



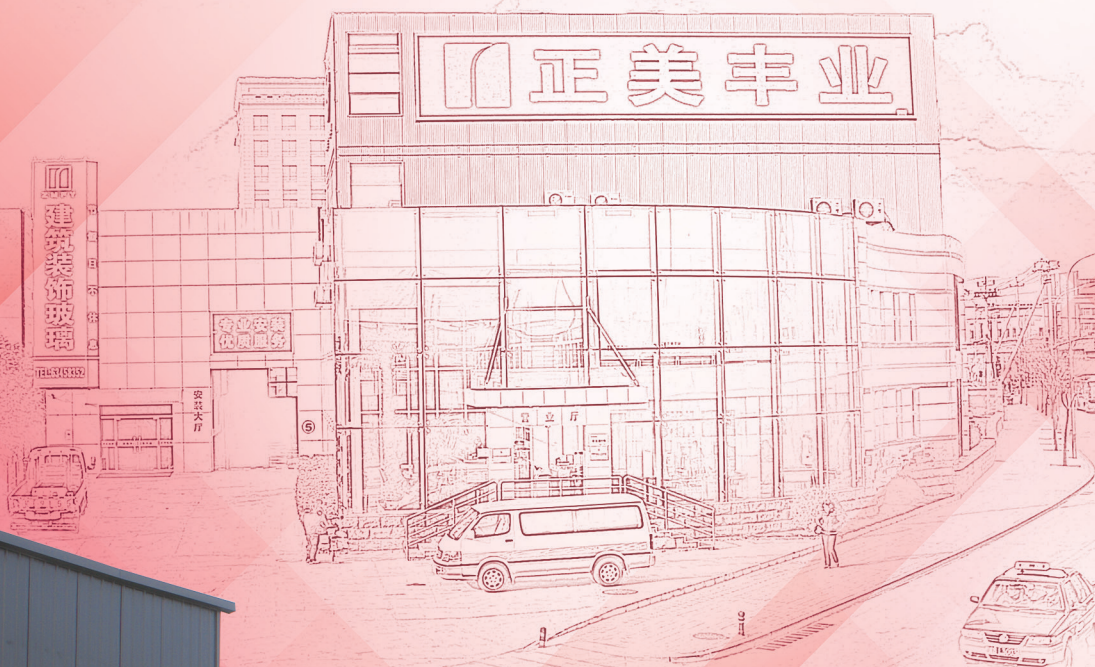
ZMFY Automobile Glass Services Limited

正美豐業汽車玻璃服務有限公司

正美丰业

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8135



Interim Report  
2016





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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 the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*



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## CORPORATE INFORMATION

### DIRECTORS

#### Executive Directors

Ms. Xia Lu (*Chief Executive Officer*)  
Mr. He Changsheng  
Mr. Li Honglin

#### Non-Executive Directors

Mr. Xia Xiufeng (*Chairman*)  
Mr. Liu Mingyong  
Mr. Lo Chun Yim

#### Independent Non-Executive Directors

Mr. Chen Jinliang  
Mr. Han Shaoli  
Mr. Jiang Bin

#### LEGAL ADVISERS

As to Hong Kong law:  
Tung & Co., Solicitors  
Office 1601, 16th Floor  
LHT Tower  
31 Queen's Road Central  
Hong Kong

As to PRC law:  
Beijing Tian Ping Law Firm  
Room 402, Building 9  
Unit 9, Yiping Commercial Street  
No. 2 Taoranting Road  
Xicheng District  
Beijing  
China

### AUDITOR

BDO Limited  
Certified Public Accountants  
25/F, Wing On Centre  
111 Connaught Road Central  
Hong Kong

### AUTHORISED REPRESENTATIVES

Ms. Xia Lu  
Mr. Sum Sui Lun

### COMPANY SECRETARY

Mr. Sum Sui Lun  
*HKICPA, CPA Australia*

### COMPLIANCE OFFICER

Mr. Li Honglin

### AUDIT COMMITTEE MEMBERS

Mr. Jiang Bin (*Chairman*)  
Mr. Chen Jinliang  
Mr. Han Shaoli  
Mr. Liu Mingyong



## CORPORATE INFORMATION (CONTINUED)

### REMUNERATION COMMITTEE MEMBERS

Mr. Han Shaoli (*Chairman*)  
Mr. Chen Jinliang  
Mr. He Changsheng

### NOMINATION COMMITTEE MEMBERS

Mr. Chen Jinliang (*Chairman*)  
Mr. Jiang Bin  
Ms. Xia Lu

### REGISTERED OFFICE

Cricket Square  
Hutchins Drive  
PO Box 2681  
Grand Cayman, KY1-1111  
Cayman Islands

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Fengtai District  
Beijing  
China

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

2318 Leighton Centre  
77 Leighton Road  
Causeway Bay  
Hong Kong

### PRINCIPAL BANKERS

China Construction Bank  
Beijing Rural Commercial Bank

### HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### WEBSITE ADDRESS

<http://www.zmfy.com.hk>

### STOCK CODE

8135

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2016

### Unaudited Interim Results

The unaudited condensed consolidated results of ZMFY Automobile Glass Services Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) for the six months and three months ended 30 June 2016, together with the comparative unaudited figures for the corresponding periods in 2015, are as follows:

	Notes	Six months ended 30 June		Three months ended 30 June	
		2016 (unaudited) RMB'000	2015 (unaudited) RMB'000	2016 (unaudited) RMB'000	2015 (unaudited) RMB'000
Revenue	6	70,895	53,709	33,670	30,755
Cost of sales	8	(60,475)	(42,207)	(26,800)	(23,147)
<b>Gross profit</b>		<b>10,420</b>	11,502	<b>6,870</b>	7,608
Other (loss)/gain, net	6	(332)	282	(38)	278
Selling and distribution costs	8	(13,248)	(11,497)	(6,453)	(6,399)
Administrative expenses	8	(18,831)	(18,955)	(9,762)	(9,910)
		(21,991)	(18,668)	(9,383)	(8,423)
Finance income		21	56	10	25
Finance cost		(40)	(39)	(20)	(21)
Finance (cost)/income, net		(19)	17	(10)	4
Share of losses of investment accounted for using the equity method		(166)	(502)	(45)	(335)
Losses before income tax		(22,176)	(19,153)	(9,438)	(8,754)
Income tax credit/(expense)	9	62	120	(43)	(127)
<b>Losses for the period</b>		<b>(22,114)</b>	(19,033)	<b>(9,481)</b>	(8,881)
<b>Other comprehensive income:</b> Items that may be reclassified subsequently to profit or loss:					
Change in value of available-for-sale investment		-	(262)	-	(262)
Currency translation differences		625	(1,238)	635	(868)
<b>Total comprehensive income for the period</b>		<b>(21,489)</b>	(20,533)	<b>(8,846)</b>	(10,011)

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the three months and six months ended 30 June 2016

	Notes	Six months ended 30 June		Three months ended 30 June	
		2016 (unaudited) RMB'000	2015 (unaudited) RMB'000	2016 (unaudited) RMB'000	2015 (unaudited) RMB'000
<b>Losses attributable to:</b>					
Owners of the Company		(21,881)	(18,822)	(9,425)	(8,831)
Non-controlling interests		(233)	(211)	(56)	(50)
		<b>(22,114)</b>	<b>(19,033)</b>	<b>(9,481)</b>	<b>(8,881)</b>
<b>Total comprehensive income attributable to:</b>					
Owners of the Company		(21,256)	(20,322)	(8,790)	(9,961)
Non-controlling interests		(233)	(211)	(56)	(50)
		<b>(21,489)</b>	<b>(20,533)</b>	<b>(8,846)</b>	<b>(10,011)</b>
<b>Loss per share attributable to owners of the Company for the period (expressed in RMB cents per share)</b>					
Basic and diluted loss per share	11	<b>(3.31)</b>	(3.51)	<b>(1.43)</b>	(1.63)

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

		30 June 2016 (unaudited) RMB'000	31 December 2015 (audited) RMB'000
	Notes		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	57,843	59,408
Intangible assets		9,501	10,147
Investment accounted for using the equity method		1,146	1,312
Prepayments and deposits	13	1,777	2,107
		<b>70,267</b>	<b>72,974</b>
<b>Current assets</b>			
Inventories	15	35,019	37,534
Trade and other receivables	13	41,882	53,430
Income tax recoverable		216	400
Cash and cash equivalents		39,229	49,535
		<b>116,346</b>	<b>140,899</b>
<b>Total assets</b>		<b>186,613</b>	<b>213,873</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	16	5,263	5,263
Reserves		161,088	182,396
		<b>166,351</b>	<b>187,659</b>
Non-controlling interests		3,393	3,626
<b>Total equity</b>		<b>169,744</b>	<b>191,285</b>



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2016

	Notes	30 June 2016 (unaudited) RMB'000	31 December 2015 (audited) RMB'000
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	14	11,286	16,841
Income tax payables		95	114
		<b>11,381</b>	16,955
<b>Non-current liabilities</b>			
Deferred tax liabilities		1,352	1,751
Convertible bonds	17	4,136	3,882
		<b>5,488</b>	5,633
<b>Total liabilities</b>		<b>16,869</b>	22,588
<b>Total equity and liabilities</b>		<b>186,613</b>	213,873
<b>Net current assets</b>		<b>104,965</b>	123,944
<b>Total assets less current liabilities</b>		<b>175,232</b>	196,918

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	PRC statutory reserve RMB'000	Convertible			Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
bonds equity reserve RMB'000					Available-for-sale investment RMB'000	Exchange reserve RMB'000					
<b>Balance at 1 January 2015</b>											
<b>(Audited)</b>	4,193	207,155	(47,484)	4,658	22,169	262	(780)	33,057	223,230	5,468	228,698
<b>Comprehensive income</b>											
Loss for the period	-	-	-	-	-	-	-	(18,822)	(18,822)	(211)	(19,033)
<b>Other comprehensive income</b>											
Change in value of available-for-sale investment	-	-	-	-	-	(262)	-	-	(262)	-	(262)
Currency translation difference	-	-	-	-	-	-	(1,238)	-	(1,238)	-	(1,238)
<b>Total comprehensive income</b>	-	-	-	-	-	(262)	(1,238)	(18,822)	(20,322)	(211)	(20,533)
<b>Transactions with owners of the Company recognised directly in equity</b>											
Issuance of new shares, net proceed	200	11,635	-	-	-	-	-	-	11,835	-	11,835
Appropriation to PRC statutory reserve	-	-	-	31	-	-	-	(31)	-	-	-
<b>Balance at 30 June 2015</b>											
<b>(Unaudited)</b>	4,393	218,790	(47,484)	4,689	22,169	-	(2,018)	14,204	214,743	5,257	220,000

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2016

	Attributable to owners of the Company											
	Share capital	Share premium	Capital reserve	PRC statutory reserve	Convertible bonds equity reserve	Shares held for award scheme	Employee share based payment reserve	Exchange reserve	Retained earnings	Subtotal	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Balance at 1 January 2016</b> (Audited)	5,263	258,103	(47,484)	4,552	22,169	(417)	1,385	409	(56,321)	187,659	3,626	191,285
<b>Comprehensive income</b>												
Loss for the period	-	-	-	-	-	-	-	-	(21,881)	(21,881)	(233)	(22,114)
<b>Other comprehensive income</b>												
Currency translation difference	-	-	-	-	-	-	-	625	-	625	-	625
<b>Total comprehensive income</b>	-	-	-	-	-	-	-	625	(21,881)	(21,256)	(233)	(21,489)
<b>Transactions with owners of the Company recognised directly in equity</b>												
Share purchased under share award scheme	-	-	-	-	-	(5,225)	-	-	-	(5,225)	-	(5,225)
Equity-settled share-based payment expenses	-	-	-	-	-	-	5,173	-	-	5,173	-	5,173
Appropriation to PRC statutory reserve	-	-	-	25	-	-	-	-	(25)	-	-	-
<b>Balance at 30 June 2016</b> (Unaudited)	5,263	258,103	(47,484)	4,577	22,169	(5,642)	6,558	1,034	(78,227)	166,351	3,393	169,744

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Six months ended	
	30 June 2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Net cash used in operating activities	(5,145)	(19,485)
Net cash used in investing activities	(389)	(2,594)
Net cash (used in)/generated from financing activities	(5,225)	11,687
<b>Net decrease in cash and cash equivalents</b>	<b>(10,759)</b>	<b>(10,392)</b>
Cash and cash equivalents at beginning of the period	49,535	54,821
Effect of foreign exchange	453	(923)
<b>Cash and cash equivalents at end of the period</b>	<b>39,229</b>	<b>43,506</b>

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 1. CORPORATE 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 interim financial information.

The condensed consolidated interim financial information 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 interim financial information are applied consistent with those applied in the Group’s audited consolidated financial statements for the year ended 31 December 2015.

## 3. BASIS OF PREPARATION

The condensed consolidated interim financial information have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations (hereinafter collectively referred to as the “**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 interim financial information 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.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 4. BASIS OF CONSOLIDATION

The condensed consolidated interim financial information comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the condensed consolidated interim financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the periods are included in the condensed consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 4. BASIS OF CONSOLIDATION (CONTINUED)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

### 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 Hong Kong Institute of Certified Public Accountants that are relevant to the Group and effective for accounting periods beginning on or after 1 January 2016. 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.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 6. REVENUE AND OTHER (LOSS)/GAIN, NET

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

	Six months ended 30 June		Three months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
<b>Revenue</b>				
Sales of automobile glass with installation/repair services	47,825	49,825	28,411	28,834
Trading of automobile glass	6,447	3,080	3,636	1,640
Provision of installation services of photovoltaic system	16,623	804	1,623	281
<b>Total</b>	<b>70,895</b>	<b>53,709</b>	<b>33,670</b>	<b>30,755</b>
<b>Other (loss)/gain, net</b>				
– Gain/(Loss) on disposal of property, plant and equipment	37	(59)	43	(48)
– Others	(369)	341	(337)	326
<b>Total</b>	<b>(332)</b>	<b>282</b>	<b>(294)</b>	<b>278</b>

### 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 (loss)/gain, selling and distribution costs and administrative expenses.



## NOTES TO CONDENSED CONSOLIDATED INTERIM 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 interim financial statements.

	Northern China (excluding Shenyang)		Shenyang		Hangzhou		Shenzhen		Reportable segments	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	(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
<b>Turnover-revenue from:</b>										
Sales of automobile glass with installation/repair services	43,335	44,689	-	654	945	814	3,545	3,668	47,825	49,825
Trading of automobile glass	7,137	18,896	-	486	328	482	495	393	7,960	20,257
Provision of installation services of photovoltaic system	16,623	804	-	-	-	-	-	-	16,623	804
Inter-segment sales	(1,384)	(17,052)	-	(97)	(128)	(11)	(1)	(17)	(1,513)	(17,177)
Revenue from external customers	65,711	47,337	-	1,043	1,145	1,285	4,039	4,044	70,895	53,709
<b>Results of reportable segments</b>	<b>9,034</b>	<b>10,030</b>	<b>-</b>	<b>57</b>	<b>204</b>	<b>144</b>	<b>1,182</b>	<b>1,271</b>	<b>10,420</b>	<b>11,502</b>
Depreciation	1,974	2,336	-	49	15	60	46	53	2,035	2,498
Amortisation	366	758	-	-	-	-	280	413	646	1,171
Capital expenditure	481	2,721	-	-	-	-	51	44	532	2,765
A reconciliation of results of reportable segments to losses for the period is as follows:										
<b>Results of reportable segments</b>									<b>10,420</b>	<b>11,502</b>
Unallocated income									104	282
Unallocated expenses									(32,515)	(30,452)
									(21,991)	(18,668)
Finance income									21	56
Finance cost									(40)	(39)
Share of losses of investment accounted for using equity method									(166)	(502)
<b>Losses before income tax</b>									<b>(22,176)</b>	<b>(19,153)</b>

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 8. EXPENSES BY NATURE

	Six months ended		Three months ended	
	30 June		30 June	
	2016	2015	2016	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Cost of inventories	<b>46,147</b>	27,543	<b>19,872</b>	15,882
Advertising and marketing	<b>1,758</b>	1,549	<b>827</b>	1,178
Business tax and surcharges	<b>586</b>	839	<b>289</b>	500
Employee costs (including directors' emoluments)	<b>25,641</b>	17,431	<b>13,119</b>	8,863
Depreciation	<b>2,035</b>	2,498	<b>1,022</b>	1,222
Amortisation	<b>646</b>	1,171	<b>323</b>	586
Rental expenses	<b>3,858</b>	3,703	<b>1,959</b>	1,837
Fuels	<b>1,294</b>	1,609	<b>625</b>	761
Utilities	<b>348</b>	518	<b>122</b>	147
Transportation	<b>1,209</b>	1,073	<b>681</b>	613
Meeting and conference expenses	<b>1,828</b>	1,937	<b>1,057</b>	855
Tools and liveries	<b>67</b>	655	<b>33</b>	281
Office expenses	<b>1,059</b>	768	<b>637</b>	428
Professional fee	<b>2,429</b>	7,158	<b>1,039</b>	4,288
Sales agency fee	<b>1,949</b>	2,542	<b>954</b>	1,530
Sub-contracting fee	<b>500</b>	-	<b>-</b>	-
Others	<b>1,200</b>	1,665	<b>456</b>	485
<b>Total</b>	<b>92,554</b>	72,659	<b>43,015</b>	39,456

### 9. 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 for the period (Six months ended 30 June 2015: 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 June 2016 (Six months ended 30 June 2015: 25%). The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and the British Virgin Islands during the period (Six months ended 30 June 2015: Nil).

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 9. INCOME TAX CREDIT/(EXPENSE) (CONTINUED)

	Six months ended 30 June		Three months ended 30 June	
	2016	2015	2016	2015
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
Current income tax				
– Current period	(153)	(506)	(92)	(456)
– Over-provision in prior periods	2	39	2	39
Deferred income tax	213	587	47	290
<b>Income tax credit/(expenses)</b>	<b>62</b>	<b>120</b>	<b>(43)</b>	<b>(127)</b>

### 10. DIVIDENDS

The Directors did not recommend the payment of any dividend for the six months ended 30 June 2016 (Six months ended 30 June 2015: Nil).

### 11. LOSS PER SHARE

#### (a) Basic

Loss 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.

	Six months ended 30 June		Three months ended 30 June	
	2016	2015	2016	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Losses attributable to owners of the Company (RMB'000)	(21,881)	(18,822)	(9,425)	(8,831)
Weighted average number of ordinary shares in issue (thousands)	661,000	536,492	661,000	542,912
Loss per share (in RMB cents)	(3.31)	(3.51)	(1.43)	(1.63)

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 11. LOSS PER SHARE (CONTINUED)

(b) *Diluted*

Diluted loss 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 and unvested awarded shares. The convertible bonds are assumed to have been converted into ordinary shares and utilisation of the unvested awarded shares, and the net loss is adjusted to eliminate the interest expense less the tax effect.

Diluted loss per share for the six months ended 30 June 2016 is the same as the basic loss per share as the utilisation of the unvested awarded shares in relation to the share award scheme and 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 loss per share for the six months ended 30 June 2015 is the same as basic earnings 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.

### 12. PROPERTY, PLANT AND EQUIPMENT

	<b>30 June 2016 (Unaudited) RMB'000</b>	31 December 2015 (Audited) RMB'000
Opening net book amount	<b>59,408</b>	19,619
Partial disposals of a subsidiary	–	(106)
Additions	<b>532</b>	5,104
Transfer from prepayment	–	69,466
Depreciation charge	<b>(2,035)</b>	(6,481)
Provision for impairment	–	(27,135)
Disposals	<b>(62)</b>	(370)
Write off	–	(689)
Closing net book amount	<b>57,843</b>	59,408

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 13. TRADE AND OTHER RECEIVABLES

	<b>30 June 2016 (Unaudited) RMB'000</b>	31 December 2015 (Audited) RMB'000
Trade and bill receivables	<b>25,391</b>	15,238
Prepayments (Note) – Third parties	<b>17,646</b>	39,650
Deposit and other receivables (Note) – Third parties	<b>622</b>	625
– Related parties	–	24
	<b>43,659</b>	55,537
Less: non-current portion – Prepayments	<b>(1,777)</b>	(2,107)
	<b>41,882</b>	53,430

Note: The prepayments, deposits and other receivables comprise the following:

	<b>30 June 2016 (Unaudited) RMB'000</b>	31 December 2015 (Audited) RMB'000
Prepayments for purchase of inventories	<b>9,270</b>	28,323
Prepayment for rental	<b>2,316</b>	3,457
Prepayment for construction work	–	330
Deposit for acquisition of trademarks	<b>4,398</b>	4,398
Others	<b>1,662</b>	3,142
	<b>17,646</b>	39,650

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 13. TRADE AND OTHER RECEIVABLES (CONTINUED)

The majority of the Group's sales are with credit terms of 60 to 150 days and the ageing analysis of the trade receivables based on invoice date is as follows:

	<b>30 June 2016 (Unaudited) RMB'000</b>	31 December 2015 (Audited) RMB'000
0-30 days	<b>7,828</b>	7,432
31-60 days	<b>10,383</b>	3,400
61-90 days	<b>1,850</b>	1,413
Over 90 days	<b>5,330</b>	2,993
<b>Total</b>	<b>25,391</b>	15,238

As at 30 June 2016, trade receivables of approximately RMB5,344,000 (31 December 2015: RMB3,070,000) were past due but not impaired. No impairment provision was made (31 December 2015: Nil). These related to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. An ageing analysis of these trade receivables is as follows:

	<b>30 June 2016 (Unaudited) RMB'000</b>	31 December 2015 (Audited) RMB'000
61-90 days	<b>14</b>	77
Over 90 days	<b>5,330</b>	2,993
<b>Total</b>	<b>5,344</b>	3,070

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 14. TRADE AND OTHER PAYABLES

	<b>30 June 2016 (Unaudited) RMB'000</b>	31 December 2015 (Audited) RMB'000
Current:		
Trade payables		
– Third parties	<b>5,162</b>	4,498
Value-added tax payable	<b>225</b>	1,606
Salaries payable	<b>2,732</b>	4,812
Receipt in advance	<b>17</b>	1,683
Other payables and accruals	<b>3,150</b>	4,242
	<b>11,286</b>	16,841

Credit terms granted by suppliers are generally within 60 days.

Ageing analysis of trade payables at 30 June 2016 based on invoice date is as follows:

	<b>30 June 2016 (Unaudited) RMB'000</b>	31 December 2015 (Audited) RMB'000
0-30 days	<b>4,291</b>	4,359
31-60 days	<b>93</b>	91
61-90 days	<b>78</b>	–
Over 90 days	<b>700</b>	48
Total	<b>5,162</b>	4,498

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 15. INVENTORIES

	<b>30 June 2016 (Unaudited) RMB'000</b>	31 December 2015 (Audited) RMB'000
Work-in-progress	–	1,885
Finished goods	<b>35,019</b>	35,649
<b>Total</b>	<b>35,019</b>	37,534

Cost of inventories recognised as expense in “cost of sales” amounted to approximately RMB46,147,000 for the six months ended 30 June 2016 (Six months ended 30 June 2015: RMB27,543,000).

### 16. SHARE CAPITAL

	<b>Number of shares</b>	<b>RMB'000</b>
Authorised:		
Ordinary shares of HK\$0.01 each	780,000,000	6,094
Issued and fully paid:		
As at 1 January 2015	530,000,000	4,193
Issuance of new shares (Note)	131,000,000	1,070
<b>As at 31 December 2015 and 30 June 2016</b>	<b>661,000,000</b>	<b>5,263</b>



## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 16. SHARE CAPITAL (CONTINUED)

Note: On 28 March 2014, the Company and Xinyi Glass (BVI) entered into a subscription agreement pursuant to which Xinyi Glass (BVI) agreed to subscribe 80,000,000 ordinary shares of HK\$0.01 each in the Company. On 16 May 2014, Xinyi Glass (BVI) completed the subscription of shares at a price of HK\$0.55 per share for a total consideration of approximately HK\$44,000,000 (equivalent to RMB35,222,000) with issuance costs amounted to approximately HK\$350,000 (equivalent to RMB280,000). This resulted in an increase in share capital of approximately RMB640,000 and share premium of approximately RMB34,302,000.

On 30 April 2015, the Company and Eastern Wealth Development Limited (“**Eastern Wealth**”) entered into a subscription agreement pursuant to which Eastern Wealth agreed to subscribe 25,000,000 ordinary shares of HK\$0.01 each in the Company. On 15 May 2015, Eastern Wealth completed the subscription of shares at a price of HK\$0.601 per share for a total consideration of approximately HK\$15,025,000 (equivalent to RMB12,018,000) with issuance costs amounted to approximately HK\$231,000 (equivalent to RMB185,000). This resulted in an increase in share capital of approximately RMB201,000 and share premium of approximately RMB11,632,000.

On 14 August 2015, the Company and Rise Grace Development Limited (“**Rise Grace**”) entered into a subscription agreement pursuant to which Rise Grace agreed to subscribe 106,000,000 ordinary shares of HK\$0.01 each in the Company. On 2 September 2015, Rise Grace completed the subscription of shares at a price of HK\$0.47 per share for a total consideration of approximately HK\$49,820,000 (equivalent to RMB40,872,000) with issuance costs amounted to approximately HK\$820,000 (equivalent to RMB687,000). This resulted in an increase in share capital of approximately RMB869,000 and share premium of approximately RMB39,316,000.

### 17. CONVERTIBLE BONDS

On 14 November 2014, the Company issued 54,690,647 1% convertible bonds at HK\$1.112 per share of HK\$60,816,000 (equivalent to RMB48,000,000) in exchange for the deposit in relation to the acquisition of a property. The bonds mature three years from the issue date at the nominal value of HK\$60,816,000 (equivalent to RMB48,000,000) or can be converted into shares at the holder’s option at HK\$1.112 per share. The fair value of the liability component and equity conversion component were assessed by an independent valuer and determined at issuance of the convertible bonds.

On 17 November 2014, the holder of the convertible bonds has completed the conversion of 50,000,000 shares at the conversion price of HK\$1.112 per share, and the fair value of the equity component of approximately RMB7,773,000 and fair value of liability component of approximately RMB36,250,000 were transferred to share capital of approximately RMB396,000 and share premium of approximately RMB43,627,000.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 17. CONVERTIBLE BONDS (CONTINUED)

On 14 August 2015, the Company entered into the subscription agreement to allot and issue 106,000,000 subscription shares at price of HK\$0.47 each. It triggered the anti-dilutive clause of the convertible bonds. As a result, the number of unconverted bonds increased from 4,690,647 to 4,874,766 while the conversion price decreased from HK\$1.112 to HK\$1.07 with effective from 3 September 2015.

As at 30 June 2016, the fair value of the convertible bonds is approximately RMB4,136,000 (31 December 2015: RMB3,882,000).

### 18. OPERATING LEASE COMMITMENTS

As at 30 June 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>30 June 2016 (Unaudited) RMB'000</b>	31 December 2015 (Audited) RMB'000
Within 1 year	<b>5,645</b>	6,969
After 1 year but within 5 years	<b>8,617</b>	9,430
Over 5 years	<b>4,009</b>	4,009
<b>Total</b>	<b>18,271</b>	20,408

Certain leases have escalation clauses and rent-free periods.

### 19. RELATED PARTY TRANSACTIONS

	Notes	Six months ended 30 June		Three months ended 30 June	
		2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Sales of inventories to a fellow subsidiary of Xinyi	1,2	<b>37</b>	39	<b>1</b>	11
Purchase of inventories from fellow subsidiaries of Xinyi	1,2	<b>5,894</b>	4,823	<b>3,848</b>	2,884
Rental expenses to non-controlling interest shareholders	2	-	25	-	13

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

### 19. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes:

- 1 During the period ended 30 June 2016, the Directors are of the view that related parties of the Group include the following parties:

Name of party	Relationship
Lu Yu Global Limited	Ultimate holding company
Ms. Natsu Kumiko	Ultimate controlling shareholder
Xinyi Automobile Glass (BVI) Company Limited ("Xinyi")	Non-controlling shareholder
Fellow subsidiaries of non-controlling shareholder:	
信義玻璃(天津)有限公司	Fellow subsidiary of Xinyi
信義汽車部件(天津)有限公司	Fellow subsidiary of Xinyi
東莞奔迅汽車玻璃有限公司	Fellow subsidiary of Xinyi
信義汽車玻璃(深圳)有限公司上海分公司	Fellow subsidiary of Xinyi
信義汽車部件(蕪湖)有限公司	Fellow subsidiary of Xinyi
信義汽車玻璃(深圳)有限公司	Fellow subsidiary of Xinyi
信義光伏產業(安徽)控股有限公司	Fellow subsidiary of Xinyi
深圳市信義房地產開發有限公司	Fellow subsidiary of Xinyi
Directors:	
Ms. Xia Lu	Director of the Company
Mr. He Changsheng	Director of the Company
Mr. Li Honglin	Director of the Company
Mr. Xia Xiufeng	Director of the Company
Mr. Liu Mingyong	Director of the Company
Mr. Lo Chun Yim (appointed on 22 March 2016)	Director of the Company
Mr. Chen Jinliang	Director of the Company
Mr. Han Shaoli	Director of the Company
Mr. Jiang Bin	Director of the Company

- 2 Transactions are conducted in the ordinary course of business at prices and terms based on mutual agreement.

## 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 in the PRC. As at 30 June 2016, the Group operated 29 service centres in the PRC for providing automobile glass installation/repair services (30 June 2015: 29). The Group's total revenue for the six months ended 30 June 2016 amounted to approximately RMB70,895,000, representing an increase of approximately RMB17,186,000 or 32.0% as compared to that of approximately RMB53,709,000 for the corresponding period last year. Overall gross profit decreased by approximately RMB1,082,000 or 9.4% to approximately RMB10,420,000 for the six months ended 30 June 2016 from approximately RMB11,502,000 for the corresponding period last year. The gross profit margin for the current period decreased to approximately 14.7% from approximately 21.4% for the corresponding period last year. The total comprehensive loss attributable to owners of the Company for the six months ended 30 June 2016 amounted to approximately RMB21,256,000, increased by approximately RMB934,000 or 4.6% from approximately RMB20,322,000 for the six months ended 30 June 2015.

### REVIEW BY SEGMENT

	Northern China (excluding Shenyang)			Shenyang			Hangzhou			Shenzhen			Total		
	Six months ended			Six months ended			Six months ended			Six months ended			Six months ended		
	30 June			30 June			30 June			30 June			30 June		
	2016	2015	Change	2016	2015	Change	2016	2015	Change	2016	2015	Change	2016	2015	Change
RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%	
Revenue	65,711	47,337	38.8%	-	1,043	(100)%	1,145	1,285	(10.9)%	4,039	4,044	(0.1)%	70,895	53,709	32.0%
Gross profit	9,034	10,030	(9.9)%	-	57	(100)%	204	144	41.7%	1,182	1,271	(7.0)%	10,420	11,502	(9.4)%
Gross profit margin	13.7%	21.2%		0%	5.5%		17.8%	11.2%		29.3%	31.4%		14.7%	21.4%	

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Northern China segment includes Beijing, Tianjin, Sanhe and revenue generated from these areas represents approximately 92.7% of the Group's total revenue. Revenue from the Northern China segment increased by approximately 38.8% from approximately RMB47,337,000 for the six months ended 30 June 2015 to approximately RMB65,711,000 for the six months ended 30 June 2016. The increase was mainly attributable to the increase of revenue from provision of installation services of photovoltaic system of approximately RMB15,819,000 from approximately RMB804,000 for the six months ended 30 June 2015 to approximately RMB16,623,000 for the six months ended 30 June 2016. Gross profit decreased by approximately 9.9% from approximately RMB10,030,000 for the corresponding period last year to approximately RMB9,034,000 for the six months ended 30 June 2016, and gross profit margin decreased from approximately 21.2% for the corresponding period last year to approximately 13.7% for the six months ended 30 June 2016. This was mainly due to the gross profit margin on provision of installation services of photovoltaic system is much lower than on sales of automobile glass with installation/repair services.

On 21 December 2015, the Group disposed 2% of its equity interest in Shenyang Zhengmei Automobile Glass Co., Ltd. ("**Shenyang Zhengmei**") from previously 51% to 49% and the control was ceased accordingly. As a result, the account of Shenyang Zhengmei was deconsolidated from the date that control was ceased.

Revenue of the Hangzhou segment decreased by approximately 10.9% from approximately RMB1,285,000 for the corresponding period last year to approximately RMB1,145,000 for the six months ended 30 June 2016. This was mainly due to decline of trading of automobile glass resulted from keen competition in the Hangzhou area. Gross profit increased by approximately 41.7% from approximately RMB144,000 for the six months ended 30 June 2015 to approximately RMB204,000 for the six months ended 30 June 2016, and gross profit margin increased from approximately 11.2% for the six months ended 30 June 2015 to approximately 17.8% for the six months ended 30 June 2016, the increase are mainly due to reduction of shop rental expenses for the six months ended 30 June 2016.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The revenue from the Shenzhen segment amounted to approximately RMB4,039,000 for the six months ended 30 June 2016, which represents approximately 0.1% decrease as compared to that of approximately RMB4,044,000 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 RMB1,182,000 with gross profit margin of approximately 29.3% and is consistent with the corresponding period last year.

### Selling and Distribution Costs

Selling and distribution costs increased by approximately 15.2% from approximately RMB11,497,000 for the six months ended 30 June 2015 to approximately RMB13,248,000 for six months ended 30 June 2016. The increase was mainly due to the increase of staff salaries and services centres maintenance costs of approximately RMB1,684,000.

### Administrative Expenses

The Group's administrative expenses mainly consisted of professional fees, staff costs (including Directors' remunerations and share-based payments expenses), depreciation and rental expenses. The total administrative expenses decreased by approximately 0.7% from approximately RMB18,955,000 for the six months ended 30 June 2015 to approximately RMB18,831,000 for the six months ended 30 June 2016. For the six months ended 30 June 2016, the Group incurred employee share-based payment expenses of approximately RMB5,173,000 (30 June 2015: Nil) but legal and financial consultancy fees and other professional expenses were reduced approximately RMB4,729,000 compared with the corresponding period last year.

### Finance Cost and Income, net

Finance cost slightly increased from approximately RMB39,000 for the six months ended 30 June 2015 to approximately RMB40,000 for the six months ended 30 June 2016. Finance income decreased from approximately RMB56,000 for the six months ended 30 June 2015 to approximately RMB21,000 for the six months ended 30 June 2016, which was mainly the result of a decrease in average monthly deposit in banks in the PRC.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### **Share of Losses of Investment Accounted for Using the Equity Method**

On 21 December 2015, the Group disposed 2% of its equity interest in Shenyang Zhengmei from previously 51% to 49% and the control was ceased and Shenyang Zhengmei now become an associated company of the Group. As a result, the Group's share of its operating loss of approximately RMB166,000 for the six months ended 30 June 2016.

### **Income Tax Credit**

Income tax credit decreased from approximately RMB120,000 for the six months ended 30 June 2015 to approximately RMB62,000 for the six months ended 30 June 2016. The income tax credit was mainly attributable to the decline of deferred income tax liabilities during the period ended 30 June 2016.

### **Losses for the Period**

The Group recorded net loss of approximately RMB22,114,000 for the six months ended 30 June 2016, increased by approximately RMB3,081,000 from approximately RMB19,033,000 for the corresponding period last year. The increase in net loss for the period was mainly attributable to the decrease of gross profit and increase of selling and distribution costs.

### **Current Ratio**

The Group's current ratio as at 30 June 2016 was approximately 10.2, as compared with 8.3 as at 31 December 2015. The increase was mainly due to decrease in trade and other payables.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Capital Structure

As at 30 June 2016, the Group had net assets of approximately RMB169,744,000 (31 December 2015: approximately RMB191,285,000), comprising non-current assets of approximately RMB70,267,000 (31 December 2015: approximately RMB72,974,000), and current assets of approximately RMB116,346,000 (31 December 2015: approximately RMB140,899,000). The Group recorded a net current asset position of approximately RMB104,965,000 (31 December 2015: approximately RMB123,944,000), which is primarily consisted of cash and bank equivalents of approximately RMB39,229,000 (31 December 2015: approximately RMB49,535,000), inventories of approximately RMB35,019,000 (31 December 2015: approximately RMB37,534,000), and trade and other receivables of approximately RMB41,882,000 (31 December 2015: approximately RMB53,430,000). Major current liabilities are trade and other payables of approximately RMB11,286,000 (31 December 2015: approximately RMB16,841,000) and income tax payables of approximately RMB95,000 (31 December 2015: approximately RMB114,000).

### Liquidity and Financial Resources

As at 30 June 2016, the Group's cash and cash equivalents amounted to approximately RMB39,229,000, representing a net decrease of approximately RMB10,306,000 as compared to that of approximately RMB49,535,000 as at 31 December 2015. The gearing ratio of the Group as at 30 June 2016 is 2.5% (31 December 2015: 2.0%), which mainly arose from convertible bonds of RMB4,136,000 (31 December 2015: RMB3,882,000). The Group satisfied their working capital needs principally from internally generated cash flow from operating activities and net proceeds from the issuance of new shares in 2015. Net cash outflow from operating activities amounted to approximately RMB5,145,000 (31 December 2015: approximately RMB55,209,000) as a result of operating during the period ended 30 June 2016. As at 30 June 2016, the Group had no bank borrowings (31 December 2015: Nil).



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Convertible Bonds

On 14 November 2014, the Company issued 54,690,647 1% convertible bonds at HK\$1.112 per share of HK\$60,816,000 (equivalent to RMB48,000,000) in exchange for the deposit in relation to the acquisition of a property. The bonds mature three years from the issue date at the nominal value of HK\$60,816,000 (equivalent to RMB48,000,000) or can be converted into shares at the holder's option at HK\$1.112 per share. On 17 November 2014, the holder of the convertible bonds has completed the conversion of 50,000,000 shares at the conversion price of HK\$1.112 per share. On 14 August 2015, the Company entered into the subscription agreement to allot and issue 106,000,000 subscription shares at price of HK\$0.47 each. It triggered the anti-dilutive clause of the convertible bonds. As a result, the number of unconverted bonds increased from 4,690,647 to 4,874,766 while the conversion price decreased from HK\$1.112 to HK\$1.07 with effective from 3 September 2015. As at 30 June 2016, the fair value of the convertible bonds is approximately RMB4,136,000 (31 December 2015: RMB3,882,000).

### Pledge of Assets

The Group has no assets pledged for bank borrowings or for other purpose as at 30 June 2016 and 31 December 2015.

### 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 Directors, a former non-executive Director and certain existing and former independent non-executive Directors, with respect to the acquisition of a property in Daqing (the "**Daqing Acquisition**").

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

The litigation is still proceeding but with little progress up to this report date. Management had 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 still 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 condensed consolidated interim financial statements as at 30 June 2016.

Save as disclosed above, as at 30 June 2016, the Group did not have any other significant contingent liabilities.

### Capital Commitments

The Group did not have any significant capital commitments as at 30 June 2016 and 31 December 2015.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Foreign Exchange Risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. Part of the Group's cash and bank deposits are denominated in Hong Kong Dollars. During the six months ended 30 June 2016, the Group did not hedge any exposure in foreign currency risk.

### Employees and Remuneration Policy

As at 30 June 2016, the Group employed a total of 425 employees (30 June 2015: 423 employees) situated in the PRC. The Group's emolument policy is formulated based on industry practices and performance of individual employees. During the six months ended 30 June 2016, the total staff costs (including Directors' emoluments) amounted to approximately RMB25,641,000 (30 June 2015: approximately RMB17,431,000).

The Group has adopted a share option scheme (the "**Scheme**") for its employees. Since the adoption of the Scheme, no share options have been granted, exercised, lapsed or cancelled, and as at 30 June 2016, no share options under the Scheme were outstanding.

On 12 October 2015, the Group adopted a share award scheme (the "**Award Scheme**") for its employees. On 12 November 2015, the Group granted 41,300,000 award shares to 16 employees (the "**Selected Participants**") under the Award Scheme. The award shares will be vested in full to the Selected Participants respectively in five tranches each over six years, with approximately 10% to be vested on the first tranche, 20% to be vested on each of the second and third tranches and 25% to be vested on each of the fourth and fifth tranches. The first tranche of 3,680,000 award shares is expected to be vested on or around 31 August 2016.

### Significant Investments Held

As at 30 June 2016, the Group did not hold any significant investments (31 December 2015: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Future Plans for Material Investments or Capital Assets

On 15 May 2015, the Company has issued 25,000,000 new shares to Eastern Wealth Development Limited, an independent third party, at HK\$0.601 per share (a discount of approximately 19.87% to the closing price of HK\$0.75 per share as quoted on the Stock Exchange on the date the terms of the issue were fixed). The gross proceeds arising from the subscription is approximately HK\$15,025,000 and the net subscription price is approximately HK\$0.58 per share. The Company intends to apply the net proceeds from the subscription to develop a mobile phone and internet sales platform for the promotion of the Group's automobile glass installation/repair services.

As of 31 December 2015, the Group has utilised the share subscription proceeds of approximately RMB2.5 million to set up the preliminary sales platform on mobile phone. The Group is in the process of setting up the internet sales platform and will further develop the mobile phone platform and integrate these platforms to our enterprise resource planning system.

On 2 September 2015, the Company has issued 106,000,000 new shares to Rise Grace Development Limited, an independent third party, at HK\$0.47 per share (a discount of approximately 18.97% to the closing price of HK\$0.58 per share as quoted on the Stock Exchange on the date the terms of the issue were fixed). The gross proceeds arising from the subscription is approximately HK\$49,820,000 and the net subscription price is approximately HK\$0.462 per share. The Company has applied HK\$7,000,000 for general working capital of the Group in accordance with the specified use of proceeds previously disclosed. After the establishment of the mobile phone and internet sales platform, the Company will apply the net proceeds from the subscription to promote the platform in the regions in the 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.

Save as disclosed above and the business plan as disclosed in this report, the Group had no other plan for material investment or capital assets as at 30 June 2016.

### Material Acquisition and Disposal

The Group did not have any major acquisition and disposal events during the six months ended 30 June 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### Comparison of Business Objectives with Actual Business Progress

The following is a comparison of the Group's business objectives as set out in the Company's prospectus dated 27 August 2013 (the "Prospectus") with actual business progress up to 30 June 2016:

<b>Business objectives</b>	<b>Planned progress as set out in the prospectus</b>	<b>Actual business progress up to 30 June 2016</b>
<b>Expand the existing business of the Group by setting up new service centres in the PRC</b>	To set up new service centres in Beijing (3), Tianjin (2), Hangzhou (1), Shenyang (1), Shandong (1) and Hebei (1)	The Group has established one service centre in Hangzhou, two service centres in Beijing and one new service centre in Tianjin up to 31 December 2015 with aggregate capital spending on these four new service centres amounting to approximately RMB7,230,000 (equivalent to approximately HK\$9,100,000) as at 31 December 2015, mainly covering purchase of inventories, rental deposit, decoration and purchase of fixed assets. One of the newly set up service centres in Beijing in 2014 replaced the proposed location in Tianjin formerly stated in the Prospectus. Meanwhile, the Group will establish another service centre in Daqing to replace the proposed location in Shenyang formerly stated in the Prospectus.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business objectives	Planned progress as set out in the prospectus	Actual business progress up to 30 June 2016
<p><b>Explore merger and acquisition opportunities and business collaboration opportunities with partners in the automobile glass installation/repair service industry</b></p>	<p>To select merger or acquisition targets in the southern part of China such as Shenzhen and Guangzhou – the Directors believe such merger or acquisition can strengthen the Group's network of service centres in strategic locations, increase the Group's market share and conform to the Group's brand image</p> <p>To explore business cooperation opportunities such as forming alliance or joint venture with local industry partners for setting up new service centre(s) in second or third-tier cities</p>	<p>On 15 January 2014, the Group has completed the acquisition of 100% equity interest in Shenzhen Xinyida Automobile Glass Company Limited, which is located in Shenzhen and is principally engaged in the sales of automobile glass with installation/repair services and the trading of automobile glass in China. The total consideration for the acquisition amounted to RMB16.0 million (equivalent to approximately HK\$20.4 million). An excess amount of HK\$9.5 million was funded by the Group's internal working capital.</p>
<p><b>Enhance marketing activities to promote brand awareness and broaden the Group's customer base</b></p>	<p>To enhance brand awareness through increasing advertising activities through various media, including radio, advertising displays on the internet and press releases</p>	<p>The Group has spent approximately RMB692,000 (equivalent to approximately HK\$821,000) for advertising on radio to promote the Group's brand image and enhance its reputation during the reporting period.</p>

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### USE OF PROCEEDS

On 3 September 2013, the Company issued 100,000,000 new shares by placing for listing (the “**Share Placing**”). All such shares issued were ordinary shares and the 100,000,000 new shares were issued at HK\$0.45 per share. The net proceeds of the Share Placing received by the Company were approximately HK\$32,639,000 (equivalent to approximately RMB25,761,000).

During the period from the latest practicable date (the “**LPD**”) (as defined in the Prospectus) to 30 June 2015, the net proceeds from the Share Placing had been applied as follows:

<b>Business objectives for the period from the LPD to 30 June 2016 as stated in the Prospectus</b>	<b>Planned use of proceeds from the LPD to 30 June 2016</b> (HK\$ million) (Note)	<b>Actual use of proceeds from the LPD to 30 June 2016</b> (HK\$ million)
1. Setting up new service centres	19.4	9.1
2. Merger, acquisitions and business collaboration	10.9	10.9
3. General working capital	2.3	2.3
<b>Total</b>	<b>32.6</b>	<b>22.3</b>

Note: This sum represents an aggregate amount of the planned use of proceeds from the LPD to 30 June 2016 being adjusted based on the amount of actual net proceeds in the same manner and proportion as shown in the Prospectus.

The Directors will constantly evaluate the Group’s business objectives and will change or modify plans against the changing market condition to ascertain the business growth of the Group.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### PROSPECTS

The Group was listed on the Growth Enterprise Market (the “**GEM**”) of The Stock Exchange of Hong Kong Limited (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. On 15 May 2015 and 2 September 2015, the Company issued another 25,000,000 shares and 106,000,000 shares to two independent third parties respectively. The net proceeds arising from these two subscriptions amounted to approximately HK\$63.5 million.

Looking ahead, the Group is striving to strengthen its position in the automobile glass installation/repair service industry in Beijing and Tianjin, and further explore its business operation in Daqing. In addition, the Company is in the process of developing the mobile phone and internet sales platform. After the establishment of such mobile phone and internet sales platform, the Group will promote the platform in the regions in the 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.

The Group will explore new opportunity in other industries and we will make an effort to create greater investment return for our shareholders.

### Corporate Governance

The Directors consider that the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 15 to the GEM Listing Rules throughout the period under review.

### Dividends

The Directors did not recommend the payment of any interim dividend for the six months ended 30 June 2016 (30 June 2015: Nil).



## 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 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 2016. The compliance adviser services have been expired as at 31 March 2016.

### Directors’ Interests in Competing Interests

For the six months ended 30 June 2016, 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 six months ended 30 June 2016, 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 June 2016, 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:

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

<b>Name of Director</b>	<b>Nature of interest</b>	<b>Number of shares and underlying shares held</b>	<b>Approximate percentage of shareholding (%)</b>
He Changsheng (Note 1)	Beneficiary of a trust	10,000,000	1.51%
Li Honglin (Note 1)	Beneficiary of a trust	4,500,000	0.68%
Xia Lu (Note 1)	Beneficiary of a trust	10,000,000	1.51%
Xia Xiufeng (Note 1)	Beneficiary of a trust	1,000,000	0.15%
Lo Chun Yim (Note 2)	Interest in a controlled corporation	106,000,000	16.04%

Notes:

- (1) On 12 November 2015, award shares were granted to certain Directors under the share award scheme. The award shares will be vested in full to those Directors respectively in five tranches each over six years. Therefore under Part XV of the SFO, those Directors are taken to be interested in the award shares granted subject to vesting.
- (2) Rise Grace Development Limited (“**Rise Grace**”), a company incorporated in Hong Kong on 5 November 2009 and an investment holding company, is wholly and beneficially owned by Lo Chun Yim and Lo Chun Yim is a non-executive Director of the Company. Lo Chun Yim is deemed to be interested in the 106,000,000 shares held by Rise Grace by virtue of his 100% shareholding interest in Rise Grace.

Save as disclosed above, as at 30 June 2016, 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 30 June 2016, 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*

<b>Name of shareholder</b>	<b>Nature of interest</b>	<b>Number of shares and underlying shares held</b>	<b>Approximate percentage of shareholding (%)</b>
Lu Yu Global Limited ("Lu Yu") (Note 1)	Beneficial owner	216,500,000	32.75%
Natsu Kumiko (Note 1)	Interest in a controlled corporation	216,500,000	32.75%
Xia Chengzhen (Note 2)	Interest of spouse	216,500,000	32.75%
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 3)	Interest in a controlled corporation	120,360,000	18.21%
Rise Grace (Note 4)	Beneficial owner	106,000,000	16.04%
Diamond Galaxy Limited (Note 4)	Interest in a controlled corporation	106,000,000	16.04%
Lo Chun Yim (Note 4)	Interest in a controlled corporation	106,000,000	16.04%
Aleta Global Limited ("Aleta") (Note 5)	Beneficial owner	4,690,647	0.71%
	Other	50,000,000	7.56%
Wang Yao Min (Note 6)	Other	54,690,647	8.27%
薛呈祥(Xue Chengxiang*) (Note 7)	Person having a security interest in shares	34,690,647	5.25%

## 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 216,500,000 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 216,500,000 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. Xinyi Glass Holdings is therefore deemed to be interested in the 120,360,000 shares held by Xinyi Glass (BVI).
- (4) Information is extracted from the corporate substantial shareholder notices filed by Rise Grace Development Limited and Diamond Galaxy Limited on 1 April 2016, and the individual substantial shareholder notice filed by Lo Chun Yim on 1 April 2016.
- (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. 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.
- (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. 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 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. Pursuant to the individual substantial shareholder notice filed by 薛呈祥 (Xue Chengxiang\*) on 18 May 2016, he sold 20,000,000 shares on 16 May 2016.

\* For identification purpose only

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Save as disclosed above, as at 30 June 2016, 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 period ended 30 June 2016.

### 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 four members comprising Mr. Jiang Bin (Chairman), Mr. Han Shaoli, Mr. Chen Jinliang and Mr. Liu Mingyong. The Audit Committee has reviewed the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2016.

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

Hong Kong, 9 August 2016

*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. Lo Chun Yim; and the independent non-executive Directors are Mr. Chen Jinliang, Mr. Han Shaoli and Mr. Jiang Bin.*