chapter Two of the Labour Law on labour policy to ensure all of our employees are free from discrimination and received equal opportunities despite age, gender, race, colour, sexual orientation, disability or marital status.

For protecting the interest of our employees and compliance with the relevant labour policy and law, employment contract would be signed in accordance with the guidance of the human resources department governing the labour compliance. Furthermore, a staff manual has been adopted by the Company to include the benefits and rights of employees e.g. compensation, dismissal, recruitment and promotion, leave benefits and other benefits and welfare.

Although the market labour supply for automobile glass installment and repair are dominated by male workers for the service center, we target to improve gender diversity in our workplace.

The Group cares about employees' welfare and satisfaction. We believe in work-life balance to raise team spirit and morale. The Company would organize a number of outdoor activities and annual dinner to help maintain good relationship with our employees. The Group also has staff quarter, canteen and sports ground provided for our employees.

In order to attract and retain employees, the Group has also adopted a share award scheme for its employees. Details of the share award scheme are set out in the paragraph headed "Report of the Directors – Share Award Scheme".

B.2 Health and Safety

As the Group considers our staff as our vital asset and the key to our success to our business, the health and safety of the work place are come to the highest priority of the Group. The Group would provide in-house training to its staff for use of the equipment and machinery of the service centre and they are required to wear industrial gloves and safety goggles when performing the repair or installation services. Safety notice has been placed in the eye catching area in the service centres to remind our employees certain important safety rules.

Each service centre is equipped with fire and safety equipment to prevent outbreak of serious fire accident and the validity of the fire facilities have been regularly checked.

During the year ended 31 December 2016, the Group has not recorded any work injury and work related fatalities. The Group aimed to provide a safe working environment and protecting employees from occupational hazards. The installation department manager will regularly inspect employee's safety measures to ensure it meets the standards.

The Group has fully complied with the Labour Law during the year ended 31 December 2016.

B.3 Development and Training

Employees from our installation department will receive a three-months training when they are first employed to ensure new employees meet the standard of our Group to ensure high quality installation/ repair services. 12 of our employees received such training during the year ended 31 December 2016. The Group also provides in-house training to its employees on an on-going basis, covering various topics, such as the procedures required for the installation of automobile glass and handling cases of individuals insured by insurance companies.

B.4 Labour Standards

Our Group's recruitment standard follows the employment law of PRC to ensure equality and fairness. The Group has also complied with the Labour Law against the use of child labour and forced labour. Individuals under the age of 16 and individuals without any identification documents are disqualified from employment. Our Human Resources Manager will check the qualification of the new employees employed outside headquarter on a periodical basis, upon discovery of any child labour and use of forced labour, the person will be dismissed immediately and the Board will discuss and review the problem to prevent it from happening again.

B.5 Supply Chain Management

To ensure the quality of our automobile glass, we only purchase glass from a trusted and proper regulated supplier and will not purchase poor quality or any counterfeit brands with no safety measures. The majority of supply of automobile glass are from the three major suppliers brand in China, such as Xinyi Glass. Our CEO will regularly review the list of suppliers and the general manager from the purchase department will regularly check on the quality of automobile glass to ensure it meets our Group standard before installing on cars.

B.6 Product Responsibility

The Group has adopted policies to ensure the product satisfactory and maintains good quality standard. If there is problem with newly installed automobile glass, the Group will rectify the problem for the customer free-of-charge. During the year ended 31 December 2016, we did not have any product returned due to safety or health problems or any complaint received from our customers. In order to ensure our product quality, we would conduct sample inspection on the automobile glass purchased and if there are any problems with the glass quality, the Group will negotiate with the relevant supplier for the return and/or exchange of the automobile glass at the cost of the relevant supplier.

To protect intellectual property rights, we are prohibited to use automobile glass with poor quality and counterfeit brands. The Group has been fully complied with Product Quality Law of the People's Republic of China during the year ended 31 December 2016.

B.7 Consumer Privacy

The Group's employees are obligated to retain in confidence all the personal information obtained from our consumers in strict confidence. Our storage of physical records containing personal data are kept separately and access to these records and data without authorization is strictly prohibited.

In order to protect consumer data and privacy, we will keep unused client information together and destroy on a timely basis.

B.8 Anti-corruption

Our Group will not have any tolerance towards corruption, fraud or money laundering in our workplace. During the year ended 31 December 2016, the Group has fully complied with Criminal Law of the People's Republic of China, the Anti-Unfair Competition Law of the People's Republic of China, the Interim Provisions of Banning Commercial Bribery and other relevant laws and regulations relating to anti-corruption, bribery, extortion, fraudulent behaviors and money-laundering. No cases of fraud or corruption has been brought against the employees and the Company during the year ended 31 December 2016.

B.9 Community investment

We have started greening the surrounding area of our headquarter in Beijing as a start and also removal of stagnant water for a cleaner environment and workplace. The Group will also employ staff from local community to improve the local unemployment rate.

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

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

Opinion

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 52 to 125, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment of intangible assets and property, plant and equipment

(Refer to note 14 to the consolidated financial statements and the Group's critical accounting judgements and key sources of estimation uncertainty in relation to impairment of property, plant and equipment and intangible assets set out in note 5(i))

The Group had significant amounts of intangible assets (including goodwill, trademark, customer relationships) and property, plant and equipment (excluding the Daqing Property) as at 31 December 2016.

Management has performed an impairment assessment in accordance with its accounting policies. The Group engaged an independent professional valuer to assess the recoverable amounts of cash-generating units. Based on value in use calculation, an impairment loss of RMB11,826,000 (2015: RMB25,354,000) was recognised. These included significant assumptions and judgements made by management concerning the estimated future cash flows.

We have identified the impairment assessment intangible assets and property, plant and equipment (excluding the Daqing Property) as a key audit matter because of its significance to the consolidated financial statements and the value in use calculation involves significant management judgements and estimation with respect to the discount rate and the underlying cash flows, in particular future revenue growth.

See note 14 to the consolidated financial statements where the key assumptions used in the impairment model have been disclosed.

Our response:

Our procedures in relation to management's impairment assessment included, but not limited to, the following procedures:

- evaluated the independent external valuers' competence, capabilities, independence and objectivity;
- assessed the appropriateness of the impairment assessment, and compared the methodologies used to our interpretation of the requirements of the relevant accounting standards;
- evaluated the reasonableness of the key assumptions used in the valuation;
- discussed with senior management about the cash flow projection used in the value in use calculation and market conditions and difficulties to be encountered in the forecast period and the related adjustments reflected in the forecast;
- performed sensitivity analysis including assessing the effect of a reasonably possible change in forecast cash flows and growth rates.

Other Information in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited
Certified Public Accountants
Au Yiu Kwan
Practising Certificate Number P05018

Hong Kong, 21 March 2017

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	6	**131,245**	131,193
Cost of sales	8	**(114,038)**	(106,871)
Gross profit		**17,207**	24,322
Other gain or loss, net	7	**(11,816)**	(50,913)
Selling and distribution costs	8	**(26,647)**	(27,846)
Administrative expenses	8	**(41,635)**	(40,813)
		(62,891)	(95,250)
Finance income		**38**	374
Finance cost		**(118)**	(48)
Finance (cost)/income, net	10	**(80)**	326
Share of losses in investments accounted for using equity method	15	**(210)**	(58)
Loss before income tax		**(63,181)**	(94,982)
Income tax credit	11	**2,656**	5,001
Loss for the year		**(60,525)**	(89,981)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Changes in value of available-for-sale investment		**–**	(262)
Currency translation differences		**2,338**	1,189
Total comprehensive income for the year		**(58,187)**	(89,054)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Notes	**2016** **RMB'000**	2015 RMB'000
Loss attributable to:			
Owners of the Company		**(60,161)**	(89,484)
Non-controlling interests		**(364)**	(497)
		(60,525)	(89,981)
Total comprehensive income attributable to:			
Owners of the Company		**(57,823)**	(88,557)
Non-controlling interests		**(364)**	(497)
		(58,187)	(89,054)
Loss per share attributable to owners of the Company for the year (expressed in RMB cents per share)			
Basic and diluted loss per share	12	**(9.10)**	(15.06)

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	**54,169**	59,408
Intangible assets	14	**908**	10,147
Investments accounted for using equity method	15	**1,102**	1,312
Prepayments and deposits	17	**1,777**	2,107
Deferred taxation	22	**1,220**	–
		59,176	72,974
Current assets			
Inventories	16	**31,005**	37,534
Trade and other receivables	17	**27,303**	53,430
Income tax recoverable		**249**	400
Cash and cash equivalents	18	**28,535**	49,535
		87,092	140,899
Total assets		**146,268**	213,873
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	19	**5,263**	5,263
Reserves	20	**121,633**	182,396
		126,896	187,659
Non-controlling interests		**3,262**	3,626
Total equity		**130,158**	191,285

	Notes	2016 RMB'000	2015 RMB'000
LIABILITIES			
Current liabilities			
Trade and other payables	21	**11,663**	16,841
Convertible bonds	24	**4,445**	–
Income tax payables		**2**	114
		16,110	16,955
Non-current liabilities			
Deferred taxation	22	–	1,751
Convertible bonds	24	–	3,882
		–	5,633
Total liabilities		**16,110**	22,588
Total equity and liabilities		**146,268**	213,873
Net current assets		**70,982**	123,944
Total assets less current liabilities		**130,158**	196,918

On behalf of the directors

Xia Lu
Director

He Changsheng
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Notes	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings/ (Accumulated losses) RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to owners of the Company						
Balance at 1 January 2015		4,193	207,155	(21,175)	33,057	223,230	5,468	228,698
Loss for the year		–	–	–	(89,484)	(89,484)	(497)	(89,981)
Other comprehensive income								
Change in value of available-for-sale investment		–	–	(262)	–	(262)	–	(262)
Currency translation differences								
– Group		–	–	677	–	677	–	677
– Joint venture		–	–	512	–	512	–	512
Total comprehensive income		–	–	927	(89,484)	(88,557)	(497)	(89,054)
Transactions with equity owners of the Company recognised directly in equity								
Issuance of new shares	19 and 20	1,070	50,948	–	–	52,018	–	52,018
Shares purchased under share award scheme	25	–	–	(417)	–	(417)	–	(417)
Equity-settled share-based payment expenses	25	–	–	1,385	–	1,385	–	1,385
Partial disposal of a subsidiary	23	–	–	(219)	219	–	(1,345)	(1,345)
Appropriation to PRC statutory reserve		–	–	113	(113)	–	–	–
Balance at 31 December 2015		5,263	258,103	(19,386)	(56,321)	187,659	3,626	191,285

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

		Attributable to owners of the Company						
	Notes	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings/ (Accumulated losses) RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2016		**5,263**	**258,103**	**(19,386)**	**(56,321)**	**187,659**	**3,626**	**191,285**
Loss for the year		**–**	**–**	**–**	**(60,161)**	**(60,161)**	**(364)**	**(60,525)**
Other comprehensive income								
Currency translation differences								
– Group		**–**	**–**	**2,338**	**–**	**2,338**	**–**	**2,338**
Total comprehensive income		**–**	**–**	**2,338**	**(60,161)**	**(57,823)**	**(364)**	**(58,187)**
Transactions with equity owners of the Company recognised directly in equity								
Shares purchased under share award scheme	25	**–**	**–**	**(12,313)**	**–**	**(12,313)**	**–**	**(12,313)**
Equity-settled share-based payment expenses	25	**–**	**–**	**9,373**	**–**	**9,373**	**–**	**9,373**
Vesting of awarded shares		**–**	**–**	**(592)**	**592**	**–**	**–**	**–**
Appropriation to PRC statutory reserve		**–**	**–**	**74**	**(74)**	**–**	**–**	**–**
Balance at 31 December 2016		**5,263**	**258,103**	**(20,506)**	**(115,964)**	**126,896**	**3,262**	**130,158**

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Loss before income tax		**(63,181)**	(94,982)
Adjustments for:			
Depreciation of property, plant and equipment		**4,074**	6,481
Provision for impairment on property, plant and equipment		**3,879**	27,135
Provision for impairment on intangible assets		**7,947**	19,833
Amortisation of intangible assets		**1,292**	2,343
Provision for obsolete inventories		**1,066**	389
Forfeited deposit of land use rights		**–**	1,000
Equity-settled share-based payment expenses		**9,373**	1,340
Interest income		**(38)**	(374)
Interest expenses		**46**	48
Fair value losses on convertible bonds		**547**	250
(Gain)/Loss on disposals of property, plant and equipment		**(30)**	91
Write off of property, plant and equipment		**–**	689
Loss on disposals of a joint venture		**–**	2,400
Gain on partial disposal of a subsidiary		**–**	(1)
Share of losses in investments accounted for using equity method		**210**	58
		(34,815)	(33,300)
Change in working capital:			
Decrease/(Increase) in trade and other receivables		**26,213**	(24,819)
Decrease/(Increase) in inventories		**5,463**	(2,490)
(Decrease)/Increase in trade and other payables		**(5,120)**	5,570
Net cash used in operations		**(8,259)**	(55,039)
Income tax paid		**(276)**	(170)
Net cash used in operating activities		**(8,535)**	(55,209)
Cash flows from investing activities			
Payments for purchases of property, plant and equipment		**(2,794)**	(5,104)
Proceeds from disposals of property, plant and equipment		**110**	279
Proceeds from disposals of a joint venture		**–**	2,392
Cash outflow from partial disposal of a subsidiary, net	23	**–**	(189)
Interest received	10	**38**	103
Repayment from/(Advance to) an associate		**24**	(24)
Net cash used in investing activities		**(2,622)**	(2,543)

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	**2016** **RMB'000**	2015 RMB'000
Cash flows from financing activities			
Proceeds from issuance of shares upon placing/share subscription	19	–	52,890
Transaction costs in connection with issuance of shares upon placing/share subscription	19	–	(872)
Shares purchased under share award scheme	25	**(12,313)**	(417)
Repayment to a director		–	(600)
Net cash (used in)/generated from financing activities		**(12,313)**	51,001
Net decrease in cash and cash equivalents		**(23,470)**	(6,751)
Cash and cash equivalents at beginning of the year		**49,535**	54,821
Effect of foreign exchange		**2,470**	1,465
Cash and cash equivalents at end of the year	18	**28,535**	49,535

Note:

Non-cash transactions

During the year ended 31 December 2015, the principal non-cash transaction was the addition of a property amounting to RMB69,466,000 which was transferred from the deposit of RMB69,466,000 that had been made in prior year.

1. General

ZMFY Automobile Glass Services Limited (the "Company") is a limited liability company incorporated in the Cayman Islands and its shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "SEHK"). 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. The principal activities of its subsidiaries (together with the Company referred to as the "Group") are sales of automobile glass with installation services, trading of automobile glass and provision of installation services of photovoltaic systems in the People's Republic of China (the "PRC"). There were no significant changes in the Group's operation during the year.

The directors consider Lu Yu Global Limited ("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 32.7% (2015: 32.3%) of the equity interests of the Group.

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective 1 January 2016

HKFRSs (Amendments)	Annual Improvement 2012-2014 Cycle
Amendments to Hong Kong Accounting Standard ("HKAS") 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
HKFRS 14	Regulatory Deferral Accounts

Amendments to HKAS 1 – Disclosure Initiative

The amendments are designed to encourage entities to use judgement in the application of HKAS 1 when considering the layout and content of their financial statements.

Included in the clarifications is that an entity's share of other comprehensive income from equity accounted interests in associates and joint ventures is split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as a single line item within those two groups.

The adoption of the amendments has no impact on these financial statements.

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

(a) Adoption of new/revised HKFRSs – effective 1 January 2016 *(Continued)*

Amendments to HKAS 27 – Equity Method in Separate Financial Statements

The amendments allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments are applied retrospectively in accordance with HKAS 8.

The adoption of the amendments has no impact on these financial statements as the Company has not elected to apply the equity method in its separate financial statements.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[2]
HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)[2]
HKFRS 16	Leases[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

Amendments to HKAS 7 – Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to HKAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

HKFRS 9 – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

HKFRS 15 – Revenue from Contracts with Customers (Continued)

HKFRS 15 requires the application of a 5-steps approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

Amendments to HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective *(Continued)*

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

3. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the SEHK.

(b) Basis of measurement

The consolidated financial statements have been prepared under historical cost convention except for the debt component of the convertible bonds, which are measured at fair values as explained in the accounting policies set out below.

(c) 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 operations are carried out in RMB. The Company's functional currency is Hong Kong Dollars ("HK$") since majority of the activities of the Company are conducted in HK$.

4. Significant accounting policies

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

4. Significant accounting policies *(Continued)*

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

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

(c) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associate are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

(d) Joint arrangements

The Group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

- Joint ventures: where the Group has rights to only the net assets of the joint arrangement; or
- Joint operations: where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

4. Significant accounting policies *(Continued)*

(d) Joint arrangements *(Continued)*

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement;
- The legal form of joint arrangements structured through a separate vehicle;
- The contractual terms of the joint arrangement agreement; and
- Any other facts and circumstances (including any other contractual arrangements).

The Group accounts for its interests in joint ventures in the same manner as investments in associates (i.e. using the equity method – see Note 4(c)).

The Group accounts for its interests joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

(e) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to 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.

(f) Foreign currency

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur.

Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, exchange differences are also recognised in other comprehensive income.

4. Significant accounting policies *(Continued)*

(f) Foreign currency *(Continued)*

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as exchange reserve (attributed to non-controlling interests as appropriate) in other reserves. Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as exchange reserve in other reserves.

On disposal of a foreign operation, the cumulative exchange differences recognised in the exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in exchange reserve.

(g) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree over the fair value of identifiable assets and liabilities acquired.

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("CGUs") that are expected to benefit from the synergies of the acquisition. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A CGU to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount (see Note 4(j)), and whenever there is an indication that the unit may be impaired.

4. Significant accounting policies *(Continued)*

(g) Goodwill *(Continued)*

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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 recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost or valuation net of estimated residual value over their estimated useful lives on straight-line method. The estimated useful lives, estimated residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The estimated useful lives are as follows:

Buildings	20-36 years
Leasehold improvements	Shorter of the lease term or 5 years
Motor vehicles	5 years
Office equipment	3-5 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

Gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

4. Significant accounting policies *(Continued)*

(i) Intangible assets

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

Amortisation is recognised in profit or loss and included as part of selling and distribution costs and is provided on straight-line method over their estimated useful lives as follows. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment, if any.

Trademark	10-20 years
Customer relationships	7 years

(ii) Impairment

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that they may be impaired. Intangible assets are tested for impairment by comparing their carrying amounts with their recoverable amounts (see Note 4(j)).

(j) Impairment of assets (other than financial assets)

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets; and
- investments accounted for using equity method.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. Significant accounting policies *(Continued)*

(j) Impairment of assets (other than financial assets) *(Continued)*

All reversals are recognised in the profit or loss immediately, unless the relevant asset is carried at a revalued amount, in which case any reversal of impairment should be treated as a revaluation and therefore credited to other comprehensive income. However, to the extent that an impairment on the revalued asset was previously recognised as an expense in profit or loss, a reversal of that impairment loss is recognised as income in profit or loss.

Value in use is based on the estimated future cash flows expected to be derived from the CGU (see Note 4(g)), discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets or CGU.

(k) Financial instruments

(i) Financial assets

The Group's financial assets are classified into loans and receivables. The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using effective interest method, less any identified impairment losses.

4. Significant accounting policies *(Continued)*

(k) Financial instruments *(Continued)*

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

Loans and receivables

An impairment loss is recognised in profit or loss and directly reduces the carrying amount of financial asset when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables are initially measured at fair value, net of directly attributable costs incurred, and subsequently measured at amortised cost, using effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

4. Significant accounting policies *(Continued)*

(k) Financial instruments *(Continued)*

(iv) Effective interest method

This is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. Effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(l) Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts for variation orders, claims and incentive payments. Contract costs comprise direct materials, costs of subcontracting, direct labour and an appropriate portion of variable and fixed construction overheads.

When the outcome of a construction contract can be estimated reliably, revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of reporting period.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that will probably be recoverable, and contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

4. Significant accounting policies *(Continued)*

(m) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(n) 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.

(o) 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.

(p) Share based payments

Convertible bonds

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 unidentified 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 change in fair value recognised in profit or loss for the period. The equity component is not re-measured subsequent to initial recognition.

Where the equity component remains unexercised at the expiry dates, the balance stated in convertible bonds equity reserve will be released to the retained earnings. No gain or loss is recognised upon conversion or expiration of the option.

4. Significant accounting policies *(Continued)*

(p) Share based payments *(Continued)*

Share award scheme

The Group operates a share award scheme for remuneration of its employees and directors.

All services received in exchange for the grant of any awarded shares are measured at fair value. These are indirectly determined by reference to the fair value of the awarded shares granted. Its value is appraised at the grant date and excludes the impact of any service and non-market performance vesting condition (for example, profitability and sales growth targets, if any).

All services received is ultimately recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when awarded shares granted vest immediately unless the expense qualifies for the recognition as asset, with a corresponding increase in "Employee Share-based Payment Reserve" within equity. If service or non-market performance conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of awarded shares expected to vest. Non-market performance and service conditions are included in assumptions about the number of awarded shares that are expected to vest. Estimates are subsequently revised, if there is any indication that the number of awarded shares expected to vest differs from previous estimates. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to employee share-based payment reserve.

Where a grant of awarded shares is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the grant is recognised immediately. This includes any grant where non-vesting conditions within the control of either the Group or the employee are not met.

The shares awarded under the share award scheme are acquired from open market. The net consideration paid, including any directly attributable incremental costs, is presented as "Shares held for Share Award Scheme" and deducted from total equity. When the awarded shares are transferred to the awardees upon vesting, the related weighted average cost of the awarded shares vested are credited to "Shares held for Share Award Scheme", the related service costs of awarded shares vested are debited to the employee share-based payment reserve, and any difference will be transferred to retained earnings. Where the shares held for employee share-based payment reserve are revoked and the revoked shares are disposed of, the related gain or loss is transferred to retained earnings.

4. Significant accounting policies *(Continued)*

(q) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

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

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

(r) Employee benefits

(i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

4. Significant accounting policies *(Continued)*

(r) Employee benefits *(Continued)*

(ii) Defined contribution retirement plans

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

Hong Kong

The Group operates a defined contribution Mandatory Provident Fund Scheme (the "MPF Scheme") which is registered under the Mandatory Provident Fund Scheme 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.

The 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 obligation 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.

(iii) Termination benefits

These are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

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 reporting date.

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

4. Significant accounting policies *(Continued)*

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

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

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.

(t) 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.

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 rendered.

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 time-proportion basis using effective interest method.

4. Significant accounting policies *(Continued)*

(u) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(v) Related parties

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

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

(ii) has significant influence over the Group; or

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

(b) An entity is related to the Group if any of the following conditions apply:

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

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

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

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

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;

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

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

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Company's parent.

4. Significant accounting policies *(Continued)*

(v) Related parties *(Continued)*

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. Critical accounting estimates and judgements

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(i) Impairment of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets (including goodwill which is being reviewed at each of the reporting period end after the initial recognition) 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 or the corresponding CGU's recoverable amount. The recoverable amounts have been determined based on fair value less cost of disposal calculations or value in use calculation. These calculations require the use of judgments and estimates.

Management judgement is required in 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 of disposal or net present value of future cash flows which are estimated based upon the continuing use of the asset or corresponding CGU 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 or corresponding CGU's recoverable amount; (iv) whether there is any assets are being obsolescence 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 consolidated financial position and financial performance.

5. Critical accounting estimates and judgements *(Continued)*

(ii) Leasehold improvements on leased premises

The Group operates service centres, 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 non-agricultural use. Any unauthorised and illegal occupancy of the land 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. 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 on leasehold improvements is considered necessary.

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

The Group writes down its inventories to net realisable value when 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. Management assesses the net realisable value of the inventories and considers that the provision for inventories impairment is adequate and reasonable at each reporting date.

(iv) Impairment of receivables

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 reporting date.

(v) Current and deferred income tax

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. 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.

5. Critical accounting estimates and judgements *(Continued)*

(vi) Implication of litigation claims

In 2014, Xinyi Automobile Glass (BVI) Company Limited ("Xinyi Glass"), a shareholder of the Company 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 (as defined in Note 13), the holder of the convertible bonds of the Company, the existing executive and non-executive directors and certain existing and former independent non-executive directors (the "Defendants"), with respect to the acquisition of a property in Daqing (the "Daqing Property Acquisition") as detailed in Note 33.

Pursuant to the Originating Summons, Xinyi Glass contended that the terms of the Daqing Property Acquisition might not serve the best interests of the Company and the shareholders as a whole and it had doubt on the legality surrounding the Daqing Property Acquisition. Accordingly, Xinyi Glass sought the following orders:

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

(ii) the convertible bonds of the Company issued to satisfy the consideration of the Daqing Property Acquisition and 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 of the Company 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.

The litigation is still ongoing but no step has been taken by Xinyi Glass to prosecute the same against all the Defendants since 12 November 2015. Management had 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 during the year, and considered that the demands (i) to (iii) are still unattainable and demand (iv) does not impact the Company nor the Group. Accordingly, the directors considered that the pending litigation will not have any material adverse impact to the consolidated financial statements as at 31 December 2016 and 2015.

(vii) Estimated useful lives and depreciation of property, plant and equipment and amortisation of intangible assets (other than goodwill)

Management determines the estimated useful lives, and related depreciation and amortisation charges for its property, plant and equipment and intangible assets. These estimates are 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 depreciable and amortisation lives and therefore depreciation and amortisation expense in future periods.

5. Critical accounting estimates and judgements *(Continued)*

(viii) Fair value of liability component of convertible bonds

The liability component of convertible bonds is stated at fair value. The fair value measurement utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable these are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs;
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur, if any.

For more detailed information in relation to the fair value measurement of these items, please refer to the Note 24 respectively.

6. 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 the 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.

6. Segment reporting *(Continued)*

As at 31 December 2016 and 2015, the Group's non-current assets were entirely located in the PRC. For the year ended 31 December 2016, revenue from the Group's largest customer amounted to approximately 13.3% (2015: 12.8%) of the Group's total revenue from the segment – "Northern China (excluding Shenyang)".

	Northern China (excluding Shenyang)		Shenyang		Hangzhou		Shenzhen		Reportable segments total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000 (Note)**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from:										
Sales of automobile glass with installation/repair services	**89,905**	97,200	**–**	911	**1,898**	1,785	**6,918**	8,440	**98,721**	108,336
Trading of automobile glass	**15,417**	30,710	**–**	659	**707**	1,384	**1,506**	904	**17,630**	33,657
Provision of installation services of photovoltaic system	**17,813**	10,001	**–**	–	**–**	–	**–**	–	**17,813**	10,001
Inter-segment sales	**(2,474)**	(19,878)	**–**	(122)	**(443)**	(773)	**(2)**	(28)	**(2,919)**	(20,801)
Revenue from external customers	**120,661**	118,033	**–**	1,448	**2,162**	2,396	**8,422**	9,316	**131,245**	131,193
Results of reportable segments	**15,700**	21,534	**–**	27	**95**	148	**1,412**	2,613	**17,207**	24,322
Depreciation	**4,018**	4,840	**–**	95	**12**	88	**44**	96	**4,074**	5,119
Amortisation	**732**	1,517	**–**	–	**–**	–	**560**	826	**1,292**	2,343
Provision for obsolete inventories	**601**	255	**–**	–	**112**	134	**353**	–	**1,066**	389
Capital expenditure	**2,698**	5,061	**–**	–	**–**	–	**96**	43	**2,794**	5,104

Note:

On 21 December 2015, the Group completed the disposal of its partial equity interest in a subsidiary, Shenyang Zhengmei Automobile Glass Co., Ltd. ("Shenyang Zhengmei"), which was engaged in the sales and trading of automobile glass and provision of installation service of automobile glass.

6. Segment reporting *(Continued)*

A reconciliation of results of reportable segments to loss for the year is as follows:

	2016 **RMB'000**	2015 RMB'000
Results of reportable segments	**17,207**	24,322
Unallocated income	**587**	263
Provision for impairment on property, plant and equipment (Note 13)	**(3,879)**	(27,135)
Provision for impairment on intangible assets (Note 14)	**(7,947)**	(19,833)
Unallocated expenses	**(68,859)**	(72,867)
	(62,891)	(95,250)
Finance income	**38**	374
Finance cost	**(118)**	(48)
Share of losses in investments accounted for using equity method	**(210)**	(58)
Loss before income tax	**(63,181)**	(94,982)

7. Other gain or loss, net

	2016 **RMB'000**	2015 RMB'000
Loss on disposals of a joint venture	–	(2,400)
Gain on partial disposal of a subsidiary (Note 23)	–	1
Loss on disposals of property, plant and equipment	**(30)**	(91)
Fair value loss on convertible bonds (Note 24)	**(547)**	(250)
Reclassification from equity to profit or loss on disposal of available-for-sale investment	–	262
Forfeited deposit of land use rights	–	(1,000)
Provision for impairment on property, plant and equipment (Note 13)	**(3,879)**	(27,135)
Provision for impairment on intangible assets (Note 14)	**(7,947)**	(19,833)
Others	**587**	(467)
	(11,816)	(50,913)

8. Expenses by nature

	2016	2015
	RMB'000	RMB'000
Cost of inventories (Note 16)	**81,679**	72,920
Auditor's remuneration	**1,029**	973
Advertising and marketing	**3,135**	4,451
Business tax and surcharges	**1,549**	2,226
Employee costs (including directors' emoluments) (Note 9)	**48,429**	38,704
Depreciation (Note 13)	**4,074**	6,481
Amortisation (Note 14)	**1,292**	2,343
Rental expenses	**7,676**	7,177
Fuel	**2,784**	2,998
Utilities	**757**	1,027
Provision for obsolete inventories	**1,066**	389
Transportation	**2,398**	2,222
Meeting and conference expenses	**4,004**	4,129
Tools and liveries	**1,113**	1,425
Office expenses	**1,843**	1,963
Legal and professional fees	**6,201**	12,561
Sales agency fees	**4,306**	4,933
Other agency fees	**2,640**	1,441
Sub-contracting fees	**1,615**	2,000
Write off of property, plant and equipment (Note 13)	**–**	689
Others	**4,730**	4,478
	182,320	175,530

9. Employee costs (including directors' emoluments)

	2016	2015
	RMB'000	RMB'000
Salaries, wages and other benefits	**34,799**	33,373
Contributions to defined contribution retirement, other social security plans and housing fund	**4,257**	3,991
Equity-settled share based payment expenses	**9,373**	1,340
	48,429	38,704

9. Employee costs (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

Directors' emoluments are disclosed as follows:

		Other emoluments			
	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share based payment expenses RMB'000	Employer's contribution to pension plan RMB'000	Total RMB'000
Year ended 31 December 2016					
Executive directors					
Xia Lu (Chief Executive Officer)	**154**	**390**	**2,396**	**8**	**2,948**
He Changsheng	**52**	**331**	**2,396**	**7**	**2,786**
Li Honglin	**52**	**277**	**1,078**	**7**	**1,414**
Non-executive directors					
Xia Xiufeng (Chairman)	**262**	**286**	**172**	**15**	**735**
Liu Mingyong	**123**	**–**	**–**	**–**	**123**
Qi Dianjiang (ceased on 25 February 2016)	**21**	**–**	**–**	**–**	**21**
Lo Chun Yim (appointed on 22 March 2016)	**93**	**–**	**–**	**–**	**93**
Independent non-executive directors					
Chen Jinliang	**123**	**–**	**–**	**–**	**123**
Han Shaoli	**123**	**–**	**–**	**–**	**123**
Jiang Bin	**123**	**–**	**–**	**–**	**123**
	1,126	**1,284**	**6,042**	**37**	**8,489**

9. Employee costs (including directors' emoluments) *(Continued)*

(a) Directors' emoluments *(Continued)*

		Other emoluments			
	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share based payment expenses RMB'000	Employer's contribution to pension plan RMB'000	Total RMB'000
Year ended 31 December 2015					
Executive directors					
Xia Lu (Chief Executive Officer)	146	457	338	3	944
He Changsheng	49	374	338	7	768
Li Honglin	49	286	152	7	494
Non-executive directors					
Natsu Kumiko (Chairman, resigned on 30 September 2015)	88	2	–	–	90
Xia Xiufeng (Chairman, appointed on 16 July 2015)	54	239	22	7	322
Liu Mingyong (appointed on 30 September 2015)	29	–	–	–	29
Qi Dianjiang (appointed on 30 September 2015 and ceased on 25 February 2016)	29	–	–	–	29
Independent non-executive directors					
Fong William (resigned on 5 January 2015)	2	2	–	–	4
Chen Jinliang	204	3	–	–	207
Han Shaoli (appointed on 13 February 2015)	190	3	–	–	193
Jiang Bin (appointed on 13 February 2015)	190	2	–	–	192
	1,030	1,368	850	24	3,272

During the years ended 31 December 2016 and 2015, 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.

During the years ended 31 December 2016 and 2015, equity-settled share-based payment expenses represented the estimated value of awarded shares granted to the directors and employees under the Company's share award scheme granted on 12 November 2015. The value of these awarded shares is measured according to the accounting policies for share-based payments as set out in Note 4(p). Further details of the share award scheme are set out in Note 25.

9. Employee costs (including directors' emoluments) *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2016 include three directors (2015: four) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2015: one) individuals during the years ended 31 December 2016 and 2015 are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, wages and other benefits	2,173	662
Contributions to defined contribution retirement plans	14	–
	2,187	662

The emoluments fell within the following bands:

	2016 No of individuals	2015 No of individuals
Nil – HK$1,000,000	–	1
HK$1,000,001– HK$2,000,000	2	–

During the years ended 31 December 2016 and 2015, 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.

10. Finance (cost)/income, net

	2016 RMB'000	2015 RMB'000
Finance cost:		
Interest expense on convertible bonds	(46)	(48)
Exchange losses relating to cash and cash equivalents	(72)	–
	(118)	(48)
Finance income:		
Interest income on bank deposits	38	103
Exchange gains relating to cash and cash equivalents	–	271
	38	374
Finance (cost)/income, net	(80)	326

11. Income tax credit

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 2016 (2015: Nil).

Subsidiaries in the PRC are subject to the PRC corporate income tax at a rate of 25% for the year ended 31 December 2016 (2015: 25%).

	2016 **RMB'000**	2015 RMB'000
Current income tax		
– Current year	**(355)**	(251)
– Over-provision in prior years	**40**	376
Deferred taxation (Note 22)	**2,971**	4,876
Income tax credit	**2,656**	5,001

The income tax credit for the year can be reconciled to the loss before income tax in the consolidated statement of comprehensive income as follows:

	2016 **RMB'000**	2015 RMB'000
Loss before income tax	**63,181**	94,982
Calculated at domestic tax rates applicable to loss in the PRC and Hong Kong	**11,186**	12,305
Tax effect of expenses not deductible for tax purposes	**(1,578)**	(2,618)
Tax effect of tax loss for which no deferred income tax assets were recognised	**(6,992)**	(5,062)
Over-provision in prior years	**40**	376
Income tax credit	**2,656**	5,001

12. Loss per share

(a) Basic

Loss 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.

	2016	2015
Loss attributable to owners of the Company (RMB'000)	**(60,161)**	(89,484)
Weighted average number of ordinary shares in issue (thousands) (Note)	**661,000**	594,002
Loss per share (in RMB cents)	**(9.10)**	(15.06)

Note:

During the year ended 31 December 2015, the basic loss per share had been adjusted to reflect the placing of shares.

(b) Diluted

Diluted loss 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 and unvested awarded share. The convertible bonds are assumed to have been converted into ordinary shares and utilisation of the unvested awarded shares, and the net losses are adjusted to eliminate the interest expense less the tax effect.

Diluted loss per share for the years ended 31 December 2016 and 2015 is the same as the basic loss per share as the utilisation of the unvested shares in relation to the share award scheme and the conversion of potential dilutive ordinary shares in relation to convertible bonds would have an anti-dilutive affect on the basic loss per share.

13. 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 2015					
Opening net book amount	7,977	6,188	4,252	1,202	19,619
Disposal of a subsidiary (Note 23)	–	(57)	(34)	(15)	(106)
Additions	–	3,211	1,320	573	5,104
Transfer from prepayment	69,466	–	–	–	69,466
Depreciation charge	(1,840)	(2,731)	(1,441)	(469)	(6,481)
Provision for impairment	(21,614)	(2,995)	(1,908)	(618)	(27,135)
Disposals	–	–	(300)	(70)	(370)
Write off	–	(689)	–	–	(689)
Closing net book amount	53,989	2,927	1,889	603	59,408
Year ended 31 December 2015					
Cost	79,032	12,265	7,535	2,711	101,543
Accumulated impairment	(21,614)	(2,995)	(1,908)	(618)	(27,135)
Accumulated depreciation	(3,429)	(6,343)	(3,738)	(1,490)	(15,000)
Net book amount	53,989	2,927	1,889	603	59,408
Year ended 31 December 2016					
Opening net book amount	**53,989**	**2,927**	**1,889**	**603**	**59,408**
Additions	**–**	**1,771**	**889**	**134**	**2,794**
Depreciation charge	**(1,732)**	**(1,425)**	**(729)**	**(188)**	**(4,074)**
Provision for impairment	**–**	**(3,172)**	**(205)**	**(502)**	**(3,879)**
Disposals	**–**	**–**	**(80)**	**–**	**(80)**
Closing net book amount	**52,257**	**101**	**1,764**	**47**	**54,169**
Year ended 31 December 2016					
Cost	**79,032**	**14,036**	**7,854**	**2,845**	**103,767**
Accumulated impairment	**(21,614)**	**(6,167)**	**(2,113)**	**(1,120)**	**(31,014)**
Accumulated depreciation	**(5,161)**	**(7,768)**	**(3,977)**	**(1,678)**	**(18,584)**
Net book amount	**52,257**	**101**	**1,764**	**47**	**54,169**

Depreciation expenses for the year ended 31 December 2016 of RMB1,991,304 (2015: RMB3,055,000), RMB1,312,622 (2015: RMB1,085,000) and RMB770,342 (2015: RMB2,341,000) were included in cost of sales, selling and distribution costs and administrative expenses, respectively.

13. Property, plant and equipment *(Continued)*

On 19 October 2014, the Group entered into a sale and purchase agreement to acquire a property with a 4-storey commercial complex located in Sa'ertu District, Daqing City, Heilongjiang Province, the PRC (the "Daqing Property") with a total gross floor area of approximately 4,445 square meters for a consideration of RMB48,000,000 which was paid through the issuance of convertible bonds which can be convertible into 54,690,647 conversion shares (the "Daqing Acquisition"). The fair value of the convertible bonds was approximately RMB69,466,000 which were assessed by an independent valuer and determined at the Board of Directors' approval date of the convertible bonds. In the opinion of the directors, the Group will obtain the building certificate of the Daqing Property ultimately.

For the year ended 31 December 2015, an impairment loss of RMB21,614,000 was recognised in other loss/gain, net to write down the carrying amount of the Daqing Property to its recoverable amount of RMB46,490,000 as a result of the significant slowdown of economic growth in Daqing. The recoverable amount of the Daqing Property, as at 31 December 2015, was assessed by an independent valuer, Greater China Appraisal Limited, by using direct comparison approach estimated by reference to similar assets adjusted for differences in condition. The fair value less costs of disposal of the building is classified as a level 3 measurement.

For the year ended 31 December 2016, the directors reassessed the economic environment of Daqing and the market quoted price of similar assets adjusted for differences in condition nearby the Daqing Property. Management concluded that no impairment indication was presented for the Daqing Property.

During the year ended 31 December 2015, the directors conducted a review of the Group's leasehold improvements and determined that a number of those assets with carrying amounts of RMB689,000 should be written off.

On 19 August 2016, one of the Group's properties in Beijing with net book value of approximately RMB4,174,000 was pledged to guarantee the supplier's bank borrowings of RMB2,000,000 for a period of 12 months for importing inventory.

14. Intangible assets

	Goodwill	Trademark	Customer relationships	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2015				
Opening net book amount	10,931	14,879	6,513	32,323
Amortisation	–	(997)	(1,346)	(2,343)
Provision for impairment	(10,931)	(6,807)	(2,095)	(19,833)
Closing net book amount	–	7,075	3,072	10,147
At 31 December 2015				
Cost	10,931	17,550	9,605	38,086
Accumulated impairment	(10,931)	(6,807)	(2,095)	(19,833)
Accumulated amortisation	–	(3,668)	(4,438)	(8,106)
Net book amount	–	7,075	3,072	10,147
Year ended 31 December 2016				
Opening net book amount	**–**	**7,075**	**3,072**	**10,147**
Amortisation	**–**	**(528)**	**(764)**	**(1,292)**
Provision for impairment	**–**	**(6,168)**	**(1,779)**	**(7,947)**
Closing net book amount	**–**	**379**	**529**	**908**
At 31 December 2016				
Cost	**10,931**	**17,550**	**9,605**	**38,086**
Accumulated impairment	**(10,931)**	**(12,975)**	**(3,874)**	**(27,780)**
Accumulated amortisation	**–**	**(4,196)**	**(5,202)**	**(9,398)**
Net book amount	**–**	**379**	**529**	**908**

Amortisation of approximately RMB1,292,000 (2015: RMB2,343,000) was included in selling and distribution costs.

The Group tests goodwill annually for impairment, or more frequently if there are indication that goodwill might be impaired.

As the Group recorded a decline in profitability during the year, management considers there is indication for impairment for its non-financial assets, whilst the Daqing Property has been separately assessed as set out in Note 13. For the purpose of impairment testing, goodwill, trademark, customer relationships and property, plant and equipment (excluding the Daqing Property) are allocated to the CGU identified as follows:

14. Intangible assets *(Continued)*

Carrying amounts before impairment CGUs	**Trademark** RMB'000	**Customer relationships** RMB'000	**Property, plant and equipment** RMB'000
Beijing Zhengmei	5,400	701	12,521
Shenzhen Xinyida automobile Glass Co., Ltd. ("Shenzhen Xinyida")	1,147	1,607	251
	6,547	2,308	12,772

The recoverable amounts of Beijing Zhengmei and Shenzhen Xinyida are determined by value in use calculation based on cash flow projections from formally approved budgets covering a five-year period. Cash flow of CGU – Beijing Zhengmei beyond the five year period is extrapolated using an estimated declining average growth rate. The average growth rate of CGU – Beijing Zhengmei for the 6th year is estimated to be 6%, which will be declining to 5% to the end of the useful life (2015: 5%). The estimated declining average growth rate for BJ Zhengmei does not exceed the long term growth rate. Cash flow of CGU – Shenzhen Xinyida beyond the five year period is extrapolated using an estimated weighted average growth rate. The weighted average growth rate of 2% for Shenzhen Xinyida (2015: 3% for Shenzhen Xinyida) which does not exceed the long-term growth rate. Other key assumptions for the value in use calculation related to the estimation of cash inflows/outflows include the budgeted gross margin and average annual growth rate of revenue which are based on past performance and its expectation of market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amounts.

Any decline in estimated value in use would be liable to result in an additional impairment for the CGU. As a sensitivity analysis, 1% decrease in the long term average growth rate would decrease the recoverable amount by RMB241,000 (2015: RMB2,040,000). Likewise, a 10% increase or decrease in cash flows after the fifth year would increase or decrease the recoverable amount by RMB405,000 (2015: RMB4,581,000).

In order to determine the recoverable amounts of the CGUs, management made reference to the valuation report, issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

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

	Beijing Zhengmei	**Shenzhen Xinyida**
Growth rate of revenue	5% – 6%	1% – 3%
Cost of sales per revenue	67% – 78%	69% – 71%
Pre-tax discount rate	16%	20%

The discount rates applied are pre-tax and reflect specific risks related to the relevant CGU.

15. Investments accounted for using equity method

	2016	2015
	RMB'000	RMB'000
Investment in a joint venture (Note a)	**–**	–
Investment in an associate (Note b)	**1,102**	1,312
	1,102	1,312

a) Investment in a joint venture

	2016	2015
	RMB'000	RMB'000
As at 1 January	**–**	4,817
Share of loss	**–**	(25)
Disposal	**–**	(4,792)
As at 31 December	**–**	–

This represented 49% equity interest in Polaron Solartech Corp. ("Polaron") acquired in 2014 at a consideration of approximately RMB5,686,000.

On 12 November 2015, the Group disposed its 49% equity interest in Polaron at a consideration of approximately CAD500,000 (equivalent to RMB2,392,000).

b) Investment in an associate

	2016	2015
	RMB'000	RMB'000
Net assets as at 1 January/acquisition date	**2,678**	2,745
Loss for the year/period from 21 December 2015 to 31 December 2015	**(429)**	(67)
Net assets as at 31 December	**2,249**	2,678
Investment in an associate at 49%	**1,102**	1,312
Carrying amount	**1,102**	1,312

15. Investments accounted for using equity method *(Continued)*

b) Investment in an associate *(Continued)*

Details of the associate as at 31 December 2016 and 2015 are as follows:

Name of entity	Place of incorporation	% of ownership 2016	% of ownership 2015	Nature of the relationship	Measurement method
Shenyang Zhengmei	The PRC	**49%**	49%	**Note**	Equity

Note:

On 21 December 2015, the Group completed the disposal of 2% equity interest in Shenyang Zhengmei, to another shareholder of Shenyang Zhengmei at a consideration of RMB56,000, resulting in a loss of control on Shenyang Zhengmei and since then, Shenyang Zhengmei is no longer a subsidiary of the Group. As the Group has significant influence over Shenyang Zhengmei, Shenyang Zhengmei was recognised as an associate of the Group since that date. Details of the corresponding gain on the partial disposal are set out in Note 23.

Summarised financial information for the associate

Set out below are the consolidated financial information for Shenyang Zhengmei which is accounted for using equity method.

	2016 RMB'000	2015 RMB'000
As at 31 December		
Non-current assets	**32**	104
Current assets	**2,915**	2,659
Current liabilities	**(698)**	(237)
For the year ended 31 December 2016/Period from 21 December 2015 to 31 December 2015		
Revenue	**980**	93
Loss for the year/period from 21 December 2015 to 31 December 2015	**(429)**	(67)

16. Inventories

	2016 RMB'000	2015 RMB'000
Work-in-progress	**–**	1,885
Finished goods	**31,005**	35,649
Total	**31,005**	37,534

Cost of inventories recognised as expense in "cost of sales" amounted to approximately RMB81,679,000 (Note 8) for the year ended 31 December 2016 (2015: RMB72,920,000).

17. Trade and other receivables

	2016	2015
	RMB'000	RMB'000
Trade and bill receivables	**14,989**	15,238
Prepayments (Note)		
– Third parties	**12,980**	39,650
Deposits and other receivables (Note)		
– Third parties	**816**	625
– Related parties (Note 30 (b))	**295**	24
	29,080	55,537
Less: non-current portion		
– Prepayments	**(1,777)**	(2,107)
	27,303	53,430

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

	2016	2015
	RMB'000	RMB'000
Prepayments		
Prepayments for purchase of inventories	**3,260**	28,323
Prepayments for rental	**3,200**	3,457
Prepayments for construction work	**–**	330
Deposits for acquisition of trademarks	**4,398**	4,398
Others	**2,122**	3,142
	12,980	39,650

	2016	2015
	RMB'000	RMB'000
Deposits and other receivables		
Rental and utility deposits	**531**	340
Amounts due from directors (Note 30 (b))	**295**	–
Amount due from an associate (Note 30 (b))	**–**	24
Others	**285**	285
	1,111	649

17. Trade and other receivables *(Continued)*

Majority of the Group's sales are with credit terms of 60 to 150 days (2015: 60 to 150 days) and ageing analysis of the trade receivables based on invoice date is as follows:

	2016 **RMB'000**	2015 RMB'000
0 – 30 days	**7,274**	7,432
31 – 60 days	**3,143**	3,400
61 – 90 days	**1,132**	1,413
Over 90 days	**3,440**	2,993
Total	**14,989**	15,238

As at 31 December 2016, trade receivables of approximately RMB3,440,000 (2015: RMB3,070,000) were past due but not impaired. No impairment provision was made (2015: 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. An ageing analysis of these trade receivables is as follows:

	2016 **RMB'000**	2015 RMB'000
61 – 90 days	**–**	77
Over 90 days	**3,440**	2,993
Total	**3,440**	3,070

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

	2016 **RMB'000**	2015 RMB'000
RMB	**27,064**	51,979
HK$	**2,016**	3,558
	29,080	55,537

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.

18. Cash and cash equivalents

	2016	2015
	RMB'000	RMB'000
Cash on hand	**341**	360
Cash at bank	**28,194**	49,175
Total	**28,535**	49,535

Cash and bank balances are denominated in the following currencies:

	2016	2015
	RMB'000	RMB'000
RMB	**8,391**	11,331
HK$	**20,144**	38,204
Total	**28,535**	49,535

The conversion of RMB 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.

19. Share capital

	Note	2016 Number of shares	2016 RMB'000	2015 Number of shares	2015 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		**661,000,000**	**5,263**	530,000,000	4,193
Issuance of new shares	(a)	**–**	**–**	131,000,000	1,070
At 31 December		**661,000,000**	**5,263**	661,000,000	5,263

Note:

(a) On 30 April 2015, the Company and Eastern Wealth Development Limited ("Eastern Wealth") entered into a subscription agreement pursuant to which Eastern Wealth agreed to subscribe 25,000,000 ordinary shares of HK$0.01 each in the Company. On 15 May 2015, Eastern Wealth completed the subscription of shares at a price of HK$0.601 per share for a total consideration of approximately HK$15,025,000 (equivalent to RMB12,018,000) with issuance costs amounted to approximately HK$231,000 (equivalent to RMB185,000). This resulted in an increase in share capital of approximately RMB201,000 and share premium of approximately RMB11,632,000.

On 14 August 2015, the Company and Rise Grace Development Limited ("Rise Grace") entered into a subscription agreement pursuant to which Rise Grace agreed to subscribe 106,000,000 ordinary shares of HK$0.01 each in the Company. On 2 September 2015, Rise Grace completed the subscription of shares at a price of HK$0.47 per share for a total consideration of approximately HK$49,820,000 (equivalent to RMB40,872,000) with issuance costs amounted to approximately HK$820,000 (equivalent to RMB687,000). This resulted in an increase in share capital of approximately RMB869,000 and share premium of approximately RMB39,316,000.

20. Reserves

The reserves of the Group as at 31 December 2015 are analysed as follows:

	The Group Attributable to owners of the Company									
	Share premium RMB'000 (Note a)	Capital reserve RMB'000 (Note b)	PRC statutory reserve RMB'000 (Note c)	Convertible bonds equity reserve RMB'000 (Note d)	Available -for-sale investment RMB'000	Shares held for share award scheme RMB'000	Employee share-based payment reserve RMB'000	Exchange reserve RMB'000	Retained earnings/ (Accumulated losses) RMB'000	Total RMB'000
Balance at 1 January 2015	207,155	(47,484)	4,658	22,169	262	–	–	(780)	33,057	219,037
Loss for the year	–	–	–	–	–	–	–	–	(89,484)	(89,484)
Other comprehensive income										
Change in value of available-for-sale investment	–	–	–	–	(262)	–	–	–	–	(262)
Currency translation differences	–	–	–	–	–	–	–	1,189	–	1,189
Total comprehensive income	–	–	–	–	(262)	–	–	1,189	(89,484)	(88,557)
Transactions with equity owners of the Company recognised directly in equity										
Issuance of new shares, net proceed	50,948	–	–	–	–	–	–	–	–	50,948
Shares purchased under share award scheme	–	–	–	–	–	(417)	–	–	–	(417)
Equity-settled share-based payment expenses	–	–	–	–	–	–	1,385	–	–	1,385
Partial disposals of a subsidiary	–	–	(219)	–	–	–	–	–	219	–
Appropriation to PRC statutory reserve	–	–	113	–	–	–	–	–	(113)	–
Balance at 31 December 2015	258,103	(47,484)	4,552	22,169	–	(417)	1,385	409	(56,321)	182,396

20. Reserves *(Continued)*

The reserves of the Group as at 31 December 2016 are analysed as follows:

	The Group — Attributable to owners of the Company									
	Share premium RMB'000 (Note a)	Capital reserve RMB'000 (Note b)	PRC statutory reserve RMB'000 (Note c)	Convertible bonds equity reserve RMB'000 (Note d)	Available -for-sale investment RMB'000	Shares held for share award scheme RMB'000	Employee share-based payment reserve RMB'000	Exchange reserve RMB'000	Retained earnings/ (Accumulated losses) RMB'000	Total RMB'000
Balance at 1 January 2016	258,103	(47,484)	4,552	22,169	–	(417)	1,385	409	(56,321)	182,396
Loss for the year	–	–	–	–	–	–	–	–	(60,161)	(60,161)
Other comprehensive income										
Currency translation differences	–	–	–	–	–	–	–	2,338	–	2,338
Total comprehensive income	–	–	–	–	–	–	–	2,338	(60,161)	(57,823)
Transactions with equity owners of the Company recognised directly in equity										
Shares purchased under share award scheme	–	–	–	–	–	(12,313)	–	–	–	(12,313)
Equity-settled share-based payment expenses	–	–	–	–	–	–	9,373	–	–	9,373
Vesting of awarded shares	–	–	–	–	–	1,755	(2,347)	–	592	–
Appropriation to PRC statutory reserve	–	–	74	–	–	–	–	–	(74)	–
Balance at 31 December 2016	258,103	(47,484)	4,626	22,169	–	(10,975)	8,411	2,747	(115,964)	121,633

20. Reserves *(Continued)*

The reserves of the Company as at 31 December 2015 are analysed as follows:

	The Company Attributable to owners of the Company							
	Share premium RMB'000 (Note a)	Employee share-based payment reserve RMB'000	Capital reserve RMB'000 (Note b)	Exchange reserve RMB'000	Convertible bonds equity reserve RMB'000 (Note d)	Shares held for share award scheme RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2015	207,155	–	2,999	310	22,169	–	(19,461)	213,172
Loss for the year	–	–	–	–	–	–	(13,880)	(13,880)
Other comprehensive income								
Currency translation differences	–	–	–	2,898	–	–	–	2,898
Total comprehensive income	–	–	–	2,898	–	–	(13,880)	(10,982)
Transactions with equity owners of the Company recognised directly in equity								
Issuance of new shares, net proceed	50,948	–	–	–	–	–	–	50,948
Equity-settled share-based payment expenses	–	1,385	–	–	–	–	–	1,385
Balance at 31 December 2015	258,103	1,385	2,999	3,208	22,169	–	(33,341)	254,523

20. Reserves *(Continued)*

The reserves of the Company as at 31 December 2016 are analysed as follows:

	The Company – Attributable to owners of the Company							
	Share premium RMB'000 (Note a)	Employee share-based payment reserve RMB'000	Capital reserve RMB'000 (Note b)	Exchange reserve RMB'000	Convertible bonds equity reserve RMB'000 (Note d)	Shares held for share award scheme RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2016	**258,103**	**1,385**	**2,999**	**3,208**	**22,169**	**–**	**(33,341)**	**254,523**
Loss for the year	–	–	–	–	–	–	(134,330)	(134,330)
Other comprehensive income								
Currency translation differences	–	–	–	5,639	–	–	–	5,639
Total comprehensive income	–	–	–	5,639	–	–	(134,330)	(128,691)
Transactions with equity owners of the Company recognised directly in equity								
Shares purchased under share award scheme	–	–	–	–	–	(12,730)	–	(12,730)
Equity-settled share-based payment expenses	–	9,373	–	–	–	–	–	9,373
Vesting of awarded shares	–	(2,347)	–	–	–	1,755	592	–
Balance at 31 December 2016	**258,103**	**8,411**	**2,999**	**8,847**	**22,169**	**(10,975)**	**(167,079)**	**122,475**

20. Reserves *(Continued)*

(a) Share premium

This represented the shares issued pursuant to the Group Reorganisation in 2013, the issue of shares of the Company at a premium net of transaction costs associated with the issue of shares and the amount transferred and amount transferred from convertible bonds equity reserve upon conversion of convertible bonds.

(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 RMB2,999,000) to the Group as a result of the selling of her existing shares of the Group upon listing.

(c) 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.

(d) Convertible bonds equity reserve

The convertible bonds equity reserve represented the fair value of the equity component of the convertible bonds issued by the Group on initial recognition. Further details of the convertible bonds are set out in note 24.

21. Trade and other payables

	2016 RMB'000	2015 RMB'000
Current:		
Trade payables		
– Third parties	**1,397**	4,498
Value-added tax payables	**1,641**	1,606
Salaries payables	**5,865**	4,812
Receipts in advance	**–**	1,683
Other payables and accruals	**2,760**	4,242
Total	**11,663**	16,841

Credit terms granted by suppliers are generally within 60 days.

Ageing analysis of trade payables at 31 December 2016 and 2015 based on invoice date is as follows:

	2016 RMB'000	2015 RMB'000
0 – 30 days	**1,140**	4,359
31 – 60 days	**20**	91
61 – 90 days	**–**	–
Over 90 days	**237**	48
Total	**1,397**	4,498

Trade and other payables are denominated in the following currencies:

	2016 RMB'000	2015 RMB'000
RMB	**9,726**	15,374
HK$	**1,930**	1,460
United States Dollars ("USD")	**7**	7
Total	**11,663**	16,841

22. Deferred taxation

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

	2016 RMB'000	2015 RMB'000
Deferred income tax assets:		
– to be settled after more than 12 months	**919**	864
– to be settled within 12 months	**713**	316
	1,632	1,180
Deferred income tax liabilities:		
– to be settled after more than 12 months	**(181)**	(2,007)
– to be settled within 12 months	**(231)**	(924)
	(412)	(2,931)
Deferred income tax assets/(liabilities), net	**1,220**	(1,751)

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

	2016 RMB'000	2015 RMB'000
At the beginning of year	**(1,751)**	(6,623)
Partial disposal of a subsidiary	**–**	(4)
Credited to the consolidated statement of comprehensive income (Note 11)	**2,971**	4,876
At the end of year	**1,220**	(1,751)

22. Deferred taxation *(Continued)*

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	Fair value gain on property, plant and equipment RMB'000	Impairment RMB'000	Total RMB'000
At 1 January 2015	213	(21)	(185)	(819)	(5,349)	(462)	–	(6,623)
Partial disposal of a subsidiary	(4)	–	–	–	–	–	–	(4)
Credited to consolidated statement of comprehensive income (Note 11)	(119)	–	–	819	2,811	275	1,090	4,876
At 31 December 2015	90	(21)	(185)	–	(2,538)	(187)	1,090	(1,751)
At 1 January 2016								
Credited to consolidated statement of comprehensive income (Note 11)	**74**	**21**	**–**	**–**	**2,310**	**187**	**379**	**2,971**
At 31 December 2016	**164**	**–**	**(185)**	**–**	**(228)**	**–**	**1,469**	**1,220**

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 2016, the Group had unused tax losses of RMB58,640,875 (2015: RMB24,129,805) which are available to set off against future profits. No deferred tax asset has been recognised in respect of these unused tax losses due to unpredictability of future profit streams.

As at 31 December 2016, deferred income tax liabilities of approximately RMB5,604,000 (2015: RMB5,604,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of the PRC subsidiaries. Such amounts are permanently reinvested.

23. Partial disposal of a subsidiary in 2015

On 21 December 2015, the Group completed the disposal of 2% equity interest in Shenyang Zhengmei and since then Shenyang Zhengmei is no longer a subsidiary of the Group. Net assets of Shenyang Zhengmei at the date of partial disposal were as follows:

	RMB'000
Cash and bank	245
Trade and other receivables	75
Inventories	2,568
Property, plant and equipment	106
Trade and other payables	(249)
	2,745
Gain on partial disposal of a subsidiary	1
Release of non-controlling interest in the former subsidiary	(1,345)
Fair value of interest retained in the subsidiary being disposed of	(1,345)
Total consideration	56
Satisfied by:	
– Cash	56
Net cash outflow arising on disposal:	
– Cash consideration received	56
– Cash and bank balances disposed of	(245)
	(189)

24. Convertible bonds

	2016 RMB'000	2015 RMB'000
Liability component of convertible bonds	**4,445**	3,882

On 14 November 2014, the Company issued 54,690,647 shares pursuant to the exercise of conversion rights attached to the convertible bonds in the principle amount of HK$60,816,000 (equivalent to RMB48,000,000) in exchange for the deposit in the Daqing Property. The maturity date of the convertible bonds fall on the third anniversary from the date of issue of the convertible bonds. The fair value of the liability component and equity conversion component were assessed by an independent valuer and determined at issuance 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.

On 14 August 2015, the Company entered into the subscription agreement to allot and issue 106,000,000 subscription shares at price of HK$0.47 each. It triggered the anti-dilutive clause of the convertible bonds. As a result, the number of unconverted bonds increased from 4,690,647 to 4,874,766 while the conversion price decreased from HK$1.112 to HK$1.07 with effect from 3 September 2015.

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

	2016 RMB'000	2015 RMB'000
Liability component at 1 January	**3,882**	3,460
Fair value loss on convertible bonds (Note 7)	**547**	250
Exchange translation difference	**16**	172
Liability component at 31 December	**4,445**	3,882

Note: The fair value of the liability component was estimated at the issuance 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 value of financial liabilities at fair value through profit or loss are recorded in other gain or loss, net.

25. Share award scheme

On 12 October 2015, the Company adopted a share award scheme (the "Scheme") to reward and retain certain employees in order to encourage and motivate them to strive for future development of the Group as a result to enhance the value of Company's shares which maximised the members' interest as a whole.

Pursuant to the Scheme, the board may, from time to time, at its absolute discretion select the employees as they deem appropriate for participation in the Scheme and determines the number of awarded shares to be granted. Existing shares would be purchased by the trustee from the market out of cash contributed by the Group and be held in trust for the relevant selected participants. The awarded shares of the Company will be vested only after satisfactory completion of time-based targets.

The Scheme is subject to the administration of the Board in accordance with the rules relating to share award scheme. The aggregate number of awarded shares granted by the Board throughout the duration of the Scheme should not in excess of 10% of the issued share capital of the Company as at the date of its adoption. Maximum number of awarded shares which may be granted to a selected participant but unvested under the scheme shall not exceed 3% of the issued share capital of the Company as at the date of its adoption.

Unless terminated earlier by the Board, the scheme shall be valid and effective for a term of 8 years from the date of its adoption.

Movements in the number of shares held for the Scheme and the awarded shares of the Company are as follows:

	Number of shares held for Share Award Scheme		**Number of awarded shares**	
	2016	2015	**2016**	2015
At the beginning of the year	**710,000**	–	**41,300,000**	–
Granted (Note a)	**–**	–	**–**	41,300,000
Acquired (Note b)	**32,270,000**	710,000	**–**	–
Forfeited (Note c)	**–**	–	**(900,000)**	–
Vested	**(3,590,000)**	–	**(3,590,000)**	–
At the end of the year	**29,390,000**	710,000	**36,810,000**	41,300,000

Notes

a) On 12 November 2015, the Board approved the grants of 41,300,000 shares of the Company to be awarded to designated employees under the Share Award Scheme which would be transferred to the employees by the trustee at nil consideration upon vesting between 31 August 2016 and 31 August 2021. At the grant date, the fair value of the awarded shares granted was HK$30,149,000.

b) During the year, the trustee acquired 32,270,000 (2015: 710,000) shares from the markets and held on behalf of the Company to re-grant to eligible employee in future under the Scheme. As a result, an amount of RMB12,313,000 (2015: RMB417,000) has been debited to shares held under share award scheme and deducted from total equity directly.

c) As at 31 December 2016, 900,000 awarded shares were forfeited as a result of the resignation of an employee during the year.

25. Share award scheme *(Continued)*

The remaining awarded shares outstanding with their corresponding vesting dates are as follow:

	Number of awarded shares	
Vesting date	**2016**	2015
31 August 2016	–	3,680,000
31 August 2017	**7,630,000**	7,810,000
31 August 2018	**8,080,000**	8,260,000
31 August 2019	**9,875,000**	10,100,000
31 August 2020	**10,100,000**	10,325,000
31 August 2021	**1,125,000**	1,125,000
	36,810,000	41,300,000

In the current year, share award expense of RMB9,373,000 (2015: RMB1,340,000) has been recognised by the Group as staff costs in the profit or loss.

26. Operating lease commitments

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

	2016	2015
	RMB'000	RMB'000
Within 1 year	**8,359**	6,969
After 1 year but within 5 years	**9,075**	9,430
Over 5 years	**3,400**	4,009
Total	**20,834**	20,408

Certain leases have escalation clauses and rent-free periods.

27. Dividends

No dividend has been paid or declared by the Company during the year (2015: Nil).

The directors do not recommend for payment of a final dividend for the year (2015: Nil).

28. Summary of financial assets and financial liabilities by category

The Group's financial assets and liabilities include the following:

	2016 RMB'000	2015 RMB'000
Loans and receivables at amortised cost		
Trade and other receivables	**15,805**	15,863
Cash and cash equivalents	**28,535**	49,535
Amounts due from directors	**295**	–
Amount due from an associate	**–**	24
	44,635	65,422
Financial liabilities at amortised cost		
Trade and other payables	**10,022**	13,552
Liabilities at fair value through profit or loss		
Liability component of convertible bonds	**4,445**	3,882
	14,467	17,434

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade and other receivables, cash and cash equivalents, amounts due from directors, amount due from an associate and trade and other payables.

Due to their short term nature, their carrying values approximate their fair values.

(b) Financial instruments measured at fair value

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2016 and 2015 by level of inputs to valuation techniques used to measure fair value. Such inputs are categorised 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).

28. Summary of financial assets and financial liabilities by category *(Continued)*

(b) Financial instruments measured at fair value *(Continued)*

	2016		
	Level 1	**Level 2**	**Level 3**
	RMB'000	**RMB'000**	**RMB'000**
Liabilities			
Liability component of convertible bonds	**–**	**–**	**4,445**

	2015		
	Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000
Liabilities			
Liability component of convertible bonds	–	–	3,882

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

29. Financial risk management objectives and policies

29.1 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 2016, 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 RMB980,000 higher/lower (2015: pre-tax loss for the year would have been approximately RMB1,910,000 higher/lower) 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.

29. Financial risk management objectives and policies *(Continued)*

29.1 Financial risk factors *(Continued)*

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

As at 31 December 2016, 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 RMB48,000 higher/lower (2015: RMB63,000 higher/lower) as a result of an increase/decrease in the interest rate.

(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 2016, 12% (2015: 8%) 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 2016, the Group transferred majority of the Group's cash at bank to financial institutions located in the PRC with a minimum rating of "A-" (2015: 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 reporting date.

Trade receivables of the Group as at 31 December 2016 and 2015 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 2016, the Group had a concentration of credit risk given that the largest 5 trade debtors accounted for 28% (2015: 14%) 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.

29. Financial risk management objectives and policies *(Continued)*

29.1 Financial risk factors *(Continued)*

(c) Credit risk (Continued)

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.

(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 reporting dates to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 year or on demand	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2016				
Trade and other payables	**10,022**	–	–	**10,022**
Convertible bonds – debt component	**4,718**	–	–	**4,718**
	14,740	–	–	**14,740**
At 31 December 2015				
Trade and other payables	13,552	–	–	13,552
Convertible bonds – debt component	44	4,415	–	4,459
	13,596	4,415	–	18,011

29. Financial risk management objectives and policies *(Continued)*

29.2 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 members, return capital to members or issue new shares.

30. Related party transactions

During the year ended 31 December 2016, 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
Xinyi Glass	Non-controlling shareholder
Fellow subsidiaries of non-controlling shareholder:	
信義玻璃（天津）有限公司	Fellow subsidiary of Xinyi Glass
信義汽車部件（天津）有限公司	Fellow subsidiary of Xinyi Glass
東莞奔迅汽車玻璃有限公司	Fellow subsidiary of Xinyi Glass
信義汽車玻璃（深圳）有限公司上海分公司	Fellow subsidiary of Xinyi Glass
信義汽車部件（蕪湖）有限公司	Fellow subsidiary of Xinyi Glass
信義汽車部件（東莞）有限公司	Fellow subsidiary of Xinyi Glass
深圳市信義房地產開發有限公司	Fellow subsidiary of Xinyi Glass
Directors:	
Ms. Xia Lu	Director of the Company
Mr. He Changsheng	Director of the Company
Mr. Li Honglin	Director of the Company
Mr. Xia Xiufeng (Chairman)	Director of the Company
Mr. Chen Jinliang	Director of the Company
Mr. Liu Mingyong	Director of the Company
Mr. Qi Dianjiang (ceased on 25 February 2016)	Director of the Company
Mr. Han Shaoli	Director of the Company
Mr. Jiang Bin	Director of the Company
Mr. Lo Chun Yim (appointed on 22 March 2016)	Director of the Company

30. Related party transactions *(Continued)*

(a) Transactions with related parties

	2016 RMB'000	2015 RMB'000
Sales of inventories to a fellow subsidiary of Xinyi Glass	**100**	56
Purchases of inventories from fellow subsidiaries of Xinyi Glass (Note)	**13,299**	15,774
Sales of inventories to an associate	**621**	20
Purchase of inventories from an associate	**8**	–
Rental expenses paid to non-controlling interest shareholders	**–**	63
Rental expenses paid to a fellow subsidiary of Xinyi Glass	**183**	175

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

Note:

The related party transactions constitute connected transaction or continuing connected transaction as defined in Chapter 20 of the Listing Rules.

30. Related party transactions *(Continued)*

(b) Balances with related parties

	2016 RMB'000	2015 RMB'000
Amounts due from directors (Note i)	**295**	–
Amount due from an associate (Note ii)	**–**	24

Note i: The amounts due from directors of the Group are disclosed as follows:

Name of borrowers	Xia Lu	He Changsheng	Li Honglin
Repayment terms of the amounts due	Repayable on demand	Repayable on demand	Repayable on demand
Interest rate	Interest free	Interest free	Interest free
Balances as at 31 December 2016	RMB124,229	RMB124,229	RMB46,867
Balances as at 31 December 2015	–	–	–
Maximum balances outstanding			
– For the year ended 31 December 2016	RMB124,229	RMB124,229	RMB46,867
– For the year ended 31 December 2015	–	–	–

Note ii: The amount due is unsecured, interest free and repayable on demand.

(c) Key management personnel compensation

The Group defines directors as key management personnel and remuneration for key management personnel, including amounts paid to the Company's directors, are disclosed in Note 9.

(d) Movement of balance with directors and their close family members

	2016 RMB'000	2015 RMB'000
At the beginning of the year	**–**	(600)
Expenses paid on behalf of directors	**295**	–
Repayment to a director	**–**	600
At the end of the year	**295**	–

31. Company level statement of financial position

	Note	2016 RMB'000	2015 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries		**110,910**	224,619
Current assets			
Amount due from a subsidiary		**3,894**	3,643
Prepayments and other receivables		**2,015**	3,558
Cash and cash equivalents		**17,456**	34,247
		23,365	41,448
Total assets		**134,275**	266,067
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**5,263**	5,263
Reserves	20	**122,475**	254,523
		127,738	259,786
Current liabilities			
Trade and other payables		**1,512**	1,446
Income tax payable		**580**	920
Convertible bonds		**4,445**	–
		6,537	2,366
Non-current liabilities			
Convertible bonds		**–**	3,915
Total liabilities		**6,537**	6,281
Total equity and liabilities		**134,275**	266,067
Net current assets		**16,828**	39,082
Total assets less current liabilities		**127,738**	263,701

On behalf of the directors

Xia Lu
Director

He Changsheng
Director

32. Investments in subsidiaries

Particulars of the principal subsidiaries as at 31 December 2016 and 2015 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
			2016	2015	
Directly held:					
Yu Sheng Investments Limited	British Virgin Islands, limited liability company	USD10,000	**100%**	100%	Investment holding
Indirectly held:					
Chang Hong Investments (HK) Limited 長洪投資（香港）有限公司	Hong Kong, limited liability company	HK$1	**100%**	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, the PRC, limited liability company	RMB50,000,000	**100%**	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, the PRC, limited liability company	RMB500,000	**100%**	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, the PRC, limited liability company	RMB2,000,000	**51%**	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, the PRC, limited liability company	RMB2,000,000	**51%**	51%	Sales and trading of automobile glass; provision of installation service of automobile glass
Shenzhen Xinyida 深圳信義達汽車玻璃有限公司	Shenzhen, the PRC, limited liability company	RMB6,000,000	**100%**	100%	Sales and trading of automobile glass; provision of installation service of automobile glass

32. 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 2016	2015	Principal activities
Beijing Fengye Zhengmei New Energy Technology Company Limited 北京豐業正美新能源科技有限公司	Beijing, the PRC, limited liability company	RMB20,000,000	**100%**	100%	Provision of installation services of photovoltaic system
Tianjin Zhengmei Glass Technology Co., Ltd. 天津正美玻璃科技有限公司	Tianjin, the PRC, limited liability company	HK$38,000,000	**100%**	100%	Sales and trading of automobile glass; provision of installation service of automobile glass
Tianjin Fengye New Energy Technology Co., Ltd. 天津豐業新能源科技有限公司	Tianjin, the PRC, limited liability company	RMB3,000,000	**100%**	100%	Provision of installation services of photovoltaic system
Zhengmei Haida (Tianjin) Automobile Glass Technology Co., Ltd 正美海達（天津）汽車玻璃科技有限公司	Tianjin, the PRC, limited liability company	RMB2,000,000	**51%**	51%	Sales and trading of automobile glass; provision of installation service of automobile glass

Interest in subsidiaries represents equity funding by the Company to the respective subsidiary and is measured in accordance with the Company's accounting policy for investment in subsidiaries as set out in Note 4(b).

33. Contingent liabilities

In 2014, 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 of the Company, the existing executive and non-executive directors and certain existing and former independent non-executive directors, (the "defendants") with respect to the acquisition of a property in Daqing Property Acquisition as detailed in Note 13.

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

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

(ii) the convertible bonds of the Company issued to satisfy the consideration of the Daqing Property Acquisition and 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.

The litigation is still ongoing but no step has been taken by Xinyi Glass to prosecute the same against all the defendants since 12 November 2015. Management has consulted legal advisors in both the PRC and Hong Kong in response to the Originating Summons. The directors have thoroughly revisited the situation based on the advice of the PRC and Hong Kong legal advisors during the year, and considered that the demands (i) to (iii) are still unattainable and demand (iv) does not impact the Company nor the Group. Accordingly, the directors considered that the pending litigation will not have any material adverse impact to the consolidated financial statements as at 31 December 2016 and 2015.

34. Subsequent events after the reporting period

On 25 October 2016, the Group filed a writ of summons to the Court of Daqing City, Heilongjiang Province, the PRC, against the vender of the Daqing property for not being able to assist the Group to obtain the building certificate of the Daqing property since the Daqing Acquisition Agreement entered on 19 October 2014. The registration of the Daqing property to the local authority has been completed in 2015. The Group now seeks to procure the vendor of the Daqing property to comply with the terms and conditions under the Daqing Acquisition Agreement in the Group to obtain the building certificate of the Daqing property.

The first hearing on the court has made on 22 February 2017 and is now awaiting for the court decision. Management had consulted legal advisor of the Group and it is expected that the court decision would be favorable to the Group.

35. Approval of financial statements

The financial statements for the year ended 31 December 2016 were approved and authorised for issue by the directors on 21 March 2017.

Five Year Financial Summary

The audited results of the Group for the years ended 31 December 2016, 2015, 2014, 2013 and 2012 and the audited assets and liabilities of the Group as at 31 December 2016, 2015, 2014, 2013 and 2012 are those set out in the published financial statements for the years ended 31 December 2016, 2015, 2014 and 2013, respectively.

RESULTS

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Revenue	**131,245**	131,193	135,193	144,214	136,954
(Loss)/Profit before income tax	**(63,181)**	(94,982)	(10,313)	14,712	20,665
Income tax credit/(expense)	**2,656**	5,001	(1,781)	(5,410)	(5,580)
(Loss)/Profit for the year	**(60,525)**	(89,981)	(12,094)	9,302	15,085
Attributable to:					
Owners of the Company	**(60,161)**	(89,484)	(12,637)	8,664	14,367
Non-controlling interests	**(364)**	(497)	543	638	718

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Total assets	**146,268**	213,873	250,947	155,279	122,821
Total liabilities	**(16,110)**	(22,588)	(22,249)	(15,601)	(21,937)
Non-controlling interests	**(3,262)**	(3,626)	(5,468)	(4,484)	(3,096)

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