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

2015
Third Quarterly Report

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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, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**") 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 2015

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 2015, together with the comparative unaudited figures for the corresponding periods in 2014, are as follows:

		Nine months ended 30 September		Three months ended 30 September	
		2015	2014	**2015**	2014
		RMB'000	RMB'000	**RMB'000**	RMB'000
	Notes	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)
Revenue	6	**86,735**	101,192	**33,026**	39,115
Cost of sales		**(68,873)**	(69,755)	**(26,666)**	(28,417)
Gross profit		**17,862**	31,437	**6,360**	10,698
Other gain/(loss)	6	**268**	94	**(14)**	17
Selling and distribution costs		**(18,231)**	(12,153)	**(6,734)**	(4,358)
Administrative expenses		**(27,034)**	(13,647)	**(8,079)**	(5,862)
		(27,135)	5,731	**(8,467)**	495
Finance income		**383**	173	**327**	76
Finance cost		**(84)**	(117)	**(45)**	(23)
Finance income/(cost), net		**299**	56	**282**	53
Change of loss of investment accounted for using the equity method		**(93)**	(47)	**409**	(47)
(Loss)/Profit before income tax		**(26,929)**	5,740	**(7,776)**	501
Income tax credit/(expense)	8	**339**	(1,412)	**219**	(69)
(Loss)/Profit for the period		**(26,590)**	4,328	**(7,557)**	432

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the three months and nine months ended 30 September 2015

	Notes	Nine months ended 30 September 2015 RMB'000 (unaudited)	Nine months ended 30 September 2014 RMB'000 (unaudited)	Three months ended 30 September 2015 RMB'000 (unaudited)	Three months ended 30 September 2014 RMB'000 (unaudited)
Other comprehensive loss					
Items that may be reclassified subsequently to profit or loss:					
Change in value of available-for-sale investment		**(262)**	–	**–**	–
Currency translation differences		**(1,741)**	(189)	**(503)**	(168)
Total comprehensive (loss)/ income for the period		**(28,593)**	4,139	**(8,060)**	264
(Loss)/Profit attributable to:					
Equity holders of the Company		**(26,304)**	3,889	**(7,482)**	243
Non-controlling interests		**(286)**	439	**(75)**	189
		(26,590)	4,328	**(7,557)**	432
Total comprehensive (loss)/ income attributable to:					
Equity holders of the Company		**(28,307)**	3,700	**(7,985)**	75
Non-controlling interests		**(286)**	439	**(75)**	189
		(28,593)	4,139	**(8,060)**	264
(Losses)/Earnings per share Basic and diluted (RMB cents)	10	**(4.75)**	0.88	**(1.27)**	0.05

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2015

	Attributable to equity holders 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	–	–	–	–	–	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, net proceed	632	34,288	–	–	–	–	34,920	–	34,920
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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the nine months ended 30 September 2015

	Attributable to equity holders 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	–	–	–	–	–	–	–	(26,304)	(26,304)	(286)	(26,590)
Other comprehensive loss											
Change in value of available-for-sale investment	–	–	–	–	–	(262)	–	–	(262)	–	(262)
Currency translation difference	–	–	–	–	–	–	(1,741)	–	(1,741)	–	(1,741)
Total comprehensive (loss)/income	–	–	–	–	–	(262)	(1,741)	(26,304)	(28,307)	(286)	(28,593)
Transactions with equity owners of the Company recognised directly in equity											
Issue of new shares, net proceed	1,070	50,948	–	–	–	–	–	–	52,018	–	52,018
Appropriation to PRC statutory reserve	–	–	–	61	–	–	–	(61)	–	–	–
Balance at 30 September 2015 (Unaudited)	5,263	258,103	(47,484)	4,719	22,169	–	(2,521)	6,692	246,941	5,182	252,123

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. CORPORATE INFORMATION AND REORGANISATION

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 and the trading of automobile glass 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 consolidated 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 information are applied consistent with those applied in the Group's annual consolidated financial statements for the year ended 31 December 2014.

3. BASIS OF PREPARATION

The condensed consolidated interim financial information has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") and has 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 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

4. BASIS OF CONSOLIDATION (CONTINUED)

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.

5. ADOPTION OF NEW AND REVISED HKFRSs

The Group has adopted the following revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants for the first time for the condensed consolidated financial statements:

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Annual Improvements 2010 – 2012 Cycle	Amendments to numbers of HKFRSs
Annual Improvements 2011 – 2013 Cycle	Amendments to numbers of HKFRSs

The adoption of the revised HKFRSs has had no significant financial effect on the condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in the condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

6. REVENUE AND OTHER GAIN/(LOSS)

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	
	2015	2014	**2015**	2014
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	RMB'000	RMB'000	**RMB'000**	RMB'000
Revenue				
Sales of automobile glass with installation/repair services	**78,767**	91,381	**28,942**	34,943
Trading of automobile glass	**7,161**	6,556	**4,081**	1,327
Provision of installation services of photovoltaic system	**807**	3,255	**3**	2,845
Total	**86,735**	101,192	**33,026**	39,115
Other gain/(loss)				
– (Loss)/Gain on disposal of property, plant and equipment	**(60)**	44	**(1)**	17
– Subsidy	**–**	50	**–**	–
– Others	**328**	–	**(13)**	–
Total	**268**	94	**(14)**	17

7. SEGMENT REPORTING

The chief operating decision-maker ("**CODM**") has been identified as the executive Directors and the Chief Financial Officer collectively. CODM reviews the Group's internal reporting in order to assess performance and allocate resources.

Management determines its operating segments based on the reports reviewed by CODM that are used to make strategic decisions. These reports include segment revenue and segment results. Operating segment result represents the gross profit that is reviewed by CODM. Unallocated expenses represent other gain/(loss), selling and distribution costs and administrative expenses.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

7. SEGMENT REPORTING (CONTINUED)

CODM considers the business from a geographical aspect. Presentation of information on the basis of operating segments and segment revenue is based on the geographical presence of customers. Segment assets and liabilities are not regularly reported to the Group's CODM and therefore information of reportable segment assets and liabilities is not presented in the condensed consolidated financial statements.

	Northern China (excluding Shenyang) Nine months ended 30 September		Shenyang Nine months ended 30 September		Hangzhou Nine months ended 30 September		Shenzhen Nine months ended 30 September		Reportable segments Nine months ended 30 September	
	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	**70,681**	81,640	**827**	1,681	**1,257**	1,813	**6,002**	6,247	**78,767**	91,381
Trading of automobile glass	**24,867**	39,403	**610**	1,901	**1,112**	671	**597**	833	**27,186**	42,808
Provision of installation services of photovoltaic system	**807**	3,255	**–**	–	**–**	–	**–**	–	**807**	3,255
Inter-segment sales	**(19,286)**	(35,900)	**(122)**	(173)	**(589)**	(175)	**(28)**	(4)	**(20,025)**	(36,252)
Revenue from external customers	**77,069**	88,398	**1,315**	3,409	**1,780**	2,309	**6,571**	7,076	**86,735**	101,192
Results of reportable segments	**15,540**	27,841	**70**	901	**201**	731	**2,051**	1,964	**17,862**	31,437
Depreciation	**3,419**	3,081	**73**	20	**81**	55	**75**	102	**3,648**	3,258
Amortisation	**1,138**	1,138	**–**	–	**–**	–	**619**	585	**1,757**	1,723
Capital expenditure	**4,488**	2,594	**–**	23	**–**	88	**44**	215	**4,532**	2,920

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

	2015	2014
Results of reportable segments	**17,862**	31,437
Unallocated income	**268**	94
Unallocated expenses	**(45,265)**	(25,800)
	(27,135)	5,731
Finance income	**383**	173
Finance cost	**(84)**	(117)
Share of losses of investment accounted for using equity method	**(93)**	(47)
(Loss)/Profit before income tax	**(26,929)**	5,740

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

8. INCOME TAX CREDIT/(EXPENSE)

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 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 ended 30 September 2015 (Nine months ended 30 September 2014: 25%). The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and the British Virgin Islands during the period (Nine months ended 30 September 2014: Nil).

9. DIVIDENDS

The Directors did not recommend the payment of any dividend for the nine months ended 30 September 2015 (Nine months ended 30 September 2014: Nil).

10. (LOSSES)/EARNINGS PER SHARE

(a) Basic

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

	Nine months ended 30 September		**Three months ended 30 September**	
	2015 (Unaudited)	2014 (Unaudited)	**2015 (Unaudited)**	2014 (Unaudited)
(Loss)/profit attributable to owners of the Company (RMB'000)	**(26,304)**	3,889	**(7,482)**	243
Weighted average number of ordinary shares in issue (thousands)	**553,989**	440,000	**588,413**	480,000
Basic (losses)/earnings per share (in RMB cents)	**(4.75)**	0.88	**(1.27)**	0.05

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

10. (LOSSES)/EARNINGS PER SHARE (CONTINUED)

(b) Diluted

Diluted (losses)/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 losses per share for the nine months ended 30 September 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 nine months ended 30 September 2014 is the same as 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 includes 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 2015, the Group operated 28 service centres in the PRC providing automobile glass installation/repair services. The Group's total revenue for the nine months ended 30 September 2015 amounted to approximately RMB86,735,000, representing a decrease of approximately RMB14,457,000 or 14.3% as compared to that of approximately RMB101,192,000 for the corresponding period last year. Overall gross profit decreased by approximately RMB13,575,000 or 43.2% to approximately RMB17,862,000 for the nine months ended 30 September 2015 from approximately RMB31,437,000 for the corresponding period last year. The gross profit margin for the current period decreased to 20.6% from 31.1% for the corresponding period last year. The total comprehensive loss attributable to owners of the Company for the nine months ended 30 September 2015 amounted to approximately RMB28,307,000, while the total comprehensive income attributable to owners of the Company was approximately RMB3,700,000 for the nine months ended 30 September 2014.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

REVIEW BY SEGMENT

	Northern China (excluding Shenyang) Nine months ended 30 September			Shenyang Nine months ended 30 September			Hangzhou Nine months ended 30 September			Shenzhen Nine months ended 30 September			Total Nine months ended 30 September		
	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	**77,069**	88,398	(12.8)	**1,315**	3,409	(61.4)	**1,780**	2,309	(22.9)	**6,571**	7,076	(7.1)	**86,735**	101,192	(14.3)
Gross profit	**15,540**	27,841	(44.2)	**70**	901	(92.2)	**201**	731	(72.5)	**2,051**	1,964	4.4	**17,862**	31,437	(43.2)
Gross profit margin	**20.2%**	31.5%		**5.3%**	26.4%		**11.3%**	31.7%		**31.2%**	27.8%		**20.6%**	31.1%	

The Northern China (excluding Shenyang) segment includes Beijing, Tianjin, Sanhe and revenue generated from these areas represents approximately 88.9% of the Group's total revenue. Revenue from the Northern China segment decreased by approximately 12.8% from approximately RMB88,398,000 for the corresponding period last year to approximately RMB77,069,000 for the nine months ended 30 September 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 44.2% from approximately RMB27,841,000 for the corresponding period last year to approximately RMB15,540,000 for the nine months ended 30 September 2015, and gross profit margin decreased from approximately 31.5% for the corresponding period last year to approximately 20.2% for the nine months ended 30 September 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 61.4% from approximately RMB3,409,000 for the corresponding period last year to approximately RMB1,315,000 for the nine months ended 30 September 2015. The gross profit decreased by approximately 92.2% from approximately RMB901,000 for the corresponding period last year to approximately RMB70,000 for the nine months ended 30 September 2015, and gross profit margin decreased from approximately 26.4% for the corresponding period last year to approximately 5.3% for the nine months ended 30 September 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 22.9% from approximately RMB2,309,000 for the corresponding period last year to approximately RMB1,780,000 for the nine months ended 30 September 2015. This was mainly due to decline of both sales and trading of automobile glass resulting from keen competition in the Hangzhou area. Gross profit decreased by approximately 72.5% from approximately RMB731,000 for the corresponding period last year to approximately RMB201,000 for the nine months ended 30 September 2015, resulting from a reduction in average selling price of trading of automobile glass due to keen competition. Gross profit margin decreased from approximately 31.7% for the corresponding period last year to approximately 11.3% for the nine months ended 30 September 2015, 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 RMB6,571,000 for the nine months ended 30 September 2015, which represents a decrease of approximately 7.1% as compared to that of approximately RMB7,076,000 for 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 RMB2,051,000 for the nine months ended 30 September 2015, with gross profit margin of approximately 31.2% and is slightly higher than the corresponding period last year of approximately 27.8%.

Other Gain/(Loss)

Other gain mainly represents the guarantee profits of CAD49,000 (equivalent to RMB255,000) reimbursed by the major shareholder of investment in joint venture.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Selling and Distribution Costs

Selling and distribution costs increased by approximately 50.0% from approximately RMB12,153,000 for the nine months ended 30 September 2014 to approximately RMB18,231,000 for the nine months ended 30 September 2015. The increase was mainly due to an increase of advertising and marketing expense, selling staff's salaries and commission on a new sales incentive plan during the current period.

Administrative Expenses

The Group's administrative expenses mainly consisted of professional fees, staff costs (including Directors' remunerations), depreciation, rental and meeting/conference expenses. The total administrative expenses increased by approximately 98.1% from approximately RMB13,647,000 for the nine months ended 30 September 2014 to approximately RMB27,034,000 for the nine months ended 30 September 2015. The increase was mainly due to the substantial legal and financial consultancy fees of approximately RMB3,780,000 incurred by the Group in this reporting period in relation to, inter alia, its existing legal proceedings in the Court of First Instance of 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 RMB1,711,000; meeting and conference expenses of approximately RMB2,537,000; and other professional fees of approximately RMB3,062,000.

Finance Income and Cost, net

Finance cost decreased from approximately RMB117,000 for the nine months ended 30 September 2014 to approximately RMB84,000 for the nine months ended 30 September 2015. Finance income increased from approximately RMB173,000 for the nine months ended 30 September 2014 to approximately RMB383,000 for the nine months ended 30 September 2015, which was mainly the result of a recognisation of exchange gain on a inter-company loan repayment.

Share of Losses of Investment Accounted for Using the Equity Method

It represents share of losses of the investment of 49% equity interest in a joint venture entity, namely Polaron Solartech Corp. which is located in Canada, of approximately RMB93,000 for the current period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Income Tax Expenses

The Group recorded income tax credit of approximately RMB339,000 for the nine months ended 30 September 2015, compared with income tax expenses of approximately RMB1,412,000 for the nine months ended 30 September 2014. The income tax credit was mainly a result of deferred income tax credited to the consolidated statement of comprehensive income during the period ended 30 September 2015.

Loss for the period

The Group recorded a loss of approximately RMB26,590,000 for the nine months ended 30 September 2015, as compared to a profit of approximately RMB4,328,000 for the nine months ended 30 September 2014. The decrease mainly resulted from the decrease in gross profit of sales of automobile glass with installation/repair services and the significant decrease in gross profit 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 advisers 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 then existing executive and non-executive Directors and certain then existing and former independent non-executive Directors, with respect to the acquisition of a property in Daqing (the "**Daqing Acquisition**"). 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;

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(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

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

Management has consulted the PRC and Hong Kong legal advisers of the Company in response to the Originating Summons. The Directors have thoroughly revisited the situations based on their advices, 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 December 2014 and 30 September 2015.

Subsequent Events after the Reporting Period

Share Award Scheme

To recognise and reward the selected participants for their contributions to the business and development of the Group, the Company adopted a share award scheme (the "**Scheme**") on 12 October 2015. Under the Scheme, the board of Directors (the "**Board**") may, from time to time, at its absolute discretion, select any eligible persons to participate in the Scheme as selected participants and such selected participants may be granted an award of award shares or cash proceeds arising from the sale of such award shares based on the actual selling price during the award period, which will vest over a period of time and on such other conditions to be determined by the Board in its absolute discretion.

The Company will not make any further grant of award which will result in the number of shares granted under the Scheme exceeding 10% of the total number of issued shares from time to time. The maximum number of award which may be granted to a selected participant but unvested under the Scheme shall not exceed 3% of the total number of issued shares from time to time.

Please refer to the announcement of the Company dated 12 October 2015 for further details.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Change of Auditor

BDO Limited has been appointed as auditor of the Company by the Board with effect from 2 November 2015 to fill the casual vacancy arising from the resignation of PricewaterhouseCoopers on 30 October 2015 and to hold office until the conclusion of the forthcoming annual general meeting (the "**AGM**"). A resolution will be proposed at the forthcoming AGM to re-appoint BDO Limited as auditor of the Company.

Please refer to the announcement of the Company dated 3 November 2015 for further details.

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.

On 15 May 2015, the Company issued 25,000,000 new shares to Eastern Wealth Development Limited (the "**Subscription**"). The net proceeds arising from the Subscription amounted to approximately HK$14.5 million and the Company will apply the net proceeds to develop the mobile phone and internet sales platform for the promotion of the Group's businesses in accordance with the intended use of proceeds.

On 2 September 2015, the Company issued another 106,000,000 new shares to Rise Grace Development Limited (the "**New Subscription**"). The net proceeds arising from the New Subscription amounted to approximately HK$49 million. It is expected that the net proceeds from the New Subscription will be used by the Company as to HK$7 million for general working capital of the Group and the remaining for promotion of the mobile phone and internet sales platform in the regions in the PRC where the Group's services have not yet covered.

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. After the establishment of the mobile phone and internet sales

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

platform, the Group will promote the platform in the regions in PRC where the Group's services have not yet covered and invite independent automobile glass installation/repair companies or service providers in such regions to join the Group's developed mobile phone and internet sales platform and cooperate with the Group in setting up an automobile glass service chain store network.

During the period, the Group has entered into a significant photovoltaic system installation services contract of RMB30,000,000 in the PRC, which is one of the biggest rooftop photovoltaic systems in Beijing. The project has been commenced in the third quarter of 2015 and expected to be completed by the end of 2015.

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 among others, 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

(1) 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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.

(2) 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.

(3) Pursuant to code provision E.1.2 of the Code, the chairman of the Board should attend the annual general meeting.

Regarding the AGM held on 12 May 2015, Ms. Natsu Kumiko ("**Ms. Natsu**"), the then chairman of the Board was not able to attend due to her unavoidable business engagement. Notwithstanding the above, there were other Directors present in the general meetings.

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 2015.

Directors' Interests in Competing Interests

For the nine months ended 30 September 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 nine months ended 30 September 2015, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 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 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.

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 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 and underlying shares of the Company as recorded in the register required to be kept 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 Global Limited ("**Lu Yu**")	Beneficial owner	220,000,000	33.28%
Ms. Natsu (Note 1)	Interest in a controlled corporation	220,000,000	33.28%
Xia Chengzhen (Note 2)	Interest of spouse	220,000,000	33.28%
Xinyi Automobile Glass (BVI) Company Limited ("**Xinyi Glass (BVI)**") (Note 3)	Beneficial owner	120,360,000	18.21%
Xinyi Glass Holdings Limited ("**Xinyi Glass Holdings**") (Note 4)	Interest in a controlled corporation	120,360,000	18.21%
Rise Grace Development Limited (Note 5)	Beneficial owner	106,000,000	16.04%
Diamond Galaxy Limited (Note 5)	Interest in a controlled corporation	106,000,000	16.04%
Lo Chun Yim (Note 5)	Interest in a controlled corporation	106,000,000	16.04%
Aleta Global Limited ("**Aleta**")	Beneficial owner	4,690,647	0.71%
(Note 6)	Other	50,000,000	7.56%
Wang Yao Min (Note 7)	Other	54,690,647	8.27%
薛呈祥 (Xue Chengxiang*) (Note 8)	Person having a security interest in shares	54,690,647	8.27%

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Notes:

(1) 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. 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.

(2) 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, Xia Chengzhen is deemed to be interested in the shares in which Ms. Natsu is interested.

(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 120,360,000 shares held by Xinyi Glass (BVI).

(5) Information is extracted from the corporate substantial shareholder notices filed by Rise Grace Development Limited and Diamond Galaxy Limited on 18 August 2015, and the individual substantial shareholder notice filed by Lo Chun Yim on 18 August 2015.

(6) Pursuant to the corporate substantial shareholder notice filed by Aleta on 27 November 2014, the interests include 4,690,647 shares in long position, which were held in physically settled unlisted derivatives. Pursuant to the terms of the instrument of the Convertible Bond, the number of shares falling to be issued under the outstanding Convertible Bond was adjusted to 4,874,766 shares with effect from 3 September 2015, as a result of the subscription of shares on 2 September 2015, details of which were disclosed in the announcement of the Company dated 2 September 2015.

(7) Pursuant to the individual substantial shareholder notice filed by Wang Yao Min on 27 November 2014, the interests include 4,690,647 shares in long position, which were held in physically settled unlisted derivatives. Pursuant to the terms of the instrument of the Convertible Bond, the number of shares falling to be issued under the outstanding Convertible Bond was adjusted to 4,874,766 shares with effect from 3 September 2015, as a result of the subscription of shares on 2 September 2015, details of which were disclosed in the announcement of the Company dated 2 September 2015.

(8) 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. Pursuant to the terms of the instrument of the Convertible Bond, the number of shares falling to be issued under the outstanding Convertible Bond was adjusted to 4,874,766 shares with effect from 3 September 2015, as a result of the subscription of shares on 2 September 2015, details of which were disclosed in the announcement of the Company dated 2 September 2015.

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Save as disclosed above, as at 30 September 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 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 nine months ended 30 September 2015.

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. Chen Jinliang and Mr. Han Shaoli. The Audit Committee has reviewed the unaudited results of the Group for the nine months ended 30 September 2015.

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

Hong Kong, 10 November 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 Directors are Mr. Xia Xiufeng (Chairman), Mr. Liu Mingyong and Mr. Qi Dianjiang; and the independent non-executive Directors are Mr. Chen Jinliang, Mr. Han Shaoli and Mr. Jiang Bin.