

**Loco Hong Kong Holdings Limited**

**港銀控股有限公司**

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 8162)**



**2016**  
**Annual Report**

## **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.**

**Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.**

*This report, 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 report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

*This report shall remain on the “Latest Company Announcements” page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least seven days from the date of its publication and on the Company’s website at [www.locohkholdings.com](http://www.locohkholdings.com).*



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# CORPORATE INFORMATION

## Directors

### Executive Directors

Zhu Hongguang (*Chairman*)  
Zha Jianping (*Chief Executive Officer*)  
Felipe Tan

### Independent Non-Executive Directors

Chan Ka Ling Edmond  
Wang Lin  
Tsang Wai Chun Marianna

### Audit Committee

Chan Ka Ling Edmond (*Chairman*)  
Wang Lin  
Tsang Wai Chun Marianna

### Executive Committee

Zha Jianping (*Chairman*)  
Zhu Hongguang  
Wei Zhemin  
Fok Chi Wing

### Remuneration Committee

Wang Lin (*Chairlady*)  
Chan Ka Ling Edmond  
Tsang Wai Chun Marianna  
Felipe Tan

### Nomination Committee

Tsang Wai Chun Marianna (*Chairlady*)  
Zhu Hongguang  
Chan Ka Ling Edmond  
Wang Lin  
Felipe Tan

### Hedging Committee

Chan Ka Ling Edmond (*Chairman*)  
Tsang Wai Chun Marianna  
Felipe Tan

## Company Secretary

Fok Chi Wing

## Compliance Officer

Zhu Hongguang

## Auditors

BDO Limited

## Share Registrar and Transfer Office

Tricor Investor Services Limited

## Compliance Adviser

Alliance Capital Partners Limited

## Registered Office

Room 1702, 17/F., World-Wide House,  
19 Des Voeux Road Central, Central, Hong Kong

## Listing

Growth Enterprise Market of  
The Stock Exchange of Hong Kong Limited

## Stock Code

8162

## Authorised Representatives to the Stock Exchange

Zha Jianping  
Fok Chi Wing

## Website

[www.locohkholdings.com](http://www.locohkholdings.com)

## Email

[info@locohkholdings.com](mailto:info@locohkholdings.com)

## CHAIRMAN'S STATEMENT

Dear Shareholders,

By the market upheavals and a number of macroeconomic factors, particularly the impact of metal price fluctuations, the financial year 2016 was still a year of challenge for many Hong Kong companies in the metal industry.

During the year under review, the Company and its subsidiaries (the "Group") recorded a significant increase in revenue from HK\$1.1 billion in 2015 to HK\$2.2 billion in 2016; this represented a substantial rise of 100% over the previous year. The Group recorded a net profit of approximately HK\$2,870,000, compared with a net loss last year. The Group's performance was better than last year, mainly due to the increase in silver scrap processed and the increase in silver prices during the second and third quarters of the year and fair value gain on investments held for trading.

In order to respond to the fluctuation of the silver price which strongly affected the Group's results, to enhance the working capital of the Company and prepare for acquisition of potential projects, the Company undertook and completed the placing of the Convertible Bonds (the "Convertible Bonds") during the year. On the other hand, the Group has been prospecting and studying other market opportunities and other business alternatives, to minimize the risk of the Group operating in a single industry. During the year, the Company entered into a strategic cooperation agreement (the "Strategic Cooperation Agreement") with New Era International Investment Company Limited\* ("New Era International") to provide for the Company opportunities in new business development. The Group established Shenzhen Era Health Science Technology Holdings Limited\* in the People's Republic of China ("PRC") to create opportunities for the Group in investing and developing new business in PRC.

Although it is expected that the Group will continue to experience challenges in the coming year, the Group will overcome future difficulties; study cooperation opportunities with Chinese and international well-known companies; use of financial and capital instruments; expand new business areas; and orderly deliver objectives to generate returns for the shareholders.

The development of the Group's business relied on leadership excellence and efficiency of the Group's management; trust and support of all shareholders, investors and business partners; and tireless efforts and dedication of all the staff. On behalf of the Board, I would like to take this opportunity to extend my sincere gratitude to all of them.

On behalf of the Board

**Zhu Hongguang**

*Chairman*

Hong Kong, 24 March 2017

\* *For identification purpose only*

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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; (ii) the expansion and maintenance of the processing facilities; (iii) exercise of strict control over its expenditure; and (iv) implementation of risk management measures to face the challenges caused by the industry depression.

The Group purchases silver raw material when we have sufficient capital and source of silver raw material. For other metals, whenever we can secure the sale, we proceed with the purchase of other metals. 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 enhancing the marketability as well as facilitating 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 direct trading of silver and other metals are essentially identical to the trading of silver products which involve processing, except that we do not process the products sold under our direct trading.

The Group adopts hedging strategies to avoid negative impact on our income arising from price fluctuation of metals and minimize 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 income was mainly generated from the sales of silver products. During the year under review, the silver market price significantly increase in the mid year which give a rebound in overall silver supply in Hong Kong. Therefore, the sales volume of the silver products of the Group recorded an increase during this year.

## MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2016, the Group recorded a revenue from sales of metal of approximately HK\$2.2 billion (2015: HK\$1.1 billion), representing a significant increase of 100% as compared with last year, of which 70% (2015: 97%) was contributed by sale of silver products and the remainings were contributed by sale of gold and tin. Such increase in sale revenue was mainly due to the increase in quantity sold of silver products, gold and tin by 31%, 40 times and 5 times respectively.

The silver price recorded a significant increase of 16% from US\$14.00 per ounce on 1 January 2016 to US\$16.24 per ounce on 31 December 2016.

For the year ended 31 December 2016, the Group processed 343 tonnes (2015: 279 tonnes) of silver scrap. The total processing volume represented an increase of 23% when compared with last year. Increase in the silver products processed by the Group was mainly due to the increase in silver price during the second and third quarter of year 2016 which in turn increase the supply of silver scrap.

On 23 June 2016, the Company entered into the placing agreement (“Placing Agreement”) with the placing agent (“Placing Agent”) pursuant to which the Placing Agent has conditionally agreed to procure not less than six placees to subscribe for the Convertible Bonds with an aggregate principal amount of up to HK\$36,800,000 at the placing price. On 15 July 2016, completion of the Placing Agreement took place and the Convertible Bonds with an aggregate principal amount of HK\$36,800,000 were issued to the placees and 80,000,000 conversion shares will be allotted and issued by the company upon exercise in full of the conversion rights attaching to the Convertible Bonds at initial conversion price of HK\$0.46 per conversion share.

On 22 December 2016, the Company entered into the non-legally binding Strategic Cooperation Agreement with New Era International, pursuant to which, the Company entered into the Strategic Cooperation Agreement in relation to the China Hainan Health Town Project, which currently in the process of initiation by New Era International.

### London Silver Price

The sales and purchase price of our silver products were determined with reference to a benchmark price namely “London Silver Price” quoted on the website of London Bullion Market Association and other prices published and distributed by various data vendors.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Outlook

For the coming future, the Group will continue to carry on its sales of metal, which mainly from silver product. The silver market price materially affected the silver industry of Hong Kong. Due to the significant fluctuation of silver market price in the past few years, the Company would actively seek for new market opportunities and extend the business to investment, finance and trade on other commodity.

Following the Strategic Cooperation Agreement and if formal agreement entered into with New Era International, the Company shall become the exclusive authorized representative of New Era International in the negotiation of the cooperative projects and will be entitled to receive consultation service fee income as well as relevant income from property management services upon provision of property management services.

The Group will keep looking for any opportunity for the development of new business, study cooperation opportunities with Chinese or international well-known companies, use of financial and capital instruments; extend new business areas; strive for sustainable development; and generate maximum returns for all the shareholders.

### Financial Review

For the year ended 31 December 2016, the Group had a total income of approximately HK\$2.2 billion (2015: HK\$1.1 billion), representing a increase of 100% as compared with 2015. The Group recorded profit after tax of approximately HK\$2.9 million (2015: loss of HK\$0.3 million) for the year ended 31 December 2016. The increase in profit was mainly due to (i) the increase in sale of metal as compared with last year; (ii) fair value gain on investment held for trading which was nil in last year; and (iii) fair value gain on derivative component of convertible bonds. The key performance indicators of the Group include those provided above and in the sections “Environmental, Social and Governance Report”, “Business Review”, “Capital Structure, liquidity and financial resources” and “Financial Summary” of this annual report. They help the management to set, evaluate, implement and control strategies so as to improve our performance.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Capital Structure, liquidity and financial resources

As at 31 December 2016, the Group had cash and bank balances of approximately HK\$119.9 million (2015: approximately HK\$36.0 million) and net current assets of approximately HK\$123.3 million (2015: approximately HK\$84.8 million). As at 31 December 2016, the current ratio stood at 2.33 times (2015: 4.66 times).

The Group generally finances its operations primarily with internally generated cash, convertible bonds and loan from a related company. The increase in cash balance of HK\$83.9 million mainly represented the placing of Convertible Bonds which completed on 15 July 2016, loan from a related company and operating income from sale of metals.

As at 31 December 2016, the Group had a loan from a related company approximately HK\$27 million (2015: nil).

As at 31 December 2016, the amount of the Convertible Bonds stated in the consolidated financial position of the Company was approximately HK\$36 million (2015: nil) which comprising of liability and derivative component amounting to approximately HK\$34 million and HK\$2 million respectively.

As at 31 December 2016, the Group had banking facilities in aggregate amount of HK\$10 million. The Directors believed that the Group has adequate financial resources to fulfill its commitments and working capital requirements.

### Capital commitment

As at 31 December 2016, the Group did not have any significant capital commitment.

### Employees and Remuneration Policy

As at 31 December 2016, the Group employed a total of 21 staff. The total of employee remuneration, including remuneration of the Directors, for the year ended 31 December 2016 amounted to approximately HK\$11 million.

Staff 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 of the Group at the discretion of the Directors and depending upon the financial performance of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Charge on the Group's assets

As at 31 December 2016, no Group's assets was pledged as security.

### 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 2016 (2015: nil).

### Gearing ratio

As at 31 December 2016, the gearing ratio of the Group, calculated as debt (being loan from a related company and liability component of convertible bonds) divided by total equity was approximately 0.67 (2015: nil).

### Foreign Exchange Exposure

Our sales, purchase and borrowings are predominantly denominated in United States dollars (US\$) and Hong Kong dollars. The Directors considered that the Group had no significant exposure to foreign exchange fluctuations and believe it was not necessary to hedge against any exchange risk. Nevertheless, management will continue to monitor the foreign exchange exposure position and will take any future measures if appropriate.

### 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 2016 and there has not been any material change in the contingent liabilities of the Group since 31 December 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Comparison of Business Objectives with Actual Business Progress

The following is a comparison between the Group's business objectives as set out in the listing document of the Company dated 29 July 2014 (the "Prospectus") and the actual business progress for the year ended 31 December 2016.

#### **Business Objectives for the year ended 31 December 2016**

#### **Actual Business Progress for the year ended 31 December 2016**

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##### **Expansion of our trading business**

- Continue to develop relationship with existing and potential customers and suppliers of silver, gold and other metals as well as silver raw material with a lower fineness
- Continue to liaise with members of CGSE to promote silver to local investors
- The Group continued to trade with existing customers and suppliers and had four new customers and three new suppliers on silver business, and one new supplier on tin business during the year.
- The Group continued to maintain good relationship with members of CGSE so as to expand potential business locally.

##### **Expansion and maintenance of processing facilities**

- Evaluate the effectiveness and efficiency of the processing facilities and improve on automated processing
- The Group is laying down the plan in evaluating the effectiveness and efficiency of the processing facilities and fine tuning the automated processing for improvement.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 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 date of listing of the Company's shares on GEM to 31 December 2014, the net proceeds had been fully applied as follows:

	<b>Planned use of proceeds</b> HK\$'000	<b>Actual use of proceeds</b> 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 in 2014, the laboratory was completed in 2015. The total cost of set-up of the testing laboratory and acquisition of machinery amounted to approximately HK\$1.4 million, funded by the cash generated from the operation.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## Executive Directors

**Mr. Zhu Hongguang** (“Mr. Zhu”), aged 44, has been appointed as the Executive Director of the Company in August 2016 and redesignated as the Chairman of the Board of the Company in September 2016. Mr. Zhu has over ten years’ experience in operations and management in the segment of real economy investment. Mr. Zhu established Sichuan Wenjie Materials Co., Ltd. (四川雯傑物資有限公司) and Chengdu Yuantai Industrial Investment Co., Ltd. (成都元太實業投資有限公司) in 1995 and 2000 respectively. Mr. Zhu served as the director of Chengdu College of Arts and Sciences in 2003. Mr. Zhu has established and served as the chairman of Chengdu Zhongxing Water-supply Company Limited since 2004. Mr. Zhu has further developed himself with extensive financial experiences; has established and served as the general manager of Chengdu Lingduoji Investment Co., Limited (成都嶺多吉投資有限公司) and Chengdu Weide Equity Investment Fund Management Co., Limited (成都威德股權投資基金管理有限公司) in 2013. Mr. Zhu obtained a Master degree of Science in Business Operation and Management from the University of Bath in 2007. Save as disclosed above, Mr. Zhu has not been a director of any public listed company, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

**Mr. Zha Jianping** (“Mr. Zha”), aged 46, has been appointed as Executive Director and Chief Executive Officer of the Company in November 2016. Mr. Zha graduated from the Shanghai University of Finance and Economics with a bachelor degree in economics majoring in accounting in 1993. Mr. Zha continued his education at the Graduate School of Chinese Academy of Social Sciences in 1996, which Mr. Zha obtained his master degree in economics in 1998. Mr. Zha also obtained a master degree in business administration from the Wisconsin International University in the United States in 2001. Mr. Zha is a qualified senior accountant in the PRC and has extensive business and management experience in a wide range of industries including finance, information technology and logistics. Prior to joining the Company, Mr. Zha worked as senior management in a number of large enterprise groups, including Nam Kwong (Group) Company Limited in Macau, Jinbei Automotive Company Limited (listed on the Shanghai Stock Exchange, stock code: 600609) and Brilliance China Automotive Holdings Limited (listed on the Main Board of the Hong Kong Stock Exchange, stock code: 01114). Mr. Zha was the chairman, chief executive officer and executive director of Chinese Energy Holdings Limited (listed on the GEM Board of the Hong Kong Stock Exchange, stock code: 08009), and the deputy managing director of Asia Allied Infrastructure Holdings Limited (formerly known as China City Construction Group Holdings Limited, listed on the Main Board of the Hong Kong Stock Exchange, stock code: 00711). Save as disclosed above, Mr. Zha has not been a director of any public listed company, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Felipe Tan** (“Mr. Tan”), aged 62, has been appointed as Executive Director since February 2014. Mr. Tan has served as a director of China Precision Material Limited (“CPM”) and CPM Silver Limited (“CPM Silver”) since March 2009 and May 2009 respectively. Mr. Tan has experience in metal trading and monitoring hedging activities. Mr. Tan is the chairman of the board, president and chief executive officer of GobiMin Inc. (“GobiMin”) (listed on the TSX Venture Exchange in Canada, symbol: GMN), a company engaged in the exploration and exploitation of mineral resources in the PRC since 2005. GobiMin is a substantial shareholder of the Company and holds the shares in the Company through its subsidiaries. Mr. Tan has served as the executive director and chairman of the board of Timeless Software Limited (“Timeless”) (listed on the GEM Board of the Hong Kong Stock Exchange, stock code: 08028), a company principally engaged in the computer hardware and software and mining business since 2012. In addition, Mr. Tan has served as the director of Jiangmen Proudly Watersoluble Plastic Co., Ltd. (listed on the National Equities Exchange and Quotations in the PRC, NEEQ: 833367). Save as disclosed above, Mr. Tan has not been a director of any public listed company, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

### Independent Non-executive Directors

**Mr. Chan Ka Ling Edmond** (“Mr. Chan”), aged 58, has been appointed as the Independent Non-Executive Director since July 2014. Mr. Chan is a certified public accountant of the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and a member of the Association of Chartered Certified Accountants. Mr. Chan has comprehensive experience in auditing, accounting and financial management. Mr. Chan has served as a director of an audit firm in Hong Kong. Mr. Chan has served as an independent non-executive director of China Nuclear Energy Technology Corporation Limited (listed on the Main Board of the Hong Kong Stock Exchange, stock code: 00611). Save as disclosed above, Mr. Chan has not been a director of any public listed company, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Dr. Wang Lin** (“Dr. Wang”), aged 50, has been appointed as the Independent Non-Executive Director of the Company in September 2016. Dr. Wang is a research fellow, doctoral, supervisor and a director of the Huaian Research Centre (淮安研究中心) of the Institute of Biophysics of Chinese Academy of Sciences. Dr. Wang is a director of Beijing Wantai Bio-Pharmaceutical Incorporation (北京萬泰生物藥業股份有限公司) and a director of National Bio-Founder Biotech Co., Ltd. (中生方政生物技術股份有限公司). Dr. Wang was a co-founder, director and general manager of Allele Biotechnology & Pharmaceuticals, Inc. in the United States from September 2000 to August 2004. Dr. Wang participated in the renowned “The 100 Talents Program of Chinese Academy of Sciences”(百人計劃) in which Dr. Wang was sponsored by the Chinese Academy of Science (中國科學院) to be trained as a professional expert in the science area, and was a researcher and tutor of doctorate program of the Institute of Microbiology of the Chinese Academy of Sciences from September 2004 to August 2005. Dr. Wang was the head of the Liaison Office (所地合作處) of the Institute of Biophysics of Chinese Academy of Sciences from March 2006 to August 2009. Dr. Wang served as the vice president, executive vice president and executive director of Biosino Bio-Technology and Science Incorporation (listed on the GEM Board of the Hong Kong Stock Exchange, stock code: 08247) from September 2005 to May 2015. Dr. Wang served as an expert in the field of biology and pharmaceutical technology under the National 863 High Technology Program (國家高技術研究發展計劃(863計劃)) during the Eleventh Five-Year Plan. Dr. Wang was also elected as the vice chairman of the “Legend Star” Entrepreneurial Alliance (“聯想之星”創業聯盟) in 2010 and served as its council member for two sessions. Dr. Wang graduated from the Department of Biology of Peking University in 1990. Dr. Wang obtained a Ph.D. degree in biochemistry from the University of Wisconsin-Madison in the United States in 1997. Dr. Wang conducted post-doctoral researches at the Department of Biochemistry (HHMI) of the University of California – San Diego in the United States from 1997 to 2000. Dr. Wang participated in the CEO seminar at the School of Economics and Management of the Tsinghua University from 2007 to 2009 and the 1st “Legend Star” CEO Special Training Class (“聯想之星” CEO特訓班) from 2008 to 2009. Save as disclosed above, Dr. Wang has not been a director of any public listed company, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

**Ms. Tsang Wai Chun Marianna** (“Ms. Tsang”), aged 62, was appointed as the Independent Non-Executive Director since July 2014. Ms. Tsang is the Managing Director of TWC Management Limited. Ms. Tsang is a member of the Institute of Chartered Secretaries and Administrators, the Hong Kong Institute of Company Secretaries, the Taxation Institute of Hong Kong, the Chartered Institute of Personnel and Development, the Society of Registered Financial Planners, the Chartered Institute of Arbitrators, the Institute of Financial Accountants in UK and Institute of Public Accountants in Australia. Ms. Tsang was appointed as a member of the Board of Review (Inland Revenue Ordinance) from 2010 to 2015. Ms. Tsang has over 30 years of company secretarial, corporate affairs, and related legal working experience in major commercial corporations and in professional firms. She obtained a postgraduate certificate in Professional Accounting in November 2002. Ms. Tsang has served as the independent non-executive director of Timeless since October 2003. Save as disclosed above, Ms. Tsang has not been a director of any public listed company, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### Compliance Officer

**Zhu Hongguang** is the compliance officer of the Company

### Senior Management

**Ms. Wei Zhemín** (“Ms. Wei”), aged 57, has been appointed as the Deputy Chief Executive Officer of the Company and the Director of a Company’s subsidiary in August 2016. Ms. Wei graduated from the Sun Yat-Sen University (廣東中山大學) with certificate in Business Administration for In-service Manager (在職經理工商管理課程結業證書). Ms. Wei has extensive senior management experience in sizable stated-owned enterprise, sino-foreign joint venture technology group, investment management company and professional firms. Ms. Wei organized and participated in investment operation and management in various projects. She is familiar with operation in capital market management, and tax law and regulations in the PRC. Ms. Wei has professional skills and practicing experience in operation of capital market, financial management, companies merger and restructuring, operation strategy and risk management, etc. Save as disclosed above, Ms. Wei has not been a director of any public listed company, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

### Company Secretary

**Mr. Fok Chi Wing** (“Mr. Fok”), aged 34, has been appointed as the Company Secretary of the Company in December 2016. Mr. Fok graduated from the Hong Kong University of Science and Technology with bachelor degree in engineering. Mr. Fok is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom, as well as a member of Hong Kong Institute of Certified Public Accountants. Prior to joining the Company, Mr. Fok acted as company secretary of other listed companies and major international accounting firm. Mr. Fok had experience of company secretarial, auditing, accounting and financing. Save as disclosed above, Mr. Fok has not been a director of any public listed company, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.



# CORPORATE GOVERNANCE REPORT

The Group is committed to attain a high standard of corporate governance practices to safeguard the interests of its shareholders and enhance the shareholder value.

## Code on Corporate Governance Practices

During the year ended 31 December 2016, the Group 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 Rules (“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.

## Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions carried out by Directors, that is not laxer than relevant standards of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries to all Directors, they confirmed they have complied with the standards of dealings and the code of conduct regarding securities transactions carried out by Directors, adopted by the Company throughout the year ended 31 December 2016.

## Board of Directors

### (a) Board Composition

As at 31 December 2016, the Board of the Company comprised a total of six Directors including three Executive Directors, namely Mr. Zhu Hongguang, Mr. Zha Jianping and Mr. Felipe Tan; and three Independent Non-Executive Directors, namely Mr. Chan Ka Ling Edmond, Dr. Wang Lin and Ms. Tsang Wai Chun Marianna.

The biographical details of all Directors and senior management of the Company are set out on pages 12 to 15 of the annual report. To the best knowledge of the Company, save as disclosed under the section “Biographical Details of Directors and Senior Management”, there is no financial, business, family or other material or relevant relationships among members of the Board.

### (b) Function of the Board

The Board considers, oversees and approves the overall businesses, strategic direction and financial performance of the Group; develops and performs the corporate governance duties of the Group; monitors the implementation of these policies and strategies and responsible for the management of the Group. The Board is the ultimate decision making body of the Company except for matters requiring shareholder approval pursuant to the Articles of Association of the Company (the “Articles of Association”), the GEM Listing Rules and other applicable laws and regulations.

Daily operation of the Company is delegated to the management team with substantial experience and expertise to which the Board delegates the authority and responsibility for implementing the policies and strategies of the Group.

### **(c) Board Meetings**

The Directors can attend meetings in person or through other means of electronic communication in accordance with the Articles of Association.

The Board schedules four meetings a year at approximately quarterly intervals and will meet as necessary. During the year ended 31 December 2016, the Board held ten board meetings. The Company Secretary prepares minutes to record matters discussed and decisions resolved at the Board meetings. Minutes are kept by the Company Secretary with copies circulated to all Directors for information and records.

### **(d) Appointment, Re-election and Removal of Directors**

Under A.4.1 of the Code Provisions, independent non-executive Directors should be appointed for a specific term, subject to re-election. Each of the independent non-executive Directors have entered into a letter of appointment with the Company for a term of three years commencing from date of appointment or 22 July 2014 subject to termination, among others, by giving not less than three months' written notice.

Each of the executive Directors have entered into a service agreement with the Company for a term of three years commencing from date of appointment or 22 July 2014 or the date of Listing subject to termination in certain circumstances as stipulated in the relevant service contract.

In compliance with A.4.2 of the Code Provisions, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. By virtue of Article 68 of the Articles of Association, the Board may, at any time, and from time to time, appoint any person to be a Director, either to fill a casual vacancy or by way of addition to their number so long as the number of Directors does not exceed the maximum number determined from time to time (if any) by the shareholders in any general meeting. Any Director so appointed to fill a casual vacancy shall hold office until the first general meeting of members after the appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company, and shall then be eligible for reappointment, but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at each annual general meeting.



## **CORPORATE GOVERNANCE REPORT**

In compliance with A.4.2 of the Code Provisions, every director, should be subject to retirement by rotation at least once every three years. Further, pursuant to Article 69 of the Articles of Association, at each annual general meeting, one third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number of Directors nearest to but not greater than one third of the total number of Directors (or such other number as may be required under applicable legislation), shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year shall be those who have been longest in office since their last election but as between persons who become Directors on the same day, the Directors to retire shall be (unless otherwise agreed amongst themselves) in order by which such Directors were appointed on the day of their last election.

### **(e) Independent Non-Executive Directors**

The Company has three independent non-executive Directors which complies with Rule 5.05(1) of the GEM Listing Rules. Among the three independent non-executive Directors, Mr. Chan Ka Ling Edmond has appropriate professional qualifications or accounting or related financial management expertise as required by Rule 5.05(2) of the GEM Listing Rules. The independent non-executive Directors represent at least one-third of the Board in compliance with Rule 5.05A of the GEM Listing Rules.

The Company has received from each of the independent non-executive Directors a written confirmation or an annual confirmation of his/her independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers the independent non-executive Directors are or have been remained independent.

### **(f) Chairman and Chief Executive Officer**

According to A.2.1 of the Code Provisions, the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual. During the year, the role of chairman is performed by Mr. Felipe Tan and subsequently replaced by Mr. Zhu Hongguang and the office of the chief executive officer of the Company is appointed and held by Mr. Zha Jianping.

**(g) Directors' Participation in Continuous Professional Trainings**

According to A.6.5 of the Code Provisions, all directors shall participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. Each newly appointed Director would receive a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the GEM Listing Rules and other relevant regulatory requirements. During the year under review, the Company has arranged and/or introduced some training courses for the Directors to develop and explore their knowledge and skills in relation to the updates on laws, rules and regulations which might be relevant to their roles.

The Directors confirmed that they have complied with A.6.5 of the Code Provisions on the Directors' training. During the year under review, all the Directors have participated in continuous professional development by attending seminars or reading materials to develop and refresh their knowledge and skills and provided a record of the training to the Company.

<b>Name of Directors</b>	<b>Attending training courses/reading relevant materials in relation to the business, GEM Listing Rules or directors' duties</b>
<b>Executive Directors:</b>	
Mr. Zhu Hongguang (appointed on 24 August 2016)	Yes
Mr. Zha Jianping (appointed on 9 November 2016)	Yes
Mr. Felipe Tan	Yes
Ms. Chau Mei Fan (resigned on 9 September 2016)	Yes
<b>Independent Non-Executive Directors:</b>	
Mr. Chan Ka Ling Edmond	Yes
Dr. Wang Lin (appointed on 9 September 2016)	Yes
Ms. Tsang Wai Chun Marianna	Yes
Mr. Tang Cornor Kwok Kau (resigned on 9 September 2016)	Yes

**(h) Directors' and Officers' Liabilities Insurance and Indemnity**

The Company has arranged for Directors' and Officers' Liability Insurance and Indemnity covering the liabilities in respect of the legal action against the Directors that may arise out in the corporate activities which has been complied with the Code Provisions. The insurance coverage is reviewed on an annual basis.

## **Board Committees**

### **(a) Audit Committee**

We established our Audit committee on 22 July 2014 with written terms of reference that was amended and adopted with effect from 1 January 2016 in compliance with C.3 of the Code Provisions. The duties of the Audit Committee include reviewing, in draft form, our annual report and accounts, half-year report and quarterly report and providing advice and comments to the Board. In this regard, members of the Audit Committee will liaise with the Board, our senior management, our reporting accountants and auditors. Our Audit Committee will also consider any significant or usual items that are, or may need to be, reflected in such reports and accounts and give consideration to any matters that have been raised by our accounting staff, compliance officers or auditor. Members of our Audit Committee are also responsible for reviewing our Company's financial reporting system, risk management and internal control systems.

Our Audit committee comprises three independent non-executive Directors, namely Mr. Chan Ka Ling Edmond, Dr. Wang Lin 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 2016.

### **(b) Remuneration Committee**

We established our Remuneration Committee on 22 July 2014 with written terms of reference in compliance with B.1 of the Code Provisions. Amongst other things, the primary duties of the Remuneration Committee are to make recommendations to the Board on remuneration packages of all of our executive Directors and senior management, including benefits in kind, pension rights and compensation payments, any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board on remuneration of independent non-executive Directors.

Our Remuneration Committee comprises three independent non-executive Directors, namely Dr. Wang Lin, Mr. Chan Ka Ling Edmond, Ms. Tsang Wai Chun Marianna and one executive Director, Mr. Felipe Tan. Dr. Wang Lin is the chairlady of our Remuneration Committee.

**(c) Nomination Committee**

We established our Nomination Committee on 22 July 2014 with written terms of reference in compliance with A.5 of the Code Provisions. The Nomination Committee is mainly responsible for making recommendations to the Board on appointment and succession planning of our Directors. During the year under review, the diversity of the board members was achieved by considering the educational background and professional experience of each Director. The Company recognises and embraces the benefits of diversity of the Board members. It endeavors to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.

Our Nomination Committee comprises three independent non-executive Directors, namely Ms. Tsang Wai Chun Marianna, Mr. Chan Ka Ling Edmond, Dr. Wang Lin and two executive Directors, Mr. Zhu Hongguang and Mr. Felipe Tan. Ms. Tsang Wai Chun Marianna is the chairlady of the Nomination Committee.

**(d) Hedging Committee**

We established our Hedging Committee on 22 July 2014 with written terms of reference. The Hedging Committee is mainly responsible for evaluating our hedging strategies and performance.

Our Hedging Committee comprises Mr. Chan Ka Ling Edmond, Ms. Tsang Wai Chun Marianna and Mr. Felipe Tan. Mr. Chan Ka Ling Edmond is the chairman of the Hedging Committee.

**(e) Executive Committee**

We established our Executive Committee on 19 December 2016 with written terms of reference. The Executive Committee is mainly responsible for monitoring the formulation, revision and implementation of the Company's strategic plan and monitor the operation of its subsidiaries.

Our Executive Committee comprises two executive Directors, namely Mr. Zhu Hongguang, Mr. Zha Jianping and two key personnel of the Company, Ms. Wei Zhemin and Mr. Fok Chi Wing. Mr. Zha Jianping is the chairman of the Executive Committee.

## CORPORATE GOVERNANCE REPORT

### (f) Attendance at Board Meetings, Board Committee Meetings and General Meetings

Details of the attendance of the Directors at the Board Meetings, Board Committee Meetings and General Meetings during the year under review are as follows:

Name of Directors	Number of Meetings Attended/Held During the Year under Review					
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Hedging Committee Meeting	Executive Committee Meeting
<b>Executive Directors</b>						
Mr. Zhu Hongguang (Note 1)	3/3	-	-	2/2	-	0/0
Mr. Zha Jianping (Note 2)	2/2	-	-	-	-	0/0
Mr. Felipe Tan	10/10	-	3/3	2/2	5/5	-
Ms. Chau Mei Fan (Note 3)	6/6	-	-	-	4/4	-
<b>Independent Non-Executive Directors</b>						
Mr. Chan Ka Ling Edmond	10/10	9/9	3/3	3/3	5/5	-
Dr. Wang Lin (Note 4)	3/3	1/2	1/3	1/3	-	-
Mr. Tsang Wai Chun Marianna	10/10	9/9	3/3	3/3	0/1	-
Mr. Tang Cornor Kwok Kau (Note 3)	6/6	6/6	1/3	1/3	4/4	-

Note 1: appointed on 24 August 2016

Note 2: appointed on 9 November 2016

Note 3: resigned on 9 September 2016

Note 4: appointed on 9 September 2016

### Auditor's Remuneration

For the year ended 31 December 2016, the fees paid/payable to the auditor in respect of the audit and non-audit services were as follows:

Type of Services	2016 HK\$'000	2015 HK\$'000
Audit Services	550	530
Non-audit Services	-	-
Total	550	530

### Directors' and Auditors' Responsibility for the Financial Statements

Statements of the Directors' responsibility for preparing the consolidated financial statements and the auditor of the Company about their reporting responsibilities are set out in the independent Auditor's Report of this annual report.

### Risk Management and Internal Control

The Board acknowledges its responsibility for the effectiveness of the Group's internal control and risk management systems. The Audit Committee assists the Board in meeting its responsibilities for maintaining an effectiveness of the systems of internal control and risk management of the Group, covering all material controls, including financial and operation. The risk management and internal control systems of the Group are designed to manage rather than eliminate the risk of failures to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group would choose certain material risk events in its field every year and assess and grade the possibility of occurrence and influence of risk events to determine the scope of material risk of the year together with the management of the Group. Procedures have been designed to facilitate the effectiveness and efficiencies of operations, safeguard assets against unauthorized use and disposition, ensuring the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensuring compliance of applicable laws, rules and regulations.

The Board has the overall responsibility to maintain the adequacy of resources, staff qualification and experience, training programs and budget of the Group's accounting and financial reporting function and the Board has reached the conclusion that the Group's risk management and internal control system was in place and effective.

### Company Secretary

The Company Secretary is an employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary reports to the Chairman and is responsible for advising the Board on governance matters. The Company Secretary, Mr. Fok, has confirmed that he has taken no less than 15 hours of relevant professional training. The biography of the Company Secretary is set out on page 15 of this annual report.

### Changes in Constitutional Documents

During the year ended 31 December 2016, there was no change in the constitutional documents.

### Shareholders' Rights

Shareholders holding at the date of deposit of the requisition not less than 5% of the total voting rights of all the members having a right to vote at general meetings of the Company and shall at all times have the right, by written requisition to the Board, to require an extraordinary general meeting ("EGM") to be convened by the Board. Such requisition, signed by the shareholders concerned, must state the general nature of the business to be dealt with at the meeting and may include a text of resolution that is intended to be moved at the meeting. If within 21 days from the date of such deposit, the Board fails to proceed to such meeting the shareholders concerned may themselves convene an EGM, but any EGM so convened shall not be held after the expiration of three months after the date on which the Directors become subject to the requirement to call a meeting.

If a shareholder (other than the candidate) wishes to propose any candidate as director of the Company, the following documents should be duly lodged at the head office of the Company at Room 1702, 17/F., 19 Des Voeux Road Central, Central, Hong Kong for the attention of the Company Secretary, not earlier than the day after the dispatch of the notice of the general meeting and not later than seven days prior to the date fixed for the meeting:

- (a) a written notice by the shareholder of his intention to propose a resolution for the appointment or reappointment of that candidate, duly signed by the shareholder with his/her name and address stated clearly in an eligible manner, the validity of which is subject to verification and confirmation by the Company's share registrar according to its records;
- (b) a written notice duly executed by the candidate of his willingness to be appointed or re-appointed;
- (c) written consent of the publication of the candidate's information together with the candidate's biographical information as required by Rule 17.50(2) of the GEM Listing Rules; and
- (d) the candidate's written consent to the publication of his/her personal data.

### Communication with Shareholders

The Company recognizes the importance of maintaining an on-going communication with shareholders to ensure that shareholders are kept well informed of the business activities and direction of the Group.

The Company uses a range of communication tools including various notices, announcements, circulars, annual report and annual general meeting to disclose relevant information to shareholders. Separate resolutions are proposed at general meeting on each substantially separate issue, including the re-election of Directors. The Chairman of the Board and the Chairman of all board committees, together with the external auditor, shall attend the annual general meeting to answer the enquiries of shareholders. In compliance with the Code Provision E.1.3, the notice of annual general meeting will be sent to shareholders at least 20 clear business days before the meeting.

To further promote the effective communication with shareholders and the public, the corporate website is maintained to disseminate the information of the Group electronically on a timely basis.

### Voting by Poll

All resolutions put to the general meeting will be voted by poll at the meeting in accordance with the requirements of the GEM Listing Rules.

To ensure that shareholders are familiar with the detailed procedures for conducting a poll, the chairman of the meeting will explain the detailed procedures for conducting a poll at the commencement of the meeting and then answer any questions from shareholders regarding voting by way of a poll.

At the conclusion of the general meeting, the poll results will be published on the GEM website and the Company's website.

### Enquiries to the Board

Enquiries from shareholders to the Board can be sent in writing to the Company at the registered office in Hong Kong or by email to [info@locohkholdings.com](mailto:info@locohkholdings.com) as stated on the Company's website.



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Pursuant to Appendix 20 Environmental, Social and Governance Reporting Guide (the “ESG Guide”) of the Rules Governing the Listing of Equity Securities on the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited, the Group reviewed, identified and discloses herein the material environmental and social issues and aspects, which are considered to have significant impacts and are relevant to the Group’s business and stakeholders for the year ended 31 December 2016. Key performance indicators (“KPIs”) on environmental and social issues and aspects have been set up to allow the management to monitor and to assess their development and results in line with the corporate strategy and policies.

The Group’s main business is trading of metals and operating of a silver processing workshop in Hong Kong. The scope of this ESG report includes data and activities of the Group’s headquarters and silver processing workshop for the year ended 31 December 2016.

The Group targets to be a leading and successful precious metal trader, bringing returns to our investors and supporters, giving a healthy and safe working environment to our employees, and helping to preserve sustainable development of the local communities and the global.

The Board has approved its updated “Corporate Management Guide” (“CMG”) incorporating responsible environmental and social policies and has delegated the manager of the Administration Department to implement the CMG and policies, and reports directly to the Group’s CEO, who has the overall responsibility to manage the Board’s approved strategies and policies.

The material Environmental and Social areas, aspects and the established Key Performance Indicators (KPIs) are summarized below:

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## (A) ENVIRONMENTAL AREA AND ASPECTS

In order to develop a sustainable business, the Group takes the initiative to engage in conservation and to promote environmental responsibility. We take an active role to ensure a sustainable, environmentally-friendly production and operating process, and we actively assume social responsibility to reduce pollution.

The Group is principally engaged in the trading and processing of metals in Hong Kong, and its operation does not have any air and direct greenhouse gas emissions. Apart from the administrative headquarter, we have been operating a silver processing workshop in Kwai Chung, New Territories with a total gross floor area of approximately 7,500 sq.ft. by purchasing silver scraps as raw materials for processing into finished silver products, with a view to enhancing the marketability as well as facilitating the trading of our silver products.

### (i) Emissions

Our processing involves melting silver raw materials and molding them into the shapes and forms required by our customers. Water is used for cooling purpose which is then discharged as waste water. To ensure safely and in compliance of Water Pollution Control Ordinance (CAP 358) and Water Disposal Ordinance (CAP 354) – Chemical Waste Disposal, such cooling waste water may contain metal and chemical pollutants, we have engaged specialized company to collect and to treat it before discharging, and have adopted appropriate measures to ensure the quantity and composition of any discharge from the workshop has not exceeded the limits stated by Environmental Protection Department of Hong Kong SAR. There are no hazardous air and greenhouse gas emissions except CO<sub>2</sub> generated indirectly through electricity consumption, as well as no hazardous wastes generated from our processing.

As at 31 December 2016, there was no violation of relevant law, rules and regulations by the Group.

Although the Group has no hazardous emissions and waste, to promote environmental responsibility and to promote better monitoring, the Group has set up “WASTE WATER DISCHARGE” and “CO<sub>2</sub> EMISSION” as KPIs.



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### (ii) Use of Resources

In respect of effective use of resources (including energy, water and other raw materials), the Group is committed to improve energy efficiency, conserve resource for its operation and raise environmental awareness of our employees.

To reduce energy consumption, the Group replaced the new LED lighting and installed meters for monitoring the electricity consumption in our workshop. The existing supply of water resources satisfied the Group's needs in the aspects of volume and quality of water. After the installation of the monitoring meter, the Group can have a better control on the use of water.

Most of the Group's packing materials are paper and plastic sheets to pack the main products produced by the workshop. The head office used a very small quantity of paper only. The Group has been reviewing possible measures to minimize the use of the packaging materials.

The Group has established the KPIs of "Electricity", "Water" and "Packaging Paper & Plastic" consumptions for monitoring.

### (iii) The Environment and Natural Resources

The Group has disposed its waste according to the rules and regulations, and will continue to increase its capacity in recycling to reduce the material influence from the Group's operation on the environment and natural resources. The Group will increase investment in new skills and techniques and through consistent policies to achieve effective saving of resources and follow the laws and regulations for healthy business development.

## (B) SOCIAL EMPLOYMENT AND LABOUR PRACTICES

### (i) Employment

Policies and regulations adopted by the Group in respect of compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare have clearly been stated in the CMG, Employee Handbook and employment contracts, summarized as follows:

The Group ensures that the policies and regulations cover a comprehensive range of employment protection and benefits, and complies with the labour laws, rules and regulations. The management highly recognizes its employees' contribution to its business growth, and therefore commits to provide equal opportunities to all staffs on recruitment, promotion, compensation and benefits and to establish and implement policies promoting a harmonious and respectful workplace. All qualified job applications, internal transfers and promotions will receive consideration with no discrimination on age, race, colour, religion, gender, sex or disability basis.

To maintain a rational personnel structure, the Group has established qualifications and requirements specific to different posts within the Group, which are taken as criteria on recruitment. The recruitment process and decision making will involve both the related department head and the HR Department.

In accordance with the requirements of the laws of Hong Kong, regulations and related policies, the Group provides and maintains statutory benefits to all qualified staff, including but not limited to mandatory provident fund, medical insurance, and work injury insurance. Staffs are also entitled to days-off on public holidays, wedding leave, bereavement leave and maternity leave.

Employees' remunerations are determined with reference to the prevailing market level as well as their competency, qualifications and experience. Discretionary bonus based on individual performance will be paid to the employees as recognition and a reward for their contributions to the Group. Salary will be credited to the bank account of the Employee within seven days after the end of the wage period as governed by the Employment Ordinance.

The company has a promotion policy that employees may apply to transfer to vacant positions in other departments provided that they have worked continuously in the Group for a minimum of one year, and have obtained consent from the immediate superior.

To enhance the employee's cohesion, morale and productivity, it is the Group's tradition to have all employees gathering on Mid-Autumn, Winter Solstice, Christmas and Annual Dinner every year.



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### **(ii) Health and Safety**

The Group undertakes to safeguard the health and safety of its employees, and requires all employees to strictly observe its health and safety policies. The Employees' Handbook sets out detailed occupational safety policies and procedures.

In compliance with the Employee Compensation Ordinance, the Group has taken out Employee compensation insurance for all qualified employees.

The Group has equipped the workshop and the head office with all the required safety equipment and facilities, and has passed all the governmental safety inspections. In case of accidents, regardless of minor or serious, employees are required to notify their superiors immediately without delays, who will take appropriate measures to ensure "safety" first.

### **(iii) Development and Training**

Employees are encouraged to formulate their own career paths and to equip themselves with the necessary skills and knowledge through continuing learning and training.

To encourage employees to engage in self-development by enrolling for external training programs and seminars, the Group provides training sponsorship to cover the cost of taking job-relevant external training programs and professional or qualification examinations for all permanent employees who have completed one year of services.

### **(iv) Labour standards**

The Group has strictly regulated the recruitment process, performed the responsibilities of supervision and management, and totally forbidden child and forced labour. Applicants are requested to submit their academic qualifications, professional skills certificates, references and identity card for verification and record purpose.

The Group strictly complied with the Labour Laws of Hong Kong and provided the required labour protection, safety and health conditions to ensure employees' safety during their services. The Group also paid wages and salaries, benefits and compensations, and insurances on schedule.

The Group has honored all of its obligations towards staffs and no labour disputes or litigations have been reported since its establishment.

### (C) OPERATING PRACTICES & SOCIAL INVESTMENT

#### (i) Supply Chain Management

During the reporting period, the Group mainly purchased silver scraps as raw materials for processing into finished silver products from metal trading companies only in Hong Kong, and such purchases were driven not by confirmed customer orders but only on management decision on trading needs. To ensure a sufficient supply of silver products to our customers, the Group purchased raw silver materials from time to time to maintain a target inventory level. The Group's relationship with its suppliers has been stable and has not experienced any major difficulty in obtaining adequate supplies of raw materials to meet its production requirements in 2016. Suppliers were chosen based on their continuous ability to guarantee satisfactory product quantity and quality, reasonable price and timely delivery, and new suppliers were required to provide relevant certifications/documents.

On silver scraps purchases, upon receipt of the silver scraps to be used in our processing, our workshop staffs will inspect their quality and weigh them and issue a temporary receipt for each delivery, and thereafter will prepare a detailed weight report to the supplier for confirmation. The Group reserves the right to inspect and to examine, upon receipt, the fineness of the silver scraps purchased. If the fineness of the silver scraps delivered by the supplier falls below the fineness specified in the purchase contract, the Group may claim against the supplier for any material loss incurred from such deviation.

#### (ii) Product Responsibilities

We are committed to providing high quality silver products as we realize that the quality and consistency of our products are critical to our ability to retain our customers and to attract new customers. The Group has completed the setting up of a testing laboratory and acquisition of related equipment and machinery in our workshop so as to enhance the metal fineness testing efficiency.

The Group processes and produces fineness silver products. Silver has been the main item. For silver, in Hong Kong, apart from the Trade Description Ordinance (Chapter 362 of the Laws of Hong Kong, "TDO"), there is no law or regulation which specifically governs the purity and fineness of silver. Instead, the LBMA Good Delivery Rules provide for a set of specifications for silver, including purity and fineness. The minimum acceptable fineness of Good Delivery Silver Bar is 999.0 parts per thousand silver, meaning a purity of 99.90%. Such certification is not obligatory nor a legal requirement in Hong Kong. The Group however normally warranties in the sale contracts that the purity specified is 99.99%, which is higher than such certification.

The Group's current business and operation do not involve any intellectual property right issues.



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### **(iii) Anti-corruption**

Our group is well aware of the importance of honesty, integrity and fairness, and has included anti-corruption policy such as giving and taking interests and declaration of conflicts of interests in our Employees Handbook. Through the establishment of these rules and regulations, we encourage all employees discharge their duties with integrity and comply with relevant laws and regulations.

In 2016, the Group reported no bribery nor corruption charges.

### **(iv) Community Investment**

In 2016, the Group donated HK\$417,000 to approved charitable organizations in Hong Kong. Also, the Group has always encouraged its staff to participate in voluntary and charitable events to service the community and society.

# REPORT OF THE DIRECTORS

The Directors present their annual report together with the audited consolidated financial statements for the year ended 31 December 2016.

## Principal Activities

The principal activities of the Company is investment holding. The principal activities of the Group are trading of metals and commodity forward contracts and the processing of silver products in Hong Kong, which is the only reportable operating segment of the Group.

## Results and Appropriations

The results of the Group for the year ended 31 December 2016 and the state of the Company's and the Group's affairs as at the date are set out in the financial statements on pages 54 to 105.

The Directors do not recommend the payment of dividend in respect of the year ended 31 December 2016.

## Business Review and Performance

### Review of business and performance

A review of the business of the Company and a discussion and analysis of the Group's performance during the year and the outlook of Company's business can be found in the Management Discussion and Analysis set out on pages 5 to 11 of this annual report. This discussion forms part of this Directors' Report.

### Principal Risks and Uncertainties

The Group's performance may be directly or indirectly affected by risks and uncertainties relating to the Group's businesses. The followings are the principal risk factors facing the Company as required to be disclosed pursuant to the Companies Ordinance (Chapter 622 of the laws of Hong Kong) and are those that could result in the Group's business performance, financial condition, operations results or development prospects materially different from expected or historical results.

#### 1. Competition

The significant fluctuation in commodity prices and the pessimistic medium-term outlook make this the Group's foremost risk. The market price declines would lead to a severe drag on the metal supply and so our financial performance. Under a reduction in the global market size and the shrinkage of the Hong Kong market, the Group operates in a competitive environment. The operating result of the Group may be impacted due to the market constraint. The Group aims to mitigate this risk by maintaining close relationships with our customers, seeking to expand our customer base and providing differentiating services.



## REPORT OF THE DIRECTORS

### 2. Forward contracts trading and competition

We have entered into forward contracts with commodity dealers to hedge our exposure on metal price which changes from time to time. In the event any of these commodity dealers faces any financial difficulties which affect their ability to settle any of the forward contracts entered into between them and us, our financial position may be adversely affected. Therefore, the Group continues to monitor the operating conditions of these commodity dealers by implementing countermeasures in time in case of their financial dilemmas.

### 3. Supply of metal materials

We are dependent on the continuous supply of material from a few suppliers. Any shortage or delay in the supply of metal materials and metal products from them, any deterioration in our relationships with these suppliers or any change in their existing marketing strategies may affect our ability to fulfill our customers' demand, resulting in adverse impact on our business and results of operations. In order to maintain sufficient supply of metal materials, the Group makes great effort to establish good relationship with more suppliers to secure potential alternative sources of metal supply.

### 4. Customer base

Our five largest customers accounted for a significant portion of our revenue. If any of them were to substantially reduce the volume and/or the value of the orders it places with us or were to terminate its business relationship with us entirely, our profit level may be adversely affected. In management of such risk, the Group continues to implement its strategies to develop and enlarge its market share, and strives to explore potential customers to reduce its dependency on specific clients.

### 5. Financial risk

The Group needs funds to manage its working capital requirements and fund new projects. We may come across other opportunities to expand our business. If we are unable to secure adequate funds for our business needs in a timely manner and on reasonable terms, we are not able to implement our plans and to develop new projects. We regularly review cash flow requirements and the cash flow generated from its core operation to ensure the Group can meet financial obligations as and when they fall due.

**6. Operational risk**

The Group is exposed to risks of unexpected losses attributable to human error, systems failures, frauds, or inadequate internal controls. Responsibility for managing operational risks basically rests with every function at departmental levels. The staff is guided by procedure manuals, limits of authority and reporting framework to carry out the duties. We identify and assess key operational exposures continuously and regularly so that appropriate response can be taken. We aim to mitigate operational risks through proper policies and procedures, segregation of duties, and timely and accurate management reports. We review and update the policies and procedures from time to time so as to maintain a strong and discipline control environment.

**7. Health and safety**

The Group, especially our processing facilities, may be subject to various risks such as industrial accidents, equipment failure and other catastrophic events, which could have a material adverse effect on our business, financial condition, results of operations and prospects. The Group has developed health and safety procedures to clearly define roles and responsibilities in order to identify and mitigate risk. The Group has no health and safety incidents or reportable accidents during the year. In addition, the Group arranges insurance policies to cover the losses or liabilities of such risks.

**8. Certificates and approvals**

The Group requires certain certificates, licences and permits and approvals for the operation, such as registration as a chemical waste producer under the Waste Disposal (Chemical Waste) (General) Regulation (Chapter 354C of the laws of Hong Kong), licence for discharge of industrial effluent pursuant to section 20 of the Water Pollution Control Ordinance (Chapter 358 of the laws of Hong Kong), certificate of fitness for a pressure vessel pursuant to Boilers and Pressure Vessels Ordinance (Chapter 56 of the laws of Hong Kong), and lifting appliances certificate of results of thorough examination in the preceding twelve months pursuant to the Factories and Industrial Undertakings (Lifting Appliances and Lifting Gear) Regulations (Chapter 59J of the laws of Hong Kong). We must comply with the relevant standards, laws and regulations and as well as restrictions and conditions, imposed by the governmental authorities on application and renewal. The Group must also comply with new standards, laws and regulations that may entail greater or lesser costs and delays. New laws and regulations, amendments to existing laws and regulations, or more stringent enforcement would have adverse impacts on the Group's result of operations and financial position. If we fail to comply with any of the relevant regulations, we may not be able to maintain our certificates and approvals and our operations would be significantly disrupted or even suspended. The Group commits to comply with the laws and regulatory requirements applicable to our operations. We ensure full compliance through close monitoring of legislative requirements and, when needed, engagement with professional advisers.

### 9. Key personnel and management

Our key personnel and management talent, effort and expertise in the industry are crucial to our operations and financial performance. Whilst the Group has entered into contractual agreements with the aim of securing the services of these personnel, the retention of their services cannot be guaranteed. The development and success of the Group depends on the Company's ability to recruit and retain high quality and experienced staff. The loss of the service of key personnel or the inability to attract additional qualified personnel as the Group grows could have an adverse effect on future business and financial conditions. In order to mitigate such risk, the Group reviews and improves the recruitment and retention practices on a regular basis to retain competent staff. The Group provides competitive remuneration package to attract and retain their services.

### Environmental Policies and Performance

The Group is committed to the long term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavours to comply with laws and regulations regarding environmental protection and to adopt effective measures to achieve efficient use of resources, energy saving and waste reduction.

Green initiatives and measures have been adopted in the Group's office and workshop. Such initiatives include replacement of the new LED lighting for reducing electricity consumption in the office, promoting double-sided printing and copying, and reducing energy consumption by switching off idle lightings and electrical appliance. The Group also encourages using office equipment carrying Energy Label issued by the Electrical and Mechanical Services Department so as to save energy in the office.

The Group will review its environmental practices from time to time and will implement further ecofriendly measures and practices closely adhering to the 3Rs – Reduce, Recycle and Reuse and enhancing environmental sustainability.

### Compliance with the Relevant Laws and Regulations

The Group has compliance policies and procedures in place to ensure adherence to applicable laws, rules and regulations, in particular, those have a significant impact on the Group. The Audit Committee is delegated by the Board to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements. During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

### **Relationship with Employees, Suppliers and Customers**

The Group believes that employees are important and valuable assets and thus we provide competitive and attractive remuneration packages to retain the employees. The management reviews annually the remuneration to its employees of the Group.

The Group values long standing relationships with its suppliers and customers. The Group aims at delivering high quality services to its customers and developing mutual trust and enhancing communication and commitment between the Group and its suppliers.

### **Summary financial information**

A summary of the results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 106. This summary does not form part of the audited financial statements.

### **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 Wednesday, 14 June 2017 to Friday, 16 June 2017 (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 Tuesday, 13 June 2017.

### **Share Capital**

Details of the movements in the share capital of the Company during the year ended 31 December 2016 are set out in note 26 to the financial statements.

### **Debenture Issue**

For the year ended 31 December 2016, the Company has not issued any debenture.

### Equity-linked Agreements

#### Share option scheme

The Company adopted a share option scheme on 22 July 2014 (the “Scheme”). Under the Scheme, the Directors of the Company may, subject to and in accordance with the provisions of the Scheme and the GEM Listing Rules, at its discretion, grant options to any full-time or part-time employees, consultants or potential employees, consultants, executives or officers (including executive, non-executive and independent non-executive directors) of the Group, and any suppliers, customers, consultants, agents and advisers, who in the absolute discretion of the Board has contributed or will contribute to the Group (collectively “Eligible Participants”).

The purpose of the Scheme is to provide incentive or reward for Eligible Participants (defined below) for their contribution or potential contribution to the Group.

The Company has granted 1,630,000 shares of the Company under the Scheme up to the date of this report. The total number of shares (the “Shares”) of the Company available for issue under the Scheme was 38,370,000 Shares, representing 9.59% of total number of Shares in issue as at 31 December 2016.

The Board shall not grant options to any Eligible Participant if the acceptance of those options would result in the total number of Shares issued and to be issued to that participant on exercise of his options during any 12-month period up to the offer date exceeding 1% of the total number of Shares then in issue.

There is no general requirement that an option must be held for any minimum period before it can be exercised. The period during which an option may be exercised in accordance with the terms of the Scheme shall be the period of time to be notified by the Board to each grantee, which the Board may in its absolute discretion determine, save that such period shall not be more than ten years commencing on the date upon which the vesting period as described in the respective grantee’s offer document commences.

Upon acceptance of an option to subscribe for Shares granted pursuant to the Scheme, the Eligible Participant shall pay HK\$1.00 to the Company by way of consideration for the grant. The option will be offered for acceptance for a period of 14 days from the date on which the option is granted.

The exercise price shall be determined by the Board but in any event shall be at least the highest of (i) the official closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date on which the option is offered (the “Offer Date”); and (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the Offer Date.

## REPORT OF THE DIRECTORS

The Scheme shall be valid and effective for a period commencing from the date on which the Scheme was conditionally adopted by an ordinary resolution of the shareholder of the Company on 22 July 2014 and ending on the tenth anniversary of the date of listing of the Company's shares on GEM of the Stock Exchange on 4 August 2014 (both dates inclusive), after which no further option will be granted but the provisions of the Scheme shall remain in full force and effect in all other respects to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Scheme and options granted prior thereto but not yet exercised shall continue to be valid and exercisable in accordance with the Scheme. The remaining life of the Scheme as at 31 December 2016 was about 7.6 years.

A summary of the share options granted under the Scheme are as follows:

Type of Participants	Grant Date	Exercise Price per Share HK\$	Exercise Period	Number of Share Options and Underlying Shares						Outstanding as at 31.12.2016
				Outstanding as at 1.1.2016	Granted	Exercised	Cancelled	Transferred	Lapsed	
Directors	10.4.2015	0.78	10.4.2015 – 9.4.2025	690,000	-	-	-	(200,000)	(80,000)	410,000
Employees	10.4.2015	0.78	10.4.2015 – 9.4.2025	600,000	-	-	-	200,000	(20,000)	780,000
Others	10.4.2015	0.78	10.4.2015 – 9.4.2025	150,000	-	-	-	-	(20,000)	130,000
				1,440,000	-	-	-	-	(120,000)	1,320,000

The fair value of equity-settled share options granted during the year ended 31 December 2015 was HK\$0.319 per option, amounted to approximately HK\$520,000 in aggregate. It was estimated as at 10 April 2015, being the date of grant, using the Black-Scholes Option Pricing Model and taking into account the terms and conditions upon which the options were granted. The significant assumptions and inputs used in the estimation of the fair value are as follows:

Share price at date of grant	HK\$0.78
Annualised volatility	45.90%
Risk-free interest rate	1.09%
Dividend yield	0%
Expected life of option	5 years
Exercise price	HK\$0.78

The expected life of the options may not be necessarily indicative of the exercise pattern that may occur. The expected volatility reflects the assumption that the historical volatility of comparable companies are indicative of future trends, which may also not necessarily be the actual outcome.



## REPORT OF THE DIRECTORS

The closing price of the shares of the Company immediately before the share options granted on 10 April 2015 was HK\$0.78.

No share options were exercised during the year ended 31 December 2016. The weighted average closing price of the shares immediately before the date on which the options were exercised during the year ended 31 December 2015 was approximately HK\$1.04.

### Placing Agreement of Convertible Bond

On 23 June 2016, the Company entered into the Placing Agreement with Placing Agent pursuant to which the Company has conditionally agreed to issue and the Placing Agent has conditionally agreed to procure, on a best effort basis, not less than six placees to subscribe for the Convertible Bonds with an aggregate principal amount of up to HK\$36,800,000 at the placing price HK\$0.46 per conversion shares. The Placing (“Placing”) of Convertible Bond has been completed on 15 July 2016.

The Company entered into the Placing Agreement which intends to use the net proceeds from the Placing for (i) general working capital of the Group; (ii) purchase of silver inventory; and (iii) acquisition of the potential projects.

The Placing is not subject to the Company’s shareholders’ approval as the Conversion Shares falling to be issued upon conversion of the Convertible Bonds will be issued under the general mandate, which was granted to the Directors pursuant to a resolution passed by the shareholders at the annual general meeting of the Company held on 18 June 2015.

Assuming the conversion rights of all the Convertible Bonds are exercised, 80,000,000 ordinary shares of the Company will be allotted and issued by the Company. None of the conversion rights attaching to the Convertible Bonds has been exercised as at year ended 31 December 2016.

### Distributable Reserves

As at 31 December 2016, the Company had no reserve available for distribution in accordance with the provision of sections 291, 297 and 299 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong).

### Reserves

Details of the movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity.

### Charitable Contributions

During the year, the Group had made charitable contributions totaling HK\$417,000.

## **Material Acquisitions and Disposals of Subsidiaries**

The Group did not have any material acquisitions or disposals of subsidiaries during the year ended 31 December 2016.

## **Investment Property and Property, Plant and Equipment**

Details of the movements in investment property and property, plant and equipment of the Group during the year are set out in notes 16 and 15 to the financial statements, respectively.

## **Major Customers and Suppliers**

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 88% (2015: 85%) of the Group's total sales while the sales attributable to the Group's largest customer was approximately 38% (2015: 35%) of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers comprised approximately 89% (2015: 98%) of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 40% (2015: 73%) of the Group's total purchases.

Save as disclosed above, none of the Directors, their close associates or any shareholder, which to the knowledge of the Directors owned more than 5% of the Company's total number of shares in issue, had any interest in the share capital of any of the five largest customers or suppliers of the Group.

## **Directors**

The Directors of the Company during the year and up to the date of this report were as follows:

### **Executive Directors**

Mr. Zhu Hongguang (appointed on 24 August 2016)

Mr. Zha Jianping (appointed on 9 November 2016)

Mr. Felipe Tan

Ms. Chau Mei Fan (resigned on 9 September 2016)

### **Independent Non-executive Directors**

Mr. Chan Ka Ling Edmond

Dr. Wang Lin (appointed on 9 September 2016)

Ms. Tsang Wai Chun Marianna

Mr. Tang Cornor Kwok Kau (resigned on 9 September 2016)



## REPORT OF THE DIRECTORS

In accordance with Article 68 of the Articles of Association, Mr. Zhu Hongguang, Mr. Zha Jianping and Dr. Wang Lin shall retire at the general meeting and, being eligible, offer themselves for re-election of the Company. In accordance with Article 69 of the Articles of Association, Mr. Tsang Wai Chun Marianna shall retire at the general meeting and, being eligible, offer herself for re-election of the Company.

### Directors of Subsidiaries

Other than the Directors named in the section headed “Biographical Details of Directors and Senior Management”, the person who has served on the boards of the subsidiaries of the Company during the year and up to the date of this report are Ms. Wei Zhemin, Mr. Fok Chi Wing and Ms. Chau Mei Fan. Mr. Huang Hongbin has resigned as a director of the subsidiaries of the Company during the year.

### Permitted Indemnity Provision

The Company maintains directors’ and officers’ liability insurance, which gives appropriate cover for any legal actions against its Directors and officers of the Group. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) when this report prepared by the Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance.

### Directors’ Service Contracts

Mr. Tan will receive a non-discretionary bonus, on a date as the Board may resolve, in the amount equivalent to the higher of (i) 8% on the portion which exceeds HK\$5,000,000 of the Company’s audited consolidated net profit before taxation (excluding such bonus) for the relevant financial year; or (ii) 1.2% on the portion which exceeds HK\$50,000,000 of the Company’s audited consolidated net asset value (excluding such bonus) for the relevant financial year.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years.

The Remuneration Committee will review and determine the remuneration and compensation packages of the Directors with reference to their experience, responsibilities, workload, time devoted to and performance of the Group. The Directors may also receive options to be granted under the share option scheme of the Company.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## Directors' Interests in Contracts of Significance

Details of Directors' interest in contracts of significance in relation to the Group's business are set out in the section headed "Competition and Conflict of Interest" in this report.

Save as disclosed above, there was no contract of significance to which the Company or its subsidiaries, or its holding companies or any of its fellow subsidiaries was a party, and in which a Director was materially interested, whether directly or indirectly, subsisting during the year ended or as at 31 December 2016.

## Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2016, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

### Long positions

#### (a) Ordinary shares of the Company

<b>Name of Directors/ Chief Executives</b>	<b>Nature of Interests</b>	<b>Number of Shares</b>	<b>% of Shareholding</b>
Felipe Tan	Interest of a controlled corporation & beneficial owner	40,510,000 (Note)	10.12%

Note: Mr. Tan directly and indirectly owned 68.59% equity interests in GobiMin Inc. which held 100% equity interests in GobiMin Investments Limited, which in turn held 100% equity interests in GobiMin Silver Limited, the substantial shareholder of the Company. By virtue of the SFO, Mr. Tan, GobiMin Inc. and GobiMin Investments Limited are deemed to have interest in the 40,260,000 ordinary shares of the Company held by GobiMin Silver Limited. Mr. Tan was granted by the Company 250,000 share options on 10 April 2015 pursuant to the Company's option scheme.

## REPORT OF THE DIRECTORS

### (b) Interests in shares of associated corporation of the Company

<b>Name of Directors</b>	<b>Name of Associated Corporation</b>	<b>Nature of Interests</b>	<b>Number of Shares</b>	<b>% of Shareholding</b>
Felipe Tan	Good Omen Investments Limited	Beneficial owner	100	100.00%
Felipe Tan	Belmont Holdings Group Limited	Interest of a controlled corporation & beneficial owner	10,205	100%
Felipe Tan	GobiMin Inc.	Interest of a controlled corporation & beneficial owner	34,689,000	68.59%
Felipe Tan	GobiMin Investments Limited	Interest of a controlled corporation	1,000	68.59%
Felipe Tan	GobiMin Silver Limited	Interest of a controlled corporation	1,000	68.59%

**(c) Interests in options relating to ordinary shares of the Company**

Name of Directors	Grant Date	Exercise Price per Share HK\$	Exercise Period	Number of Share Options and Underlying Shares						
				Outstanding as at 1.1.2016	Granted	Exercised	Cancelled	Transferred	Lapsed	Outstanding as at 31.12.2016
Felipe Tan	10.4.2015	0.78	10.4.2015 – 9.4.2025	250,000	-	-	-	-	-	250,000
Chau Mei Fan (Note 1)	10.4.2015	0.78	10.4.2015 – 9.4.2025	200,000	-	-	-	(200,000)	-	-
Chan Ka Ling Edmond	10.4.2015	0.78	10.4.2015 – 9.4.2025	80,000	-	-	-	-	-	80,000
Tang Cornor Kwok Kau (Note 2)	10.4.2015	0.78	10.4.2015 – 9.4.2025	80,000	-	-	-	-	(80,000)	-
Tsang Wai Chun Marianna	10.4.2015	0.78	10.4.2015 – 9.4.2025	80,000	-	-	-	-	-	80,000
				690,000	-	-	-	(200,000)	(80,000)	410,000

Note 1: Chau Mei Fan resigned as Director and remained as employee of the Group on 9 September 2016.

Note 2: Tang Cornor Kwok Kau resigned on 9 September 2016. According to the Share Option Scheme, the option granted shall lapse automatically and not be exercisable.

**Short Positions**

As at 31 December 2016, no short positions of Directors and chief executives in the shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rule.

## REPORT OF THE DIRECTORS

### Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2016, the following persons/entities (other than the Directors and chief executives of the Company as disclosed above) have interest or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

<b>Name</b>	<b>Nature of Interests</b>	<b>Number of ordinary shares</b>	<b>% of Shareholding</b>
Hon Pok	Beneficial owner	76,000,000	18.99%
Belmont Holdings Group Limited	Interest of a controlled corporation	40,260,000	10.06%
GobiMin Inc.	Interest of a controlled corporation	40,260,000	10.06%
GobiMin Investments Limited	Interest of a controlled corporation	40,260,000	10.06%
GobiMin Silver Limited	Beneficial owner	40,260,000	10.06%
Good Omen Investments Limited	Interest of a controlled corporation	40,260,000	10.06%

Save as disclosed above, no other interests or short positions of any persons/entities (other than the Directors and the chief executives of the Company) in the shares or underlying shares of the Company were recorded in the register or as otherwise notified to the Company and the Stock Exchange as at 31 December 2016.

### Competition and Conflict of Interest

Apart from the business of the Group, Mr. Tan is also engaged in the other businesses including directly and indirectly owned equity interests in (i) GobiMin Inc., which is engaged in the exploration and exploitation of mineral resources in Xinjiang, PRC, and shares of which are listed on the TSX Venture Exchange in Canada; and (ii) Timeless Software Limited ("Timeless"), which is principally engaged in the information technology business and mining business, and shares of which are listed on GEM, at 31 December 2016.

The Directors believe that the investments referred above are in completely different sectors from that of the Group and therefore do not and will not compete with the business of the Group. The Group is mainly engaged in the trading of metals in Hong Kong, while GobiMin Inc. and its subsidiaries (“GobiMin Group”) is involved in upstream activities of exploration and mining which involve entirely different technologies, machinery and expertise. Accordingly, the Group and GobiMin Group are positioned in different specialized segments of the industry. The products of GobiMin Group may be similar with that of the Group such as gold, but the market of GobiMin Group is in the PRC while the Group is in Hong Kong and overseas (excluding the PRC) and as such, our Directors consider that there is no overlapping in respect of the market between GobiMin Group and the Group. Furthermore, Timeless is involved in the information technology sector and mining business which is entirely different from our metal processing and trading business.

Mr. Tan, a director of both of the Group and GobiMin Group, has entered into a deed of non-competition in favour of the Group (the “Deed”). The Deed is ceased on 26 August 2016 as Mr. Tan ceased to own 30% or more issued share capital of the Company. Details of the deed of non-competition are set out in the section headed “Relationship with Our Controlling Shareholders” in the Prospectus.

Apart from those investments disclosed above, to the best knowledge of the Directors, none of the Directors, management, shareholders or substantial shareholders of the Company or any of its respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the year ended 31 December 2016.

### 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 2016 which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

### Connected Transactions

None of the “Related party transactions” as disclosed in the note 30 to the financial statements for the year ended 31 December 2016 constituted discloseable non-exempted connected transaction or non-exempted continuing connected transaction under the GEM Listing Rules.



## REPORT OF THE DIRECTORS

### Management Contract

No contract for management and administration of the whole or any substantial part of the Group's business subsisted at the end of the year or at any time during the year.

### 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.

### Corporate Governance

Principal corporate governance policies adopted by the Company are set out in the Corporate Governance Report on pages 16 to 25.

### Environmental, Social and Governance Report

The Group is committed to fulfilling its corporate social responsibility in community affairs, environmental protection and corporate governance during its business operation in order to achieve its sustainable development. The Company's Environmental, Social and Governance Report is set out in this annual report.

### Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company had maintained the public float as required under the GEM Listing Rules.

### Auditors

The account for the year ended 31 December 2016 were audited by BDO Limited whose term of office will expire upon the forthcoming annual general meeting. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint the auditor, BDO Limited.

By order of the directors

**Loco Hong Kong Holdings Limited**  
**Zhu Hongguang**

*Chairman*

Hong Kong, 24 March 2017

# INDEPENDENT AUDITOR'S REPORT



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## TO THE MEMBERS OF LOCO HONG KONG HOLDINGS LIMITED

(港銀控股有限公司)

*(incorporated in Hong Kong with limited liability)*

### Opinion

We have audited the consolidated financial statements of Loco Hong Kong Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) set out on pages 54 to 105, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 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 (“HKICPA”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

### Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of our report. We are independent of the Group in accordance with the HKICPA’s “Code of Ethics for Professional Accountants” (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



## INDEPENDENT AUDITOR'S REPORT

### ***Valuation of derivative component of convertible bonds***

(Refer to notes 5(ii) and 25 to the consolidated financial statements)

During the year, the Company issued convertible bonds with an aggregate principal amount of HK\$36,800,000. The convertible bonds contain multiple embedded derivatives which are treated as a single derivative. Such derivative is measured at fair value on initial recognition and subsequent measurement.

The fair values of the derivative on the issue date of the convertible bonds and as at 31 December 2016 are determined with reference to valuations carried out by an external appraiser. We focused on this area because significant judgment is required in selecting appropriate valuation methodology and input parameters in arriving at the fair values of the derivative. Model deficiencies or inaccurate input parameters could lead to a material misstatement to the financial statements.

Our procedures on the valuation of the derivative component of the convertible bonds include:

- Evaluating the external appraiser's competence, capabilities and objectivity;
- Involving our internal specialist to assist in assessing the valuation of the external appraiser;
- Assessing the appropriateness of the valuation methodology and challenging the reasonableness of key assumptions based on our knowledge and experience;
- Reconciling input parameters to supportive evidence; and
- Verifying the value of the derivative by using our internal models.

## **Other Information in the Annual Report**

The directors of the Company are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Directors' Responsibilities for the Consolidated Financial Statements**

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibilities in this regard.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.



## INDEPENDENT AUDITOR'S REPORT

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## INDEPENDENT AUDITOR'S REPORT

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**BDO Limited**

*Certified Public Accountants*

**Lee Ming Wai**

Practising Certificate Number: P05682

Hong Kong, 24 March 2017

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>Revenue</b>			
– Sales of metal		<b>2,165,048</b>	1,071,221
– Interest income from customers and suppliers		<b>4,287</b>	4,379
– Processing fee		<b>332</b>	330
– Order commission		<b>977</b>	146
		<b>2,170,644</b>	1,076,076
Trading (losses)/gains on commodity forward contracts		<b>(14,859)</b>	2,304
Other income	8	<b>928</b>	84
Total income		<b>2,156,713</b>	1,078,464
Carrying value of inventories sold		<b>(2,129,755)</b>	(1,063,969)
Employee costs	9	<b>(11,032)</b>	(8,423)
Depreciation		<b>(1,058)</b>	(980)
Rental expenses		<b>(2,841)</b>	(1,180)
Fair value gain on derivative component of convertible bonds	25	<b>1,929</b>	–
Fair value gain on investments held for trading		<b>3,095</b>	–
Gain on disposal of property, plant and equipment		<b>24</b>	775
Other operating expenses		<b>(9,795)</b>	(4,668)
Profit from operations		<b>7,280</b>	19
Finance costs	11	<b>(2,686)</b>	(382)
Profit/(Loss) before income tax expense	12	<b>4,594</b>	(363)
Income tax (expense)/credit	13	<b>(1,724)</b>	50

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>Profit/(Loss) for the year</b>		<b>2,870</b>	(313)
<b>Other comprehensive income</b>			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operation		<b>(120)</b>	–
<b>Total comprehensive income for the year</b>		<b>2,750</b>	(313)
<b>Earnings/(Loss) per share</b>			
– Basic and diluted	14	<b>HK cents 0.72</b>	HK cents (0.08)

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	15	3,962	3,695
Investment property	16	–	–
		<b>3,962</b>	3,695
<b>Current assets</b>			
Inventories	17	47,077	40,628
Other receivables, deposits and prepayments	18	37,688	28,925
Derivative financial assets	19	1	218
Investments held for trading	20	10,520	–
Tax recoverable		679	2,208
Cash and cash equivalents	21	119,930	35,958
		<b>215,895</b>	107,937
<b>Current liabilities</b>			
Other payables, accruals and deposits received	22	25,770	22,076
Derivative financial liabilities	19	10,065	1,091
Amounts due to related companies	23	28,795	–
Amount due to a director	23	55	–
Loan from a related company	24	27,195	–
Tax payable		682	–
		<b>92,562</b>	23,167
<b>Net current assets</b>		<b>123,333</b>	84,770
<b>Total assets less current liabilities</b>		<b>127,295</b>	88,465
<b>Non-current liabilities</b>			
Liability component of convertible bonds	25	34,203	–
Derivative component of convertible bonds	25	1,877	–
		<b>36,080</b>	–
<b>Net assets</b>		<b>91,215</b>	88,465

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>Capital and reserves</b>			
Share capital	26	85,830	85,830
Reserves		5,385	2,635
<b>Total equity</b>		<b>91,215</b>	88,465

On behalf of the directors

**ZHU Hongguang**  
*Director*

**ZHA Jianping**  
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

Notes	Share capital HK\$'000	Merger reserve* HK\$'000	Share option reserve* HK\$'000	Exchange reserve* HK\$'000	Retained profits* HK\$'000	Total HK\$'000
At 1 January 2015	85,643	(1,357)	-	-	3,840	88,126
Loss and total comprehensive income for the year	-	-	-	-	(313)	(313)
Transactions with owners:						
Recognition of equity settled share-based payments	27(b)	-	520	-	-	520
Lapse of share options	27(b)	-	(6)	-	6	-
Issue of shares upon exercise of share options	26	187	(55)	-	-	132
		187	459	-	6	652
At 31 December 2015 and 1 January 2016	<b>85,830</b>	<b>(1,357)</b>	<b>459</b>	<b>-</b>	<b>3,533</b>	<b>88,465</b>
Profit for the year	-	-	-	-	<b>2,870</b>	<b>2,870</b>
Other comprehensive income:						
Exchange differences on translating foreign operation	-	-	-	<b>(120)</b>	-	<b>(120)</b>
Total comprehensive income for the year	-	-	-	<b>(120)</b>	<b>2,870</b>	<b>2,750</b>
Transactions with owners:						
Lapse of share options	27(b)	-	<b>(38)</b>	-	<b>38</b>	-
At 31 December 2016	<b>85,830</b>	<b>(1,357)</b>	<b>421</b>	<b>(120)</b>	<b>6,441</b>	<b>91,215</b>

\* The total of these balances at the end of the reporting period represents "Reserves" in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 HK\$'000	2015 HK\$'000
<b>Cash flows from operating activities</b>		
Cash receipts from customers	2,165,380	1,087,449
Interest and order commission received from customers and suppliers	5,264	4,379
Receipt of other income	670	224
Cash paid regarding derivative financial instruments	(5,373)	(15,146)
Cash paid to suppliers	(2,136,204)	(1,062,819)
Cash paid to directors and employees	(11,511)	(6,970)
Cash paid for other operating activities	(12,714)	(6,705)
Cash generated from operation	5,512	412
Hong Kong profits tax refunded/(paid)	487	(2,945)
<b>Net cash generated from/(used in) operating activities</b>	<b>5,999</b>	<b>(2,533)</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(3,095)	(1,331)
Disposal of property, plant and equipment	1,794	2,751
Investment in trading securities	(9,000)	–
Deposit paid for a potential investment	(2,900)	–
Interest received	2	6
<b>Net cash (used in)/generated from investing activities</b>	<b>(13,199)</b>	<b>1,426</b>
<b>Cash flows from financing activities</b>		
Interest paid on borrowings	(689)	(235)
Bank charges paid	(128)	(147)
Proceeds from issue of shares	–	133
Proceeds from issue of convertible bonds	36,064	–
Advance from a director	55	–
Loan from a related company	58,275	–
Repayment of a loan from a related company	(31,080)	–
Advance from related companies	28,795	–
New bank loans raised	36,519	67,988
Repayment of bank loans	(36,519)	(67,988)
<b>Net cash generated from/(used in) financing activities</b>	<b>91,292</b>	<b>(249)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>84,092</b>	<b>(1,356)</b>
<b>Effect of foreign exchange rate changes</b>	<b>(120)</b>	<b>–</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>35,958</b>	<b>37,314</b>
<b>Cash and cash equivalents at end of year</b>	<b>119,930</b>	<b>35,958</b>
<b>Analysis of the balances of cash and cash equivalents</b>		
Cash at banks and in hand	119,930	35,958

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Loco Hong Kong Holdings Limited (the “Company”) is a limited liability company incorporated in Hong Kong. Its shares are listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of its registered office and principal place of business is Room 1702, 17/F, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong.

The Company and its subsidiaries (collectively the “Group”) are principally engaged in the trading of metals and commodity forward contracts in Hong Kong.

The financial statements were approved and authorised for issue by the directors on 24 March 2017.

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

### (a) Adoption of new/revised HKFRSs – effective 1 January 2016

HKFRSs (Amendments)	Annual Improvements 2012-2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 27	Equity Method in Separate Financial Statements

#### Amendments to HKAS 1 – Disclosure Initiative

The amendments are designed to encourage entities to use judgement in the application of HKAS 1 when considering the layout and content of their financial statements.

#### Amendments to HKAS 16 and HKAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that amortisation based on revenue is not appropriate for intangible assets. This presumption can be rebutted if either the intangible asset is expressed as a measure of revenue or revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

#### (a) Adoption of new/revised HKFRSs – effective 1 January 2016 (Continued)

##### Amendments to HKAS 27 – Equity Method in Separate Financial Statements

The amendments allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements.

The adoption of these amendments has no impact on these financial statements.

#### (b) New/revised HKFRSs that have been 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. The Group’s current intention is to apply these changes on the date they become effective.

Amendments to HKAS 7	Disclosure Initiative <sup>1</sup>
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses <sup>1</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions <sup>2</sup>
HKFRS 9	Financial Instruments <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>2</sup>
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15) <sup>2</sup>
HKFRS 16	Leases <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

### (b) New/revised HKFRSs that have been issued but not yet effective (Continued)

#### Amendments to HKAS 7 – Disclosure Initiative

The amendments introduces an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

#### Amendments to HKAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured at fair value.

#### Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

#### HKFRS 9 – 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”).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

### (b) New/revised HKFRSs that have been issued but not yet effective (Continued)

#### HKFRS 9 – Financial Instruments (Continued)

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.

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.

#### Amendments HKFRS 15 – Revenue from Contracts with customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

### (b) New/revised HKFRSs that have been issued but not yet effective (Continued)

#### HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases” and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

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 result in substantial changes to the Group’s accounting policies and financial statements.

## 3. BASIS OF PREPARATION

### (a) Statement 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. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 3. BASIS OF PREPARATION (Continued)

#### (b) Basis of measurement

The financial statements have been prepared under the historical cost basis except for certain inventories and 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

#### (b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee; exposure, or rights, to variable returns from the investee; and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are carried at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### (c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Property, plant and equipment (Continued)

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Property	Over the shorter of 25 years and the remaining lease terms
Equipment and computer software	4 years
Leasehold improvements	Over the shorter of 3 years and the remaining lease terms
Furniture and fixture	4 years
Motor vehicle	4 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount (note 4(m)).

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

### (d) Investment property

Investment property is property held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged so as to write off the cost of investment property net of expected residual value over the estimated useful live using straight-line method. The useful live, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and building elements of property leases are considered separately for the purposes of lease classification. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of land and buildings of property, plant and equipment.

### (f) Financial instruments

#### (i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

#### **Financial assets at fair value through profit or loss**

These assets include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) Financial instruments (Continued)

#### (i) Financial assets (Continued)

##### Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporated other types of contractual and monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

#### (ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of the debtor's financial difficulty; or
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss on loan and receivables is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) Financial instruments (Continued)

#### (iii) Financial liabilities

The Group classifies its financial liabilities depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

##### **Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

##### **Financial liabilities at amortised cost**

Financial liabilities at amortised cost including accruals and other payables, deposits received, amounts due to related companies and a director, loan from a related company and the liability component of convertible bonds issued by the Company (note (iv)) are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) Financial instruments (Continued)

#### (iv) Convertible bonds

Convertible bonds issued by the Company (note 25) contain both the liability component and the derivative component which comprise the conversion right and the early redemption right. Conversion right that will be settled other than by the exchange of a fixed amount of cash or other financial instrument for a fixed number of the Company's equity instrument is embedded derivative which is accounted for separately from the host debt contract. Redemption right at the option of the Company which is not closely related to the host contract is also embedded derivative. The conversion right and the early redemption right are treated as a single derivative. At the date of issue of the convertible bonds, both the liability component and the derivative component are recognised at fair value. The excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability component and derivative component in proportion to their relative fair values. Transaction costs relating to the derivative component is charged to profit or loss immediately. Transaction costs relating to the liability component is included in the carrying amount of the liability component.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

If the convertible bonds are converted, the carrying amounts of the liability component and derivative component would be transferred to share capital as consideration for the shares issued. If the convertible bonds were redeemed, any difference between the amount paid and the carrying amounts of both components would be recognised in profit or loss.

#### (v) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) Financial instruments (Continued)

#### (vi) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### (vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

### (g) Revenue and other income recognition

Revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Commission income is recognised when the right to receive the commission is established.

Processing and lab-test income are recognised when services are provided.

Dividend income is recognised when the right to receive the dividend is established.

### (h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) Income taxes

Income taxes comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they related to items recognised directly in equity in which case the taxes are also recognised directly in equity.

### (j) Inventories

Inventories mainly represent silver, tin and gold ("Commodity Inventories") purchased for the purpose of selling them in the near future. As a commodity trader, the Group measures its Commodity Inventories at fair value less costs to sell. Commodity Inventories are initially recognised at cost and subsequently measured at fair value less costs to sell. Changes in fair value are recognised in the profit or loss in the period in which they arise.

Inventories other than Commodity Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Employee benefits

#### (i) Defined contribution retirement plan

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under Mandatory Provident Fund Scheme Ordinance for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employee’s relevant income and are charged to the profit and loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administrated fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group’s employer voluntary contributions, if any, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

#### (ii) Annual leave provision

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

### (l) Foreign currencies

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the “functional currency”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statement, the assets and liabilities of the Company and certain subsidiaries are translated into the presentation currency of the Group (i.e. HK\$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in exchange reserve in equity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (m) Impairment of assets (other than financial assets)

At the end of each reporting period, the Group reviews the carrying amount of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Value in use is based on the estimated future cash flows expected to be derived from the assets or cash generating unit, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

#### (n) Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

#### (p) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where share options are granted to parties providing goods or services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in share option reserve is recognised.

When the option is exercised, the relevant amount recognised in the share option reserve is transferred to share capital. When the option lapses, the relevant amount recognised in the share option reserve is released directly to retained profits.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (q) Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of key management personnel of the Group.
- (b) An entity is related to the Group if any of the following conditions apply:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 5. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATES UNCERTAINTY

In the application of the Group's accounting policies, the directors of the Company are required to make judgment, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

#### (i) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives, and related depreciation charges for its property, plant and equipment. The estimates are based on the historical experience of the actual useful lives of those assets of similar nature and functions. Management will increase the depreciation where useful lives are less than previously estimated lives. It will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore affect the depreciation charges in future periods.

#### (ii) Valuation of derivative component of convertible bonds

As described in note 25, the Company's convertible bonds contain multiple embedded derivatives which are treated as a single derivative. Such derivative is measured at fair value initially on recognition and subsequently at the end of each reporting period. The Company engaged an independent appraiser to assist the directors of the Company in determining the fair values of the derivative on the issue date of the convertible bonds and as at 31 December 2016. Judgement is required in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For valuation of derivative financial instruments, assumptions are made based on quoted market rates to the extent possible and adjusted for specific features of the instrument. The fair values of the derivative on the date of recognition and as at 31 December 2016 amounted to HK\$3,806,000 and HK\$1,877,000 respectively as disclosed in note 25. Any changes in the assumptions of the valuation model may have a material effect on the fair value of the derivative and thus the Group's financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 6. 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.

#### (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 below:

	Revenue from customers*	
	2016 HK\$'000	2015 HK\$'000
Singapore	1,392,915	623,061
Hong Kong	505,193	242,849
United Kingdom	138,022	25,137
Japan	80,118	73,555
Australia	49,138	103,862
China	5,258	7,612
	<b>2,170,644</b>	<b>1,076,076</b>

\* Based on location of customers

	Non-current assets	
	2016 HK\$'000	2015 HK\$'000
Hong Kong	3,962	3,695

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 6. 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:

	2016 HK\$'000	2015 HK\$'000
Customer A	819,273	370,197
Customer B	573,643	252,864
Customer C	234,660	–

### 7. INCOME FROM PRINCIPAL ACTIVITIES

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

Revenue mainly comprises net invoiced value of inventories (note 4(j)) mainly represent silver, tin and gold ("Commodity Inventories") sold by the Group as well as interest income generated from customers and suppliers. The Group enters into sale and purchase agreements for Commodity Inventories 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 subsequent to the delivery date as 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 risk.

### 8. OTHER INCOME

	2016 HK\$'000	2015 HK\$'000
Dividend income from investments held for trading	254	–
Lab-test service income	203	–
Others	471	84
	<b>928</b>	<b>84</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 9. EMPLOYEE COSTS

	2016 HK\$'000	2015 HK\$'000
Employee costs (including directors' emoluments) comprise:		
Salaries and bonus, allowances and benefits	10,780	7,700
Contributions to defined contribution retirement plan	252	203
Equity-settled share-based payments (note 27(b))	–	520
	<b>11,032</b>	<b>8,423</b>

### 10. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS

#### (a) Directors' emoluments

Directors' emoluments disclosed pursuant to section 383 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Chapter 622G of the laws of Hong Kong) are as follows:

#### Year ended 31 December 2016

	Fees HK\$'000	Performance related incentive payments HK\$'000 (note (iii))	Salaries, allowances and benefits in kind HK\$'000 (note (v))	Discretionary bonus HK\$'000	Pension scheme contributions HK\$'000	Total HK\$'000
<b>Executive directors</b>						
Ms. Chau Mei Fan (note (ii))	–	–	256	44	12	312
Mr. Felipe Tan	48	501	–	–	18	567
Mr. Zha Jianping (note (i))	21	–	765	–	6	792
Mr. Zhu Hongguang (note (i))	48	–	632	–	–	680
Total	117	501	1,653	44	36	2,351
<b>Independent non-executive directors</b>						
Mr. Chan Ka Ling Edmond	143	–	–	–	–	143
Ms. Tsang Wai Chun Marianna	143	–	–	–	–	143
Mr. Tang Cornor Kwok Kau (note (ii))	106	–	–	–	–	106
Ms. Wang Lin (note (ii))	48	–	–	–	–	48
Total	440	–	–	–	–	440

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 10. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS

(Continued)

#### (a) Directors' emoluments (Continued)

##### Year ended 31 December 2015

	Fees HK\$'000	Performance related incentive payments HK\$'000 (note (iii))	Share-based payment HK\$'000 (note (iv))	Salaries, allowances and benefits in kind HK\$'000 (note (v))	Discretionary bonus HK\$'000	Pension scheme contributions HK\$'000	Total HK\$'000
<b>Executive directors</b>							
Ms. Chau Mei Fan	–	–	64	353	66	17	500
Mr. Felipe Tan	–	467	80	–	–	18	565
<b>Total</b>	–	467	144	353	66	35	1,065
<b>Independent non-executive directors</b>							
Mr. Chan Ka Ling Edmond	134	–	25	–	–	–	159
Ms. Tsang Wai Chun Marianna	134	–	25	–	–	–	159
Mr. Tang Cornor Kwok Kau	134	–	25	–	–	–	159
<b>Total</b>	402	–	75	–	–	–	477

Notes:

- (i) Mr. Zha Jianping and Mr. Zhu Hongguang were appointed as executive directors on 9 November 2016 and 24 August 2016 respectively.
- (ii) Ms. Chau Mei Fan and Mr. Tang Cornor Kwok Kau resigned as executive director and Independent non-executive directors respectively on 9 September 2016, whereas Ms. Wang Lin was appointed as Independent non-executive directors on the same date.
- (iii) The performance incentive payment to Mr. Felipe Tan is determined as the higher of (i) a percentage on the portion which exceeds HK\$5,000,000 of the Group's audited net profit before taxation (excluding such payment) for relevant year, or (ii) a percentage on the portion which exceeds HK\$50,000,000 of the Group's audited net asset value (excluding such payment) at the end of the relevant year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 10. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS

(Continued)

#### (a) Directors' emoluments (Continued)

Notes: (Continued)

- (iv) These amounts represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share option is measured according to the accounting policies for share-based payments as set out in note 4(p). Further details of the options granted are set out in note 27.
- (v) Salaries allowance and benefits in kind paid to or for the executive directors are generally emoluments paid or receivable in respect of those persons' other services in connection with the management of the affairs of the Company and its subsidiaries.

#### (b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2015: two) were directors of the Company whose emoluments are included in the analysis presented above. The emoluments of the remaining two (2015: three) individual was as follows:

	2016 HK\$'000	2015 HK\$'000
Salaries and bonus, allowance and benefits	1,314	1,482
Contribution to defined contribution retirement plan	18	50
Share-based payments	-	99
	<b>1,332</b>	1,631

The emoluments of each of the above non-director highest paid individuals were all within the band of nil to HK\$1,000,000 for the years ended 31 December 2016 and 2015.

During the years ended 31 December 2016 and 2015, no emoluments were paid by the Group to the directors or highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors waived or agreed to waive any emoluments during the years ended 31 December 2016 and 2015.

#### (c) Senior management

Emoluments paid or payable to members of senior management who are not directors were all within the band of nil to HK\$1,000,000 for the years ended 31 December 2016 and 2015.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 11. FINANCE COSTS

	2016 HK\$'000	2015 HK\$'000
Interests on bank loans	147	235
Interests on convertible bonds (note 25)	1,869	–
Interests on loan from a related company (note 30(a))	542	–
Total interest expenses	2,558	235
Bank charges	128	147
	<b>2,686</b>	382

### 12. PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE

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

	2016 HK\$'000	2015 HK\$'000
Carrying value of inventories sold		
– Cost of inventories recognised as expenses	2,129,087	1,064,801
– Fair value losses/(gains) on inventories	668	(832)
Auditor's remuneration	550	530
Minimum lease payments under operating leases (note (a))	2,577	1,075
Management and performance fee charged by an investment manager	843	–
Depreciation of property, plant and equipment	1,058	932
Depreciation of investment property	–	48
Net rental income from investment property (note (b))	–	(34)
Donation	417	–
Interest income	(4,291)	(4,385)

Notes:

- (a) Included in the balances was office rental paid under the tenancy agreement entered into by the Group with a related company amounting to approximately HK\$936,000 (2015: HK\$461,000) (note 30(a)).
- (b) The direct outgoing expenses from the investment property during the year 2015 was insignificant.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 13. INCOME TAX EXPENSE/(CREDIT)

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

	2016 HK\$'000	2015 HK\$'000
Current tax – Hong Kong Profits Tax		
– charge for the year	1,724	–
– over-provision in respect of prior years	–	(50)
Income tax expense/(credit)	1,724	(50)

Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) on the estimated assessable profits for the year.

No provision for People's Republic of China ("PRC") Enterprise Income Tax as the Company's subsidiary has no estimated assessable profit for the year.

The income tax expense can be reconciled to the profit/(loss) before income tax expense per the consolidated statement of comprehensive income as follows:

	2016 HK\$'000	2015 HK\$'000
Profit/(Loss) before income tax expense	4,594	(363)
Tax calculated at domestic tax rate of 16.5% (2015: 16.5%)	758	(60)
Effect of different tax rate of a subsidiary operating in other jurisdiction	(27)	–
Tax effect of revenue not taxable for tax purposes	(362)	(92)
Tax effect of expenses not deductible for tax purposes	320	5
Tax effect of tax losses not recognised	1,201	205
Utilisation of tax losses previous not recognised	(80)	(22)
Tax effect of other temporary differences not recognised	(137)	(36)
Over-provision in respect of prior years	–	(50)
Others	51	–
Income tax expense/(credit)	1,724	(50)

As at 31 December 2016, the Group had estimated unused tax losses of approximately HK\$8,399,000 (2015: HK\$1,949,000) which are available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

The Group has no significant unrecognised deferred tax liabilities as at 31 December 2016 and 2015.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 14. EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share attributable to the owners of the Company is based on the following data:

<b>Earnings/(Loss)</b>	<b>2016 HK\$'000</b>	2015 HK\$'000
Profit/(Loss) for the purpose of basic earnings/(loss) per share	<b>2,870</b>	(313)
<b>Number of shares</b>	<b>2016</b>	2015
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	<b>400,170,000</b>	400,097,342

For the year ended 31 December 2016, the computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options (note 27) since their exercise price is higher than the average market price of the Company for the year. In addition, it does not assume the conversion of the Company's convertible bonds (note 25) as they have anti-dilutive effect on the earnings per share calculation. Accordingly, the basic and diluted earnings per share are the same.

For the year ended 31 December 2015, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options since their exercise would result in decrease in loss per share for the year. Accordingly, the basic and diluted loss per share are the same.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 15. PROPERTY, PLANT AND EQUIPMENT

	Property for own use carried at cost HK\$'000	Equipment and computer software HK\$'000	Leasehold improvements HK\$'000	Furniture and fixture HK\$'000	Motor vehicle HK\$'000	Total HK\$'000
<b>Cost</b>						
At 1 January 2015	2,050	1,962	629	-	334	4,975
Additions	-	1,382	223	-	-	1,605
Transfer from investment property (note 16)	2,050	-	-	-	-	2,050
Disposal	(2,050)	-	-	-	(334)	(2,384)
At 31 December 2015 and 1 January 2016	<b>2,050</b>	<b>3,344</b>	<b>852</b>	<b>-</b>	<b>-</b>	<b>6,246</b>
Additions	-	79	1,827	417	772	3,095
Disposal	(2,050)	-	-	-	-	(2,050)
At 31 December 2016	-	<b>3,423</b>	<b>2,679</b>	<b>417</b>	<b>772</b>	<b>7,291</b>
<b>Accumulated depreciation</b>						
At 1 January 2015	123	1,172	297	-	264	1,856
Transfer from investment property (note 16)	171	-	-	-	-	171
Charge for the year	55	479	398	-	-	932
Written back on disposal	(144)	-	-	-	(264)	(408)
At 31 December 2015 and 1 January 2016	<b>205</b>	<b>1,651</b>	<b>695</b>	<b>-</b>	<b>-</b>	<b>2,551</b>
Charge for the year	75	603	310	22	48	1,058
Written back on disposal	(280)	-	-	-	-	(280)
At 31 December 2016	-	<b>2,254</b>	<b>1,005</b>	<b>22</b>	<b>48</b>	<b>3,329</b>
<b>Net carrying value</b>						
At 31 December 2016	-	<b>1,169</b>	<b>1,674</b>	<b>395</b>	<b>724</b>	<b>3,962</b>
At 31 December 2015	1,845	1,693	157	-	-	3,695

Property represents a carpark transferred from investment property (note 16). It was disposed of during the year ended 31 December 2016 to a related company at a consideration of HK\$1,800,000 (note 30(a)) and transaction costs of HK\$6,000 was incurred.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 16. INVESTMENT PROPERTY

	<b>Carpark HK\$'000</b>
<b>Cost</b>	
At 1 January 2015	2,050
Transfer to property, plant and equipment	(2,050)
At 31 December 2015 and 2016	–
<b>Accumulated depreciation</b>	
At 1 January 2015	123
Charge for the year	48
Transfer to property, plant and equipment	(171)
At 31 December 2015 and 2016	–
<b>Net carrying value</b>	
At 31 December 2015 and 2016	–

During the year ended 31 December 2015, the carpark became owner-occupied and was transferred to property, plant and equipment (note 15).

### 17. INVENTORIES

	<b>2016 HK\$'000</b>	2015 HK\$'000
Silver	<b>30,661</b>	27,094
Tin	<b>16,315</b>	13,416
Low value consumables	<b>101</b>	118
	<b>47,077</b>	40,628

The fair values of the Commodity Inventories were determined by the Company by reference to the price available in active market including London Bullion Market Association.

The fair value of the Commodity Inventories is a level 2 recurring fair value measurement. The fair value measurement is based on the inventories' highest and best use, which does not differ from their actual use.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 18. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2016 HK\$'000	2015 HK\$'000
Deposits for commodity forward contracts (note)	31,624	28,365
Other receivables, deposits and prepayments	6,064	560
	<b>37,688</b>	28,925

Note:

As mentioned in note 7, for trading purposes, the Group has to enter into Forward Arrangements with customers and suppliers as well as forward contracts with commodity traders. The balance represents margin deposits placed with commodity traders for entering into forward contracts, as well as deposits in the cash account held at the commodity traders.

### 19. DERIVATIVE FINANCIAL INSTRUMENTS

	2016 HK\$'000	2015 HK\$'000
Derivative financial assets:		
Commodity forward contracts	1	218
Derivative financial liabilities:		
Commodity forward contracts	10,065	1,091

The Group enters into forward contracts with commodity traders to hedge metal price exposures. Such commodity forward contracts do not qualify as hedging instruments and are classified as financial instruments at fair value through profit or loss. The notional principal amounts of the outstanding metal forward contracts as at 31 December 2016 were approximately US\$26,170,000 (2015: US\$23,023,000), equivalent to approximately HK\$203,341,000 (2015: HK\$178,889,000).

The fair values of the forward contracts are determined with reference to the price available in active markets matching the maturity of the contracts.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 20. INVESTMENTS HELD FOR TRADING

	2016 HK\$'000	2015 HK\$'000
Hong Kong listed equity securities, at fair value	10,520	–

The fair values are determined based on the quoted market bid prices at the reporting date.

### 21. CASH AND CASH EQUIVALENTS

	2016 HK\$'000	2015 HK\$'000
Cash at banks and in hand	119,930	35,958

The analysis of cash and bank balances denominated in foreign currencies at the end of reporting period is shown as follows:

	2016 HK\$'000	2015 HK\$'000
Renminbi	1,071	76
United States dollars	60,280	34,416
	<b>61,351</b>	<b>34,492</b>

Cash at banks earns interest at floating rate based on daily bank deposit rates.

### 22. OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	2016 HK\$'000	2015 HK\$'000
Other payables and accruals	2,622	2,482
Deposits for commodity forward contracts (note)	23,148	19,594
	<b>25,770</b>	<b>22,076</b>

Note:

As mentioned in note 7, for trading purposes, the Group has to enter into Forward Arrangements with customers and suppliers as well as forward contracts with commodity traders. The balance represents cash deposits received from suppliers and customers for entering into Forward Arrangements.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 23. AMOUNTS DUE TO RELATED COMPANIES AND A DIRECTOR

The amounts due are unsecured, interest-free and repayable on demand. The amounts due to related companies represent deposits placed by the related companies to the Group for entering into forward arrangements (note 30(a)).

### 24. LOAN FROM A RELATED COMPANY

The loan is unsecured, interest bearing at 3.5% per annum and repayable on 6 April 2017 or within three days upon receiving demand notice from the lender (note 30(a)).

### 25. CONVERTIBLE BONDS

On 15 July 2016, the Company issued the convertible bonds due on 14 July 2018 (“Maturity Date”) in an aggregate principal amount of HK\$36,800,000. The convertible bonds carry a 6% coupon interest rate per annum, interest is payable upon Maturity Date or redemption.

The convertible bonds entitle the bondholders to convert into a total of 80,000,000 ordinary shares of the Company at an initial conversion price of HK\$0.46 per conversion share (subject to adjustments in accordance with the terms of the convertible bonds) at any time during the period commencing from the date of issuance of the convertible bonds and up to the Maturity Date.

The convertible bonds may be redeemed by the Company at any time from the date of issuance and prior to the Maturity Date. If a conversion notice is served by the bondholder at the same date as a redemption notice is served by the Company, the Company’s redemption notice shall take priority.

Since the denominated currency (HK\$) of the convertible bonds is different from the functional currency (US\$) of the Company, their conversion options will be settled by the Company delivering a fixed member of its own shares in exchange for a variable amount of cash in the Company’s functional currency. Consequently, the conversion right is not equity instrument.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 25. CONVERTIBLE BONDS (Continued)

The convertible bonds contain two components, liability component and derivative component which comprise the conversion right and the early redemption right. On issuance of the convertible bonds, the fair value of the derivative component is determined using the Crank-Nicolson Finite-difference method. The remainder amount of the proceeds is allocated to the liability component. The derivative component is classified as derivative liability and is subsequently measured at fair value, with changes in fair value recognised in profit or loss. The liability component is classified as financial liabilities at amortised cost and is subsequently measured at amortised cost using the effective interest rate of 12.19% per annum.

There was no movement in the number of the convertible bonds during the year.

The movement of the liability and the derivative components of the convertible bonds are as follows:

	<b>Liability component of convertible bonds HK\$'000</b>	<b>Derivative component of convertible bonds HK\$'000</b>	<b>Total HK\$'000</b>
Fair value on initial recognition on 15 July 2016	32,994	3,806	36,800
Less: Direct transaction cost	(660)	–	(660)
	<b>32,334</b>	<b>3,806</b>	<b>36,140</b>
Interest expense (note 11)	1,869	–	1,869
Fair value adjustment	–	(1,929)	(1,929)
At 31 December 2016	<b>34,203</b>	<b>1,877</b>	<b>36,080</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 26. SHARE CAPITAL

	2016 Number of Shares	2016 HK\$'000	2015 Number of Shares	2015 HK\$'000
Issued and fully paid:				
At beginning of year	400,170,000	85,830	400,000,000	85,643
Share option exercised (note 27(b))	–	–	170,000	187
At end of year	400,170,000	85,830	400,170,000	85,830

### 27. SHARE-BASED PAYMENT

The Company operates an equity-settled share based compensation plan for the purpose of providing incentive or reward to eligible participants for their contribution or potential contribution to the Group. The vesting and exercise period of the options shall be determined by the board of directors and the exercise period shall not be more than 10 years from the date the options are vested.

(a) The terms and conditions of the options granted are as follows:

Category of grantee	Date of grant	Exercise period	Exercise price per share	Number of options outstanding at 31 December 2016 (note)	Number of options outstanding at 31 December 2015
Directors	10 April 2015	10 April 2015 to 9 April 2025	HK\$0.78	410,000	690,000
Employee	10 April 2015	10 April 2015 to 9 April 2025	HK\$0.78	780,000	600,000
Others	10 April 2015	10 April 2015 to 9 April 2025	HK\$0.78	130,000	150,000
				1,320,000	1,440,000

Note:

During the year ended 31 December 2016, one of the employee resigned as a director of the Company but she remains as an employee of the Group and thus her number of share options of 200,000 was transferred from the directors category to the employee category.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 27. SHARE-BASED PAYMENT (Continued)

- (b) The movements of number of share options and weighted average exercise price of share options are as follows:

	<b>Weighted average exercise price 2016</b>	<b>Number of options 2016</b>	Weighted average exercise price 2015	Number of options 2015
Outstanding at beginning of the year	<b>HK\$0.78</b>	<b>1,440,000</b>	–	–
Granted during the year	–	–	HK\$0.78	1,630,000
Lapsed during the year	<b>HK\$0.78</b>	<b>(120,000)</b>	HK\$0.78	(20,000)
Exercised during the year	–	–	HK\$0.78	(170,000)
Outstanding at the end of the year	<b>HK\$0.78</b>	<b>1,320,000</b>	HK\$0.78	1,440,000

The weighted average remaining contractual life was 8.25 years (2015: 9.25 years).

On 10 April 2015, a total of 1,630,000 share options were granted to the directors, employee and eligible persons, which entitled the grantees to subscribe for new ordinary shares of the Company at an exercise price of HK\$0.78 per share. The share options were exercisable from 10 April 2015 to 9 April 2025. The Group recognised total share-based payments of approximately HK\$520,000 during the year ended 31 December 2015 (note 9).

There was no exercise of share options during the year ended 31 December 2016. The weighted average share price at the date of exercise of options exercised during the year ended 31 December 2015 was HK\$1.04.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 28. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

AS AT 31 DECEMBER 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>Non-current assets</b>			
Investments in subsidiaries		21,513	21,357
<b>Current assets</b>			
Amounts due from subsidiaries		89,680	56,509
Deposits and prepayments		230	213
Cash and cash equivalents		1,197	231
		91,107	56,953
<b>Current liabilities</b>			
Accruals and other payables		793	1,482
Amounts due to subsidiaries		145	–
		938	1,482
<b>Net current assets</b>		90,169	55,471
<b>Non-current liabilities</b>			
Liability component of convertible bonds	25	34,203	–
Derivative component of convertible bonds	25	1,877	–
		36,080	–
<b>Net assets</b>		75,602	76,828
<b>Capital and reserves</b>			
Share capital	26	85,830	85,830
Accumulated losses		(10,649)	(9,461)
Share option reserve		421	459
<b>Total equity</b>		75,602	76,828

On behalf of the directors

**ZHU Hongguang**  
Director

**ZHA Jianping**  
Director

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 29. INTERESTS IN SUBSIDIARIES

Details of subsidiaries as at 31 December 2016 are as follows:

Name of subsidiary	Form of business structure	Place of incorporation	Description of share held	Percentage of ownership interests		Place of operation and principal activities
				Directly	Indirectly	
Loco HK Limited	Corporation	British Virgin Islands ("BVI")	Ordinary	100%	–	Investment holding in Hong Kong
Success Vision International Holdings Limited	Corporation	("BVI")	Ordinary	100%	–	Investment holding in Hong Kong
Edge Faith Limited	Corporation	("BVI")	Ordinary	100%	–	Investment holding in Hong Kong
China Precision Material Limited	Corporation	Hong Kong	Ordinary	–	100%	Metal and commodity forward contracts trading in Hong Kong
CPM Silver Limited	Corporation	Hong Kong	Ordinary	–	100%	Silver processing in Hong Kong
United Bridge Limited	Corporation	Hong Kong	Ordinary	–	100%	Investment holding in Hong Kong and PRC
World Bridge Limited	Corporation	Hong Kong	Ordinary	–	100%	Dormant
China New Era Group Holdings Limited	Corporation	Hong Kong	Ordinary	–	100%	Dormant
United Worth Finance Limited	Corporation	Hong Kong	Ordinary	–	100%	Dormant
深圳時代健康科技控股有限公司 Shenzhen Era Health Technology Holdings Limited* ("Shenzhen Era") (note)	Corporation	PRC	Registered capital	–	100%	Dormant

\* *English name for identification purpose only*

Note: Shenzhen Era is a wholly-foreign-owned enterprise under the PRC law.

None of the subsidiaries had issued any debt securities at the end of the reporting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 30. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in this consolidated financial statements, the Group has the following significant related party transactions.

(a) During the year, the Group entered into the following transactions with related parties:

Type of transaction	2016 HK\$'000	2015 HK\$'000
Interest charged on loan granted to the Group (note (i))	542	–
Share of staff cost charged to the Group (note (ii))	791	1,684
Office rental and other related expenses charged to the Group (note (ii))	1,089	584
Sale of carpark (note (iii))	1,800	–
Interest and commission charged by the Group for entering into forward arrangements (note (iv))	118	1
Purchase of gold by the Group (note (iv))	–	884
Sales of gold by the Group (note (iv))	–	1,775
Donation by the Group (note (v))	400	–
Development and maintenance of software system for the Group (note (vi))	250	342
Internal control service fee charged to the Group (note (vi))	300	–
Data hosting service fee charged to the Group (note (vi))	13	10

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 30. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

Notes:

- (i) Interest was charged to the Group on the loan granted by a company in which Mr. Felipe Tan (“Mr. Tan”), one of the Company’s directors, acts as director and has indirect controlling equity interest (notes 11 and 24).
  - (ii) The Group paid rent to a related company for occupation of office space (note 12(a)) and shared staff cost and office related expenses with other related companies. Mr. Tan acts as a director and has indirect controlling equity interest in those companies.
  - (iii) The carpark was disposed to a company in which Mr. Tan acts as a director and has indirect controlling equity interest (note 15).
  - (iv) The sales and purchase of commodity in last year and the generation of interest income and commission income from forward arrangements during the year (note 23) were conducted with companies in which Mr. Tan acts as a director and has direct controlling equity interest.
  - (v) Donation was made to a charitable company in which Mr. Tan acts as one of the founder members.
  - (vi) Fees for these services were charged by companies in which Mr. Tan acts as a director and has control and indirect controlling equity interest.
- (b) Key management includes members of the board of directors and other members of key management of the Group. Their emoluments are set out in note 10.
- (c) At 31 December 2016, Mr. Tan provided personal guarantee to a bank in respect of general facilities granted to the Group to the extent of HK\$10,000,000.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 31. OPERATING LEASE

#### Operating leases – lessee

The Group leases a workshop and offices under operating lease arrangement. Each of the lease runs for an initial period of two years (2015: three years). The total future minimum lease payments under the leases are due as follows:

	2016 HK\$'000	2015 HK\$'000
Within one year	4,356	213
Later than one year and not later than five years	2,846	–
	7,202	213

### 32. CAPITAL MANAGEMENT

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern and maximising the return to stakeholders. The Group's capital structure is regularly reviewed and managed by the directors. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Group. The Group is not subject to externally imposed capital requirements. To maintain or adjust capital structure, the Group may adjust dividend payment to shareholders or issue new shares.

The Group defines "capital" as including all components of equity less unaccrued proposed dividend. Trading balances that arise as a result of trading transactions with Group companies are not regarded by the directors as capital. The capital of the Group at the end of reporting date was approximately HK\$91,215,000 (2015: HK\$88,465,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 33. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amount of financial assets and liabilities as defined in note 4(f):

	2016 HK\$'000	2015 HK\$'000
<b>Financial assets</b>		
Fair value through profit or loss held for trading:		
– Commodity forward contracts	1	218
– Listed equity securities	10,520	–
Loans and receivables	156,884	64,539
<b>Financial liabilities</b>		
Fair value through profit or loss held for trading:		
– Commodity forward contracts	10,065	1,091
– Derivative component of convertible bonds	1,877	–
Financial liabilities measured at amortised cost:		
– Other payables, accruals and deposits received	25,770	22,076
– Amounts due to related companies	28,795	–
– Amount due to a director	55	–
– Loan from a related company	27,195	–
– Liability component of convertible bonds	34,203	–



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 33. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (Continued)

#### Financial instruments not measured at fair value

Financial instruments not measured at fair value include other receivables, deposits paid, cash and cash equivalents, other payables, accruals and deposits received, amounts due to related companies and a director and loan from a related company. Due to their short term nature, the carrying value of these financial instruments approximates its fair value.

The fair value of the liability component of the convertible bonds as at 31 December 2016 amounted to HK\$35,941,000. The fair value is determined by using discounted cash flow model and is classified as level 3 in the fair value hierarchy. Significant inputs includes the discount rate used to reflect the credit risk of the Company.

#### Financial instruments measured at fair value

The fair value of listed equity securities are determined with reference to quoted market bid prices which is level 1 fair value measurement.

Commodity forward contracts are financial assets or liabilities at fair value through profit or loss and their fair value is determined with reference to the commodity price available in active markets, which is level 2 fair value measurement.

The fair value of the derivative component of convertible bonds is determined using valuation models and unobservable inputs, which is level 3 fair value measurement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 33. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (Continued)

#### Financial instruments measured at fair value (Continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments:

	Valuation technique	Significant unobservable input	Ratio	Sensitivity of fair value to the input
Derivative component of convertible bonds	Crank-Nicolson Finite-difference method	Option adjusted spread	5.67%	5% increase in option adjusted spread would result in increase in fair value by HK\$143,000  5% decrease in option adjusted spread would result in decrease in fair value by HK\$144,000

The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Input for the asset or liability that is not based on observable market data (unobservable input).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 33. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (Continued)

#### Financial instruments measured at fair value (Continued)

	2016			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets at fair value through profit or loss held for trading:				
– Commodity forward contracts	–	1	–	1
– Listed equity securities	10,520	–	–	10,520
Financial liabilities at fair value through profit or loss held for trading:				
– Commodity forward contracts	–	10,065	–	10,065
– Derivative component of convertible bonds	–	–	1,877	1,877

	2015			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets at fair value through profit or loss held for trading:				
– Commodity forward contracts	–	218	–	218
Financial liabilities at fair value through profit or loss held for trading:				
– Commodity forward contracts	–	1,091	–	1,091

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities. (2015: nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 34. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, interest rate risk, currency risk, liquidity risk and commodity price risk. These risks are limited by the Group's financial management policies and practices described below.

#### (a) Credit risk

The Group's credit risk is primarily attributable to its deposits arising from trading of commodity forward contracts, other receivables, derivative financial assets and bank balances.

As most of the counterparties of these financial assets are reputable banks or financial institutions, in this regards, the directors consider the Group's exposure to credit risk is significantly reduced.

#### (b) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's convertible bonds and the loan from a related party expose the Group to fair value interest rate risk as it is arranged at fixed interest rate. While bank deposits are arranged at variable which exposed the Group to cash flow interest rate risk. The directors considered the exposure to interest rate risk in relation to bank deposits are insignificant due to the low level of bank interest rate.

The Group manages interest rate risk by monitoring its interest rate profile. The Group conducts periodical review to determine preferred interest rates mix appropriate for the business profile. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

#### (c) Currency risk

The Group's transactions and financial instruments are denominated in US\$, HK\$ and Renminbi ("RMB"), which expose the Group to currency risk. Since (i) HK\$ is pegged to US\$ and (ii) transactions and financial instruments which are denominated in RMB is insignificant to the Group, the Group's exposure to currency risk is minimal.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 34. FINANCIAL RISK MANAGEMENT (Continued)

#### (d) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of payables and its financing obligations, and also in respect of its cash flow management. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that the Group maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The liquidity policy has been followed by the Group since prior years and is considered to have been effective in managing liquidity risks.

The tables below analyse the maturity of the Group's financial liabilities.

	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000
<b>2016</b>				
Other payables, accruals and deposits received	25,770	25,770	25,770	–
Amounts due to related companies	28,795	28,795	28,795	–
Amount due to a director	55	55	55	–
Loan from a related company	27,195	27,445	27,445	–
Liability component of convertible bonds	34,203	41,216	–	41,216
Derivatives financial liabilities (note)	10,065	10,065	10,065	–
	<b>126,083</b>	<b>133,346</b>	<b>92,130</b>	<b>41,216</b>
<b>2015</b>				
Other payables, accruals and deposits received	22,076	22,076	22,076	–
Derivatives financial liabilities (note)	1,091	1,091	1,091	–
	23,167	23,167	23,167	–

Note: The remaining contractual maturities of these commodity forward contracts (note 19) are within three months (2015: within three months).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 34. FINANCIAL RISK MANAGEMENT (Continued)

#### (e) Commodity price risk

The Group is exposed to commodity price risk arises from inventories (note 17) and Forward Arrangements with certain suppliers and customers (note 7). In order to mitigate these risks, the Group enters into forward contracts with commodity traders to hedge the commodity price exposures. As there is a Group policy to maintain its exposure to commodity price risk at a low level, the management would frequently monitors the current net exposures as well as exposures that are anticipated to be encountered in the new future. As the forward contracts with commodity traders are for hedging the position arising from inventories and Forward Arrangements, the directors considered the Group's exposure to commodity price risk as a whole is minimal.

## FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out below:

	2016	2015	2014	2013	2012
<b>Results</b>	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	<b>2,170,644</b>	1,076,076	2,128,140	1,496,203	1,093,109
Trading (losses)/gains on commodity forward contracts	<b>(14,859)</b>	2,304	22,752	14,649	13,284
Total income	<b>2,156,713</b>	1,078,464	2,151,000	1,510,946	1,107,332
Carrying value of inventories sold	<b>(2,129,755)</b>	(1,063,969)	(2,125,875)	(1,493,497)	(1,088,057)
Profit/(Loss) before income tax	<b>4,594</b>	(363)	4,078	9,010	10,029
Profit/(Loss) and total comprehensive income for the year	<b>2,750</b>	(313)	1,957	7,708	8,220

  

	2016	2015	2014	2013	2012
<b>Assets and liabilities</b>	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current assets	<b>215,895</b>	107,937	107,021	136,154	102,501
Current liabilities	<b>92,562</b>	23,167	23,941	118,287	87,560
Non-current assets	<b>3,962</b>	3,695	5,046	5,516	794
Non-current liabilities	<b>36,080</b>	–	–	–	60
Total equity	<b>91,215</b>	88,465	88,126	23,383	15,675

  

	2016	2015	2014	2013	2012
<b>Key financial ratios</b>					
Current ratio	<b>2.33</b>	4.66	4.47	1.15	1.17
Quick ratio	<b>1.82</b>	2.91	2.73	0.38	0.41
Gearing ratio	<b>0.67 times</b>	–	–	4.7 times	2.1 times
Return on total assets	<b>1.3%</b>	(0.3%)	1.8%	5.4%	8.0%
Return on equity	<b>3.1%</b>	(0.4%)	2.2%	33.0%	52.4%