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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)

SUPPLEMENTAL ANNOUNCEMENT

Reference is made to the announcement of Glory Flame Holdings Limited (“**Company**”) in relation to the annual results of the Company for the year ended 31 December 2021 published on 24 March 2021 (“**Announcement**”) where the Company’s auditors expressed a qualified opinion (“**Audit Modification**”) on the Company’s consolidated financial statements for the year ended 31 December 2021 in relation to the impairment loss on prepayments of approximately HK\$21,317,000 recognised for the year ended 31 December 2021.

The board (“**Board**”) of directors (“**Directors**”) of the Company makes this Supplemental Announcement in relation to the Announcement. Terms and expressions herein shall bear the same meanings as used in the Announcement unless the context requires otherwise.

Background

The Supplier is a company established in the PRC in 2012 whose name in Chinese is “廣東合力建造科技有限公司” (“**Supplier**”). The Supplier is principally engaged in the business of prefabricated construction with markets in the PRC, Australia and certain belt and road countries including Nigeria.

To the best knowledge, information and belief of the Company, the Supplier’s ultimate beneficial owners are Wang Yuwu (“**Mr. Wang**”) and Zhou Zhihua (“**Mr. Zhou**”) who respectively owns 53.6% and 30.6% of the equity interests in the Supplier, and they are third parties independent of the Company and its connected persons.

Mr. Wang is the legal representative of the Supplier, as well as the legal representative and the owner of Guangdong International Construction Design Co., Ltd.* (廣東省國際工程建築設計有限公司), a company established under the laws of the PRC. Mr. Wang has more than 20 years of experience in the construction industry. Mr. Wang has obtained a doctorate in architecture from South China University of Technology, and was named “Outstanding Young Architect of Contemporary China” by the Architectural Society of China Architectural Society and Culture Academic Committee in 2008.

Mr. Zhou is an investor who has profound resources in and good connection with reputable research organizations of construction science and building material, including Chinese Architectural Society.

The Company has engaged a reputable data base company in the PRC which has issued a search report (“**PRC Search Report**”) in relation to the Supplier. The Company, having regard to its internal policy on prepayment, has considered the credit worthiness of the Supplier from the PRC Search Report, which accorded the Supplier the highest credit rating of A among credit ratings of A to E. Other findings in relation to the Supplier in the PRC Search Report include (a) the registration of some 20 patents and 7 trademarks by the Supplier including patents and trademarks related to the following technology: polymer self-assembly structural adhesive (“高分子自組裝結構粘合劑”); new light steel structural assembly system (“新型輕鋼結構裝配體系”) and foamed concrete integral casting technology system (“發泡混凝土整體澆築技術體系”), and these, based on the Company’s knowledge of the prefabricated construction industry, are significant intellectual properties; and (b) that the Supplier has not been listed as having contravened laws and regulations in the PRC.

Other due diligence work performed by the Company also indicates that the Supplier obtained the national high-tech enterprise certification in China in December 2016 for the period 2016 to 2019; and during the same period, the Supplier was awarded “廣東省建築科技創新一等獎2項、二等獎2項” for its achievements in “輕鋼結構住宅框架體系研發項目”, “整體後澆式工業化建築體系研究與應用” and “輕質混凝土建設設計與施工”, and that the Supplier has been certified to meet various standards, including “低層冷彎薄壁型鋼房屋建築技術規程 Technical specification for low-rise cold-formed thin-walled steel buildings” in January 2011, “輕鋼輕混凝土結構技術規程 Technical specification of lightweight steel and lightweight concrete structures” in February 2016 and “裝配式組合鋼—混凝土結構技術規程 Technical specification for precast steel-concrete structures” in June 2016.

The Company also learnt from the International Building Industrialization Construction Exhibition Asia held in 2018 and various discussions with the Supplier that the directors and senior management of the Supplier, namely, Mr. Wang and Mr. Zhou, as well as other senior management of the Supplier, have extensive experience in the construction industry.

The Supplier has established research exchange and cooperation with institutions including State Key Laboratory of Subtropical Building Science (亞熱帶建築國家重點實驗室), Guangdong Provincial Academy of Building Research (廣東省建築科學研究院), Architectural Design and Research Institute of Guangdong Province (廣東省建築設計研究院), Belarusian State Technological University (白俄羅斯國立工業大學) and Cambridge Architecture Research Centre* (劍橋建築研究中心).

In late 2018, Mr. Zhu Zhou, executive Director at the time, and the business consultant of the Company met with the above directors and senior management of the Supplier in Guangzhou and had in-depth discussions about the Supplier's know-how, capabilities, track record projects (such as Shunde Garden Villa* (順德花園別墅), Foshan Reception Club* (佛山接待俱樂部), Shaoguan Resort Hotel* (韶關度假酒店) and Hubei Rail Command Center* (湖北鐵路指揮中心) and cost analysis of potential projects.

The Company had in June 2018 diversified into prefabricated construction. The Company, based on its knowledge of the prefabricated construction industry gained through the diversification process and managing the new subsidiary in the prefabricated construction business and years of experience in the construction industry generally, and having regard to the results of its due diligence mentioned above, believed that the Supplier was resourceful and had substantial operations.

Apart from the contracts underlying the prepayments referred to in the Announcement, the Supplier and its ultimate beneficial owners have not entered into any other agreement with the Company or its connected persons, and they have no other relationship with the Company or its connected persons.

The Supplier has been introduced to the Company by a business consultant firm, which the Company had engaged for over four years on a monthly fixed fee basis for a variety of services including identifying potential business and M&A projects, coordinating the relevant parties and professional advisers at various stages of a project from negotiations, closing to integration and other follow-up, and in relation to the Company's compliance and other requirements.

Contracts underlying the impairment

On 7 July 2019, the Company, via its subsidiary, China Real Estate Limited (“**China Real Estate**”), entered into an agreement with a customer, Platinum Mill Investment Limited, a company incorporated under the laws of the British Virgin Islands who is a sub-contractor to a project in Australia (“**Australia Project Customer**”) and an independent third party, whereby China Real Estate agreed to supply and instal prefabricated construction of 78 units of premises of 128 square metres each in Australia, for a consideration of HK\$45,000,000 (“**July 2019 Agreement No. 1 with Australia Project Customer**”).

On 8 July 2019, the Company, via its subsidiary, China Real Estate, also entered into an agreement with the Supplier (“**July 2019 Agreement No. 1 with Supplier**”) for it to supply to the Company and instal prefabricated construction of 78 units of premises of 128 square metres each in Australia, for a consideration of RMB35,000,000. Under the terms of the July 2019 Agreement with Supplier, China Real Estate made prepayment of RMB21,000,000.

On 25 July 2019, the Company, via its subsidiary, China Real Estate, entered into an agreement with the Australia Project Customer, whereby China Real Estate agreed to supply and instal prefabricated construction of 19 units of premises of 128 square metres each in Australia, for a consideration of HK\$11,000,000 (“**July 2019 Agreement No. 2 with Australia Project Customer**”).

On 26 July 2019, the Company, via its subsidiary, China Real Estate, also entered into an agreement with the Supplier (“**July 2019 Agreement No. 2 with Supplier**”) for it to supply to the Company and instal prefabricated construction of 19 units of premises of 128 square metres each in Australia, for a consideration of RMB8,500,000. Under the terms of the July 2019 Agreement No. 2 with Supplier, China Real Estate made prepayment of RMB5,100,000.

In September 2019, the Company was notified by the Australia Project Customer that its land acquisition had been delayed due to the widespread bushfires in the state of New South Wales, Australia, and that it wanted to terminate both the July 2019 Agreement No. 1 with Australia Project Customer and the July 2019 Agreement No. 2 with Australia Project Customer. On 13 November 2019, China Real Estate, entered into an agreement with the Australia Project Customer to terminate the above two agreements without liability on either party (“**Termination with Australia Project Customer**”).

Around the same time in September 2019, the Company was in discussion with the Supplier about possible cooperation in relation to the Supplier’s prefabricated construction business in Nigeria which included a project for constructing 2,000 units of premises for accommodation of teaching and other staff of the Nigeria University (“**Nigeria Project**”). The Company, in view of the background of the Supplier mentioned above, considered that the Supplier would be able to introduce the Nigeria Project and other projects to the Company.

Supplemental Agreement of 14 November 2019

In view of the Termination with Australia Project Customer, on 14 November 2019, China Real Estate entered into a supplemental agreement to terminate both the July 2019 Agreement No. 1 with Supplier and the July 2019 Agreement No. 2 with Supplier without any liability on either party while the Supplier retained the total prepayments of RMB26,100,000 and is obliged to introduce projects to China Real Estate, and China Real Estate is entitled to use the prepayments to set-off costs of its future projects including but not limited to the Nigeria and other projects. The Company considered that with the above terms, it would be well positioned to tap into the prefabricated construction industry in Nigeria while utilizing the prepayments, and therefore the supplemental agreement of 14 November 2019 was in the interest of the Company and its shareholders as a whole.

In early 2020, the outbreak of Covid-19 led to the putting on hold of most construction projects in Nigeria including the Nigeria Project. The outbreak of Covid-19 also led to uncertainty in the financial markets, making fundraising more difficult. At the time, the Board did not foresee (and could not have foreseen) that the outbreak would last for such a long period of time; it was thought that a “V-shape” recovery like the one following SARS in 2003 would take place shortly after the outbreak, and the Board thus considered that if it were to take active action early on to press for repayment, the Company would be squandering away potential business opportunities. The Board considered that the Company would be better off to wait for the situation to settle when things would be back to business as usual, rather than to rush into pressing for repayment which would not only squander away potential business opportunities and may also hinder building long-term business relationship.

Strategic Cooperation Memorandum of 21 December 2020

In December 2019, there was an outbreak of the new coronavirus which later developed into the COVID-19 pandemic. As a result of the outbreak, construction projects in the markets in which the Supplier operated came to a near standstill. Towards the end of 2020, it appeared that the development of COVID-19 vaccines would become expedited and it was thought that the pandemic would soon be under control, whereupon it would be an opportune time for the Company to break into the belt and road countries markets. Against this background, on 21 December 2020, the Company entered into a strategic development memorandum with the Supplier (“**Strategic Cooperation Memorandum**”) whereby the Company may rely on the Supplier’s network and markets in the belt and road countries to obtain new projects and the Supplier may turn to the Company for source of funding.

Supplemental Agreement of 16 March 2021

Subsequently, the Company followed up with the Supplier about potential projects envisaged under the Strategic Cooperation Memorandum and asked the Supplier to repay the prepayments by the end of March 2021. The Company, having regard to potential competition for projects given the positive impact arising from vaccine availability, entered into a supplemental agreement dated 16 March 2021 (“**Supplemental Agreement**”) with the Supplier which stated that (a) the Supplier would refund RMB7,000,000 before 26 March 2021; (b) the Supplier would refund a further RMB7,000,000 if the Group was unable to enter into any new business with the Supplier before 31 August 2021 including those projects envisaged under the Strategic Cooperation Memorandum; and (c) should the Group be unable to enter into any new business with the supplier before 31 December 2021, the balance of RMB12.1 million would be refunded. The idea behind the above terms was that as vaccines became available and the economies opened up, the pent-up demand in the economies would be released, leading to a sudden surge in construction activities, and the Company considered that would be an opportune time to break into the market. The Company therefore considered that, by entering into the Supplemental Agreement with the above terms, the Supplier would be incentivized to introduce construction projects to the Company, rather than to other competitors lured into the market by the sudden surge in construction activities.

In March 2021, pursuant to the Strategic Cooperation Memorandum, the Supplier introduced three potential projects for the Company’s consideration. Since March 2021 and until the end of that year, the Company from time to time considered the potential projects and the possibility of raising funds for the same but did not take them any further due to potential investors expressing lukewarm to little interests.

In January 2022, the Company engaged a firm of PRC lawyers to investigate whether the Supplier has valuable assets or is involved in other litigations and its other credit related information. According to the results of the investigation, the Supplier, among other things, (i) has registered intellectual properties, (ii) does not appear to have been put on the list of untrustworthy entities, (iii) is involved in some litigations, and (iv) does not seem to have valuable assets.

The Company has also in January 2022 obtained from another reputable PRC data base search company a report on the Supplier’s information, which indicates that the Supplier, among other things, has a credit rating of slightly above the middle on the data base search company’s scale; and from PRC lawyers preliminary PRC legal advice on the prospects of taking legal proceedings against the Supplier.

The Company has made preliminary enquiries with a valuer regarding its methodology for giving a valuation on the recognized impairment and discussed with the Company's auditors on their preferred methodology. Having considered the methodologies and in view of the availability of financial information related to the Supplier, the Company considered that engaging the valuer to conduct a valuation would not give a meaningful result.

The Supplier refunded RMB7,000,000 on 18 March 2021, and has defaulted in refunding the second sum of RMB7,000,000 and the balance in the sum of RMB12,100,000 (“**Balance of the Prepayments**”). In view of the financial situation of the Supplier with liquidity issues caused by long delays in its Mainland China projects due to issues related to demolition and relocation and the pandemic, the Company has been actively engaging the Supplier in repayment discussions and monitoring the market situation of those markets in which the Supplier has projects including PRC, Nigeria, Senegal and Indonesia. The Company also gathered the market intelligence through its own network generally in the construction industry in the PRC and in Hong Kong and specifically in relation to the construction and business activities of the Supplier for recovering the Balance of the Prepayments. In view of the above financial and operational circumstances of the Supplier, the Company made an assessment that the Balance of the Prepayments in the total amount of RMB19,100,000 (that is, the second sum of RMB7,000,000 plus the sum of RMB12,100,000, or approximately HK\$21,317,000) would likely be irrecoverable. The Directors believe that such assessment was fair and reasonable.

As at the date of this Announcement, no portion of the Balance of the Prepayments has been recovered.

The Company will continue to monitor the financial and operational circumstances of the Supplier, having regard to the Supplier's know-how and network in the construction industry in markets within and outside the PRC and any possible future business opportunities that may arise as the pandemic subsides, with a view to reaching a further supplemental agreement with the Supplier for repayment of the remaining RMB19,100,000 on a timeline as short as possible and yet realistic in view of the prevailing circumstances.

In relation to the Audit Modification

The Company's auditors have requested that sufficient audit evidence be provided to them to enable them to make an assessment of the financial situation of the Supplier for ascertaining the recoverability of the prepayment balance as at 31 December 2021 and on the impairment recognized.

The management of the Company has tried to obtain the latest financial statements from the Supplier but was told that such information was confidential and could not be released. The management has resorted to engaging a firm of PRC lawyers to investigate the financial situation of the Supplier. The management has also engaged a reputable PRC data base search firm to obtain a search report on the Supplier. The management has provided the search results from the PRC lawyers and the data base search firm to the Company's auditors but they were not satisfied with these evidences as they were insufficient to demonstrate that the Supplier had financial difficulty. In addition, the management has relayed to the Company's auditors its understanding gained from various discussions with the Supplier that the Supplier's projects in Mainland China have suffered long delays due to demolition and relocation issues causing it liquidity issues.

The audit committee has reviewed the management's position concerning the audit modification as set out in the above paragraph, and agrees with the same.

The Company's action plan in addressing the audit modification

The Company will continue its endeavours to obtain the financial statements of the Supplier and any financial and other relevant information related to the Supplier for addressing any applicable concern of the auditors or other professional advisers by actively engaging the Supplier in discussions on its financial and operational situation and monitoring the markets in which the Supplier has operations.

Depending on the outcome of the above, the Company may also seek further PRC legal advice regarding the prospects of taking legal action.

Timeline of resolving the Audit Modification

The Company does not expect the audit modification would be removed in the next auditors' report for the year ending 31 December 2022. The Company expects that the audit modification will continue to apply to the Company's financial statements for the year ending 31 December 2022 only in relation to their comparative figures with the prior year, and that, subject to the auditor's year-end assessment and no unforeseen development, there will be no impact on the statement of profit or loss and other comprehensive income. On the basis that until the completion of the audit

** for identification purposes only*

for the year ending 31 December 2023 there would be no material factors which will cause the management's view on the impairment to differ, the Company expects that the audit modification would be removed in the auditors' report (for the year ending 31 December 2023).

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

Hong Kong, 25 July 2022

As at the date of this announcement, the executive Directors are Mr. Liu Ying Jie and Ms. Zhou Jin; and 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.*

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