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GLORY FLAME HOLDINGS LIMITED

朝威控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8059)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

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This announcement, 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 announcement 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 announcement misleading.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2022, the operating results of the Group were as follows:

- Revenue amounted to approximately HK\$118.5 million (2021: approximately HK\$99.0 million), representing an increase of approximately 19.7% from last year;
- Net loss for the year ended 31 December 2022 amounted to approximately HK\$2.7 million (2021: net loss of approximately HK\$37.2 million);
- Basic and diluted loss per share for the year ended 31 December 2022 based on weighted average number of ordinary shares was approximately HK1.02 cents (2021: Basic and diluted loss per share of approximately HK3.65 cents);
- The Directors do not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: Nil).

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

The board (the “**Board**”) of directors (the “**Directors**”) of the Company is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2022 together with the comparative figures for the preceding financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue	4	118,533	98,970
Cost of sales		(83,142)	(74,324)
Gross profit		35,391	24,646
Interest revenue		7	5
Other income and other gains or losses, net		8,542	1,906
Impairment losses on various assets		(4,612)	(21,881)
Administrative and other operating expenses		(35,939)	(36,275)
Operating profit/(loss)		3,389	(31,599)
Finance costs	6	(6,412)	(5,847)
Loss before income tax		(3,023)	(37,446)
Income tax credits	7	364	262
Loss for the year	8	(2,659)	(37,184)
Other comprehensive (loss)/income:			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		(1,456)	481
Foreign currency translation reserve classified to profit or loss upon deregistration of subsidiaries		522	250
Total other comprehensive (loss)/income for the year		(934)	731
Total comprehensive loss for the year		(3,593)	(36,453)

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
(Loss)/profit for the year attributable to:			
Owners of the Company		(10,329)	(36,846)
Non-controlling interests		7,670	(338)
		<u>(2,659)</u>	<u>(37,184)</u>
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		(10,943)	(36,040)
Non-controlling interests		7,350	(413)
		<u>(3,593)</u>	<u>(36,453)</u>
Loss per share			
	<i>10</i>		
Basic (HK cents per share)		<u>(1.02)</u>	<u>(3.65)</u>
Diluted (HK cents per share)		<u>(1.02)</u>	<u>(3.65)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
Non-current assets			
Property, plant and equipment		12,863	14,311
Right-of-use assets		12,484	10,717
Goodwill		938	938
		<u>26,285</u>	<u>25,966</u>
Current assets			
Inventories		3,162	3,140
Trade and other receivables	11	71,321	50,546
Bank and cash balances	12	36,254	37,127
		<u>110,737</u>	<u>90,813</u>
Current liabilities			
Trade and other payables	13	47,492	36,524
Borrowings		46,928	45,800
Lease liabilities		4,287	3,425
Tax liabilities		20	471
		<u>98,727</u>	<u>86,220</u>
Net current assets		<u>12,010</u>	<u>4,593</u>
Total assets less current liabilities		<u>38,295</u>	<u>30,559</u>
Non-current liabilities			
Borrowings		29,250	18,450
Lease liabilities		9,373	8,341
Deferred tax liabilities		497	369
		<u>39,120</u>	<u>27,160</u>
NET (LIABILITIES)/ASSETS		<u><u>(825)</u></u>	<u><u>3,399</u></u>

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Capital and reserves			
Share capital	<i>14</i>	10,106	10,106
Reserves		(11,855)	(912)
		<hr/>	<hr/>
Equity attributable to owners of the Company		(1,749)	9,194
Non-controlling interests		924	(5,795)
		<hr/>	<hr/>
TOTAL (DEFICIT)/EQUITY		(825)	3,399
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. GENERAL INFORMATION

Glory Flame Holdings Limited (the “**Company**”) 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. The address of its registered office is Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands. The address of the Company’s principal place of business in Hong Kong is Suite 821, 8th Floor, Ocean Centre, Harbour City, 5 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong. The Company’s shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The Company is an investment holding company. The principal activities of its subsidiaries are provision of concrete demolition services and manufacturing and trading of prefabricated construction components.

2. GOING CONCERN BASIS

The Group incurred a loss attributable to the owners of the Company of approximately HK\$10,329,000 for the year ended 31 December 2022 and as at 31 December 2022, the Group has net liabilities of approximately HK\$825,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors have been undertaking a number of plans and measures to improve the Group’s liquidity and financial position, including:

- (i) the Directors have reviewed the Group’s cash flow projection prepared by management, which covered a period of not less than twelve months from 31 December 2022. In the opinion of the Directors, the Group will have sufficient working capital to meet its financial obligations as and when they fall due and carry on its business without a significant curtailment of operations not less than twelve months from 31 December 2022. Accordingly, the consolidated financial statements have been prepared on a going concern basis;
- (ii) the borrower of the other loan executed a letter agreed not to demand for repayment for other loan with principal of HK\$40,000,000 and the accrued interest until the Group can meet all the other financial obligations of the Group and willing to negotiate with the Group when the terms mature;

- (iii) the holder of the bonds payables executed a letter agreed not to demand for repayment for bonds payables with principal of HK\$5,800,000 and the accrued interest until the Group can meet all the other financial obligations of the Group and willing to negotiate with the Group when the terms mature; and
- (iv) the Group shall implement cost-saving measures to maintain adequate cash flows for the Group's operations.

Based on the cash flow projection of the Group and having taken into account the available financial resources of the Group and the above measures, the Directors consider that the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future, and accordingly, are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify noncurrent assets and liabilities as current assets and liabilities, respectively.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) that are relevant to its operations and effective for its accounting year beginning on 1 January 2022. HKFRSs comprise Hong Kong Financial Reporting Standards (“**HKFRS**”); Hong Kong Accounting Standards (“**HKAS**”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

4. REVENUE

The Group's revenue is analysed as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Provision of concrete demolition and construction engineering services	69,377	56,141
Manufacturing and trading of prefabricated precast construction	49,156	42,829
	<u>118,533</u>	<u>98,970</u>

Disaggregation of revenue from contracts with customers:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Timing of revenue recognition		
At a point in time	49,156	42,829
Over time	69,377	56,141
	<u>118,533</u>	<u>98,970</u>

Construction service fee income

The Group provides construction service to the customers. When the progress towards complete satisfaction of the performance obligations of a construction contract can be measured reasonably, revenue from the contract and the contract costs are recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract. This method provides the most reliable estimate of the percentage of completion.

When the progress towards complete satisfaction of the performance obligations of a construction contract cannot be measured reasonably, revenue is recognised only to the extent of contract costs incurred that is expected to be recoverable.

The customers pay the contract prices to the Group according to the payment schedules as stipulated in the contracts. If the service rendered by the Group exceeds the payments, a contract asset is recognised. If the payments exceed the service rendered, a contract liability is recognised.

The contract price is allocated to the performance obligations based on the relative stand-alone selling prices of the performance obligations. The stand-alone selling prices are determined by applying the expected cost plus a margin approach.

5. SEGMENT INFORMATION

The Group has one (2021: one) reportable segments as follows:

Construction	Provision of concrete demolition and construction engineering services; and manufacturing and trading of prefabricated precast construction
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The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies. Segment profits or losses do not include interest revenue, income tax expenses and other unallocated corporate income and expenses. Segment assets do not include bank and cash balances and other unallocated corporate assets. Segment liabilities do not include borrowing, deferred tax liabilities and other unallocated corporate liabilities.

Information about reportable segment profit or loss, assets and liabilities:

	Construction <i>HK\$'000</i>
Year ended 31 December 2022:	
Revenue from external customers	118,533
Segment profit	4,555
Depreciation of property, plant and equipment	4,887
Depreciation of right-of-use assets	4,217
Impairment loss on trade receivables, net	4,525
Additions to segment non-current assets	12,055
At 31 December 2022:	
Segment assets	98,465
Segment liabilities	48,369

	Construction <i>HK\$'000</i>
Year ended 31 December 2021:	
Revenue from external customers	98,970
Segment loss	24,904
Depreciation of property, plant and equipment	4,537
Depreciation of right-of-use assets	3,251
Impairment loss on trade receivables, net	49
Impairment loss on prepayments and trade deposits, net	21,317
Additions to segment non-current assets	4,131
At 31 December 2021:	
Segment assets	73,659
Segment liabilities	36,449

Reconciliations of reportable segment profit or loss, assets and liabilities:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Profit or loss:		
Total profit/(loss) of reportable segments	4,555	(24,904)
Corporate and unallocated loss	(7,578)	(12,542)
	<u>(3,023)</u>	<u>(37,446)</u>
Assets:		
Total assets of reportable segments	98,465	73,659
Bank and cash balances	36,254	37,127
Corporate and unallocated assets	2,303	5,993
	<u>137,022</u>	<u>116,779</u>
Liabilities:		
Total liabilities of reportable segments	48,369	36,449
Borrowings	76,178	64,250
Deferred tax liabilities	497	369
Corporate and unallocated liabilities	12,803	12,312
	<u>137,847</u>	<u>113,380</u>

Geographical information:

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue:		
Hong Kong	69,377	56,141
The People's Republic of China (the "PRC")	49,156	42,829
	<u>118,533</u>	<u>98,970</u>

In presenting the geographical information, revenue is based on the locations of the customers.

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets:		
Hong Kong	14,349	11,459
The PRC	11,936	14,507
	<u>26,285</u>	<u>25,966</u>

Information about revenue from the Group's customer individually contributing over 10% of total revenue of the Group is as follows:

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer A [#] – Construction business segment	–	12,022

[#] Customer A did not contribute over 10% of the Group's revenue for the year ended 31 December 2022, the figure shown was for comparative disclosure purpose only.

No revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue for the year ended 31 December 2022.

6. FINANCE COSTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest on lease liabilities	660	606
Interest on other loan	2,700	2,700
Interest on loan from a director	2,253	1,845
Interest on bond payables	696	696
Interest on bank borrowings	103	—
	<u>6,412</u>	<u>5,847</u>

7. INCOME TAX CREDITS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current tax – Hong Kong Profits Tax		
Over-provision in prior years	(470)	—
Current tax – The PRC		
Provision for the year	—	22
Over-provision in prior years	(22)	—
	<u>(492)</u>	<u>22</u>
Deferred tax	128	(284)
	<u>128</u>	<u>(284)</u>
Income tax credits	<u>(364)</u>	<u>(262)</u>

Hong Kong Profits Tax is provided at 16.5% (2021: 16.5%) based on the assessable profit for the year. No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2022 and 2021 as the Group did not generate any assessable profits arising in Hong Kong during the years ended 31 December 2022 and 2021.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

8. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging/(crediting) the following:

	2022	2021
	HK\$'000	HK\$'000
Cost of inventories sold/services provided	83,142	74,324
Depreciation of property, plant and equipment	5,369	5,064
Depreciation of right-of-use assets	4,941	3,975
Reversal of impairment loss on trade and other receivables	(87)	(515)
Loss on deregistration of subsidiaries	1,224	250
Gain on disposals of property, plant and equipment	(96)	(8)
Impairment losses on various assets		
Trade receivables	4,612	564
Prepayments and trade deposits	—	21,317
	4,612	21,881
Staff costs (including directors' remuneration)		
Salaries, bonus and allowances	39,848	40,041
Retirement benefits scheme contributions	1,194	1,117
	41,042	41,158
Expenses related to short-term lease	166	241
Auditor's remuneration	700	728

9. DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: Nil).

10. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately HK\$10,329,000 (2021: loss of approximately HK\$36,846,000) and the weighted average number of ordinary shares of 1,010,605,000 (2021: 1,010,605,000) in issue during the year.

Diluted loss per share

The effects of all potential ordinary shares are anti-dilutive for the years ended 31 December 2022 and 2021.

11. TRADE AND OTHER RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	70,573	46,088
Less: allowance for impairment of trade receivables	<u>(6,342)</u>	<u>(2,002)</u>
Trade receivables, net	<u>64,231</u>	<u>44,086</u>
Retention receivables	1,987	1,887
Less: allowance for impairment of retention receivables	<u>(9)</u>	<u>(28)</u>
Retention receivables, net	<u>1,978</u>	<u>1,859</u>
Prepayments and trade deposits	30,050	27,919
Less: allowance for impairment of prepayments and trade deposits	<u>(26,059)</u>	<u>(26,215)</u>
Prepayments and trade deposits, net (<i>note</i>)	<u>3,991</u>	<u>1,704</u>
Other deposits and receivables, net	<u>1,121</u>	<u>2,897</u>
	<u>71,321</u>	<u>50,546</u>

Note: Included in the prepayments and trade deposits of approximately gross amount of HK\$21,547,000 (2021: HK\$21,317,000) (equivalent to RMB19,100,000) as at 31 December 2022 was the prepayment to a supplier for construction business. As at 31 December 2022 and 2021, the aforesaid prepayment was fully impaired.

In March 2021, the Group and the supplier have entered into supplemental agreement dated 16 March 2021 (“**Supplemental Agreement**”), in which (i) RMB7,000,000 to be refunded from the supplier to the Group by March 2021; (ii) if the Group cannot reach further cooperation project agreements before 31 August 2021, the amount of RMB7,000,000 would be refunded to the Group; and (iii) if the Group cannot reach further cooperation project agreements before 31 December 2021, the amount of RMB12,100,000 would be refunded to the Group.

The first partial refund of RMB7,000,000 was received by the Group in March 2021 in accordance with the terms as stated in the Supplemental Agreement. Yet, the second partial refund and the final refund of totaling RMB19,100,000 were both defaulted. Due to the breach of Supplemental Agreement and the unfavourable negotiation result with the supplier, impairment loss of approximately HK\$21,317,000 has been recognised for the year ended 31 December 2021. There was no further development for this prepayment balance during the reporting period.

The Group allows an average credit period of 45 days to its trade customers. The following is ageing analysis of trade receivables based on invoice date is as follows:

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-30 days	27,742	8,120
31-60 days	6,659	6,199
61-90 days	7,106	6,137
91-365 days	13,250	18,451
Over 365 days	9,474	5,179
	<u>64,231</u>	<u>44,086</u>

Reconciliation of loss allowance for trade receivables:

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
At the beginning of the year	2,002	1,928
Increase in loss allowance for the year	4,612	564
Written off for the year	(4)	–
Reversal of loss allowance for the year	(64)	(515)
Exchange differences	(204)	25
	<u>6,342</u>	<u>2,002</u>

The Group applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

	Current	Over 30 days past due	Over 60 days past due	Over 90 days past due	Over 365 days past due	Total
At 31 December 2022						
Weighted average expected						
loss rate	3.0%	0.1%	0.1%	2%	32%	
Receivable amount (<i>HK\$'000</i>)	28,563	4,890	6,322	14,195	16,603	70,573
Loss allowance (<i>HK\$'000</i>)	858	4	7	235	5,238	6,342
At 31 December 2021						
Weighted average expected						
loss rate	3%	3%	3%	3%	13%	
Receivable amount (<i>HK\$'000</i>)	8,331	6,088	6,670	19,023	5,976	46,088
Loss allowance (<i>HK\$'000</i>)	250	183	200	571	798	2,002

12. BANK AND CASH BALANCES

As at 31 December 2022, the bank and cash balances of the Group denominated in Renminbi (“RMB”) amounted to approximately HK\$6,473,000 (2021: approximately HK\$381,000). Conversion of RMB into foreign currencies is subject to the PRC’s Foreign Exchange Control Regulations.

At the end of the reporting period, bank and cash balances comprise cash held by the Group and short-term bank deposits with an original maturity period of three months or less. Bank balance carried interest at market rates ranging from 0.001% to 0.625% per annum (2021: 0.001% to 0.35%).

13. TRADE AND OTHER PAYABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade payables	22,774	12,654
Accruals	3,359	4,559
Interest payables on borrowings	7,549	4,600
Payables for the acquisition of property, plant and equipment	1,286	–
Other payables	12,524	14,711
	<u>47,492</u>	<u>36,524</u>

Note: Payment terms granted by suppliers are 30 days from the invoice date of the relevant purchases.

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

	2022	2021
	HK\$'000	HK\$'000
0-30 days	6,703	3,502
31-60 days	3,737	2,255
61-90 days	3,935	3,013
Over 90 days	8,399	3,884
	<u>22,774</u>	<u>12,654</u>

14. SHARE CAPITAL

	Number of ordinary shares	Ordinary shares HK\$'000
Authorised:		
<i>Ordinary shares of HK\$0.01 each:</i>		
As at 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	<u>2,000,000,000</u>	<u>20,000</u>
	Number of ordinary shares	Ordinary shares HK\$'000
Issued and fully paid:		
<i>Ordinary shares of HK\$0.01 each:</i>		
As at 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	<u>1,010,605,000</u>	<u>10,106</u>

EXTRACT OF INDEPENDENT AUDITOR’S REPORT

The following is an extract of the independent auditor’s report on the Group’s consolidated financial statements for the year ended 31 December 2022.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR QUALIFIED OPINION

Prepayment (note 20 to the consolidated financial statements)

As at 31 December 2022 and 2021, the consolidated statement of financial position included a fully impaired prepayment balance, which was made previously to a supplier in the construction business. For the year ended 31 December 2021, an impairment loss of approximately HK\$21,317,000 was recognised.

The Group and the supplier have entered into a supplemental agreement (“**Supplemental Agreement**”) on 16 March 2021, which stated that (i) The supplier would partially refund RMB7.0 million to the Group by March 2021; (ii) Should the Group be unable to enter into any new business with the supplier before 31 August 2021, the supplier would partially refund another RMB7.0 million to the Group; and (iii) Should the Group be unable to enter into any new business with the supplier before 31 December 2021, the rest amount of RMB12.1 million would be refunded to the Group.

The first partial refund of RMB7.0 million was received by the Group in March 2021 in accordance with the terms as stated in the Supplemental Agreement. Yet, the second partial refund and the final refund of totaling RMB19.1 million (equivalent to approximately HK\$21,317,000) were both defaulted. There was no further development for this prepayment balance during the reporting period.

Due to the above uncertainties, the management is not able to provide further evidences in justifying the sufficiency, adequacy and extent of the impairment loss being recognised. Accordingly, we are not able to obtain sufficient appropriate audit evidences to ascertain the recoverability of the aforesaid balances as at 31 December 2022 and 2021. There is no other satisfactory audit procedures that we could perform to satisfy ourselves whether the aforesaid balance of HK\$nil are fairly stated as at 31 December 2022 and 2021, respectively. Consequently, we are not able to obtain sufficient appropriate audit evidences on whether the profit or loss effect on the provision for impairment loss on aforesaid balance of approximately HK\$21,317,000 for the year ended 31 December 2021 is properly stated, respectively.

Any adjustments to the figures as described above might have a consequential effect on the Group's financial performance and cash flows for the year ended 31 December 2022 and 2021 and the financial position of the Group as at 31 December 2022 and 2021, and the related disclosures thereof in the consolidated financial statements.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2 to the consolidated financial statements which states that the Group incurred loss attributable to owners of the Company of approximately HK\$10,329,000 for the year ended 31 December 2022 and as at 31 December 2022, the Group had net liabilities of approximately HK\$825,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The principal activity of the Company is investment holding. For the year ended 31 December 2022 (the "**Reporting Period**"), the Group mainly engages in provision of concrete demolition services and manufacturing and trading of prefabricated construction components.

Concrete demolition services

Concrete demolition is one aspect of the construction industry in Hong Kong. The Group's concrete demolition services were mainly concerned with the removal of pieces or section of concrete from concrete structures by applying a variety of methods, such as core drilling, sawing, bursting and crushing. Concrete demolition services are usually 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.

The customers of the Group's concrete demolition services mainly include main contractors and subcontractors of different types of construction and civil engineering projects in Hong Kong. Such customers can generally be categorized into public sector projects' customers and private sector projects' customers. Public sector projects refer to projects of which the main contractors are employed by Government departments or statutory bodies in Hong Kong, while private sector projects refer to projects that are not public sector projects.

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from		
— private sector project	48,601	46,256
— public sector project	20,776	9,885
	<hr/>	<hr/>
	69,377	56,141
	<hr/> <hr/>	<hr/> <hr/>

Prefabricated construction

Prefabricated construction is a new kind of architecture with the construction process that is splitting the traditional building products into precast reinforced concrete member produced in the factory and transported to the construction site for assembling into a whole building. Precast concrete contributes to green building practices as it can be very durable and energy efficient. Prefabricated Construction also reduces construction waste and debris on construction site as the precast concrete components are factory-made and employed by exact-batching technologies.

Prefabricated Constructions are becoming more popular in many developing countries, due to compressed project timelines, more affordable pricing, greener construction technology and the ability to service remote locations. Growth in urbanization and industrialization drive the demand in affordable urban housing that was built in a shorter construction time. The Group established its own production facilities and construction project team in Huizhou, the PRC for production, research and development of precast concrete components and glass fiber reinforced cement components, product installation guidance and sales which mainly serviced the construction projects in Greater Bay area of China and Hong Kong.

FINANCIAL REVIEW

Revenue

Revenue increased by approximately HK\$19.5 million or 19.7% from approximately HK\$99.0 million for FY2021 to approximately HK\$118.5 million for the Reporting Period. The analysis of revenue was shown as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue from		
— Concrete demolition services	69,377	56,141
— Prefabricated construction	49,156	42,829
	118,533	98,970

Concrete demolition services

For the Reporting Period, revenue attributable to concrete demolition services was approximately HK\$69.4 million, representing an increase of approximately HK\$13.3 million or 23.7% as compared with approximately HK\$56.1 million for FY2021. The increase was primarily due to an increase of approximately HK\$10.9 million in contract revenue from public sector projects, resulting from a rebound of construction demand and the backlog of the work affected by Covid-19 pandemic in previous years.

Prefabricated construction

For the Reporting Period, revenue attributable to prefabricated construction was approximately HK\$49.2 million, representing an increase of approximately HK\$6.4 million or 15.0% as compared with approximately HK\$42.8 million for FY2021. The increase was primarily due to the increase was primarily due to an increase in delivery of modular prefabrication units for picking up the construction progress in the last quarter 2022, resulting from the ease of pandemic control and improvement of the financial channel for the property developers.

Gross Profit and Gross Profit Margin

Gross profit increased by approximately HK\$10.8 million or 43.9% from approximately HK\$24.6 million for FY2021 to approximately HK\$35.4 million for the Reporting Period.

Gross profit margin increased from 24.9% for FY2021 to 29.9% for the Reporting Period. The increase was primarily due to an increase by 5.9 percentage points in gross profit margin attributable to concrete demolition services from 26.1% for FY2021 to 32.0% for the Reporting Period.

Other Income and Other Gains, Net

Other income and other gains, net, increased by approximately HK\$6.6 million from approximately HK\$1.9 million for FY2021 to approximately HK\$8.5 million for the Reporting Period. The increase was primarily due to the combined effect of (i) a gain of HK\$5.8 million on reversal of impairment loss in respect of the recovery of certain long outstanding other receivable that had been fully impaired in year 2019; (ii) a loss of HK\$1.2 million on deregistration of subsidiaries which had ceased their businesses in trading of clean coal in Inner Mongolia in year 2019 and (iii) a government grant of HK\$1.9 million received during FY2022.

Impairment losses on various assets

Impairment losses on various assets decreased by HK\$17.3 million from approximately HK\$21.9 million for FY2021 to approximately HK\$4.6 million for the Reporting Period. The decrease was primarily due to a combined effect of (i) a decrease of HK\$21.3 million in impairment loss on other receivable in connection with prefabricated construction projects led by a supplier who was one of the Group's cooperative partners in the overseas prefabricated construction business and (ii) an increase of HK\$4.0 million in impairment loss on trade receivables, primarily due to an increase in total amount of past due invoices on trade receivable resulting from the delay of the construction projects amid the Covid-19 pandemic.

Administrative and Other Operating Expenses

Administrative and other operating expenses decreased by approximately HK\$0.4 million from approximately HK\$36.3 million for FY2021 to approximately HK\$35.9 million for the Reporting Period. Such decrease was primarily due to (i) a decrease of approximately HK\$0.4 million in consultancy fee.

Loss Attributable to Owners of the Company

After a result of the foregoing, the Group's loss attributable to owners of the Company was approximately HK\$10.3 million for the Reporting Period, representing a decrease of approximately HK\$26.5 million as compared to a loss of HK\$36.8 million attributable to owners of the Company for FY2021.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2022, the Group had cash and bank deposits of approximately HK\$36.3 million (2021: approximately HK\$37.1 million).

The gearing ratio of the Group as at 31 December 2022 (defined as total borrowings including interest bearing and non-interest bearing, divided by the Group's total equity) is not applicable due to negative total equity of the Group (2021: approximately 18.9).

Treasury Policy

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the Reporting Period. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Foreign Exchange Risk

The Group principally operates its businesses in Hong Kong and the PRC. The Group is exposed to foreign exchange fluctuations from various currencies, such as United States dollars and Chinese Renminbi. Since Hong Kong dollars remains pegged to the United States dollars within a defined range, the Group is not exposed to any significant foreign exchange risk against the United States dollars. The Group has certain subsidiaries operating in mainland China, in which most of their transactions, including revenue, expenses and other financing activities, are denominated in Chinese Renminbi. The Group is not exposed to any significant foreign exchange transaction risk in relation to these currencies and had not entered into any foreign exchange contract as hedging measures against these currencies.

Significant Investment Held

As at 31 December 2022 and 2021, there were no material investment held by the Group.

Debts and Charge on Assets

As at 31 December 2022, the total borrowings of the Group, including unsecured fixed bonds and other loan, amounted to approximately HK\$76.2 million (2021: approximately HK\$64.3 million). The annual interest rates of the borrowings during the Reporting Period ranged from 4.2% to 12.0% per annum (2021: 6.75% to 12.0% per annum). All of the borrowings are unsecured and denominated in Hong Kong dollars and Chinese Renminbi. The borrowings of HK\$46.9 million were repayable within one year which was accounted for as current liabilities of the Group and the borrowings of HK\$29.3 million were repayable over one year which was accounted for as non-current liabilities.

Capital Commitments

The Group does not have material capital commitments as at 31 December 2022 (2021: Nil).

Future plans for material investment or capital assets

Save as disclosed in the annual report, the Group does not have any other specific plan for material investments or capital assets as at 31 December 2022.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2022 (2021: Nil).

Employee and Remuneration Policies

As at 31 December 2022, the Group employed 98 staff (2021: 124 staff). Total employee costs for the Reporting Period including directors' emoluments, amounted to approximately HK\$41.0 million (2021: approximately HK\$41.2 million).

The salary and benefit levels of the employees of the Group are competitive. This is very important as the construction industry has been experiencing labour shortage in general. Individual performance of our employees is rewarded through the Group's salary and bonus system. In addition, the Group provides adequate job training to employees in order to equip them with practical knowledge and skills to tackle situations and challenges encountered in diverse work sites.

Final Dividend

The Board does not recommend payment of final dividend to Shareholders for the Reporting Period (2021: Nil).

BUSINESS REVIEW AND PROSPECT

After three years of Covid-19 pandemic disrupted social and business activities and cross-border business that dealt a heavy blow to Hong Kong economy, the Company saw the light to the end of the tunnel when Hong Kong relaxed the pandemic control measures and travel restriction. The Company was pinning its hopes on reopening cross-border of China to revitalize Hong Kong economy. The Company believes that Hong Kong would gradually return to normal with the lifting of most Covid-19 related restrictions and improved market sentiment. During FY2022, the Group's revenue from concrete demolition services business grew by 23.7% due to Hong Kong's post-pandemic rebound. In 2022, Hong Kong government planned to create more land, expand the railway and road infrastructure network and invest in housing and recreational projects under Northern Metropolis Development Strategy and Lantau Tomorrow Vision. The Company was confident in its strong competitiveness in the construction demolition industry.

The Group's prefabricated construction business in China continued to make a stride to grow amid the Covid-19 pandemic and geopolitical tensions. The Company believes that China economy will pose a robust improvement and hard-won growth. Revenue from the Group's prefabricated construction business recorded double digit growth in two years in a row and accounted for the growth by 15.0% for FY2022. During year 2022, many property developers in China have postponed and slowed their pace of construction projects due to liquidity problems and struggle through tough times amid an industry downturn. However, following China have loosed the reins on property developer's financing channel, China's property market demonstrated its resilience and improvement. The Company believes that enormous potential demand will be generated in the process of urbanization. The Company continues to have a positive outlook on the prefabricated construction business over long term.

The Group devotes to promote the green building. Prefabricated construction is not only green but also be more efficient and even higher quality. The Company has plans to develop and tap the prefabricated construction business into overseas market, particularly for the countries along the Belt and Road. As prefabricated construction business for overseas market is new to the Group, the Group intends to look for an experienced construction company to form a partnership and share the experience for new business in the overseas market. The Group believes that the market diversification may usher in a strong growth potential of the Group in long run. However, many countries still need to take more time to revive its economy and the Company felt difficult to source fund for the new projects due to the market liquidity tightness in China and Hong Kong. The market diversification plan was on the shelf for the time being. The Company will review this strategy from time to time and keep close watch on the development of the situation.

We will continue to adhere to our core philosophy of “Building a Green World” and the ideology of “green building and green life” with quality, innovation and effectiveness and achieve our expansion of the Group’s business with a view to optimizing stakeholders’ interests and maximizing their value.

INTERESTS IN COMPETING BUSINESS

Having made specific enquiry of all Directors, all of them have confirmed that neither themselves nor their respective close associates (as defined in the GEM Listing Rules) had held any position or had interest in any businesses or companies that were or might be competing with the business of the Group, or gave rise to any concern regarding conflict of interests during the Reporting Period.

PURCHASE, SALE 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.

COMPLIANCE WITH THE 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, save as disclosed below, the Company had complied with the applicable code provisions of the Code with the exception of the deviations as explained:

C.1.8 Appropriate insurance cover in respect of legal action against the Directors

The Code provision C.1.8 stipulates that the Company should arrange appropriate insurance cover in respect of legal action against the Directors. The Company does not have insurance cover in this respect because the Board believes that the Director’s risk of being sued or getting involved in litigation in their capacity as Directors is relatively low. The Board will review the need for taking out this sort of insurance from time to time.

F.2.2 Attendance of Chairman in Annual General Meeting

The Code provision F.2.2 stipulates that the chairman of the Board should attend the annual general meeting. The chairman of the Company, Mr. Liu Yingjie, was unable to attend the annual general meeting held on 8 June 2022 due to the travel restriction in Covid-19 pandemic. The Board elected an independent non-executive Director, Mr. Li Kar Fai, Peter, to chair the annual general meeting.

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 throughout the Reporting Period.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the Reporting Period. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors.

SUFFICIENCY OF PUBLIC FLOAT

To the best knowledge of the Directors and based on information that is publicly available to the Company, at least 25% of the Company’s issued share capital were held by the public as at the date of this report.

SCOPE OF WORK OF ZHONGHUI ANDA CPA LIMITED

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group’s auditors, ZHONGHUI ANDA CPA Limited (“**ZHONGHUI ANDA**”), to the amounts set out in the Group’s audited consolidated financial statements for the year ended 31 December 2022. The work performed by ZHONGHUI ANDA in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by ZHONGHUI ANDA on the preliminary announcement.

AUDITOR

ZHONGHUI ANDA was the auditor of the Company, which shall retire in the forthcoming AGM and, being eligible, offer itself for reappointment. A resolution for the re-appointment of ZHONGHUI ANDA as auditors of the Company will be proposed at the forthcoming AGM.

By order of the Board
Glory Flame Holdings Limited
Liu Ying Jie
Chairman

Hong Kong, 24 March 2023

As at the date of this announcement, the executive Directors are Mr. Liu Ying Jie and Ms. Zhou Jin; the independent non-executive Directors are Mr. Cao Hongmin, Mr. Li Kar Fai, Peter and Mr. Chan Chi Pan.

*This announcement, for which the Directors 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 of Hong Kong Limited (the “**Stock Exchange**”) 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 announcement 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 announcement misleading.*

This announcement will remain on the “Latest Company Announcements” page of the Stock Exchange’s website at www.hkexnews.hk for 7 days from the date of its posting. This announcement will also be posted on the Company’s website at www.gf-holdings.com.