

# 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 **2016**

## **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\$97.4 million for the Reporting Period, representing an increase of approximately HK\$30.2 million or 44.9% as compared with the nine months ended 30 September 2015.
- The loss attributable to the owners of the Company was approximately HK\$32.5 million for the Reporting Period as compared with the profit attributable to the owners of the Company of approximately HK\$8.6 million for the nine months ended 30 September 2015.
- Basic and diluted loss per share based on weighted average number of ordinary shares was approximately HK4.86 cents (nine months ended 30 September 2015: basic and diluted earnings per share of approximately HK1.38 cents).
- The Board does not recommend the payment of dividend to owners of the Company for the Reporting Period (nine months ended 30 September 2015: nil).

## THIRD QUARTERLY RESULTS

The board of Directors (the "Board") of the Company 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 2016 (the "Reporting Period"), together with the unaudited comparative figures for the corresponding period in 2015, as follows:

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

For the nine months ended 30 September 2016

		Nine months ended 30 September	
	<i>Notes</i>	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue	3	97,438	67,234
Cost of sales		<u>(77,591)</u>	<u>(44,616)</u>
Gross profit		19,847	22,618
Other income and net gains		751	376
Administrative and other operating expenses		<u>(50,040)</u>	<u>(11,960)</u>
Operating (loss)/ profit	4	(29,442)	11,034
Finance costs		<u>(1,493)</u>	<u>(95)</u>
Profit before income tax		(30,935)	10,939
Income tax expense	5	<u>(1,548)</u>	<u>(2,371)</u>
(Loss)/profit and total comprehensive (loss)/income for the period attributable to owners of the Company		<u><u>(32,483)</u></u>	<u><u>8,568</u></u>
		HK cents	HK cents
Basic and diluted (loss)/earnings per share	7	<u><u>(4.86)</u></u>	<u><u>1.38</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 30 September 2016

	Combined/ share capital	Share premium	Share option reserve	Merger reserve	Retained earnings/ (Accumulated losses)	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Balance at 1 January 2015</b>	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
<b>Balance at 30 September 2015 (unaudited)</b>	<u>6,200</u>	<u>34,025</u>	<u>–</u>	<u>15,800</u>	<u>23,522</u>	<u>79,547</u>
<b>Balance at 1 January 2016</b>	6,200	34,025	–	15,800	25,568	81,593
Loss and total comprehensive loss for the period	–	–	–	–	(32,483)	(32,483)
Issue of new shares	900	63,900	–	–	–	64,800
Share option scheme:						
– Value of employee services	–	–	9,254	–	–	9,254
– Value of consultancy services	–	–	1,736	–	–	1,736
	900	63,900	10,990	–	(32,483)	43,307
<b>Balance at 30 September 2016 (unaudited)</b>	<u>7,100</u>	<u>97,925</u>	<u>10,990</u>	<u>15,800</u>	<u>(6,915)</u>	<u>124,900</u>

## **NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

For the nine months ended 30 September 2016

### **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 (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 15 August 2014.

The address of the Company’s registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KYI-108 Cayman Islands. The address of the Company’s principal place of business in Hong Kong is Room 1603, 16/F, China Building, 29 Queen’s Road Central, Hong Kong. The Company is an investment holding company. The Company and its subsidiaries (collectively referred as to the “Group”) is principally engaged in the provision of concrete demolition services in Hong Kong as a subcontractor and trading of light emitting diode (“LED”) light sources for decoration.

### **2. BASIS OF PREPARATION**

The unaudited condensed consolidated financial statements for the nine months ended 30 September 2016 have been prepared by the Directors in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (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 2016 are consistent with those adopted in the annual financial statements of the Company for the year ended 31 December 2015. Amendments to HKFRSs effective for accounting period beginning on or after 1 January 2016 do not have a material impact on the Group.

The financial statements for the nine months ended 30 September 2016 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 2016 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 and trading of LED light sources for decoration in the ordinary course of business. Revenue and other income and net gains recognised during the nine months ended 30 September 2016 are as follows:

	Nine months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
<b>Turnover</b>		
Provision of concrete demolition service	67,748	67,234
Trading of LED light sources for decoration	29,690	—
	<u>97,438</u>	<u>67,234</u>

### 4. OPERATING (LOSS)/PROFIT

An analysis of the amounts presented as operating items charged/(credited) in the financial information is given below:-

	Nine months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Fair value change in financial assets at fair value through profit or loss	11,043	—
Share option expenses	10,990	—
Staff cost, including directors' remuneration	19,385	15,136
Depreciation of property, plant and equipment	4,455	5,095
Gain on disposal of property, plant and equipment	—	(67)
Realised gain on sales of financial assets at fair value through profit or loss	(182)	—
Impairment loss on goodwill	6	—
	<u>6</u>	<u>—</u>

## 5. INCOME TAX EXPENSE

	<b>Nine months ended</b>	
	<b>30 September</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Hong Kong profits tax	1,548	2,371
Deferred income tax	—	—
	<u>1,548</u>	<u>2,371</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 2016 (2015: nil).

## 7. (LOSS)/EARNINGS PER SHARE

### (a) Basic

The calculations of basic (loss)/earnings per share for the nine months ended 30 September 2016 are based on the followings:

	<b>Nine months ended</b>	
	<b>30 September</b>	
	<b>2016</b>	2015
	<b>(Unaudited)</b>	(Unaudited)
<b>(Loss)/Earnings:</b>		
(Loss)/Earnings for the purpose of calculating basic and diluted (loss)/earnings per share (profit for the period attributable to owners of the Company)(HK\$'000)	<b>(32,483)</b>	8,568
<b>Number of shares:</b>		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	<b>668,613,000</b>	620,000,000

### (b) Diluted

Diluted (loss)/earning per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all the Company's outstanding share options. For the nine months ended 30 September 2016, the effect of deemed issue of share under the share option scheme for no consideration has not been taken into account in the calculation of diluted loss per share as their exercise of the share options would result in a decrease in loss per share.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

The Group has two main businesses: (i) provision of concrete demolition services (“Construction Related Services”); and (ii) trading of LED light sources for decoration (“LED Products”).

#### **Construction Related Services**

Revenue attributable to the Construction Related Services was approximately HK\$67,748,000 for the Reporting Period, representing an increase of approximately 0.8% as compared with approximately HK\$67,234,000 for the corresponding period of last year. The increase was mainly attributable to the growth of the concrete demolition business that was contributed by the increase in the amount of jobs undertaken by the Group during the Reporting Period.

Gross profit attributable to the Construction Related Services amounted to approximately HK\$18,744,000 for the Reporting Period, representing a decrease of approximately 17.1% as compared with approximately HK\$22,618,000 for the corresponding period of last year. Gross profit margin decreased by 5.9 percentage points from 33.6% for the nine months ended 30 September 2015 to 27.7% for the Reporting Period. The decrease was mainly attributable to an increase in subcontracting cost resulting from the higher rate changed by certain subcontractors and the percentage increase in subcontracting cost is larger than the increase in revenue for the Reporting Period as a result of the keen competition in the industry.

#### **LED Products**

Revenue attributable to LED Products was approximately HK\$29,690,000 for the Reporting Period. The Group commenced the trading of LED light sources for decoration in January 2016.

Gross profit attributable to the LED Products amounted to approximately HK\$1,102,000 for the Reporting Period. Gross profit margin was approximately 3.7% for the Reporting Period.

#### **Administrative and Other Operating Expenses**

The Group’s administrative and other operating expenses amounted to approximately HK\$50,040,000 for the Reporting Period, representing an increase of approximately 318.4% as compared with approximately HK\$11,960,000 for the corresponding period of last year. The increase was mainly due to (i) the share option expenses of approximately HK\$10,990,000 relating to the grant of share options during the Reporting Period and the fact that no share options was granted and the absence of share options expenses during the corresponding period of last year; (ii) the fair value loss of HK\$11,043,000 in financial assets at fair value through profit or loss; and (iii) the increase in the operating expenses arising from the new business of LED Products, including staff cost (including directors’ remuneration), rental expenses and other professional fees.

#### **Loss Attributable to Owners of the Company**

The loss attributable to owners of the Company was approximately HK\$32,483,000 for the Reporting Period, as compared with the profit of HK\$8,568,000 attributable to owners of the Company for the corresponding period of last year, as a result of the combined effect of (i) a decrease in gross profit attributable to the Construction Related Services; (ii) the share option expenses incurred during the Reporting Period; and (iii) the fair value loss in financial assets at fair value through profit or loss for the Reporting Period.



## **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 entered into a sale and purchase agreement on 9 September 2016 to acquire 51% of the issued share capital of Mansion Point International Limited ("Mansion Point") at the consideration of HK\$66.0 million, subject to an adjustments based on the guaranteed profit of the Mansion Point, which shall be satisfied in cash and by way of issue and allotment of the consideration shares. The business scope of Mansion Point and its subsidiaries includes manufacture of prestressed high strength concrete piles. Prestressed concrete pile is one of the major types of foundation products used in the building and construction industry. It is typically used as part of the foundation for building and infrastructure projects that are built on an unstable or soft layer of land that requires long and deep foundations in order to reach the underlying stable rock layer. Prestressed concrete piles support the building and infrastructure structures by transferring the heavy loads and forces exerted by such structures onto the underlying stable rock layer.

## **Employee and Remuneration Policies**

As at 30 September 2016, the Group employed 96 staff. Total employee costs (including directors' emoluments) for the Reporting Period amounted to approximately HK\$19,385,000 (2015: approximately HK\$15,136,000).

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 2016.

## **BUSINESS REVIEW AND OUTLOOK**

### **Construction Related Services**

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.

Concrete demolition industry is one of the specific areas of the construction industry in Hong Kong, which mainly involves core drilling, sawing, bursting and crushing, and surface preparation. Concrete demolition services are usually functions performed by subcontractors in (i) general building works, especially for alteration and redevelopment projects; and (ii) civil engineering works. Concrete demolition work can be applied in various situations, such as the construction of underground utilities, creation of openings for elevator, door, window installation, redevelopment of buildings, roads, tunnels and underground facilities, removal of concrete during building construction, and the preparation of road surfaces.

During the Reporting Period, the construction industry in Hong Kong was confronted with both positive and negative factors. On the one hand, the construction industry in general continued to grow primarily due to the "Ten Major Infrastructure Projects" announced by the government of Hong Kong. Also, there was a rising number of alteration and redevelopment projects for industrial and commercial buildings in Hong Kong, all of which contributed to a higher demand for concrete demolition services and presented opportunities for the concrete demolition business for our Group. However, on the other hand, construction contractors in Hong Kong faced tough operating environment resulting from increasing costs of operation including, in particular, labour costs and cost of raw materials and consumables. Competition for sizeable and profitable jobs in certain areas of the construction industry, including the concrete demolition sector, remained keen.

### **LED Products**

The business of trading of LED light sources for decoration was commenced in January 2016 through a wholly-owned subsidiary in Hong Kong. The principal activity of the subsidiary is to deliver finished goods to importers in the United States. For the Reporting Period, the sales from the business of trading of LED light sources for decoration amounted to approximately HK\$29,690,000 which accounted for approximately 30.5% of the total revenue of the Group.

LED market has reached its maturity as nowadays energy savings are of paramount importance to all users around the world. Energy policies encourage technologies that can offer maximum energy savings and the market of LED light source for decoration falls into that category. The entire LED market is expected to have continuous growth in the coming years. LED light sources is considered to be environmentally friendly because of its comparative advantage over conventional light sources in terms of energy saving efficiency and product durability. The number of customers using LED light sources is steadily increasing. It is expected that LED would eventually replace conventional light sources in the future.

In order to broaden our source of income and expand the business operations of the Group, the Directors believe that it is beneficial for the Group to diversify its business into the trading of LED light sources for decoration.

## New Business Development-Involvement in Public-Private Partnership projects (“PPP projects”)

As part of the Group’s recent business development, the Group, through a joint venture in which the Company indirectly owns 51% equity interest, established a wholly foreign owned enterprise (the “WFOE”) in the People’s Republic of China (the “PRC”) with a registered capital of RMB5,000,000 on 26 September 2016. The WFOE intends to engage in the business of infrastructure consultancy and agency in the PRC via PPP Projects (the “New Business”). The Group has been liaising with various capital investment companies and prospective business partners for development of the New Business in the PRC.

The Board believes that by investing in the New Business, not only will potentially enormous commercial value be generated but also more infrastructure markets and connections can be reached and built in the long run.

## 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 2016, 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 and underlying Shares

Name of Directors	Capacity/Nature	Number of Shares held/ interested in	Approximate percentage of shareholding
Ms. Pei Wing Sze Clare (“Ms. Pei”) (Note 1)	Interest in controlled corporation	14,461,000	2.04%
Ms. Che Xiaoyan (Note 2)	Beneficial owner	6,200,000	0.87%
Mr. Liu Ping (Note 3)	Beneficial owner	620,000	0.09%
Mr. Liu Zhongping (Note 4)	Beneficial owner	6,200,000	0.87%

Notes:

- 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.
- These 6,200,000 underlying Shares represent the 6,200,000 Shares which may be allotted and issued to Ms. Che Xiaoyan upon full exercise of the share options granted to her under the share option scheme adopted by the Company on 2 August 2014 (the “Share Option Scheme”).

3. These 620,000 underlying Shares represent the 620,000 Shares which may be allotted and issued to Mr. Liu Ping upon full exercise of the share options granted to him under the Share Option Scheme.
4. These 6,200,000 underlying Shares represent the 6,200,000 Shares which may be allotted and issued to Mr. Liu Zhongying upon full exercise of the share options granted to him under the Share Option Scheme.

Save as disclosed above, as at 30 September 2016, none of the Directors or chief executive nor their associates had registered an interest or short position in any Shares, underlying Shares or debentures of the Company or any of its associated corporation.

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

Save as disclosed below, as at 30 September 2016 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 Shareholder	Capacity/Nature of interest	Number of Shares held/interested in	Long/short position	Approximate percentage of shareholding
Mr. Zhou Chuxiong	Beneficial owner	40,000,000	Long	5.63%

## **COMPETING INTERESTS**

Having made specific enquiry of all Directors, 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 2016, as notified by the Company's compliance advisor, Dakin Capital Limited (the "Compliance Advisor"), except for the compliance advisor agreement entered into between the Company and the Compliance Advisor dated 29 January 2016, 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 Corporate Governance Code (the "Code") in Appendix 15 to the GEM Listing Rules sets out the principles of good corporate governance, code provisions and recommended best practices. Issuers are expected to comply with the code provisions or devise their own code on corporate governance on the terms they consider appropriate provided that considered reasons are given. Throughout the Reporting Period, the Company had complied with the applicable code provisions of the Code with the exception of the deviation from code provision A.2.1 as explained below:

Code provision A.2.1 of the Code requires that the roles of chairman and chief executive officer should be separated and not performed by the same individual. During the nine months ended 30 September 2016, Mr. Pei Wing Fu ("Mr. Pei"), the former chairman and chief executive officer of the Company, had managed the Group's business and overall strategic planning since May 1991. With effect from 1 October 2016, Ms. Che Xiaoyan ("Ms. Che") is re-designated as the Chairman and chief executive officer of the Company. After evaluation of the current situation of the Company and taking into account of the experience and past performance of Ms. Che, the Directors believe that the vesting of the roles of Chairman and chief executive officer in Ms. Che is beneficial to the business operations and management of the Group and will provide a strong and consistent leadership to the Group. Accordingly, the Company has not segregated the roles of its chairman and chief executive officer as suggested by code provision A.2.1 of the Code. Except for the deviation from code provision A.2.1 of the Code, the Company's corporate governance practices have complied with the Code as set out in Appendix 15 to the GEM Listing Rules during the Reporting Period.

## **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 (2015: nil).

## SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme on 2 August 2014. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

### a) Share options granted to employees and directors of the Group

On 14 June 2016, 19,220,000 share options to subscribe for up to a total of 19,220,000 ordinary shares of HK\$0.01 each of the Company were granted to certain employees and directors of the Company under the Share Option Scheme. The exercise price is HK\$0.83 per share, which is equal to the average closing price of the Share on the five trading days immediately preceding the date of grant. The closing price of the shares on the date of grant of share options was HK\$0.8 per share. The share options may be exercised within the period from 15 June 2016 to 14 June 2026.

On 26 August 2016, 26,200,000 share options to subscribe for up to a total of 26,200,000 ordinary shares of HK\$0.01 each of the Company were granted to certain employees and individuals under the Share Option Scheme. The exercise price is HK\$0.48 per share, which is equal to the closing price of the shares on the date of grant of shares options. 6,200,000 share options of which may be exercised within the period from 27 August 2016 to 26 August 2026 and the residual 20,000,000 share options may be exercised within the period from 26 November 2016 to 26 August 2026.

No option was exercised or forfeited from the date of grant to 30 September 2016.

Particulars of the Directors' interests in share options to subscribe for shares in the Company pursuant to the Share Option Scheme were as follows:

Name of Director	Date of grant	Number of share option		Outstanding at 30 September 2016	Exercise period	Exercise price per share
		Outstanding at 1 January 2016	Granted during the Reporting Period			
<i>Executive Directors</i>						
Ms. Che Xiaoyan	14 June 2016	–	6,200,000	6,200,000	15 June 2016 to 14 June 2026	HK\$0.83
Mr. Liu Zhong Ping	14 June 2016	–	6,200,000	6,200,000	15 June 2016 to 14 June 2026	HK\$0.83
<i>Independent non-executive Director</i>						
Mr. Liu Ping	14 June 2016	–	620,000	620,000	15 June 2016 to 14 June 2026	HK\$0.83
		–	13,020,000	13,020,000		
		–	13,020,000	13,020,000		

**b) Share options granted to a consultant**

During the Reporting Period, the Group has engaged a consultant to assist in research and exploration of property construction related business opportunities in the People's Republic of China.

On 14 June 2016, the Company granted 6,200,000 share options of the Company under the Share Option Scheme to the consultant as service fee.

Details of the share options granted to a consultant under the Share Option Scheme are as follows:

Date of grant	Exercise period	Exercise price per share (HK\$)	Number of options			Vesting conditions
			Outstanding at 1 January 2016	Granted during the Reporting Period	Outstanding at 30 September 2016	
14 June 2016	14 September 2016 – 13 June 2026	0.83	–	6,200,000	6,200,000	3-month vesting period

The closing price of the shares of the Company on the date of grant of share options was HK\$0.8 per share. No option was exercised or forfeited from the date of grant to 30 September 2016.

**c) Fair values of share options and assumptions**

During the Reporting Period, a total of share option expense of HK\$10,990,000 was recognized in the income statement in relation to share options granted by the Company. Details of share-based payment by nature are as follows:

	Nine months ended 30 September	
	2016 HK\$'000	2015 HK\$'000
Share option expenses for employees and directors of the Company	9,254	–
Share option expenses for consultancy services ( <i>note</i> )	1,736	–
	<u>10,990</u>	<u>–</u>

*Note:* The fair value of consultancy services is estimated by reference to the fair value of the share options granted.

The fair value of the share options granted was calculated using the Binomial option pricing model (the "Model"). The inputs into the Model were as follows:

	<u>Employees and directors</u>		<u>Consultant</u>
Date of grant	14 June 2016	26 August 2016	14 June 2016
Number of share options granted	19,220,000	26,200,000	6,200,000
Underlying stock price	HK\$0.80	HK\$0.48	HK\$0.80
Strike price	HK\$0.83	HK\$0.48	HK\$0.83
Expected volatility	52.21%	51.90%	52.21%
Exercise multiple	1.60-2.47	1.60	1.60
Risk-free rate	1.082%	0.912%	1.082%
Annualised dividend yield	0.00%	0.00%	0.00%

The Model has been used to estimate the fair values of the options. The variables and assumptions used in computing the fair values of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair values of the options.

#### **CHANGE IN DIRECTORS**

- On 23 September 2016, Mr. Wong Tik Tung was appointed as a non-executive Director.
- On 30 September 2016, Mr. Pei Wing Fu resigned as an executive Director, the chief executive officer of the Company, the chairman of the Board and the chairman of the Nomination committee with effect from 1 October 2016.
- On 30 September 2016, Ms. Che Xiaoyan, an executive Director and the vice-chairman of the Board, was re-designated as the chairman of the Board, the chief executive officer of the Company and the chairman of the nomination committee with effect from 1 October 2016.
- On 20 October 2016, Ms. Pei Wing Sze Clare resigned as an executive Director, the compliance officer, the authorised representative and a member of the remuneration committee of the Company with effect from 26 October 2016.
- Mr. Man Wai Lun was appointed as an executive Director, the compliance officer and a member of the remuneration committee of the Company with effect from 26 October 2016.



## 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. Liu Ping, Mr. Chan Kam Wah and Mr. Bai Honghai. Mr. Chan Kam Wah 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 2016.

By order of the Board  
**Glory Flame Holdings Limited**  
**Che Xiaoyan**  
*Chairman*

Hong Kong, 7 November 2016

*As at the date of this report, the executive Directors are Ms. Che Xiaoyan, Mr. Liu Zhong Ping and Mr. Man Wai Lun; the non-executive Directors are Mr. Zheng Si Rong and Mr. Wong Tik Tung; and the independent non-executive Directors are Mr. Liu Ping, Mr. Chan Kam Wah and Mr. Bai Honghai.*