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

2017

First 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 the 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 ended 31 March 2017

First Quarterly Results

The unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the three months ended 31 March 2017, together with the comparative unaudited figures for the corresponding period in 2016, are as follows:

		Three months ended 31 March	
		2017	2016
		RMB'000	RMB'000
	Notes	**(unaudited)**	(unaudited)
Revenue	6	**19,071**	37,225
Cost of sales		**(17,100)**	(33,675)
Gross profit		**1,971**	3,550
Other loss, net		**(55)**	(294)
Selling and distribution costs		**(4,999)**	(6,795)
Administrative expenses		**(9,737)**	(9,069)
		(12,820)	(12,608)
Finance income		**5**	11
Finance cost		**(62)**	(20)
Finance cost, net		**(57)**	(9)
Share of loss of investments accounted for using equity method		**(11)**	(121)
Loss before income tax		**(12,888)**	(12,738)
Income tax (expense)/credit	7	**(96)**	105
Loss for the period		**(12,984)**	(12,633)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the three months ended 31 March 2017

	Notes	**Three months ended 31 March** **2017** **RMB'000** **(unaudited)**	2016 RMB'000 (unaudited)
Other comprehensive income:			
Item that may be reclassified subsequently to profit or loss:			
Currency translation differences		**(127)**	(10)
Total comprehensive income for the period		**(13,111)**	(12,643)
Loss attributable to:			
Owners of the Company		**(12,907)**	(12,456)
Non-controlling interests		**(77)**	(177)
		(12,984)	(12,633)
Total comprehensive income attributable to:			
Owners of the Company		**(13,034)**	(12,466)
Non-controlling interests		**(77)**	(177)
		(13,111)	(12,643)
Loss per share attributable to owners of the Company for the period (expressed in RMB cents per share)	9		
Basic and diluted loss per share		**(1.95)**	(1.88)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2017

	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	Accumulated losses 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	–	–	–	–	–	–	–	–	(12,456)	(12,456)	(177)	(12,633)
Other comprehensive income												
Currency translation difference	–	–	–	–	–	–	–	(10)	–	(10)	–	(10)
Total comprehensive income	–	–	–	–	–	–	–	(10)	(12,456)	(12,466)	(177)	(12,643)
Transactions with equity owners of the Company recognised directly in equity												
Share purchased under share award scheme	–	–	–	–	–	(829)	–	–	–	(829)	–	(829)
Equity-settled share-based payment expenses	–	–	–	–	–	–	2,576	–	–	2,576	–	2,576
Appropriation to PRC statutory reserve	–	–	–	14	–	–	–	–	(14)	–	–	–
Balance at 31 March 2016 (Unaudited)	5,263	258,103	(47,484)	4,566	22,169	(1,246)	3,961	399	(68,791)	176,940	3,449	180,389

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the three months ended 31 March 2017

	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	Accumulated losses RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017 (Audited)	5,263	258,103	(47,484)	4,626	22,169	(10,975)	8,411	2,747	(115,964)	126,896	3,262	130,158
Comprehensive income												
Loss for the period	–	–	–	–	–	–	–	–	(12,907)	(12,907)	(77)	(12,984)
Other comprehensive income												
Currency translation difference	–	–	–	–	–	–	–	(127)	–	(127)	–	(127)
Total comprehensive income	–	–	–	–	–	–	–	(127)	(12,907)	(13,034)	(77)	(13,111)
Transactions with equity owners of the Company recognised directly in equity												
Equity-settled share-based payment expenses	–	–	–	–	–	–	2,130	–	–	2,130	–	2,130
Balance at 31 March 2017 (Unaudited)	5,263	258,103	(47,484)	4,626	22,169	(10,975)	10,541	2,620	(128,871)	115,992	3,185	119,177

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 and its shares are listed on the Growth Enterprise Market (the "**GEM**") of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the condensed consolidated financial statements are applied consistent with those applied in the Group's audited consolidated financial statements for the year ended 31 December 2016.

3. BASIS OF PREPARATION

The condensed consolidated financial statements 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 the debt component of the convertible bonds which are carried at fair value. They are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

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

4. BASIS OF CONSOLIDATION

The condensed consolidated financial statements 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. BASIS OF CONSOLIDATION (CONTINUED)

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.

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 2017. 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 FINANCIAL STATEMENTS (CONTINUED)

6. REVENUE AND SEGMENT REPORTING

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

	Three months ended 31 March	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Sales of automobile glass with installation/repair services	**16,753**	19,414
Trading of automobile glass	**2,318**	2,811
Provision of installation services of photovoltaic system	**–**	15,000
Total	**19,071**	37,225

	Northern China Three months ended 31 March		Hangzhou Three months ended 31 March		Shenzhen Three months ended 31 March		Reportable segments Three months ended 31 March	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000	**2017 (Unaudited) RMB'000**	2016 (Unaudited) RMB'000	**2017 (Unaudited) RMB'000**	2016 (Unaudited) RMB'000	**2017 (Unaudited) RMB'000**	2016 (Unaudited) RMB'000
Turnover-revenue from:								
Sales of automobile glass with installation/repair services	**15,398**	17,301	**335**	456	**1,020**	1,657	**16,753**	19,414
Trading of automobile glass	**2,588**	3,176	**222**	71	**281**	265	**3,091**	3,512
Provision of installation services of photovoltaic system	**–**	15,000	**–**	–	**–**	–	**–**	15,000
Inter-segment sales	**(551)**	(700)	**(222)**	–	**–**	(1)	**(773)**	(701)
Revenue from external customers	**17,435**	34,777	**335**	527	**1,301**	1,921	**19,071**	37,225
Results of reportable segments	**1,940**	2,840	**(49)**	144	**80**	566	**1,971**	3,550
Depreciation	**442**	993	**6**	7	**11**	22	**459**	1,022
Amortisation	**–**	183	**–**	–	**69**	140	**69**	323
Capital expenditure	**77**	183	**499**	–	**–**	51	**576**	234
Results of reportable segments							**1,971**	3,550
Unallocated income							**32**	53
Unallocated expenses							**(14,823)**	(16,211)
							(12,820)	(12,608)
Finance income							**5**	11
Finance cost							**(62)**	(20)
Share of loss of investments accounted for using equity method							**(11)**	(121)
Loss before income tax							**(12,888)**	(12,738)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. INCOME TAX (EXPENSE)/CREDIT

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profit arising in Hong Kong for the period (Three months ended 31 March 2016: Nil). Taxes on profits assessable in the PRC have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

All subsidiaries in the PRC are subject to the PRC corporate income tax at a rate of 25% for the period (Three months ended 31 March 2016: 25%). The Group is not subject to any taxation under the jurisdiction of the Cayman Islands and British Virgin Island during the period (Three months ended 31 March 2016: Nil).

8. DIVIDENDS

The Directors did not recommend the payment of any dividend for the three months ended 31 March 2017 (Three months ended 31 March 2016: Nil).

9. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic and diluted loss per share for the three months ended 31 March 2017 is based on the loss for the period attributable to owners of the Company of approximately RMB12,907,000 (Three months ended 31 March 2016: RMB12,456,000) and the weighted average number of approximately 661,000,000 (Three months ended 31 March 2016: 661,000,000) ordinary shares of the Company in issue for the period ended 31 March 2017.

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

Diluted loss per share for the three months ended 31 March 2017 and 2016 is the same as the basic loss per share as the utilisation of the unvested 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The principal business of the Group includes 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 31 March 2017, the Group operated 28 service centres in the PRC for providing automobile glass installation/repair services (31 March 2016: 29). The Group's total revenue for the three months ended 31 March 2017 amounted to approximately RMB19,071,000, representing a decrease of approximately RMB18,154,000 or 48.8% as compared to that of approximately RMB37,225,000 for the corresponding period last year. Overall gross profit decreased by approximately RMB1,579,000 or 44.5% to approximately RMB1,971,000 for the three months ended 31 March 2017 from approximately RMB3,550,000 for the corresponding period last year. The gross profit margin for the current period increased to 10.3% from 9.5% for the corresponding period last year. The total comprehensive loss attributable to owners of the Company for the three months ended 31 March 2017 amounted to approximately RMB13,034,000, representing an increase of approximately RMB568,000 or 4.6% from approximately RMB12,466,000 for the three months ended 31 March 2016.

REVIEW BY SEGMENT

	Northern China Three months ended 31 March			Hangzhou Three months ended 31 March			Shenzhen Three months ended 31 March			Total Three months ended 31 March		
	2017 RMB'000	2016 RMB'000	Change %	**2017 RMB'000**	2016 RMB'000	Change %	**2017 RMB'000**	2016 RMB'000	Change %	**2017 RMB'000**	2016 RMB'000	Change %
Revenue	**17,435**	34,777	(49.9)%	**335**	527	(36.4)%	**1,301**	1,921	(32.3)%	**19,071**	37,225	(48.8)%
Gross profit/(loss)	**1,940**	2,840	(31.7)%	**(49)**	144	(134.0)%	**80**	566	(85.9)%	**1,971**	3,550	(44.5)%
Gross profit/(loss) margin	**11.1%**	8.2%		**(14.6)%**	27.3%		**6.1%**	29.5%		**10.3%**	9.5%	

Northern China Segment

The Northern China segment includes Beijing, Tianjin, Sanhe and revenue generated from these areas represents approximately 91.4% of the Group's total revenue. Revenue from the Northern China segment decreased by approximately 49.9% from approximately RMB34,777,000 to approximately RMB17,435,000 for the three months ended 31 March 2017. The decrease was mainly as a result of no revenue was recognised from provision of installation services of photovoltaic system for the three months ended 31 March 2017 (Three months ended 31 March 2016: RMB15,000,000). Gross profit decreased by approximately 31.7% from approximately RMB2,840,000 for the corresponding period last year to approximately RMB1,940,000 for the three months ended 31 March 2017, and was mainly attributable to the decrease of revenue from photovoltaic system installation services. Gross profit margin increased from approximately 8.2% for the corresponding period last year to approximately 11.1% for the three months ended 31 March 2017. This was mainly due to the higher of gross profit margin on sales of automobile glass with installation/repair services than the provision of installation services of photovoltaic system.

Hangzhou Segment

Revenue of the Hangzhou segment decreased by approximately 36.4% from approximately RMB527,000 to approximately RMB335,000 for the three months ended 31 March 2017. This was mainly due to decline of both sales and trading of automobile glass resulted from keen competition in the Hangzhou area. Gross profit decreased by approximately 134.0% from gross profit of approximately RMB144,000 for the three months ended 31 March

2016 to gross loss of approximately RMB49,000 for the three months ended 31 March 2017, and gross loss margin approximately 14.6% for the three months ended 31 March 2017 (Three months ended 31 March 2016: Gross profit margin of approximately 27.3%) and was mainly due to decrease in both sales and trading of automobile glass whereas the related costs such as rental expenses, staff costs and utilities, decreased with lesser proportion.

Shenzhen Segment

The revenue from the Shenzhen segment amounted to approximately RMB1,301,000 for the three months ended 31 March 2017, which represents a decrease of approximately 32.3% as compared to that of approximately RMB1,921,000 for the corresponding period last year. The decrease was mainly due to the increase in competitors in automobile glass installation/repair service business in Shenzhen during the three months ended 31 March 2017. Gross profit decreased by 85.9% from approximately RMB566,000 for the three months ended 31 March 2016 to approximately RMB80,000 for the three months ended 31 March 2017. Gross profit margin decreased from approximately 29.5% for the three months ended 31 March 2016 to approximately 6.1% for the three months ended 31 March 2017 and this was mainly due to decrease in both sales and trading of automobile glass whereas the related costs such as rental expenses, staff costs and utilities, decreased with lesser proportion.

Selling and Distribution Costs

The Group's selling and distribution costs decreased by approximately 26.4% from approximately RMB6,795,000 for the three months ended 31 March 2016 to approximately RMB4,999,000 for three months ended 31 March 2017. The decrease was mainly due to the decrease in advertising and marketing expenses of approximately RMB640,000, depreciation and amortisation of approximately RMB399,000, and repair and maintenance expenses of approximately RMB386,000.

Administrative Expenses

The Group's administrative expenses mainly consist of professional fees, staff costs (including Directors' remunerations and share-based payment expenses), depreciation and rental expenses. The total administrative expenses increased by approximately 7.3% from approximately RMB9,069,000 for the three months ended 31 March 2016 to approximately RMB9,737,000 for the three months ended 31 March 2017. The increase was mainly due to the increase of staff welfare and training expenses of approximately RMB642,000.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Finance Cost, Net

The finance cost, net, increased from approximately RMB9,000 for the three months ended 31 March 2016 to approximately RMB57,000 for the three months ended 31 March 2017, and was mainly attributable to the increase in losses on foreign currencies exchange during the three months ended 31 March 2017.

Income Tax (Expense)/Credit

Income tax expense of approximately RMB96,000 for the three months ended 31 March 2017 (Three months ended 31 March 2016: Income tax credit of approximately RMB105,000). The arising of income tax expense was mainly attributable to the decline of deferred income tax assets during the three months ended 31 March 2017.

Loss for the Period

As a combined result of the factors discussed above, the Group recorded a net loss of approximately RMB12,984,000 for the three months ended 31 March 2017, representing an increase of approximately RMB351,000 from approximately RMB12,633,000 for the corresponding period last year. The increase in net loss for the period was mainly attributable to the decrease in gross profit.

Pledge of Assets

As at 31 March 2017, the Group has pledged one of the Group's properties in Beijing with net book value of approximately RMB4,103,000 as at 31 March 2017 to guarantee one of the Group's suppliers of imported glass for a bank loan of RMB2,000,000 for a period of 12 months and will be ended on 18 August 2017. Except as disclosed above, the Group did not have any other assets pledged for bank borrowings or for other purpose (31 March 2016: Nil).

Contingent Liabilities

On 24 December 2014, Xinyi Automobile Glass (BVI) Company Limited ("**Xinyi Glass (BVI)**") issued an originating summons (the "**Originating Summons**") and instituted proceedings in the Court of First Instance of the Hong Kong Special Administrative Region against the Company, the vendor of the Daqing property, the holder of the convertible bonds, the existing executive and non-executive Directors and certain existing and former independent non-executive Directors, (the "**Defendants**") with respect to the acquisition of a property in Daqing (the "**Daqing Acquisition**") as detailed in the annual report for the year ended 2016.

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 ongoing but no step has been taken by Xinyi Glass (BVI) to prosecute the same against all the Defendants since 12 November 2015. 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 financial statements as at 31 March 2017.

Save as disclosed above, as at 31 March 2017, the Group did not have any other significant contingent liabilities (31 March 2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

PROSPECTS

Looking ahead, the Group is striving to strengthen its position in the automobile glass installation/repair service industry in Beijing and Tianjin, and further exploring its business operation in Daqing. In addition, the Group is in the process of developing the Online-To-Offline ("O2O") services so as to enhance the coverage of the Group's services in the region. The O2O commerce is the use of online platform and 24 hours hotline to draw potential customers from online channels to our 28 physical services centres in six cities in China or the provision of door-to-door services to online customers through our over motorcade service teams which stationed at service centres.

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 three months ended 31 March 2017.

Directors' Interests in Competing Interests

For the three months ended 31 March 2017, the Directors were not aware of any business or interest of each of the Directors, or the controlling shareholders of the Company and their respective close associates (as defined under the GEM Listing Rules) that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have within the Group.

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

During the three months ended 31 March 2017, 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 31 March 2017, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange, pursuant to the required standard of dealings by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

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

Name of Director	Nature of interest Beneficial interests	 Beneficiary of a trust	 Interest of a controlled corporation	Total interests	Approximate percentage of Shareholding (%)
					(Note 4)
He Changsheng	1,500,000	13,500,000 (Note 1)	–	15,000,000	2.27%
Li Honglin	450,000	4,050,000 (Note 2)	–	4,500,000	0.68%
Xia Lu	1,000,000	9,000,000 (Note 2)	–	10,000,000	1.51%
Xia Xiufeng	–	1,000,000 (Note 2)	–	1,000,000	0.15%
Lo Chun Yim	–	–	106,000,000 (Note 3)	106,000,000	16.04%

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Notes:

(1) These Shares represented 9,000,000 and 4,500,000 Shares granted to Mr. He Changsheng on 12 November 2015 and 11 January 2017, respectively, pursuant to the share award scheme of the Company adopted on 12 October 2015 ("**Share Award Scheme**") which remain unvested as at 31 March 2017. The award shares granted on 12 November 2015 and 11 January 2017 will be vested in full in five tranches over five years and four tranches over four years respectively. These Shares were registered in the name of Computershare Hong Kong Trustees Limited, the trustee of the Share Award Scheme. Therefore, Mr. He Changsheng 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 represented 4,050,000, 9,000,000 and 1,000,000 Shares granted to Mr. Li Honglin, Ms. Xia Lu and Mr. Xia Xiufeng, respectively, on 12 November 2015 pursuant to the Share Award Scheme which remain unvested as at 31 March 2017. 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. 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.

(3) 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.

(4) The approximate percentage of shareholding is calculated based on the total number of issued Shares of the Company as at 31 March 2017.

Save as disclosed above, as at 31 March 2017, none of the Directors and chief executives of the Company has 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 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

As at 31 March 2017, the interests and short positions of substantial shareholders and other persons (not being a Director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

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 5)
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%

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) The approximate percentage of shareholding is calculated based on the total number of issued Shares of the Company as at 31 March 2017.

Save as disclosed above, as at 31 March 2017, the Directors were not aware of any other persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to section 336 of the SFO.

Model Code for Directors' Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the Directors, all the Directors confirmed that they have complied with the code of conduct and required standard of dealings concerning securities transactions by Directors throughout the three months ended 31 March 2017.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Audit Committee

The Audit Committee was established with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and the Code. The primary duties of the Audit Committee are mainly to review the accounting policy, financial position and financial reporting procedures of the Company; to communicate with external audit firms; to assess the performance of internal financial and audit personnel; and to assess the internal control and risk management systems 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 three months ended 31 March 2017 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, 9 May 2017

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.