# LOCO HONG KONG HOLDINGS LIMITED
# 港銀控股有限公司

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 8162)**

## ANNUAL RESULTS
## FOR THE YEAR ENDED 31 DECEMBER 2014

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This announcement, for which the directors (the "Directors" or individually a "Director") of LOCO HONG KONG HOLDINGS LIMITED (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the 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.*

*This announcement shall remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least seven days from the date of its publication and on the Company's website at www.locohongkong.com.*

The Board of Directors of the Company (the "Board") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2014, together with comparative figures for the previous year, as set out below:

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
*For the year ended 31 December 2014*

| | Notes | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|---|
| **Revenue** | | | |
| — Sales of metal | | **2,125,785** | 1,493,817 |
| — Interest income from customers and suppliers | | **2,198** | 2,305 |
| — Order commission | | **157** | 81 |
| | | **2,128,140** | 1,496,203 |
| Trading gains on commodity forward contracts | | **22,752** | 14,649 |
| Other income | | **108** | 94 |
| Total income | 5 | **2,151,000** | 1,510,946 |
| Inventories consumed | | **(2,125,875)** | (1,493,497) |
| Staff costs | 6 | **(4,393)** | (2,760) |
| Depreciation | | **(864)** | (601) |
| Foreign exchange (losses)/gain | | **(132)** | 237 |
| Listing expenses | | **(8,185)** | — |
| Other operating expenses | | **(5,895)** | (3,697) |
| Profit from operations | | **5,656** | 10,628 |
| Finance costs | | **(1,578)** | (1,618) |
| Profit before income tax expense | 7 | **4,078** | 9,010 |
| Income tax expense | 8 | **(2,121)** | (1,302) |
| **Profit and total comprehensive income for the year** | | **1,957** | 7,708 |
| **Basic and diluted earnings per share** | 9 | **HK cents 0.74** | HK cents 4.56 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2014*

| | Notes | **2014** HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **3,119** | 3,507 |
| Investment property | | **1,927** | 2,009 |
| | | **5,046** | 5,516 |
| **Current assets** | | | |
| Inventories | | **41,778** | 91,369 |
| Accounts receivable, other receivables, deposits and prepayments | 10 | **27,927** | 38,444 |
| Derivative financial assets | | **2** | 2,401 |
| Cash and cash equivalents | | **37,314** | 3,940 |
| | | **107,021** | 136,154 |
| **Current liabilities** | | | |
| Accounts payable, accruals and deposits received | 11 | **22,524** | 7,409 |
| Derivative financial liabilities | | **630** | 362 |
| Bank loans | | **—** | 20,209 |
| Obligation under a finance lease | | **—** | 60 |
| Amount due to a related company | 12 | **—** | 90,244 |
| Tax payable | | **787** | 3 |
| | | **23,941** | 118,287 |
| **Net current assets** | | **83,080** | 17,867 |
| **Total assets less current liabilities/Net assets** | | **88,126** | 23,383 |
| **Capital and reserves** | | | |
| Share capital | 13 | **85,643** | 15,000 |
| Reserves | | **2,483** | 8,383 |
| **Total equity** | | **88,126** | 23,383 |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
*For the year ended 31 December 2014*

| | Notes | **Share capital HK$'000** | **Merger reserve HK$'000** | **Retained profits HK$'000** | **Total HK$'000** |
|---|---|---|---|---|---|
| At 1 January 2013 | | 10,000 | — | 5,675 | 15,675 |
| Profit and total comprehensive income for the year | | — | — | 7,708 | 7,708 |
| Transactions with owners: | | | | | |
| Capitalisation for issue of shares | 13(g) | 5,000 | — | (5,000) | — |
| At 31 December 2013 and 1 January 2014 | | **15,000** | — | **8,383** | **23,383** |
| Profit and total comprehensive income for the year | | — | — | **1,957** | **1,957** |
| Transactions with owners: | | | | | |
| Capitalisation for issue of shares | 13(g) | **5,000** | — | **(5,000)** | — |
| Dividend declared during the year | | — | — | **(1,500)** | **(1,500)** |
| Arising from Reorganisation | | **1,357** | **(1,357)** | — | — |
| Loan capitalisation | | **27,715** | — | — | **27,715** |
| Issue of shares by placing | | **36,571** | — | — | **36,571** |
| | | **70,643** | **(1,357)** | **(6,500)** | **62,786** |
| At 31 December 2014 | | **85,643** | **(1,357)** | **3,840** | **88,126** |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2014*

### 1. GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

The Company is a limited liability company incorporated in Hong Kong on 14 January 2014. The addresses of its registered office and principal place of business are Room 2003, 118 Connaught Road West, Hong Kong.

The Group are principally engaged in the trading of metals and commodity forward contracts in Hong Kong as well as property holding.

In connection with the listing of the shares of the Company on the GEM of the Stock Exchange, the Company underwent a reorganisation (the "Reorganisation") and the Company has become the holding company of its subsidiaries now comprising the Group since 23 July 2014. The shares of the Company were listed on the GEM on 5 August 2014. Details of the Reorganisation are set out in the section headed "History, Reorganisation and Corporate Structure" to the prospectus of the Company dated 29 July 2014 (the "Prospectus").

The Group is regarded as a continuing entity resulting from the Reorganisation as there is no change in the economic substance of the Group. Accordingly, the consolidated financial statements have been prepared using the merger accounting as if the Reorganisation had been completed on 1 January 2013 and the current group structure had always been in existence.

Accordingly, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the years ended 31 December 2013 and 2014 have included the results, changes in equity and cash flows of the companies now comprising the Group from the earliest date presented or since their respective dates of incorporation, whichever was shorter, as if the current group structure had been in existence throughout those years. The consolidated statement of financial position of the Group as of 31 December 2013 and 2014 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates. No adjustment is made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

The financial statements for the year ended 31 December 2014 were approved and authorised for issue by the board of directors on 24 March 2015.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### (a) Adoption of new/revised HKFRSs — effective 1 January 2014

| | |
|---|---|
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) | Investment Entities |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities |
| Amendments to HKAS 36 | Recoverable Amount Disclosures for Non-Financial Assets |
| Amendments to HKAS 39 | Novation of Derivatives and Continuation of Hedge Accounting |
| HK(IFRIC) 21 | Levies |

The adoption of these amendments has no material impact on the Group's financial statements.

### (b) New/revised HKFRSs issued but not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

| | |
|---|---|
| HKFRSs (Amendments) | Annual Improvements 2010-2012 Cycle[2] |
| HKFRSs (Amendments) | Annual Improvements 2011-2013 Cycle[1] |
| HKFRSs (Amendments) | Annual Improvements 2012-2014 Cycle[3] |
| Amendments to HKAS 1 | Disclosure Initiative[3] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[3] |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements[3] |
| HKFRS 9 (2014) | Financial Instruments[5] |
| HKFRS 15 | Revenue from Contracts with Customers[4] |

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning, or transactions occurring, on or after 1 July 2014
3 Effective for annual periods beginning on or after 1 January 2016
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2018

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

### (b) New/revised HKFRSs issued but not yet effective *(continued)*

**HKFRS 9 (2014) — Financial Instruments**

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit and loss ("FVTPL").

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

**HKFRS 15 — Revenue from Contracts with Customers**

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

### (b) New/revised HKFRSs issued but not yet effective *(continued)*

**HKFRS 15 — Revenue from Contracts with Customers** *(continued)*

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The Group is in the process of making an assessment of the potential impact of these pronouncements. The directors are not yet in a position to state whether the application of these new pronouncement will have material impact on the Group's financial statements.

### (c) New Companies Ordinance provisions relating to the preparation of financial statements

The provisions of the new Companies Ordinance, Cap. 622, in relation to the preparation of financial statements will apply to the Company in its first financial year beginning on or after 3 March 2014 (i.e. the financial year ending 31 December 2015).

The directors consider that there will be no impact on the Group's financial position or performance, however the new Companies Ordinance, Cap. 622, would have impacts on the presentation and disclosures in the consolidated financial statements. In particular, the Statement of Financial Position of the Company can be presented in the notes rather than a separate statement and the related notes need not be included, while generally the statutory disclosures will be simplified.

## 3. BASIS OF PREPARATION

### (a) Basis of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the provisions of the Hong Kong Companies Ordinance which concern the preparation of financial statements, which for the financial year and the comparative period continue to be those of the Hong Kong Companies Ordinance, Cap. 32, in accordance with the transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance, Cap. 622 "Accounts and Audit" which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

### (b) Basis of measurement

The financial statements have been prepared under the historical cost basis except for certain inventories and certain financial instruments, which are measured at fair values.

### (c) Functional and presentation currency

The functional currency of the Company and its major subsidiaries is United States dollar ("US$"). However, the financial statements are presented in Hong Kong dollar ("HK$") instead of its functional currency as the directors consider that HK$ is a more appropriate presentation currency in view of its principal place of financing activities.

## 4. SEGMENT INFORMATION

### (a) Reportable segments

The information reported to the executive directors, who are the chief operating decision maker for the purpose of resource allocation and assessment of performance, is the financial information of the Group as a whole as reported under HKFRSs. Such information does not contain profit or loss information of particular product or service line or geographical area. Therefore, the executive directors have determined that the Group has only one single reportable segment which is metal trading. The executive directors allocate resources and assess performance on an aggregated basis.

## 4. SEGMENT INFORMATION *(continued)*

### (b) Geographical information

The Company is an investment holding company incorporated in Hong Kong and the principal place of the Group's operations is Hong Kong. Accordingly, the management determines that the Group is domiciled in Hong Kong.

The Group's revenue from customers and information about its non-current assets by geographical location are detailed below:

| | **Revenue from customers*** | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Hong Kong | **736,414** | 876,439 |
| Singapore | **1,058,194** | 378,899 |
| Australia | **69,677** | 126,653 |
| Japan | **78,388** | 104,269 |
| United Kingdom | **136,472** | — |
| Dubai | **48,995** | 9,943 |
| | **2,128,140** | 1,496,203 |

* Based on location of customers

| | **Non-current assets** | |
|---|---|---|
| | **2014** | 2013 |
| | **HK$'000** | HK$'000 |
| Hong Kong | **5,046** | 5,516 |

## 4. SEGMENT INFORMATION *(continued)*

### (c) Information about major customers

Revenue from major customers, each of them accounted for 10% or more of the Group's revenue, are set out below:

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Customer A | **1,058,194** | 378,899 |
| Customer B | **322,474** | 305,416 |
| Customer C | **260,638** | 245,951 |
| Customer D | **N/A** | 156,239 |

## 5. INCOME

The Group is principally engaged in metal and commodity forward contracts trading.

Revenue, which is also the Group's turnover, mainly comprises net invoiced value of metal (mainly silver) sold by the Group as well as interest income generated from customers and suppliers. The Group enters into sale and purchase agreements for silver with certain customers and suppliers and under the terms of those agreements, the selling or purchase price of silver is determined based on the market silver price on the date subsequently specified by the customer or supplier (the "Forward Arrangements"). Interest is charged to the customers and suppliers of those agreements during the period of Forward Arrangements.

Trading gains or losses from commodity forward contracts mainly comprise the gains or losses arising from the Forward Arrangements with customers and suppliers as mentioned above and the gains or losses arising from the forward contracts entered into with commodity traders for hedging commodity price.

## 6. STAFF COSTS

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Staff costs (including directors' emoluments) comprise: | | |
| Salaries, allowances and benefits | **4,241** | 2,667 |
| Contributions to defined contribution retirement plan | **152** | 93 |
| | **4,393** | 2,760 |

At 31 December 2014, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future year (2013: nil).

## 7. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging/(crediting):

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Inventories consumed | | |
| — Inventories consumed | **2,126,115** | 1,492,810 |
| — Fair value (gain)/loss on inventories | **(240)** | 687 |
| Auditor's remuneration | **520** | 150 |
| Minimum lease payments under operating leases (note (a)) | **952** | 831 |
| Depreciation of property, plant and equipment | | |
| — Owned | **782** | 476 |
| — Held under finance lease | **—** | 83 |
| Depreciation of investment property | **82** | 41 |
| Net rental income from investment property (note (b)) | **(50)** | (57) |
| Interest income | **(2,203)** | (2,307) |

Notes:

(a) Included in the balances were office rental expenses shared by the Group in respect of the tenancy agreement held under the non-cancellable lease entered into by a related company amounting to approximately HK$107,000 (2013: HK$395,000) and office rental paid under the tenancy agreement entered into by the Group with a related company amounting to approximately HK$245,000 (2013: nil).

(b) The direct outgoing expenses from the investment property during the years was insignificant.

## 8. INCOME TAX EXPENSE

The amount of taxation in the consolidated statement of comprehensive income represents:

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current tax — Hong Kong Profits Tax | | |
| — charge for the year | **2,218** | 1,432 |
| — over-provision in respect of prior years | **(97)** | (130) |
| | **2,121** | 1,302 |

The Company and its subsidiaries are subject to Hong Kong Profits Tax at the tax rate of 16.5% (2013: 16.5%) on the estimated assessable profits for the year.

## 9. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the profit for the year attributable to the owners of the Company of approximately HK$1,957,000 (2013: HK$7,708,000), and the weighted average of approximately 264,015,000 (2013: 169,142,000) ordinary shares in issue during the year.

The number of shares used to calculate the basic earnings per share for the year ended 31 December 2013 represents the number of shares of the Company immediately after the Reorganisation and the bonus issue (note 13(d)), but excluding any shares issued pursuant to the loan capitalisation (note 13(e)) and the placing (note 13(f)), as if the shares issued under the Reorganisation and the bonus issue had been in issue on 1 January 2013.

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2014 includes the weighted average of approximately 45,558,000 shares issued for the loan capitalisation and approximately 49,315,000 issued upon the placing, in addition to the aforementioned 169,142,000 shares used in the calculation of basic earnings per share for the year ended 31 December 2013.

Diluted earnings per share are same as the basic earnings per share as there are no dilutive potential ordinary shares in existence during the years ended 31 December 2014 and 2013.

## 10. ACCOUNTS RECEIVABLE, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Accounts receivable from customers | **15,898** | 25,159 |
| Margin deposits for commodity forward contracts | **11,312** | 13,024 |
| Deposits and prepayments | **443** | 261 |
| Deposit paid to a related party | **274** | — |
| | **27,927** | 38,444 |

## 10. ACCOUNTS RECEIVABLE, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(continued)*

The ageing analysis of accounts receivable from customers, based on invoice date, at the end of the reporting period is as follows:

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current | **15,898** | 9,796 |
| Less than 1 month | — | 15,363 |
| | **15,898** | 25,159 |

The credit period granted to customers ranged from 0 to 2 days.

## 11. ACCOUNTS PAYABLE, ACCRUALS AND DEPOSITS RECEIVED

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Accounts payable | — | 145 |
| Accruals | **1,597** | 633 |
| Trade deposits received | **690** | 165 |
| Margin deposits for commodity forward contracts | **20,237** | 6,466 |
| | **22,524** | 7,409 |

In general, credit period is not granted by suppliers and the credit term set by most suppliers is cash on delivery.

The ageing analysis of accounts payable, based on invoices dates, at the end of the reporting period is as follows:

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Less than 1 month | — | 145 |

## 12. AMOUNT DUE TO A RELATED COMPANY

The balance as at 31 December 2013 represented advance from Fine Asia Development Limited ("Fine Asia") in which Mr. Felipe Tan, a director of the Company, acts as director and has indirect equity interest. The advance is unsecured, interest bearing at 2% per annum and is repayable on demand. Such advance was fully settled by way of capitalisation of loan on 4 August 2014 (note 13(e)).

## 13. SHARE CAPITAL

| | Number of shares | 2014 HK$'000 |
|---|---|---|
| Authorised: | | |
| Upon incorporation (note (a)) | 10,000 | 10 |
| The concept of authorised share capital was abolished on 3 March 2014 (note (b)) | (10,000) | (10) |
| At 31 December 2014 | — | — |
| Issued and fully paid: | | |
| Upon incorporation (note (a)) | 1 | — |
| Issue of shares pursuant to the Reorganisation (note (c)) | 19,999,999 | 21,357 |
| Issue of bonus shares (note (d)) | 149,141,978 | — |
| Loan capitalisation (note (e)) | 110,858,022 | 27,715 |
| Issue of shares by placing (note (f)) | 120,000,000 | 36,571 |
| At 31 December 2014 | 400,000,000 | 85,643 |

Notes:

(a) The Company was incorporated in Hong Kong on 14 January 2014 with an authorised share capital of HK$10,000 divided into 10,000 shares at par value of HK$1 each. Upon incorporation, 1 ordinary share was allotted and issued.

(b) The Hong Kong Companies Ordinance, Cap. 622 came into effect on 3 March 2014. Under s.135 of this new Ordinance, shares in a company do not have a nominal value. Accordingly, the concept of authorised share capital is abolished. The no nominal value regime applies to the Company.

## 13. SHARE CAPITAL *(continued)*

Notes: *(continued)*

(c) On 23 July 2014, pursuant to the Reorganisation (note 1), the Company issued 19,999,999 ordinary shares in aggregate at the consideration of approximately HK$21,357,000 to the then shareholders of a subsidiary, China Precision Material Limited ("CPM"), who then transferred their respective entire shareholding in CPM to Loco HK Limited, the direct wholly owned subsidiary of the Company. The share capital of CPM on that day amounted to HK$20,000,000, resulting in difference of approximately HK$1,357,000 which is dealt with in merger reserve.

(d) On 25 July 2014, 149,141,978 additional ordinary shares were allotted and issued by way of bonus to the shareholders of the Company.

(e) On 4 August 2014, the Company allotted and issued 110,858,022 ordinary shares to a shareholder, GobiMin Silver Limited, in full settlement of a loan in an aggregate of approximately HK$27,715,000 due by the Group to Fine Asia.

(f) The Company's shares were listed on the GEM of the Stock Exchange on 5 August 2014 and 120,000,000 ordinary shares were issued at HK$0.36 per share on 4 August 2014. After deducting related listing expenses, approximately HK$36,571,000 was credited to share capital.

(g) The share capital balance in the consolidated statement of financial position as at 31 December 2013 represented the issued share capital of CPM, the then holding company. On 3 June 2013, CPM increased its share capital from HK$10,000,000 to HK$15,000,000 by the allotment of 5,000,000 ordinary shares of HK$1 each to the then shareholders which was settled by the capitalisation of CPM's retained profits amounting to HK$5,000,000. On 24 January 2014, CPM further increased its share capital from HK$15,000,000 to HK$20,000,000 by the allotment of 5,000,000 ordinary shares of HK$1 each to the then shareholders which was settled by the capitalisation of CPM's retained profits amounting to HK$5,000,000.

## 14. DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation. Prior to the Reorganisation, CPM declared and paid interim dividends to the then shareholders as follows:

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interim dividend | **1,500** | — |

## MANAGEMENT DISCUSSION AND ANALYSIS

### Reorganisation

The companies now comprising the Group completed the Reorganisation for the listing (the "Listing") of the Company's shares on GEM. Further details of the Reorganisation are set out in the section headed "History, Reorganisation and Corporate Structure" to the Prospectus.

On 4 August 2014, the Company placed a total of 120,000,000 ordinary shares at the placing price of HK$0.36 per share (the "Placing") and issued 110,858,022 ordinary shares to a shareholder, credited as fully paid-up, in consideration of capitalisation of the loan due by the Group to the shareholder of approximately HK$27.7 million (the "Loan Capitalisation").

The Company's shares were successfully listed on GEM on 5 August 2014 (the "Listing Date").

### Corporate Strategy and Business Model

The Group is principally engaged in the trading of metals in Hong Kong accompanied with trading of forward contracts for hedging purpose. We intend to strengthen our market position by (i) the expansion of the trading business with existing and potential suppliers and customers; and (ii) the expansion and maintenance of the processing facilities.

The Group purchases silver raw materials when we have sufficient capital and source of silver raw materials. For other metals, we obtain quotations from our suppliers upon receiving preliminary enquiries from our customers and therefore the purchase quantity of other metal is determined by the estimated demand and enquiry from our customers. In order to ensure a sufficient supply of silver products to our customers, we maintain a target inventory level by taking into account silver supplies and our processing capacity. A sales contract is originated by an inquiry from and/or negotiation with our customers. The purchase or sales price is expressed as a discount to or premium over the prevailing market price at a date to be agreed. Such discount or premium is negotiated on a case by case basis between us and our suppliers or customers, after taking into account various factors such as prevailing market conditions, order sizes and business relationship with our suppliers or customers.

We operate the silver processing facilities with a view to enhance the marketability as well as facilitate the trading of our silver products. Our processing involves melting silver raw materials and moulding them into the shapes and forms required by our customers. The business models of our silver direct trading and trading of other metals are essentially identical to the trading of silver products which involve processing, except that we do not process the silver products sold under our silver direct trading.

The Group adopts hedging strategies to avoid negative impact on our income arising from price fluctuation of metals and minimise the downward volatility of our profitability. Such strategies mainly include entering into forward contracts with our commodity dealers to fix the forward price contemporaneously upon our fixing the purchase or sales price with our suppliers or customers.

## Business Review

The Group's revenue was mainly contributed by the sales of silver products. For the year ended 31 December 2014, the Group recorded revenue of approximately HK$2.1 billion (2013: HK$1.5 billion) from the sales of metal, representing a significant increase of 42% as compared with last year. Such increase in revenue was mainly due to the increase in sales of processed silver products by 68% to 409 tonnes (2013: 243 tonnes) and the resumption of direct trading operation during the year. Approximately 26 tonnes (2013: nil) of silver products were directly sold to our customers without processing.

For the year ended 31 December 2014, the Group processed 383 tonnes (2013: 230 tonnes) and engaged subcontractor to process 27 tonnes (2013: 11 tonnes) of silver which represented an increase of 66% and 145% respectively when compared with last year. Increased in the silver processed by the Group was mainly due to the employment of more workers and the installation of additional processing equipment in 2014. Increased in the silver processed by subcontractor was mainly due to our processing capacity could not match with the suppliers' delivery schedule in certain period of time during the year.

The Group recorded profit of approximately HK$2.0 million (2013: HK$7.7 million) for the year ended 31 December 2014, representing a reduction of 75% as compared with last year. The decrease in profit was due to the recognition of the listing expenses of approximately HK$8.2 million during the year. If ignore the listing expenses, the Group should have recorded a profit for the year ended 31 December 2014 of approximately HK$10.2 million which represented an increase of 32% as compared with the profit for 2013.

The silver price recorded a drop of 19.3% during the year 2014, particularly in the fourth quarter of 2014, the silver price dropped by 8.6% from US$17.18 per ounce on 1 October 2014 to US$15.71 per ounce on 31 December 2014. The volume of the sales of the Group also dropped substantially in the fourth quarter. However, we are able to maintain a relatively good business performance throughout the year of 2014.

## London Silver Price

The sales and purchase price of our silver products were determined with reference to London Bullion Market Association ("LBMA") silver price. This published single quoted benchmark price was widely used as a pricing medium throughout the silver industry. It was available on the website of LBMA namely "London Fixing Price" and had been adopted by the Group as one of the reference to LBMA silver price. On 15 August 2014, the London Fixing Price ceased with effect and a new benchmark price namely "London Silver Price" quoted under the new mechanism was published on LBMA's website. According to the press release of LBMA dated 15 August 2014, the benchmark price will continue to be published and distributed by various data vendors and will be available on the LBMA's website. Since then, the Group has adopted the London Silver Price as one of the reference to LBMA silver price. The new pricing method of London Silver Price is functioning smoothly and has no impact on our silver trading operation.

## Outlook

The Company has engaged Hong Kong Productivity Council ("HKPC") to perform sampling and analysis of electrolysis solution and assist on applications for the license and registration required for the electrolysis operation. The applications were submitted by the end of 2014 and the relevant license and registration were approved in February 2015. The electrolysis operation can be proceeded with whenever the trading operations and the market conditions demanded.

The silver price fluctuation and the global economy atmosphere imposed significant impact on demand and supply of the physical silver market. The silver price was US$15.71 per ounce on 31 December 2014 and remained at the level of US$17 for most of the period in January 2015. The silver price recorded a further reduction of 2.4% to US$16.6 per ounce on 28 February 2015. The overall supply of silver scraps in Hong Kong has fallen as a result of the international silver price remaining at comparatively low level. The volume of the silver processing and sales of the Group has been adversely affected in the last quarter of 2014. However, through our continuous efforts, the volume and sales are gradually picked up by the end of February 2015. The Board of Directors (the "Board") expected that the performance will be further improved in the coming quarters.

## Financial Review

For the year ended 31 December 2014, the Group recorded a total income of approximately HK$2.1 billion (2013: HK$1.5 billion), representing an increase of 42% as compared with 2013. Profit for the year was approximately HK$2.0 million (2013: HK$7.7 million), a decrease of 75% as compared to 2013, which was mainly caused by the recognition of the listing expenses of approximately HK$8.2 million.

## Capital Structure, Liquidity and Financial Resources

As at 31 December 2014, the Group had cash and bank balances of approximately HK$37.3 million (2013: approximately HK$3.9 million) and net current assets of approximately HK$83.1 million (2013: approximately HK$17.9 million). As at 31 December 2014, the current ratio stood at 4.47 times (2013: 1.15 times).

The Group generally finances its operations primarily with internally generated cash flow and borrowings.

### Capital Structure, Liquidity and Financial Resources *(continued)*

As at 31 December 2014, the Group had no outstanding borrowings (2013: approximately HK$110.5 million). The bank borrowings of approximately HK$18.2 million and a loan from a related company of approximately HK$37.1 million were fully settled on 4 August 2014. The details of the outstanding borrowings as at 31 December 2013 are as follows:

| | **Outstanding amount as at 31 December 2013** | **Interest rate** |
|---|---|---|
| Bank borrowings | US$1,700,000 | LIBOR +2.0% p.a. |
| Bank borrowings | HK$7,000,000 | HIBOR +2.5% p.a. |
| Loan from a related company | US$11,614,000 | 2.0% p.a. |

As at 31 December 2014, the Group had banking facilities in aggregate limit of approximately HK$87.7 million with no outstanding balance. Accompanied with the strengthened financial position after the Placing and the Loan Capitalisation, the Directors believed that the Group has adequate financial resources to fulfill its commitments and working capital requirements.

### Significant Investments, Acquisitions and Disposals

There was no significant investment held as at 31 December 2014, nor other material acquisitions and disposals of subsidiaries during the year.

### Capital Commitment

As at 31 December 2014, the Group did not have any significant capital commitment.

### Employees and Remuneration Policy

As at 31 December 2014, the Group employed a total of 13 staff. The total of employee remuneration, including remuneration of the Directors, for the year ended 31 December 2014 amounted to approximately HK$4.4 million.

Employee remuneration is reviewed by the Group from time to time and increases are granted normally annually or by special adjustment depending on length of service and performance when warranted. In addition to salaries, the Group provides staff benefits including outpatient medical reimbursement and provident fund. Share options and bonuses are also available to employees at the discretion of the Directors after considering the financial performance of the Group.

### Charge on the Group's Assets

No Group's asset is pledged as at 31 December 2014.

## Future Plan for Material Investments and Capital Assets

The Group does not have any concrete plan for material investments or capital assets for the coming year. Nonetheless, if any potential investment opportunity arises in the coming year, the Group will prepare the feasibility study and implementation plan when it is beneficial to the Group and its shareholders as a whole.

## Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: nil). Dividends declared and paid by China Precision Material Limited ("CPM"), a subsidiary of the Company, to the then shareholders for the year ended 31 December 2014 was HK$1,500,000 (2013: nil).

## Gearing Ratio

As at 31 December 2014, the Group has no gearing ratio as the Group has no borrowing at 31 December 2014. As at 31 December 2013, the Group's gearing ratio was 472%, based on borrowings of approximately HK$110.5 million and equity attributable to owners of the Company of approximately HK$23.4 million. The decrease in the ratio was mainly attributable to the strengthen financial position by the Loan Capitalisation and the Placing.

## Foreign Exchange Exposure

Material fluctuations in foreign exchange rates may adversely affect our business and performance.

Our sales, purchases and borrowings are predominantly denominated in US$. However, some of our receipt, payment and expenses are settled in RMB or HK$ and therefore we are subject to currency risks. The exchange rate of US$ to Hong Kong dollars has been relatively stable throughout the year under review, the exposure to US$ exchange rate fluctuations is minimal. The exchange rates of RMB are subject to continuous movements affected by international political and economic conditions and changes in the PRC government's economic and monetary policies. The possible ongoing appreciation of the RMB against the relevant foreign currencies would have an adverse effect on purchasing power of the relevant foreign currencies and our business and performance.

The Group does not currently engage in foreign exchange hedging activities.

## Contingent Liabilities

The Group did not have any material contingent liabilities, guarantees or any litigation or claims of material importance pending or threatened against any member of our Group as at 31 December 2014.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison between the Group's business objectives as set out in the Prospectus and the actual business progress from the date of the Prospectus, i.e. 29 July 2014, up to 31 December 2014.

| Business Objectives for the year ended 31 December 2014 | Actual Business Progress up to 31 December 2014 |
|---|---|
| **Expansion of our trading business** | |
| • Continue to develop relationship with existing and potential customers and suppliers of silver, gold and other metals | • The Group continued to have silver trading with existing customers and suppliers and has 1 new supplier and 3 new customers of silver scraps. |
| • Continue to liaise with members of CGSE to promote silver for local investors | • The Group has provided market price for physical silver in Hong Kong Dollar to the predominant CGSE member on daily basis. |
| • Use the Listing proceeds to finance the acquisition of silver inventories | • Approximately HK$20.6 million of the Listing proceeds were used for purchase of silver inventories. |
| **Expansion and maintenance of processing facilities** | |
| • Recruit additional staff to cope with increasing workload in processing facilities | • A trader and a laboratory technician have been employed during the year under review. |
| • Apply for required licenses for operating our electrolysis facilities | • The applications were submitted to relevant departments in December 2014 under the assistance of HKPC. The registration and licenses required for electrolysis activities were completed in early 2015. |
| • Commence design and set up a laboratory for product testing | • The Group has commenced design of the laboratory with the advice from HKPC to match with the plan of expansion. It is expected that the setup of the laboratory will be completed by May 2015. |

## USE OF PROCEEDS

The planned use of the proceeds as stated in the Prospectus were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus. The net proceeds of approximately HK$28.5 million was raised from the Placing and was used according to the plan and adjusted for the actual market development. During the period from the Listing Date to 31 December 2014, the net proceeds had been applied as follows:

| | **Planned use of proceeds** HK$'000 | **Actual use of proceeds** HK$'000 |
|---|---|---|
| Setting up a testing laboratory and acquisition of machinery | 1,500 | — |
| Repayment of a bank loan | 7,900 | 7,900 |
| Acquisition of silver inventories | 19,000 | 20,600 |
| | 28,400 | 28,500 |

The deviation of the actual use of proceeds from the original plan was mainly for set-up of the laboratory. As it took more time than expected to get quotation for the suitable equipment for the laboratory, the management decided to delay the schedule to early 2015. The design of the laboratory will be finalised in March 2015 while installation, testing and trial are expected to be completed by May 2015.

## SUBSEQUENT EVENT

On 24 February 2015, United Bridge Limited, a subsidiary of the Company, signed a provisional agreement for sale and purchase with an independent third party to sell the car park classified as property, plant and equipment at HK$2,600,000.

## AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

The audit committee comprises three independent non-executive Directors, namely Mr. Chan Ka Ling Edmond, Mr. Tang Cornor Kwok Kau and Ms. Tsang Wai Chun Marianna. Mr. Chan Ka Ling Edmond is the chairman of the audit committee.

The audit committee has reviewed the audited financial statements of the Group for the year ended 31 December 2014.

## SCOPE OF WORK OF BDO LIMITED

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2014 have been agreed by the Group's auditor, BDO Limited, and agreed to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited 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 HKICPA and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

## INTERESTS OF THE COMPLIANCE ADVISER

As notified by the Company's compliance adviser, Alliance Capital Partners Limited ("Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 27 March 2014 and effective on 5 August 2014, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company as at 31 December 2014 which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2014 since the Listing Date, the Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 15 of the GEM Listing Rule ("Code Provisions"). The Board reviews and improves its corporate governance practices from time to time so as to ensure that they comply with the statutory requirements and the Code Provisions.

A Corporate Governance Report will be dispatched with the annual report of the Company.

## CLOSURE OF THE REGISTER OF MEMBERS

For the purpose of determining shareholders' entitlement to attend and vote at the forthcoming annual general meeting of the Company, the register of members of the Company will be closed from Tuesday, 16 June 2015 to Thursday, 18 June 2015 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for attending at the meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 15 June 2015.

By order of the Board
**Loco Hong Kong Holdings Limited**
**Felipe Tan**
*Chairman*

*Executive Directors:*
Mr. Felipe Tan *(Chairman)*
Ms. Chau Mei Fan

*Independent non-executive Directors:*
Mr. Chan Ka Ling Edmond
Mr. Tang Cornor Kwok Kau
Ms. Tsang Wai Chun Marianna

Hong Kong, 24 March 2015