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FORTUNET E-COMMERCE GROUP LIMITED

鑫網易商集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1039)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

FINANCIAL HIGHLIGHTS

- Revenue of the Group decreased by 49% to RMB170.4 million for the year ended 31 December 2015 (2014: RMB336.9 million).
- The Group recorded a loss of RMB615.0 million for the year ended 31 December 2015 (2014: RMB408.9 million).
- Cash and cash equivalents increased by RMB188.8 million for the year ended 31 December 2015.
- The Board does not recommend the payment of any final dividend for the year ended 31 December 2015.
- Certain prior-year adjustments were made to correct errors in the Group's consolidated financial statements for the year ended 31 December 2014. These adjustments also have certain effects on the Group's consolidated financial statements for the year ended 31 December 2015.

The board (the “**Board**”) of directors (the “**Directors**”) of Fortunet e-Commerce Group Limited (the “**Company**”) present herewith the annual audited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2015.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

(Expressed in Renminbi (“RMB”))

	<i>Note</i>	2015 <i>RMB’000</i>	2014 <i>RMB’000</i> (restated)
Revenue	5	170,355	336,928
Cost of sales		(330,160)	(330,938)
Gross (loss)/profit	5(b)	(159,805)	5,990
Other income/(loss)	6	9,498	(23,940)
Selling and distribution expenses		(45,527)	(20,529)
Administrative expenses		(86,384)	(54,183)
Research and development costs		(27,388)	(17,725)
Impairment losses	7	(312,288)	(263,374)
Loss from operations		(621,894)	(373,761)
Finance costs	8(a)	(48,732)	(29,336)
Gain/(loss) on disposal of subsidiaries	12(b)(ii)	39,409	(6,105)
Loss before taxation	8	(631,217)	(409,202)
Income tax	9(a)	16,264	270
Loss and total comprehensive income for the year		(614,953)	(408,932)
Attributable to:			
Equity shareholders of the Company		(573,978)	(411,651)
Non-controlling interests		(40,975)	2,719
Loss and total comprehensive income for the year		(614,953)	(408,932)
Loss per share			
Basic and diluted (RMB)	10	(0.42)	(0.52)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

(Expressed in RMB)

	<i>Note</i>	2015 RMB'000	2014 RMB'000 (restated)
Non-current assets			
Property, plant and equipment		109,528	199,092
Lease prepayments		11,484	80,262
Prepayment for acquisition of machinery		–	236
Intangible assets		18,124	–
Goodwill		61,013	–
Deferred tax assets	<i>17(b)</i>	26,270	145
		226,419	279,735
Current assets			
Inventories		63,604	188,238
Trade and other receivables	<i>11</i>	49,490	349,344
Assets classified as held-for-sale	<i>12</i>	240,920	190,388
Pledged bank deposits		53	3,350
Cash and cash equivalents		195,632	6,858
		549,699	738,178
Current liabilities			
Trade and other payables	<i>13</i>	150,924	246,463
Bank and other loans		171,904	314,080
Liabilities classified as held-for-sale	<i>12</i>	167,278	22,799
Income tax payable		–	1,343
		490,106	584,685
Net current assets		59,593	153,493
Total assets less current liabilities		286,012	433,228
Non-current liabilities			
Secured notes	<i>14</i>	128,271	–
Convertible bonds	<i>15</i>	80,409	–
Deferred tax liabilities	<i>17(b)</i>	5,241	–
		213,921	–
NET ASSETS		72,091	433,228
CAPITAL AND RESERVES			
Share capital	<i>19</i>	98,557	53,560
Reserves		(4,696)	379,668
Total equity attributable to equity shareholders of the Company		93,861	433,228
Non-controlling interests		(21,770)	–
TOTAL EQUITY		72,091	433,228

NOTES

(Expressed in RMB unless otherwise indicated)

1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2015 comprise the Group.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for derivative financial instruments which are stated at their fair values.

Non-current assets and disposal groups held-for-sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may 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.

For the year ended 31 December 2015, the Group had incurred net loss of RMB614,953,000 and net cash used in operating activities of RMB45,147,000. Notwithstanding the net loss and net cash used in operating activities for the year ended 31 December 2015 the directors of the Company do not consider that material uncertainties related to events or conditions exist which, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern. This is because (i) of the net loss for the year ended 31 December 2015, RMB446,191,000 was attributable to write-down of inventories, impairment losses on property, plant and equipment, lease prepayments and receivables, and changes in fair value on the derivative components of the convertible bonds, which do not involve any payment of cash; and (ii) based on a cash flow forecast of the Group for the twelve months ending 31 December 2016 prepared by the management, the directors of the Company are of the opinion that the Group will have adequate funds to meet its liabilities as and when they fall due at least twelve months from the end of the reporting period. Accordingly, the directors of the Company consider it is appropriate to prepare the consolidated financial statements on a going concern basis.

3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group.

- Amendments to HKAS 19, *Employee benefits: Defined benefit plans: Employee contributions*
- *Annual Improvements to HKFRSs 2010-2012 Cycle*
- *Annual Improvements to HKFRSs 2011-2013 Cycle*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 CORRECTION OF PRIOR YEAR'S ERRORS AND CHANGES IN PRESENTATION

The following tables disclose the adjustments that have been made by the directors of the Company in order to rectify the errors stated in Note 4(a) to each of the line items in the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended 31 December 2014, and the consolidated statement of financial position as at 31 December 2014 and the changes in presentation of comparatives that have been made by the directors of the Company as stated in Note 4(b).

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014

	2014 (as previously reported) <i>RMB'000</i>	Effect of prior year's adjustments <i>RMB'000</i> <i>(Note 4(a))</i>	2014 (after prior year's adjustments) <i>RMB'000</i>	Changes in presentation <i>RMB'000</i> <i>(Note 4(b))</i>	2014 (as restated) <i>RMB'000</i>
Revenue	336,928	–	336,928	–	336,928
Cost of sales	(298,243)	(32,695)	(330,938)	–	(330,938)
Gross profit	38,685	(32,695)	5,990	–	5,990
Other loss	(3,056)	–	(3,056)	(20,884)	(23,940)
Selling and distribution expenses	(20,529)	–	(20,529)	–	(20,529)
Administrative expenses	(62,802)	–	(62,802)	8,619	(54,183)
Research and development costs	(17,725)	–	(17,725)	–	(17,725)
Impairment losses	–	–	–	(263,374)	(263,374)
Impairment losses on trade receivables	(20,080)	–	(20,080)	20,080	–
Impairment losses recognised in respect of property, plant and equipment	(55,764)	(103,006)	(158,770)	158,770	–
Impairment losses recognised in respect of prepaid lease payments	–	(123,501)	(123,501)	123,501	–
Reversal of impairment losses recognised in respect of property, plant and equipment classified as assets held-for-sale	26,712	–	26,712	(26,712)	–
Loss from operations	(114,559)	(259,202)	(373,761)	–	(373,761)
Finance costs	(29,336)	–	(29,336)	–	(29,336)
Loss on disposal of a subsidiary	(6,105)	–	(6,105)	–	(6,105)
Loss before taxation	(150,000)	(259,202)	(409,202)	–	(409,202)
Income tax	270	–	270	–	270
Loss and total comprehensive income for the year	<u>(149,730)</u>	<u>(259,202)</u>	<u>(408,932)</u>	<u>–</u>	<u>(408,932)</u>
Attributable to:					
– Equity shareholders of the Company	(152,449)	(259,202)	(411,651)	–	(411,651)
– Non-controlling interests	2,719	–	2,719	–	2,719
Loss and total comprehensive income for the year	<u>(149,730)</u>	<u>(259,202)</u>	<u>(408,932)</u>	<u>–</u>	<u>(408,932)</u>
Loss per share					
– Basic and diluted (RMB)	<u>(0.19)</u>	<u>(0.33)</u>	<u>(0.52)</u>	<u>–</u>	<u>(0.52)</u>

Consolidated statement of financial position at 31 December 2014

	2014 (as previously reported) <i>RMB'000</i>	Effect of prior year's adjustments <i>RMB'000</i> <i>(Note 4(a))</i>	2014 (after prior year's adjustments) <i>RMB'000</i>	Changes in presentation <i>RMB'000</i> <i>(Note 4(b))</i>	2014 (as restated) <i>RMB'000</i>
Non-current assets					
Property, plant and equipment	302,098	(103,006)	199,092	–	199,092
Lease prepayments	203,763	(123,501)	80,262	–	80,262
Prepayment for acquisition of machinery	236	–	236	–	236
Deferred tax assets	145	–	145	–	145
	<u>506,242</u>	<u>(226,507)</u>	<u>279,735</u>	<u>–</u>	<u>279,735</u>
Current assets					
Inventories	220,933	(32,695)	188,238	–	188,238
Trade and other receivables	–	–	–	349,344	349,344
Trade receivables	160,420	–	160,420	(160,420)	–
Bills receivables	53,079	–	53,079	(53,079)	–
Other receivables	131,872	–	131,872	(131,872)	–
Lease prepayments	4,378	–	4,378	(4,378)	–
Assets classified as held-for-sale	187,544	–	187,544	2,844	190,388
Tax recoverable	2,439	–	2,439	(2,439)	–
Pledged bank deposits	3,350	–	3,350	–	3,350
Cash and cash equivalents	6,858	–	6,858	–	6,858
	<u>770,873</u>	<u>(32,695)</u>	<u>738,178</u>	<u>–</u>	<u>738,178</u>
Current liabilities					
Trade and other payables	–	–	–	246,463	246,463
Trade and bills payables	87,919	–	87,919	(87,919)	–
Other payables	158,544	–	158,544	(158,544)	–
Bank and other loans	336,879	–	336,879	(22,799)	314,080
Liabilities classified as held-for-sale	–	–	–	22,799	22,799
Income tax payable	1,343	–	1,343	–	1,343
	<u>584,685</u>	<u>–</u>	<u>584,685</u>	<u>–</u>	<u>584,685</u>
Net current assets	<u>186,188</u>	<u>(32,695)</u>	<u>153,493</u>	<u>–</u>	<u>153,493</u>
NET ASSETS	<u>692,430</u>	<u>(259,202)</u>	<u>433,228</u>	<u>–</u>	<u>433,228</u>
CAPITAL AND RESERVES					
Share capital	53,560	–	53,560	–	53,560
Reserves	638,870	(259,202)	379,668	–	379,668
TOTAL EQUITY	<u>692,430</u>	<u>(259,202)</u>	<u>433,228</u>	<u>–</u>	<u>433,228</u>

Consolidated statement of changes in equity for the year ended 31 December 2014

	2014 (as previously reported) <i>RMB'000</i>	Effect of prior year's adjustments <i>RMB'000</i> <i>(Note4(a))</i>	2014 (as restated) <i>RMB'000</i>
Share capital	53,560	–	53,560
Share premium	599,296	–	599,296
Shares held under share award scheme	(1,627)	–	(1,627)
Capital reserve	226,982	–	226,982
Surplus reserves	149,020	–	149,020
Other reserve	(7,703)	–	(7,703)
Accumulated losses	(327,098)	(259,202)	(586,300)
Total equity	<u>692,430</u>	<u>(259,202)</u>	<u>433,228</u>

Consolidated cash flow statement for the year ended 31 December 2014

	2014 (as previously reported) RMB'000	Effect of prior year's adjustments RMB'000 (Note 4(a))	2014 (after prior year's adjustments) RMB'000	Changes in presentation RMB'000 (Note 4(b))	2014 (as restated) RMB'000
Operating activities					
Loss before taxation	(150,000)	(259,202)	(409,202)	–	(409,202)
Adjustments for:					
Depreciation and amortisation	–	–	–	42,540	42,540
Impairment losses	–	–	–	263,374	263,374
Write-down of inventories	–	–	–	51,967	51,967
Reversal of impairment losses on trade receivables	(20,884)	–	(20,884)	20,884	–
Depreciation of property, plant and equipment	37,016	–	37,016	(37,016)	–
Finance costs	29,336	–	29,336	–	29,336
Release of prepaid lease payments	5,524	–	5,524	(5,524)	–
Impairment losses recognised in respect of					
– trade receivables	20,080	–	20,080	(20,080)	–
– advance to suppliers	8,619	–	8,619	(8,619)	–
– inventories	19,272	32,695	51,967	(51,967)	–
– property, plant and equipment	55,764	103,006	158,770	(158,770)	–
– prepaid lease payments	–	123,501	123,501	(123,501)	–
Reversal of impairment loss recognised in respect of property, plant and equipment classified as assets held-for-sale	(26,712)	–	(26,712)	26,712	–
Loss on disposal of a subsidiary	6,105	–	6,105	–	6,105
Loss on disposal of property, plant and equipment	25,599	–	25,599	–	25,599
Interest income	(250)	–	(250)	–	(250)
Operating cash flows before movements in working capital	9,469	–	9,469	–	9,469
Decrease in inventories	139	–	139	–	139
Decrease in trade and other receivables	–	–	–	80,131	80,131
Decrease in trade receivables	17,461	–	17,461	(17,461)	–
Decrease in bills receivables	34,370	–	34,370	(34,370)	–
Decrease in other receivables	28,300	–	28,300	(28,300)	–
Decrease in trade and other payables	–	–	–	(51,293)	(51,293)
Decrease in trade and bill payables	(36,076)	–	(36,076)	36,076	–
Decrease in other payables	(15,217)	–	(15,217)	15,217	–
Cash generated from operations	38,446	–	38,446	–	38,446
Income tax paid	(70)	–	(70)	–	(70)
Net cash generated from operating activities	38,376	–	38,376	–	38,376

	2014 (as previously reported) RMB'000	Effect of prior year's adjustments RMB'000 (Note 4(a))	2014 (after prior year's adjustments) RMB'000	Changes in presentation RMB'000 (Note 4(b))	2014 (as restated) RMB'000
Investing activities					
Proceeds from disposal of property, plant and equipment	5,875	–	5,875	–	5,875
Deposits received for disposal of assets classified as held-for-sale	36,000	–	36,000	–	36,000
Proceeds from disposal of a subsidiary	35,000	–	35,000	–	35,000
Deposit received for disposal of a subsidiary	28,000	–	28,000	–	28,000
Payments for prepaid lease payments	(1,001)	–	(1,001)	–	(1,001)
Payments for purchase of property, plant and equipment	(3,334)	–	(3,334)	(236)	(3,570)
Payments for acquisition of machinery	(236)	–	(236)	236	–
Increase in pledged bank deposits	(3,350)	–	(3,350)	–	(3,350)
Payments for acquisition of non-controlling interests in a subsidiary	(30,000)	–	(30,000)	30,000	–
Interest received	250	–	250	–	250
Net cash generated from investing activities	67,204	–	67,204	30,000	97,204
Financing activities					
Proceeds of new bank and other loans	399,300	–	399,300	–	399,300
Repayment of bank and other loans	(526,588)	–	(526,588)	–	(526,588)
Payments for acquisition of non-controlling interests in a subsidiary	–	–	–	(30,000)	(30,000)
Finance costs paid	(29,336)	–	(29,336)	–	(29,336)
Net cash used in financing activities	(156,624)	–	(156,624)	(30,000)	(186,624)
Net decrease in cash and cash equivalents	(51,044)	–	(51,044)	–	(51,044)
Cash and cash equivalents at 1 January	57,902	–	57,902	–	57,902
Cash and cash equivalents at 31 December	6,858	–	6,858	–	6,858

(a) Impairment in respect of property, plant and equipment and lease prepayments and write-down of inventories in connection with the Group's axle and train businesses

The predecessor auditor's report issued on the consolidated financial statements of the Group for the year ended 31 December 2014 (the "Group's 2014 Financial Statements") prepared in accordance with HKFRSs was qualified by the predecessor auditor due to the predecessor auditor's inability to satisfy themselves that certain of the management's assumptions were reasonable. These assumptions related to whether the Group's property, plant and equipment and inventories were impaired or required to be written down to their net realisable value, respectively.

In view of the concerns that the existing shareholders and stakeholders, and future and potential investors of the Company may have on this matter, the directors of the Company consider it is necessary to address this matter appropriately. Accordingly, the directors of the Company have revisited the information previously prepared, including but not limited to the then cash flow forecasts prepared by the management, and have further investigated whether any of the Group's non-current and current assets were impaired or required to be written-down as at 31 December 2014.

During this process, the Company, through various channels, was able to obtain information that should have been available during the preparation of the Group's 2014 Financial Statements. The directors of the Company consider such additional information, if made available to the directors of the Company at that time, would have resulted in a different conclusion on whether or not the Group's non-current and current assets were impaired or required to be written-down. From the foregoing, the directors of the Company concluded that the Group's 2014 Financial Statements contained various errors.

After taking into account the information previously used and the newly acquired information which should have been made available to the directors of the Company during the preparation of the Group's 2014 Financial Statements, the directors of the Company have prepared revised cash flow forecasts and estimated the recoverable amount of the relevant assets. Based on the above results, the directors of the Company concluded that additional impairment losses on the Group's property, plant and equipment and lease prepayments of approximately RMB226,507,000 and write-down on inventories of approximately RMB32,695,000 should have been recorded in the Group's 2014 Financial Statements.

The errors mentioned above have no effect on the consolidated financial position of the Group as at 1 January 2014.

(b) Changes in presentation of comparatives

In addition to the adjustments made to correct prior year's errors mentioned in Note 4(a) above, the directors of the Company also made certain adjustments to the 2014 comparative figures in order to conform to current year's presentation. Such adjustments were mainly made to group together multiple line items with similar nature that were previously disclosed on the face of the primary statements, so as to make the face of those statements clearer and more concise. The details of the relevant items have been retained in the notes to the financial statements.

5 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the manufacture and sale of axles and related components, and the trading of goods through operation of an electronic distribution platform, mobile applications and other related means in the PRC.

The Group's customer base is diversified. There were three customers with whom transactions have exceeded 10% of the Group's revenue for the year ended 31 December 2015 (2014: two). Revenue from sales to these customers amounted to RMB75,655,000 for the year ended 31 December 2015 (2014: RMB126,884,000).

Further details regarding the Group's principal activities are disclosed below.

(b) Segment reporting

The Group manages its businesses by lines of business. In view of the acquisition of a new line of business through the acquisition of a subsidiary as mentioned in Note 20, namely the E-commerce business from the operation of an electronic distribution platform, and the suspension of the train and railway business, the management of the Group has revisited the Group's future strategies and has decided to change the way in how information is to be reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment. The three operating segments, namely "OEM and related market", "Aftermarket" and "Train and railway business" as previously reported for the year ended 31 December 2014 have been revised into the following two operating segments for the year ended 31 December 2015:

- Axle and train business: this segment manufactures and sells axles and related components to truck manufacturers and after-sales services market, and train and railway components to Russia.
- E-commerce business: this segment trades goods through an electronic distribution platform, mobile applications and other related means.

No operating segments have been aggregated to form the above reportable segments.

(i) *Segment results, assets and liabilities*

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments. No inter-segment sales have occurred for the years ended 31 December 2015 and 2014. The Group's other operating expenses, such as selling and distribution expenses, administrative expenses, research and development costs, impairment losses and finance costs, are not measured under individual segments. The measure used for reporting segment result is gross profit/(loss).

Segment assets and liabilities include all assets and liabilities with the exception of assets and liabilities classified as held-for-sale, bank and other loans, secured notes, convertible bonds and unallocated corporate assets and liabilities.

Comparative figures have been adjusted to conform to the current year's segment presentation.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2015 and 2014 is set out below.

	Axle and train business RMB'000	2015 E-commerce business RMB'000	Total RMB'000
Revenue from external customers and reportable segment revenue	127,183	43,172	170,355
Reportable segment gross loss	(159,131)	(674)	(159,805)
Reportable segment assets	189,824	342,551	532,375
Reportable segment liabilities	126,143	24,014	150,157
			2014
			Axle and train business RMB'000 (restated)
Revenue from external customers and reportable segment revenue			336,928
Reportable segment gross profit			5,990
Reportable segment assets			856,886
Reportable segment liabilities			233,969

(ii) Reconciliations of reportable segment assets and liabilities

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i> (restated)
Assets		
Reportable segment assets	532,375	856,886
Assets classified as held-for-sale	240,920	190,388
Unallocated head office and corporate assets	54,950	622
Elimination of receivables between segments, and segments and head office	(52,127)	(29,983)
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Consolidated total assets	776,118	1,017,913
	<hr/> <hr/>	<hr/> <hr/>
Liabilities		
Reportable segment liabilities	150,157	233,969
Bank and other loans	171,904	314,080
Liabilities classified as held-for-sale	167,278	22,799
Secured notes	128,271	–
Convertible bonds	80,409	–
Unallocated head office and corporate liabilities	58,135	43,820
Elimination of payables between segments, and segments and head office	(52,127)	(29,983)
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Consolidated total liabilities	704,027	584,685
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(iii) Geographic information

Except for revenue of RMB2,364,000 for the year ended 31 December 2014 which was generated from sales to a customer in Russia, the Group's remaining revenue for the year ended 31 December 2014 and all revenue for the year ended 31 December 2015 were generated from sales to customers in the PRC. All non-current assets of the Group are located in the PRC.

6 OTHER INCOME/(LOSS)

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i> (restated)
Net gain/(loss) on disposal of property, plant and equipment and assets classified as held-for-sale	8,720	(25,599)
Government grants	950	8,326
Net loss on sales of scrap materials	–	(15,144)
Others	(172)	8,477
	<hr/>	<hr/>
	9,498	(23,940)
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7 IMPAIRMENT LOSSES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i> (restated)
Impairment losses on property, plant and equipment	53,675	132,058
Impairment losses on lease prepayments	–	123,501
Impairment losses on trade and other receivables (<i>Note 11(b)</i>)	262,643	7,815
Reversal of impairment losses on lease prepayments	(4,030)	–
	<u>312,288</u>	<u>263,374</u>

8 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i> (restated)
(a) Finance costs:		
Interest on bank and other loans	20,410	29,336
Finance charges on secured notes	10,426	–
Finance charges on convertible bonds (<i>Note 15</i>)	5,810	–
	<u>36,646</u>	<u>29,336</u>
Total borrowing costs	36,646	29,336
Net foreign exchange gain	896	–
Changes in fair value on the derivative components of convertible bonds (<i>Note 15</i>)	11,190	–
	<u>48,732</u>	<u>29,336</u>

No borrowing costs have been capitalised for the year ended 31 December 2015 (2014: RMB Nil).

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i> (restated)
(b) Staff costs#:		
Salaries, wages and other benefits	72,065	53,417
Contributions to defined contribution retirement plans	4,717	2,923
Equity-settled share-based payment expenses in respect of share award scheme (<i>Note 16</i>)	1,772	–
	<u>78,554</u>	<u>56,340</u>

The employees of the subsidiaries of the Group established in the PRC (excluding Hong Kong) participate in defined contribution retirement benefit schemes managed by the local government authorities, whereby these subsidiaries are required to contribute to the schemes at rates ranging from 18% to 20% of the employees' basic salaries. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC (excluding Hong Kong), from the above mentioned retirement schemes at their normal retirement age.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of Hong Kong Dollars ("HK\$") 30,000 (HK\$25,000 prior to June 2014). Contributions to the MPF scheme vest immediately.

The Group has no further material obligation for payment of other retirement benefits beyond the above contributions.

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i> (restated)
(c) Other items:		
Cost of inventories [#]	329,831	330,348
Auditor's remuneration	2,100	1,347
Depreciation and amortisation [#]	29,943	42,540
Operating lease charges in respect of properties	6,917	138
	<u>368,791</u>	<u>414,373</u>

[#] Cost of inventories includes RMB28,656,000 for the year ended 31 December 2015 (2014: RMB51,449,000), relating to staff costs, and depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in Note 8(b) for each of these types of expenses.

9 INCOME TAX

(a) Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i> (restated)
Current taxation – PRC Corporate Income Tax:		
Under-provision in respect of prior years	–	70
Deferred taxation (Note 17(a)):		
Origination and reversal of temporary differences	<u>(16,264)</u>	<u>(340)</u>
	<u>(16,264)</u>	<u>(270)</u>

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i> (restated)
Loss before taxation	(631,217)	(409,202)
Expected tax on loss before taxation, calculated at the rates applicable to profits in the jurisdictions concerned (<i>Notes (i), (ii) and (iii)</i>)	(149,972)	(101,588)
Tax effect of non-deductible expenses	222	1,723
Tax effect of deductible temporary differences not recognised	98,851	78,795
Tax effect of unused tax losses not recognised	34,635	20,730
Under-provision in respect of prior years	–	70
Income tax	(16,264)	(270)

Notes:

- (i) The Company and the subsidiaries of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2015 (2014: 16.5%). No provision for Hong Kong Profits Tax has been made, as the Company and the subsidiaries of the Group incorporated in Hong Kong did not have assessable profits subject to Hong Kong Profits Tax for the year ended 31 December 2015 (2014: RMB Nil).
- (ii) The Company and the subsidiaries of the Group incorporated in the Cayman Islands and the British Virgin Islands, respectively, are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.
- (iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the year ended 31 December 2015 (2014: 25%).
- (iv) One of the Group's subsidiaries established in the PRC has obtained approvals from the relevant tax bureau to be taxed as an enterprise with advanced and new technologies for the calendar years from 2013 to 2015 and therefore enjoyed a preferential PRC Corporate Income Tax rate of 15% for the year ended 31 December 2015 (2014: 15%).

10 LOSS PER SHARE

(a) Basic loss per share

The basic loss per share for the year ended 31 December 2015 is calculated based on the loss attributable to the equity shareholders of the company of RMB573,978,000 (2014: RMB411,651,000 (restated)) and the weighted average of 1,365,447,000 ordinary shares (2014: 797,168,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares:

	2015 '000	2014 '000 (restated)
Issued ordinary shares at 1 January	800,000	800,000
Effect of shares issued to new equity shareholders of the Company on 25 March 2015 (<i>Note 19</i>)	471,756	–
Effect of shares issued on the acquisition of a subsidiary on 25 March 2015 (<i>Note 19</i>)	94,351	–
Effect of shares purchased and vested under a share award scheme (<i>Note 16</i>)	(660)	(2,832)
	<u>1,365,447</u>	<u>797,168</u>

(b) Diluted loss per share

There were no dilutive potential shares outstanding during the year ended 31 December 2015 and 2014.

11 TRADE AND OTHER RECEIVABLES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Trade receivables	305,721	442,651
Bills receivables	12,941	53,079
	<u>318,662</u>	<u>495,730</u>
Less: allowance for doubtful debts	(287,583)	(282,231)
	<u>31,079</u>	<u>213,499</u>
Prepayments, deposits and other receivables:		
– Advances to suppliers	78,658	111,518
– Value added tax refundable	5,577	17,830
– Others	36,654	12,804
	<u>120,889</u>	<u>142,152</u>
Less: allowance for doubtful debts	(102,478)	(6,307)
	<u>18,411</u>	<u>135,845</u>
	<u>49,490</u>	<u>349,344</u>

All of the trade and other receivables, net of allowance for doubtful debts, are expected to be recovered or recognised as expenses within one year. For trade receivables arising from the Group's E-commerce business, cash before delivery is generally required for all the customers. Trade receivables arising from the Group's axles and train businesses are generally due within three to four months from the date of billings.

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade and bills receivables (net of allowance for doubtful debts), included in trade and other receivables, based on the invoice date, is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Within 3 months	15,606	83,547
Over 3 months but within 6 months	14,821	54,568
Over 6 months	652	75,384
	<u>31,079</u>	<u>213,499</u>

At the end of the reporting period, trade receivables with outstanding amount of RMB14,422,000 (31 December 2014: RMB37,500,000) have been pledged to a bank to secure the Group's short-term bank loans.

(b) Impairment of trade and other receivables

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly.

The movements in the allowance for doubtful debts during the year are as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
At 1 January	288,538	289,342
Impairment losses recognised (<i>Note 7</i>)	262,643	7,815
Reclassified as assets held-for-sale	(132,101)	–
Uncollectible amounts written off	(29,019)	(8,619)
	<hr/>	<hr/>
At 31 December	390,061	288,538
	<hr/> <hr/>	<hr/> <hr/>

At 31 December 2015, trade and other receivables of RMB390,061,000 (2014: RMB288,538,000) were individually determined to be impaired. The individually impaired receivables related to customers and debtors that were in financial difficulties and management assessed that these receivables are irrecoverable. The Group does not hold any collateral over these balances.

(c) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Neither past due nor impaired	12,941	53,079
	<hr/>	<hr/>
Less than 3 months past due	10,805	58,773
Over 3 months but within 6 months past due	6,681	26,263
Over 6 months past due	652	75,384
	<hr/>	<hr/>
	18,138	160,420
	<hr/>	<hr/>
	31,079	213,499
	<hr/> <hr/>	<hr/> <hr/>

Receivables that were neither past due nor impaired relate to bills receivable from the issuing banks and trade receivables from customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

12 ASSETS AND LIABILITIES CLASSIFIED AS HELD-FOR-SALE

(a) The classes of assets and liabilities classified as held-for-sale at the end of the year are as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Assets		
Property, plant and equipment	120,572	134,747
Lease prepayments	103,919	52,797
Trade and other receivables	381,988	405
Other current assets	6,619	2,439
	<hr/>	<hr/>
	613,098	190,388
Less: Receivables from other subsidiaries of the Group eliminated in the consolidated financial statements	(372,178)	–
	<hr/>	<hr/>
	240,920	190,388
	<hr/> <hr/>	<hr/> <hr/>
Liabilities		
Trade and other payables	520,679	3,336
Bank and other loans	33,400	22,799
Other current liabilities	291	–
	<hr/>	<hr/>
	554,370	26,135
Less: Payables to other subsidiaries of the Group eliminated in the consolidated financial statements	(387,092)	(3,336)
	<hr/>	<hr/>
	167,278	22,799
	<hr/> <hr/>	<hr/> <hr/>

At 31 December 2015, the disposals of the assets and liabilities classified as held-for-sale are still in process, and the directors of the Company expect the disposals will be concluded by the end of 2016.

(b) The movements of assets and liabilities classified as held-for-sale during the year are as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Assets		
As at 1 January	190,388	80,591
Transfer into held-for-sale during the year (Note (iii))	542,699	151,426
Net decrease while in held-for-sale	(7,948)	(129)
Decrease through disposal of assets (Note (i))	(70,064)	(41,500)
Decrease through disposal of a subsidiary (Note (ii))	(41,977)	–
	<hr/>	<hr/>
As at 31 December	613,098	190,388
	<hr/> <hr/>	<hr/> <hr/>
Liabilities		
As at 1 January	26,135	–
Transfer into held-for-sale during the year (Note (iii))	554,370	26,135
Net decrease while in held-for-sale	(749)	–
Decrease through disposal of a subsidiary (Note (ii))	(25,386)	–
	<hr/>	<hr/>
As at 31 December	554,370	26,135
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (i) During the year ended 31 December 2015, property, plant and equipment and lease prepayments held-for-sale with an aggregate carrying value of RMB70,064,000 were disposed of, resulting in a gain of RMB11,963,000 (see Note 6).
- (ii) In November 2015, the Group disposed of a subsidiary to a third party. The assets and liabilities of this subsidiary were classified as held-for-sale as at 1 January 2015. The consideration for the disposal amounted to RMB56,000,000 fully satisfied in cash. The carrying value of the net assets disposed of amounted to RMB16,591,000. Accordingly, the Group has recognised a gain on disposal of a subsidiary of RMB39,409,000 during the year ended 31 December 2015.
- (iii) In 2015, the Group has committed to a sale plan of Kaifeng Changfeng Axle Co., Ltd. and its subsidiary (the “Kaifeng Changfeng Group”). On 2 February 2016, the Company, through a wholly-owned subsidiary, entered into a conditional agreement with a third party in respect of the disposal of the entire equity interests in the Kaifeng Changfeng Group and the assignment of certain of the Group’s receivables due from the Kaifeng Changfeng Group at a cash consideration of RMB4,000. All of the assets and liabilities of Kaifeng Changfeng Group have been classified as assets and liabilities classified as held-for-sale at the end of the reporting period.

13 TRADE AND OTHER PAYABLES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Trade payables	37,936	58,299
Bills payables	–	17,850
	<hr/>	<hr/>
	37,936	76,149
Deposits received in connection with disposals of assets classified as held-for-sale and subsidiaries	51,000	92,000
Payables for construction and purchase of property, plant and equipment	7,797	12,755
Payables for staff related costs	11,217	15,297
Payable for acquisitions of equity interests in subsidiaries of the Group	5,462	12,550
Payables for miscellaneous taxes	4,410	7,342
Interest payables	4,408	1,435
Others	26,355	20,372
	<hr/>	<hr/>
Financial liabilities measured at amortised cost	148,585	237,900
Advances received from customers	1,411	7,500
Provision for warranties	928	1,063
	<hr/>	<hr/>
	150,924	246,463
	<hr/> <hr/>	<hr/> <hr/>

All of the trade and other payables are expected to be settled or recognised as revenue within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of trade and bills payables included in trade and other payables, based on the invoice date, is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Within 3 months	7,475	38,660
3 to 6 months	6,519	29,963
Over 6 months	23,942	7,526
	<hr/>	<hr/>
	37,936	76,149
	<hr/> <hr/>	<hr/> <hr/>

14 SECURED NOTES

On 3 June 2015, the Company issued secured notes (the “Notes”) with an aggregate face value of USD20,000,000 (equivalent to approximately RMB122,352,000) to Chance Talent Management Limited (“Chance Talent”), a third party. The Notes bear interest at 13% per annum, payable semi-annually, and will mature on 3 June 2017. The Notes and the convertible bonds issued on 3 June 2015 (See Note 15) are secured by 505,581,818 ordinary shares in the Company owned by Century Investment (Holding) Limited (“Century Investment”), an equity shareholder of the Company.

15 CONVERTIBLE BONDS

The Group's convertible bonds are analysed as follows:

	Liability components RMB'000	Derivative components RMB'000	Total RMB'000
At 1 January 2015	–	–	–
Convertible bonds issued	54,328	4,950	59,278
Accrued finance charges for the year <i>(Note 8(a))</i>	5,810	–	5,810
Interest paid	(4,159)	–	(4,159)
Exchange adjustments	3,449	4,841	8,290
Fair value changes on the derivative components <i>(Note 8(a))</i>	–	11,190	11,190
	<hr/>	<hr/>	<hr/>
At 31 December 2015	59,428	20,981	80,409
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

On 3 June 2015, the Company has issued two secured convertible bonds with face value of USD6,000,000 (equivalent to approximately RMB36,706,000) (“CB1”) and USD4,000,000 (equivalent to approximately RMB24,470,000) (“CB2”), respectively, to Chance Talent. Both convertible bonds bear interest at 13% per annum and will mature on 3 June 2018. The two convertible bonds together with the Notes (see Note 14) are secured by 505,581,818 ordinary shares in the Company owned by Century Investment.

Upon issuance of these convertible bonds, Chance Talent can convert CB1 into the Company's ordinary shares at HK\$1.06 per share (i.e. the conversion option) and CB2 into the Company's ordinary shares at HK\$1.50 per share (i.e. the conversion option) at any time from 3 June 2016 till 3 June 2018. The conversion options are classified as derivative financial instruments and have been included in the balance of the convertible bonds in the consolidated statement of financial position.

16 EQUITY SETTLED SHARE-BASED TRANSACTIONS

On 10 February 2012, the directors of the Company adopted a share award scheme (the “Share Award Scheme”) as a mean of rewarding and retaining selected employees of the Group. A trust has been set up for the purpose of administering the Share Award Scheme.

On 25 March 2015, 2,832,000 ordinary shares held under the Share Award Scheme were awarded to an employee of the Group (also a director of the Company) with a fair value per share of HK\$0.79 (equivalent to approximately RMB0.63 per share). The fair value of the shares was determined by reference to the closing price of the Company's ordinary shares on 25 March 2015. These awarded shares were vested on 27 March 2015.

Details of the shares held under the Share Award Scheme are set out below:

	2015			2014		
	Average purchase price HK\$	No. of shares held '000	Value RMB'000	Average purchase price HK\$	No. of shares held '000	Value RMB'000
At 1 January	0.71	2,832	1,627	0.71	2,832	1,627
Shares granted and vested during the year		(2,832)	(1,627)		–	–
At 31 December		–	–		2,832	1,627

17 DEFERRED TAX ASSETS AND LIABILITIES

(a) The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Assets		Liabilities	
	Unrealised profit for inventories RMB'000	Unused tax loss RMB'000	Fair value adjustments on property, plant and equipment, lease prepayments and intangible assets and subsequent depreciation and amortisation RMB'000	Total RMB'000
At 1 January 2014	585	–	(780)	(195)
Credited to the consolidated statement of profit or loss and other comprehensive income (Note 9(a))	305	–	35	340
At 31 December 2014	890	–	(745)	145
Additions through acquisition of a subsidiary (Note 20)	–	10,099	(5,479)	4,620
(Charged)/credited to the consolidated statement of profit or loss and other comprehensive income (Note 9(a))	(890)	16,171	983	16,264
At 31 December 2015	–	26,270	(5,241)	21,029

(b) Reconciliation of deferred tax assets and liabilities recognised in the consolidated statement of financial position:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Deferred tax assets recognised in the consolidated statement of financial position	26,270	145
Deferred tax liabilities recognised in the consolidated statement of financial position	<u>(5,241)</u>	<u>–</u>
	<u>21,029</u>	<u>145</u>

(c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of unused tax losses and temporary differences of RMB1,002,017,000 at 31 December 2015 (31 December 2014: RMB718,568,000), as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The remaining unused tax losses at 31 December 2015 will expire on or before 31 December 2020.

18 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: RMB Nil).

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved during the year

The directors of the Company did not recommend the payment of a dividend for the year ended 31 December 2014 (2013: RMB Nil).

19 SHARE CAPITAL

Issued share capital

	2015		2014	
	No. of shares '000	USD'000	No. of shares '000	USD'000
Authorised:				
Ordinary shares of USD0.01 each	<u>5,000,000</u>	<u>50,000</u>	<u>5,000,000</u>	<u>50,000</u>

	2015		2014	
	No. of shares '000	RMB'000	No. of shares '000	RMB'000
Ordinary shares of USD0.01 each, issued and fully paid:				
At 1 January	800,000	53,560	800,000	53,560
Shares issued to equity shareholders of the Company	610,606	37,498	–	–
Shares issued on acquisition of a subsidiary	122,121	7,499	–	–
	<u>1,532,727</u>	<u>98,557</u>	<u>800,000</u>	<u>53,560</u>
At 31 December	<u>1,532,727</u>	<u>98,557</u>	<u>800,000</u>	<u>53,560</u>

20 BUSINESS COMBINATION

On 26 September 2014, the Company entered into a share purchase agreement with Century East Network Limited (“Century East”), pursuant to which the Company agreed to acquire Century East’s 51% equity interests in Century Network Holding Limited through the issuance of 122,121,000 ordinary shares in the Company as consideration.

Upon completion of the above acquisition on 25 March 2015, the Group recorded a goodwill of RMB61,013,000, calculated as below:

	<i>RMB'000</i>
Fair value of consideration (<i>Note (i)</i>)	76,392
Less: fair value of identifiable net assets acquired (<i>Note (ii)</i>)	<u>(15,379)</u>
Goodwill	<u>61,013</u>

Notes:

(i) Fair value of consideration

The fair value of the consideration was HK\$96,476,000 (equivalent to approximately RMB76,392,000), which was calculated based on 122,121,000 ordinary shares in the Company issued for the acquisition and at the closing price of the Company’s ordinary shares on the Stock Exchange of HK\$0.79 per share (equivalent to approximately RMB0.63 per share) on 25 March 2015.

(ii) Fair value of identifiable net assets acquired

	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
Property, plant and equipment	10,332	–	10,332
Intangible assets	18,406	3,511	21,917
Deferred tax assets (<i>Note 17(a)</i>)	10,099	–	10,099
Trade and other receivables	59,118	–	59,118
Inventories	705	–	705
Cash and cash equivalents	3,275	–	3,275
Trade and other payables	(64,560)	–	(64,560)
Income tax payable	(823)	–	(823)
Deferred tax liabilities (<i>Note 17(a)</i>)	(4,601)	(878)	(5,479)
	<hr/>	<hr/>	<hr/>
Total identifiable net assets	31,951	2,633	34,584
	<hr/> <hr/>	<hr/> <hr/>	
Less: non-controlling interests			19,205
			<hr/>
Fair value of identifiable net assets acquired			15,379
			<hr/> <hr/>

Pre-acquisition carrying amounts of the acquirees' assets and liabilities were determined based on applicable HKFRSs immediately before the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values. In determining the fair values of intangible assets, the directors of the Company have referenced the fair value adjustments to valuation report issued by Cushman & Wakefield Valuation Advisory Services (HK) Limited, an independent professional valuer.

From the date of the above acquisition to 31 December 2015, the above acquisition contributed revenue of RMB43,172,000 and net loss of RMB82,410,000 to the Group for the year ended 31 December 2015. Had the above acquisition been completed on 1 January 2015, the directors of the Company estimated the consolidated revenue and consolidated net loss for the year ended 31 December 2015 would have been RMB170,739,000 and RMB633,010,000, respectively.

(iii) Net cash inflow arising on acquisition

	<i>RMB '000</i>
Cash and cash equivalents acquired	3,275
	<hr/> <hr/>

The directors of the Company consider the axles and train and railway businesses in the PRC are in severe competition during recent years and, by completing the acquisition, the Company will be able to diversify the Group's existing business to strive for growth potential and improve the financial position of the Group.

21 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

In 2015, the Group has committed to a sale plan of the Kaifeng Changfeng Group. On 2 February 2016, the Company, through a wholly-owned subsidiary, entered into a conditional agreement with a third party in respect of the disposal of the entire equity interests in the Kaifeng Changfeng Group and the assignment of certain of the Group's receivables due from the Kaifeng Changfeng Group at aggregate a cash consideration of RMB4,000.

22 COMPARATIVE FIGURES

As a result of the correction of prior year's errors, certain comparative figures have been adjusted to conform to current year's presentation. Further details of these corrections are disclosed in Note 4.

In addition, in view of the acquisition of a new line of business as mentioned in Note 20, certain information reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment has been changed for the year ended 31 December 2015. Accordingly, certain comparative figures have been adjusted to conform to current year's presentation. Further details are set out in Note 5(b).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is an independent axle component provider for China's medium duty truck ("MDT") and heavy duty truck ("HDT") aftermarket, and also an independent axle assembly provider for China's MDT and HDT original equipment manufacturers ("OEM") market. The Group is engaged in the manufacture and sales of axle assemblies and axle components in the People's Republic of China ("PRC").

The Group's products cover all major axle components, including cast steel and punched steel axle housings, brake drums, axle shafts, axle differentials and reducers, steering knuckles and front axle beams. An extensive range of front, middle and rear axle assemblies and suspension assemblies are also manufactured.

On 4 January 2015, the Group entered into an agreement to dispose of a parcel of land and the erected factories and other structures located in Kaifeng at an aggregate cash consideration of RMB102,690,000, details of which are disclosed in the Company's announcement dated 4 January 2015 and the circular issued by the Company dated 5 March 2015.

On 25 March 2015, the Group diversified the existing business to electronic commerce business by acquiring 51% equity interest in Century Network Holding Limited and its subsidiaries from Century East Network Limited, through the operation of a cross-border electronic distribution platform, www.CCIGMALL.com., where the Group sources, imports and channels authentic goods from suppliers abroad, and then distributes and resells such goods to domestic retailers in the PRC. In this connection, the Company issued 122,121,212 new shares as acquisition consideration, and 610,606,060 new shares under a subscription agreement entered into with Century East Network Limited, both were issued at a subscription price of HK\$0.33 per share. The proceeds of the share issues totalling US\$31.2 million were used as follows:

- (i) US\$5.2 million to acquire 51% equity interest in Century Network Holding Limited.
- (ii) US\$26 million (equivalent to approximately RMB160 million) as general working capital for the e-commerce business.

The remaining proceeds have not yet been utilized and remain available as general working capital of the Group.

Due to the continued deterioration of the business environment of the heavy duty truck market, the demand for axle assemblies has declined significantly. In addition, as a result of continued unstable political environment in the Commonwealth of Independent States, there has also been great uncertainty relating to the sales of train and railway components. In view of these circumstances, the Group temporarily suspended the business operations of Kaifeng Changfeng Axle Co., Ltd ("**Kaifeng Changfeng**"), a wholly owned subsidiary of the Company, which was engaged in the business of axle assemblies and railway components, details of which are disclosed in the Company's announcement

dated 4 September 2015. Subsequently, on 2 February 2016, the Group entered into an agreement to conditionally sell the entire interest in Kaifeng Changfeng and related shareholder's loan advanced by the Group to Kaifeng Changfeng at a total cash consideration of RMB4,000, details of which are disclosed in the Company's announcement dated 2 February 2016 and the circular dated 30 March 2016.

Axle business

The Group sells axle assemblies directly to OEMs in the PRC on a made-to-order basis to match its customers' specification requirements. A small portion of axle components are occasionally sold to other axle assembly providers. The Group is an independent axle component provider for China's MDT and HDT aftermarket with diversified product offerings among independent axle component providers in the PRC.

The axle components are sold to customers in the aftermarket through its extensive sales, marketing and services network across the PRC. For the year ended 31 December 2015, revenue from the OEM market and aftermarket business segment amounted to approximately RMB127.2 million (2014: approximately RMB336.9 million) and accounted for approximately 75% (2014: 100%) of the Group's total revenue, representing a decrease of approximately 62% as compared with 2014.

Electronic commerce business

The Group has started the electronic commerce business since March 2015, initially through the operation of business-to-business platform. This business-to-business mode is to set up a direct path between pre-identified overseas suppliers, distributors and domestic retailers in the PRC. In this respect, the Group adopts the order driven model in which retailers place their orders at designated terminals through the CCIGMALL.com platform and the orders will then be pulled together by the Group and sent to distributors and suppliers online directly. The distributors, upon accepting the orders and completing customers clearance, will then deliver the goods to the retailers in the PRC.

Several agreements were entered into by the Group with some strategic partners, including CHINAUMS (a subsidiary of China Unionpay), Bank of China Limited, China Telecom Bestpay E-Commerce Limited, eBay International AG, Class Editori S.p.A, Class China e-Commerce S.r.l., etc. At present, the Group has commenced practical businesses with hundreds of brand suppliers in Europe, covering thousands of brand producers, and established strategic corporation relationships with famous brand groups such as Scotti, IF&B, Classeditori, Carrefour, FLA and Intermarche etc. Network resources of overseas suppliers which possess the scale effect have strengthened the upstream strategic advantage among the industry.

The Group has launched "XSJ Platform APP", a business-to-customer e-commerce platform, since September 2015. Based on the latest information of international fashion and lifestyle, the platform establishes a modern business system for the import of renowned overseas brands and prime overseas local brands. Centering on four main themes of product categories, namely affordable luxury, nursery, cosmetics and health, the Company has developed cooperation with well-established partners in various regions around the world. Our professional merchandising team carries out centralized purchasing directly from product sources to ensure that all goods are from their countries of origin and are authentic products.

XSJ Platform APP provides Chinese consumers with overseas products from their countries of origin through consolidated mailing, bonded stocking mailing and general trading modes. It adopts a reverse-driving mode over the supply chain that “creates demand and leads consumption” and maximizes the precision of sales on the platform. The most remarkable characteristics of the operation of the XSJ Platform APP are differentiated positioning, minoritising mass demand and precise product matching.

The Group also develops its offline O2O division. Through the strategic alliance with Beijing Gas Group, value-added services are extended to 5.7 million household gas users of Beijing Gas and 141 physical 5S shops and service stations will be gradually transformed and upgraded. This strategic alliance will bring the display and experience of overseas goods of XSJ Platform APP to physical shops and expand its reach to surrounding residential and commercial areas, that can ultimately channel offline business to our sales.

This division also sources products related to the electronic commerce business for offline trading with a view to creating synergy for the whole business segment.

For the year ended 31 December 2015, revenue from online and offline of electronic commerce business segment amounted to approximately RMB6.9 million (2014: RMB Nil) and RMB36.3 million (2014: RMB Nil), respectively. The total revenue from this segment accounted for approximately 25% (2014: Nil) of the Group’s total revenue.

FINANCIAL REVIEW

Revenue

The Group recorded a consolidated revenue of approximately RMB170.4 million (2014: approximately RMB336.9 million), representing a decrease of 49% as compared to 2014.

Revenue from the Group’s axle business segment for the year ended 31 December 2015 decreased by approximately 62% to RMB127.2 million (2014: RMB336.9 million). The revenue from this segment was diminishing as a result of the continuing depressed business environment of this sector and the significant price competition among competitors.

Revenue from the Group’s electronic commerce segment was RMB43.2 million for the year ended 31 December 2015 (2014: RMB Nil), representing approximately 25% (2014: Nil) of the Group’s total revenue.

Gross loss

Gross loss for the year ended 31 December 2015 amounted to approximately RMB159.8 million, as compared with the gross profit of approximately RMB6.0 million for 2014. The gross loss was mainly attributable to RMB133.9 million write-down of the inventories made during the year ended 31 December 2015.

Other income/(loss)

Other income of the Group for the year ended 31 December 2015 amounted to approximately RMB9.5 million (2014: other loss of approximately RMB23.9 million). This was mainly attributable to the disposal of the land in Kaifeng.

Impairment losses

Impairment losses of the Group for the year ended 31 December 2015 amounted RMB312.3 million, mainly including RMB 53.7 million for property, plant and equipment and RMB262.6 million for trade and other receivables, due to the decline of the Group's Axle business.

Selling and distribution expenses

Selling and distribution expenses of the Group for the year ended 31 December 2015 increased to approximately RMB45.5 million (2014: approximately RMB20.5 million). The increase was mainly attributable to the business diversification of electronic commerce which the Group acquired on 25 March 2015.

Administrative expenses

The Group's administrative expenses for the year ended 31 December 2015 increased to approximately RMB86.4 million, as compared to RMB54.2 million for 2014. The increase was mainly attributable to the business diversification of electronic commerce which the Group acquired on 25 March 2015 and the share-based payment granted during the year.

Finance costs

The Group incurred finance costs of approximately RMB48.7 million for the year ended 31 December 2015, which represented approximately 28.6% (2014: approximately 8.7%) of its revenue. The increase in percentage to revenue in 2015 was mainly due to finance charges on the secured notes and convertible bonds amounting to RMB10.4 million and RMB5.8 million and changes in fair value on the derivative components of convertible bonds amounting to RMB11.2 million, as well as the significant decrease in total revenue of the Group.

Taxation

Income tax income of approximately RMB16.3 million (2014: approximately RMB0.3 million) was recorded for the year ended 31 December 2015.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2015, cash and cash equivalents of the Group amounted to approximately RMB195.6 million (2014: approximately RMB6.9 million).

As compared to 2014, cash and cash equivalents increased by approximately RMB188.8 million, which was mainly resulted from the net cash outflow from operating activities of approximately RMB45.1 million (2014: net cash inflow of RMB38.4 million), the net cash inflow from investing activities of approximately RMB57.4 million (2014: RMB97.2 million) and net cash inflow from financing activities of approximately RMB175.4 million (2014: net cash outflow of RMB186.6 million).

On 6 May 2015, the Company entered into a subscription agreement with Chance Talent Management Limited, an indirectly and wholly-owned special purpose vehicle of CCB International (Holdings) Limited (the “**Subscriber**”), in relation to the issue of secured notes of US\$20 million and convertible bonds in aggregate principal amount of US\$10 million. On 3 June 2015, the Company issued the secured notes and convertible bonds to the Subscriber. The secured notes and convertible bonds bear interest at the rate of 13% per annum, payable semi-annually in arrears. The secured notes mature on 3 June 2017 and the convertible bonds mature on 3 June 2018.

The convertible bonds can be converted into ordinary shares of the Company at an initial conversion price of HK\$1.06 per share (subject to adjustment) for the principal amount of US\$6 million and HK\$1.50 per share (subject to adjustment) for the principal amount of US\$4 million. Assuming full conversion of the convertible bonds at the initial conversion prices and the exchange rate is US\$1=HK\$7.75, a maximum number of 64,534,590 conversion shares may be issued.

The net proceeds of approximately US\$28,800,000 from the issue of the secured notes and convertible bonds were used to finance the operating expenses arising from or in connection with the electronic commerce business of the Group.

As at 31 December 2015, net current assets of the Group amounted to approximately RMB59.6 million (2014: approximately RMB153.5 million). As at 31 December 2015, the current ratio (i.e. total current assets/total current liabilities) of the Group was approximately 1.12 (2014: approximately 1.26).

As at 31 December 2015, total assets of the Group were approximately RMB776.1 million (2014: approximately RMB1,017.9 million) and total liabilities were approximately RMB704.0 million (2014: approximately RMB584.7 million). The debt ratio as at 31 December 2015 (i.e. total liabilities/total assets) was 0.91 as compared to 0.57 as at 31 December 2014.

As at 31 December 2015, the Group had total borrowings (including bank and other loans, secured notes and convertible bonds) of approximately RMB380.6 million (2014: approximately RMB314.1 million). The gearing ratio (i.e. total borrowing/total equity) was approximately 5.28 (2014: approximately 0.72).

Trade and other receivables

Trade and other receivables of the Group as at 31 December 2015 were approximately RMB49.5 million (2014: RMB349.3 million). The decrease in balance was mainly due to the decrease in revenue and the impairment losses made during the year.

Inventories

The inventory balance of the Group as at 31 December 2015 was approximately RMB63.6 million (2014: approximately RMB188.2 million). The decrease was mainly due to write-down made on inventories.

Trade and other payables

Trade and other payables of the Group as at 31 December 2015 were approximately RMB150.9 million (2014: approximately RMB246.5 million). The decrease was mainly due to (i) the decrease in deposits received for the disposal of assets classified as held-for-sale and subsidiaries; (ii) the decrease in payables for construction and purchase of property, plant and equipment and (iii) the decrease in trade and bills payables.

Pledged assets

As at 31 December 2015, the Group has pledged assets of approximately RMB52.4 million (2014: approximately RMB365.1 million) to secure the grant of banking facilities.

The following assets and their respective carrying values as at the end of the reporting period are pledged to secure the Group's short-term bank loans:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i> (restated)
Property, plant and equipment	26,233	108,731
Lease prepayments	11,761	84,640
Trade receivables	14,422	37,500
Assets classified as held-for-sale	–	134,183
	52,416	365,054

As at 31 December 2015, inventories and bank deposits total of RMB2.8 million were pledged as securities for on-going litigations where a subsidiary of the Group is being sued for payments of previously purchased goods by suppliers.

Contingent liabilities

As at 31 December 2015, the Group had no significant contingent liabilities (2014: RMB Nil).

Capital commitment

As at 31 December 2015, the Group had no contracted capital commitments which were not provided in the financial statements (2014: approximately RMB0.1 million).

Employees and remuneration policy

As at 31 December 2015, the Group had 652 employees (2014: 950 employees). For the year ended 31 December 2015, total staff costs were approximately RMB78.6 million (2014: approximately RMB56.3 million).

During the year, the Group also provided internal training, external training and correspondence courses for its staff in order to promote self improvement and enhancement of skills relevant to work. The remuneration of the Directors was determined with reference to their position, responsibilities and experience and prevailing market conditions.

Foreign exchange risk

The business of the Group is mainly located in the PRC and most of the transactions are denominated in Renminbi. Most of the assets and liabilities of the Group are computed in Renminbi. As at 31 December 2015, the Group's net foreign currency liabilities amounted to approximately RMB26.6 million (2014: net foreign currency assets of approximately RMB1.6 million). During the year ended 31 December 2015, the Group did not utilize any future contracts, currency borrowings and otherwise to hedge against its foreign exchange risk. However, the Group will continue to monitor the risk exposures and will consider to hedge against material currency risk if required.

DIVIDEND

The Board does not recommend payment of any final dividend for the year ended 31 December 2015 (2014: RMB Nil).

PROSPECTS

Axle business

Due to the continued depression in the MDT and HDT industries of the axle business, which brought about under-utilization of production capacity of the Group's business in the axle and component of motor vehicles, and together with the keen price competition among competitors in the motor vehicles repair market, the income from this segment will continue to decrease and the loss will also worsen. The Board will continue to review the axle business and strive to improve the business operation and financial position of this business despite the declining demand for axle assemblies and the challenging business environment in general. The Company will continue to explore business opportunities to maximize the revenue generated from the axle business and to review various alternatives that are in the best interest of the Company and the shareholders of the Company.

Electronic commerce business

At present, there are a lot of business opportunities available to our electronic commerce business, which is experiencing rapid growth in the PRC. The Group will continue to strengthen its supplier network and to explore more famous brand suppliers, to establish long-term strategic cooperation relationship with them, and to supply products with different variety, high-quality and competitive prices. The Group will commit time and resources to continuously develop its business-to-business (B2B) and the business-to-customer (B2C) electronic commerce businesses.

In order to leverage the resources committed for the electronic commerce, the Group will also continue to explore other related business opportunities. In particular, the Group will use its O2O platform to promote offline sales of products with a view to integrating between online virtual economy and real economy. Also, the Group will explore new business opportunities to provide services to fit its customers' needs in their online business.

CORPORATE GOVERNANCE

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Company's shareholders. The Board strives to adhere to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor to create more value for its shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for shareholders.

During the year ended 31 December 2015, the Company has complied with the Code on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") save for the deviation as set forth below:

Code Provision A.6.7

Code Provision A.6.7 of the CG Code provides that independent non-executive directors and non-executive directors should attend general meetings of the Company. Mr. Liu Erhfei, Ms. Dong Ying, Dorothy, Mr. Feng Xiaohui and Mrs. Guo Yan were not able to attend the annual general meeting of the Company held on 21 May 2015.

Compliance

The Company has appointed a compliance adviser on an ongoing basis for a two-year period as per the direction of the Listing Committee of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), details of which are set out in the announcement of the Stock Exchange dated 9 July 2014.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Friday, 20 May 2016. A notice convening the annual general meeting will be published and despatched to the shareholders of the Company in the manner required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 18 May 2016 to Friday, 20 May 2016, both days inclusive, during which period no transfer of shares will be registered. In order to determine who are entitled to attend and vote at the forthcoming annual general meeting of the Company to be held on Friday, 20 May 2016, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 17 May 2015.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its listed shares during the year ended 31 December 2015. Neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the listed shares of the Company during the year ended 31 December 2015.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions. Specific enquiries have been made with all Directors, who have confirmed that, during the year ended 31 December 2015, they were in compliance with the required provisions set out in the Model Code.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the consolidated financial statements of the Group for the year ended 31 December 2015, including the accounting principles and practices adopted by the Group, selection and appointment of the external auditors.

PUBLICATION OF RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE

This results announcement is published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the website of the Company at about.ccigmall.com. The annual report of the Company for the year ended 31 December 2015 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and posted on the above websites in due course.

By order of the Board
Fortunet e-Commerce Group Limited
Cheng Jerome
Chairman

Hong Kong, 31 March 2016

As at the date of this announcement, the executive directors of the Company are Mr. Cheng Jerome and Mr. Yuan Weitao; the non-executive directors of the Company are Mr. Feng Xiaohui and Mrs. Guo Yan; and the independent non-executive directors of the Company are Mr. Wong Chi Keung, Mr. Liu Erhfei and Mr. Chan Chi Keung Alan.