

Glory Flame Holdings Limited

朝威控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8059

First Quarterly Report
2016

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

For the three months ended 31 March 2016, the operating results of the Group were as follows:

- * Revenue amounted to approximately HK\$27.64 million (2015: approximately HK\$17.90 million), representing an increase of approximately 54.4% from the corresponding period of last year;
- * Net loss amounted to approximately HK\$5.20 million as compared to a net loss of approximately HK\$0.45 million for the corresponding period of last year;
- * Basic and diluted loss per share based on weighted average number of ordinary shares was approximately HK\$0.84 cents (2015: approximately HK\$0.07 cents);
- * The Board does not recommend the payment of a dividend to owners of the Company for the three months ended 31 March 2016 (2015: Nil).

FIRST 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 three months ended 31 March 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

For the three months ended 31 March 2016

	<i>Notes</i>	Three months ended	
		2016	2015
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	27,641	17,903
Cost of sales		(22,354)	(14,104)
Gross profit		5,287	3,799
Other income and net gains	4	332	202
Administrative and other operating expenses		(10,051)	(4,290)
Operating loss		(4,432)	(289)
Finance costs		(496)	(25)
Loss before income tax		(4,928)	(314)
Income tax expense	5	(269)	(138)
Loss and total comprehensive loss for the period attributable to owners of the Company		(5,197)	(452)
		HK cents	HK cents
Basic and diluted loss per share	7	(0.84)	(0.07)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the three months ended 31 March 2016

	Combined/ Share capital HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Total equity HK\$'000
Balance at 1 January 2016	6,200	34,025	41,368	81,593
Loss and total comprehensive loss for the period	—	—	(5,197)	(5,197)
Balance at 31 March 2016 (unaudited)	<u>6,200</u>	<u>34,025</u>	<u>36,171</u>	<u>76,396</u>
Balance at 1 January 2015	6,200	34,025	30,754	70,979
Loss and total comprehensive loss for the period	—	—	(452)	(452)
Balance at 31 March 2015 (unaudited)	<u>6,200</u>	<u>34,025</u>	<u>30,302</u>	<u>70,527</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 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 of The Stock Exchange of Hong Kong Limited with effect from 15 August 2014.

The address of the Company's registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, 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 Company and its subsidiaries (collectively referred as to the "Group") are 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 three months ended 31 March 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 ("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 three months ended 31 March 2016 are consistent with those adopted in the annual financial statements of the Company for the year ended 31 December 2015.

The financial statements for the three months ended 31 March 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 three months ended 31 March 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 recognised during the Reporting Period are as follows:

	Three months ended	
	31 March	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Provision of concrete demolition service	22,123	17,903
Trading of LED light sources for decoration	5,518	–
	27,641	17,903

The Group only engages business in Hong Kong. As such, no geographical segment information is presented.

4. OTHER INCOME AND NET GAINS

	Three months ended	
	31 March	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest income	2	34
Gain on disposal of property, plant and equipment	–	30
Reversal of allowance for impairment of retention receivables	46	–
Others	284	138
	332	202

5. INCOME TAX EXPENSE

	Three months ended 31 March	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Hong Kong profits tax	269	138

Hong Kong profits tax has been provided at a rate of 16.5% (2015: 16.5%) on the estimated assessable profit of the Group arising in or derived from Hong Kong for the period as stated above.

6. DIVIDEND

The Board does not recommend the payment of a dividend to owners of the Company for the three months ended 31 March 2016 (2015: Nil).

7. LOSS PER SHARE

	Three months ended 31 March	
	2016 (Unaudited)	2015 (Unaudited)
Loss for the period attributable to owners of the Company (HK\$'000)	(5,197)	(452)
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (in thousand)	620,000	620,000

The calculation of the basic loss per share attributable to owners of the Company was based on (i) the loss for the period attributable to owners of the Company and (ii) the weighted average number of ordinary shares issued during the period as stated above.

The diluted loss per share is equal to the basic loss per share as there were no dilutive potential ordinary shares in issue during the three months ended 31 March 2016 (2015: Nil)

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

During the Reporting Period, the Group's revenue was derived from the provision of concrete demolition service to the Group's customers and trading of LED light sources for decoration in Hong Kong. The Group's revenue for the Reporting Period was approximately HK\$27,641,000, representing an increase of approximately 54.4% from the corresponding period of last year (2015: approximately HK\$17,903,000). The increase in revenue was mainly attributable to (i) the commencement of the trading of LED light sources for decoration in January 2016 which contributed revenue amounting to approximately HK\$5,518,000 and (ii) the growth of the concrete demolition business, of approximately HK\$4,220,000 which was contributed by the increase in the amount of jobs undertaken by our Group during the Reporting Period.

Cost of Sales

The Group's cost of sales increased from approximately HK\$14,104,000 for the three months ended 31 March 2015 to approximately HK\$22,354,000 for the Reporting Period, representing an increase of approximately 58.5%. Such increase was mainly attributable to the increases in the Group's new business of trading LED light sources for decoration and subcontracting, staff costs, and depreciation and transportation expenses.

Gross Profit

The Group's gross profit amounted to approximately HK\$5,287,000 for the Reporting Period, representing an increase of approximately 39.2%, as compared with approximately HK\$3,799,000 for the three months ended 31 March 2015 as a result of the contribution to gross profit by the new business of trading LED light sources for decoration, and the percentage of increase in revenue derived from concrete demolition service is higher than the percentage increase in cost incurred during the Reporting Period.

Gross profit ratio slightly decreased for the Reporting Period as a result of the combination of the effect of the existing concrete demolition business and the new business of trading of LED light sources for decoration which has a lower gross profit margin.

Other Income and Net Gains

The Group's other income and net gains amounted to approximately HK\$332,000 for the Reporting Period, representing an increase of approximately 64.4% as compared with approximately HK\$202,000 for the three months ended 31 March 2015, which was primarily due to the receipt of the ex-gratia payment for retirement of vehicle from the government amounting to approximately HK\$224,500.

Administrative and Other Operating Expenses

The Group's general and administrative expenses amounted to approximately HK\$10,051,000 for the Reporting Period, representing an increase of approximately 134.3% as compared with approximately HK\$4,290,000 for the three months ended 31 March 2015.

Finance Costs

For the Reporting Period, the Group's finance costs amounted to approximately HK\$496,000, representing an increase of approximately 19 times as compared with approximately HK\$25,000 for the three months ended 31 March 2015. Such increase was mainly due to the interest on loan from a Director of approximately HK\$489,000 (2015: Nil).

Loss for the Reporting Period

The Group's operation for the Reporting Period recorded a net loss of approximately HK\$5,197,000 (2015: net loss of approximately HK\$452,000). Such increase in net loss was mainly due to the combined effect of the following factors: (i) the impairment from the investment in securities of approximately HK\$2.8 million; and (ii) the increase in staff costs as well as Directors' emoluments.

BUSINESS REVIEW AND OUTLOOK

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 and trading of LED light sources for decoration. During the Reporting Period, all of the Group's revenue was derived from Hong Kong.

PROVISION OF CONCRETE DEMOLITION SERVICE

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, and 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 cost 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.

TRADING OF LED LIGHT SOURCES FOR DECORATION

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 first quarter ended 31 March 2016, the sales from the business of trading of LED light sources for decoration amounted to approximately HK\$5,518,000 which accounted for approximately 20% of the total turnover of the Group.

LED market has reached its maturity when 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. There is an increase in customer acceptance on using LED light sources. It is expected that LED would eventually replace conventional light sources in 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.

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 31 March 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

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	153,739,000	24.80%
Ms. Pei Wing Sze Clare ("Ms. Pei") (Note 2)	Interest in controlled corporation	19,461,000	3.14%

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 a director of Power Key.
- 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 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%

(iii) As at 31 March 2016, none of the Directors or chief executive nor their associates had any short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations.

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

Save as disclosed below, as at 31 March 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 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	153,739,000	Long	24.80%
Power Key	Beneficial owner	153,739,000	Long	24.80%
Zhou Chuxiong	Beneficial owner	40,000,000	Long	6.45%

Note:

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%.

COMPETING INTERESTS

Having made specific enquiry to all Directors and the controlling shareholders of the Company, 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 interests 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 ADVISER

As at 31 March 2016, as notified by the Company's compliance advisor, Dakin Capital Limited (the "Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 29 January 2016, neither the Compliance Adviser 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 separate and not performed by the same individual. Mr. Pei Wing Fu (“Mr. Pei”) has been managing the Group’s business and overall strategic planning since May 1991. The 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 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 to the Directors, all the 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 a dividend to owners of the Company for the three months ended 31 March 2016 (2015: 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 option has been granted since the adoption of the Scheme and there were no share option outstanding as at 31 March 2016.

AUDIT COMMITTEE

The Company has established the audit committee (the “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 consists of three members, namely Mr. Tsang Wai Wa (Chairman), Ms. Lee Suk Fong and Mr. Liu Ping.

The Audit Committee has reviewed this report and the unaudited consolidated financial statements of the Group for the Reporting Period.

EVENT AFTER THE REPORTING PERIOD

Placing Agreement with CNI Securities Group Limited (the “CNI Placing Agreement”)

On 8 April 2016 (after trading hours), CNI Securities Group Limited (“CNI Securities”) and the Company entered into the placing agreement. The condition of the placing has been fulfilled, and completion of the placing took place on 5 May 2016. An aggregate of 90,000,000 placing shares (representing approximately 12.68% of the issued share capital of the Company upon completion of the placing) at the placing price of HK\$0.72 per placing share have been successfully placed through CNI Securities to not less than six places who and whose ultimate beneficial owners are independent third parties.

The placing price of HK\$0.72 represents (i) a discount of approximately 19.10% to the closing price of HK\$0.89 per share of the Company as quoted on the Stock Exchange on the date of the CNI Placing Agreement; and (ii) a discount of approximately 6.49% to the average closing price of HK\$0.77 per share of the Company as quoted on the Stock Exchange for the last 5 consecutive trading days prior to the date of the CNI Placing Agreement.

The net proceeds from the placing, after deduction of the placing commission and other related expenses, are approximately HK\$64,147,000, representing a net issue price of approximately HK\$0.71 per placing share. The net proceeds from the placing are intended to be used as additional general working capital of the Group. For details of the CNI Placing Agreement, please refer to the announcements of the Company dated 8 April 2016 and 5 May 2016.

Placing Agreement with Guotai Junan Securities (Hong Kong) Limited (the “Guotai Junan Placing Agreement”)

On 9 May 2016 (after trading hours), Guotai Junan Securities (Hong Kong) Limited (“Guotai Junan”) and the Company entered into the Guotai Junan Placing Agreement, pursuant to which the Company has conditionally agreed to place, through Guotai Junan, in aggregate up to 34,000,000 placing shares to not less than six places who and whose ultimate beneficial owners are independent third parties.

A maximum number of 34,000,000 placing shares under the Guotai Junan Placing Agreement represent approximately 4.79% of the issued share capital of the Company of 710,000,000 Shares as at the date of the Guotai Junan Placing Agreement, and approximately 4.57% of the then issued share capital of the Company of 744,000,000 Shares as enlarged by the placing.

The placing price of HK\$0.93 represents (i) a discount of approximately 17.7% to the closing price of HK\$1.13 per Share as quoted on the Stock Exchange on the date of the Guotai Junan Placing Agreement; and (ii) a discount of approximately 19.13% to the average closing price of HK\$1.15 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days prior to the date of the Guotai Junan Placing Agreement.

The placing is conditional upon the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the placing shares on or before 30 May 2016 (or such later date as the Company and Guotai Junan may agree in writing). For details of the Guotai Junan Placing Agreement, please refer to the announcement of the Company dated 9 May 2016.

Change of Name of Principal Share Registrar and Transfer Office

The principal share registrar and transfer office of the Company, Appleby Trust (Cayman) Ltd., has changed its name to Estera Trust (Cayman) Limited with effect from 15 April 2016.

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

Hong Kong, 9 May 2016

As at the date of this report, the executive Directors are Mr. Pei Wing Fu, Ms. Pei Wing Sze Clare, Ms. Che Xiaoyan, Mr. Chong Yu Kennng and Mr. Liu Zhong Ping; the non-executive Director is Mr. Zheng Si Rong; and the independent non-executive Directors are Ms. Lee Suk Fong, Mr. Tsang Wai Wa and Mr. Liu Ping.