

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

2014

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

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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\$ 67.0 million for the nine months ended 30 September 2014, representing an increase of approximately HK\$16.5 million or 32.7% as compared with the nine months ended 30 September 2013.
- The profit attributable to the owners of the Company was approximately HK\$2.5 million for the nine months ended 30 September 2014, representing a decrease of approximately HK\$6.4 million or 71.8% as compared with the nine months ended 30 September 2013 mainly due to the listing expenses of approximately HK\$9.0 million incurred during the nine months ended 30 September 2014.
- The Board does not recommend the payment of dividend for the nine months ended 30 September 2014.

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 2014, together with the unaudited comparative figures for the corresponding period in 2013, as follows:

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

For the nine months ended 30 September 2014

		Nine months ended	
		30 September	
	<i>Notes</i>	2014	2013
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	67,048	50,537
Cost of sales		(42,478)	(28,865)
Gross profit		24,570	21,672
Other income and net gains		775	143
Administrative and other operating expenses	4	(19,975)	(10,076)
Operating profit		5,370	11,739
Finance costs		(277)	(272)
Profit before income tax		5,093	11,467
Income tax expense	5	(2,571)	(2,525)
Profit and total comprehensive income for the period attributable to owners of the Company		2,522	8,942
		HK cents	HK cents
Basic and diluted earnings per share	7	0.41	1.75

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 30 September 2014

	Combined /Share capital	Share premium	Other reserves	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2014	–	–	–	10,132	10,132
Issue of shares	1,085	42,315	–	–	43,400
Capitalisation issue	5,115	(5,115)	–	–	–
Share placement expenses	–	(3,175)	–	–	(3,175)
Acquisition of subsidiaries pursuant to the Reorganisation	–	–	5,008	–	5,008
Deemed contribution from Mr. Pei arising from waiver of a loan (<i>Note 1</i>)	–	–	2,800	–	2,800
Shareholder contribution	–	–	8,000	–	8,000
Profit and total comprehensive income for the period	–	–	–	2,522	2,522
Balance at 30 September 2014 (unaudited)	<u>6,200</u>	<u>34,025</u>	<u>15,808</u>	<u>12,654</u>	<u>68,687</u>
Balance at 1 January 2013 (<i>Note 2</i>)	5,000	–	–	302	5,302
Profit and total comprehensive income for the period	–	–	–	8,942	8,942
Balance at 30 September 2013 (unaudited)	<u>5,000</u>	<u>–</u>	<u>–</u>	<u>9,244</u>	<u>14,244</u>

Notes:

1. 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.
2. For the purpose of the preparation of the condensed consolidated statement of change in equity, the balance of the combined capital at 30 September 2013 represents the aggregate of the paid up share capital of the subsidiaries comprising the Group prior to the Reorganisation.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2014

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 25 April 2014. The registered office of the Company is located at Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands. The headquarters and principal place of business in Hong Kong is located at Suites 2001-2006, 20th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong. The Company's issued ordinary shares of HK\$0.01 each have been listed and traded on the GEM since 15 August 2014.

The principal activity of the Company is investment holding. The Group's principal activities are the provision of concrete demolition service 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.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the nine months ended 30 September 2014 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 2014 are consistent with those adopted in the annual financial statements of the Company for the year ended 31 December 2013.

The financial statements for the nine months ended 30 September 2014 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 2014 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 2014 are as follows:

	Nine months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Turnover		
Provision of concrete demolition service	<u>67,048</u>	<u>50,537</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	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Listing expenses	8,994	–
Others	<u>10,981</u>	<u>10,076</u>
	<u>19,975</u>	<u>10,076</u>

5. INCOME TAX EXPENSE

	Nine months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Hong Kong profits tax	2,421	1,986
Deferred income tax	<u>150</u>	<u>539</u>
	<u>2,571</u>	<u>2,525</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 2014.

7. EARNINGS PER SHARE

The calculations of basic earnings per share for the nine months ended 30 September 2014 are based on the followings:

	Nine months ended 30 September	
	2014	2013
	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)	2,522	8,942
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	620,000,000	511,500,000

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 2013.

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

Revenue

The Group's revenue increased from approximately HK\$50.5 million for the nine months ended 30 September 2013 to approximately HK\$67.0 million for the nine months ended 30 September 2014, representing a growth of approximately 32.7%. Such increase was mainly due to the increase in concrete demolition services provided by the Group as a result of the overall development in the construction industry in Hong Kong.

Cost of Sales

The Group's cost of sales increased from approximately HK\$28.9 million for the nine months ended 30 September 2013 to approximately HK\$42.5 million for the nine months ended 30 September 2014, representing an increase of approximately 47.2%. Such increase was mainly attributable to the increases in the Group's subcontracting charges, cost of raw materials and consumables, staff costs, repair and maintenance cost, depreciation and transportation expenses.

Gross Profit

The Group's gross profit amounted to approximately HK\$21.7 million and HK\$24.6 million for the nine months ended 30 September 2013 and 2014 respectively, representing a growth of approximately 13.4%, as a result of the increase in the Group's revenue as discussed above.

Other Income and Net Gains

The Group's other income and net gains amounted to approximately HK\$143,000 and HK\$775,000 for the nine months ended 30 September 2013 and 2014 respectively, representing an increase of approximately 442.0%, which was primarily due to the collection of debts which were previously deemed as uncollectable.

Administrative and Other Operating Expenses

The Group's administrative and other operating expenses amounted to approximately HK\$10.1 million and HK\$20.0 million for the nine months ended 30 September 2013 and 2014 respectively, representing an increase of approximately 98.2%. Such increase was primarily due to the listing expenses of approximately HK\$9.0 million incurred during the nine months ended 30 September 2014 (2013: nil).

Finance Costs

For the nine months ended 30 September 2013 and 2014, the Group's finance costs amounted to approximately HK\$272,000 and HK\$277,000 respectively, representing an increase of approximately 1.8%. Such increase was mainly due to the combined effect of (i) the reduction in the Group's interest expense on finance leases from approximately HK\$239,000 for the nine months ended 30 September 2013 to approximately HK\$149,000 for the nine months ended 30 September 2014 as a result of the maturity of and full settlement of certain finance lease facilities; and (ii) the increase in interest on bank borrowings from approximately HK\$25,000 for the nine months ended 30 September 2013 to approximately HK\$123,000 for the nine months ended 30 September 2014 mainly because of drawdowns of bank loans in late 2013 for the Group's general working capital purposes.

Income Tax Expenses

For the nine months ended 30 September 2013 and 2014, the Group's income tax expenses amounted to approximately HK\$2.5 million and HK\$2.6 million respectively, representing an increase of approximately 1.8%. Such increase was primarily due to the combined effect of:

- (i) the recognition of deferred tax liabilities not previously recognised in prior years of approximately HK\$0.6 million in the nine months ended 30 September 2013 and nil in the nine months ended 30 September 2014; and
- (ii) the listing expenses of approximately HK\$9.0 million incurred in the nine months ended 30 September 2014 (2013: nil) which were not deductible for tax purposes.

Profit for the Period

As a result of the foregoing and in particular the increase in revenue and increase in listing expenses as discussed above, the Group's profit and total comprehensive income attributable to owners of the Company decreased from approximately HK\$8.9 million for the nine months ended 30 September 2013 to approximately HK\$2.5 million for the nine months ended 30 September 2014, representing a decrease of approximately 71.8%. Excluding the listing expenses of approximately HK\$9.0 million, the net profit of the Group would have been approximately HK\$11.5 million for the nine months ended 30 September 2014, representing a growth of approximately 29.2% as compared to the same period in 2013.

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in the provision of concrete demolition services in Hong Kong as a subcontractor. The Group's concrete demolition services mainly involve 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, depending on the situation. The Group's services are required in many different situations including, among others, addition and alteration works and redevelopment projects in buildings, roads, tunnels and underground facilities. The Group undertakes jobs of considerably different scales, ranging from a core drilling job (i.e. the making of circular cuts in a concrete structure) which can be completed within a day to the removal of multiple sections of concrete from reinforced concrete structures in construction or redevelopment sites.

The Company's shares were successfully listed on the GEM on 15 August 2014 by way of placing (the "Placing"). 155,000,000 placing shares (comprising 108,500,000 new shares offered by the Company and 46,500,000 sale shares offered by the selling shareholder) were issued at HK\$0.4 per share pursuant to the Placing. The net proceeds from the Placing were about HK\$31.2 million after deduction of listing-related expenses. As at the date of this report, the Group have utilised approximately HK\$2.0 million mainly to enhance machinery and equipment. As at 30 September 2014, the unused proceeds were deposited in licensed banks in Hong Kong.

The Directors consider that the continued increase in major infrastructure and construction projects in Hong Kong had led to a general increase in the demand for concrete demolition services, resulting in more business opportunities being presented to and secured by the Group and thus the increase in the Group's revenue for the nine months ended 30 September 2014 as compared to the same period in 2013.

Looking forward, the Group will continue to pursue the following key business strategies: (i) further enhancing the Group's machinery and equipment by acquiring additional concrete demolition machinery and equipment so as to enhance the Group's technical ability and to strengthen the Group's capability to cater for different needs and requirements of different customers; (ii) further strengthening the Group's manpower by recruiting more skilled workers and mechanics in order to cope with the Group's business development and by arranging more training courses for the Group's workers; and (iii) increasing the Group's marketing efforts by placing additional advertisements and sponsoring more events in the construction and civil engineering industries in Hong Kong in order to further increase public awareness of the Group.

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 2014, 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 (<i>Note 1</i>)	Interest in controlled corporation	355,539,000	57.35%
Ms. Pei Wing Sze Clare (<i>Note 2</i>)	Interest in controlled corporation	109,461,000	17.65%

Notes:

- 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.
- Ms. Pei Wing Sze Clare ("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 the sole director of Talent Great.

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

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 2014 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
Ms. Lau Kwai Fong (Note 1)	Interest of spouse	355,539,000	Long	57.35%
Mr. Choi Chi Chung (Note 2)	Interest of spouse	109,461,000	Long	17.65%
Power Key	Beneficial owner	355,539,000	Long	57.35%
Talent Great	Beneficial owner	109,461,000	Long	17.65%

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

During the nine months period ended 30 September 2014 and up to the date of this report, none of the Directors, the controlling shareholders and substantial shareholders, 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 have any other conflicts of interest with the Group.

INTEREST OF COMPLIANCE ADVISOR

As at 30 September 2014, 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

From the listing of the Company's shares on GEM on 15 August 2014 (the "Date of Listing") to 30 September 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE CODE

From the Date of Listing to 30 September 2014, the Company has complied with the applicable code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 15 of the GEM Listing Rules.

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 period from the Date of Listing to 30 September 2014.

DIVIDEND

The Board does not recommend payment of dividend to shareholders of the Company for the nine months ended 30 September 2014 (2013: 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 2014.

AUDIT COMMITTEE

The Company has established an audit committee on 2 August 2014 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 of the Company 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 2014.

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

Hong Kong, 7 November 2014

As at the date of this report, the executive Directors are Mr. Pei Wing Fu and Ms. Pei Wing Sze Clare; and the independent non-executive Directors are Mr. Law Yiu Sing, Prof. Lam Sing Kwong Simon and Ms. Wong Wai Ling.