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

2016
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 2016

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 2016, together with the comparative unaudited figures for the corresponding periods in 2015, are as follows:

		Nine months ended 30 September		**Three months ended 30 September**	
	Notes	**2016 RMB'000 (unaudited)**	2015 RMB'000 (unaudited)	**2016 RMB'000 (unaudited)**	2015 RMB'000 (unaudited)
Revenue	6	**101,786**	86,735	**30,891**	33,026
Cost of sales		**(86,412)**	(68,873)	**(25,937)**	(26,666)
Gross profit		**15,374**	17,862	**4,954**	6,360
Other (loss)/gain, net	6	**(409)**	268	**(77)**	(14)
Selling and distribution costs		**(19,638)**	(18,231)	**(6,390)**	(6,734)
Administrative expenses		**(28,447)**	(27,034)	**(9,616)**	(8,079)
		(33,120)	(27,135)	**(11,129)**	(8,467)
Finance income		**31**	383	**10**	327
Finance cost		**(57)**	(84)	**(17)**	(45)
Finance (cost)/income, net		**(26)**	299	**(7)**	282
Share of losses of investment accounted for using the equity method		**(191)**	(93)	**(25)**	409
Losses before income tax		**(33,337)**	(26,929)	**(11,161)**	(7,776)
Income tax credit	8	**89**	339	**27**	219
Losses for the period		**(33,248)**	(26,590)	**(11,134)**	(7,557)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the three months and nine months ended 30 September 2016

	Notes	Nine months ended 30 September 2016 RMB'000 (unaudited)	Nine months ended 30 September 2015 RMB'000 (unaudited)	Three months ended 30 September 2016 RMB'000 (unaudited)	Three months ended 30 September 2015 RMB'000 (unaudited)
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Change in value of available-for-sale investment		**–**	(262)	**–**	–
Currency translation differences		**1,140**	(1,741)	**515**	(503)
Total comprehensive income for the period		**(32,108)**	(28,593)	**(10,619)**	(8,060)
Losses attributable to:					
Owners of the Company		**(32,959)**	(26,304)	**(11,078)**	(7,482)
Non-controlling interests		**(289)**	(286)	**(56)**	(75)
		(33,248)	(26,590)	**(11,134)**	(7,557)
Total comprehensive income attributable to:					
Owners of the Company		**(31,819)**	(28,307)	**(10,563)**	(7,985)
Non-controlling interests		**(289)**	(286)	**(56)**	(75)
		(32,108)	(28,593)	**(10,619)**	(8,060)
Loss per share attributable to owners of the Company for the period (expressed in RMB cents per share)					
Basic and diluted loss per share	10	**(4.99)**	(4.75)	**(1.68)**	(1.27)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 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 bonds equity reserve 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 income											
Change in value of available-for-sale investment	–	–	–	–	–	(262)	–	–	(262)	–	(262)
Currency translation differences	–	–	–	–	–	–	(1,741)	–	(1,741)	–	(1,741)
Total comprehensive income	–	–	–	–	–	(262)	(1,741)	(26,304)	(28,307)	(286)	(28,593)
Transactions with 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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the nine months ended 30 September 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 bonds equity reserve RMB'000	Shares held for share award scheme RMB'000	Employee share based payment 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 2016 (Audited)	5,263	258,103	(47,484)	4,552	22,169	(417)	1,385	409	(56,321)	187,659	3,626	191,285
Comprehensive income												
Loss for the period	–	–	–	–	–	–	–	–	(32,959)	(32,959)	(289)	(33,248)
Other comprehensive income												
Currency translation differences	–	–	–	–	–	–	–	1,140	–	1,140	–	1,140
Total comprehensive income	–	–	–	–	–	–	–	1,140	(32,959)	(31,819)	(289)	(32,108)
Transactions with owners of the Company recognised directly in equity												
Share purchased under share award scheme	–	–	–	–	–	(5,543)	–	–	–	(5,543)	–	(5,543)
Equity-settled share-based payment expenses	–	–	–	–	–	–	7,604	–	–	7,604	–	7,604
Appropriation to PRC statutory reserve	–	–	–	40	–	–	–	–	(40)	–	–	–
Balance at 30 September 2016 (Unaudited)	5,263	258,103	(47,484)	4,592	22,169	(5,960)	8,989	1,549	(89,320)	157,901	3,337	161,238

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 financial information.

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

3. BASIS OF PREPARATION

The condensed consolidated 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 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 FINANCIAL STATEMENTS (CONTINUED)

4. BASIS OF CONSOLIDATION

The condensed consolidated 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 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. BASIS OF CONSOLIDATION (CONTINUED)

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.

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 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 FINANCIAL STATEMENTS (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.

	Nine months ended 30 September		Three months ended 30 September	
	2016	2015	**2016**	2015
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	RMB'000	RMB'000	**RMB'000**	RMB'000
Revenue				
Sales of automobile glass with installation/repair services	**74,644**	78,767	**26,819**	28,942
Trading of automobile glass	**10,476**	7,161	**4,029**	4,081
Provision of installation services of photovoltaic system	**16,666**	807	**43**	3
Total	**101,786**	86,735	**30,891**	33,026
Other (loss)/gain, net				
– Gain/(Loss) on disposal of property, plant and equipment	**25**	(60)	**(12)**	(1)
– Others	**(434)**	328	**(65)**	(13)
Total	**(409)**	268	**(77)**	(14)

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 FINANCIAL STATEMENTS (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 information.

	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	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000	**2016 (Unaudited) RMB'000**	2015 (Unaudited) RMB'000	**2016 (Unaudited) RMB'000**	2015 (Unaudited) RMB'000	**2016 (Unaudited) RMB'000**	2015 (Unaudited) RMB'000	**2016 (Unaudited) RMB'000**	2015 (Unaudited) RMB'000
Turnover-revenue from:										
Sales of automobile glass with installation/repair services	**67,911**	70,681	**–**	827	**1,429**	1,257	**5,304**	6,002	**74,644**	78,767
Trading of automobile glass	**11,548**	24,867	**–**	610	**591**	1,112	**693**	597	**12,832**	27,186
Provision of installation services of photovoltaic system	**16,666**	807	**–**	–	**–**	–	**–**	–	**16,666**	807
Inter-segment sales	**(2,013)**	(19,286)	**–**	(122)	**(342)**	(589)	**(1)**	(28)	**(2,356)**	(20,025)
Revenue from external customers	**94,112**	77,069	**–**	1,315	**1,678**	1,780	**5,996**	6,571	**101,786**	86,735
Results of reportable segments	**13,433**	15,540	**–**	70	**217**	201	**1,724**	2,051	**15,374**	17,862
Depreciation	**2,989**	3,419	**–**	73	**22**	81	**60**	75	**3,071**	3,648
Amortisation	**550**	1,138	**–**	–	**–**	–	**420**	619	**970**	1,757
Capital expenditure	**1,344**	4,488	**–**	–	**–**	–	**51**	44	**1,395**	4,532

A reconciliation of results of reportable segments to loss for the period is as follows:

	2016	2015
Results of reportable segments	**15,374**	17,862
Unallocated income	**141**	268
Unallocated expenses	**(48,635)**	(45,265)
	(33,120)	(27,135)
Finance income	**31**	383
Finance cost	**(57)**	(84)
Share of losses of investment accounted for using equity method	**(191)**	(93)
Losses before income tax	**(33,337)**	(26,929)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. INCOME TAX CREDIT

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 (Nine months ended 30 September 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 of the Group established in the PRC are subject to the PRC corporate income tax at a rate of 25% for the nine months ended 30 September 2016 (Nine months ended 30 September 2015: 25%). The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and the British Virgin Islands for the nine months ended 30 September 2016 (Nine months ended 30 September 2015: Nil).

9. DIVIDENDS

The Directors did not recommend the payment of any dividend for the nine months ended 30 September 2016 (Nine months ended 30 September 2015: Nil).

10. 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.

	Nine months ended 30 September		**Three months ended 30 September**	
	2016	2015	**2016**	2015
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Losses attributable to owners of the Company (RMB'000)	**(32,959)**	(26,304)	**(11,078)**	(7,482)
Weighted average number of ordinary shares in issue (thousands)	**661,000**	553,989	**661,000**	588,413
Loss per share (in RMB cents)	**(4.99)**	(4.75)	**(1.68)**	(1.27)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. 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 nine months ended 30 September 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 nine months ended 30 September 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.

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 and provision of installation services of photovoltaic system in the PRC. As at 30 September 2016, the Group operated 29 service centres in the PRC providing automobile glass installation/repair services (30 September 2015: 28). The Group's total revenue for the nine months ended 30 September 2016 amounted to approximately RMB101,786,000, representing an increase of approximately RMB15,051,000 or 17.4% as compared to that of approximately RMB86,735,000 for the corresponding period last year. Overall gross profit decreased by approximately RMB2,488,000 or 13.9% to approximately RMB15,374,000 for the nine months ended 30 September 2016 from approximately RMB17,862,000 for the corresponding period last year. The gross profit margin for the current period decreased to 15.1% from 20.6% for the corresponding period last year. The total comprehensive loss attributable to owners of the Company for the nine months ended 30 September 2016 amounted to approximately RMB31,819,000, representing an increase of approximately RMB3,512,000 or 12.4% from approximately RMB28,307,000 for the nine months ended 30 September 2015.

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		
	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	**94,112**	77,069	22.1%	**–**	1,315	(100)%	**1,678**	1,780	(5.7)%	**5,996**	6,571	(8.8)%	**101,786**	86,735	17.4%
Gross profit	**13,433**	15,540	(13.6)%	**–**	70	(100)%	**217**	201	8.0%	**1,724**	2,051	(15.9)%	**15,374**	17,862	(13.9)%
Gross profit margin	**14.3%**	20.2%		**–**	5.3%		**12.9%**	11.3%		**28.8%**	31.2%		**15.1%**	20.6%	

The Northern China segment includes Beijing, Tianjin, Sanhe and revenue generated from these areas represents approximately 92.5% of the Group's total revenue. Revenue from the Northern China segment increased by approximately 22.1% from approximately RMB77,069,000 for the corresponding period last year to approximately RMB94,112,000 for the nine months ended 30 September 2016. The increase was mainly attributable to increase in revenue from provision of installation services of photovoltaic system of approximately RMB15,859,000 from approximately RMB807,000 for the nine months ended 30 September 2015 to approximately RMB16,666,000 for the nine months ended 30 September 2016. Gross profit decreased by approximately 13.6% from approximately RMB15,540,000 for the corresponding period last year to approximately RMB13,433,000 for the nine months ended 30 September 2016, and gross profit margin decreased from approximately 20.2% for the corresponding period last year to approximately 14.3% for the nine months ended 30 September 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 5.7% from approximately RMB1,780,000 for the corresponding period last year to approximately RMB1,678,000 for the nine months ended 30 September 2016. This was mainly due to decline of trading of automobile glass resulting from keen competition in the Hangzhou area. Gross profit increased by approximately 8.0% from approximately RMB201,000 for the corresponding period last year to approximately RMB217,000 for the nine months ended 30 September 2016, and gross profit margin increased from approximately 11.3% for the corresponding period last year to approximately 12.9% for the nine months ended 30 September 2016, and was mainly due to reduction of rental expenses for services centres for the nine months ended 30 September 2016.

The revenue from the Shenzhen segment amounted to approximately RMB5,996,000 for the nine months ended 30 September 2016, which represents a decrease of approximately 8.8% as compared to that of approximately RMB6,571,000 for the corresponding period last year. The decrease was mainly due to close down of one service centre in Shenzhen in July 2016. Gross profit amounted to approximately RMB1,724,000 for the nine months ended 30 September 2016, with gross profit margin of approximately 28.8% which is slightly lower than the corresponding period last year of approximately 31.2%.

Selling and Distribution Costs

Selling and distribution costs increased by approximately 7.7% from approximately RMB18,231,000 for the nine months ended 30 September 2015 to approximately RMB19,638,000 for the nine months ended 30 September 2016. The increase was mainly due to an increase of sales staff's salaries and services centres maintenance costs.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 increased by approximately 5.2% from approximately RMB27,034,000 for the nine months ended 30 September 2015 to approximately RMB28,447,000 for the nine months ended 30 September 2016 as a result of the employee share-based payment expenses incurred by the Group of approximately RMB7,604,000 (30 September 2015: Nil) but legal and financial consultancy fees and other professional expenses were reduced to approximately RMB5,970,000 compared with the corresponding period last year.

Finance Cost and Income, net

Finance cost decreased from approximately RMB84,000 for the nine months ended 30 September 2015 to approximately RMB57,000 for the nine months ended 30 September 2016. Finance income decreased from approximately RMB383,000 for the nine months ended 30 September 2015 to approximately RMB31,000 for the nine months ended 30 September 2016, which was mainly the result of a decrease in average monthly deposit in banks in the PRC.

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 RMB191,000 for the nine months ended 30 September 2016.

Income Tax Credit

Income tax credit decreased from approximately RMB339,000 for the nine months ended 30 September 2015 to approximately RMB89,000 for the nine months ended 30 September 2016. The income tax credit was mainly attributable to the decline of deferred income tax liabilities during the period ended 30 September 2016.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Losses for the period

The Group recorded a net loss of approximately RMB33,248,000 for the nine months ended 30 September 2016, representing an increase of approximately RMB6,658,000 from approximately RMB26,590,000 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.

Pledge of Assets

On 19 August 2016, the Group has pledged one of the Group's property in Beijing with net book value of approximately RMB4,244,000 as at 30 September 2016 to guarantee the supplier's bank loan of RMB2,000,000 for a period of 12 months for importing inventory.

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**").

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;

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 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 items (i) to (iii) are still unattainable and item (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 financial information as at 30 September 2016.

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

Subsequent Events after the Reporting Period

On 25 October 2016, the Group filed a writ of summons to the Court of Daqing City, Heilongjiang Province, the PRC, against the vendor of the Daqing property for not being able to assist the Group to obtain the building certificate of the Daqing property since the Daqing Acquisition Agreement entered on 19 October 2014. The registration of the Daqing property to the local authority has been completed in 2015. The Group now seeks to procure the vendor of Daqing property to perform its obligations and to comply with the terms and conditions under the Daqing Acquisition Agreement to assist the Group to obtain the building certificate of the Daqing property.

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 nine months ended 30 September 2016.

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 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 date on which the compliance adviser agreement expired.

Directors' Interests in Competing Interests

For the nine months ended 30 September 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 with the Group.

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

During the nine months ended 30 September 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 September 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*

Name of Director	Nature of interest: Beneficial interests	Beneficiary of a trust	Interest of a controlled corporation	Total interests	Approximate percentage of Shareholding (%)
					(Note 3)
He Changsheng	1,500,000	9,000,000 (Note 1)	–	10,500,000	1.59%
Li Honglin	450,000	4,050,000 (Note 1)	–	4,500,000	0.68%
Xia Lu	1,000,000	9,000,000 (Note 1)	–	10,000,000	1.51%
Xia Xiufeng	–	1,000,000 (Note 1)	–	1,000,000	0.15%
Lo Chun Yim	–	–	106,000,000 (Note 2)	106,000,000	16.04%

Notes:

(1) These Shares represented 9,000,000, 4,050,000, 9,000,000 and 1,000,000 Shares granted to Mr. He Changsheng, Mr. Li Honglin, Ms. Xia Lu and Mr. Xia Xiufeng, respectively, on 12 November 2015 pursuant to the share award scheme of the Company adopted on 12 October 2015 which were unvested as at 30 September 2016 pursuant to the terms and conditions of the award. The award shares will be vested in full to those Directors respectively in five tranches each over six years. These Shares were registered in the name of Computershare Hong Kong Trustees Limited, the trustee of the share award scheme. Therefore, each of Mr. He Changsheng, Mr. Li Honglin, Ms. Xia Lu and Mr. Xia Xiufeng was deemed to be interested in the Shares in which Computershare Hong Kong Trustees Limited was interested by virtue of the SFO.

(2) These Shares were held by Rise Grace Development Limited ("**Rise Grace**"), a company incorporated in Hong Kong on 5 November 2009 and an investment holding company. Rise Grace was wholly and beneficially owned by Diamond Galaxy Limited, which was in turn wholly and beneficially owned by Mr. Lo Chun Yim, a non-executive director of the Company. Mr. Lo Chun Yim was deemed to be interested in all the Shares in which Rise Grace was interested by virtue of the SFO.

(3) The approximate percentage of shareholding is calculated based on the total number of issued Shares of the Company as at 30 September 2016.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Save as disclosed above, as at 30 September 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.

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 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 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 (%)
			(Note 7)
Lu Yu Global Limited ("**Lu Yu**") (Note 1)	Beneficial owner	216,000,000	32.68%
Natsu Kumiko ("**Ms. Natsu**") (Note 1)	Interest in a controlled corporation	216,000,000	32.68%
Xia Chengzhen (Note 2)	Interest of spouse	216,000,000	32.68%
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%
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%

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, was wholly and beneficially owned by Ms. Natsu. Ms. Natsu was deemed to be interested in the 216,000,000 Shares held by Lu Yu by virtue of the SFO.

(2) Mr. Xia Chengzhen was the spouse of Ms. Natsu and he was deemed to be interested in the Shares in which Ms. Natsu was interested by virtue of the SFO.

(3) Xinyi Glass (BVI), a company incorporated in the BVI on 13 June 2012 and an investment holding company, was wholly and beneficially owned by Xinyi Glass Holdings. Therefore, Xinyi Glass Holdings was deemed to be interested in all the Shares in which Xinyi Glass (BVI) was interested by virtue of the SFO.

(4) These Shares were held by Rise Grace, which was wholly and beneficially owned by Diamond Galaxy Limited. Therefore, Diamond Galaxy Limited was deemed to be interested in all the Shares in which Rise Grace was interested by virtue of the SFO.

(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 in the principal amount of HK$60,816,000 issued on 14 November 2014, the number of shares falling to be issued under the outstanding Convertible Bond was adjusted from 4,690,647 Shares 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 in the principal amount of HK$60,816,000 issued on 14 November 2014, the number of shares falling to be issued under the outstanding Convertible Bond was adjusted from 4,690,647 Shares 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. Aleta was wholly and beneficially owned by Wang Yao Ming. As such, Wang Yao Ming was deemed to be interested in all the Shares hold by Aleta by virtue of SFO.

(7) The approximate percentage of shareholding is calculated based on the total number of issued Shares of the Company as at 30 September 2016.

Save as disclosed above, as at 30 September 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 pursuant to section 336 of the SFO.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 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 financial information of the Group for the nine months ended 30 September 2016 and was of the opinion that preparation of such results complied with the applicable accounting standard.

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

Hong Kong, 8 November 2016

As at the date of this report, the executive Directors are Ms. Xia Lu (Chief Executive Officer), 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.