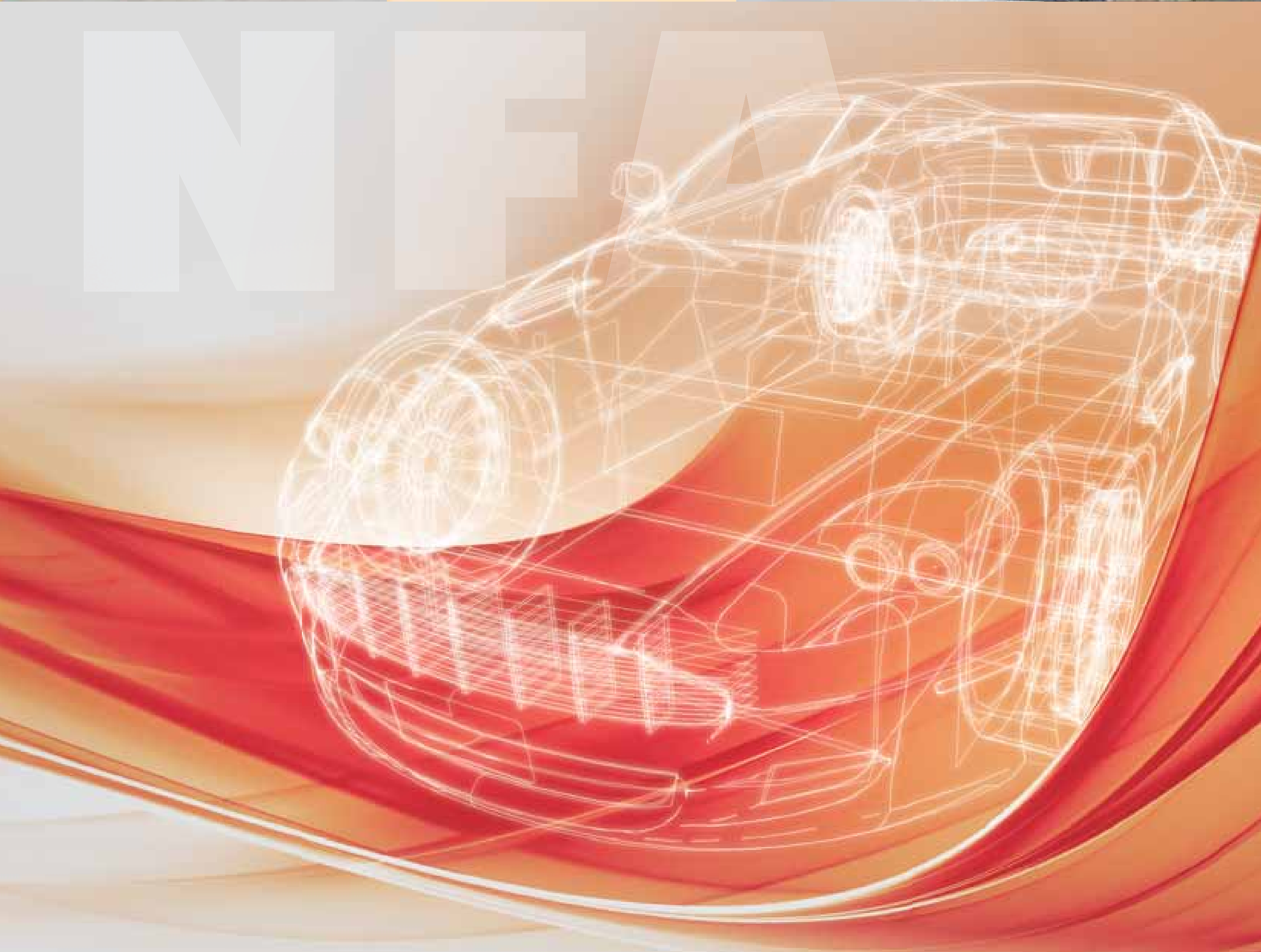
新焦點汽車技術控股有限公司*
New Focus Auto Tech Holdings Limited

(Incorporated in the Cayman Islands with limited liability) Stock Code: 360

ANNUAL REPORT 2016



* For identification purpose only

CONTENTS

CORPORATE INFORMATION

Directors

Executive Directors

Zhang Jianxing *(Chief Executive Officer/Chairman)*
Du Jinglei

Non-executive Directors

Ying Wei
Wang Zhenyu

Independent Non-executive Directors

Hu Yuming
Lin Lei
Zhang Xiaoya

Company Secretary

Liu Xiaohua

Registered Office

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

Principal Place of Business in Hong Kong

5/F, 180 Hennessy Road
Wan Chai
Hong Kong

Auditor

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road Central
Hong Kong

Legal Advisers

Paul Hastings
21-22/F Bank of China Tower
1 Garden Road
Hong Kong

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road
George Town
Grand Cayman KY1-1110
Cayman Islands

Branch Share Registrar and Transfer Office in Hong Kong

Computershare Hong Kong Investor Services Limited
17M/F, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

Stock Code

360

Websites

http://www.nfa360.com

I would like to take this opportunity to express my appreciation to the shareholders for their understanding and loyalty, and to the staff for their hardwork and persistence.

It may be found out by an observant person that we have been on the road of value discovery and value return. The figures in financial statements are bygones and a way we bid farewell to yesterday.

Last year, we concentrated on the "subtraction" initiatives, we thereby have not only abandoned bubbles like "goodwill" in the previous acquisitions but also stripped off several branches and businesses which are not in line with our development strategies.

For example, a large-scale disposal by the Group of over 40 automotive service stores under the management of our teams in various districts, is not conductive to our revenue in a short period. We believe that fragmented business contracts are not able to meet in full the scenario standardized element requirements of chain operations and the service price reconstruction is also expected to be hard to hedge the reality control on business cost. Thus, we have made the automotive service chain stores focus on the national promotion mode "City Gas Station (城市加油站)" carried out by "Beijing Aiyihang (北京愛義行)" and have solidly pushed forward the cooperation with Sinopec and PetroChina. Although there is no immediate return on new investment in the short run, we firmly believe that the physical chain stores have a bright future.

Several original wholesale service businesses of automotive products have been restructured and integrated into a sole professional B2B distribution network and vertical e-commerce portal with "Auto Make" automotive products e-commerce platform being its principal platform. We consider it as a promising business thanks to our greatly broadened horizons by its inventory adjustment and upgrading.

The New Focus (紐福克斯) factory, which mainly engages in the export of automotive power products, has achieved a considerable progress in operating quality, and has possessed the learning gene to make continuous progress. The research in new energy automotive products will bring a new growth point.

Our read map, I might say, is very clear: automotive service chain of city gas station is our core business, owning a well-established mode that can be applied nationwide and facing the opportunity of rapid expansion; the incubation of "Auto Make" e-commerce platform is our significant strategic initiatives in pursuit of precision, specialty and high efficiency; and the manufacturing business, as the initial business of the Group, is our foundation and reliance.

Although China has a large car retention, the current fragmented automotive after-sales service business is not only a historical opportunity but also a severe challenge to the subsequent development of the Group. We will keep adhering to our effective operating strategies and improving our operation model with a view of exploring and upgrading the value of the Group.

I would like to take this opportunity to express once again, on behalf of the board of directors, deep appreciation to our loyal, responsible and diligent management and staff.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

In 2016, New Focus Auto Tech Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") focused on the automotive after-sales chain service in China to satisfy the comprehensive needs of numerous automotive users, taking the market-leading position in the industry.

Results Highlights

Revenue

For the year ended 31 December 2016 (the "**Year**"), the Group recorded a consolidated revenue of approximately RMB1,292,665,000 (2015: RMB1,254,191,000), representing an increase of approximately 3.07%.

The consolidated revenue of the Group's retail service business amounted to approximately RMB469,143,000 (2015: RMB481,910,000), representing a decrease of approximately 2.65%. The decrease was mainly due to the disposal of 100% of equity interest in each of the subsidiaries of the Company, New Focus Richahaus Corporation Limited ("**New Focus Richahaus**") and Taiwan New Focus Auto Service Corporation Limited ("**Taiwan New Focus**") in July 2016 (the "**Disposal of Equity Interest in New Focus Richahaus and Taiwan New Focus**"), resulting in a decrease in consolidated revenue of approximately RMB53,030,000 as compared with 2015. Excluding such factor, the consolidated revenue of retail service business of the Group recorded an increase of approximately RMB40,263,000 as compared to that of 2015, which was mainly attributable to the expansion of the Group's stores.

The consolidated revenue of the wholesale service business of the Group was RMB401,541,000 (2015: RMB356,062,000), representing an increase of approximately 12.77%. The increase was mainly attributable to the rapid development in e-commerce platform business conducted by subsidiaries of the Company, namely, Liaoning Xin Tian Cheng Industrial Co., Ltd ("**Liaoning XTC**") and Zhejiang Autoboom Industrial Co., Limited ("**Zhejiang Autoboom**"), since May 2015 and July 2016 respectively.

The consolidated revenue of the manufacturing business of the Group was RMB421,981,000 (2015: RMB416,219,000), representing an increase of approximately 1.38%, which was mainly attributable to the sales of new products developed.

Gross profit and gross margin

The consolidated gross profit of the Group for the Year was approximately RMB274,803,000 (2015: RMB255,121,000), representing an increase of approximately 7.71%. Gross margin increased from approximately 20.34% in 2015 to approximately 21.26% in 2016.

The gross profit of the Group's retail service business was approximately RMB100,177,000 (2015: RMB99,253,000), representing an increase of approximately 0.93%, and its gross margin increased from approximately 20.60% to approximately 21.35%. The increase in gross margin was mainly attributable to the increase in sales of products with high gross profit during the Year compared with 2015. Disposal of Equity Interest in New Focus Richahaus and Taiwan New Focus resulted in the decrease in gross profit of RMB7,246,000 as compared with 2015. Excluding such factor, the gross profit increased by approximately RMB8,170,000 as compared with 2015, which was mainly attributable to the expansion of the stores of the retail service business of the Group.

The gross profit of the Group's wholesale service business was approximately RMB81,010,000 (2015: RMB70,285,000), representing an increase of approximately 15.26%, and its gross margin increased from approximately 19.74% to approximately 20.17%, which was mainly attributable to the optimization of inventory cost management of the Company's subsidiary Zhejiang Autoboom.

The gross profit of the Group's manufacturing business was RMB93,615,000 (2015: RMB85,583,000), representing an increase of approximately 9.39%, and its gross margin was approximately 22.18% (2015: 20.6%). The increase of gross margin was mainly attributable to the optimization of product portfolio in the Group's manufacturing business, leading to an increase in the proportion of sales of products with high gross margin.

Other revenue and gains and losses

Other revenue and gains and losses for the Year were approximately RMB59,934,000 (2015: RMB55,124,000), representing an increase of approximately 8.73%. It was mainly attributable to the investment income of RMB18,840,000 ("**Investment Income during the Year**") received from the Disposal of Equity Interest in New Focus Richahaus and Taiwan New Focus, the disposal of 51% of equity interest in Shanghai Astrace Trade Development Co., Ltd. ("**Shanghai Astrace**"), the disposal of 100% equity interest in Shanghai New Focus Auto Repair Service Co., Ltd. and the disposal of 100% equity interest in Shenzhen Yonglonghang Auto Service Ltd., and a decrease of RMB15,080,000 in gain on fair value change in embedded derivative financial instruments in relation to the convertible bonds in the principal amount of US$25,000,000 which was issued to Haitong International Financial Products Limited ("**Haitong**") by the Company on 13 July 2015 ("**Haitong CBs**").

Expenses

Sales and marketing expenses for the Year were approximately RMB213,738,000 (2015: RMB198,621,000), representing an increase of approximately 7.61%. Disposal of Equity Interest in New Focus Richahaus and Taiwan New Focus resulted in the decrease of sales and marketing expenses of RMB8,773,000. Excluding such factor, sales and marketing expenses increased by approximately RMB23,890,000. It was due to the increase in expenses of RMB15,700,000 arising from the expansion of the store network of the Group's retail service business and the increase in marketing and promotional expenses of RMB6,058,000 arising from the increased marketing efforts by the wholesale service business to promote sales.

The administrative expenses for the Year were approximately RMB149,492,000 (2015: RMB143,331,000), representing an increase of approximately 4.30%. Compared with 2015, the administrative expenses decreased by approximately RMB5,624,000 due to the Disposal of Equity Interest in New Focus Richahaus and Taiwan New Focus. Excluding such factor, administrative expense increased by approximately RMB11,785,000, which was mainly attributable to the expansion of the stores of retail service business of the Group.

Operating loss

The operating loss of the Group was approximately RMB104,926,000 (2015: operating loss of RMB65,589,000), of which approximately RMB74,334,000 arose from the impairment loss on goodwill allocated to Changchun Guangda Automobile Trading Co., Ltd. ("**Changchun Guangda**"), a subsidiary of the Company due to its failure to meet anticipated business performance for the Year, while the remaining balance of approximately RMB30,592,000 was attributable to the initial loss from newly established stores of the retail service business of the Group and the impact on the Group's retail service business and wholesale service business arising from irrational expansion of e-commerce competitors.

The Company originally acquired 51% of equity interest in Changchun Guangda (the "**2012 Acquisition**") in October 2012. For details of such acquisition, please refer to the announcement of the Company dated 17 July 2012, the circular of the Company dated 23 September 2012 and the poll results announcement of the Company dated 23 October 2012. In January 2014, the Company entered into with the vendor a supplemental agreement in respect of the 2012 Acquisition to amend certain terms of the equity transfer agreement, details of which were disclosed in the announcement of the Company dated 29 January 2014. Changchun Guangda is principally engaged in the provision of comprehensive auto after-sales services, including auto cleaning, detailing, routine maintenance, body repair, modification and sale of auto accessories.

Changchun Guangda was expected to achieve an operational revenue and a net profit after taxation of RMB96,586,000 and RMB9,870,000 respectively for the Year. The actual performance fell short of the expectation and the operational revenue and the net profit after taxation for the Year were RMB77,943,000 and RMB1,677,000 respectively. The deteriorated business performance of Changchun Guangda was caused by: (a) the decrease in revenue from public service cars arising from the impact of reform on public service cars initiated by the PRC government; and (b) the irrational expansion of e-commerce competitiors resulting in business challenges to Changchun Guangda.

The Directors made an estimation of the recoverable amount of Changchun Guangda (as a cash-generating unit) based on value-in-use calculation which was also used in 2015. Cash flow forecasts based on financial budgets approved by the Company's Directors covering a five-year period are used for the calculation of the recoverable amount. Cash flows beyond the five-year period are extrapolated using the estimated growth rate of 3%. The Directors also assumed that the growth rate does not exceed the long-term average growth rate for the industry in which Changchun Guangda operates.

The key assumptions used for value-in-use calculation are as follows:

	31 December 2016 %	31 December 2015 %
Gross margin	**28-33**	25-40
Growth rate within the forecast period	**3-6**	6-17
Discount rate	**15**	15

The Directors determined the budgeted gross margin based on past performance and their expectation for market development. The weighted average growth rate used is consistent with the forecasts generally adopted in the respective industries. The discount rates used reflect specific risks relating to the relevant segment. The Directors are of the opinion that based on value-in-use calculation, goodwill associated with Changchun Guangda was impaired by RMB74,334,000 in order to state the carrying values to its recoverable amounts as at the end of the Year. The Company has engaged RHL Appraisal Ltd., an independent valuer, for the purpose of assessing the goodwill impairment.

Finance costs

Net finance costs amounted to approximately RMB40,885,000 (2015: RMB37,713,000), representing an increase of approximately 8.41%. It was mainly attributable to the increased interest expenses during the Year from the issuance of Haitong CBs in the principal amount of US$25,000,000 to Haitong.

Taxation

Income tax expenses were approximately RMB2,507,000 (2015: RMB645,000). The increase in income tax expenses was mainly attributable to the increase in profit before tax of certain profitable subsidiaries of the Company.

Loss attributable to owners of the Company

Loss attributable to owners of the Company was approximately RMB123,459,000 (2015: RMB90,967,000). Excluding the increase in the provision for goodwill impairment for Changchun Guangda of approximately RMB46,331,000 as compared with 2015, the loss attributable to owners of the Company decreased by RMB13,839,000 as compared with 2015, which was mainly attributable to the Investment Income during the Year. Loss per share was approximately RMB2.70 cents (2015: RMB2.41 cents).

Financial Position and Liquidity

The Group continued to maintain a stable financial position during the Year and the liquidity of assets of the Group remained healthy. The Group had a net cash outflow from operating activities of approximately RMB33,078,000 (2015: net cash outflow of RMB6,160,000).

The non-current assets were approximately RMB388,051,000 as at 31 December 2016 (31 December 2015: RMB451,928,000).

The net current assets were approximately RMB63,748,000 as at 31 December 2016 (31 December 2015: RMB160,653,000), with a current ratio of approximately 1.08 (31 December 2015: 1.23).

Gearing ratio calculated by dividing total liabilities by total assets was approximately 64.61% as at 31 December 2016 (31 December 2015: 55.67%).

As at 31 December 2016, the total bank borrowings of the Group were approximately RMB178,475,000 (31 December 2015: RMB224,245,000), approximately 23.40% of which were made in USD and approximately 76.60% were made in RMB. All of the bank borrowings are repayable within one year and at fixed interest rates. The Group's need for borrowings was generally steady during the Year. The Group repaid or renewed the bank borrowings during the Year when they became due. Committed borrowing facilities available to the Group but not drawn as at 31 December 2016 amounted to RMB43,245,000. The Group maintains strong and sufficient operating cash flow, bank deposits and banking facilities to finance its daily operation and capital expenditure.

Capital Structure

On 5 July 2015, the Company entered into a subscription agreement with Haitong pursuant to which the Company has conditionally agreed to issue, and Haitong has conditionally agreed to subscribe for the Haitong CBs in an aggregate principal amount of US$25,000,000 (equivalent to approximately HK$194,500,000) due in 2017. Assuming full conversion of the Haitong CBs at the initial conversion price of HK$3.00 per share, the Haitong CBs will be converted into approximately 64,833,333 conversion shares. The net proceeds from the issue of the Haitong CBs, after deducting all related fees and expenses are approximately HK$192,500,000. The issue of Haitong CBs to Haitong was completed on 13 July 2015. Details of the transaction above were set out in the announcements of the Company dated 6 July 2015, 7 July 2015 and 13 July 2015.

As at 31 December 2016, the Group's total assets were RMB1,212,834,000 (31 December 2015: RMB1,319,032,000), comprising: (1) share capital of RMB376,184,000 (31 December 2015: RMB376,133,000), (2) reserves of RMB52,983,000 (31 December 2015: RMB208,580,000), and (3) debts of RMB783,667,000 (31 December 2015: RMB734,319,000).

Financial Guarantees and Pledge of Assets

As at 31 December 2016, the net book values of investment properties, property, plant and equipment and leasehold land and land use rights pledged as security for the Group's bank borrowings amounted to approximately RMB107,516,000 (31 December 2015: RMB128,528,000).

Material Disposal of Subsidiaries

Disposal of 51% of equity interest in Shanghai Astrace

NFLP, a wholly-owned subsidiary of the Company which indirectly held 51% of equity interest in Shanghai Astrace (the "**SA Interest**"), entered into an equity transfer agreement (the "**SA Equity Transfer Agreement**") with Ms. Liu Fengxi, with effect from 28 December 2016. Pursuant to the SA Equity Transfer Agreement, Ms. Liu Fengxi has agreed to acquire, and NFLP has agreed to sell, the SA Interest at the consideration of RMB20,000,000 to be satisfied in cash (the "**SA Disposal**"). Upon completion of the SA Disposal on 29 December 2016, Shanghai Astrace ceased to be a subsidiary of the Company. For further details, please refer to the announcement of the Company dated 28 December 2016.

Disposal of Equity Interest in New Focus Richahaus and Taiwan New Focus

Perfect Progress Investments Limited ("**PPI**"), a wholly-owned subsidiary of the Company which indirectly held 100% of equity interest in each of the New Focus Richahaus and Taiwan New Focus (collectively as the "**Target Interests**"), entered into an equity transfer agreement (the "**Equity Transfer Agreement**") with Asia Centre Auto Service Holdings Limited (the "**Purchaser**"), with effect from 19 July 2016. The Purchaser is wholly-owned by Ms. Hung Ying-Lien (洪瑛蓮), vice president of the Group and director of New Focus Richahaus and Taiwan New Focus. Pursuant to the Equity Transfer Agreement, the Purchaser has agreed to acquire, and PPI has agreed to sell, the Target Interests at the nominal consideration of NTD1 to be satisfied in cash (the "**Disposal**"). Upon completion of the Disposal on 29 July 2016, New Focus Richahaus and Taiwan New Focus ceased to be subsidiaries of the Company. For further details, please refer to the announcement of the Company dated 19 July 2016.

Significant Investments

The Group had no significant investments during the Year. The Group has no specific future plans for material investments or acquisition of business.

Exchange Risk

The Group's retail and wholesale service businesses were mainly in Mainland China and their settlement currency was RMB, so there was no exchange risk. As approximately 80% of the revenue of the Group's manufacturing business was generated from the export of its products which was settled in USD and most of the materials used to produce those exports were purchased in RMB, normally, the depreciation of USD against RMB would adversely affect the profitability of the Group's manufacturing business. The Group managed its exposure to USD foreign currency risk by making USD borrowings to minimize exchange risk. As at 31 December 2016, the amount of the Group's USD borrowings was approximately USD6,000,000.

Other Material Risks and Uncertainties

The Group operates its major business in Mainland China and faces other material risks and uncertainties, mainly including the future prospect of Mainland China's economy. Should Mainland China's economy suffer from downturn, the consumption sentiment of car owners will be affected which in turn will decrease the revenue of the Group. The Group has adopted a development path of establishing stores within gas stations with strategic partners to reduce its costs. It will pay close attention to the economic trend of Mainland China and deal with those risks and uncertainties in a timely manner.

Contingent Liabilities

As at 31 December 2016, the Group had no significant contingent liabilities.

Employees and Remuneration Policy

As at 31 December 2016, the Group employed a total of 4,339 (31 December 2015: 3,815) full-time employees, of which 627 (31 December 2015: 543) were managerial staff. The remuneration package for the Group's employees includes wages, incentives (such as performance-based bonus) and allowances. The Group also provides social security insurance and benefits to its employees, and formulates and implements share option schemes as a long-term incentive scheme of the Group. The total employee benefit expenses of the Group for the Year was approximately RMB320,496,000 (2015: RMB280,261,000) Details of the share options scheme are disclosed in the "Report of the Directors" of this annual report. The Group stresses the importance of staff development and provides training programmes on an ongoing basis with reference to its strategic objectives and performance of its staff.

Environmental Policies and Performance

The Group has been continuously promoting the establishment and improvement of environmentally friendly management mechanism and system. Those systems require all the employees of the Group to comply with applicable environmental laws and regulations in their daily work. The relevant retail and service stores of the Group are subject to the approval of environmental protection administration prior to official operation and strictly comply with applicable environmental laws and regulations in the subsequent operation to minimize the damages to the environment. The manufacturing business of the Group proactively incorporates the concept of environmental protection into the design and production process of the products, aiming at providing energy saving and environmentally friendly products to our customers. The Group encourages the employees to save energy and treasure the resources.

Compliance with Laws and Regulations

During the Year, the Group has complied in all material respects with the relevant laws and regulations that have a significant impact on the operation of the Group which cover various aspects such as labor, fire and environmental protection.

Relationship with Employees, Customers and Suppliers

The Group attaches great importance to its relationships with its employees, customers, suppliers and other relevant parties as such relationships are the core element for the Group's sustainable development. The Group adheres to the principle of legality, fairness, reasonableness and mutual benefit in its daily operation and duly handles its relationships with its employees, customers, suppliers and other relevant parties.

Industry Development and Business Review

The sales volume of passenger vehicles during the Year in the PRC was approximately 24 million, representing an increase of approximately 15% as compared with 2015. The sales of passenger vehicles in the PRC market continued to grow steadily, promoting a constant increase of retention of passenger vehicles. It is expected that the scale of the China automobile after-sales market will reach RMB1,000 billion in 2017, which is both a historical opportunity and a severe challenge in light of the segmentation of automobile after-sales market.

Along with increasing average age of passenger vehicles in China, the proportion of vehicles with expired warranties which are in the peak of need for replacement of naturally ageing accessories (normally 5-10 years after sales) has been increasing. More and more vehicle owners have shifted to individual automotive after-sales service chain network and e-commerce platform to obtain more economic, reliable and secure maintenance and repair replacement programs. Currently, other than the large-scale 4S dealership groups and small-scale individual stores, the number of large-scale economic automotive after-sales chain network is extremely small. The strong demand for automotive after-sales services in China is materially similar to the demand for economic chain hotels in hotel industry and demand for fast-food chain consumption in beverage industry in China. In mature markets, such as the United States of America and Japan, their development history of large-scale individual after-sales chain network has also proved this development trend. The Group will continue to maintain our modest position and our principles of chain and branding operation and standardized and customized servicing, to gradually increase our numbers of individual after-sales chain retail stores and branding influence of the Group. It is expected that the scale and revenue of individual after-sales chain system of the Group will grow steadily.

In the meantime, there are more than 300,000 individual small-scale individual stores in China, of which the parts and accessories required in the maintenance and repair business has relied on the traditional dealership system and the distribution model in an automotive parts city, a supply chain of relatively low efficiency. For the popular maintenance parts and accessories and modification products, there is a significant need for comprehensive one-stop suppliers for small-scale after-sales stores to address the low efficiency of scattered supply chain at the current stage. We considered that the solutions of finding and ordering products on internet, integrated categories of products and optimized one-stop storage and delivery are the main development approach to the problems existed in the supply of automotive parts and accessories to those small-scale individual stores. The Group will provide one-stop parts and accessories wholesale and delivery service to those small-scale individual stores through ordering on computers and mobile devices with the foundation of "Auto Make" e-commerce platform in B2B field. Such business model the Group is expected to replace the traditional model of dealerships and distribution of automotive parts city at a quick pace while the scale and revenue of the business will also grow rapidly.

As at 31 December 2016, the Group had a total of 176 retail service stores, 10 wholesale service stores and 2 manufacturing factories.

The Group's Service Business

Based on the analysis of automobile after-sales market by the management, the Group focused on the expansion of individual automobiles service chained network in B2C field and the construction and expansion of the automotive products e-commerce platform "Auto Make" in B2B field.

The operating strategies implemented during the Year mainly include the following aspects:

First, the Group steadily expanded its retail service network. The Group has disposed of over 40 retail stores in various districts in a large scale during the Year, which is mainly attributable to the consideration of the unity of commercial environment, sustainability of operation cycle and unity of service contents and the brand, which led to changes in revenue and number of retail stores correspondingly. The consolidated service chain business of the Group will focus the investment on gas station stores. Pursuant to the strategic cooperation agreement between the Group and Hubei Oil Products Branch of Sinopec Chemical Products Sales Company ("**Sinopec**"), the Group and Sinopec Hubei cooperated to establish automotive retail service stores at the gas stations within the Sinopec Hubei network. As at 31 December 2016, the number of automotive retail service stores jointly established by both parties reached 64, resulting in a significant increase of the Group's market share and brand recognition in the automotive after-sales market in central China region. Afterwards, the Group has also entered into the strategic cooperation agreements with Sinopec Tianjin, Sinopec Jiangxi, Sinopec Anhui, Sinopce Guangdong, Gansu Sales Branch Company of PetroChina Company Limited ("**PetroChina**"), and Beijing Sales Branch Company of PetroChina, and will gradually expand the scope of strategic cooperation with Sinopec and PetroChina.

The rentals of automotive service stores in urban areas are too high, which become a constraint to the further expansion of after-sales automotive chained business, and also the unity of the commercial environment and nature of property is a great challenge for chain replicating. Standardisation is a condition precedent to economies of scale, which is also a path to cope with the segmentation of the current automotive service industry. The Group has established gas station stores pursuant to the strategic cooperation with Sinopec and PetroChina, which made a breakthrough in the bottleneck point. The Group chose to commence the automotive after-sales service stores in gas stations with high traffic volume in urban areas. The land use right in the areas where the gas stations are located were owned by Sinopec and PetrolChina, or rented previously by Sinopec and PetrolChina at lower rentals and for a longer term. Accordingly, establishing gas station stores with Sinopec and PetrolChina helps the Group to benefit from the advantages in rent and adequate traffic flow which are not available to our competitors, as compared with self operation by the Group.

With more than 50,000 gas stations set up in China by Sinopec and PetrolChina, the Group has made breakthrough in the bottleneck of site selection of new retail stores which is normally faced by automotive after-sales chained corporation. In this regard, the Group will be able to substantially increase its pace in setting up retail service stores and level of standardization and gradually implement and optimize the layout of the Group's gas station stores in China. As at 31 December 2016, the number of stores established by the Group in Gansu, Jiangxi, Tianjin, Anhui and Guangdong was 67 in total.

Secondly, the wholesale business of the Group was integrated into the e-commerce business platform "Auto Make". The Group integrated the wholesale businesses of Liaoning XTC and Zhejiang Autoboom to exert the synergy of wholesale businesses in various aspects including products, channels and human resources for the purpose of increasing operation efficiency. The Group also invested more resources to improve the e-commerce platform "Auto Make", and obtained significant result. The originally offline business has been fundamentally transformed into the online platform "Auto Make", which become our foundation for developing new customers. Targeting small-scale and chain automotive after-sales service retail stores, the e-commerce platform provides customers with purchase, delivery and warehouse storage services of repair and maintenance products and automotive accessories, and it also attracts relevant manufacturers and large-scale wholesalers to set up stores on the "Auto Make" platform for the purpose of providing services such as sales, collection of payment and delivery. Through these functions, the Group has set up an e-commerce platform combining a self-operated wholesale platform of the Group and third-party sales of automotive products.

The sales amount of e-commerce platform "Auto Make" during the Year grew at high pace, of which revenue generated from self-operated business reached over RMB300 million while the revenue generated from the transactions of "Auto Make" by the third parties reached over RMB100 million. The e-commerce platform is expected to continue to increase the sales amount of the Group significantly and enhance the Group's operation efficiency. At present, the e-commerce business platform has covered three provinces in Northeast China as well as Eastern Mongolia Region, Zhejiang Province and Jiangsu Province, and it is expected to further expand to Beijing, Shanghai, and Guangdong.

The operating strategy of the Group at this stage is to focus the resources on the development of its core business. In order to continuously provide various resources in aspects of manual labor and capital for the subsequent developments of gas station stores of the Group and the e-commerce platform "Auto Make", the Group has customized the current automotive after-sales chain network by disposing of certain automotive after-sales stores in Taiwan, Shenzhen and Shanghai and automotive film business of the Group for the purpose of focusing on the development of key advantageous business of the Group which meets the market features and demands of chained service and maximizing the expansion of resources and network coverage of the Group.

The Group's Manufacturing Business

Based on the effective and remarkable operation and management approaches in 2015, the Group has continually reviewed information regarding our target markets, customers and products, leading to an understanding of the customers' demand for products and the development trend of similar products in the international market. The Shenzhen R&D center, which is part of the Group's manufacturing business, focused on the field of the solutions for battery diversification of new energy automobiles and it effectively completed strategic setting for technology platform, production lines, supply chain systems, targeted customers and quality control systems, which help further strengthen the foundation of high business growth of the Group's manufacturing business.

Prospects

The Group will continue to adopt the following operational strategies for its service business:

First, the Group will expand the scope of cooperation with Sinopec and PetroChina. Leveraging on the demonstrative effects of retail service stores established at the gas stations within the Sinopec Hubei network, the Group will promote the cooperation model of the Group and Sinopec in the markets of other regions, and expand the scope of cooperation to the nationwide gas station network of Sinopec eventually. The Group will also further implement the cooperation agreements with PetroChina Gansu and PetroChina Beijing by replicating its partnership store set-up model with Sinopec in order to further expand and improve the retail service chain network of the Group.

Secondly, the Group will actively adjust the product portfolio of the Group's wholesale business; focus on automotive repair and maintenance products with rigid demand; improve logistics efficiency and service quality; enhance the proportion of e-commerce sales; and continue to improve its unified e-commerce platform "Auto Make", thereby enabling the Group to become an indispensable comprehensive supplier that provides integrated repair and maintenance products for automotive after-sales service stores in target markets.

Thirdly, the Group will continue to actively search for and negotiate with potential acquisition targets and cooperation partners which will help achieve the strategic objectives of the Group.

Profiles of the Directors and senior management as at the date of this annual report are set out below.

Executive Directors

Mr. Zhang Jianxing (Chairman)

Mr. Zhang, aged 50, is an executive Director, the chief executive officer and the Chairman of the Company, and is currently responsible for the operation and management of the Group. Mr. Zhang has been the executive Director and the chief executive officer since August 2013, and has been the Chairman since March 2016. Mr. Zhang is also a director of several subsidiaries of the Company.

Mr. Zhang graduated from Tongji University (同濟大學) and received a Bachelor of Science degree in civil engineering. He has been employed by CDH Investments Management (Hong Kong) Limited ("**CDH**") since 2011, and his current position is managing director. Prior to joining CDH, Mr. Zhang served as a managing operation director at China Resources Asset Management Limited (華潤資產管理有限公司) from 2009 to 2011. Mr. Zhang served as an independent non-executive director at Tesson Holdings Limited (天臣控股有限公司) (Stock Code: 1201) from 24 March 2015 to 21 September 2015.

Mr. Du Jinglei

Mr. Du, aged 39, is an executive Director. He graduated with a bachelor's degree in mechanical engineering and a master's degree in measurement technology and instrumentation from Tsinghua University (清華大學) in July 2000 and July 2002, respectively. He has been employed by Ding Hui Investment Management (Tianjin) Company Limited (鼎暉股權投資管理(天津)有限公司) since August 2006, and his current position is managing director who is in charge of deal sourcing and executions. Prior to joining CDH, Mr. Du worked as an assistant manager in KPMG China and was responsible for certain IPO audit and other audit assurance engagements from August 2002 to August 2006. Currently, Mr. Du is also a director, executive deputy general manager and company secretary of Ningbo Yajin Electronic Science and Technology Corporation Limited (寧波亞錦電子科技股份有限公司) (a company listed on the National Equities Exchange and Quotations System of the People's Republic of China ("**NEEQ**"), Stock Code: 830806). Mr. Du joined the Group in August 2013.

Non-executive Directors

Mr. Ying Wei

Mr. Ying, aged 50, is a non-executive Director. He holds a master's degree in business administration from the University of San Francisco and a bachelor's degree in economics from the Zhejiang Gongshang University (浙江工商大學) (formerly known as Hangzhou Institute of Commerce (杭州商學院) and is a non-practicing member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會). Currently, Mr. Ying is the managing director of CDH Investments, an independent non-executive director of CHTC Fong's Industries Company Limited (恒天立信工業有限公司) (Stock Code: 641) and Fountain Set (Holdings) Limited (福田實業(集團)有限公司) (Stock Code: 420) and Zhongsheng Group Holdings Limited (中升集團控股有限公司) (Stock Code: 881), a non-executive director of China Health Group Limited (中國衛生集團有限公司) (Stock Code: 673) and a director of Chongqing New Century Cruise Co., Ltd (重慶新世紀游輪股份有限公司) (a company listed on the Shenzhen Stock Exchange ("**SZSE**"), Stock Code: 002558). Mr. Ying joined the Group since August 2013.

Mr. Wang Zhenyu

Mr. Wang, aged 53, is a non-executive Director. He graduated from Hefei University of Technology (合肥工業大學) with a bachelor's degree in machinery engineering in 1985 and a master's degree in industrial management engineering in 1988. Mr. Wang has been employed by CDH since 2008, and his current position is managing director. From 2002, he served as a vice President and managing Director in several affiliates of CDH. Prior to joining CDH, from 2000 to 2002, he served as an associate in the investment consultancy department of China International Capital Corporation Limited (中國國際金融有限公司). He served as a non-executive director of Xiezhong International Holdings Limited (協眾國際控股有限公司) (Stock Code: 3663) from June 2012 to July 2014. Currently, Mr. Wang is also a director of Zhong Ding United Dairy Farming Co.,Ltd (中鼎聯合牧業股份有限公司) (a company listed on NEEQ, Stock Code: 834586). Mr. Wang joined the Group in August 2013.

Independent Non-executive Directors

Mr. Hu Yuming

Mr. Hu, aged 51, is an independent non-executive Director. He received a Bachelor's degree in Economics, a master's degree in Economics and a doctor's degree in economics from Xiamen University (廈門大學) in 1986, 1989 and 1995, respectively and is a non-practicing member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會). He has been a professor at the School of Management of Jinan University (暨南大學管理學院) from 2000 to present and held various teaching positions in Xiamen University (廈門大學) from 1989 to 2000. He had worked for China Resources Jinhua Co., Ltd. (華潤錦華股份有限公司) (SZSE Stock Code: 000810) as an independent director during the period from 2004 to 2010. Mr. Hu had also worked for Guangzhou Zhujiang Brewery Co., Ltd. (廣州珠江啤酒股份有限公司) (SZSE Stock Code: 002461) and Guangdong HongDa Blasting Co., Ltd. (廣東宏大爆破股份有限公司) (SZSE Stock Code: 002683) as an independent director during the period from 2009 to 2012 and from 2010 to 2013, respectively. He also worked for Guangzhou Canudilo Fashion and Accessories Co., Ltd. (廣州卡奴迪路服飾股份有限公司) (SZSE Stock Code: 002656) as an independent director during the period from December 2008 to January 2015. Currently, Mr. Hu is an independent director of By-health Co., Ltd. (湯臣倍健股份有限公司) (SZSE Stock Code: 300146) and Guangzhou Shiyuan Electronic Co., Ltd. (廣州視源電子科技股份有限公司) (SZSE Stcok Code: 002841). Mr. Hu joined the Group in August 2013.

Mr. Lin Lei

Mr. Lin, aged 49 is an independent non-executive Director. He received a bachelor's degree in Applied Economic Mathematics from the Renmin University of China (中國人民大學) in 1990. He is the founder and Chairman of the Board of Sinotrust International Information & Consulting (Beijing) Co., Ltd. (新華信國際信息諮詢(北京)有限公司) (re-named as TNS Sinotrust Market Research Consulting (Beijing) Co., Ltd. (特恩斯新華信市場諮詢(北京)有限公司, "**Sinotrust**"). Prior to founding Sinotrust in 1992, from 1990 to 1992, Mr. Lin worked at the Ministry of Foreign Economic Relation and Trade (對外經濟貿易部). Currently, Mr. Lin is an independent non-executive Director of Synutra International Inc (聖元國際集團) (NASDAQ: SYUT), Xiezhong International Holdings Limited (協眾國際控股有限公司) (Stock Code: 3663) and CAR Inc (神州租車有限公司). (Stock Code: 699). Concerning his professional memberships and qualifications, Mr. Lin is currently a member of the European Society for Opinion and Marketing Research (ESOMAR) (歐洲民意與市場研究協會), the vice president of China Association of Market Information and Research (CAMIR) (中國市場信息調查業協會), a council member of Society of Automotive Engineers of China (SAE) (中國汽車工程學會), commissioner of the expert committee of China Automobile Dealers Association (CADA) (中國汽車流通協會). Mr. Lin joined the Group in August 2013.

Mr. Zhang Xiaoya

Mr. Zhang, aged 54, is an independent non-executive Director. He is a graduate of the Shangdong University (山東大學) and the school of management at the Beijing University of Aeronautics and Astronautics (北京航空航天大學) and is a senior engineer. Mr. Zhang is the chairman of Zhong Ding United Dairy Farming Co.,Ltd (中鼎聯合牧業股份有限公司) (a company listed on NEEQ, Stock Code:834586) and the chairman of Beijing Xindajiading Investment Company (北京信達嘉鼎投資公司), an independent non-executive director of China Mengniu Diary Company Limited (中國蒙牛乳業有限公司) (Stock Code: 02319), and an independent director of Guangzhou Zhujiang Digital Group (廣州珠江數碼集團). Mr. Zhang previously served as a director and president of AirMedia Group Inc. (航美傳媒集團) (NASDAQ: AMCN), the chairman of Unibank Media (銀廣通傳媒集團) and an independent director of Syswin Inc. (思源經紀), which was listed on the New York Stock Exchange until April 2013. Mr. Zhang joined the Group in March 2015.

Senior Management

Mr. Lin Ming

Mr. Lin, aged 37, is the chief financial officer of the Company. He is currently responsible for financial budget and capital management of the Group. Mr. Lin is also an director of several subsidiaries of the Company.

Mr. Lin graduated from Nankai University (南開大學) in 2002. He holds a bachelor's degree in accountancy and is a non-practicing member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會). From 2002 to 2007, he served as audit manager in KPMG Huazhen (畢馬威華振會計師事務所) and was responsible for certain IPO audit and other audit assurance engagements. From 2007 to 2013, he served as chief financial officer and senior vice president of Towona Mobile TV Media Group (China) Limited (世通華納移動電視傳媒集團(中國)有限公司). Mr. Lin joined the Group in August 2013.

Ms. Hung Ying-Lien
Ms. Hung, aged 51, vice president and chief operating officer of the Company, is responsible for the operations of the Group.

She graduated from Taiwan Fu Jen Catholic University (台灣輔仁大學) with a bachelor's degree in accountancy in 1988. She has extensive experience in the wholesale and retail service sector and in the finance field. Prior to joining the Group, Ms. Hung had worked in various positions in a hypermarket chain stores in Taiwan from 1991 to 2001, responsible for wholesale operations, human resource management, product management, inventory logistics and financial management. Ms. Hung joined the Group in July 2001.

Mr. Zuo Yungui
Mr. Zuo, aged 44, vice president of the Company, is responsible for the operations and management of the Group's manufacturing industry, the information technology department, merger and acquisition department of the Group. Mr. Zuo is also a director of several subsidiaries of the Company.

Mr. Zuo obtained his bachelor's degree in weaving and product design from Chengdu Textile College (成都紡織高等專科學校) in 1996, with engineers titles. He worked for China Resources Jinhua Co., Ltd. (華潤錦華股份有限公司), China Resources Textiles (Holdings) Company Limited (華潤紡織（集團）有限公司) and Meihua Holdings Group Co., Ltd. (梅花生物科技集團股份有限公司). He has extensive management experience in the manufacturing sector, as well as seven consecutive years of group strategic management experience. Mr. Zuo joined the Group in August 2013.

Mr. Xing Aiyi
Mr. Xing, aged 55, is a vice president of the Company and a director and general manager of Beijing Aiyihang Auto Service Ltd. (北京愛義行汽車服務有限責任公司) ("**Beijing Aiyihang**"), a subsidiary of the Group, and is responsible for the retail service business of the northern region and the operating and management of Beijing Aiyihang. Mr. Xing received a master's degree in Business Administration from Party School of Beijing Municipal Committee (北京市委黨校) in 2009. He established Aiyihang Auto Service Centre in 1992, founded Beijing Aiyihang and started the automotive chain operation in 1997. Mr. Xing joined the Group in February 2007.

Mr. Li Haidong
Mr. Li, aged 47, is the chairman and executive general manager of Liaoning XTC, a subsidiary of the Group, and is responsible for the operations and management of the Group's wholesale service business. He founded Liaoning XTC in 1994. Mr. Li joined the Group in June 2010.

Mr. Wu Yande
Mr. Wu, aged 47, is a director and executive general manager of Changchun Guangda, a subsidiary of the Group, and is responsible for the operating and management of Changchun Guangda. He founded Changchun Guangda in 1996. Mr. Wu joined the Group in July 2012.

The board of Directors (the "**Board**" or the "**Directors**") hereby presents this Corporate Governance Report in the Company's annual report for the year ended 31 December 2016.

Corporate Governance Practices

The Board believes good corporate governance practice is the key to business growth and management of the Group.

The Company has applied the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") throughout the year ended 31 December 2016.

In the opinion of the Board, the Company has complied with the code provisions set out in the CG Code throughout the year ended 31 December 2016, save and except for the deviation from code provision A.2.1.

Key corporate governance principles and practices of the Company as well as details relating to the forgoing deviation are summarized as below.

Securities Transactions of Directors

The Company 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 dealings in securities of the Company by the directors or relevant employees as defined in the Model Code. Having made specific enquiry to all directors by the Company, all directors confirmed that they had complied with the requirements set out in the Model Code during the financial year ended 31 December 2016.

Board of Directors

Responsibilities and Delegation

The Board is responsible for the overall management and control of the Company. Its main roles are to provide leadership and to approve strategic policies and plans with a view to enhancing shareholder value. All 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.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary and senior management. Any director may request independent professional advice in appropriate circumstances at the Company's expense, upon making reasonable request to the Board. The Board has implemented appropriate measures and internal control procedures to ensure that the Company runs its business pursuant to all applicable legal and regulatory requirements with prudence and integrity.

The senior management are obliged to supply the Board with adequate information in a timely manner to enable the Board to make informed decisions in a timely manner. Each of the Directors is entitled to obtain such records of the Company as are necessary to enable them to make informed decisions. Biographical details of the Directors and their relationships are set out under the section headed "Profiles of the Directors and Senior Management" in this annual report.

Issues reserved for discussion and approval by the Board include the following: (i) corporate strategies; (ii) annual budget and annual business plan; (iii) annual and interim results; (iv) internal control and risk management; (v) major acquisitions, disposals and capital transactions; and (vi) other significant operational and financial matters.

Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim financial statements for Board approval before publication, execution of business strategies and initiatives adopted by the Board, implementation of adequate internal control and risk management system, and compliance with relevant statutory requirements and rules and regulations. Each executive Director should assume individual responsibilities to oversee and monitor the operations of a specific business unit, and to implement the strategies and policies set by the Board. The independent non-executive Directors will provide independent advice to the Board and share their knowledge and experience with other members of the Board.

Board Composition

The Board currently comprises two executive Directors and five non-executive Directors with three of them being independent non-executive Directors:

Executive Directors
Mr. Zhang Jianxing
(Chairman/Chief Executive Officer, appointed as Chairman with effect from 31 March 2016)
Mr. Du Jinglei
(re-designated from non-executive director to executive director with effect from 31 March 2016)

Non-executive Directors
Mr. Ying Wei *(resigned as Chairman with effect from 31 March 2016)*
Mr. Wang Zhenyu

Independent Non-executive Directors
Mr. Hu Yuming
Mr. Lin Lei
Mr. Zhang Xiaoya

The Company has received from each independent non-executive Director an annual confirmation or confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers such Directors to be independent.

All Directors have brought a wide range of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Moreover, through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive Directors make various contributions to the effective direction of the Company.

Appointment and Re-election of Directors

All Directors are appointed for a fixed term of three years. The articles of association of the Company ("**Articles**") require that one-third of the Directors (including executive and non-executive Directors) retire each year. The Directors to retire each year shall be those appointed by the Board during that year and those who have been longest in office since their election or re-election. A retiring Director is eligible for re-election.

Apart from the service agreement or letter of appointment (as the case may be) entered into by each non-executive Director with a fixed term, none of them has signed any form of service contract with the Company or any of its subsidiaries.

Continuous Professional Development of Directors

Under code provision A.6.5, directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

All directors are encouraged to attend relevant training courses at the Company's expense. During the year ended 31 December 2016, the Company organized briefings conducted by the Company Secretary for all its Directors, namely, Mr. Zhang Jianxing, Mr. Du Jinglei, Mr. Ying Wei, Mr. Wang Zhenyu, Mr. Hu Yuming, Mr. Lin Lei and Mr. Zhang Xiaoya, on corporate governance and provided reading materials on regulatory update to all the directors for their reference and studying. Directors are requested to provide their training records to the Company Secretary for record-keeping.

Roles of Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Zhang Jianxing acted as both the chairman and chief executive officer of the Company since 31 March 2016. Such deviation is due to the fact that the day-to-day management of the Group was led by Mr. Zhang Jianxing. The Board considers that such arrangement provided the Group with strong and consistent leadership, allowed for effective and efficient planning and implementation of business strategies and decisions.

Board Committees & Corporate Governance Functions

On 28 August 2013, the Board has established the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategy Committee for overseeing particular aspects of the Company's affairs. The Audit Committee, the Remuneration Committee and the Nomination Committee have been established with defined written terms of reference, which are posted on the Company's website "www.nfa360.com" and the Stock Exchange's website and are available to shareholders upon request. All Board committees report to the Board on their decisions or recommendations.

All Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

Audit Committee

The Audit Committee comprises a total of three members, being two independent non-executive Directors, namely, Mr. Hu Yuming (Chairman) and Mr. Lin Lei, and one non-executive Director, namely, Mr. Ying Wei (appointed to replace Mr. Du Jinglei with effect from 31 March 2016). The chairman of the Audit Committee is Mr. Hu Yuming who possesses the appropriate accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The terms of reference of the Audit Committee have been determined with reference to the CG Code. The main duties of the Audit Committee are to (i) review the financial statements and reports and consider any significant or unusual items raised by the financial officers of the Group or external auditors before submission to the Board; (ii) review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process; (iii) make recommendation to the Board on the appointment, re-appointment and removal of external auditors; and (iv) review the adequacy and effectiveness of the Company's financial reporting system, internal control system, risk management system, internal audit function and associated procedures and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

On 10 December 2015, the Board adopted the updated terms of reference of the audit committee so that the audit committee shall also oversee the risk management system of the Group starting from 1 January 2016.

During the year ended 31 December 2016, the audit committee, through its meetings held on 30 March 2016 and 30 August 2016 respectively, has performed, among others, the following:

- review and discussion of the annual financial results and report in respect of the year ended 31 December 2015 and interim financial results and report for the six months ended 30 June 2016 and discussion with the management of the accounting principles and practices adopted by the Group;

- discussion on and recommendation of the re-appointment of the external auditors; and

- review of the internal control, financial reporting and risk management systems and effectiveness of internal audit function of the Group.

The external auditors were invited to attend the meetings of the Audit Committee held during the Year to discuss with the Audit Committee members issues arising from the audit and financial reporting matters.

Remuneration Committee

The Remuneration Committee comprises a total of three members, being two independent non-executive directors, namely, Mr. Hu Yuming (Chairman) and Mr. Zhang Xiaoya; and one non-executive director, namely, Mr. Ying Wei.

The terms of reference of the Remuneration Committee have been determined with reference to the CG Code. Under the terms of reference of the Remuneration Committee, the responsibilities of the Remuneration Committee include, among others, (i) to make recommendations to the Board on the Company's policy and structure for directors and senior management's remuneration and the establishment of a formal and transparent procedure for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration; and (ii) to determine, with delegated responsibility, the remuneration packages of individual executive Directors and the Company's senior management.

During the year ended 31 December 2016, the Remuneration Committee, through its meetings held on 30 March 2016, reviewed and discussed the remuneration policy of the Group, the remuneration packages of the Directors and senior management of the Company, and assessed performance of executive Directors of the Company.

The remuneration of the Directors is determined by the Board which receives recommendations from the Remuneration Committee. Under our current compensation arrangements, the executive Directors are entitled to compensation in the form of salaries and performance-related bonus to be determined by the Board. Non-executive Directors are entitled to a Directors' fees and annual bonus payment to be determined by the Board. All the Independent non-executive Directors are entitled to remuneration of a fixed amount.

There has been no remuneration paid or payable to the Directors or the five highest paid individuals as inducement to join or upon joining the Group or as a compensation for loss of office in connection with the management of the affairs of any member of the Group in respect of the year ended 31 December 2016.

Details of the remuneration of each Director and the remuneration of the five highest paid individuals for the year ended 31 December 2016 are set out in note 10 to the financial statements in this annual report.

Remuneration paid to senior management staff of the Company in 2016 by band is as follows:

	Number of staff
Nil to HK$1,000,000	–
HK$1,000,000 to HK$1,500,000	2
HK$1,500,001 to HK$2,000,000	3
HK$2,000,001 to HK$2,500,000	–
HK$2,500,001 to HK$3,000,000	–

Nomination Committee

The Nomination Committee comprises a total of three members, being two independent non-executive Directors, namely, Mr. Zhang Xiaoya and Mr. Lin Lei and one executive Director, namely, Mr. Zhang Jianxing (Chairman, appointed to replace Mr. Ying Wei with effect from 31 March 2016).

The terms of reference of the Nomination Committee have been determined with reference to the CG Code. Under the terms of reference of the Nomination Committee, the principal duties of the Nomination Committee are mainly to (i) review the structure, size and composition of the Board annually; (ii) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; (iii) assess the independence of independent non-executive Directors; and (iv) make recommendations to the Board on the appointment or re-appointment of directors of the Company.

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board in August 2013. Accordingly, selection of candidates to the Board is based on a range of measurable objectives, including but not limited to gender, age, cultural and educational background, professional experience and qualifications, skills, knowledge and length of service, having due regard to the Company's own business model and specific needs from time to time. With the existing Board members coming from a variety of business and professional background, the Company considers that the Board possesses a balance of skills, experience, expertise and diversity of perspectives appropriate to the requirements of the Company's business.

During the year ended 31 December 2016, the Nomination Committee, through its meeting held on 30 March 2016, performed the following:

- reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company; and

- recommendation of the re-appointment of those directors standing for re-election at the 2016 annual general meeting of the Company.

Strategy Committee

The strategy committee of the Company (the "**Strategy Committee**") consists of three members, namely Mr. Zhang Xiaoya, Mr. Wang Zhenyu, and Mr. Lin Lei (Chairman). The duties of the Strategy Committee include formulating and revising the Group's future development strategies, carrying out procedures and enhancing the efficiency and quality of important decision-making procedures. The Strategy Committee shall convene meetings to discuss important investment and financing matters.

During the Year, the Group has not been involved in any corporate action that requires the involvement of the Strategy Committee.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

Up to the date of this annual report, the Board met once to review the Company's corporate governance policies and practices, training and continuous professional development of the Directors and senior management, the Company's policies and practices on the compliance of the Model Code, the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Attendance Record of Directors and Committee Members

During the year ended 31 December 2016, the Board held 4 Board meetings. The attendance record of each director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2016 is set out in the table below:

Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Mr. Zhang Jianxing *(Note 1)*	4/4	–	–	–	1/1
Mr. Du Jinglei *(Note 2)*	4/4	1/1	–	–	1/1
Mr. Ying Wei *(Note 2)*	4/4	1/1	1/1	1/1	1/1
Mr. Wang Zhenyu	4/4	–	–	–	1/1
Mr. Hu Yuming	4/4	2/2	1/1	–	1/1
Mr. Lin Lei	4/4	2/2	–	1/1	1/1
Mr. Zhang Xiaoya	4/4	–	1/1	1/1	1/1

Notes:

1. Mr. Zhang Jianxing was appointed as Chairman and a member of the Nomination Committee to replace Mr. Ying Wei with effect from 31 March 2016.

2. Mr. Ying Wei was appointed as a member of the Audit Committee to replace Mr. Du Jinglei with effect from 31 March 2016.

Directors' and Auditors' Responsibilities for the Financial Statements

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2016. The Directors' responsibilities for the accounts and the responsibilities of the external auditors to the shareholders are set out on pages 53, 54 and 55.

The directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Internal Control and Risk Management

The internal control and risk management systems of the Group have been designed to safeguard the assets of the Group, minimise the risks to which the Group is exposed and used as a management tool for the day to-day operation of business. The systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against misstatement or losses. During the Year, an internal audit function has been in place within the Group to review the adequacy and effectiveness of its systems of internal control and risk management.

The Board is responsible for maintaining and reviewing the effectiveness of the risk management and internal control systems of the Group. During the Year, the Group's internal audit personnel assessed in detail the effectiveness of the risk management and internal control systems of the Group by reviewing each important steps and procedures of the systems and evaluating the possible operational and compliance risks which may exist in the Group's business. The Audit Committee reviewed and discussed the findings of the Group's internal audit personnel, as well as the comments and suggestion from the Company's external auditors regarding the effectiveness of the risk management and internal control systems of the Group. With reference to the report from the Audit Committee, the Board has held a meeting to conduct a review of the effectiveness of the risk management and internal control systems of the Group, which covered all material control including internal control, financial, operational and compliance control and risk management functions. The Board considered that the risk management and internal control systems of the Group are effective and adequate.

The Group has established systems and procedures for disseminating inside information so as to ensure that inside information is promptly identified. Directors and the management of the Group understand that inside information should be handled and disseminated in accordance with the requirements under the Listing Rules and the Securities and Futures Ordinance (Cap. 571). During the Year, the dissemination of inside information of the Group has been efficiently and consistently made with the assistance of the company secretary and, when necessary, outside legal counsel.

During the Year, The Board has also assessed the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting, internal audit and financial reporting functions of the Group and considered that they are effective and adequate.

External Auditors and Auditors' Remuneration

During the year under review, the fees paid/payable to KPMG (the "**Auditor**") in respect of their audit services for the year 2016 amounted to RMB2,600,000, including RMB2,000,000 for the annual audit service and RMB600,000 in relation to the proposed listing of a subsidiary in NEEQ in the PRC.

During the year under review, the performance of the Auditor has been reviewed by the Audit Committee and the Audit Committee recommended to the Board (which endorsed the view) that subject to shareholders' approval at the forthcoming annual general meeting, the Auditor will be re-appointed as the external auditor of the Company for 2017.

Company Secretary

The Company does not engage an external service provider as its company secretary. Mr. Liu Xiaohua, being the secretary of the Company, has taken no less than 15 hours of relevant professional training during the year ended 31 December 2016.

Communications with Shareholders and Investors Relations

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

To promote effective communication, the Company maintains a website at "www.nfa360.com", where extensive information and updates on the Group's business developments and operations, financial information, corporate governance practices and other information are available for public access. For enquiries, shareholders and investors may write directly to the Company's head office at Unit A, 9th Floor, Building 1,100 Zixiu Road, Minhang District, Shanghai, the People's Republic of China and all enquiries will be dealt with in an informative and timely manner.

The Board welcomes views of shareholders and encourages them to attend general meetings to raise any concerns they might have with the Board or the management directly. Board members of the Group are available at the general meetings to answer any questions raised by shareholders.

The Company continues to enhance communication and relationship with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them informed of the Group's developments.

Shareholders' Rights

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, pursuant to the Articles, shareholder(s) holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings may request the Company to convene an extraordinary general meeting by sending a written requisition to the Board or the Company Secretary. The objects of the meeting must be stated in the written requisition.

Shareholders may send written enquiries to the Company for putting forward any enquiries or proposals to the Board of the Company. Contact details are as follows:

Address: Unit A, 9th Floor, Building 1, 100 Zixiu Road, Minhang District, Shanghai, the People's Republic of China (For the attention of the Company Secretary)
Fax: 86-21-6405-6816
Email: gavin_liu@nfa360.com

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

During the year under review, the Company has not made any changes to its Articles. An up-to-date version of the Articles is available on the Company's website and the Stock Exchange's website. Shareholders may refer to the Articles for further details of their rights.

All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.nfa360.com) immediately after the relevant general meetings.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

About the Report

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "**ESG Guide**") set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This report, which is the first one issued by the Company to the public, aims to describe the Company's polices in the year ended 31 December 2016 that were designed to fulfill the Company's obligation with respect to sustainable development and social responsibilities as required by the ESG Guide. The Board is of the view that the Company has complied with the "comply or explain" provisions set out in the ESG Guide for the Year.

The Company believes that having a sound environmental, social and governance performance is important to the continued sustainable development of its business and community. The Company is committed, not only in creating value for its shareholders, but also in promoting environmental protection, social responsibility and effective corporate governance. A certain level of environmental, social and governance standards have been integrated into the operations and activities of different members of the Group. The management of the Group monitored on an on-going basis the development, implementation and results of various environmental, social and governance initiatives carried out by different members of the Group.

The information disclosed in this report is primarily about the two production plants of the Group in Shanghai and Shandong province and its retail service businesses.

1. **Environmental Protection**

   To demonstrate the Company's commitment to sustainable development and compliance with laws and regulations relating to environmental protection, we strive to minimize the environmental impact of our business activities and maintain green operations and green office practices.

   1.1 *Emissions*

   The Group is governed by, and has complied with, the Law of Environmental Protection of the People's Republic of China (中華人民共和國環境保護法), the Environmental Impact Assessment Law of the People's Republic of China (中華人民共和國環境影響評價法) and the Prevention and Control of Environmental Noise Pollution of the People's Republic of China (中華人民共和國環境噪聲污染防治法). The Group strives to minimize generation of air emissions, discharges into water and land and hazardous waste, and a set of relevant guidelines has been established at the headquarters of the Group with reference to the relevant legal requirements and national standards to provide for specific rules and requirements to be complied with by the members of the Group in their daily operations. During the Year, the Group has not been subject to any fines or related litigation arising out of alleged environmental pollution.

   Limited workplace emissions and wastes are mainly attributable to the operation of the Group's retail service business. The relevant retail service stores of the Group are subject to the approval of environmental protection administration prior to official operation and strictly comply with applicable laws and regulations governing environment in their subsequent operation to minimize the damages to the environment.

All workplace emissions are discharged into the municipal sewer systems for collective treatment and workplace wastes are treated properly by the relevant organizations. Our greenhouse gases emissions are principally resulting from electricity consumed at the Group's workplaces including its two factories.

1.2 Use of Resources and Impact on the Environment and Natural Resources

The resources used by the Group are principally electricity and water consumed at its factories, retail service stores and offices.

The factories and retail service businesses of the Group have conducted various measures to preserve electricity and water usage, including the use of energy efficient equipment such as automatic car washers.

Other than strengthening daily management, implementing various policies and measures to mitigate the impact on the environment and reduce the use of natural resources as much as possible, the Group also adopted a plan to deal with hazardous waste disposal to minimize the Group's adverse impact on the environment and natural resources. According to the Group's hazardous waste disposal plan, for hazardous waste that cannot be recycled, each member of the Group shall, in accordance with the applicable regulations of the administrative department for environmental protection under the State Council, build appropriate facilities and grounds for its safe storage with appropriate classification by different types of hazardous waste and adopt measures for the innocuous treatment of such hazardous waste.

The Group has adopted green office practices to reduce natural resource consumption and the impact on the environment. We regulate the use of air conditioning according to the actual weather, encourage employees to use paper in double-sided, and introduce teleconferencing systems to reduce the number of staff traveling for business trip and carbon emissions caused thereby.

2. Social Responsibility

The Group believes that one of the key aspects of its success is its good relationship with the employees. With the aim of ensuring employee satisfaction, the Group provides competitive employee benefits and comprehensive training programs to encourage employees to achieve their potential and put their abilities to good use.

Moreover, certain subsidiaries of the Group provide for a number of staff activities to enhance employees' sense of belonging and to help create a friendly and harmonious working environment.

2.1 *Employment and Labor Practices*

The practices and policies adopted within the Group with respect to: (i) recruitment and promotion; (ii) working hours; (iii) rest periods; (iv) equal opportunity; (v) diversity; (vi) anti-discrimination; (vii) welfare and other benefits and (viii) compensation and dismissal have complied with the Labor law of the People's Republic of China (中華人民共和國勞動法), Labor Contract Law of the People's Republic of China (中華人民共和國勞動合同法) and other relevant laws and regulations. Through these practices and policies, the Group aims to equally treat each staff and to ensure that no staff, including potential candidate of the Group, will not be discriminated due to their social identities such as ethnicity, race, nationality, gender, religion, age, sexual orientation, marital status and so on.

Each member of the Group has adopted an employee handbook, which contains information regarding employment management, rights on termination, business conduct, social security funds, compensation, employee benefits, leave benefits, working hours/overtime and performance management and other policies for the benefit of its employees.

All employees of the Group in the PRC are entitled to an employment contract at the start of their employment. Each member of the Group generally formulates their employees' remuneration based on one or more elements such as salaries, bonuses, long-term incentives and benefits, subject to applicable rules and regulations. In accordance with applicable Chinese labor rules and regulations, each member of the Group contributes to various public funds for their employees.

The Group's employees normally work under a standard of 40 hours per week. Employees are entitled to overtime pay if they obtain prior approval from their manager. The Group also provide employees paid days off from work for national public holidays including annual vacation leave, compassionate leave, marriage leave, maternity leave, personal leave and sick leave.

The Group works to ensure an equal and fair working environment and does not tolerate sexual harassment or abuse in the workplace in any form.

2.2 *Health & Safety*

To safeguard employees' occupational health and safety, the Group works hard to provide a safe, healthy and comfortable working environment and has complied with the Labor Law of the People's Republic of China (中華人民共和國勞動法), Regulations on Work-Related Injury Insurance (工傷保險條例) and other applicable regulations. Employees are asked to stringently abide by all safety rules and regulations, and utilize available and applicable protection measures at all times to avoid accidents and protect themselves and coworkers from safety risks. For newly recruited employees, relevant training will be arranged to ensure that such employees fully understand the rules of the employee handbook including those concerning the work-related risks and corresponding protective measures. In the Group's factories and retail service businesses, the supervisors of the new employees are responsible for closely monitoring their activities within the production plants and stores to safeguard the health and safety of those new employees. Adequate safety equipment is also provided to the employees by the Group.

We organize fire safety seminars annually to ensure that employees understand and are familiar with fire safety and fire rescue knowledge. Fire drills are arranged when necessary and appropriate. In September 2016, Gansu Aiyi Hang Auto Service Company Ltd., a subsidiary of the Company, carried out a fire drill involving 24 stores located in gas station to strengthen the employee's awareness of safety in business.

All employees of the Group are covered by work-related injury insurance, which would provide our employees who suffered work-related injury with certain compensation as provided by the relevant laws and regulations.

2.3 *Development & Trainings*

To encourage employee development, the Group provides human resource trainings, including customized training courses, to help them develop managerial knowledge and other professional skills that help advance their careers.

New employees are provided with on-board trainings to help them familiarize themselves with the culture, business and operations of the relevant subsidiaries of the Group. In addition, for those employees who are to work in the production lines and retail service stores, every newly-hired employee will be provided with pre-job technical training to enhance the professional skills necessary for the job. Below is a picture of new employees of Hubei Aiyi Hang Auto Service Company., Ltd., a subsidiary of the Company, when they were attending a training camp in May 2016.

The Group has developed a scientific performance evaluation management system to ensure criteria of performance are open and the processes and the results of evaluation are just and fair. Individual performance results are linked with the employee's income and opportunities for promotion within the Group.

2.4 Labor Standards

The Group strictly prohibits child labor and forced labor and has complied with the Labor Contract law of the People's Republic of China (中華人民共和國勞動合同法). We audit and verify staff identity during the recruitment process to ensure that no child labor is employed. The Group also strictly complies with the relevant PRC labor regulations relating to working hours, rest and holidays to ensure the physical and mental health of all employees. Employees are not forced to work beyond working hours and are entitled to overtime pay in accordance with local regulations.

2.5 Supply Chain Management

In the selection of our suppliers, the Group has established certain criteria on the examination of supplier qualifications, which involve the review of the qualification of the enterprise legal person, qualification level, registered capital, ISO quality certification, ISO environmental certification, ISO occupational health and safety certification, production safety and financial conditions. We also conduct on-site inspection on the suppliers' production plants and review the authenticity of information provided by our suppliers.

The Group is also committed to ensure that its suppliers are socially responsible. Suppliers are urged to take measures to reduce their environmental and social risks. The Group closely supervises the performance of its suppliers and conduct assessment on a regular basis.

2.6 Product Responsibility

The Group complies with various PRC regulations relevant to the operation of its business in areas such as health and safety, advertising, labelling and privacy matters relating to its products and services, including the Law of the People's Republic of China on Product Quality (中華人民共和國產品質量法), Law of the People's Republic of China on Trademark (中華人民共和國商標法) and Law of the People's Republic of China on Advertising (中華人民共和國廣告法).

The Group realizes that it's extremely important to guarantee the safety of its products and services. The manufacturing business of the Group adopts strict quality control systems throughout its design and production of auto accessories and has purchased products liability insurance for its products in accordance with the requirements of applicable laws and regulations and the requirements of our customers as well. The service business of the Group carefully inspects the qualification of its suppliers to ensure the quality of the products provided by those suppliers.

The Group's customer information is centrally managed through a customer relationship management system. All employees of the Group, in particular those employees work in the Group's service business, are required to keep the information of our customers strictly confidential. Any unauthorized use of the customer information is strictly prohibited.

During the Year, the Group was not aware of any violation of the laws and regulations on products and services (including product and service quality, advertising, labelling, customer privacy, consumer right and interest etc.) which had a material impact on the Group.

2.7 Anti-corruption

The Group maintains a high standard of business integrity throughout its operations and tolerates no corruption or bribery of any kind, and strictly complies with the Criminal Law of the People's Republic of China (中華人民共和國刑法), the Anti-Unfair Competition Law of the People's Republic of China (中華人民共和國反不正當競爭法) and other relevant laws and regulations relating to anti-corruption, bribery, extortion, fraudulent behavior and money-laundering.

The Group also established a code of conduct to combat and prevent the occurrence of bribery, corruption, extortion and other illegal activities within the Group. A whistle-blowing policy was included in such code of conduct to encourage employees, suppliers and customers of the Group to report any such alleged illegal activities within the Group.

2.8 Community Investment

The Group has been committed to social responsibilities and community communication and has undertaken related community activities according to the needs of the community. With social responsibility in mind, the Group has been increasing its efforts in charity work. The Group strives to promote social development and progress by contributing to education, charity and other areas.

Below is a picture of the auction held by Zhejiang Autoboom Industrial Co., Limited, a subsidiary of the Company, in November 2016 to raise money for elementary schools in poverty areas.

The Directors are pleased to present their annual report for the year ended 31 December 2016 and the audited consolidated financial statements (the "**Financial Statements**") of the Group for the Year.

Group Reorganisation, Subsidiaries and Basis of Presentation

The Company was incorporated in the Cayman Islands on 15 May 2002 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to the group reorganisation as detailed in section 4 headed "Corporate Reorganisation" in Appendix VI to the prospectus dated 17 February 2005 of the Company, in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, the Company became the holding company of other companies comprising the Group on 13 February 2005.

Principal Activities

The Group focused on the construction of automotive chain service network in China (the Group's service business) as well as the innovative production of environmentally friendly automotive lighting and automotive electronic power products (the Group's manufacturing business), with an aim to providing automobile consumers with products and services with premium performance-price ratio.

Details of the principal activities of the subsidiaries of the Company are set out in note 20 to the Financial Statements.

Business Review

Discussions and reviews of the Group's business are contained in the Management Discussion and Analysis of this annual report. These discussions and reviews form part of this Report of the Directors.

Results and Dividends

The consolidated results of the Group for the Year are set out in the consolidated statement of comprehensive income on page 56. An analysis of turnover and segmental results for the Year by geographical and business segments is set out in note 6 to the Financial Statements.

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

Property, Plant and Equipment

Details of the movements of property, plant and equipment of the Group during the Year are set out in note 15 to the Financial Statements.

Investment Properties

Details of the movements of investment properties of the Group during the Year are set out in note 17 to the Financial Statements.

Share Capital

Details of the issued share capital of the Company and its movements during the Year along with the relevant reasons are set out in note 27 to the Financial Statements.

Reserves

Movements of reserves of the Group and the Company are set out in the consolidated statement of changes in equity and note 28 to the Financial Statements respectively.

Distributable Reserves

Under the Companies Law of the Cayman Islands, share premium amounting to approximately RMB876,899,000 is distributable to shareholders, provided that immediately following the date on which the distribution or dividend is proposed to be made, the Company is able to settle its debts as they fall due in the ordinary course of business.

As at 31 December 2016, the reserve available for distribution to shareholders of the Company (the "**Shareholders**") amounted to approximately RMB132,318,000.

Closure of Register of Members

The register of members will be closed from 26 June 2017 to 29 June 2017 (both days inclusive), during which period no transfer of shares will be registered. In order to be entitled to attend the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 23 June 2017.

Directors

The Directors who held office during the Year and up to the date of this annual report were:

Executive Directors

Zhang Jianxing* *(Chief Executive Officer, and appointed as Chairman with effect from 31 March 2016)*
Du Jinglei *(re-designated from non-executive Director to executive Director with effect from 31 March 2016)*

Non-executive Directors

Ying Wei* *(resigned as Chairman with effect from 31 March 2016)*
Wang Zhenyu

Independent Non-executive Directors

Hu Yuming
Lin Lei
Zhang Xiaoya

* As disclosed in the announcement of the Company dated 30 March 2016, Mr. Ying Wei resigned as chairman of the Company and the chairman of the Nomination Committee but remained as a non-executive Director of the Company with effect from 31 March 2016, while Mr. Zhang Jianxing was appointed as the chairman of the Company and the chairman of the Nomination Committee with effect from 31 March 2016.

Directors *(Continued)*

Biographical details of the Directors are set out in the section headed "Profiles of the Directors and Senior Management" in this annual report.

In accordance with Article 87(1) of the Company's Articles, Mr. Hu Yuming, Mr. Lin Lei and Mr. Du Jinglei will retire by rotation at the forthcoming annual general meeting of the Company. All such Directors being eligible, offer themselves for re-election.

The Company has received from each of its independent non-executive Directors an annual confirmation or confirmation of his independence. The Company considers that all of its independent non-executive Directors are independent.

Directors' Service Contracts

Each of Mr. Zhang Jianxing, Mr. Ying Wei, Mr. Wang Zhenyu and Mr. Du Jinglei, has entered into a service agreement with the Company for a term of three years commencing from 28 August 2016, subject to retirement by rotation in accordance with the Articles of the Company.

Pursuant to the respective letters of appointment of the independent non-executive Directors, namely, Mr. Hu Yuming and Mr. Lin Lei, each of them was appointed for a term of three years commencing from 28 August 2016, subject to retirement by rotation in accordance with the Articles of the Company.

Mr. Zhang Xiaoya, an independent non-executive Director, has entered into a letter of appointment with the Company for a term of three years commencing from 20 March 2015, subject to retirement by rotation in accordance with the Articles of the Company.

Save as disclosed above, none of the Directors had entered into service contracts with the Company which are not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Changes in Information of Directors

Pursuant to Rule 13.51(B)(1) of the Listing Rules, the changes in information of Directors subsequent to the date of the 2015 Annual Report are set out below:

Name of Director	Details of Changes
Mr. Zhang Jianxing	– Appointed as chairman of the Board and chairman of the Nomination Committee effective from 31 March 2016.
Mr. Ying Wei	– Resigned as chairman of the Board and chairman of the Nomination Committee effective from 31 March 2016. – Remained as non-executive director of the Company and appointed as a member of the Audit Committee to replace Mr. Du Jingle effective from 31 March 2016. – Appointed as a non-executive director of China Health Group Limited (stock code: 673), a company listed on the Main Board of the Stock Exchange, effective from 5 June 2016. – Appointed as an independent non-executive director of Zhongsheng Group Holdings Limited (stock code: 881) with effect from 19 December 2016. – Appointed as a director of Chongqing New Century Cruise Co., Ltd. (a company listed on the Shenzhen Stock Exchange ("**SZSE**"), stock code: 002558) with effect from 27 May 2016.
Mr. Du Jinglei	– Re-designated from non-executive director to executive director and ceased to be a member of the Audit Committee effective from 31 March 2016.
Mr. Hu Yuming	– Guangzhou Shiyuan Electronic Co., Ltd. (SZSE stock code: 002841) with which Mr. Hu Yuming is a director became listed in SZSE on 19 January 2017

Directors' Interests in Contracts

Save as disclosed in the section headed "Connected Transactions" in this report, none of the Directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the Year.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the Year.

Share Option Scheme

The Company terminated the old share option scheme and adopted a new share option scheme (the "**Scheme**") pursuant to a shareholders' resolution passed on 25 June 2014 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. Eligible participants of the Scheme include the Directors, employees, suppliers, customers and business or strategic alliance partners of the Group. The Scheme became effective on 25 June 2014 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. A summary of the principal terms of the Scheme was included in the circular dated 30 April 2014 dispatched to the Shareholders.

The maximum number of shares which may be issued upon exercise of all share options granted and to be granted under the Scheme is 376,116,501 shares, representing 10% and 8.22% of the shares of the Company in issue as at the date of adoption of the Scheme and as at the date of this annual report respectively, unless approval for refreshing the 10% limit from the Company's shareholders has been obtained. The maximum number of shares issued and may be issued under share options granted to each eligible participant in the Scheme (including both exercised and outstanding share options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The grant of share options to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to prior approval by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their associates, in the 12-month period up to and including the date of the grant of share options in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, are subject to shareholders' prior approval in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a nominal consideration of HK$10 in total by the grantee. The exercise period of the share options granted is determined by the Board, save that such a period shall not be more than 10 years from the date of grant of the share options subject to the provisions for early termination as set out in the Scheme. Unless otherwise determined by the Directors at their sole discretion, there is no requirement of a minimum holding period or a performance target which must be achieved before a share option can be exercised.

The exercise price of the share options shall be the highest of (i) the nominal value of a share of the Company on the date of grant; (ii) the closing price of the Company's shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant of the share options; and (iii) the average Stock Exchange closing price of the Company's shares for the five business days immediately preceding the date of grant.

Share options do not confer rights on the holders to dividends or to vote at general meetings.

Share Option Scheme *(Continued)*

As at 31 December 2016, options had been granted by the Company under the Scheme which, if exercised in full, would entitle the grantees to subscribe for 119,611,116 shares. The total number of shares available for issue under the Scheme (excluding share options already granted) is 254,572,055 shares, representing approximately 5.56% of the total issued share capital of the Company as at that date.

As at 31 December 2016, details of share options granted under the Scheme are as follows:

Name of option holder	Date of grant	Exercise period	Exercise price (per share)	Closing price of share on date of grant (per share)	Number of underlying shares subject to options outstanding as at 1 January 2016	Number of underlying shares subject to options granted since 1 January 2016	Number of options exercised/ lapsed/ cancelled since 1 January 2016	Number of underlying shares subject to options outstanding as at 31 December 2016
Ms. Hung Ying-Lien *(Note 1)*	14 October 2014	15 October 2014 to 14 October 2019 *(Note 2)*	HK$0.50	HK$0. 50	12,092,768	–	*33,333*	12,059,435
Continuous contractual employees (in aggregate)	14 October 2014	15 October 2014 to 14 October 2019 *(Note 2)*	HK$0. 50	HK$0. 50	125,990,564	–	*18,438,883*	107,551,681
Total					138,083,332	–	18,472,216 *(Note 3)*	119,611,116

Note 1: Ms. Hung Ying-Lien resigned as an executive Director and the chief financial officer of the Company with effect from 28 August 2013 and was appointed as vice president and chief operating officer of the Company. Ms. Hung Ying-Lien is the sister of Mr. Hung Wei-Pi, John, a non-executive Director of the Company who has resigned with effect from 20 May 2015.

Note 2: 599,998 share options out of the total of 138,083,332 share options were exercised during the period from 1 January 2016 to 31 December 2016 and the remaining share options shall be vested and are exercisable during the period from 1 January 2017 to 14 October 2019, subject to the fulfilment of certain performance targets and other vesting conditions as described in the grant letter issued by the Company to each Grantee.

Note 3: Among 18,472,216 share options which were exercised, lapsed or cancelled during the period from 1 January 2016 to 31 December 2016, 599,998 share options were exercised by continuous contractual employees, 17,872,218 share options lapsed.

Directors' and Chief Executives' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2016, to the best knowledge of the Directors and chief executives of the Company, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), which were required to be recorded in the register maintained by the Company under Section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) and the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

Substantial Shareholders' Interests and Short Positions in the Shares of the Company

So far as is known to the Directors and chief executives of the Company, as at 31 December 2016, the following persons (other than Directors and chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company, which are required to be notified to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity/Nature of interest	Number of shares interested (other than under equity derivatives) *(Note 1)*	Number of shares interested under equity derivatives	Total number of shares/ underlying shares under equity derivatives	Percentage of issued shares
CDH Fast Two Limited	Beneficial owner *(Note 2)*	2,889,580,226 (L)	–	2,889,580,226 (L)	63.14%
CDH Fast One Limited	Interest in a controlled corporation *(Note 2)*	2,889,580,226 (L)	–	2,889,580,226 (L)	63.14%
CDH Fund IV, L.P.	Interest in a controlled corporation *(Note 2)*	2,889,580,226 (L)	–	2,889,580,226 (L)	63.14%
CDH IV Holdings Company Limited	Interest in a controlled corporation *(Note 2)*	2,889,580,226 (L)	–	2,889,580,226 (L)	63.14%
China Diamond Holdings IV, L.P.	Interest in a controlled corporation *(Note 2)*	2,889,580,226 (L)	–	2,889,580,226 (L)	63.14%
China Diamond Holdings Company Limited	Interest in a controlled corporation *(Note 2)*	2,889,580,226 (L)	–	2,889,580,226 (L)	63.14%

Substantial Shareholders' Interests and Short Positions in the Shares of the Company *(Continued)*

Notes:

1. The letter "L" denotes a long position in the shares.

2. CDH Fast Two Limited entered into an investment agreement (the "**Investment Agreement**") with the Company on 25 June 2013 pursuant to which CDH Fast Two Limited agreed to subscribe for 1,262,564,333 new shares and convertible bonds in principal amount of US$48,685,000 (the "**Convertible Bonds**") issued by the Company. Each of CDH Fast One Limited (as the sole shareholder of CDH Fast Two Limited); CDH Fund IV, L.P. (as the sole shareholder of CDH Fast One Limited); CDH IV Holdings Company Limited (as the general partner of CDH Fund IV, L.P.); China Diamond Holdings IV, L.P. (as the controlling shareholder of CDH IV Holdings Company Limited); and China Diamond Holdings Company Limited (as the general partner of China Diamond Holdings IV, L.P.) is deemed to be interested in the shares of the Company. Transactions contemplated under the Investment Agreement were completed on 28 August 2013. Upon the receipt of a conversion notice on 11 June 2014 from CDH Fast Two Limited for partial conversion of the Convertible Bonds in the principal amount of US$24,342,500, the Company allotted and issued a total of 813,507,946 Conversion Shares to CDH Fast Two Limited at the Conversion Price of HK$0.2328 per Conversion Share on 12 June 2014. Upon the receipt of a conversion notice on 25 December 2015 from CDH Fast Two Limited for full conversion of the remaining Convertible Bonds in the principal amount of US$24,342,500 (approximately HK$189,384,650), the Company allotted and issued a total of 813,507,947 Conversion Shares to CDH Fast Two Limited at the Conversion Price of HK$0.2328 per Conversion Share on 28 December 2015.

Save as disclosed above, as at 31 December 2016, the Directors are not aware of any person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Arrangements to Purchase Shares or Debentures

Save as disclosed above and under the section headed "Share Option Scheme", at no time during the Year were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, nor were there any such rights exercised by them. Also, there was no arrangement to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries is a party that would enable the Directors to acquire such rights in any other body corporate.

Equity-linked Agreements

Save for the Haitong CBs disclosed in the Management Discussion and Analysis of this annual report and note 25 to the Financial Statements, and the Scheme as disclosed in section "Share Option Schemes" of this Report of the Directors, no equity-linked agreement was entered into or subsisted during the year ended 31 December 2016.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

Connected Transactions

During 2016 and up to the date hereof, the following connected transactions were carried out by the Company and its subsidiaries pursuant to Chapter 14A of the Listing Rules.

(i) Disposal of 51% Equity Interest in Shanghai Astrace Trade Development Company Limited ("Shanghai Astrace")

New Focus Lighting & Power Technology (Shanghai) Company Limited ("**NFLP**"), a wholly owned subsidiary of the Company which directly owned 51% equity interest in Shanghai Astrace ("**SA Interest**"), entered into an equity transfer agreement with effect from 28 December 2016 ("**SA Equity Transfer Agreement**") with Ms. Liu Fengxi. Pursuant to the SA Equity Transfer Agreement, Ms. Liu Fengxi agreed to acquire, and NFLP agreed to dispose of, the SA Interest at the consideration of RMB20,000,000 to be satisfied in cash (the "**SA Disposal**"). Upon completion of the SA Disposal on 29 December 2016, Shanghai Astrace ceased to be a subsidiary of the Company. For further details, please refer to the announcement of the Company dated 28 December 2016.

As the applicable percentage ratios in respect of the SA Disposal are more than 5% but less than 25%, the SA Disposal constitutes a discloseable transaction for the Company and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules. As Ms. Liu Fengxi is a substantial shareholder and a director of Shanghai Astrace and therefore a connected person of the Company at the subsidiary level, the SA Disposal also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.101 of the Listing Rules, the SA Disposal is subject to the reporting and announcement requirements but exempt from the circular, independent financial advice and shareholders' approval requirements since the Directors have approved the Disposal and the independent non-executive directors have confirmed that the terms of the SA Equity Transfer Agreement are fair and reasonable and the SA Disposal is on normal commercial terms and in the interests of the Company and the shareholders as a whole.

Connected Transactions *(Continued)*

(ii) Disposal of 100% Equity Interests in New Focus Richahaus Corporation Limited ("New Focus Richahaus") and Taiwan New Focus Auto Service Corporation Limited ("Taiwan New Focus")

Perfect Progress Investments Limited ("**PPI**"), a wholly-owned subsidiary of the Company which directly owns the 100% equity interest in New Focus Richahaus and Taiwan New Focus, respectively (collectively the "**Target Interest**"), entered into an equity transfer agreement dated 19 July 2016 (the "**Equity Transfer Agreement**") with Asia Centre Auto Service Holdings Limited (the "**Purchaser**") which is wholly owned by Ms. Hung Ying-Lien, a vice president of the Group and a director of both New Focus Richahaus and Taiwan New Focus. Pursuant to the Equity Transfer Agreement, the Purchaser agreed to acquire, and PPI agreed to dispose of, the Target Interest at the nominal consideration of NTD1 to be satisfied in cash (the "**Disposal**"). Upon completion of the Disposal on 29 July 2016, New Focus Richahaus and Taiwan New Focus ceased to be subsidiaries of the Company. For further details, please refer to the announcement of the Company dated 19 July 2016.

As the applicable percentage ratios in respect of the Disposal are more than 5% but less than 25%, the Disposal constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules. The Disposal also constitutes connected transaction for the Company under Chapter 14A of the Listing Rules. As the Equity Transfer Agreement is on normal commercial terms and all the percentage ratios (other than the profits ratio) in respect of the Disposal are less than 25% and the total consideration is less than HK$10,000,000, the Disposal is exempt from the circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.76(2)(b) of the Listing Rules.

(iii) Sale of goods to Liaoning Auto Make Business Management Co., Ltd.

In 2016, Liaoning XTC, owned as to 50.10% by the Company and 27.63% by Li Haidong, has sold goods to Liaoning Auto Make Business Management Co., Ltd. which was owned by the spouse and a close family member of Li Haidong. Such sale of goods constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The applicable percentage ratios (other than the profit ratios) are less than 1% and the transactions are continuing connected transactions only because they involve connected persons at the subsidiary level. As such, the continuing connected transactions are de minimis transactions and are fully exempt from shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.76(1)(b).

Connected Transactions (Continued)

(iv) Financial Assistance received by Liaoning XTC from Li Haidong

In 2016, Li Haidong provided guarantee to a supplier of Liaoning XTC to secure the debt up to RMB15,183,000 owed to such supplier by Liaoning XTC by using the properties owned by Li Haidong as mortgage ("**Financial Assistance from Li Haidong**"). The Financial Assistance from Li Haidong constitutes connected transaction of the Company under Chapter 14A of the Listing Rules. The Financial Assistance from Li Haidong was conducted on normal or better commercial terms and it was not secured by the assets of the Group. As such, it is fully exempt from shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.90.

(v) Financial assistance received by the Company from Mr. Ying Wei

In 2016, Mr. Ying Wei, a non-executive Director of the Company, provided guarantee to a bank in Taiwan to secure the debt owed to such bank by New Focus Richahaus ("**Financial Assistance from Ying Wei**"). The Financial Assistance from Ying Wei constitutes connected transaction of the Company under Chapter 14A of the Listing Rules. The Financial Assistance from Ying Wei was conducted on normal or better commercial terms and it was not secured by the assets of the Group. As such, it is fully exempt from shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.90. As disclosed in paragraph (ii) of this section, New Focus Richahaus ceased to be a subsidiary of the Company from 29 July 2016.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules for all connected transactions and continuing connected transactions conducted during the Year.

Permitted Indemnity

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. Every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto.

Directors' Interests in Competing Business

As at 31 December 2016 and up to the date of this annual report, none of the Directors are considered to be in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

Sale, Purchase or Redemption of the Company's Listed Securities

During the Year, the Company did not repurchase any ordinary shares of the Company on the Stock Exchange under the general mandate granted at the annual general meeting held on 24 June 2016, and, there were no purchases, sales or redemption of the Company's listed securities by the Company or any of its subsidiaries during the Year.

Major Customers and Suppliers

Sales to our five largest customers were less than 30% of the total revenue for the Year. Purchases from the five largest suppliers were less than 30% of the total purchases for the Year.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

Basis of Determining the Emolument Payable to the Directors

The remuneration of the Directors is determined by the Board which receives recommendations from the Remuneration Committee. In determining the remuneration of the Directors, the Company take into account of each Director's qualifications, experience, duties and responsibilities with the Company, as well as the Company's performance and the prevailing market conditions.

Tax Relief

The Company is not aware of any relief from taxation available to the shareholders of the Company by reason of their holdings in the shares of the Company.

Public Float

As at the date of this annual report, based on public information available to the Company and to the best knowledge of the Directors, the Company maintained sufficient public float, being 25% of the issued share capital of the Company, as required under the Listing Rules.

Auditor

The Financial Statements have been audited by KPMG. At the forthcoming annual general meeting, the Company will propose a resolution to re-appoint KPMG as the auditor of the Company.

On behalf of the Board
Zhang Jianxing
Chairman

Hong Kong, 30 March 2017

KPMG

Independent auditor's report to the shareholders of
New Focus Auto Tech Holdings Limited
(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of New Focus Auto Tech Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 56 to 143, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Boards ("IASB") 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 Hong Kong Institute of Certified Public Accountants ("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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

Key audit matters *(continued)*

Impairment of goodwill, intangible assets and property, plant and equipment ("PPE")

Refer to notes 15, 18 and 19 to the consolidated financial statements on page 101, 104 and 106 respectively and the accounting policies on page 72.

The key audit matter	How the matter was addressed in our audit
The revenue and profitability of certain of the Group's business units have been lower than expectations partly as a result of the slowdown in the Mainland China economy in recent years. Certain business units recorded a net loss for the current year which management considered was an indicator of potential impairment of the non-current assets attributable to these business units. Goodwill and intangible assets with an indefinite useful life are tested for impairment annually. PPE is tested for impairment when indicators of potential impairment are identified. For goodwill, intangible assets with indefinite useful lives and PPE where indicators of impairment were identified, management assessed the recoverable amounts of the smallest separately identifiable cash generating unit ("CGU") to which the relevant assets were allocated based on value-in-use calculations using discounted cash flow forecasts. An independent appraiser was engaged by management to prepare the discounted cash flow forecasts in order for management to assess impairment. The preparation of discounted cash flow forecasts involves the exercise of significant judgement, in particular in forecasting revenue growth rates and in determining long-term growth rates, inflation rates and the discount rates applied.	Our audit procedures to assess impairment of goodwill, intangible assets and PPE included the following: – assessing management's identification of CGUs, the amounts of goodwill, intangible assets and PPE allocated to each CGU and, with the assistance of our internal valuation specialists, the impairment assessment methodology adopted by management with reference to the requirements of the prevailing accounting standards; – evaluating the competence, capabilities and objectivity of the independent appraiser engaged by the Company to prepare discounted cash flow forecasts to help management assess the value-in-use of the relevant GCUs; – obtaining the independent valuation report from the independent appraiser engaged by management and comparing key inputs in the calculations, which include revenue growth rates, gross profit ratios and working capital assumptions, with the financial budget approved by the directors, available relevant external data and our own views based on our experience and knowledge of the industry in which the Group operates; – evaluating the Group's financial budgeting procedures upon which forecasts are based, including enquiring of management relating to the significant assumptions used in the budgeting process and comparing the budgeted figures with previous year's actual figures;

Key audit matters *(continued)*

Impairment of goodwill, intangible assets and property, plant and equipment ("PPE") *(continued)*

Refer to notes 15, 18 and 19 to the consolidated financial statements on page 101, 104 and 106 respectively and the accounting policies on page 72.

The key audit matter	How the matter was addressed in our audit
We identified assessing impairment of goodwill, intangible assets and PPE as a key audit matter because of its significance to the consolidated financial statements and because of the high level of judgement involved in making assumptions about factors which can be inherently uncertain and could be subject to management bias.	– utilising our internal valuation specialists to assist us in evaluating the assumptions and judgements adopted in the discounted cash flow forecasts relating to inflation, the growth rate beyond the forecast period and the discount rates applied to derive the recoverable amount of the CGUs. This evaluation included researching public information relating to inflation and independently recalculating the discount rates applied with reference to those of other comparable listed companies in the same industries; – comparing the key assumptions adopted in cash flow forecasts prepared in the previous year with the current year's actual performance to assess the historical accuracy of management's forecasting process and considering whether any significant variances had been incorporated in the current year's cash flow forecasts; – performing a sensitivity analysis of both the discount rates applied and forecast cash flows, considering the resulting impact on the impairment charge for the year and assessing whether there were any indicators of management bias in the selection of key assumptions; – considering the disclosures in the consolidated financial statements in respect of management's impairment assessments and whether the disclosures in relation to the sensitivity of the outcome of the impairment assessments to changes in key assumptions properly reflected the risks inherent in the assessments with reference to the requirements of the prevailing accounting standards.

Key audit matters *(continued)*

Assessing the recoverability of loans to Shenzhen Jiahong

Refer to note 22(b) to the consolidated financial statements on page 114 and the accounting policies on page 70.

The key audit matter	How the matter was addressed in our audit
Included in deposits, prepayments and other receivables as at 31 December 2016 are loans to Shenzhen Jiahong Group Holdings Limited ("Shenzhen Jiahong") which total RMB190 million. The loans bear interest at an annual rate of 12% and were due to be repaid on or before 31 December 2015. These loans have not been paid as scheduled. These loans are: – guaranteed by each of the two shareholders of Shenzhen Jiahong who collectively owned 85% of Shenzhen Jiahong as at 31 December 2016; – guaranteed by 15 subsidiaries owned by Shenzhen Jiahong; – secured by the pledge of 100% of the shares in a subsidiary wholly owned by Shenzhen Jiahong; and – secured by the pledge of 30% of the shares in a mineral company which is indirectly owned 80% by one of the two principal shareholders of Shenzhen Jiahong. We identified assessing the recoverability of loans to Shenzhen Jiahong as a key audit matter because significant uncertainty exists as to whether the loans will be repaid in full or not which may have a significant impact on the Group's liquidity and profit or loss.	Our audit procedures to assess the recoverability of loans to Shenzhen Jiahong included the following: – obtaining confirmation from Shenzhen Jiahong of the outstanding loans and interest due to the Group as at 31 December 2016; – inspecting the payment schedule provided by Shenzhen Jiahong to the Company; – evaluating the financial ability of Shenzhen Jiahong to repay the outstanding loans by inspecting relevant information obtained from management of the Company, which included transaction documents for recent sales of two shops owned by Shenzhen Jiahong and valuations of shops owned by Shenzhen Jiahong based on an external valuation performed by an independent valuation specialist in 2015 as adjusted for recent developments; – assessing the validity of the pledges provided by Shenzhen Jiahong to the Group by obtaining confirmation from the Company's lawyer and the enforceability by considering the availability of relevant active markets for the assets pledged; and – comparing settlement of the outstanding loans and interest thereon subsequent to the reporting date with bank statements and other relevant underlying documentation.

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than 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.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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 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 assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibility 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, 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.

Auditor's responsibility for the audit of the consolidated financial statements *(continued)*

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

Auditor's responsibility for the audit of the consolidated financial statements *(continued)*

From the matters communicated with the Audit Committee, 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.

The engagement partner on the audit resulting in this independent auditor's report is Yeung Ka Chun.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March, 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016 *(Expressed in Renminbi)*

	Note	**2016 RMB'000**	2015 RMB'000
Revenue	*6*	**1,292,665**	1,254,191
Cost of sales and services		**(1,017,862)**	(999,070)
Gross profit		**274,803**	255,121
Other revenue and gains and losses	*7*	**59,934**	55,124
Distribution costs		**(213,738)**	(198,621)
Administrative expenses		**(149,492)**	(143,331)
Impairment loss on goodwill	*18*	**(74,334)**	(28,003)
Finance costs	*8*	**(40,885)**	(37,713)
Share of loss of an associate		**(2,099)**	(5,879)
Loss before taxation	*9*	**(145,811)**	(103,302)
Income tax expenses	*11*	**(2,507)**	(645)
Loss for the year		**(148,318)**	(103,947)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	*14*	**(8,403)**	(17,136)
Available-for-sale financial assets: net movement in the fair value reserve	*14*	**(325)**	325
Other comprehensive income for the year, net of tax		**(8,728)**	(16,811)
Total comprehensive income for the year		**(157,046)**	(120,758)
Loss for the year attributable to			
– Owners of the Company		**(123,459)**	(90,967)
– Non-controlling interests		**(24,859)**	(12,980)
		(148,318)	(103,947)
Total comprehensive income attributable to			
– Owners of the Company		**(132,187)**	(107,778)
– Non-controlling interests		**(24,859)**	(12,980)
		(157,046)	(120,758)
Loss per share	*13*		
Basic (RMB cents)		**(2.70)**	(2.41)
Diluted (RMB cents)		**(2.70)**	(2.41)

The notes on pages 62 to 143 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016 *(Expressed in Renminbi)*

	Note	**31 December 2016 RMB'000**	31 December 2015 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*15*	**182,450**	177,380
Leasehold land and land use rights	*16*	**30,221**	31,289
Investment properties	*17*	**43,864**	42,775
Goodwill	*18*	**43,919**	118,253
Other intangible assets	*19*	**56,038**	47,923
Interest in an associate		**393**	6,121
Deferred tax assets	*26*	**31,166**	21,196
Amounts due from related parties	*31(b)*	**–**	6,991
		388,051	451,928
Current assets			
Inventories	*21*	**177,135**	196,143
Tax recoverable		**6**	274
Trade receivables	*22(a)*	**161,590**	130,742
Deposits, prepayments and other receivables	*22(b)*	**284,650**	335,729
Amounts due from related parties	*31(b)*	**32,633**	3,603
Pledged time deposits	*29*	**4,500**	6,903
Available-for-sale financial assets		**–**	53,383
Cash and cash equivalents	*29*	**164,269**	140,327
		824,783	867,104
Current liabilities			
Bank borrowings, secured	*23*	**178,475**	216,325
Trade payables	*24(a)*	**185,641**	171,557
Accruals and other payables	*24(b)*	**208,662**	158,241
Tax payable		**4,423**	4,009
Convertible bonds	*25*	**183,834**	156,319
		761,035	706,451
Net current assets		**63,748**	160,653
Total assets less current liabilities		**451,799**	612,581

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016 *(Expressed in Renminbi)*

	Note	**31 December 2016 RMB'000**	31 December 2015 RMB'000
Non-current liabilities			
Bank borrowings, secured	*23*	**–**	7,920
Deferred tax liabilities	*26*	**22,632**	19,948
		22,632	27,868
NET ASSETS		**429,167**	584,713
CAPITAL AND RESERVES			
Share capital	*27*	**376,184**	376,133
Reserves	*28*	**(21,897)**	100,784
Total equity attributable to owners of the Company		**354,287**	476,917
Non-controlling interests		**74,880**	107,796
TOTAL EQUITY		**429,167**	584,713

Approved and authorised for issue by the board of directors on 30 March 2017.

Zhang Jianxing
Director

Du Jinglei
Director

The notes on pages 62 to 143 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016 *(Expressed in Renminbi)*

	Share capital RMB'000 *(Note 27)*	Share premium RMB'000 *(Note 28(i)(a))*	Statutory reserve fund RMB'000 *(Note 28(i)(b))*	Enterprise expansion fund RMB'000 *(Note 28(i)(c))*	Convertible bonds reserve RMB'000 *(Note 28(i)(f))*	Capital redemption reserve RMB'000 *(Note 28(i)(d))*	Exchange reserve RMB'000 *(Note 28(i)(e))*	Others RMB'000 *(Note 28(i)(g))*	Retained profits/ (accumulated losses) RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2016	376,133	876,692	52,641	2,756	–	1,545	(29,490)	28,656	(832,016)	476,917	107,796	584,713
Loss for the year	–	–	–	–	–	–	–	–	(123,459)	(123,459)	(24,859)	(148,318)
Other comprehensive income	–	–	–	–	–	–	(8,403)	(325)	–	(8,728)	–	(8,728)
Total comprehensive income for the year, net of tax	–	–	–	–	–	–	(8,403)	(325)	(123,459)	(132,187)	(24,859)	(157,046)
Transfer of reserves	–	–	2,510	–	–	–	–	–	(2,510)	–	–	–
Disposal of subsidiaries *(Note 34)*	–	–	–	–	–	–	–	(116)	–	(116)	(11,836)	(11,952)
Recognition into convertible bonds reserve *(Note 25)*	–	–	–	–	1,619	–	–	–	–	1,619	–	1,619
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	(528)	(528)
Capital injection from non-controlling shareholders	–	–	–	–	–	–	–	1,903	–	1,903	4,307	6,210
Recognition of equity-settled share-based payments *(Note 33)*	–	–	–	–	–	–	–	5,963	–	5,963	–	5,963
Shares issued under share option scheme *(Note 33)*	51	207	–	–	–	–	–	(70)	–	188	–	188
At 31 December 2016	376,184	876,899	55,151	2,756	1,619	1,545	(37,893)	36,011	(957,985)	354,287	74,880	429,167
At 1 January 2015	307,931	760,136	49,045	2,756	28,888	1,545	(12,354)	10,261	(737,453)	410,755	129,542	540,297
Loss for the year	–	–	–	–	–	–	–	–	(90,967)	(90,967)	(12,980)	(103,947)
Other comprehensive income	–	–	–	–	–	–	(17,136)	325	–	(16,811)	–	(16,811)
Total comprehensive income for the year, net of tax	–	–	–	–	–	–	(17,136)	325	(90,967)	(107,778)	(12,980)	(120,758)
Transfer of reserves	–	–	3,596	–	–	–	–	–	(3,596)	–	–	–
Conversion of convertible bonds *(Note 25)*	68,090	115,892	–	–	(28,888)	–	–	–	–	155,094	–	155,094
Acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	9,051	–	9,051	(9,051)	–
Arising from acquisition of a subsidiary		–	–	–	–	–	–	–	–	–	1,390	1,390
Dividends declared to non-controlling owners of subsidiaries	–	–	–	–		–	–	–	–	–	(1,105)	(1,105)
Recognition of equity-settled share-based payments *(Note 33)*	–	–	–	–	–	–	–	9,246	–	9,246	–	9,246
Shares issued under share option scheme *(Note 33)*	112	664	–	–	–	–	–	(227)	–	549	–	549
At 31 December 2015	376,133	876,692	52,641	2,756	–	1,545	(29,490)	28,656	(832,016)	476,917	107,796	584,713

The notes on pages 62 to 143 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016 *(Expressed in Renminbi)*

	2016 RMB'000	2015 RMB'000
Operating activities:		
Loss before taxation	**(145,811)**	(103,302)
Adjustments for:		
– Write-down of inventories	**5,416**	5,329
– Depreciation and amortisation	**37,497**	40,279
– Additional allowance for doubtful debts	**4,509**	2,138
– Impairment of goodwill	**74,334**	28,003
– Equity-settled share-based payments	**5,963**	9,246
– Interest income	**(13,551)**	(24,333)
– Interest expenses	**40,885**	37,713
– (Gain)/loss on disposal of property, plant and equipment	**(135)**	2,921
– Fair value change on investment properties	**(1,089)**	(742)
– Gain on disposal of subsidiaries and an associate	**(19,820)**	–
– Written-off of other payables	**(1,274)**	(394)
– Fair value change of conversion option	**(4,250)**	(19,330)
– Share of loss of associates	**2,099**	5,879
Operating cash flows before working capital changes	**(15,227)**	(16,593)
(Increase)/decrease in inventories	**(32,442)**	13,174
(Increase)/decrease in trade receivables	**(50,675)**	614
(Increase)/decrease in deposits, prepayments and other receivables	**(25,276)**	5,378
Increase in amounts due from related companies	**(406)**	(417)
Increase/(decrease) in trade payables	**56,431**	(18,494)
Increase in accruals and other payables	**41,551**	24,876
Cash (used in)/generated from operations	**(26,044)**	8,538
Income tax paid	**(7,034)**	(4,004)
Net cash (used in)/generated from operating activities	**(33,078)**	4,534

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016 *(Expressed in Renminbi)*

	2016 RMB'000	2015 RMB'000
Investing activities		
Purchase of other intangible assets	–	(4)
Purchase of property, plant and equipment	**(57,713)**	(35,819)
Purchase of available-for-sale financial assets	–	(91,000)
Proceeds from sale of available-for-sale financial assets	**54,649**	38,896
Proceeds from disposal of property, plant and equipment and investment properties	**2,149**	15,893
Loans to an associate	–	(6,991)
Loans to a third party	–	(190,000)
Loans repaid by a third party	**60,000**	40,000
Net payment for acquiring a subsidiary	**(889)**	–
Net cash out for disposal of subsidiaries	**(10,925)**	–
Investment in associates	**(598)**	(12,000)
Increase/(decrease) in pledged time deposits	**38**	(691)
Interest received	**21,725**	13,670
Net cash generated from/(used in) investing activities	**68,436**	(228,046)
Financing activities		
Proceeds from issue of shares and convertible bonds	–	152,833
Issuance costs of shares and convertible bonds	–	(156)
Capital injection from non-controlling owners of a subsidiary	**1,210**	490
Proceeds from exercise of share options	**188**	549
Proceeds from new bank loans	**178,477**	329,804
Repayment of bank loans	**(175,456)**	(267,389)
Repayment of loan from a non-controlling owner of a subsidiary	–	(5,000)
Dividend paid to non-controlling owners of subsidiaries	–	(1,105)
Interest paid	**(18,418)**	(10,694)
Net cash (used in)/generated from financing activities	**(13,999)**	199,332
Net increase/(decrease) in cash and cash equivalents	**21,359**	(24,180)
Cash and cash equivalents at beginning of year	**140,327**	163,511
Effect of foreign exchange rate changes	**2,583**	996
Cash and cash equivalents at end of year	**164,269**	140,327
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	**164,269**	140,327

The notes on pages 62 to 143 form part of these financial statements.

1 ORGANISATION AND PRINCIPAL ACTIVITIES

New Focus Auto Tech Holdings Limited (the "Company") was incorporated in the Cayman Islands with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and its registered office is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Islands. Its principal place of business is in Shanghai, the People's Republic of China (the "PRC").

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacture and sale of electronic and power-related automotive parts and accessories; and the provision of automobile repair, maintenance and restyling services and retail distribution of merchandise goods through its service chain stores network in the Greater China Region and trading of automobile accessories. The Company and its subsidiaries are collectively referred to as the Group.

2 BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the IASB, and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, 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. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. 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.

These consolidated financial statements were authorised for issue by the Board of Directors on 30 March 2017.

2 BASIS OF PREPARATION *(Continued)*

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at fair value as explained in the accounting policies set out below:

– Investment properties;

– Available-for-sale financial assets;

– Trading securities; and

– Derivative financial instruments.

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

(c) Functional and presentation currency

The financial statements are presented in Renminbi ("RMB"), which is the currency of the primary economic environment in which the major entities of the Group operate. The functional currency of the Company is US dollar.

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. 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 PRINCIPAL ACCOUNTING POLICIES

(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 effective dates of acquisition or up to the effective 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 the 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 IFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income.

4 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that presently are exercisable are taken into account.

Interests in subsidiaries are included in the Company's statement of financial position at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

4 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses, unless classified as held for sale (or included in a disposal group that is classified as held for sale).

4 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other asset of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in subsequent period.

On the disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Depreciation of these assets commences when the assets are ready for their intended use.

The historical cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

4 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment *(Continued)*

Depreciation is charged so as to write off the cost of assets, other than construction in progress, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at end of each reporting period, with the effect of any change in estimate accounted for on a prospective basis. The principal estimated useful lives are as follows:

Freehold land	Not depreciated
Buildings	20 years
Leasehold improvements	Over the remaining term of the lease but not exceeding 10 years
Plant and machinery	3~10 years
Motor vehicles	5 years
Office equipment, furniture and fixtures	3~5 years

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction as well as borrowing costs capitalised during the period of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

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

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

(f) Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured initially at their costs, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses arising from changes in fair value of investment properties are included in profit or loss for the period in which they arise.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

4 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Research and development

Expenditure on research activities is recognised in profit or loss as incurred.

Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

(h) Other intangible assets

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

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any change in estimate being accounted for on a prospective basis. The principal annual rates of other intangible assets with definite useful lives are as follows:

Trademarks with definite useful lives	6.6% to 10%
Technical know-how	20%

4 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 4(c)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 4(j). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 4(j).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

4 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Impairment of investments in debt and equity securities and other receivables *(Continued)*

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

4 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);

- pre-paid interests in leasehold land classified as being held under an operating lease;

- intangible assets;

- goodwill; and

- investments in subsidiaries, associates and joint ventures in the Company's statement of financial position.

  If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

4 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(k) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching with them and that the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of providing immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(l) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost, including an appropriate portion of fixed and variable overhead expenses, is assigned to inventories by the method most appropriate to the particular class of inventory, with the majority being valued using a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and cost necessary to make the sale.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 4(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

4 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Convertible notes

(i) Convertible notes that contain an equity component

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

4 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Convertible notes *(Continued)*

(ii) Other convertible notes

Convertible notes which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible note are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with note 4(o). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the note is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(iii) Reclassification due to amendment of contractual terms or change of effective terms

The Company may amend the contractual terms of an instrument such that the classification of the instrument changes from a financial liability to equity or vice versa. In other cases, the effective terms of an instrument are considered to have changed if relevant contractual provisions of an instrument become effective or cease to be effective as a result of:

– the passage of time;

– the action of a party; or

– other contingent events that are anticipated in the contractual terms of the instrument.

4 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Convertible notes *(Continued)*

(iii) Reclassification due to amendment of contractual terms or change of effective terms (Continued)

When the classification of an instrument changes from a financial liability to equity due to an amendment of the contractual terms or change of effective terms, this represents the extinguishment of a financial liability and the issue of equity instruments. In this case, the resulting gain or loss on the extinguishment of the liability should be recognised in profit or loss.

(o) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

4 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(s) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight line basis over the lease term. Where the Group is the lessee, operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Leasehold land and land use rights held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense and less any impairment losses.

(t) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(u) Income taxes

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

(i) temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

(ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

(iii) taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

4 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(u) Income taxes *(Continued)*

Deferred tax assets and liabilities are offset only if certain criteria are met:

- In the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- In the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - The same taxable entity; or
  - Different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(v) Foreign currencies

Transactions entered into by the Group entities in currencies other than the currency of the primary economic environment in which it/they operate(s) (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 in terms of 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, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) 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). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary 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.

4 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(v) Foreign currencies *(Continued)*

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 the exchange reserve.

(w) Employees' benefits

(i) Short-term benefits

Salaries, annual bonuses, paid annual leaves and other allowances are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.

(ii) Defined contribution pension obligations

Contributions to defined contribution retirement plans are expensed when the services are rendered by the employees. The Group has no further payment obligation once the contributions have been paid.

(iii) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(x) Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (i.e. share options reserve), based on the Group's estimate of equity instruments that will eventually vest. At end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the share options reserve.

4 *PRINCIPAL ACCOUNTING POLICIES* *(Continued)*

(x) Equity-settled share-based payment transactions *(Continued)*

At the time when the share options are exercised, the amount previously recognised in the share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Group obtains the goods or the counterparty renders the service.

(y) Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(z) 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 applies:

(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.

4 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(z) Related parties *(Continued)*

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

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

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

(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 Group's parent.

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.

(aa) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

(i) Revenue from the sale of products is recognised when the Group has delivered products to the customer, the customer has accepted the products and collectability of the related receivable is reasonably assured.

(ii) Revenue for providing services is recognised to the extent of services rendered and according to the terms of the agreement.

(iii) Interest income is accrued on a time-apportioned basis by reference to the principal outstanding using the effective interest method.

(iv) Rental income from operating leases is recognised in equal instalments over the accounting periods covered by the lease terms.

(v) Subsidies from the government are recognised at their fair values when there is reasonable assurance that the subsidies will be received and the Group will comply with all attached conditions.

(vi) Sponsorship income is recognised on an accrual basis when the right to receive has been established.

4 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(bb) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

(cc) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

5 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgments, 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 may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

(a) Critical judgments in applying accounting policies

The following is the critical judgement that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect of the amounts recognised in financial statements.

(i) Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Judgment is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

(ii) Other intangible assets and amortisation

The Group determines the estimated useful lives and related amortisation for the Group's other intangible assets. The useful lives of other intangible assets are assessed to be either finite or indefinite, based on the expected usage and technical obsolescence from the changes in the market demands or services output from the assets. Other intangible assets with finite useful lives are amortised over the expected useful economic lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for the intangible assets with finite useful lives are reviewed by the management at least at the end of each reporting period.

5 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Key sources of estimation uncertainty

Information about assumption and estimation uncertainties that has a significant risk of resulting in a material adjustment in the year ended 31 December 2016 is included in the follow:

(i) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires management to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. Further details are set out in Note 18.

(ii) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash – generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(iii) Impairment of trade and other receivables

The Group's management determines the allowance for impairment of trade and other receivables. This estimate is based on the credit history of its customers and debtors and the current market condition. Management will reassess the allowance at end of each reporting period.

(iv) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of competitors' actions in response to severe industry cycles. Management will reassess the estimations at end of each reporting period.

6 REVENUE AND SEGMENT INFORMATION

Revenue, represents the sales value of goods supplied and services provided to customers and is analysed as follows:

	2016 RMB'000	2015 RMB'000
Sale of goods	**887,064**	838,260
Services income	**405,601**	415,931
	1,292,665	1,254,191

(a) Reportable segment

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions.

The Group operates in three reportable segments: (i) the manufacture and sale of automobile accessories (the "Manufacturing Business"); (ii) trading of automobile accessories (the "Wholesale Business"); and (iii) the provision of automobile repair, maintenance and restyling services (the "Retail Service Business").

Inter-segment transactions are priced with reference to prices charged to external parties for similar orders. Central expenses are not allocated to the operating segments as they are not included in the measure of the segments' results that is used by the chief operating decision-makers for assessment of segment performance.

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

(a) Reportable segment *(Continued)*

Set out below is an analysis of segment information:

	The Manufacturing Business RMB'000	The Wholesale Business RMB'000	The Retail Service Business RMB'000	Total RMB'000
For the year ended 31 December 2016				
Revenue				
External revenue	421,981	401,541	469,143	1,292,665
Inter-segment revenue	271	884	687	1,842
Segment revenue	422,252	402,425	469,830	1,294,507
Less: inter-segment revenue				(1,842)
Total revenue				1,292,665
Reportable segment results	19,971	(7,089)	(133,780)	(120,898)
Interest income	402	1,182	309	1,893
Unallocated interest income				10,067
Total interest income				11,960
Interest expenses	(830)	–	(685)	(1,515)
Unallocated interest expenses				(39,370)
Total interest expenses				(40,885)
Impairment loss on goodwill	–	–	(74,334)	(74,334)
Depreciation and amortisation charges	(11,188)	(3,543)	(20,614)	(35,345)
Unallocated depreciation and amortisation charges				(2,152)
Total depreciation and amortisation charges				(37,497)
Reportable segment assets	411,644	134,909	422,253	968,806
Total additions to non-current assets	6,706	3,888	49,673	60,267
Reportable segment liabilities	245,733	76,524	290,326	612,583

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

(a) Reportable segment *(Continued)*

	The Manufacturing Business RMB'000	The Wholesale Business RMB'000	The Retail Service Business RMB'000	Total RMB'000
For the year ended 31 December 2015				
Revenue				
External revenue	416,219	356,062	481,910	1,254,191
Inter-segment revenue	827	428	4,121	5,376
Segment revenue	417,046	356,490	486,031	1,259,567
Less: inter-segment revenue				(5,376)
Total revenue				1,254,191
Reportable segment results	13,995	(8,971)	(75,094)	(70,070)
Interest income	263	603	131	997
Unallocated interest income				22,438
Total interest income				23,435
Interest expenses	(1,183)	–	(1,532)	(2,715)
Unallocated interest expenses				(34,998)
Total interest expenses				(37,713)
Impairment loss on goodwill	–	–	(28,003)	(28,003)
Depreciation and amortisation charges	(15,239)	(3,454)	(19,111)	(37,804)
Unallocated depreciation and amortisation charges				(2,475)
Total depreciation and amortisation charges				(40,279)
Reportable segment assets	384,161	151,809	506,045	1,042,015
Total additions to non-current assets	5,738	2,326	33,426	41,490
Reportable segment liabilities	274,128	66,596	245,367	586,091

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

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

	2016 RMB'000	2015 RMB'000
Loss before taxation		
Reportable segment loss	**(120,898)**	(70,070)
Unallocated other revenue and gains and losses	**35,706**	40,600
Unallocated corporate expenses	**(21,249)**	(38,834)
Unallocated finance costs	**(39,370)**	(34,998)
Consolidated loss before taxation	**(145,811)**	(103,302)

	31 December 2016 RMB'000	31 December 2015 RMB'000
Assets:		
Reportable segment assets	**968,806**	1,042,015
Unallocated corporate assets	**244,028**	277,017
Consolidated total assets	**1,212,834**	1,319,032
Liabilities:		
Reportable segment liabilities	**612,583**	586,091
Unallocated corporate liabilities	**171,084**	148,228
Consolidated total liabilities	**783,667**	734,319

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

(c) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's investment properties, property, plant and equipment, leasehold land and land use rights, other intangible assets, goodwill and interest in an associate ("specified non-current assets"):

	Revenue from external customers		Specified non-current assets	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC (Place of domicile)	**877,167**	772,787	**356,885**	403,695
America	**271,296**	288,452	**–**	–
Europe	**33,221**	36,239	**–**	–
Asia Pacific	**32,508**	25,210	**–**	–
Taiwan	**78,473**	131,503	**–**	27,037
	1,292,665	1,254,191	**356,885**	430,732

The revenue information is based on the locations of the customers.

(d) Major customers

During the year, the Group's customer base is diversified and there was no customer (2015: Nil) with whom transactions exceeded 10% of the Group's revenues.

7 OTHER REVENUE AND GAINS AND LOSSES

	Note	2016 RMB'000	2015 RMB'000
Gross rentals from investment properties and other rental income		**3,062**	2,657
Interest income from bank deposits		**1,893**	1,837
Interest income from loans to Shenzhen Jiahong		**10,067**	21,598
Valuation gains on investment properties	17	**1,089**	742
Fair value change of conversion option	25	**4,250**	19,330
Sale of scrap inventories and sample income		**449**	633
Government subsidies		**2,058**	107
Exchange gain, net		**5,984**	4,289
Written-off of other payables		**1,274**	394
Gain on disposal of subsidiaries and an associate		**19,820**	–
Gain on disposal of available-for-sale financial assets		**1,591**	898
Gain/(loss) on disposal of property, plant and equipment		**135**	(2,921)
Others		**8,262**	5,560
		59,934	55,124

8 FINANCE COSTS

	Note	2016 RMB'000	2015 RMB'000
Interests on bank borrowings repayable			
– within five years		**8,660**	10,338
– after five years		**–**	180
Interest on convertible bonds	25	**32,225**	27,195
		40,885	37,713

9 LOSS BEFORE TAXATION

	2016 RMB'000	2015 RMB'000
This is arrived at after charging:		
Cost of inventories*	**1,012,446**	993,741
Write-down of inventories	**5,416**	5,329
	1,017,862	999,070
Depreciation of property, plant and equipment	**35,794**	39,244
Amortisation of leasehold land and land use rights	**1,068**	1,035
Amortisation of other intangible assets	**635**	–
Total depreciation and amortisation charges	**37,497**	40,279
Additional allowance for doubtful debts on trade receivables and other receivables	**4,509**	2,138
Impairment loss on goodwill	**74,334**	28,003
	78,843	30,141
Auditors' remuneration		
– audit services	**2,600**	6,500
Operating lease charges	**64,340**	58,074
Employee benefit expenses (including directors' remuneration) *(Note 10(a))*		
Salaries and allowances	**278,226**	244,617
Retirement scheme contributions	**19,406**	17,186
Equity-settled share-based payments	**5,963**	9,246
Other benefits	**16,901**	9,212
Total employee benefit expenses	**320,496**	280,261

* Costs of inventories includes RMB205,430,000 (2015: RMB191,104,000) relating to employee benefit expenses, depreciation and amortisation charges, which are also included in the respective total amounts disclosed separately above.

10 DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

2016

Name of directors	Fees RMB'000	Salaries and other allowances RMB'000	Discretionary bonuses RMB'000	Retirement Scheme contributions RMB'000	Share-based payments RMB'000	Total RMB'000
Executive directors:						
Zhang Jianxing (Chairman & Chief Executive Officer)	–	–	–	–	–	–
Du Jinglei	–	–	–	–	–	–
Non-executive directors:						
Ying Wei	–	–	–	–	–	–
Wang Zhenyu	–	–	–	–	–	–
Independent non-executive directors:						
Hu Yuming	100	–	–	–	–	100
Lin Lei	100	–	–	–	–	100
Zhang Xiaoya	100	–	–	–	–	100
	300	–	–	–	–	300

10 DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

(a) Directors' remuneration *(Continued)*

2015

Name of directors	Fees RMB'000	Salaries and other allowances RMB'000	Discretionary bonuses RMB'000	Retirement Scheme contributions RMB'000	Share-based payments RMB'000	Total RMB'000
Executive directors:						
Zhang Jianxing (Chief Executive Officer)	–	–	–	–	–	–
Non-executive directors:						
Ying Wei (Chairman)	–	–	–	–	–	–
Wang Zhenyu	–	–	–	–	–	–
Hung Wei-Pi, John# (Vice-chairman)	–	–	–	–	–	–
Du Jinglei	–	–	–	–	–	–
Independent non-executive directors:						
Hu Yuming	100	–	–	–	–	100
Lin Lei	100	–	–	–	–	100
Zhang Jie*	–	–	–	–	–	–
Zhang Xiaoya&	100	–	–	–	–	100
	300	–	–	–	–	300

\# resigned on 20 May 2015

* resigned on 20 March 2015

& appointed on 19 March 2015

No discretionary bonus, inducement fee, employer's contribution to retirement scheme or compensation for loss of office as directors was given to any of the directors during the year (2015: Nil).

10 DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

(a) Directors' remuneration *(Continued)*

One of the directors have waived or agreed to waive any emolument paid by the Group during the year (2015: Two). The details are set out below:

	2016 RMB'000	2015 RMB'000
Zhang Jianxing	**1,000**	1,200
Zhang Jie	**–**	100
Total	**1,000**	1,300

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2016 included no director (2015: Nil) whose emolument is reflected in the analysis presented in Note 10(a) above.

The emoluments paid or payment to the five non-director (2015: five) highest paid employees are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other allowances	**4,759**	3,439
Retirement scheme contributions	**150**	162
Share-based payments	**2,144**	3,633
Total	**7,053**	7,234

10 DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

(b) Five highest paid individuals *(Continued)*

The emoluments of the five (2015: five) individuals with the highest emoluments are within the following bands:

	2016 Number of Individuals	2015 Number of Individuals
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**2**	3
HK$1,500,001 to HK$2,000,000	**3**	–
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,000,000	**–**	1
Total	**5**	5

11 INCOME TAX EXPENSES

(a) Amounts recognized in profit or loss

	2016 RMB'000	2015 RMB'000
Current tax expense		
– Current year	**7,161**	6,211
– Adjustment for prior years	**(79)**	(76)
	7,082	6,135
Deferred tax expense		
– Origination and reversal of temporary differences, net	**(4,575)**	(5,490)
	(4,575)	(5,490)
	2,507	645

(b) No provision for Hong Kong profits tax has been made as the Group had no taxable profits arising in Hong Kong for the years ended 31 December 2016 and 2015. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant jurisdictions.

The applicable PRC and Taiwan income tax rate is 25% (2015: 25%) and 17% (2015: 17%) respectively for the year. One major PRC subsidiary of the Company, renewed the qualification of high and new technology enterprise in the PRC, is subject to an applicable national PRC income tax rate of 15% (2015: 15%) for three years from 1 January 2014.

11 INCOME TAX EXPENSES *(Continued)*

(c) The income tax expense for the year can be reconciled to the loss before taxation per consolidated statement of comprehensive income as follows:

	2016 RMB'000	2015 RMB'000
Loss before taxation	**(145,811)**	(103,302)
Tax calculated at applicable tax rate of 25% (2015: 25%)	**(36,453)**	(25,826)
Tax effect of non-deductible expenses	**22,849**	8,914
Utilisation of tax losses not previously recognised	**–**	(1,377)
Unrecognised tax losses	**16,284**	13,584
Effect of preferential tax treatments and tax exemptions	**(4,211)**	(4,633)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**3,604**	9,926
Over-provision in respect of prior years	**(79)**	(76)
Land appreciation tax arising from the valuation on investment properties	**513**	133
Income tax expense	**2,507**	645

12 DIVIDEND

The board of directors did not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil). No interim dividend was declared in respect of the year ended 31 December 2016 (2015: Nil).

13 LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the year attributable to the owners of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted loss per share is based on the loss for the year attributable to the owners of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue after adjusting for the effect of all dilutive potential ordinary shares.

13 LOSS PER SHARE *(Continued)*

The calculations of basic and diluted loss per share are based on:

	2016	2015
	RMB'000	RMB'000
Loss		
Loss for the year attributable to the owners of the Company, used in the basic and diluted loss per share calculation	**(123,459)**	(90,967)

	2016	2015
Shares		
Weighted average number of ordinary shares for the basic loss per share calculation	**4,576,331,973**	3,770,249,117
Effect of dilution – weighted average number of ordinary shares:		
– Share options#	**–**	–
– Convertible bonds*	**–**	–
Weighted average number of ordinary shares adjusted for the effect of all potential ordinary shares	**4,576,331,973**	3,770,249,117

The computation of diluted loss per share for the years ended 31 December 2016 and 2015 does not assume the conversion of the Company's outstanding share options since their exercise would result in a reduction in loss per share.

* The computation of diluted loss per share for the years ended 31 December 2016 and 2015 does not assume the conversion of the Company's convertible bonds issued to Haitong International Financial Products Limited ("Haitong CBs"), as described in note 25, since their exercises would result in a reduction in loss per share.

14 OTHER COMPREHENSIVE INCOME, NET OF TAX

(a) Tax effects relating to each component of other comprehensive income

2016

	Before tax amount RMB'000	**Tax expense RMB'000**	**Net of tax amount RMB'000**
Exchange differences on translating foreign operations	**(8,403)**	**–**	**(8,403)**
Available-for-sale financial assets: net movement in the fair value reserve	**(381)**	**56**	**(325)**
	(8,784)	**56**	**(8,728)**

2015

	Before tax amount RMB'000	Tax expense RMB'000	Net of tax amount RMB'000
Exchange differences on translating foreign operations	(17,136)	–	(17,136)
Available-for-sale financial assets: net movement in the fair value reserve	381	(56)	325
	(16,755)	(56)	(16,811)

14 OTHER COMPREHENSIVE INCOME, NET OF TAX *(Continued)*

(b) Components of other comprehensive income, including reclassification adjustments

	2016 RMB'000	2015 RMB'000
Exchange differences on translation of foreign operations:		
exchange differences recognised during the period	**(10,041)**	(17,136)
Reclassified to profit or loss: disposal of subsidiaries	**1,638**	–
Net movement in the exchange reserve during the period recognised in other comprehensive income	**(8,403)**	(17,136)
Available-for-sale financial assets:		
Changes in fair value recognised during the period	**989**	1,279
Reclassification adjustments for amounts transferred to profit or loss:		
gains on disposal (Note 7)	**(1,591)**	(898)
Net deferred tax credited to other comprehensive income	**277**	(56)
Net movement in the fair value reserve during the period recognised in other comprehensive income	**(325)**	325

15 PROPERTY, PLANT AND EQUIPMENT

	Construction in progress RMB'000	Freehold land and buildings RMB'000	Leasehold Impr-ovements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment, furniture and fixtures RMB'000	Total RMB'000
Opening net carrying amount as at 1 January 2016	2,848	76,923	39,032	28,467	7,424	22,686	177,380
Additions	36,682	158	–	13,012	1,980	8,435	60,267
Transfers upon completion	(30,788)	–	26,578	4,181	–	29	–
Disposals	–	–	–	(850)	(374)	(790)	(2,014)
Disposals of subsidiaries	(2,574)	(17,507)	(5,854)	(4,957)	(899)	(2,932)	(34,723)
Depreciation charge for the year	–	(4,113)	(11,490)	(9,382)	(2,975)	(7,834)	(35,794)
Acquisition of a subsidiary	795	–	5,757	7,469	613	2,700	17,334
Closing net carrying amount as at 31 December 2016	6,963	55,461	54,023	37,940	5,769	22,294	182,450

	Construction in progress RMB'000	Freehold land and buildings RMB'000	Leasehold Impr-ovements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment, furniture and fixtures RMB'000	Total RMB'000
Opening net carrying amount as at 1 January 2015	466	81,024	39,618	34,402	8,000	22,186	185,696
Additions	20,676	–	–	7,851	3,384	9,575	41,486
Transfers upon completion	(18,294)	755	17,286	67	–	186	–
Disposals	–	(213)	(7,243)	(1,015)	(632)	(289)	(9,392)
Depreciation charge for the year	–	(3,946)	(10,373)	(12,736)	(3,328)	(8,861)	(39,244)
Exchange realignment	–	(697)	(256)	(102)	–	(111)	(1,166)
Closing net carrying amount as at 31 December 2015	2,848	76,923	39,032	28,467	7,424	22,686	177,380

15 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Construction in progress RMB'000	**Freehold land and buildings RMB'000**	**Leasehold Impr- ovements RMB'000**	**Plant and machinery RMB'000**	**Motor vehicles RMB'000**	**Office equipment, furniture and fixtures RMB'000**	**Total RMB'000**
At 31 December 2016:							
Cost	**6,963**	**86,915**	**94,455**	**137,248**	**21,757**	**69,795**	**417,133**
Accumulated depreciation and impairment	**–**	**(31,454)**	**(40,432)**	**(99,308)**	**(15,988)**	**(47,501)**	**(234,683)**
	6,963	**55,461**	**54,023**	**37,940**	**5,769**	**22,294**	**182,450**

	Construction in progress RMB'000	Freehold land and buildings RMB'000	Leasehold Impr- ovements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment, furniture and fixtures RMB'000	Total RMB'000
At 31 December 2015:							
Cost	2,848	104,826	105,887	126,791	23,560	83,744	447,656
Accumulated depreciation and impairment	–	(27,903)	(66,855)	(98,324)	(16,136)	(61,058)	(270,276)
	2,848	76,923	39,032	28,467	7,424	22,686	177,380

Freehold land and buildings of the Group are located outside Hong Kong. Certain buildings of the Group were pledged to secure the bank borrowings of the Group as detailed in Note 23.

16 LEASEHOLD LAND AND LAND USE RIGHTS

	2016 RMB'000	2015 RMB'000
Net carrying amount:		
At 1 January	**31,289**	32,324
Amortisation charge for the year	**(1,068)**	(1,035)
At 31 December	**30,221**	31,289
Cost	**37,801**	37,801
Accumulated amortisation	**(7,580)**	(6,512)
Net carrying amount	**30,221**	31,289

The Group's interests in leasehold land and land use rights were held outside Hong Kong under medium term leases.

Certain leasehold land and land use rights of the Group were pledged to secure the bank borrowings of the Group as detailed in Note 23.

17 INVESTMENT PROPERTIES

	Note	2016 RMB'000	2015 RMB'000
Fair value:			
At 1 January		**42,775**	42,033
Change in fair value	7	**1,089**	742
At 31 December		**43,864**	42,775

All investment properties of the Group are located outside Hong Kong, of which investment properties of RMB14,942,000 (2015: RMB14,790,000) and RMB28,922,000 (2015: RMB27,985,000) are held under long and medium terms respectively.

17 INVESTMENT PROPERTIES *(Continued)*

As at 31 December 2016, the investment properties were revalued at RMB43,864,000 (2015: RMB42,775,000) by Shanghai Wan Long Real Estate Appraisal Co.,Ltd., an independent firm of professionally qualified valuers recognised by the relevant PRC association of valuers with recent experience in the location and category of property being valued, on the following basis.

The valuation was arrived of by reference to (i) market evidence of transaction price for similar properties, (ii) current rent of properties being held under existing tenancies and the reversionary income potential of tenancies, and (iii) the value of the land, together with the replacement costs of industrial buildings.

Details of the property rental income earned by the Group from its investment properties, all of which are leased out under operating leases, are set out in Notes 7 and 30.

Certain investment properties were pledged to secure the bank borrowings of the Group as detailed in Note 23.

18 GOODWILL

	2016 **RMB'000**	2015 RMB'000
Net carrying amount:		
At 1 January	**118,253**	146,256
Impairment	**(74,334)**	(28,003)
At 31 December	**43,919**	118,253

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill is allocated as follows:

	2016 **RMB'000**	2015 RMB'000
Provision of automobile repair, maintenance and restyling services:		
Changchun Guangda Automobile Trading Co., Ltd.	**–**	74,334
Beijing Aiyihang Auto Services Ltd.	**43,919**	43,919
At 31 December	**43,919**	118,253

(Expressed in Renminbi unless otherwise indicated)

18 GOODWILL *(Continued)*

The recoverable amounts of the CGU were determined by the directors of the Company with the reference to professional valuation reports issued by RHL Appraisal Limited, independent firm of professionally qualified valuers, which were based on value-in-use calculations. All the calculations of recoverable amounts use cash flow projections based on financial budgets approved by the directors covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rates of 3% (2015: 3%). The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations are as follows:

	31 December 2016 %	31 December 2015 %
Gross margin	**28-33**	25-40
Growth rate within the forecast period	**3-6**	4-17
Discount rate	**15**	15

The directors determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rate used is consistent with the forecasts generally adopted in the respective industries. The discount rates used are pre-tax and reflect specific risks relating to the relevant segment.

The Group had originally anticipated that there would be significant growths of revenue and profitability of certain CGUs at the respective dates of acquisition. However, in the current year, the growth rates of revenue and profitability of Changchun Guangda had been lower than expected. The directors of the Company are of the opinion, based on value-in-use calculations, that goodwill associated with Changchun Guangda above was impaired by RMB74,334,000 (2015: RMB28,003,000) in order to state the carrying values to the recoverable amount as at the end of reporting period.

19 OTHER INTANGIBLE ASSETS

	Trademarks RMB'000	Cooperation agreement RMB'000	Tradenames RMB'000	Technical know-how RMB'000	Total RMB'000
At 1 January 2015	47,919	–	–	–	47,919
Additions	4	–	–	–	4
At 31 December 2015 and 1 January 2016	47,923	–	–	–	47,923
Acquisition of a subsidiary	–	10,816	–	–	10,816
Amortisation charge for the year	–	(635)	–	–	(635)
Disposal of subsidiaries	(2,066)	–	–	–	(2,066)
At 31 December 2016	45,857	10,181	–	–	56,038
At 31 December 2016:					
Cost	274,843	10,816	–	–	285,659
Accumulated amortisation and impairment	(228,986)	(635)	–	–	(229,621)
Net carrying amount	45,857	10,181	–	–	56,038
At 31 December 2015:					
Cost	335,058	–	13,068	4,646	352,772
Accumulated amortisation and impairment	(287,135)	–	(13,068)	(4,646)	(304,849)
Net carrying amount	47,923	–	–	–	47,923

Included in the above intangible assets as at 31 December 2016 are (i) certain trademarks, (ii) cooperation agreement arised from the acquisition of a subsidiary as set out in note 34, (iii) tradenames with indefinite useful lives and (iv) technical know-how which are attributable to the same CGUs with which the goodwill amounts are recognised. Details of the impairment assessment of the CGUs are set out in Note 18.

As at end of reporting period, trademarks with cost of RMB274,843,000 (2015: RMB335,058,000) have indefinite useful lives as they are considered renewable at minimal costs. The directors of the Group are of the opinion that the Group would renew the trademarks continuously and has the ability to do so.

(Expressed in Renminbi unless otherwise indicated)

20 INTERESTS IN SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2016 are as follows:

Company name	Country/place and date of incorporation/ establishment	Legal form of entities for those established in the PRC	Registered capital/ share capital	Issued and fully paid up capital	Percentage of attributable equity interest	Principal activities/place of operation
Interests directly held:						
Perfect Progress Investments Limited ("Perfect Progress")	The British Virgin Islands 8 April 2002	–	US$50,000 Ordinary shares	US$500	100%	Investment Holding/ Hong Kong
New Focus Auto Tech International Limited	The British Virgin Islands 2 April 2007	–	US$1 Registered capital	US$1	100%	Sale of automobile accessories/ Hong Kong
Interests indirectly held:						
New Focus Lighting and Power Technology (Shanghai) Co., Ltd. ("New Focus Lighting & Power")	The PRC 24 April 2001	Wholly-owned foreign enterprise	US$67,800,000 Registered capital	US$67,800,000	100%	Manufacture and sale of automobile accessories/ The PRC
Liaoning Xin Tian Cheng Industrial Co., Limited ("Liaoning XTC")	The PRC 8 January 2009	Limited liability company	RMB20,000,000 Registered capital	RMB20,000,000	50.098%	Trading of automobile products/ The PRC
Shandong New Focus Longsheng Auto Parts Co. Ltd.	The PRC 26 April 2006	Limited liability company	US$4,012,700 Registered Capital	US$4,012,700	59%	Manufacture and sale of automobile accessories/ The PRC
Beijing Aiyihang Auto Service Ltd. ("Beijing Aiyihang")	The PRC September 1997	Limited liability company	RMB38,500,000 Registered Capital	RMB38,500,000	60%	Automobile repair, maintenance and restyling services; sales of automobile products/ The PRC

(Expressed in Renminbi unless otherwise indicated)

20 INTERESTS IN SUBSIDIARIES *(Continued)*

Company name	Country/place and date of incorporation/ establishment	Legal form of entities for those established in the PRC	Registered capital/ share capital	Issued and fully paid up capital	Percentage of attributable equity interest	Principal activities/place of operation
Shandong Xingzhe Auto Service Co. Ltd. ("Shandong Xingzhe")	The PRC 25 February 2008	Limited liability company	RMB10,000,000 Registered capital	RMB10,000,000	60%	Automobile repair, maintenance and restyling services; sales of automobile products/ The PRC
Shandong Dingkang Auto Service Ltd.	The PRC 13 October 2005	Limited liability company	RMB10,000,000 Registered capital	RMB10,000,000	60%	Automobile repair, maintenance and restyling services; sales of automobile products/ The PRC
Hubei Aiyihang Auto Service Ltd. ("Hubei Aiyihang")	The PRC 22 December 2014	Limited liability company	RMB30,000,000 Registered capital	RMB30,000,000	36%	Automobile repair, maintenance and restyling services; sales of automobile products/ The PRC
Zhejiang Autoboom Industrial Co., Limited ("Zhejiang Autoboom")	The PRC December 2008	Limited liability company	RMB28,000,000 Registered Capital	RMB28,000,000	50.098%	Trading of automobile products/ The PRC
Changchun Guangda Automobile Trading Co., Ltd. ("Changchun Guangda")	The PRC 31 January 2002	Limited liability company	RMB47,800,000 Registered capital	RMB47,800,000	61%	Automobile repair, maintenance and restyling services; sales of automobile products/ The PRC

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

The following table listed out the information relating to Liaoning XTC, Beijing Aiyihang and Changchun Guangda, the three subsidiaries of the Group which have a material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

20 INTERESTS IN SUBSIDIARIES *(Continued)*

Liaoning Xin Tian Cheng Industrial Co., Limited

	2016 RMB'000	2015 RMB'000
NCI percentage	**49.902%**	49%
Current assets	**132,873**	54,682
Non-current assets	**8,082**	4,480
Current liabilities	**(82,587)**	(25,914)
Non-current liabilities	**(692)**	(348)
Net assets	**57,676**	32,900
Carrying amount of NCI	**28,781**	16,121
Revenue	**331,784**	186,195
Loss for the year	**(10,385)**	(4,640)
Total comprehensive income	**(10,385)**	(4,640)
Loss allocated to NCI	**(5,182)**	(2,274)
Cash flows used in operating activities	**(31,281)**	(1,101)
Cash flows generated from/(used in) investing activities	**1,313**	(2,877)
Cash flows generated from financing activities	**30,000**	–

Above financial information represents the consolidated financial information of Liaoning XTC and its fully owned subsidiaries, including Zhejiang Autoboom.

20 INTERESTS IN SUBSIDIARIES *(Continued)*

Beijing Aiyihang Auto Service Ltd.

	2016	2015
	RMB'000	RMB'000
NCI percentage (effective)	**50%**	43%
Current assets	**130,708**	103,617
Non-current assets	**135,443**	64,343
Current liabilities	**(259,722)**	(121,469)
Non-current liabilities	**(2,546)**	–
Net assets	**3,883**	46,491
Carrying amount of NCI	**(3,638)**	18,845
Revenue	**263,326**	207,072
Loss for the year	**(43,126)**	(18,563)
Total comprehensive income	**(43,126)**	(18,563)
Loss allocated to NCI	**(21,659)**	(7,911)
Cash flows generated from operating activities	**22,697**	6,409
Cash flows used in investing activities	**(48,873)**	(23,605)
Cash flows generated from financing activities	**33,293**	10,000

Above financial information represents the consolidated financial information of Beijing Aiyihang and its subsidiaries, including Shandong Xingzhe, a fully owned subsidiary, and Hubei Aiyihang of which Beijing Aiyihang owns 60% of its shareholdings.

20 INTERESTS IN SUBSIDIARIES *(Continued)*

Changchun Guangda Automobile Trading Co., Ltd.

	2016 RMB'000	2015 RMB'000
NCI percentage	**39%**	39%
Current assets	**45,650**	28,784
Non-current assets	**77,273**	89,854
Current liabilities	**(18,518)**	(17,334)
Non-current liabilities	**(10,798)**	(10,798)
Net assets	**93,607**	90,506
Carrying amount of NCI	**36,694**	34,623
Revenue	**77,943**	84,485
Profit/(loss) for the year	**1,677**	(959)
Total comprehensive income	**1,677**	(959)
Profit/(loss) allocated to NCI	**860**	(470)
Cash flows generated from operating activities	**6,909**	4,232
Cash flows generated from/(used in) investing activities	**8,023**	(16,878)
Cash flows generated from financing activities	**1,210**	–

Above financial information represents the consolidated financial information of Changchun Guangda and its subsidiaries, including Changchun Guangda Second-hand Car Broker Co., Ltd. of which Changchun Guangda owns 60% of its shareholdings.

21 INVENTORIES

	31 December 2016 RMB'000	31 December 2015 RMB'000
Raw materials	**28,117**	19,387
Work-in-progress	**14,182**	9,278
Finished goods	**20,474**	15,189
Merchandise goods	**114,362**	152,289
	177,135	196,143

22 TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

(a) Trade receivables

	31 December 2016 RMB'000	31 December 2015 RMB'000
Trade receivables	**168,175**	154,557
Less: allowance for doubtful debts	**(6,585)**	(23,815)
	161,590	130,742

(i) The credit period to the Group's trade debtors ranged from 0 to 120 days.

(ii) The movements in the allowance for doubtful debts during the year, including both specific and collective loss components, are as follows:

	Note	2016 RMB'000	2015 RMB'000
At beginning of year		**23,815**	25,039
Additional allowance for the year	*9*	**3,709**	–
Disposal of subsidiaries		**(20,939)**	–
Uncollectible amounts written off		**–**	(1,224)
At end of year		**6,585**	23,815

As at 31 December 2016, the Group's trade receivables of RMB12,000,000 (2015: RMB33,831,000) were individually determined to be fully or partially impaired. Such trade receivables related to customers that were in financial difficulties or had a prolonged delay in settlement, and management assessed that none or only a portion of the receivables is expected to be recovered. Consequently, an accumulated allowance for doubtful debts of RMB6,585,000 (2015: RMB23,815,000) is made as at 31 December 2016. The Group does not hold any collateral over these balances.

Except for the above, no allowance has been made for estimated irrecoverable amounts from the sale of goods and provision of services.

22 TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

(a) Trade receivables *(Continued)*

(iii) The ageing analysis of trade receivables at the end of reporting period by invoice date is as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Current to 30 days	**91,609**	61,605
31 to 60 days	**42,381**	43,761
61 to 90 days	**13,850**	13,369
Over 90 days	**20,335**	35,822
	168,175	154,557
Less: allowance for doubtful debts	**(6,585)**	(23,815)
	161,590	130,742

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

	31 December 2016 RMB'000	31 December 2015 RMB'000
Neither past due nor impaired	**127,267**	93,091
Less than 1 month past due	**25,097**	23,865
1 to 2 months past due	**3,811**	3,770
	28,908	27,635
	156,175	120,726

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

22 TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

(a) Trade receivables *(Continued)*

(iv) *(Continued)*

Receivables that were past due but not impaired relate to a number of independent 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. The Group does not hold any collateral over these balances.

(b) Deposits, prepayments and other receivables

	31 December 2016 RMB'000	31 December 2015 RMB'000
Deposits and prepayments	**40,028**	49,178
Advances to employees	**12,754**	9,510
Value-added tax recoverable	**4,013**	7,068
Loans to and interest receivable from Shenzhen Jiahong	**190,000**	259,765
Consideration receivables for disposal of subsidiaries	**24,347**	–
Others	**14,308**	15,758
	285,450	341,279
Less: allowance for doubtful debts	**(800)**	(5,550)
	284,650	335,729

Included in the Group's deposits, prepayments and other receivables are loans to Shenzhen Jiahong Group Holdings Limited ("Shenzhen Jiahong") of RMB190,000,000 as at 31 December 2016 (2015: Loan of RMB250,000,000 and relevant interest receivable of RMB9,765,000).

22 TRADE RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

(b) Deposits, prepayments and other receivables *(Continued)*

Following the entrusted loan of RMB100,000,000 provided to Shenzhen Jiahong on 29 December 2014 (the "First Entrusted Loan"), the Company, through its subsidiary, New Focus Lighting & Power, provided further loans of RMB190,000,000 to Shenzhen Jiahong during 2015, among which RMB30,000,000 was treated as performance security to Shenzhen Jiahong in connection with a master purchase agreement.

In December 2015 and March 2016, Shenzhen Jiahong repaid the First Entrusted Loan with amount of RMB40,000,000 and RMB60,000,000, respectively. As at 31 December 2016, all the remaining loans and performance security are overdue. Such loans are subject to an annual interest of 12%, or a penalty interest of 0.05% per day if overdue.

As at 31 December 2016, such loans are:

- guaranteed by each of the two shareholders of Shenzhen Jiahong as sureties who collectively owned 85% equity interest in Shenzhen Jiahong as at 31 December 2016;

- guaranteed by fifteen subsidiaries owned by Shenzhen Jiahong as sureties;

- secured by the pledge of 100% of shares in a subsidiary wholly owned by Shenzhen Jiahong; and

- secured by the pledge of 30% of shares in a mineral company which was indirectly owned as to 80% by one of the two principal shareholders of Shenzhen Jiahong.

The Directors expect that all the loans will be collected before the end of June 2017.

23 BANK BORROWINGS, SECURED

	31 December 2016 RMB'000	31 December 2015 RMB'000
Bank loans	**178,475**	224,245
Bank borrowings are repayable as follows:		
On demand or within one year	**178,475**	216,325
After one year but within two years	**–**	1,362
After two years but within five years	**–**	2,509
After five years	**–**	4,049
	178,475	224,245
Amount due within one year included in current liabilities	**(178,475)**	(216,325)
Amount included in non-current liabilities	**–**	7,920

As at 31 December 2016 and 2015, the banking facilities are secured by (i) the Group's certain buildings with an aggregate net carrying amount of RMB48,002,000 (2015: RMB51,614,000); (ii) the Group's certain land use rights of RMB15,650,000 (2015: RMB16,144,000); (iii) the Group's certain investment properties of RMB43,864,000 (2015: RMB42,775,000); (iv) personal guarantees from a director of the Company and a director of a subsidiary, and their spouses; (v) corporate guarantees provided by the Company and its subsidiaries. Besides, as at 31 December 2015, banking securities were also secured by the Group's freehold land with a net carrying at of RMB17,995,000 and pledged time deposits of RMB2,365,000.

Most of the bank loans bear fixed interest rates ranging from 3.84% to 6.09% per annum (2015: 1.99% to 6.42% per annum).

	31 December 2016 RMB'000	31 December 2015 RMB'000
Bank borrowings of the Group were denominated in		
RMB	**136,754**	157,282
United States dollars ("US$")	**41,721**	38,962
Taiwan dollars ("NTD")	**–**	28,001
	178,475	224,245

24 TRADE PAYABLES, ACCRUALS AND OTHER PAYABLES

(a) Trade payables

The ageing analysis of trade payables of the Group at the end of reporting period by invoice date is as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Current to 30 days	**82,437**	59,024
31 to 60 days	**33,336**	60,496
61 to 90 days	**19,253**	14,879
Over 90 days	**50,615**	37,158
	185,641	171,557

The average credit period for the Group's trade creditors is 60 days.

(b) Accruals and other payables

	31 December 2016 RMB'000	31 December 2015 RMB'000
Receipts in advance	**114,529**	69,816
Payroll payable	**20,156**	28,929
Other taxation payable	**8,066**	5,367
Others	**65,911**	54,129
	208,662	158,241

25 CONVERTIBLE BONDS

The analysis of the carrying amount of convertible bonds is as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Host contract	**183,834**	150,450
Conversion option	**–**	5,869
	183,834	156,319

25 CONVERTIBLE BONDS *(Continued)*

	CDH CBs RMB'000	Haitong CBs RMB'000	Total RMB'000
Face value of convertible bonds upon issuance, net of issuance cost	292,720	152,677	
Equity component	(57,775)	–	
Liability component on initial recognition	234,945	152,677	
Liability component at 1 January 2015	134,755	–	134,755
Issuance of convertible bonds	–	152,677	152,677
Imputed interest expenses	14,110	13,085	27,195
Conversion of convertible bonds	(155,095)	–	(155,095)
Fair value change of conversion option *(Note 37(b))*	–	(19,330)	(19,330)
Exchange realignment	6,230	9,887	16,117
Liability component at 31 December 2015 and 1 January 2016	–	156,319	156,319
Imputed interest expenses	–	32,225	32,225
Interest paid	–	(9,882)	(9,882)
Fair value change of conversion option *(Note 37(b))*	–	(4,250)	(4,250)
Recognition into equity component	–	(1,619)	(1,619)
Exchange realignment	–	11,041	11,041
Liability component at 31 December 2016	–	183,834	183,834
Representing			
Host contract	–	183,834	183,834
Conversion option *(Note 37(b))*	–	–	–

Haitong CBs

In July 2015, the Company issued redeemable convertible bonds (the "Haitong CBs") in the principal amount of US$25,000,000 (equivalent to RMB152,832,500) to Haitong International Financial Products Limited ("Haitong International"). The net proceeds of the Haitong CBs available to the Group was RMB152,676,500, after net-off of issuance costs of RMB156,000. The coupon interest rate of Haitong CBs is 6%, payable semi-annually in arrears on 13 January and 13 July in each year. The maturity date of the Haitong CBs will be the second anniversary of the issue date (i.e. July 2017) and the Haitong CBs can be converted into ordinary shares of the Company at the holder's option at initial conversion price of HK$3.00 per share, subject to certain adjustments.

25 CONVERTIBLE BONDS *(Continued)*

Haitong CBs *(Continued)*

Unless previously redeemed, converted or purchased and cancelled, the Company will redeem the bond at the price equal to outstanding principal amount being redeemed plus premium compounded at 12% from the issue date to the redemption date, minus interests accrued and paid at the rate of 6% on the materity date (the "Redemption Amount").

At any time after 13 January 2016 and prior to the maturity date, the bondholder will have the right, at such holder's option, to require the Company to redeem all or part of the convertible bond at the Redemption Amount.

If the shares are no longer listed or traded in Stock Exchange or there is a change of control, bondholders can redeem all Haitong CBs at the Redemption Amount.

The fair value of the conversion option of the Haitong CBs upon issuance is calculated by binominal model based on a professional valuation report issued by RHL Appraisal Limited, an independent firm of professionally qualified valuers, and is treated as a derivative financial liability. The residual amount, representing the value of the host contract, is classified as other financial liability. The initially recognised derivative and host contract of the Haitong CBs amounted to RMB23,723,000 and RMB128,954,000 respectively after net-off of the issuance costs. As at 31 December 2015, the fair value of conversion option was RMB5,869,000, of which changes on fair value of RMB19,330,200 had been recognised in profit or loss.

As at 27 January 2016, certain terms of Haitong CBs were either amended by the Company and Haitong International or changed as a result of the passage of time, resulting in satisfaction of designating as equity. Therefore, the Company reclassified the conversion option with fair value of RMB1,619,000 from liability to equity.

CDH CBs

In August 2013, the Company issued redeemable convertible bonds (the "CDH CBs") in the principal amount of US$48,685,000 (equivalent to RMB300,226,000) to CDH Fast Two Limited. The net proceeds of the CDH CBs available to the Group was RMB292,720,000, after net-off of issuance costs of RMB7,506,000. The coupon interest rate of CDH CBs is 5%. The maturity date of the CDH CBs will be the date falling on the fifth anniversary of the issue date (i.e. August 2018) and the CDH CBs can be converted into ordinary shares of the Company at the holder's option at initial conversion price of HK$0.2328 per share, subject to certain anti-dilutive adjustments.

As at 31 December 2015, the Group has fully converted CDH CBs by issuing a total of 1,627,015,893 shares to CDH Fast Two Limited at the conversion price of HK$0.2328.

26 DEFERRED TAX

The movements in deferred tax assets/(liabilities) are as follows:

Deferred tax assets

	Tax losses RMB'000	Accrued expenses RMB'000	Deferred income RMB'000	Allowances and provisions RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	1,055	2,724	8,912	2,930	32	15,653
Recognised in profit or loss *(Note 11)*	3,119	352	3,174	(1,083)	(32)	5,530
Exchange realignment	8	–	–	5	–	13
At 31 December 2015 and 1 January 2016	4,182	3,076	12,086	1,852	–	21,196
Recognised in profit or loss *(Note 11)*	(3,870)	(138)	9,473	1,099	(1,470)	5,094
Acquisition of a subsidiary	3,187	570	2,740	–	–	6,497
Disposals of subsidiaries	(855)	(151)	–	(615)	–	(1,621)
At 31 December 2016	2,644	3,357	24,299	2,336	(1,470)	31,166

Deferred tax assets have been recognised in respect of the above item as the directors, in their opinion, consider it is probable that taxable profits will be available and the above item can be utilised.

As at 31 December 2016, the Group had unrecognised tax losses carried forward of RMB49,914,000 (2015: RMB268,165,000) as the directors are of the view that it was not probable that such benefit of tax losses would be realised before they expire. The years of expiry of the tax losses unrecognised is as below:

	2016 RMB'000	2015 RMB'000
Year of expiry of PRC entities		
2016	**–**	277
2017	**–**	34,259
2018	**8,702**	110,469
2019	**18,293**	40,876
2020	**19,177**	50,130
2021	**3,742**	–
	49,914	236,011

26 DEFERRED TAX *(Continued)*

	2016 RMB'000	2015 RMB'000
Year of expiry of Taiwan entities		
2023	**–**	22,429
2024	**–**	–
2025	**–**	9,725
	–	32,154

Deferred tax liabilities:

	Other intangible assets RMB'000	**Fair value gain on investment properties RMB'000**	**Fair value change on available-for-sale financial assets RMB'000**	**Accrued subsidy income RMB'000**	**Total RMB'000**
At 1 January 2015	(11,971)	(7,483)	–	(398)	(19,852)
Recognised in profit or loss *(Note 11)*	–	(246)	–	206	(40)
Recognised in equity	–	–	(56)	–	(56)
At 31 December 2015 and 1 January 2016	(11,971)	(7,729)	(56)	(192)	(19,948)
Recognised in profit or loss *(Note 11)*	158	(677)	–	–	(519)
Recognised in equity	–	–	56	–	56
Acquisition of a subsidiary	(2,702)	–	–	–	(2,702)
Disposals of subsidiaries	481	–	–	–	481
At 31 December 2016	(14,034)	(8,406)	–	(192)	(22,632)

26 DEFERRED TAX *(Continued)*

Deferred tax liabilities: *(Continued)*

The above recognised deferred tax assets and liabilities cannot be set off.

A 10% PRC withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

No deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised was approximately RMB17,097,000 as at 31 December 2016 (2015: RMB15,645,000).

27 SHARE CAPITAL

	2016		2015	
	Number of shares ’000	**Amount HK$’000**	Number of shares ’000	Amount HK$’000
Authorised:				
Ordinary shares of HK$0.1 each	**10,000,000**	**1,000,000**	10,000,000	1,000,000

	2016			2015		
	Number of shares ’000	**Amount HK$’000**	**Amount RMB’000**	Number of shares ’000	Amount HK$’000	Amount RMB’000
Issued and fully paid:						
At beginning of year	**4,576,006**	**457,601**	**376,133**	3,761,165	376,117	307,931
Conversion of convertible bonds	**–**	**–**	**–**	813,508	81,351	68,090
Share issued under share option scheme	**600**	**60**	**51**	1,333	133	112
At end of year	**4,576,606**	**457,661**	**376,184**	4,576,006	457,601	376,133

28 RESERVES

(i) Reserves of the Group

(a) Share premium

The balance represents the excess of consideration received for issue of shares over the corresponding par value of the issued shares. The application of the share premium account is governed by the applicable laws of the Cayman Islands.

(b) Statutory reserve fund

The Group's subsidiaries established in the PRC are required to transfer no less than 10% of the profit after taxation, as determined in accordance with the applicable PRC accounting standards, to statutory reserve fund until the fund aggregates to 50% of their respective registered capital.

The statutory reserve fund can only be used, upon approval by the respective board of directors, to offset accumulated losses or increase capital.

(c) Enterprise expansion fund

In accordance with the Law of the People's Republic of China on Chinese-foreign Equity Joint Venture and the articles of association of a subsidiary, a subsidiary shall appropriate 5% of its annual statutory net profit (after offsetting any prior years' losses) to enterprise expansion fund.

(d) Capital redemption reserve

Capital redemption reserve occurs when shares of a company are redeemed or purchased wholly out of the Company's profits, the amount by which the Company's issued share capital is diminished on cancellation of the shares redeemed or purchased, shall be transferred to the capital redemption reserve.

If the shares are redeemed or purchased wholly or partly out of the proceeds of a fresh issue, and the aggregate amount of those proceeds is less than the aggregate nominal value, the amount of the difference shall be transferred to the capital redemption reserve.

28 RESERVES *(Continued)*

(i) Reserves of the Group *(Continued)*

(e) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy in Note 4(v).

(f) Convertible bonds reserve

The balance represents the equity component of outstanding convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds in Note 4(n).

(g) Others

Others comprise the share option reserve, property revaluation reserve, and fair value reserve.

The share options reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company and other parties recognised in accordance with the accounting policy in Note 4(x).

The property revaluation reserve represents the gains/losses arising on the revaluation of property (other than investment property). The balance on this reserve is wholly undistributable.

The fair value reserve represents the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period.

28 RESERVES (Continued)

(ii) Reserves of the Company

	Note	Share premium RMB'000	Contributed surplus RMB'000	Convertible bonds reserve RMB'000	Others RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2015		760,136	84,242	28,888	4,451	1,760	(596,804)	282,673
Total comprehensive income for the year		–	–	–	–	(16,117)	(71,089)	(87,206)
Recognition of equity-settled share-based payments	33	–	–	–	9,246	–	–	9,246
Conversion of convertible bonds	25	115,892	–	(28,888)	–	–	–	87,004
Shares issued under share option scheme		664	–	–	(227)	–	–	437
At 31 December 2015 and 1 January 2016		876,692	84,242	–	13,470	(14,357)	(667,893)	292,154
Total comprehensive income for the year		–	–	–	–	(8,864)	(137,709)	(146,573)
Recognition of equity-settled share-based payments	33	–	–	–	5,963	–	–	5,963
Recognition into convertible bonds reserve	25	–	–	1,619	–	–	–	1,619
Shares issued under share option scheme		207	–	–	(70)	–	–	137
At 31 December 2016		876,899	84,242	1,619	19,363	(23,221)	(805,602)	153,300

(iii) Distributability of reserves

At 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the Company Law of the Cayman Islands, was RMB132,318,000 (2015: RMB278,684,000).

29 CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

Cash at banks earns interest at floating rates based on daily bank deposit rates and are deposited with creditworthy financial institutions with no recent history of default.

Pledged time deposits can be analysed as follows:

	2016 RMB'000	2015 RMB'000
Guarantee deposits for issuance of bank acceptance	**4,500**	4,538
Guarantee deposits for bank loans	**–**	2,365
	4,500	6,903

As at 31 December 2016, there is no deposit pledged to secure any bank loan of the Group (2015: RMB2,365,000).

30 COMMITMENTS

(a) Capital commitments

As at the end of the reporting period, capital commitments not provided for in the financial statements were as follows:

	2016 RMB'000	2015 RMB'000
Contracted for	**12,687**	–
Authorised but not contracted for	**140,064**	62,144
	152,751	62,144

30 COMMITMENTS *(Continued)*

(b) Operating lease commitments

As at the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases are payables as follows:

As leasee

	2016	2015
	RMB'000	RMB'000
Within 1 year	**45,425**	53,116
Over 1 year but within 5 years	**107,037**	131,091
Over 5 years	**21,551**	43,824
	174,013	228,031

As lessor

As at 31 December 2016 and 2015, the Group leased out its investment property under operating leases. As at the end of the reporting period, the total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2016	2015
	RMB'000	RMB'000
Within 1 year	**1,659**	2,667
Over 1 year but within 5 years	**3,024**	8,105
Over 5 years	**1,890**	9,378
	6,573	20,150

31 RELATED PARTIES

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation in full and are not disclosed in this note. Except for disclosed elsewhere in the notes to financial statements, details of transactions between the Group and other related parties are disclosed below.

(a) Transactions with related parties

(i) During the year and in the ordinary course of business, the Group has the following material transactions with related companies which are not member of the Group:

	2016	2015
	RMB'000	RMB'000
Sales of goods to Liaoning Auto Make Commercial Management Co., Limited ("Auto Make")	**3,026**	6,046

Sales of goods were made at the Group's usual list prices discounted to reflect the quantity of purchase and the relationship between the parties.

The equity interest of Auto Make are held by Tong Yan and Li Hai Peng who are close family members of the non-controlling owner of a subsidiary of the Group as at the end of the reporting period.

(ii) On 19 July 2016, the Group disposed all the 100% equity interests in New Focus Richahaus Co., Ltd. ("New Focus Richahaus") and Taiwan New Focus Auto Service Corporation Limited ("Taiwan New Focus") to Asia Center Auto Service Holdings Limited, which is indirectly wholly-owned by Ms. Hung Ying-lien, vice president of the Group and directors of both disposed entities. The nominal consideration is NTD1.

On 27 December 2016, the Group disposed 51% equity interest in a subsidiary, Shanghai Astrace Trade Development Co., Limited ("Shanghai Astrace") to Ms. Liu Fengxi, the non-controlling owner of Shanghai Astrace at a total consideration of RMB20,000,000.

(iii) As at 31 December 2016, a non-controlling owner of a subsidiary granted the subsidiary collateral of creditor amounting to RMB15,183,000 (2015: RMB3,603,000) with his own properties.

(iv) As at 31 December 2016, a senior management member of the Company who is also a non-controlling owner of a subsidiary provided a guarantee, together with other guarantees, to a bank loan of RMB5,000,000 to the subsidiary.

31 RELATED PARTIES *(Continued)*

(a) Transactions with related parties *(Continued)*

(v) Transaction with key management personnel

Members of key management during the year comprised only the executive directors and non-executive directors whose remuneration is set out in Note 10(a).

As at 28 July 2016, one of the directors, Mr. Ying Wei, provided guarantee, together with other guarantees to bank loans of New Focus Richahaus with total amount of NTD123,735,000 (2015: NTD139,884,000). New Focus Richahaus ceased to be a subsidiary of the Company from 29 July 2016.

(vi) Applicability of the Listing Rules relating to connected transactions

The related party transactions included in (i), (iii), (iv) and (v) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. However those transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules as they are either below the de minimis threshold under Rule 14A.76(1) or meeting the exemption criterion for financial assistance received by the listed issuer's group under Rule 14A.90.

(b) Amounts due from related parties

As at the end of the reporting period, the Group had the following material account receivable balance with its related parties:

	2016	2015
	RMB'000	RMB'000
Auto Make	**3,265**	2,663
Hubei Aiyihang Auto Service Ltd.	**–**	6,991
Shenyang Xunchi Auto Service Ltd.	**711**	885
New Focus Richahaus*	**23,624**	–
Others#	**5,033**	55
	32,633	10,594

* The amount of RMB23,624,000 due from New Focus Richahaus is interest free and expected to be collected in 2017.

The amount of RMB5,000,000 is the committed capital due from non-controlling interest shareholders of a subsidiary, which has been fully injected in February 2017.

The highest amount due from Auto Make during 2016 reached RMB3,265,000 (2015: RMB2,663,000).

The highest amount due from New Focus Richahaus during 2016 reached RMB23,624,000 (2015: Nil).

31 RELATED PARTIES *(Continued)*

(c) Immediate and ultimate controlling parties

At 31 December 2016, the directors consider the immediate parent and ultimate controlling parties of the Group to be CDH Fast Two Limited and China Diamond Holdings Company Limited respectively, both of which are incorporated in British Virgin Islands. These equities do not produce financial statement available for public use.

32 EMPLOYEE RETIREMENT BENEFITS

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Company participate in defined contribution retirement schemes (the "Schemes") organised by the PRC municipal government authorities where the subsidiaries are registered whereby these PRC subsidiaries are required to make a contribution at the respective local rates of the eligible employees' salaries to the Schemes. The Group has accrued for the required pension fund contributions which are remitted to the respective social security offices when the contributions become due. The social security offices are responsible for making the benefit payments to the retired employee covered under the Schemes.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

33 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

The Company adopted a new share option scheme ("New Scheme") by a resolution of the shareholders passed on 25 June 2014 and terminated on the same date the share option scheme ("Old Scheme") adopted by the Company on 13 February 2005. The principal purpose of the New Scheme is to provide incentives and rewards to eligible participants for their contribution or potential contribution to the Group.

On 14 October 2014, the Company granted share options to eligible persons under the New Scheme to subscribe for a total of 149,500,000 ordinary shares of HK$0.1 of the Company. The exercise price of the granted options is HK$0.5 per share, which is equal to the closing price of the shares on the date of grant. The options granted to each grantee are valid for a period of five years (i.e. valid until 14 October 2019) commencing from the day after the date of grant. Each of the three tranches of the options, representing one third of the options equally, will be excisable on 14 October 2015, 14 October 2016 and 14 October 2017 respectively and shall be vested upon the fulfilment of certain performance targets and other vesting conditions as described in the grant letter issued by the Company to each grantee.

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binominal lattice model.

33 EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The Group amortised the fair value of the share options calculated above over the relevant vesting period. Accordingly, an amount of RMB5,963,000 was charged as an equity-settled share-based payment to profit or loss for the year of 2016 (2015: RMB9,246,000).

During 2016, 599,998 shares options had been exercised by the grantees to the terms of the share option scheme (2015: 1,333,332 shares), and 17,872,218 share options had been forfeited (2015: 10,083,336 shares).

The number of share options exercisable under the New Scheme as at 31 December 2016 is 69,777,782 (2015: 38,417,000).

Share options outstanding as at 31 December 2016 and 2015 have the following expiry dates and exercise prices:

2016

		Share options		
Expiry date	**Exercise price HK$ per share**	**granted to directors ’000**	**granted to employees ’000**	**Total ’000**
14 October 2019	**0.5**	**–**	**119,611**	**119,611**
Weighted average exercise price (HK$)	**–**	**0.5**	**0.5**	**0.5**

2015

		Share options		
Expiry date	Exercise price HK$ per share	granted to directors ’000	granted to employees ’000	Total ’000
14 October 2019	0.5	–	138,083	138,083
Weighted average exercise price (HK$)	–	0.5	0.5	0.5

34 ACQUISITION/DISPOSAL OF SUBSIDIARIES

(i) Acquisition of a subsidiary

Hubei Aiyihang Auto Service Ltd.(Hubei Aiyihang) was an associate of Beijing Aiyihang which owned 40% of the shareholdings as at 31 December 2015.

On 27 May 2016, Beijing Aiyihang acquired additional 20% of shareholdings of Hubei Aiyihang from a former shareholder at a total consideration of RMB4,000,000 and thus held 60% of shareholdings of Hubei Aiyihang. Hubei Aiyihang became a subsidiary of the Company.

The fair values of identifiable assets and liabilities on 27 May 2016 were as follow:

	Carrying Value RMB'000	Fair Value RMB'000
Property, plant and equipment	17,700	17,700
Intangible assets	67	10,883
Deferred tax assets	6,497	6,497
Inventories	5,328	5,328
Trade receivables	2,622	2,622
Deposits, prepayments and other receivables	3,834	3,834
Cash and cash equivalents	1,151	1,151
Trade payables	(5,528)	(5,528)
Accruals and other payables	(31,106)	(31,106)
Deferred tax liabilities	–	(2,702)
		8,679
Less: Non-controlling interest		(528)
Total identifiable net assets at fair value		9,207
Cash paid during the year		2,040
Consideration payable by cash		1,960
Fair value of 40% shareholdings		5,207
Total consideration		9,207

34 ACQUISITION/DISPOSAL OF SUBSIDIARIES *(Continued)*

(ii) Disposal of subsidiaries

On 19 July 2016, the Group disposed all the 100% equity interest in two subsidiaries, Taiwan New Focus and New Focus Richahaus to a senior management member at a total consideration of NTD1.

The Group disposed 100% equity interests in Shenzhen Yonglonghang Auto Service Ltd. and Shanghai New Focus Auto Repair Service Co., Ltd. on 2nd and 4th of December 2016 to third parties at considerations of RMB10,347,000 and RMB6,000,000, respectively.

On 27 December 2016, the Group disposed 51% equity interest in a subsidiary, Shanghai Astrace to the non-controlling owner of Shanghai Astrace at a total consideration of RMB20,000,000.

The following tables summarize the results and cash flows of all above disposed subsidiaries prior to the date of disposal:

	2016 RMB'000	2015 RMB'000
Revenue	**217,255**	267,959
Cost and expenses	**(244,063)**	(302,776)
Loss before taxation	**(26,808)**	(34,817)
Income tax expenses	**(737)**	(778)
Results from disposed subsidiaries	**(27,545)**	(35,595)

	2016 RMB'000	2015 RMB'000
Cash flows used in operating activities	**(13,501)**	(20,842)
Cash flows used in investing activities	**(9,825)**	(8,574)
Cash flows generated from financing activities	**22,838**	27,296
Net cash flows for the year	**(488)**	(2,120)

34 ACQUISITION/DISPOSAL OF SUBSIDIARIES *(Continued)*

The following table summarizes the effect of disposal of these subsidiaries on the financial position of the Group:

	2016 RMB'000
Property, plant and equipment	(41,794)
Other intangible assets	(64,166)
Inventories	(50,867)
Trade and other receivables	(50,067)
Cash and cash equivalents	(22,925)
Other assets	(1,918)
Bank borrowings, secured	48,791
Trade and other payables	99,681
Deferred tax liabilities	16,006
Other liabilities	6,098
Net assets	(61,161)
Consideration received, satisfied in cash	12,000
Cash and cash equivalents disposed of	(22,925)
Net cash outflows	(10,925)

35 CAPITAL RISK MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of (i) debts, which includes the borrowings and the convertible bonds as disclosed in Notes 23 and 25, respectively; (ii) cash and cash equivalents and pledged time deposits in Note 29; (iii) equity attributable to owners of the Company, comprising share capital disclosed in Note 27 and reserves as disclosed in consolidated statement of changes in equity.

The Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Group manages the capital structure and make adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

35 CAPITAL RISK MANAGEMENT *(Continued)*

The net debt to equity ratio at end of the reporting period was as follows:

	2016 RMB'000	2015 RMB'000
Debts	**362,309**	374,695
Cash and cash equivalents and pledged time deposits	**(168,769)**	(147,230)
Net debt position	**193,540**	227,465
Equity attributable to owners of the Company	**354,287**	476,917
Net debt to equity ratio	**54.6%**	47.7%

36 FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk.

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers and debtors requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customers and debtors as well as pertaining to the economic environment in which the customers operate. Normally, the Group does not obtain collateral from customers, except for the loans to Shenzhen Jiahong.

For the detail of loans to Shenzhen Jiahong, please refer to Note 22(b).

Investments are normally only in highly liquid monetary funds with floating interest.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a certain concentration of credit risk as 6% (2015: 16%) and 25% (2015: 33%) of the total gross trade receivables that were due from the Group's largest customer and the five largest customers respectively within the manufacture and sale of automobile accessories business segment.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in Note 22.

36 FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities of the Group's financial liabilities at the end of reporting period, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of reporting period) and the earliest date the Group can be required to pay:

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
2016						
Bank borrowings, secured	**178,475**	**185,449**	**185,449**	**–**	**–**	**–**
Trade payables	**185,641**	**185,641**	**185,641**	**–**	**–**	**–**
Other payables	**94,133**	**94,133**	**94,133**	**–**	**–**	**–**
Convertible bonds	**183,834**	**207,183**	**207,183**	**–**	**–**	**–**
Total	**642,083**	**672,406**	**672,406**	**–**	**–**	**–**
2015						
Bank borrowings, secured	224,245	233,991	225,049	1,416	2,671	4,855
Trade payables	171,557	171,557	171,557	–	–	–
Other payables	88,425	88,425	88,425	–	–	–
Convertible bonds	150,450	203,707	9,767	193,940	–	–
Total	634,677	697,680	494,798	195,356	2,671	4,855

36 FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Interest rate risk

The Group's fair value interest-rate risk mainly arises from liability component of convertible bonds as disclosed in Note 25. Most of bank borrowings were issued at fixed rates which expose the Group to fair value interest rate risk.

It is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's loss for the year and accumulated losses as at 31 December 2016 by RMB260,093 (2015: by RMB125,091). The Group has not used any financial instrument to hedge potential fluctuations in interest rate. The interest rates and terms of repayment of the Group's borrowings are disclosed in Note 23.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily US$.

The Group is also exposed to foreign currency exchange risk arising from the cash and cash equivalents denominated in US$.

The following table details the Group's exposure at the end of reporting period to currency risk arising from transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	2016	2015
	US$'000	US$'000
Trade and other receivables	**11,489**	10,871
Trade and other payables	**(142)**	–
Cash and cash equivalents and pledged time deposits	**7,891**	2,699
Bank borrowings	**(6,000)**	(6,000)
Overall net exposure	**13,238**	7,570

36 *FINANCIAL RISK MANAGEMENT* *(Continued)*

(d) Currency risk *(Continued)*

The following table indicates the approximate change in the Group's loss for the year and accumulated losses and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. The sensitivity analysis includes balances between group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower. A positive number below indicates a decrease in loss or an increase in profit and other equity where the RMB weakens against the relevant currency. For a strengthening of the RMB against the relevant currency, there would be an equal and opposite impact on the profit or loss and other equity, and the balances below would be negative.

	2016			2015		
	Increase in foreign exchange rate	**Effect on loss for the year and accumulated losses RMB'000**	**Effect on other components of equity RMB'000**	Increase in foreign exchange rate	Effect on loss for the year and accumulated losses RMB'000	Effect on other components of equity RMB'000
US$	**5%**	**3,360**	**–**	5%	1,843	–

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of reporting period and had been applied to each of the Group entities; exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rate over the period until the end of the next reporting period. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' results for the year and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of reporting period for presentation purposes. The analysis is performed on the same basis for 2015.

37 SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts and fair values of the Group's financial assets and financial liabilities as recognised at 31 December 2016 and 2015 may be categorised as follows:

	2016		2015	
	Carrying value RMB'000	**Fair value RMB'000**	Carrying value RMB'000	Fair value RMB'000
Financial assets				
– Available-for-sale, at fair value	**–**	**–**	53,383	53,383
– Loans and receivables (including cash and cash equivalents and pledged time deposits), at amortised cost	**479,360**	**479,360**	576,930	576,930
Financial liabilities				
– Financial liabilities, at amortised cost	**490,663**	**490,663**	638,686	638,686
– Conversion option embedded in convertible bonds, at fair value	**–**	**–**	5,869	5,869

(a) The fair values of financial assets and liabilities are determined as follows:

– The fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

– The fair value of other financial assets and liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments and forecast on the financial performance and other measures of the acquirees under the contingent consideration arrangements. The directors are of the opinion that there are no reasonably possible alternative assumptions to the inputs in the fair value measurement.

(b) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

37 SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY *(Continued)*

(b) Fair value hierarchy *(Continued)*

As at 31 December 2016, there was no financial instrument measured at fair value.

	Fair value measurements as at 31 December 2015 categorised into		
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**
Recurring fair value measurement:			
– Available-for-sale money market fund	**42,383**	**–**	**–**
– Available-for-sale wealth management products	**–**	**11,000**	**–**
– Conversion option embedded in convertible bonds	**–**	**–**	**5,869**

The fair value of conversion option embedded in convertible bonds is determined using binomial option pricing model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2015, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 5% would have decreased/increased the Group's profit by RMB983,000/790,000. As at 31 December 2016, the conversion option was reclassified to equity.

The movement in fair value measurements in Level 3 during the year are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**5,869**	–
Issuance of convertible bonds	**–**	23,723
Changes in fair value recognised in profit or loss during the year	**(4,250)**	(19,330)
Transferred to equity	**(1,619)**	–
Exchange realignment	**–**	1,476
At 31 December	**–**	5,869

38 CONTINGENT LIABILITIES

At the end of 31 December 2015 and 2016, the Group had no significant contingent liability.

39 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

(Expressed in Renminbi)

	Note	**31 December 2016 RMB'000**	31 December 2015 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Interest in subsidiaries		**679,717**	729,606
		679,717	729,606
Current assets			
Deposits, prepayments and other receivables		**23,802**	1,031
Short-term loan to a subsidiary		**–**	104,000
Cash and cash equivalents		**18,625**	592
		42,427	105,623
Current liabilities			
Accruals and other payables		**8,826**	10,623
Convertible bonds	*25*	**183,834**	156,319
		192,660	166,942
Net current liabilities		**(150,233)**	(61,319)
Total assets less current liabilities		**529,484**	668,287
NET ASSETS		**529,484**	668,287
CAPITAL AND RESERVES			
Share capital	*27*	**376,184**	376,133
Reserves	*28(ii)*	**153,300**	292,154
TOTAL EQUITY		**529,484**	668,287

Approved and authorised for issue by the board of directors on 30 March 2017.

Zhang Jianxing
Director

Du Jinglei
Director

(Expressed in Renminbi unless otherwise indicated)

40 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to IAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to IFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

IFRS 9, *Financial instruments*

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, Financial instruments: Recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities.

IFRS 15, *Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting IFRS 15 on its financial statements.

40 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 *(Continued)*

IFRS 16, *Leases*

As disclosed in note 4(s), currently the group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the group’s accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 30(b), at 31 December 2016 the group’s future minimum lease payments under non-cancellable operating leases amount to RMB174,013,000 for properties, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out below:

RESULTS

	1.1.2016 to 31.12.2016 RMB'000	1.1.2015 to 31.12.2015 RMB'000	1.1.2014 to 31.12.2014 RMB'000	1.1.2013 to 31.12.2013 RMB'000	1.1.2012 to 31.12.2012 RMB'000
Revenue	**1,292,665**	1,254,191	1,397,498	1,414,616	1,397,885
Loss before taxation	**(145,811)**	(103,302)	(26,379)	(565,262)	(374,376)
Income tax expenses	**(2,507)**	(645)	(9,422)	48,412	16,017
Loss for the year	**(148,318)**	(103,947)	(35,801)	(516,850)	(358,359)
Attributable to:					
Owners of the Company	**(123,459)**	(90,967)	(43,223)	(446,700)	(324,761)
Non-controlling interests	**(24,859)**	(12,980)	7,422	(70,150)	(33,598)
	(148,318)	(103,947)	(35,801)	(516,850)	(358,359)

ASSETS AND LIABILITIES

	31.12.2016 RMB'000	31.12.2015 RMB'000	31.12.2014 RMB'000	31.12.2013 RMB'000	31.12.2012 RMB'000
Total assets	**1,212,834**	1,319,032	1,188,415	1,346,733	1,694,039
Total liabilities	**(783,667)**	(734,319)	(648,118)	(853,058)	(1,168,351)
Net assets	**429,167**	584,713	540,297	493,675	525,688