

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
2015

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 2015, the operating results of the Group were as follows:

- * Revenue amounted to approximately HK\$17.9 million (2014: approximately HK\$20.8 million), representing a decrease of approximately 13.8% from the corresponding period of last year;
- * Net loss amounted to approximately HK\$452,000 as opposed to a net profit of approximately HK\$2.7 million for the corresponding period of last year;
- * Basic and diluted (loss)/earnings per share based on weighted average number of ordinary shares was approximately HK\$(0.07) cents (2014: approximately HK\$0.53 cents);
- * The Directors do not recommend the payment of a dividend for the three months ended 31 March 2015 (2014: 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 2015 (the “Reporting Period”), together with the audited comparative figures for the corresponding period in 2014, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2015

		Three months ended 31 March	
	<i>Notes</i>	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Audited)
Revenue	3	17,903	20,780
Cost of sales		<u>(14,104)</u>	<u>(11,330)</u>
Gross profit		3,799	9,450
Other income and net gains		202	3
Administrative and other operating expenses	4	<u>(4,290)</u>	<u>(5,663)</u>
Operating (loss)/profit		(289)	3,790
Finance costs		<u>(25)</u>	<u>(102)</u>
(Loss)/profit before income tax		(314)	3,688
Income tax expense	5	<u>(138)</u>	<u>(1,001)</u>
(Loss)/profit and total comprehensive (loss)/income for the period attributable to owners of the Company		<u><u>(452)</u></u>	<u><u>2,687</u></u>
		HK cents	HK cents
Basic and diluted (loss)/earnings per share	7	<u><u>(0.07)</u></u>	<u><u>0.53</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the three months ended 31 March 2015

	Combined /Share capital	Share premium	Merger reserves	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2015	6,200	34,025	15,800	14,954	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>15,800</u>	<u>14,502</u>	<u>70,527</u>
Balance at 1 January 2014 (<i>Note 2</i>)	5,000	—	—	10,132	15,132
Deemed contribution from Mr. Pei arising from waiver of a loan (<i>Note 1</i>)	—	—	2,800	—	2,800
Profit and total comprehensive income for the period	—	—	—	2,687	2,687
Balance at 31 March 2014 (audited)	<u>5,000</u>	<u>—</u>	<u>2,800</u>	<u>12,819</u>	<u>20,619</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 31 March 2014 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 three months ended 31 March 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 three months ended 31 March 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 three months ended 31 March 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 three months ended 31 March 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 three months ended 31 March 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 Reporting Period are as follows:

	Three months ended 31 March	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Provision of concrete demolition service	17,903	20,780
Other income and net gains	202	3
	<u>18,105</u>	<u>20,783</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

	Three months ended 31 March	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Listing expenses	–	2,213
Others	4,290	3,450
	<u>4,290</u>	<u>5,663</u>

5. INCOME TAX EXPENSE

	Three months ended 31 March	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Hong Kong profits tax	138	851
Deferred income tax	–	150
	<u>138</u>	<u>1,001</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 three months ended 31 March 2015.

7. EARNINGS PER SHARE

The calculations of basic earnings per share for the three months ended 31 March 2015 are based on the followings:

	Three months ended	
	31 March	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
(Loss)/earnings:		
(Loss)/earnings for the purpose of calculating basic (loss)/earnings per share ((loss)/profit for the period attributable to owners of the Company)	(452)	2,687
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 (loss)/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

Revenue

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\$17.9 million, representing a decrease of approximately 13.8% from the corresponding period of last year (2014: approximately HK\$20.8 million). The decrease in the Group's revenue was mainly due to, among other factors, the increasing price competition in certain concrete demolition jobs and the delay of certain projects of some of the Group's customers.

Cost of Sales

The Group's cost of sales increased from approximately HK\$11.3 million for the three months ended 31 March 2014 to approximately HK\$14.1 million for the Reporting Period, representing an increase of approximately 24.5%. Such increase was mainly attributable to the increases in the Group's subcontracting, staff costs, and depreciation and transportation expenses. In particular, the substantial increase in the subcontracting costs incurred by the Group during the Reporting Period was due to, among other factors, long holidays taken by the Group's own labours during the Christmas/New Year and the Chinese New Year periods in the first quarter of 2015, resulting in the Group having to rely more than it usually does in the first quarter of the year on services from subcontractors, who, however, might have also experienced similar problems of long holidays taken by their own labours during the Christmas/New Year and the Chinese New Year periods, which in turn led to subcontractors' increases in prices.

Gross Profit

The Group's gross profit amounted to approximately HK\$3.8 million for the Reporting Period, representing a decrease of approximately 59.8%, as compared with approximately HK\$9.5 million for the three months ended 31 March 2014 as a result of the simultaneous occurrence of the factors in the Reporting Period leading to the decline in the Group's revenue and the increase in cost of sales as discussed above.

Other Income and Net Gains

The Group's other income and net gains amounted to approximately HK\$202,000 for the Reporting Period, representing an increase of approximately 6,633.3% as compared with approximately HK\$3,000 for the three months ended 31 March 2014, which was primarily due to the receipt of the government grants in relation to the phasing out of pre-Euro IV diesel commercial vehicles.

Administrative and Other Operating Expenses

The Group's general and administrative expenses amounted to approximately HK\$4.3 million for the Reporting Period, representing a decrease of approximately 24.2% as compared with approximately HK\$5.7 million for the three months ended 31 March 2014. Such decrease was the net result of (1) the listing expenses of approximately HK\$2.2 million incurred during the three months ended 31 March 2014 which was non-recurring in the Reporting Period; (2) the saving in operating lease on premises and depreciation of assets under finance lease; and (3) the increase in staff cost and directors' emoluments, depreciation of self-owned assets, auditor's remuneration and professional fees, and other expenses.

Finance Costs

For the Reporting Period, the Group's finance costs amounted to approximately HK\$25,000, representing a decrease of approximately 75.2% as compared with approximately HK\$102,000 for the three months ended 31 March 2014. Such decrease was mainly due to the settlement of certain finance lease facilities and bank borrowings with the listing proceeds, thus reducing the respective finance costs.

Income Tax Expenses

For the Reporting Period, the Group's income tax expenses amounted to approximately HK\$138,000, representing a decrease of approximately 86.2% as compared with approximately HK\$1.0 million for the three months ended 31 March 2014. Such decrease was primarily due to the listing expenses of approximately HK\$2.2 million incurred in the three months ended 31 March 2014 (2015: nil) which were not deductible for tax purposes.

(Loss)/Profit for the Reporting Period

As a result of the foregoing and in particular the decrease in revenue and increase in cost of sales as discussed above, the Group's operation for the Reporting Period recorded a net loss of approximately HK\$452,000 (2014: net profit of approximately HK\$2.7 million).

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. 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.

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 project; 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.

We believe that we have several business strengths and competitive advantages that set us apart from our rivals and enable us to continue our growth and enhance our profitability. Such strengths and competitive advantages include (1) 33 years of presence and well-established reputation in the concrete demolition industry in Hong Kong; (2) possession of dedicated and proficient labour force coupled with a variety of cutting-edged concrete demolition machinery; and (3) experienced in-house repair and maintain mechanics to get the work done well, right, and quick.

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. As a result, the Group recorded a loss of approximately HK\$452,000 for the Reporting Period (2014: net profit of approximately HK\$2.7 million). 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 31 March 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 (<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 31 March 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 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

Having made specific enquiry of all Directors, the controlling shareholders and substantial shareholders, all of them have confirmed that neither themselves nor their respective 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 31 March 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 (the "Code") contained in Appendix 15 of the GEM Listing Rules 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 as set out in Appendix 15 to 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 Reporting Period.

DIVIDEND

The Board does not recommend payment of dividend to shareholders of the Company for the three months ended 31 March 2015 (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 option has been granted since the adoption of the Scheme and there were no share option outstanding as at 31 March 2015.

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 Reporting Period.

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

Hong Kong, 7 May 2015

As at the date of this report, the executive Directors are Mr. Pei Wing Fu and Ms. Pei Wing Sze Clare; 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 and Ms. Wong Wai Ling.