

Glory Flame Holdings Limited

朝威控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8059

Interim Report 2017

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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 (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.

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HIGHLIGHTS

For the six months ended 30 June 2017, the operating results of the Group were as follows:

- Revenue amounted to approximately HK\$63.7 million (six months ended 30 June 2016: approximately HK\$65.4 million), representing an decrease of approximately 2.6% as compared with the corresponding period of last year.
- The loss attributable to the owners of the Company was approximately HK\$12.9 million, as compared with the profit attributable to the owners of the Company of approximately HK\$21.2 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\$1.79 cents (six months ended 30 June 2016: basic and diluted loss per share of approximately HK\$3.27 cents).
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

INTERIM RESULTS

The board (“Board”) of Directors is pleased to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2017 (the “Reporting Period”), together with the unaudited comparative figures for the corresponding period in 2016, as follows:–

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

	Notes	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Revenue	4	48,045	37,718	63,692	65,359
Cost of sales		(40,116)	(29,450)	(52,803)	(51,804)
Gross profit		7,929	8,268	10,889	13,555
Other income and net gains		9,890	220	10,435	552
Administrative and other operating expenses		(19,639)	(23,182)	(34,465)	(33,233)
Operating loss	7	(1,820)	(14,694)	(13,141)	(19,126)
Finance costs		(306)	(496)	(806)	(992)
Loss before income tax		(2,126)	(15,190)	(13,947)	(20,118)
Income tax expenses	8	(170)	(822)	(170)	(1,091)
Loss for the period		<u>(2,296)</u>	<u>(16,012)</u>	<u>(14,117)</u>	<u>(21,209)</u>
Other comprehensive income:					
Items that may be reclassified to profit or loss		162	–	79	–
Total comprehensive loss for the period		<u>(2,134)</u>	<u>(16,012)</u>	<u>(14,038)</u>	<u>(21,209)</u>
Loss for the period attributable to:					
Owners of the Company		(1,723)	(16,012)	(12,921)	(21,209)
Non-controlling interests		(573)	–	(1,196)	–
		<u>(2,296)</u>	<u>(16,012)</u>	<u>(14,117)</u>	<u>(21,209)</u>
Total comprehensive loss for period attributable to:					
Owners of the Company		(1,543)	(16,012)	(12,830)	(21,209)
Non-controlling interests		(591)	–	(1,208)	–
Total comprehensive loss for the period		<u>(2,134)</u>	<u>(16,012)</u>	<u>(14,038)</u>	<u>(21,209)</u>
		HK cents	HK cents	HK cents	HK cents
Basic and diluted loss per share	10	<u>(0.28)</u>	(2.37)	<u>(1.79)</u>	(3.27)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

		30 June 2017	31 December 2016
	<i>Notes</i>	HK\$'000	HK\$'000
		Unaudited	Audited
ASSETS			
Non-current assets			
Property, plant and equipment		11,357	16,668
Goodwill		52,665	52,665
Intangible assets		5,145	5,880
		<u>69,167</u>	<u>75,213</u>
Current assets			
Inventories		515	248
Trade and other receivables	11	120,583	101,929
Cash and cash equivalents		27,823	26,697
		<u>148,921</u>	<u>128,874</u>
Total assets		<u>218,088</u>	<u>204,087</u>
EQUITY			
Capital and reserves			
Share capital	13	8,090	7,600
Share premium	13	157,079	117,272
Other reserves		(29,574)	(13,684)
Equity attributable to owners of the Company		135,595	111,188
Non-controlling interests		(2,193)	(985)
Total equity		<u>133,402</u>	<u>110,203</u>
LIABILITIES			
Non-current liabilities			
Contingent consideration		23,586	21,889
Deferred taxation		838	838
		<u>24,424</u>	<u>22,727</u>
Current liabilities			
Trade and other payables	12	19,762	20,595
Loan from a former director		40,500	50,000
Tax payable		–	562
		<u>60,262</u>	<u>71,157</u>
Total liabilities		<u>84,686</u>	<u>93,884</u>
Total equity and liabilities		<u>218,088</u>	<u>204,087</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2017

	Attributable to owners of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Merger reserve HK\$'000	Foreign currency translation reserve HK\$'000	Retained earnings HK\$'000	Total equity HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
Balance at 1 January 2017	7,600	117,272	11,287	15,800	17	(40,788)	111,188	(985)	110,203
Loss and total comprehensive loss for the period	-	-	-	-	91	(12,921)	(12,830)	(1,208)	(14,038)
Issue of new shares upon exercise of share options	490	30,683	-	-	-	-	31,173	-	31,173
Transfer to share premium upon exercise of share options	-	9,124	(9,124)	-	-	-	-	-	-
Lapse of share options	-	-	(248)	-	-	248	-	-	-
Share option scheme:									
- value of employee services	-	-	5,394	-	-	-	5,394	-	5,394
- value of consultancy services	-	-	670	-	-	-	670	-	670
Balance at 30 June 2017 (unaudited)	8,090	157,079	7,979	15,800	108	(53,461)	135,595	(2,193)	133,402
Balance at 1 January 2016	6,200	34,025	-	15,800	-	25,568	81,593	-	81,593
Loss and total comprehensive loss for the period	-	-	-	-	-	(21,209)	(21,209)	-	(21,209)
Issue of new shares upon exercise of share options	900	63,900	-	-	-	-	64,800	-	64,800
Share option scheme:									
- value of employee services	-	-	6,944	-	-	-	6,944	-	6,944
- value of consultancy services	-	-	302	-	-	-	302	-	302
Balance at 30 June 2016 (unaudited)	7,100	97,925	7,246	15,800	-	4,359	132,430	-	132,430

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Six months ended	
	30 June	
	2017	2016
	HKS'000	HKS'000
Net cash outflow from operating activities	(19,240)	(107,722)
Net cash outflow from investing activities	(1,395)	(676)
Net cash inflow from financing activities	21,673	59,070
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	1,038	(49,328)
Effect of foreign exchange rate changes	88	–
Cash and cash equivalents at 1 January	26,697	95,528
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	27,823	46,200
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	27,823	46,200
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 KY1-108, Cayman Islands. The address of the Company’s principal place of business in Hong Kong is Room 1901, 19th Floor, COFCO Tower, No. 262 Gloucester Road, Causeway Bay, Hong Kong. The Company is an investment holding company. The Company and its subsidiaries (collectively referred as to the “Group”) are engaged (i) in the provision of concrete demolition services, and manufacturing and trading of prestressed high strength concrete piles (the “Construction Related Business”) and (ii) trading of light emitting diode (“LED”) light sources for decoration and the Ecological LED Cultivation Cabinet system (the “LED Products”).

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June 2017 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 six months ended 30 June 2017 are consistent with those adopted in the annual financial statements of the Company for the year ended 31 December 2016.

The financial statements for the six months ended 30 June 2017 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 six months ended 30 June 2017 are presented in Hong Kong dollars (“HK\$”), which is the same functional currency of the Company.

3. ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

4. REVENUE

Revenue recognised during the Reporting Period are as follows:

	Six months ended	
	30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Turnover		
Provision of concrete demolition services	33,167	46,284
Manufacturing and trading of prestressed high strength concrete piles	444	–
Trading of LED light sources for decoration	29,459	19,075
Trading of LED Cultivation Cabinet	622	–
	<u>63,692</u>	<u>65,359</u>

5. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the executive directors for the purposes of resources allocation and performance assessment. For the six months ended 30 June 2017, the Group had two reportable operating segments as follows:

Construction Related Business	–	provision of concrete demolition services, and manufacturing and trading of prestressed high strength concrete piles
LED Products	–	trading of LED light sources for decoration and trading of LED Cultivation Cabinet

The following is an analysis of the Group's revenue and results by reportable operating segments for the six months ended 30 June 2017:

	Construction		LED Products		Consolidation	
	Related Business		Six months ended		Six months ended	
	Six months ended		30 June		30 June	
	2017	2016	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales to external customers	33,611	46,284	30,081	19,075	63,692	65,359
Inter-segment sales	–	–	–	–	–	–
Total	33,611	46,284	30,081	19,075	63,692	65,359
Segment results	10	6,615	4,132	(2,088)	4,142	4,527
Corporate expenses, net					(8,593)	(8,610)
Write-off of property, plant and equipment					(3,432)	–
Fair value change in financial assets						
at fair value through profit or loss					–	(8,789)
Share option expense					(6,064)	(7,246)
Loss before income tax					(13,947)	(20,118)

6. FINANCIAL RISK MANAGEMENT

6.1 Financial risk factors

The Group's activities exposed it to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk and liquidity risk.

The interim condensed consolidation financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

There have been no changes in the risk management policies since year end.

6.2 Liquidity risk

There was no material change in the contractual undiscounted cash outflows for financial liabilities as compared to the year ended 31 December 2016.

6.3 Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 30 June 2017:

	Fair value measurements using:			Total
	Level 1	Level 2	Level 3	At 30 June
	HK\$'000	HK\$'000	HK\$'000	2017
				HK\$'000
Recurring fair value measurements:				
Contingent consideration	—	—	23,586	23,586
	<u>—</u>	<u>—</u>	<u>23,586</u>	<u>23,586</u>
Total recurring fair value measurements	<u>—</u>	<u>—</u>	<u>23,586</u>	<u>23,586</u>

During the period ended 30 June 2017, there were no transfer between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfer between levels of fair value hierarchy as at the end of the Reporting Period in which they occur.

- (b) Reconciliation of liabilities measured at fair value based on level 3:

	Contingent consideration HK\$'000
At the beginning of Reporting Period	21,889
Total losses recognised in profit or loss for liabilities held at end of reporting period	<u>1,697</u>
At the end of Reporting Period	<u><u>23,586</u></u>

The total losses recognised in profit or loss are presented in fair value changes on contingent liabilities in the consolidated statement of profit or loss and other comprehensive income.

- (c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 30 June 2017:

Key unobservable inputs used in level 3 fair value measurements are mainly:

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value as at 30 June 2017 HK\$'000
Contingent consideration	Discounted cash flow	Weighted average cost of capital	13.73% – 14.63%	Decrease	<u><u>23,586</u></u>
		Long-term revenue growth rate	12.7%	Increase	
		Long-term pre-tax operating margin	9.5% – 10.7%	Increase	
		Discount of lack of marketability	16.11%	Decrease	

7. OPERATING LOSS

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

	Six months ended	
	30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Fair value change in financial asset at fair value through profit or loss	–	8,789
Fair value loss on contingent liabilities	1,697	–
Share option expenses	6,064	7,246
Staff cost, including directors' remuneration	13,536	13,101
Depreciation of property, plant and equipment	4,000	4,020
Write-off of property, plant and equipment	3,432	–
Reversal of impairment loss on trade receivables	(6,916)	–
Reversal of impairment loss on trade deposits	(3,536)	–
	<u> </u>	<u> </u>

8. INCOME TAX EXPENSE

	Six months ended	
	30 June	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Hong Kong profits tax	170	1,091
	<u> </u>	<u> </u>

Hong Kong profits tax has been provided at a rate of 16.5% (2016: 16.5%) on the estimated assessable profit of the Group arising in or derived from Hong Kong for the period as stated above.

9. INTERIM DIVIDEND

The Board does not recommend the payment of dividend for the six months ended 30 June 2017 (30 June 2016: Nil).

10. LOSS PER SHARE

(a) Basic

The calculations of basic loss per share for the six months ended 30 June 2017 are based on the followings:

	Three months ended		Six months ended	
	2017	2016	2017	2016
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Loss:				
Loss for the period attributable to the Company (HK\$'000)	(2,296)	(16,012)	(14,117)	(21,209)
Number of shares:				
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (in thousand)	807,990	675,385	786,560	647,692

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.

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all the Company's outstanding share option. 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 period ended 30 June 2017 and 2016.

11. TRADE AND OTHER RECEIVABLES

	At 30 June 2017 HK\$'000 (unaudited)	At 31 December 2016 HK\$'000 (audited)
Trade receivables	67,234	69,545
Less: allowance for impairment of trade receivables	<u>(16,371)</u>	<u>(23,287)</u>
Trade receivables, net	50,863	46,258
Retention receivables	2,825	2,966
Less: allowance for impairment of retention receivables	<u>(84)</u>	<u>(84)</u>
Retention receivables, net	2,741	2,882
Prepayment and trade deposit	52,406	51,087
Other receivables, deposits and prepayments	<u>14,573</u>	<u>1,702</u>
	<u>120,583</u>	<u>101,929</u>

Notes:

- (a) Trade receivables are past due when a counterparty has failed to make a payment when contractually due. The average credit period granted to customers is 45 days generally. Trade receivables are denominated in HK\$.

The ageing analysis of the trade receivables based on invoice date is as follows:

	At 30 June 2017 HK\$'000 (unaudited)	At 31 December 2016 HK\$'000 (audited)
0-30 days	34,953	18,166
31-60 days	2,100	6,708
61-90 days	2,992	4,785
91 – 365 days	6,472	13,531
Over 365 days	<u>4,346</u>	<u>3,068</u>
	<u>50,863</u>	<u>46,258</u>

12. TRADE AND OTHER PAYABLES

	At 30 June 2017 HK\$'000 (unaudited)	At 31 December 2016 HK\$'000 (audited)
Trade payables	13,956	15,791
Accruals	2,380	2,735
Other payables	3,426	2,069
	<u>19,762</u>	<u>20,595</u>

Notes:

- (a) Payment terms granted by suppliers are average 30 days from the invoice date of the relevant purchases.

The ageing analysis of trade payables based on the invoice date is as follows:

	At 30 June 2017 HK\$'000 (unaudited)	At 31 December 2016 HK\$'000 (audited)
0-30 days	11,222	10,229
31-60 days	123	28
61-90 days	4	–
Over 90	2,607	5,534
	<u>13,956</u>	<u>15,791</u>

13. SHARE CAPITAL AND PREMIUM

Ordinary shares of HK\$0.01 each:

Authorised:		Number of ordinary shares	Amount HK\$'000
Ordinary shares at 31 December 2016 and 30 June 2017		2,000,000,000	20,000
Issued and fully paid:	Number of ordinary shares	Ordinary shares HK\$'000	Share Premium HK\$'000
Ordinary shares at 31 December 2016	760,000,000	7,600	117,272
Issue of new shares upon exercise of share options	48,980,000	490	30,683
Transfer to share premises upon exercise of share options	–	–	9,124
Ordinary shares at 30 June 2017	<u>808,980,000</u>	<u>8,090</u>	<u>157,079</u>

14. CAPITAL EXPENDITURE

During the six months ended 30 June 2017, the Group acquired certain property, plant and equipment at a cost of HK\$1,395,000 (six months ended 30 June 2016: HK\$679,000).

15. OPERATING LEASE COMMITMENT

The Group leases a number of properties under non-cancellable operating lease agreements. The lease terms are between 1 and 3 years.

The future aggregate minimum lease payments under non-cancellable operating leases are as follow:

	At 30 June 2017 HK\$'000 (unaudited)	At 31 December 2016 HK\$'000 (audited)
No later than one year	9,694	2,020
Later than one year and no later than five years	10,634	1,332
	<u>20,328</u>	<u>3,352</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

Revenue for the Reporting Period decreased by approximately HK\$1.7 million or 2.6% from approximately HK\$65.4 million for HY16 to approximately HK\$63.7 million. The analysis of revenue was shown as follows:

Revenue by nature

	For the six months ended	
	30 June	
	2017	2016
	HK\$'000	HK\$'000
Concrete demolition services	33,167	46,284
Prestressed concrete pile	444	–
LED light sources for decoration	29,459	19,075
LED Cultivation Cabinet	622	–
	<u>63,692</u>	<u>65,359</u>

Concrete demolition services

For the Reporting Period, the revenue attributable to the provision for concrete demolition services was approximately HK\$33.2 million, indicating a decrease of approximately 28.3% as compared with approximately HK\$46.3 million for HY16. The decrease was attributable to the increasingly keen competition in pricing concrete demolition services and the decrease in the amount of concrete demolition business undertaken by the Group during the Reporting Period.

Prestressed concrete pile

For the Reporting Period, the revenue attributable to the prestressed concrete pile was approximately HK\$0.4 million. The revenue was generated by trading of the prestressed concrete piles for the outstanding sales orders of Zhangzhou Tapai Concrete Components Company Limited (漳州塔牌混凝土構件有限公司), which was a condition of the business transfer agreement dated 10 October 2016. During the Reporting Period, there were no revenue generated for manufacturing of prestressed concrete pile as the acquisition of plant and machinery had not yet been completed.

LED light sources for decoration

For the Reporting Period, the revenue attributable to the LED light sources for decoration was approximately HK\$29.5 million, indicating an increase of approximately 54.4% as compared with approximately HK\$19.1 million for HY16.

The customers repaid approximately HK\$6.9 million for the overdue invoices during the Reporting Period, which reversed the impairment loss on trade receivable in the profit and loss account. The Group resumed the trading of the LED light sources for the decoration in the second quarter of 2017.

LED Cultivation Cabinet

For the Reporting Period, the revenue attributable to LED Cultivation Cabinet was approximately HK\$0.6 million. The Group currently sold the LED Cultivation Cabinet through a regional distributor in the PRC. The Group had been negotiating with various distributors in other regions of the PRC and expected to market and promote the LED Cultivation cabinet throughout the PRC in the future.

Gross Profit and Gross Profit Margin

Our Group's gross profit for the Reporting Period decreased by approximately HK\$2.7 million or 19.9% from approximately HK\$13.6 million for HY16 to approximately HK\$10.9 million. Such decrease was mainly due to a decrease in revenue and gross profit margin attributable to the provision of concrete demolition services, resulted from the increasing by keen competition in pricing demolition services.

Administrative and Other Operating Expenses

Our Group's general and administrative expenses for the Reporting Period increased to approximately HK\$34.5 million from approximately HK\$33.2 million for HY16. Such increase was mainly due to the product design cost of approximately HK\$1.4 million for LED hydroponic equipment incurred and a write-off of HK\$3.4 million on property plant and equipment. during the Reporting Period.

Loss Attributable to Owners of the Company

Net loss attributable to owners of the Company for the Reporting Period was approximately HK\$12.9 million as compared to approximately HK\$21.2 million in HY16. Such decrease was the result of the combined effect of: (i) a decrease in gross profit of HK\$2.7 million in the Reporting Period; (ii) a reversal of impairment loss on trade receivable and trade deposit, amounting to HK\$10.5 million in aggregate and (iii) an increase of HK\$1.2 million in administrative and other operating expenses.

Liquidity, Financial Resources, and Capital Structure

As at 30 June 2017, the Group's current assets amounted to approximately HK\$148.9 million, amongst which approximately HK\$27.8 million was cash and bank balances, and approximately HK\$120.6 million were trade and other receivables. Current liabilities was approximately HK\$60.3 million, amongst which approximately HK\$19.8 million were trade and other payables. The Group's net current assets were approximately HK\$88.7 million as at 30 June 2017.

The gearing ratio of the Group as at 30 June 2017 (defined as total borrowings including interest bearing and non-interest bearing, divided by the Group's total equity) was approximately 0.3 as compared to approximately 0.5 as at 31 December 2016.

Treasury Policy

The Group adopted a prudent financial management approach towards its treasury policies and maintained a healthy liquidity position throughout the Reporting Period. The Group strove 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 monitored from time to time 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.

Foreign Currency Risk

The Group only operated in Hong Kong and most of the operating transactions, revenue, expenses, monetary assets and liabilities were denominated in HK\$. As such, our Directors were of the view that the Group's risk in foreign exchange was insignificant and that the Group had sufficient resources to meet foreign exchange requirements. Therefore, the Group had not engaged in any derivative to hedge its exposure to foreign exchange risk.

Material Acquisitions and Disposal of Subsidiaries and Associated Companies

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

Debts and Charge on Assets

As at 30 June 2017, the total borrowings of the Group amounted to approximately HK\$40.5 million (31 December 2016: approximately HK\$50.0 million). Such decrease was mainly due to the repayment of loan from a director. The annual interest rates of the loan from a director ranges from 0% and 5% per annum. All of the borrowings was accounted for as current liabilities of the Group. All of the above borrowings were denominated in HK\$.

Employee and Remuneration Policies

As at 30 June 2017, the Group had 101 employees. The total employee costs (including directors' emoluments) for the Reporting Period amounted to approximately HK\$13.5 million (HY16: approximately HK\$13.1 million).

The salary and benefits of the employees of the Group were competitive. This is very important as the construction industry had been experiencing labour shortage in general. Individual performance of our employees was awarded through the Group's salary and bonus system. In addition, the Group provided adequate job training to employees in order to equip them with practical knowledge and skills for tackling challenges encountered in diverse work sites.

Commitments and Contingent Liability

Save as disclosed in note 15 of the condensed consolidated financial statements, the Group did not have material capital commitments and contingent liabilities as at 30 June 2017.

BUSINESS REVIEW AND OUTLOOK

The principal activity of the Company was investment holding. For the Reporting Period, the Group mainly engaged in (i) the provision of concrete demolition services, and manufacturing and trading of prestressed high strength concrete piles (the “Construction Related Business”) and (ii) trading of LED light sources for decoration and the Ecological LED Cultivation Cabinet System (the “LED Products”).

(i) Construction Related Business

(a) Concrete demolition services

The Group’s concrete demolition services were 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.

(b) 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 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.

The Group had engaged in the trading of the prestressed concrete piles in order to fulfil the outstanding sales orders of Zhangzhou Tapai Concrete Components Company Limited (漳州塔牌混凝土構件有限公司) that was a condition the business transfer agreement dated 10 October 2016. As at 30 June 2017, the Group has not commenced the manufacturing of prestressed concrete piles.

(ii) LED Products

(a) LED light sources for decoration

LED market has reach 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. 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.

The business of trading of LED light sources for decoration of the Group was to deliver finished goods to an importer in the United States. During the Reporting Period, the Group suspended the delivery of goods to the customer in response to its late payment.

(b) Ecological LED Cultivation Cabinet System

In mid-2016, the Group invested directly in the research and development of its own Ecological LED Cultivation Cabinet System and successfully produced the first prototype of the system. The Group intended to market and promote the LED Cultivation Cabinet in China through distributors who had already established good relationships with an existing customer base of resellers and retailers. For the Reporting Period, Ecological LED cultivation Cabinet System contributed revenue of approximately HK\$0.6 million to the Group.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 June 2017, 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 and underlying Shares held/interested in	Approximate percentage of shareholding
Ms. Che Xiaoyan	Beneficial owner	24,584,800	3.04%
Mr. Guan Jincheng	Beneficial owner	8,089,800	1.00%
Ms. Jiao Fei	Beneficial owner	3,089,800	0.38%
Mr. Li Shunmin	Beneficial owner	8,089,800	1.00%
Mr. Man Wai Lun	Beneficial owner	8,089,800	1.00%
Ms. Wu Chunping	Beneficial owner	8,089,800	1.00%
Ms. Yang Nina	Beneficial owner	3,089,800	0.38%

- (ii) As at 30 June 2017, 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 30 June 2017 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
Du Hao	Beneficial owner	140,115,000	Long	17.32%
Mo Yubin	Beneficial owner	92,000,000	Long	11.37%

Note:

1. On 9 September 2016, the Company and Mr. Mo Yubin, (“Mr. Mo” or the “Vendor”) entered into the sale and purchase agreement (the “Sale and Purchase Agreement”), pursuant to which the Vendor agreed to sell, and the Company agreed to purchase 51% of the issued share capital of Mansion Point Internation Limited. The consideration for the acquisition is HK\$66,000,200 (subject to adjustment), which shall be satisfied in cash and by way of issue and allotment of the consideration shares.

On 11 November 2016, 50,000,000 new Shares was issued to Mr. Mo as partial consideration for the acquisition pursuant to the Sales Purchase Agreement.

There are maximum 92,000,000 new Shares as consideration shares to be issued to Mr. Mo as second and third instalments of the consideration pursuant to the Sale and Purchase Agreement. For details, please refer to the Company’s announcements dated 9 September 2016, 20 September 2016 and 8 November 2016.

COMPETING INTERESTS

Having made specific enquiry of all Directors and the controlling shareholders of the Company, all of them had confirmed that neither themselves nor their respective close associates (as defined in the GEM Listing Rules) 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.

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

Neither the Company nor any of its subsidiaries 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 ("CEO") should be separate and not performed by the same individual. During the Reporting Period, Ms. Che Xiaoyan ("Ms. Che") was both Chairman and CEO of the Group. The Board was of the opinion that vesting the roles of both Chairman and CEO in Ms. Che had the benefit of ensuring consistent leadership within the Group thus enabling more effective and efficient strategic planning for the Group. The Board also believed that the balance of power and authority was not compromised and was adequately ensured by the composition of the existing Board. Except for the deviation from code provision A.2.1 of the Code, the Company's corporate governance practices complied with the Code as set out in Appendix 15 to the GEM Listing Rules during the Report Period.

The Company has 14 Board members, including 4 independent non-executive Directors for the period from 10 March 2017 to 31 May 2017. The number of independent non-executive directors fell below one-third of the Board members as required under Rule 5.05A of the GEM Listing Rules. Following the resignations of Mr. Liu Zhong Ping, Mr. Zheng Sirong and Mr. Wong Tik Tung on 31 May 2017, there are currently 11 Board members including 4 independent non-executive Directors, which satisfies the requirement under Rules 5.05A of the GEM Listing Rules that the number of independent non-executive Directors representing at least one-third of the Board Members..

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Group had 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 (the "Code of Conduct"). Having made specific enquiries with the Directors, all Directors have confirmed that they complied with the required standards set out in the Code of Conduct during the Reporting Period.

DIVIDEND

The Board does not recommend payment of interim dividend to shareholders of the Company for the Reporting Period (2016: nil).

SHARE OPTION SCHEME

The Company 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 27 March 2017, 10,380,000 share options to subscribe for up to a total of 10,380,000 Shares were granted to certain employees under the Share Option Scheme. The exercise price was HK\$0.80 per share, which was the closing price of the Share on the date of grant. The share options may be exercised within the period from 28 March 2017 to 27 March 2027 (both days inclusive).

On 15 June 2017, 80,898,000 share options to subscribe for up to a total of 80,898,000 Shares were granted to certain Directors and other eligible persons under the Share Option Scheme. The exercise price was HK\$0.626 per share, which was equal to the average closing price as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant. The share options may be exercised within the period from 15 June 2017 to 14 June 2027 (both days inclusive).

26,200,000 share options were exercised during the Reporting Period and no share option was forfeited or lapsed during the Reporting Period.

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

Name of Director	Date of grant	Number of outstanding share options as at 1 January 2017/ the date of appointment	Number of share options granted during the Reporting Period	Number of share options exercised during the Reporting Period	Number of outstanding share options as at 30 June 2017	Exercise period	Exercise price per share
<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
	15 June 2017	-	8,089,800	-	8,089,800	15 June 2017 to 14 June 2027	HK\$0.626
Ms. Jiao Fei	26 August 2016	5,000,000	-	(5,000,000)	-	26 November 2016 to 26 August 2026	HK\$0.48
	15 June 2017	-	3,089,800	-	3,089,800	15 June 2017 to 14 June 2027	HK\$0.626
Ms. Yang Nina	26 August 2016	5,000,000	-	(5,000,000)	-	26 November 2016 to 26 August 2026	HK\$0.48
	15 June 2017	-	3,089,800	-	3,089,800	15 June 2017 to 14 June 2027	HK\$0.626
Mr. Li Shunmin	15 June 2017	-	8,089,800	-	8,089,800	15 June 2017 to 14 June 2027	HK\$0.626
Mr. Guan Jincheng	15 June 2017	-	8,089,800	-	8,089,800	15 June 2017 to 14 June 2027	HK\$0.626
Mr. Man Wai Lun	15 June 2017	-	8,089,800	-	8,089,800	15 June 2017 to 14 June 2027	HK\$0.626
<i>Non-executive Director</i>							
Ms. Wu Chunping	15 June 2017	-	8,089,800	-	8,089,800	15 June 2017 to 14 June 2027	HK\$0.626
		16,200,000	46,628,600	(16,200,000)	46,628,600		

b) Share options granted to a consultant

The Group engaged a consultant to assist in research and exploration of property construction related business opportunities in the People's Republic of China.

On 15 June 2017, the Company granted 8,089,800 share options of the Company under the Share Option Scheme to a consultant as service fee.

During the Reporting Period, no share options granted to the consultant was lapsed.

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 outstanding share options as at 1 January 2017	Number of share options granted during the Reporting Period	Number of share options exercised during the Reporting Period	Number of outstanding share options as at 30 June 2017	Vesting conditions
14 June 2016	14 September 2016 – 13 June 2026	0.83	6,200,000	–	(6,200,000)	–	3-month vesting period
15 June 2017	15 June 2017 – 14 June 2027	0.626	–	8,089,800	–	8,089,800	Vested on the date of grant
			<u>6,200,000</u>	<u>8,089,800</u>	<u>(6,200,000)</u>	<u>8,089,800</u>	

c) Fair values of share options and assumptions

During the Reporting Period, the total share option expense of HK\$813,000 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:

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Share option expenses for employees and Directors	5,394	6,944
Share option expenses for consultancy services	670	302
	<u>6,064</u>	<u>7,246</u>

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:

	Employees and directors				Consultant	
	14 June 2016	26 August 2016	27 March 2017	15 June 2017	14 June 2016	15 June 2017
Date of grant	14 June 2016	26 August 2016	27 March 2017	15 June 2017	14 June 2016	15 June 2017
Number of share options granted	19,220,000	26,200,000	10,380,000	72,898,000	6,200,000	8,000,000
Underlying stock price	HK\$0.80	HK\$0.48	HK\$0.80	HK\$0.620	HK\$0.80	HK\$0.620
Strike price	HK\$0.83	HK\$0.48	HK\$0.80	HK\$0.626	HK\$0.83	HK\$0.626
Expected volatility	52.21%	51.90%	52.19%	52.14%	52.21%	52.14%
Exercise multiple	1.60-2.47	1.60	1.10	1.07-1.13	1.60	1.13
Risk-free rate	1.082%	0.912%	1.714%	1.326%	1.082%	1.326%
Annualised dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

The Model was 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.

INFORMATION ON CHANGES OF DIRECTORS

Information on the changes of directors of the Company subsequent to the year ended 31 December 2016 are set out below:

Name of director	Details of the change
Ms. Jiao Fei (“Ms. Jiao”)	On 17 February 2017, Ms. Jiao was appointed as an executive Director.
Ms. Yang Nina (“Ms. Yang”)	On 17 February 2017, Ms. Yang was appointed as an executive Director.
Mr. Li Shunmin (“Mr. Li”)	On 17 February 2017, Mr. Li was appointed as an executive Director. On 10 March 2017, Mr. Li was appointed as the vice chairman of the Board.
Mr. Guan Jincheng (“Mr. Guan”)	On 17 February 2017, Mr. Guan was appointed as an executive Director. On 10 March 2017, Mr. Guan was appointed as a member of the remuneration committee.
Ms. Wu Chunping (“Ms. Wu”)	On 17 February 2017, Ms. Wu was appointed as an independent non-executive Director.
Mr. Li An Sheng (“Mr. Li”)	On 17 February 2017, Mr. Li was appointed as an independent non-executive Director. On 10 March 2017, Mr. Li was appointed as a member of the audit committee, the chairman of the remuneration committee and a member of the nomination committee.
Mr. Shen Xingxing (“Mr. Shen”)	On 17 February 2017, Mr. Shen was appointed as an independent non-executive Director. On 10 March 2017, Mr. Shen was appointed as a member of the audit committee, a member of the remuneration committee and a member of the nomination committee.
Mr. Wong Tik Tung (“Mr. Wong”)	On 7 March 2017, Mr. Wong’s duties as a non-executive Director was suspended. On 31 May 2017, Mr. Wong resigned as a non-executive Director.

Name of director	Details of the change
Mr. Liu Ping (“Mr. Liu”)	On 10 March 2017, Mr. Liu resigned as an independent non-executive Director, a member of the audit committee, a member of the nomination committee and chairman of the remuneration committee.
Mr. Liu Zhongping (“Mr. Liu”)	On 31 May 2017, Mr. Liu resigned as an executive Director.
Mr. Zheng Sirong (“Mr. Zheng”)	On 31 May 2017, Mr. Zheng resigned as a non-executive Director.

AUDIT COMMITTEE

The Company 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. Chan Kam Wah, Mr. Li An Sheng and Mr. Shen Xingxing. 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 Reporting Period.

By order of the Board
Glory Flame Holdings Limited
Che Xiaoyan
Chairperson

Hong Kong, 9 August 2017

As at the date of this report, the executive Directors are Ms. Che Xiaoyan, Mr. Man Wai Lun, Ms. Jiao Fei, Ms. Yang Nina, Mr. Li Shunmin and Mr. Guan Jincheng; the non-executive Director is Ms. Wu Chunping; and the independent non-executive Directors are Mr. Chan Kam Wah, Mr. Bai Honghai, Mr. Li An Sheng and Mr. Shen Xingxing.