



Third Quarterly Report
2014



正美丰业

ZMFY Automobile Glass Services Limited

正美豐業汽車玻璃服務有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8135

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*This report, for which the directors (the “**Directors**”) of ZMFY Automobile Glass Services Limited (the “**Company**”) collectively and individually accept full responsibility (save and except that Mr. Lau Sik Yuen and Ms. Dy Melanie as his alternate director indicate that they do not take responsibility for (i) the paragraph in “Discloseable transaction in relation to the acquisition of a property in the PRC involving issue of Convertible Bond” under the section of “Subsequent Events after the Reporting Period”, (ii) the first and fourth paragraph under the section of “PROSPECTS”, and (iii) the first three paragraphs in “Daqing Complements Beijing Weakness” under the section of “PROSPECTS”), includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market (the “**GEM Listing Rules**”) of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2014

Third Quarterly Results

The unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the nine months and three months ended 30 September 2014, together with the comparative unaudited figures for the corresponding periods in 2013, are as follows:

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)	2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Revenue	6	101,192	104,994	39,115	38,172
Cost of sales		(69,755)	(68,838)	(28,417)	(24,994)
Gross profit		31,437	36,156	10,698	13,178
Other gain		94	21	17	20
Selling and distribution costs		(12,153)	(10,735)	(4,358)	(2,886)
Administrative expenses		(13,647)	(14,755)	(5,862)	(5,559)
		5,731	10,687	495	4,753
Finance income		173	36	76	12
Finance cost		(117)	-	(23)	-
Share of losses of a jointly-controlled entity		(47)	-	(47)	-
Profit before income tax		5,740	10,723	501	4,765
Income tax expense	7	(1,412)	(3,638)	(69)	(1,467)
Profit for the period		4,328	7,085	432	3,298
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Currency translation differences		(189)	(228)	(168)	(20)
Total comprehensive income for the period		4,139	6,857	264	3,278

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the three months and nine months ended 30 September 2014

	Notes	Nine months ended 30 September 2014		Three months ended 30 September 2014	
		RMB'000 (unaudited)	2013 RMB'000 (unaudited)	RMB'000 (unaudited)	2013 RMB'000 (unaudited)
Profit attributable to:					
Equity holders of the Company		3,889	6,569	243	3,072
Non-controlling interests		439	516	189	226
		4,328	7,085	432	3,298
Total comprehensive income attributable to:					
Equity holders of the Company		3,700	6,341	75	3,052
Non-controlling interests		439	516	189	226
		4,139	6,857	264	3,278
Earnings per share					
Basic and diluted (RMB cents)	9	0.88	2.12	0.05	1.02



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

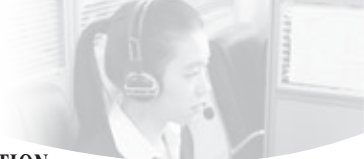
For the nine months ended 30 September 2014

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital reserve	PRC statutory reserve	Exchange reserve	Retained earnings	Subtotal	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2013 (Audited)	63	27,987	28,089	3,080	(39)	38,608	97,788	3,096	100,884
Comprehensive income									
Profit for the period	-	-	-	-	-	6,569	6,569	516	7,085
Other comprehensive loss									
Currency translation difference	-	-	-	-	(228)	-	(228)	-	(228)
Total comprehensive income/(loss)	-	-	-	-	(228)	6,569	6,341	516	6,857
Transactions with equity owners of the Company recognised directly in equity									
Elimination of share capital of combined subsidiaries upon Group reorganisation	(63)	-	-	-	-	-	(63)	-	(63)
Share swap pursuant to Group reorganisation	2,368	-	(2,069)	-	-	-	299	-	299
Shareholder's contribution	-	-	2,999	-	-	-	2,999	-	2,999
Issuance of shares upon placing, net of share issuing expenses	789	25,075	-	-	-	-	25,864	-	25,864
Appropriation to PRC statutory reserve	-	-	-	1,197	-	(1,197)	-	-	-
Balance at 30 September 2013 (Unaudited)	3,157	53,062	29,019	4,277	(267)	43,980	133,228	3,612	136,840

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the nine months ended 30 September 2014

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital reserve	PRC			Retained earnings	Non-controlling interests	Total equity
				statutory reserve	Exchange reserve	Subtotal			
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2014 (Audited)	3,157	129,226	(47,484)	4,229	(57)	46,123	135,194	4,484	139,678
Comprehensive income									
Profit for the period	-	-	-	-	-	3,889	3,889	439	4,328
Other comprehensive loss									
Currency translation difference	-	-	-	-	(189)	-	(189)	-	(189)
Total comprehensive income/(loss)	-	-	-	-	(189)	3,889	3,700	439	4,139
Transactions with equity owners of the Company recognised directly in equity									
Issue of new shares	632	34,008	-	-	-	-	34,640	-	34,640
Capital of issuance costs of issue of new shares	-	280	-	-	-	-	280	-	280
Dividend paid	-	-	-	-	-	-	-	(539)	(539)
Appropriation to PRC statutory reserve	-	-	-	942	-	(942)	-	-	-
Balance at 30 September 2014 (Unaudited)	3,789	163,514	(47,484)	5,171	(246)	49,070	173,814	4,384	178,198



NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. CORPORATE INFORMATION AND REORGANISATION

(a) General information

ZMFY Automobile Glass Services Limited (the “**Company**”) is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company’s shares were listed on the Growth Enterprise Market (“**GEM**”) of The Stock Exchange of Hong Kong Limited on 3 September 2013.

The Company is an investment holding company and its subsidiaries are principally engaged in the sales of automobile glass with installation repair services and the trading of automobile glass in the People’s Republic of China (the “**PRC**”) (the “**Listing Business**”). The Company and its subsidiaries are collectively known as the “**Group**” in the condensed consolidated financial statements.

Prior to the Listing Business being acquired by Ms. Natsu Kumiko (“**Ms. Natsu**”), the controlling shareholder of the Group, the Listing Business was primarily carried out by Beijing Zhengmei Fengye Automobile Service Co., Ltd. (“**Beijing Zhengmei**”) and its subsidiaries (together “**Beijing Zhengmei Group**”). Ms. Natsu acquired the Listing Business pursuant to the following steps:

- (1) In April 2011, Yu Sheng Investments Limited (“**Yu Sheng**”) was incorporated in the British Virgin Islands and was wholly owned by Lu Yu Global Limited (“**Lu Yu**”), which is ultimately owned by Ms. Natsu.
- (2) In May 2011, Chang Hong Investments (HK) Limited (“**Chang Hong**”) was incorporated in Hong Kong and was wholly owned by Yu Sheng.
- (3) In May 2011, Chang Hong entered into a sale and purchase agreement to acquire the entire equity interests in Beijing Zhengmei for a consideration of RMB30,541,600. The transaction was completed on 30 August 2011. After the acquisition, Beijing Zhengmei became a wholly owned subsidiary of Chang Hong.

On 20 August 2011, Yu Sheng and Lu Yu entered into a share subscription agreement with Xinyi Automobile Glass (BVI) Company Limited (“**Xinyi Glass (BVI)**”) under which 2,000 new shares of Yu Sheng of USD1 each were issued to Xinyi Glass (BVI) for a consideration of RMB28,000,000. Following the issue of these new shares, which occurred in November 2011, Xinyi Glass (BVI) held 20% of the equity interest of Yu Sheng.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

1. CORPORATE INFORMATION AND REORGANISATION (CONTINUED)

(a) General information (continued)

On 15 January 2014, the Group's wholly owned subsidiary, Beijing Zhengmei, acquired 100% equity interest in Shenzhen Xinyida Automobile Glass Company Limited (深圳市信義達汽車玻璃有限公司) which is located in Shenzhen and is principally engaged in the sales of automobile glass with installation/repair services and the trading of automobile glass in the PRC. The total consideration for the acquisition amounted to RMB16.0 million.

The condensed financial statements are unaudited but have been reviewed by the audit committee of the Company (the "Audit Committee").

(b) Reorganisation

In preparation for the listing of shares of the Company on GEM of The Stock Exchange of Hong Kong Limited, the Group underwent a group reorganisation (the "Reorganisation").

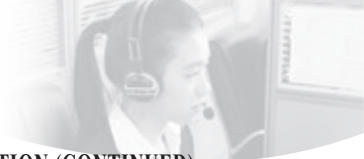
On 8 February 2013, the Company was incorporated in the Cayman Islands as a listing vehicle and it was wholly owned by Lu Yu.

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

The Reorganisation was completed on 9 August 2013. Upon the completion of the Reorganisation, the Company became the holding company of the companies now comprising the Group.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the condensed consolidated financial information are applied consistent with those applied in the Group's annual consolidated financial statements for the year ended 31 December 2013.



NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

3. BASIS OF PREPARATION

This condensed consolidated financial information for the nine months ended 30 September 2014 has been prepared in accordance with IAS/HKAS 34. The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with IFRS/HKFRSs. The condensed consolidated financial information has been prepared under the historical cost convention. They are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of the condensed consolidated financial information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Group’s accounting policies.

4. BASIS OF CONSOLIDATION

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets.

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

5. ADOPTION OF NEW AND REVISED HKFRSs

In the current period, the Group has adopted a number of new and revised standards, interpretations and amendments (hereinafter collectively referred to as “**new and revised HKFRSs**”) issued by the HKICPA that are relevant to the Group and effective for accounting periods beginning on or after 1 January 2014. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group’s accounting policies and amounts reported for the current period and prior periods/years.

The Group has not early adopted the new and revised HKFRSs that have been published but are not yet effective. The Directors have assessed the impact of the adoption of the new and revised HKFRSs and there is no significant impact on the Group’s results of operations and financial position.

6. REVENUE AND SEGMENT REPORTING

Revenue represents amounts receivable for services performed and goods sold net of discounts, returns and value-added taxes.

	Nine months ended 30 September		Three months ended 30 September	
	2014 (Unaudited) RMB’000	2013 (Unaudited) RMB’000	2014 (Unaudited) RMB’000	2013 (Unaudited) RMB’000
Revenue				
Sales of automobile glass with installation/repair services	91,381	90,756	34,943	33,510
Trading of automobile glass	6,556	14,238	1,327	4,662
Provision of installation services of photovoltaic system	3,255	–	2,845	–
Total	101,192	104,994	39,115	38,172

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

6. REVENUE AND SEGMENT REPORTING (CONTINUED)

	Beijing, Tianjin and Sanhe		Shenyang		Hangzhou		Shenzhen		Reportable segments	
	Nine months ended		Nine months ended		Nine months ended		Nine months ended		Nine months ended	
	30 September		30 September		30 September		30 September		30 September	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover-revenue from:										
Sales of automobile glass with installation/repair services	81,640	86,518	1,681	2,433	1,813	1,805	6,247	-	91,381	90,756
Trading of automobile glass	39,403	13,231	1,901	1,841	671	1,093	833	-	42,808	16,165
Provision of installation services of photovoltaic system	3,255	-	-	-	-	-	-	-	3,255	-
Inter-segment sales	(35,900)	(1,311)	(173)	(489)	(175)	(127)	(4)	-	(36,252)	(1,927)
Revenue from external customers	88,398	98,438	3,409	3,785	2,309	2,771	7,076	-	101,192	104,994
Results of reportable segments	27,841	34,280	901	1,061	731	815	1,964	-	31,437	36,156
Depreciation	3,081	1,984	20	21	55	45	102	-	3,258	2,050
Capital expenditure	2,594	1,631	23	47	88	43	215	-	2,920	1,721
A reconciliation of results of reportable segments to profit for the period is as follows:										
Results of reportable segments									31,437	36,156
Unallocated income									94	21
Unallocated expenses									(25,800)	(25,490)
									5,731	10,687
Finance income									173	36
Finance cost									(117)	-
Share of losses of a jointly-controlled entity									(47)	-
Profit before income tax									5,740	10,723
Income tax expense									(1,412)	(3,638)
Profit for the period									4,328	7,085
Non-controlling interests									(439)	(516)
Profit attributable to equity holders of the Company									3,889	6,569

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

7. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (Nine months ended 30 September 2013: Nil). Taxes on profits assessable in the PRC have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

All subsidiaries in the PRC are subject to the PRC corporate income tax at a rate of 25% for the nine months ended 30 September 2014 (Nine months ended 30 September 2013: 25%), except for one subsidiary, namely Tianjin Zhengmei Glass Technology Co., Ltd. (天津正美玻璃科技有限公司) which is subject to 18.75% PRC corporate income tax rate (Nine months ended 30 September 2013: Nil).

8. DIVIDENDS

The Directors did not recommend the payment of any dividend for the nine months ended 30 September 2014 (Nine months ended 30 September 2013: Nil).

9. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

In determining the number of ordinary shares in issue for the periods ended 30 September 2014 and 2013, the issue and allotment of 30,000,000 shares by the Company on 9 August 2013, and the 270,000,000 shares allotted and issued through capitalisation on 27 August 2013, were deemed to have been issued since 1 January 2012. On 16 May 2014, the Group issued 80,000,000 new ordinary shares (equivalent to 20% of the issued share capital of the Company immediately before the issue of the new shares) to Xinyi Glass (BVI), the aggregate number of issued shares as at 30 September 2014 was 480,000,000.

	Nine months ended 30 September 2014		Three months ended 30 September 2014	
	(Unaudited)	2013 (Unaudited)	(Unaudited)	2013 (Unaudited)
Profit attributable to owners of the Company (RMB'000)	3,889	6,569	243	3,072
Weighted average number of ordinary shares in issue (thousands)	440,000	310,000	480,000	300,000
Basic earnings per share (in RMB cents)	0.88	2.12	0.05	1.02

(b) Diluted

Diluted earnings per share is the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding during the period (30 September 2013: Same).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The principal business of the Group included sales of automobile glass with installation/repair services and trading of automobile glass. Currently, the Group is also engaged in the provision of installation services of photovoltaic system in the PRC. As at 30 September 2014, the Group operated 29 service centres in the PRC for providing automobile glass installation/repair services. The Group's total revenue for the nine months ended 30 September 2014 amounted to approximately RMB101,192,000, representing a decrease of approximately RMB3,802,000 or 3.6% as compared to that of approximately RMB104,994,000 for the corresponding period last year. Overall gross profit decreased by approximately RMB4,719,000 or 13.1% to approximately RMB31,437,000 for the nine months ended 30 September 2014 from approximately RMB36,156,000 for the corresponding period last year. The gross profit margin for the current period decreased to 31.1% from 34.4% being the gross profit margin for the corresponding period last year. The total comprehensive income attributable to owners of the Company decreased from approximately RMB6,341,000 for the nine months ended 30 September 2013 to approximately RMB3,700,000 for the nine months ended 30 September 2014.

REVIEW BY SEGMENT

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

	Revenue			Gross Profit			Gross Profit Margin		
	Nine months ended			Nine months ended			Nine months ended		
	30 September			30 September			30 September		
	2014	2013	Change	2014	2013	Change	2014	2013	Change
(unaudited)	(unaudited)	%	(unaudited)	(unaudited)	%	(unaudited)	(unaudited)	%	
	RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000	
Sales of automobile glass with installation/repair services	91,381	90,756	0.7	29,579	33,475	(11.6)	32.4	36.9	
Trading of automobile glass	6,556	14,238	(54.0)	1,318	2,681	(50.8)	20.1	18.8	
Provision of installation service of photovoltaic system	3,255	-	-	540	-	-	16.6	-	
Total	101,192	104,994	(3.6)	31,437	36,156	(13.1)	31.1	34.4	

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Sales of automobile glass with installation/repair services

Revenue from sales of automobile glass with installation/repair services was the main source of revenue, representing approximately 90.3% (30 September 2013: 86.4%) of the Group's total revenue for the nine months ended 30 September 2014. It is expected to remain as the Group's principal source of income for the foreseeable future. Revenue from sales of automobile glass with installation/repair services are provided either at the Group's service centres to walk-in customers, or by the Group's motorcade service teams to customers requiring door-to-door services in the PRC.

Revenue from sales of automobile glass with installation/repair services slightly increased by approximately RMB625,000 or 0.7% from approximately RMB90,756,000 for the nine months ended 30 September 2013 to approximately RMB91,381,000 for the nine months ended 30 September 2014. The increase was mainly due to the Group placing more efforts to promote the installation services by employing more sales staff and increasing the incentive for sales.

Gross profit from sales of automobile glass with installation/repair services for the nine months ended 30 September 2014 amounted to approximately RMB29,579,000, representing a decrease of approximately 11.6% as compared to the corresponding period last year, which was approximately RMB33,475,000. The decrease of gross profit is mainly attributable to more customers preferring the imported automobile glass with higher price and quality instead of domestic products yet the insurance companies maintained the insurance claim amount in spite of the price differences that caused the gross profit of sales of automobile glass with installation/repair services to decrease. Moreover, the increase in purchase price of imported automobile glass was another reason to cause the gross profit and gross profit margin to drop. Gross profit margin decreased from approximately 36.9% for the nine months ended 30 September 2013 to approximately 32.4% for the nine months ended 30 September 2014.

Trading of Automobile Glass

Trading of automobile glass refers to the Group purchasing automobile glass from its automobile glass suppliers and then re-selling the same to industry peers and traders of automobile glass in the PRC.

Revenue from the trading of automobile glass for the nine months ended 30 September 2014 was approximately RMB6,556,000, representing a drop of approximately 54.0% as compared to that of approximately RMB14,238,000 for the corresponding period last year. The drop is mainly a result of the decrease of revenue from industry peers and traders of automobile glass and automobile repair garages located in Beijing which encountered a decline of their businesses during the period.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Gross profit from trading of automobile glass decreased by approximately RMB1,363,000 or 50.8% from approximately RMB2,681,000 for the nine months ended 30 September 2013 to approximately RMB1,318,000 in the current period due to the reason as mentioned above. Gross profit margin slightly increased from approximately 18.8% for the nine months ended 30 September 2013 to approximately 20.1% for the nine months ended 30 September 2014.

Provision of installation services of photovoltaic system

The Group has been providing installation services of photovoltaic system to the corporate and individual customers in the PRC since the second quarter of this year. Revenue recognised for the nine months ended 30 September 2014 amounted to approximately RMB3,255,000 and gross profit amounted to approximately RMB540,000. The gross profit margin is approximately 16.6%. The Group will continue to develop this new business segment as the Group considers there is good potential for this business segment in the future.

Other gain/(loss)

Other gain represents gain on disposal of property, plant and equipment and subsidy by the local government amounted to approximately RMB44,000 and RMB50,000, respectively for the nine months ended 30 September 2014.

Selling and distribution costs

Selling and distribution costs increased by approximately 13.2% from approximately RMB10,735,000 for the nine months ended 30 September 2013 to approximately RMB12,153,000 for nine months ended 30 September 2014. The increase was mainly due to the increase in incentives to sales staff to promote the services of the Group and the increase in headcount of sales staff as a result of the acquisition of Shenzhen Xinyida Automobile Glass Company Limited (深圳信義達汽車玻璃有限公司) ("Shenzhen Xinyida") and the set up of two subsidiaries in Tianjin and two branches in Beijing and Tianjin, during the current period. Selling and distribution costs also include the amortisation of the intangible assets incurred as a result of the acquisition of Shenzhen Xinyida and the advertising fees on radio promotion, which were not incurred for the corresponding period last year.

Administrative expenses

The Group's administrative expenses mainly consist of professional fees, staff costs (including Directors' remunerations), depreciation, rental and meeting/conference expenses. The total administrative expenses decreased by approximately 7.5% from approximately RMB14,755,000 for the nine months ended 30 September 2013 to approximately RMB13,647,000 for nine months ended 30 September 2014. The decrease was mainly due to the cost control policy imposed by the Company during the current period and the fact that there were listing expenses included in the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Finance cost and income, net

Finance cost increased from nil for the nine months ended 30 September 2013 to approximately RMB117,000 for the nine months ended 30 September 2014. Finance income increased from approximately RMB36,000 for the nine months ended 30 September 2013 to RMB173,000 for the nine months ended 30 September 2014, and was mainly caused by an increase in average monthly deposit in banks.

Share of losses of a jointly-controlled entity

It represents share of losses of investment of 49% equity interest in a jointly-controlled entity, named Polaron Solartech Corp. which is located in Canada.

Income tax expenses

Income tax expenses decreased by approximately 61.2% from approximately RMB3,638,000 for the nine months ended 30 September 2013 to approximately RMB1,412,000 for the nine months ended 30 September 2014. The decrease was mainly due to the decrease in taxable income and the fact that listing expenses included in the corresponding period of last year were not deductible with regard to the PRC income tax.

Profit for the period

The Group recorded a decrease in net profit by approximately 38.9% for the nine months ended 30 September 2014 to approximately RMB4,328,000 as compared to that of RMB7,085,000 for the corresponding period last year. The decrease in net profit for the period was mainly due to the decrease in gross profit of sales of automobile glass with installation/repair services and the significant decrease in revenue from trading of automobile glass to the industry peers and traders of automobile glass and automobile repair garages in Beijing during the period.

Contingent Liabilities

As at 30 September 2014, the Group did not have any significant contingent liabilities (30 September 2013: Nil).



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Subsequent Events after the Reporting Period

(i) *Requisition of extraordinary general meeting by a Shareholder*

On 7 October 2014, the Company received a requisition notice (the “**Requisition Notice**”) dated 6 October 2014 from Xinyi Glass (BVI) requesting the Board to convene an extraordinary general meeting in accordance with the articles of association of the Company for the purpose of considering and approving certain resolutions, including the removal of Ms. Xia Lu as chief executive officer and executive Director, Mr. He Changsheng as executive Director, Mr. Li Honglin as executive Director and Ms. Natsu Kumiko as the chairman and non-executive Director.

Upon receipt of the Requisition Notice, the Board has despatched a circular and a notice of extraordinary general meeting to convene the extraordinary general meeting, which will be held on 5 December 2014.

Please refer to the announcement dated 8 October 2014, the circular and the notice of extraordinary general meeting both dated 25 October 2014 of the Company for further details.

(ii) *Discloseable transaction in relation to the acquisition of a property in the PRC involving issue of Convertible Bond*

On 19 October 2014, the Company entered into a sale and purchase agreement with Daqing Beihang Property Development Company Limited (大慶北航房地產開發有限公司) (the “**Vendor**”), pursuant to which the Company has conditionally agreed to purchase and the Vendor has conditionally agreed to sell a 4-storey commercial complex located in Sa’ertu District, Daqing City, Heilongjiang Province, PRC with a total gross floor area of approximately 4,445 square meters together with the land use rights relating thereto, at the consideration of RMB48,000,000, which shall be satisfied by the issue of the convertible bond in the principal amount of HK\$60,816,000 (the “**Convertible Bond**”) by the Company to the Vendor (the “**Acquisition**”).

Please refer to the announcement of the Company dated 20 October 2014 for further details.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(iii) *Voluntary cash offer to acquire all the issued shares of the Company and the Convertible Bond that may be issued by the Company under the Acquisition*

On 3 November 2014, the Company was notified by Xinyi Glass (BVI) that it intended to make a voluntary conditional cash offer through Optima Capital Limited to acquire all the shares of the Company not already owned or agreed to be acquired by it and parties acting in concert with it. The share offer price is HK\$0.65 for each offer share.

In the event that the Convertible Bond is issued upon the completion of the Acquisition, an appropriate offer will be made to the holder(s) of the Convertible Bond pursuant to The Code on Takeovers and Mergers published by the Securities and Futures Commission.

Please refer to the announcement of the Company dated 7 November 2014 for further details.

PROSPECTS

The statements made in this section assumes the existing Executive Directors and senior management remain in office of the Company, and not removed by shareholders in the extraordinary general meeting convened pursuant to the Requisition Notice. If the Executive Directors are removed from the Company, the impact on the operations of the Group is expected to be adverse but the extent is unfathomable at this moment.

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

The Group also plans to expand its business through strategic merger and acquisition, alliance, joint venture or other form of collaboration with partners which are complementary to the Group’s expansion strategy. The Group is targeting merger or acquisition opportunities in the PRC such as Shenzhen, Shanghai, Guangzhou and Northeast of China which can strengthen the Group’s network of service centres in such locations, increase the Group’s market share and reinforce the Group’s brand image. On 15 January 2014, the Group has completed the acquisition of 100% equity interest in Shenzhen Xinyida Automobile Glass Company Limited (深圳市信義達汽車玻璃有限公司) which is located in Shenzhen and is principally engaged in the sales of automobile glass as well as installation/repair services and the trading of automobile glass in the PRC. The total consideration for the acquisition amounted to RMB16.0 million.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As mentioned in the subsequent event that the Company has entered into the sale and purchase agreement with an independent third party to purchase a property with a 4-storey commercial complex located in Sa'ertu District, Daqing City, Heilongjiang Province, PRC with a total gross floor area of approximately 4,445 square meters, at the consideration of RMB48,000,000 (equivalent to approximately HK\$60,816,000) which shall be satisfied by the issue of the convertible bond upon completion. The property will be used to set up a new service centre which is in line with the Group's strategy of expanding its business operations in the PRC and could allow the Group to secure a prime and strategic location to expand its sales network.

Overall Market Condition in Beijing in 2014

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

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

Daqing Complements Beijing Weakness

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

To realize stable business growth in the future, ZMFY must seek out markets with development potential. Rapid growth of vehicles will shift to tier two and three cities. Per capita GDP in Daqing is ranked fifth in the country, with high range vehicles, great market development potential and vehicle ownership grew by 81.48% between 2010 to 2014. In the future, vehicle growth rate will continue to grow in double digits. Also, Daqing is situated in an extremely cold area with a high rate of vehicle glass damage and essentially no competition within the industry.

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

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



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

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

Corporate Governance

Under the code provision E.1.2 of the Corporate Governance Code contained in Appendix 15 to the GEM Listing Rules (the "**Code**"), the chairman of the Board should attend the annual general meeting and he should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In addition, under the code provision A.6.7 of the Code, independent non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders.

Regarding the annual general meeting of the Company held on 9 May 2014 ("**2014 AGM**"), Ms. Natsu Kumiko, the chairman of the Board was not able to attend due to her unavoidable business engagement. For the 2014 AGM and the extraordinary general meeting of the Company held on the same day, Mr. Chen Jinliang, an independent non-executive Director and the chairman of the nomination committee, was not able to attend due to his unavoidable business engagement. Notwithstanding the above, there were other Directors present in the general meetings.

Before the date of this report, Mr. Ling Kit Wah Joseph resigned as an independent non-executive Director on 20 October 2014. As a result, (i) the number of independent non-executive Directors fell below the minimum number of three and does not represent one-third of the Board; (ii) the number of members of the Audit Committee fell below the minimum number of three; (iii) the chairman of the Remuneration Committee fell vacant; and (iv) the requirements for the Remuneration Committee to comprise a majority of independent non-executive Directors cannot be met.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In order to comply with Rules 5.05(1), 5.05A, 5.28 and 5.34 of the GEM Listing Rules, the Company will actively look for a suitable candidate to replace Mr. Ling Kit Wah Joseph within three months from 20 October 2014 pursuant to Rules 5.06, 5.33 and 5.36 of the GEM Listing Rules.

Save as disclosed above, the Directors consider that the Company has complied with the code provisions as set out in the Code throughout the period under review.

Interests of the Compliance Adviser

As notified by Quam Capital Limited (“**Quam Capital**”), the compliance adviser of the Company, except for the compliance adviser agreement entered into between the Company and Quam Capital dated 13 August 2013 and the financial adviser agreement entered into between the Company and Quam Capital in relation to a connected transaction regarding the issue of new shares to a substantial shareholder of the Company as disclosed in the announcement of the Company dated 28 March 2014, neither Quam Capital nor its directors, employees or close associates (as defined under the GEM Listing Rules) had any interests in relation to the Company or any member of the Group which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules as at 30 September 2014.

Directors’ Interests in Competing Interests

For the nine months ended 30 September 2014, the Directors were not aware of any business or interest of each of the Directors, the controlling shareholders of the Company and their respective close associates (as defined under the GEM Listing Rules) that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have within the Group.

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

During the nine months ended 30 September 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

As at 30 September 2014, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange, pursuant to the required standard of dealings by directors of listed issuer referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in the ordinary shares of the Company (the "shares")

Name of director	Nature of interest	Number of ordinary shares held	Approximate percentage of shareholding (%)
Ms. Natsu	Interest in a controlled corporation	220,000,000 (Note 1)	45.83

Note:

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

Save as disclosed above, as at 30 September 2014, none of the Directors and chief executive of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer referred to in Rule 5.46 of the GEM Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

So far as is known to the Directors, as at 30 September 2014, the following persons (not being a Director or chief executive of the Company) had, or were deemed to have interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the shares and underlying shares of the Company

Name of shareholder	Nature of interest	Number of ordinary shares held	Approximate percentage of shareholding (%)
Lu Yu (Note 1)	Beneficial owner	220,000,000	45.83
Mr. Xia Chengzhen (Note 2)	Interest of spouse	220,000,000	45.83
Xinyi Automobile Glass (BVI) Company Limited ("Xinyi Glass (BVI)") (Note 3)	Beneficial owner	140,000,000	29.17
Xinyi Glass Holdings Limited ("Xinyi Glass Holdings") (Note 4)	Interest in a controlled corporation	140,000,000	29.17

Notes:

- (1) Lu Yu, a company incorporated in the BVI on 21 April 2011 and an investment holding company, is wholly and beneficially owned by Ms. Natsu.
- (2) Mr. Xia Chengzhen is the spouse of Ms. Natsu and Ms. Natsu holds 100% of the issued share capital in Lu Yu which in turn holds 220,000,000 shares. Therefore, Mr. Xia Chengzhen is deemed to be interested in the shares in which Ms. Natsu is interested. Mr. Xia Chengzhen is the younger brother of Ms. Xia Lu, the chief executive director of the Company.
- (3) Xinyi Glass (BVI), a company incorporated in the BVI on 13 June 2012, held 140,000,000 shares as at 30 September 2014. Xinyi Glass (BVI) is an investment holding company and is wholly and beneficially owned by Xinyi Glass Holdings.
- (4) Xinyi Glass Holdings is a company holding all the issued shares of Xinyi Glass (BVI) and is therefore deemed to be interested in 140,000,000 shares held by Xinyi Glass (BVI).



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Save as disclosed above, as at 30 September 2014, the Directors were not aware of any other persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Model Code for Directors' Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the Directors (including Mr. Ling Kit Wah Joseph who has resigned as an independent non-executive Director on 20 October 2014), all the Directors confirmed that they have complied with the code of conduct and required standard of dealings concerning securities transactions by Directors throughout the nine months ended 30 September 2014.

Audit Committee

The Audit Committee was established with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and the Code. The primary duties of the Audit Committee are mainly to review the accounting policy, financial position and financial reporting procedures of the Company; to communicate with external audit firms; to assess the performance of internal financial and audit personnel; and to assess the internal control system of the Company. As disclosed above, Mr. Ling Kit Wah Joseph had resigned as an independent non-executive Director and a member of the Audit Committee on 20 October 2014, the Audit Committee has two members comprising Mr. Fong William (Chairman) and Mr. Chen Jinliang. The Audit Committee has reviewed the unaudited results of the Group for the nine months ended 30 September 2014.

By order of the Board
ZMFY Automobile Glass Services Limited
Xia Lu
Executive Director

Hong Kong, 11 November 2014

As at the date of this report, the executive Directors are Ms. Xia Lu, Mr. He Changsheng and Mr. Li Honglin; the non-executive Directors are Ms. Natsu Kumiko (Chairman) and Mr. Lau Sik Yuen (Ms. Dy Melanie as his alternate); and the independent non-executive Directors are Mr. Fong William and Mr. Chen Jinliang.