

Glory Flame Holdings Limited

朝威控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8059

Third Quarterly Report
2015

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors. Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of Glory Flame Holdings 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.

FINANCIAL HIGHLIGHT

- The Group's revenue amounted to approximately HK\$67.2 million for the Reporting Period, representing an increase of approximately HK\$0.2 million or 0.3% as compared with the nine months ended 30 September 2014.
- The profit attributable to the owners of the Company was approximately HK\$8.6 million for the Reporting Period, representing an increase of approximately HK\$6.1 million or 239.7% as compared with the nine months ended 30 September 2014 mainly due to the listing expenses of approximately HK\$9.0 million incurred during the nine months ended 30 September 2014 which was non-recurring in nature.
- The Board does not recommend the payment of dividend for the Reporting Period.

THIRD QUARTERLY RESULTS

The Board is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "Group") for the nine months ended 30 September 2015 (the "Reporting Period"), together with the unaudited comparative figures for the corresponding period in 2014, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

For the nine months ended 30 September 2015

		Nine months ended 30 September	
	<i>Notes</i>	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Revenue	3	67,234	67,048
Cost of sales		<u>(44,616)</u>	<u>(42,478)</u>
Gross profit		22,618	24,570
Other income and net gains		376	775
Administrative and other operating expenses	4	<u>(11,960)</u>	<u>(19,975)</u>
Operating profit		11,034	5,370
Finance costs		<u>(95)</u>	<u>(277)</u>
Profit before income tax		10,939	5,093
Income tax expense	5	<u>(2,371)</u>	<u>(2,571)</u>
Profit and total comprehensive income for the period attributable to owners of the Company		<u>8,568</u>	<u>2,522</u>
Basic and diluted earnings per share	7	<u>HK cents</u> <u>1.38</u>	<u>HK cents</u> <u>0.41</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 30 September 2015

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Merger reserve HK\$'000	Retained earnings HK\$'000	Total equity HK\$'000
Balance at 1 January 2015	6,200	34,025	–	15,800	14,954	70,979
Profit and total comprehensive income for the period	–	–	–	–	8,568	8,568
	–	–	–	–	8,568	8,568
Balance at 30 September 2015 (unaudited)	6,200	34,025	–	15,800	23,522	79,547
Balance at 1 January 2014 (Note 1)	5,000	–	–	–	10,132	15,132
Profit and total comprehensive income for the period	–	–	–	–	2,522	2,522
	–	–	–	–	2,522	2,522
Transactions with owners:						
Deemed contribution from Mr. Pei arising from waiver of a loan (Note 2)	–	–	2,800	–	–	2,800
Capitalisation of shareholder's loan	8	7,992	–	–	–	8,000
Reorganisation	(5,008)	(7,992)	(2,800)	15,800	–	–
Shares issued pursuant to the capitalisation issue	5,115	(5,115)	–	–	–	–
Proceeds from placing of shares	1,085	42,315	–	–	–	43,400
Share issuance costs	–	(3,175)	–	–	–	(3,175)
	1,200	34,025	–	15,800	–	51,025
Balance at 30 September 2014 (unaudited)	6,200	34,025	–	15,800	12,654	68,679

Notes:

- For the purpose of the preparation of the condensed consolidated statement of change in equity, the balance of the combined capital at 30 September 2014 represents the aggregate of the paid up share capital of the subsidiaries comprising the Group prior to the corporate reorganisation undertaken in preparation for the listing of the Company's shares on the GEM of the Stock Exchange.
- This represents the waiver of the amount due to Mr. Pei Wing Fu ("Mr. Pei"), the controlling shareholder of the Company, and is accounted for as deemed capital contribution from the shareholder.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2015

1. GENERAL INFORMATION

Glory Flame Holdings Limited was incorporated in the Cayman Islands on 25 April 2014 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited with effect from 15 August 2014. Its parent and ultimate holding company is Power Key Investments Limited (“Power Key”), a company incorporated in the British Virgin Islands (the “BVI”) and beneficially owned by Mr. Pei Wing Fu and Ms. Lau Kwai Fong (“Mrs. Pei”) (hereinafter collectively referred to as the “Controlling Parties”).

The address of the Company’s registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY11108, Cayman Islands. The address of the Company’s principal place of business in Hong Kong is Suites 2001-2006, 20th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong. The Company is an investment holding company. The Group is principally engaged in the provision of concrete demolition services in Hong Kong as a subcontractor.

Prior to the corporate reorganisation undertaken in preparation for the listing of the Company’s shares on the GEM of the Stock Exchange (the “Reorganisation”), the group entities were under the control of the Controlling Parties. Through the Reorganisation, the Company became the holding company of the companies now comprising the Group on 8 May 2014. Accordingly, for the purpose of the preparation of the unaudited condensed consolidated financial statements of the Group, the Company has been considered as the holding company of the companies now comprising the Group throughout the years presented. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. The Group was under the control of the Controlling Parties prior to and after the Reorganisation.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the nine months ended 30 September 2015 have been prepared by the Directors in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the HKICPA and the disclosure requirements of the GEM Listing Rules. HKFRSs include Hong Kong Accounting Standards and interpretations. Intra-group balances and transactions, if any, have been fully and properly eliminated. The accounting policies and basis of preparation adopted in the preparation of the financial statements for the nine months ended 30 September 2015 are consistent with those adopted in the annual financial statements of the Company for the year ended 31 December 2014.

The financial statements for the nine months ended 30 September 2015 have not been audited by the Company’s independent auditors, but have been reviewed by the Company’s audit committee.

The financial statements for the nine months ended 30 September 2015 are presented in Hong Kong dollars (“HK\$”), which is the same functional currency of the Company.

3. REVENUE

Revenue, which is also the Group's turnover, represents receipts from provision of concrete demolition services in the ordinary course of business. Revenue and other income and net gains recognised during the nine months ended 30 September 2015 are as follows:

	Nine months ended 30 September	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Turnover		
Provision of concrete demolition service	<u>67,234</u>	<u>67,048</u>

The Group currently conducts in a single operating segment, which is the provision of concrete demolition services. Also, the Group only engages business in Hong Kong. As such, no segment information is presented separately.

4. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Nine months ended 30 September	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Listing expenses	–	8,994
Others	<u>11,960</u>	<u>10,981</u>
	<u>11,960</u>	<u>19,975</u>

5. INCOME TAX EXPENSE

	Nine months ended 30 September	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Hong Kong profits tax	<u>2,371</u>	<u>2,421</u>
Deferred income tax	–	150
	<u>2,371</u>	<u>2,571</u>

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit of the Group for the period as stated above.

6. DIVIDEND

The Board does not recommend the payment of dividend for the nine months ended 30 September 2015.

7. EARNINGS PER SHARE

The calculations of basic earnings per share for the nine months ended 30 September 2015 are based on the followings:

	Nine months ended	
	30 September	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings:		
Earnings for the purpose of calculating basic earnings per share (profit for the period attributable to owners of the Company)	8,568	2,522
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	620,000,000	620,000,000

The number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Reorganisation and Capitalisation Issue had been effective on 1 January 2014.

No diluted earnings per share was presented as there was no potential ordinary shares in issue during the periods under review.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Financial Review

During the Reporting Period, all of our Group's revenue was derived from concrete demolition service rendered to the Group's customers and was generated in Hong Kong. The Group's revenue for the Reporting Period was approximately HK\$67.2 million, representing an increase of approximately 0.3% as compared with approximately HK\$67.0 million from the corresponding period of last year.

The Group's gross profit amounted to approximately HK\$22.6 million for the Reporting Period, representing a decrease of approximately 7.9% as compared with approximately HK\$24.6 million from the corresponding period of last year. Such decrease was mainly due to the increase of the Group's cost of sales during the Reporting Period, such as subcontracting charges, staff costs, depreciation and transportation expenses.

The Group's general and administrative expenses amounted to approximately HK\$12.0 million for the Reporting Period, representing a decrease of approximately 40.1% as compared with approximately HK\$20.0 million for the corresponding period of last year. Such decrease was due to the listing expenses of approximately HK\$9.0 million incurred during the nine months ended 30 September 2014 which was non-recurring in nature.

As a result, profit attributable to owners of the Company for the Reporting Period was approximately HK\$8.6 million, representing an increase of approximately HK\$6.1 million as compared with the corresponding period of last year.

Treasury Policy

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Reporting Period. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Foreign Currency Risk

The Group only operates in Hong Kong and most of the operating transactions, revenue, expenses, monetary assets and liabilities are denominated in Hong Kong dollars. As such, our Directors are of the view that the Group's risk in foreign exchange is insignificant and that the Group should have sufficient resources to meet foreign exchange requirements as and if it arises. Therefore, the Group has not engaged in any derivative to hedge its exposure to foreign exchange risk.

Material Acquisitions and Disposal of Subsidiaries and Associated Companies

The Group has no material acquisition and disposal of subsidiaries and associated companies during the Reporting Period.

Employee and Remuneration Policies

As at 30 September 2015, the Group employed 63 staff. Total employee costs (including directors' emoluments) for the Reporting Period amounted to approximately HK\$15.1 million (2014: approximately HK\$13.6 million).

The salary and benefit levels of the employees of the Group are competitive. This is very important as the construction industry has been experiencing labour shortage in general. Individual performance of our employees is awarded through the Group's salary and bonus system. In addition, the Group provides adequate job training to employees in order to equip them with practical knowledge and skills to tackle situations and challenges encountered in diverse work sites.

Commitments and Contingent Liability

The Group does not have material capital commitments and contingent liabilities as at 30 September 2015.

Significant Investments and New Business

The Group does not have any plans for significant investments nor new business.

BUSINESS REVIEW AND OUTLOOK

The principal activity of the Company is investment holding. The Group's principal activities are the provision of concrete demolition services in Hong Kong as a subcontractor. The Group's concrete demolition services are mainly concerned with the removal of pieces or sections of concrete from concrete structures by applying a variety of methods, such as core drilling, sawing, bursting and crushing, etc. During the Reporting Period, all of the Group's revenue was derived from our concrete demolition services rendered to customers in Hong Kong.

The rapid development for railway and highway infrastructure in Hong Kong presents promising opportunities for the concrete demolition industry, primarily because concrete-based structures such as rails, bridges and tunnels have to be molded or modified by way of excavating concretes. Therefore, the rising number of transportation networks will continue to drive the concrete demolition industry in Hong Kong. In view of the above, there are positive prospects for our Group. However, the simultaneous occurrence of the increase in subcontracting costs during holiday seasons in the first quarter of 2015 coupled with, among other things, price competition in certain concrete demolition jobs, affected our profitability for the first quarter of 2015. Nevertheless, the situation improved in the third quarter of 2015 when the Group's revenue achieved a moderate growth of approximately 0.3% compared with the corresponding period in 2014. The Group will continue to monitor the situation closely and seek to optimize our business strengths and competitive advantages wherever possible.

DISCLOSURE OF INTERESTS

A. Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporation

As at 30 September 2015, interests or short positions of the Directors, chief executives of the Company in the shares (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long Position in the Shares

Name of Directors	Capacity/Nature	Number of Shares held/ interested in	Approximate percentage of shareholding
Mr. Pei Wing Fu ("Mr. Pei") (Note 1)	Interest in controlled corporation	267,114,000	43.08%
Ms. Pei Wing Sze Clare ("Ms. Pei") (Note 2)	Interest in controlled corporation	19,461,000	3.14%

Notes:

1. Mr. Pei beneficially owns Power Key Investments Limited ("Power Key") as to 74.55% and is deemed, or taken to be, interested in all the Shares held by Power Key for the purposes of the SFO. Mr. Pei is an executive Director, the chairman of the Company and the sole director of Power Key.
2. Ms. Pei beneficially owns Talent Great Investments Limited ("Talent Great") as to 100% and is deemed, or taken to be, interested in all the Shares held by Talent Great for the purposes of the SFO. Ms. Pei is an executive Director and a director of Talent Great.

(ii) Long position in the ordinary shares of associated corporation

Name of Director	Name of associated corporation	Capacity/ Nature	Number of Shares held/ interested in	Percentage of shareholding
Mr. Pei	Power Key	Beneficial owner	7,455	74.55%

B. Substantial Shareholders' and Other Persons' Interests and Short Positions in the Shares and Underlying Shares

Save as disclosed below, as at 30 September 2015 and so far as is known to the Directors, no person other than certain Directors or chief executive of the Company had any interests or short positions in the Shares and underlying shares of the Company which were required to be recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

Name of Shareholders	Capacity/Nature of interest	Number of Shares held/interested in	Long/short position	Approximate percentage of shareholding
Ms. Lau Kwai Fong (Note 1)	Interest of spouse	267,114,000	Long	43.08%
Mr. Choi Chi Chung (Note 2)	Interest of spouse	19,461,000	Long	3.14%
Power Key	Beneficial owner	267,114,000	Long	43.08%
Talent Great	Beneficial owner	19,461,000	Long	3.14%

Notes:

1. Ms. Lau Kwai Fong ("Mrs. Pei") is the spouse of Mr. Pei and is deemed, or taken to be, interested in all the Shares in which Mr. Pei is interested for the purposes of the SFO. Mrs. Pei also beneficially owns Power Key as to 25.45%.
2. Mr. Choi Chi Chung is the spouse of Ms. Pei and is deemed, or taken to be, interested in all the Shares in which Ms. Pei is interested for the purposes of the SFO.

COMPETING INTERESTS

Having made specific enquiry of all Directors, the controlling shareholders and substantial shareholders, all of them have confirmed that neither themselves nor their respective close associates (as defined in the GEM Listing Rules) had held any position or had interest in any businesses or companies that were or might be competing with the business of the Group, or gave rise to any concern regarding conflict of interests during the Reporting Period.

INTEREST OF COMPLIANCE ADVISOR

As at 30 September 2015, as notified by the Company's compliance advisor, Messis Capital Limited (the "Compliance Advisor"), except for the compliance advisor agreement entered into between the Company and the Compliance Advisor dated 13 May 2014, neither the Compliance Advisor nor its directors, employees or its close associates (as defined under the GEM Listing Rules) had any interests in relation to the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions in the Corporate Governance Code contained in Appendix 15 of the GEM Listing Rules (the "Code") for the Reporting Period except for the deviation below:

Code provision A.2.1 of the Code requires that the roles of chairman and chief executive officer should be separate and not performed by the same individual. Mr. Pei has been managing our Group's business and overall strategic planning since May 1991. Our Directors believe that the vesting of the roles of chairman and chief executive officer in Mr. Pei is beneficial to the business operations and management of our Group and will provide a strong and consistent leadership to our Group. Accordingly, our Company has not segregated the roles of its chairman and chief executive officer as required by code provision A.2.1 of the Code. Except for code provision A.2.1 of the Code, our Company's corporate governance practices have complied with the Code.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the required standards of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for securities transactions by the Directors in respect of the shares of the Company (the "Code of Conduct"). Having made specific enquiries with the Directors, all Directors have confirmed that they have complied with the required standards set out in the Code of Conduct during the Reporting Period.

DIVIDEND

The Board does not recommend payment of dividend to shareholders of the Company for the Reporting Period (2014: nil).

SHARE OPTION SCHEME

The Company has conditionally adopted a share option scheme on 2 August 2014 (the “Scheme”). The terms of the Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

No share options has been granted since the adoption of the Scheme and there were no share option outstanding as at 30 September 2015.

AUDIT COMMITTEE

The Company has established an audit committee on 2 August 2014 (the “Audit Committee”) with its written terms of reference in compliance with paragraphs C.3.3 and C.3.7 of the Code. The primary duties of the Audit Committee are to review and supervise the Group’s financial reporting process and internal control system, nominate and monitor external auditors and to provide advice and comments to the Board on matters related to corporate governance. The Audit Committee consists of three members, namely Mr. Law Yiu Sing, Prof. Lam Sing Kwong Simon and Ms. Wong Wai Ling. Mr. Law Yiu Sing currently serves as the chairman of the Audit Committee.

The Audit Committee has reviewed this report and the unaudited consolidated financial statements of the Group for the nine months ended 30 September 2015.

By order of the Board
Glory Flame Holdings Limited
Pei Wing Fu
Chairman

Hong Kong, 6 November 2015

As at the date of this report, the executive Directors are Mr. Pei Wing Fu, Ms. Pei Wing Sze Clare and Mr. Liu Zhong Ping; the non-executive Director is Mr. Zheng Si Rong; and the independent non-executive Directors are Mr. Law Yiu Sing, Prof. Lam Sing Kwong Simon, Ms. Wong Wai Ling and Ms. Lee Suk Fong.