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

2015

First Quarterly Report

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2015

First Quarterly Results

The unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the three months ended 31 March 2015, together with the comparative unaudited figures for the corresponding period in 2014, are as follows:

	Notes	**Three months ended 31 March 2015 RMB'000 (unaudited)**	Three months ended 31 March 2014 RMB'000 (unaudited)
Revenue	6	**22,954**	25,072
Cost of sales		**(19,060)**	(16,265)
Gross profit		**3,894**	8,807
Other gain		**4**	271
Selling and distribution costs		**(5,098)**	(3,892)
Administrative expenses		**(9,045)**	(3,883)
		(10,245)	1,303
Finance income		**31**	77
Finance cost		**(18)**	(13)
Finance income, net		**13**	64
Change of loss of investment accounted for using the equity method		**(167)**	–
(Loss)/profit before income tax		**(10,399)**	1,367
Income tax expense	7	**247**	(335)
(Loss)/profit for the period		**(10,152)**	1,032
Other comprehensive (loss)/income:			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences		**(370)**	217
Total comprehensive (loss)/income for the period		**(10,522)**	1,249

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the three months ended 31 March 2015

		Three months ended 31 March	
	Notes	**2015 RMB'000 (unaudited)**	2014 RMB'000 (unaudited)
(Loss)/profit attributable to:			
Owners of the Company		**(9,991)**	975
Non-controlling interests		**(161)**	57
		(10,152)	1,032
Total comprehensive (loss)/income attributable to:			
Owners of the Company		**(10,361)**	1,192
Non-controlling interests		**(161)**	57
		(10,522)	1,249
(Loss)/earnings per share attributable to owners of the Company for the period (expressed in RMB cents per share)	9		
Basic (loss)/earnings per share		**(1.89)**	0.24
Diluted (loss)/earnings per share		**(1.89)**	0.24

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2015

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	PRC statutory reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity 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	–	–	–	–	–	975	975	57	1,032
Other comprehensive income									
Currency translation difference	–	–	–	–	217	–	217	–	217
Total comprehensive income	–	–	–	–	217	975	1,192	57	1,249
Transactions with equity owners of the Company recognised directly in equity									
Appropriation to PRC statutory reserve	–	–	–	236	–	(236)	–	–	–
Balance at 31 March 2014 (Unaudited)	3,157	129,226	(47,484)	4,465	160	46,862	136,386	4,541	140,927

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the three months ended 31 March 2015

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	PRC statutory reserve RMB'000	Convertible bonds RMB'000	Available-for-sale investment RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2015 (Audited)	4,193	207,155	(47,484)	4,658	22,169	262	(780)	33,057	223,230	5,468	228,698
Comprehensive income											
Loss for the period	–	–	–	–	–	–	–	(9,991)	(9,991)	(161)	(10,152)
Other comprehensive income											
Currency translation difference	–	–	–	–	–	–	(370)	–	(370)	–	(370)
Total comprehensive income	–	–	–	–	–	–	(370)	(9,991)	(10,361)	(161)	(10,522)
Transactions with equity owners of the Company recognised directly in equity											
Appropriation to PRC statutory reserve	–	–	–	20	–	–	–	(20)	–	–	–
Balance at 31 March 2015 (Unaudited)	4,193	207,155	(47,484)	4,678	22,169	262	(1,150)	23,046	212,869	5,307	218,176

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

(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 is an investment holding company and its subsidiaries are principally engaged in the sales of automobile glass with installation/repair services, the trading of automobile glass and provisions of installation service of photovoltaic system in the People's Republic of China (the "**PRC**"). The Company and its subsidiaries are collectively known as "the Group" in the condensed consolidated financial statements.

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

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the condensed consolidated financial statements are applied consistent with those applied in the Group's audited consolidated financial statements for the year ended 31 December 2014.

3. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") and have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets and the debt component of the convertible bonds which are carried at fair value. They are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

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

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. BASIS OF CONSOLIDATION (CONTINUED)

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

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 2015. 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.

	Three months ended 31 March	
	2015	2014
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Sales of automobile glass with installation/repair services	**20,991**	22,573
Trading of automobile glass	**1,440**	2,499
Provision of installation services of photovoltaic system	**523**	–
Total	**22,954**	25,072

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. REVENUE AND SEGMENT REPORTING (CONTINUED)

	Northern China (excluding Shenyang) Three months ended 31 March		Shenyang Three months ended 31 March		Hangzhou Three months ended 31 March		Shenzhen Three months ended 31 March		Reportable segments Three months ended 31 March	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
	(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
Turnover-revenue from:										
Sales of automobile glass with installation/repair services	**18,514**	19,709	**343**	472	**418**	532	**1,716**	1,860	**20,991**	22,573
Trading of automobile glass	**8,246**	12,027	**216**	614	**144**	192	**257**	173	**8,863**	13,006
Provision of installation services of photovoltaic system	**523**	–	**–**	–	**–**	–	**–**	–	**523**	–
Inter-segment sales	**(7,339)**	(10,373)	**(79)**	(47)	**–**	(87)	**(5)**	–	**(7,423)**	(10,507)
Revenue from external customers	**19,944**	21,363	**480**	1,039	**562**	637	**1,968**	2,033	**22,954**	25,072
Results of reportable segments	**3,259**	7,789	**7**	262	**57**	184	**571**	572	**3,894**	8,807
Depreciation	**1,137**	1,010	**24**	4	**32**	17	**31**	16	**1,224**	1,047
Capital expenditure	**295**	189	**–**	15	**–**	48	**43**	–	**338**	252

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

	2015	2014
Results of reportable segments	**3,894**	8,807
Unallocated income	**4**	271
Unallocated expenses	**(14,143)**	(7,775)
	(10,245)	1,303
Finance income	**31**	77
Finance costs	**(18)**	(13)
Share of loss of investment accounted for using the equity method	**(167)**	–
(Loss)/profit before income tax	**(10,399)**	1,367

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (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 for the period (Three months ended 31 March 2014: 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 period (Three months ended 31 March 2014: 25%). The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and British Virgin Island during the period (Three months ended 31 March 2014: Nil).

8. DIVIDENDS

The Directors did not recommend the payment of any dividend for the three months ended 31 March 2015 (Three months ended 31 March 2014: Nil).

9. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic and diluted (loss)/earnings per share for the three months ended 31 March 2015 and 2014 is based on the loss for the period attributable to owners of the Company of approximately RMB9,991,000 (Three months ended 31 March 2014: Profit of RMB975,000) and the weighted average number of approximately 530,000,000 (Three months ended 31 March 2014: 400,000,000) ordinary shares of the Company in issue for the period ended 31 March 2015.

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

Diluted loss per share for the three months ended 31 March 2015 is the same as the basic loss per share as the conversion of potential dilutive ordinary shares in relation to convertible bonds would have an anti-dilutive effect to the basic loss per share.

Diluted earnings per share for the period ended 31 March 2014 was the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The principal business of the Group included sales of automobile glass with installation/repair services, trading of automobile glass and provision of installation services of photovoltaic system. As at 31 March 2015, the Group operated 29 service centers in the PRC for providing automobile glass installation/repair services (As at 31 March 2014: 26). The Group's total revenue for the three months ended 31 March 2015 amounted to approximately RMB22,954,000, representing a decrease of approximately RMB2,118,000 or 8.4% as compared to that of approximately RMB25,072,000 for the corresponding period last year. Overall gross profit decreased by approximately RMB4,913,000 or 55.8% to approximately RMB3,894,000 for the three months ended 31 March 2015 from approximately RMB8,807,000 for the corresponding period last year. The gross profit margin for the current period decreased to 17.0% from 35.1% being the gross profit margin for the corresponding period last year. The total comprehensive loss attributable to owners of the Company for the three months ended 31 March 2015 was approximately RMB10,361,000, compared with the total comprehensive income attributable to owners of the Company of approximately RMB1,192,000 for the three months ended 31 March 2014.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

REVIEW BY SEGMENT

	Northern China (excluding Shenyang) Three months ended 31 March			Shenyang Three months ended 31 March			Hangzhou Three months ended 31 March			Shenzhen Three months ended 31 March			Total Three months ended 31 March		
	2015 RMB'000	2014 RMB'000	Change %	**2015 RMB'000**	2014 RMB'000	Change %	**2015 RMB'000**	2014 RMB'000	Change %	**2015 RMB'000**	2014 RMB'000	Change %	**2015 RMB'000**	2014 RMB'000	Change %
Revenue	**19,944**	21,363	-6.6%	**480**	1,039	-53.8%	**562**	637	-11.8%	**1,968**	2,033	-3.2%	**22,954**	25,072	-8.4%
Gross profit	**3,259**	7,789	-58.2%	**7**	262	-97.3%	**57**	184	-69.0%	**571**	572	-0.2%	**3,894**	8,807	-55.8%
Gross profit margin	**16.3%**	36.5%		**1.5%**	25.2%		**10.1%**	28.9%		**29.0%**	28.1%		**17.0%**	35.1%	

The Northern China segment includes Beijing, Tianjin, Sanhe and revenue generated from these areas represents 86.9% of the Group's total revenue. Revenue from the Northern China segment decreased by approximately 6.6% from approximately RMB21,363,000 to approximately RMB19,944,000 for the three months ended 31 March 2015. The decrease was mainly attributable to decrease in revenue from trading of automobile glass to industry peers and traders, and automobile repair garages located in Beijing which encountered a decline of their businesses. Gross profit decreased by approximately 58.2% from approximately RMB7,789,000 to approximately RMB3,259,000 and gross profit margin decreased from approximately 36.5% to approximately 16.3% for the three months ended 31 March 2015. This is mainly attributable to more customers preferring the imported automobile glass with higher price and quality instead of domestic products, yet the insurance companies maintained the insurance claim amount in spite of the price differences that caused the gross profit of sales of automobile glass with installation/repair services to decrease. Moreover, a decrease in average selling price of trade of automobile glass arising from keen competition in the Beijing market also caused the gross profit and gross profit margin to decrease.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Revenue of the Shenyang segment decreased by approximately 53.8% from approximately RMB1,039,000 to approximately RMB480,000 for the three months ended 31 March 2015. The gross profit decreased by approximately 97.3% from approximately RMB262,000 to approximately RMB7,000 and gross profit margin decreased from approximately 25.2% to approximately 1.5% for the three months ended 31 March 2015. The decrease in the gross profit and gross profit margin of the Shenyang segment was mainly attributable to the decrease in revenue from the sales of automobile glass with installation/repair service business and trading of automobile glass, whereas the related cost of sales decreased with lesser proportion since some costs, such as staff costs, rental and utilities, did not proportionately decrease with revenue.

Revenue of the Hangzhou segment decreased by approximately 11.8% from approximately RMB637,000 to approximately RMB562,000 for the three months ended 31 March 2015. This was mainly due to decline of both sales and trading of automobile glass resulted from keen competition in the Hangzhou area. Gross profit decreased by approximately 69.0% from approximately RMB184,000 to approximately RMB57,000 resulted from a reduction in average selling price of trading of automobile glass because of keen competition. Gross profit margin decreased from approximately 28.9% to approximately 10.1% and is mainly due to decrease in both sales and trading of automobile glass whereas the related costs decreased with lesser proportion, such as rental, salary and utilities.

The revenue from the Shenzhen segment amounted to approximately RMB1,968,000 for the three months ended 31 March 2015, which represents a 3.2% decrease as compared to approximately RMB2,033,000 of the corresponding period last year. The decrease was mainly due to decrease in sales of automobile glass with installation/repair service business. Gross profit amounted to approximately RMB571,000 with gross profit margin of approximately 29.0% and is consistent with the corresponding period last year.

Selling and Distribution Costs

Selling and distribution costs increased by approximately 40.0% from approximately RMB3,892,000 for the three months ended 31 March 2014 to approximately RMB5,098,000 for three months ended 31 March 2015. The increase was mainly due to an increase of selling staff’s salaries and commission on a new sales incentive plan during the current period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Administrative Expenses

The Group's administrative expenses are mainly consisted of professional fees, staff costs (including Directors' remunerations), depreciation and rental expenses. The total administrative expenses increased by approximately 132.9% from approximately RMB3,883,000 for the three months ended 31 March 2014 to approximately RMB9,045,000 for the three months ended 31 March 2015. The increase was mainly due to the substantial legal and financial consultancy fees of approximately RMB2,000,000 incurred by the Group in this reporting period in relation to, inter alia, its existing legal proceedings in the Court of First Instance in the High Court of the Hong Kong Special Administrative Region. In addition, the increase in administrative expenses also included staff salaries and benefit of approximately RMB660,000; travelling and meeting expenses of approximately RMB500,000; staff training costs of approximately RMB330,000; and a compensation of approximately RMB700,000 in a traffic accident related court judgement in the current period.

Finance Cost and Income

Finance cost increased slightly from approximately RMB13,000 for the three months ended 31 March 2014 to approximately RMB18,000 for the three months ended 31 March 2015. Finance income decreased from approximately RMB77,000 for the three months ended 31 March 2014 to approximately RMB31,000 for the three months ended 31 March 2015 and was mainly the result of a decrease in average monthly deposit in banks.

Share of Losses of a Jointly-Controlled Entity

It represents share of losses of the investment of 49% equity interest in a jointly-controlled entity, namely Polaron Solartech Corp. which is located in Canada, of approximately RMB167,000 for the current period.

Income Tax Expenses

The Group recorded income tax credit of approximately RMB247,000 for the current period, representing a decrease of approximately 173.7% from income tax expense of approximately RMB335,000 for the three months ended 31 March 2014, which mainly resulted from deferred income tax credited to the consolidated statement of comprehensive income during the period ended 31 March 2015.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Loss for the period

The Group recorded a loss of approximately RMB10,152,000 for the three months ended 31 March 2015, as compared to the profit of approximately RMB1,032,000 for the three months ended 31 March 2014. The decrease in net profit for the period resulted from the decrease in gross profit of sales of automobile glass with installation/repair services and the significant decrease in gross profit margin from trading of automobile glass to the industry peers and traders of automobile glass and automobile repair garages in Beijing during the period. Moreover, additions of significant professional fees to financial advisors and legal consultants also reduced the net profit of the Group.

Contingent Liabilities

On 24 December 2014, Xinyi Automobile Glass (BVI) Company Limited ("**Xinyi Glass (BVI)**") issued an originating summons (the "**Originating Summons**") and instituted proceedings in the Court of First Instance of the Hong Kong Special Administrative Region against the Company, the vendor of the Daqing property, the holder of the convertible bonds, the existing executive and non-executive Directors and certain existing and former independent non-executive Directors, with respect to the acquisition of a property in Daqing (the "**Daqing Acquisition**") as detailed in the Prospects section of this report.

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

Management has consulted legal advisors in both the PRC and Hong Kong in response to the Originating Summons. The Directors have thoroughly revisited the situations based on the advices of the PRC and Hong Kong legal advisors, and considered that the demands (i) to (iii) are unattainable and demand (iv) does not impact the Company nor the Group. Accordingly, the Directors considered that the pending litigation will not have material adverse impact to the consolidated financial statements as at 31 March 2015.

As at 31 March 2015, the Group did not have any other significant contingent liabilities (31 March 2014: Nil).

Subsequent Events after the Reporting Period

Subscription of new shares under general mandate

On 30 April 2015 (after trading hours), the Company entered into a subscription agreement with Eastern Wealth Development Limited (the "**Subscriber**"), pursuant to which the Company has agreed to allot and issue and the Subscriber has agreed to subscribe for 25,000,000 subscription shares (the "**Subscription Shares**") at a subscription price of HK$15,025,000, which is based on the subscription price of HK$0.601 per Subscription Share.

The Subscription Shares are to be issued under the general mandate granted to the Directors pursuant to an ordinary resolution of the shareholders passed on 9 May 2014 whereby the Directors have been duly authorised to allot and issue new shares not exceeding 20% of the total issued share capital of the Company as at 9 May 2014. As such, the allotment and issue of the Subscription Shares are not subject to additional shareholders' approval.

Please refer to the announcement of the Company dated 30 April 2015 for further details.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

PROSPECTS

The Group was listed on GEM of the Stock Exchange on 3 September 2013 (the "**Listing**") and further issued new shares to one of the existing shareholders, Xinyi Glass (BVI) on 16 May 2014. The funds raised from the Listing and further 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 19 October 2014, the Group has entered into the Daqing Acquisition Agreement with an independent third party to purchase a property with a 4-storey commercial complex located in Sa'ertu District, Daqing City, Heilongjiang Province, China with a total gross floor area of approximately 4,445 square meters, at the consideration of RMB48,000,000 (equivalent to approximately HK$60,816,000) which was satisfied by the issue of the convertible bonds upon completion. The property will be used to set up a new service centre and warehouse which is in line with the Group's strategy of expanding its business operations in the PRC and could allow the Group to secure a prime and strategic location to expand its sales network.

With a view to further promote the services of the Group, the Company intends to develop a mobile phone and internet sales platform. This platform is connectable by both personal computers and mobile phones, customers can access through the online sales platform to make online orders, online payment, and appointments for on-site installation services by the Group, which lays the foundation for a chain store network of the Group. In addition, through cooperation with the Autohome Inc. website, one of the largest online automobile service platforms in the PRC, the Group can use their mobile phone application platform to promote the goods and services of the Group through mobile phones.

In order to fully utilise the mobile phone and internet sales platform, the Group intends to gradually integrate the independent automobile glass installation/repair centres around China and invite them to join the Group's chain store network as and when appropriate. At the same time, the Group also plans to set up service centres in areas lacking automobile glass installation/repair services or where such skills are not yet well-developed to explore greater business opportunities.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Overall Market Condition in Beijing in 2015

Approximately 76.8% of the Group's business is derived from the Beijing market. Currently, vehicle ownership is 5.5 million (source: 12 September 2014, Beijing News Bureau, released on 11 September 2014, in which the growth rate for vehicles in Beijing was derived). From January to September 2014, vehicle ownership increased by 1.16%.

Starting from 1 September 2014, new vehicle inspection policies was implemented by the PRC authority, new personal vehicles under six years now undergo first inspection at the end of the sixth year instead of inspection every two years. Glass on vehicles must be inspected during annual inspections, and broken glass must be replaced. Some people now choose not to replace it, which has objectively reduced the volume of glass changed.

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

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

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

Daqing Complements Beijing Weakness

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

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

Branding

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 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

CORPORATE GOVERNANCE

Pursuant to Rules 5.05(1), 5.05(2), 5.05A, 5.28 and 5.34 of the GEM Listing Rules and code provision A.5.1 of the Corporate Governance Code contained in Appendix 15 to the GEM Listing Rules (the "**Code**"), (i) the Board is required to have at least three independent non-executive Directors, at least one of whom must have appropriate professional qualifications or accounting or related financial management expertise, and represent at least one-third of the Board; (ii) the audit committee should be chaired by an independent non-executive Director and comprise a minimum of three members, at least one of whom is an independent non-executive Director meeting the requirement set out in Rule 5.05(2) of the GEM Listing Rules; (iii) the remuneration committee must be chaired by an independent non-executive Director and comprise a majority of independent non-executive Directors; and (iv) the nomination committee should comprise a majority of independent non-executive Directors.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

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

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 in relation to subscription of new shares by a substantial shareholder as disclosed in the announcement of the Company dated 28 March 2014, neither Quam Capital nor its directors, employees or close associates had any interests in relation to the Company or any member of the Group which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules as at 31 March 2015.

Directors' Interests in Competing Interests

For the three months ended 31 March 2015, the Directors were not aware of any business or interest of each of the Directors, or 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 three months ended 31 March 2015, 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 31 March 2015, 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 as referred to in rule 5.46 of the GEM Listing Rules, were as follows:

*Long positions in the ordinary shares of the Company (the "**shares**") and underlying shares of the Company*

Name of Director	Nature of interest	Number of shares and underlying shares held	Approximate percentage of shareholding (%)
Natsu Kumiko ("**Ms. Natsu**")	Interest in a controlled corporation	220,000,000 (Note 1)	41.5

Note:

(1) Lu Yu Global Limited ("**Lu Yu**"), a company incorporated in the British Virgin Islands (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 the 220,000,000 shares held by Lu Yu by virtue of her 100% shareholding interest in Lu Yu.

Save as disclosed above, as at 31 March 2015, none of the Directors and chief executives 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 as 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 31 March 2015, the following persons (not being a Director or chief executive of the Company) had, or were deemed to have interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the shares and underlying shares of the Company

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

Notes:

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(3) Xinyi Glass (BVI), a company incorporated in the BVI on 13 June 2012 and an investment holding company, 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 the 140,000,000 shares held by Xinyi Glass (BVI).

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

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

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

* *For identification purpose only*

Save as disclosed above, as at 31 March 2015, the Directors were not aware of any other persons (other than Directors or chief executives 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, 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 three months ended 31 March 2015.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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. The Audit Committee has three members comprising Mr. Jiang Bin (Chairman), Mr. Han Shaoli and Mr. Chen Jinliang. The Audit Committee has reviewed the unaudited results of the Group for the three months ended 31 March 2015.

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

Hong Kong, 12 May 2015

As at the date of this report, the executive Directors are Ms. Xia Lu, Mr. He Changsheng and Mr. Li Honglin; the non-executive Director is Ms. Natsu Kumiko (Chairman) (Mr. Xia Xiufeng as her alternate); and the independent non-executive Directors are Mr. Chen Jinliang, Mr. Han Shaoli and Mr. Jiang Bin.