

Interim Report 2014

Gamma Logistics Corporation

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8310



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

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This report, for which the directors (the “**Directors**”) of Gamma Logistics Corporation (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this 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.

The board of Directors of the Company (the “**Board**”) is pleased to present the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2014 (the “**Interim Financial Statement**”) together with the comparative figures for the corresponding periods in 2013 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2014

	Note	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2014	2013	2014	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	4	95,450	122,604	184,407	234,286
Cost of sales		(77,964)	(98,414)	(156,747)	(187,964)
Gross profit		17,486	24,190	27,660	46,322
Other income	5	1,039	243	3,488	518
Administrative expenses		(18,995)	(18,602)	(37,659)	(36,955)
Finance costs	6	(369)	(221)	(645)	(606)
Share of results of associates		690	222	268	262
(Loss)/profit before taxation	6	(149)	5,832	(6,888)	9,541
Taxation	7	(487)	(1,942)	(508)	(2,224)
(Loss)/profit for the period		(636)	3,890	(7,396)	7,317
Other comprehensive income:					
Item that may be reclassified to profit or loss in subsequent periods:					
Exchange difference arising from translation of foreign operations		(212)	–	31	–
Total comprehensive (loss)/income for the period		(848)	3,890	(7,365)	7,317

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2014

	Note	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2014	2013	2014	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss)/profit attributable to:					
Equity holders of the Company		(925)	2,004	(7,946)	5,153
Non-controlling interests		289	1,886	550	2,164
		(636)	3,890	(7,396)	7,317
Total comprehensive (loss)/ income attributable to:					
Equity holders of the Company		(1,137)	2,004	(7,915)	5,153
Non-controlling interests		289	1,886	550	2,164
		(848)	3,890	(7,365)	7,317
(Loss)/earnings per share attributable to equity holders of the Company					
Basic and Diluted (HK cents)	9	(0.11)	0.33	(0.95)	0.86

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Note	Unaudited As at 30 June 2014 HK\$'000	Audited As at 31 December 2013 HK\$'000
Non-current assets			
Property, plant and equipment	10	18,307	22,705
Interests in associates		12,064	12,046
		30,371	34,751
Current assets			
Trade and other receivables	11	107,668	105,657
Pledged bank deposits	12(a)	555	400
Bank balances and cash	12	66,134	40,405
		174,357	146,462
Current liabilities			
Trade and other payables	13	68,373	88,178
Current portion of interest-bearing borrowings	14	18,428	13,310
Bank overdrafts (secured)	12	8,031	3,515
Taxation		2,632	3,458
		97,464	108,461
Net current assets		76,893	38,001
Total assets less current liabilities		107,264	72,752
Non-current liabilities			
Non-current portion of interest-bearing borrowings	14	2,628	3,107
Deferred tax liabilities		667	667
		3,295	3,774
NET ASSETS		103,969	68,978

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

		Unaudited As at 30 June 2014 HK\$'000	Audited As at 31 December 2013 HK\$'000
	Note		
Capital and reserves			
Share capital	15	9,600	8,000
Reserves		91,791	58,950
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Total equity attributable to equity holders of the Company		101,391	66,950
Non-controlling interests		2,578	2,028
<hr/>			
TOTAL EQUITY		103,969	68,978

CONDENSED CONSOLIDATED STATEMENT OF CHANGES OF EQUITY

For the six months ended 30 June 2014

	Attributable to equity holders of the Company								Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Statutory reserve HK\$'000	Other reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000		
At 1 January 2013 (audited)	-	-	(8,224)	1,332	170	-	33,457	26,735	9,378	36,113
Profit and total comprehensive income for the period	-	-	-	-	-	-	5,153	5,153	2,164	7,317
At 30 June 2013 (unaudited)	-	-	(8,224)	1,332	170	-	38,610	31,888	11,542	43,430

	Attributable to equity holders of the Company								Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Statutory reserve HK\$'000	Other reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000		
At 1 January 2014 (audited)	8,000	28,090	(7,337)	1,332	170	(6,857)	43,552	66,950	2,028	68,978
Loss for the period	-	-	-	-	-	-	(7,946)	(7,946)	550	(7,396)
Exchange difference arising from translation of foreign operations	-	-	-	31	-	-	-	31	-	31
Total comprehensive income for the period	-	-	-	31	-	-	(7,946)	(7,915)	550	(7,365)
Transaction with owners										
Placing of shares	1,600	41,920	-	-	-	-	-	43,520	-	43,520
Share placement expenses	-	(1,164)	-	-	-	-	-	(1,164)	-	(1,164)
Total transaction with owners	1,600	40,756	-	-	-	-	-	42,356	-	42,356
At 30 June 2014 (unaudited)	9,600	68,846	(7,337)	1,363	170	(6,857)	35,606	101,391	2,578	103,969

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Unaudited	
	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Cash (used in) generated from operations	(26,796)	785
Interest paid	(645)	(606)
Tax paid	(1,335)	(846)
Net cash used in operating activities	(28,776)	(667)
Net cash generated from (used in) investing activities	2,711	(6,482)
Net cash generated from financing activities	47,245	4,954
Net increase (decrease) in cash and cash equivalents	21,180	(2,195)
Cash and cash equivalents at beginning of the period	36,890	9,107
Effect on exchange rate changes	33	–
Cash and cash equivalents at end of the period	58,103	6,912



NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. CORPORATION INFORMATION

The Company was incorporated in the Cayman Islands on 13 September 2011 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company is an investment holding company.

2. REORGANISATION OF THE GROUP AND BASIS OF PREPARATION

Group reorganisation

Pursuant to a group reorganisation completed on 3 August 2013 (the “**Reorganisation**”) to rationalise the corporate structure in preparation for the initial listing of the Company’s shares on GEM of the Stock Exchange, the Company became intermediate holding company of the Group and Golden Fame International Investments Group Limited (“**GFII**”) became the ultimate holding company of the Group. Details of the Reorganisation were set out in the prospectus of the Company dated 14 August 2013 (the “**Prospectus**”).

The shares of the Company were listed on GEM of the Stock Exchange by way of placing on 22 August 2013 (the “**Listing**”).

Basis of preparation

As the Group were controlled by the ultimate holding company of the Group before and after the Reorganisation, the Reorganisation is considered as a business combination under common control and is accounted for by applying the principles of the merger accounting under Hong Kong Accounting Guideline 5 “Merger accounting for common control combinations” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

The preparation of the Interim Financial Statements requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014

The Interim Financial Statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards (“**HKAS**”) and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The Interim Financial Statements also complies with the applicable disclosure requirements under the GEM Listing Rules.

The Interim Financial Statements have been prepared on a basis consistent with the accounting policies adopted in the Group’s audited financial statements for the year ended 31 December 2013.

Adoption of new/revised HKFRS

The adoption of the new/revised HKFRS that are relevant to the Group and effective from the current period, did not have any significant effect on the results and financial position of the Group for the current and prior accounting periods.

The Group has not early adopted any new/revised HKFRS that have been issued but are not yet effective for the current period. The Directors have already commenced an assessment of the impact of these new and revised HKFRS but are not yet in a position to reasonably estimate whether these new and revised HKFRS would have a significant impact on the Group’s results of operations and financial position.

3. SEGMENT INFORMATION

The chief operating decision maker has been identified collectively as the executive Directors. An operating segment is a component of the Group that is engaged in business activities from which the Group may earn revenue and incur expenses, and is identified on the basis of the internal management reporting information that is provided to and regularly reviewed by the Group’s executive directors in order to allocate resources and assess performance of the segment.



NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014

For management purposes, the Group is currently organised into the following operating segments:

Operating segments	Principal activities
— Integrated logistics freight services	— Provision of ocean freight and land transportation and container drayage services — Provision of ocean freight forwarding services — Provision of air freight forwarding services — Provision of feeder container storage facilities and hiring services of barges and vehicles
— Provision of fuel cards	— Provision of fuel cards
— Tractor repair and maintenance services and insurance agency services	— Tractor repair and maintenance — Provision of insurance agency services

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segments assets include all property, plant and equipment, receivables, bank deposits and cash and cash equivalents other than interests in associates and corporate assets which are managed on a group basis. All liabilities are allocated to reportable segment liabilities other than unallocated head office and corporate liabilities which are managed on a group basis and certain other payables and accrued charges.

Revenues and expenses are allocated to the reporting segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments. The measure used for reporting segment results is profit before taxation without allocation of share of results of associates and other unallocated corporate expenses and income. For the purpose of assessing the performance of the operating segments and allocation of resources between segments, the Group's results are further adjusted for items not specifically attributed to individual segments and other head office or corporate administration costs.

Inter-segment sales transactions are charged at prevailing market prices.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014

Operating segments

Segment information is presented below:

For the six months ended 30 June 2014

	Integrated logistics freight services HK\$'000	Provision of fuel cards HK\$'000	Tractor repair and maintenance services and insurance agency services HK\$'000	Inter-segment elimination HK\$'000	Total HK\$'000
Revenue (from external customers)	169,388	14,773	246	-	184,407
— Inter-segment revenue	24,408	1,716	1,711	(27,835)	-
Total revenue	193,796	16,489	1,957	(27,835)	184,407
Results					
Segment result	(3,263)	610	(149)	-	(2,802)
Share of results of associates					268
Other unallocated corporate expenses					(4,354)
Loss before taxation					(6,888)
Taxation					(508)
Loss for the period					(7,396)

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014

For the six months ended 30 June 2013

	Integrated logistics freight services HK\$'000	Provision of fuel cards HK\$'000	Tractor repair and maintenance services and insurance agency services HK\$'000	Inter-segment elimination HK\$'000	Total HK\$'000
Revenue (from external customers)	225,108	8,859	319	-	234,286
— Inter-segment revenue	26,259	742	1,822	(28,823)	-
Total revenue	251,367	9,601	2,141	(28,823)	234,286
Results					
Segment result	11,492	101	(176)	-	11,417
Share of results of associates					262
Other unallocated corporate expenses					(2,138)
Profit before taxation					9,541
Taxation					(2,224)
Profit for the period					7,317

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014

4. REVENUE

Revenue, which represents income from provision of integrated logistics freight services, provision of fuel cards and tractor repair and maintenance services and insurance agency services, is analysed by category as follows:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Income from provision of integrated logistics freight services	87,507	117,269	169,388	225,108
Income from provision of fuel cards	7,873	5,211	14,773	8,859
Tractor repair and maintenance services and insurance agency services fee	70	124	246	319
	95,450	122,604	184,407	234,286

5. OTHER INCOME

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank interest income	4	4	9	9
Exchange gain	-	105	56	147
Gain on disposal of property, plant and equipment	489	-	2,572	-
Management fee income	102	49	204	64
Sundry income	444	85	647	298
	1,039	243	3,488	518

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014

6. (LOSS)/PROFIT BEFORE TAXATION

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
This is stated after charging:				
Finance costs				
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	314	119	530	399
Finance charge on obligations under finance leases	55	102	115	207
	369	221	645	606
Other items				
Depreciation	2,017	2,116	4,114	4,461
Operating lease payments on premises	4,019	4,353	8,474	8,683
Staff costs				
Salaries, allowance and the other short-term employee benefits including directors' emoluments	12,443	11,898	25,256	25,838
Contributions to defined contribution plans	958	871	1,960	1,715
	13,401	12,769	27,216	27,553

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014

7. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (2013: 16.5%) of the estimated assessable profits for the period. The People's Republic of China (the "PRC") Enterprise Income Tax is calculated at the prevailing tax rate at 25% (2013: 25%) on taxable income determined in accordance with the relevant laws and regulations in the PRC.

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
Hong Kong Profits Tax				
— Current period	330	1,857	330	2,004
PRC Enterprise Income Tax				
— Current period	6	–	6	115
— Under-provision in prior period	151	85	172	105
	157	85	178	220
Total income tax recognized in profit or loss	487	1,942	508	2,224

8. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: Nil).

9. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share for the six months ended 30 June 2014 and 2013 are calculated by dividing the (loss)/profit attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014

In determining the weighted average number of ordinary shares in issue, 1 ordinary share issued on incorporation of the Company, 9,999,999 ordinary shares issued as consideration for the acquisition of the entire issued share capital of Gamma Logistics (B.V.I.) Corporation and the capitalisation issue of 590,000,000 ordinary shares upon the Listing on 22 August 2013 were deemed to have been in issue on 1 January 2013 for the purpose of the calculation of basic (loss)/earnings per share.

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss)/profit attributable to equity holders of the Company	(925)	2,004	(7,946)	5,153
Weighted average number of ordinary shares in issue	880,879,120	600,000,000	840,662,983	600,000,000
Basic (loss)/earnings per share (HK cents)	(0.11)	0.33	(0.95)	0.86

Basic and diluted (loss)/earnings per share are the same as the Company did not have any dilutive potential ordinary shares during the six months ended 30 June 2014 and 2013.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2014, the Group acquired items of plant and machinery with a cost of approximately HK\$0.88 million (2013: HK\$5.9 million). Items of plant and machinery with a net book value of approximately HK\$1.16 million were disposed of during the six months ended 30 June 2014 (2013: HK\$0.09 million), resulting in a gain on disposal of approximately HK\$2.57 million (2013: loss HK\$0.09 million).

11. TRADE AND OTHER RECEIVABLES

	Note	Unaudited 30 June 2014	Audited 31 December 2013
		HK\$'000	HK\$'000
Trade receivables		76,372	78,847
Other receivables			
Deposits, prepayments and other debtors		28,997	24,461
Due from associates	11(a)	2,299	2,349
		31,296	26,810
		107,668	105,657

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014

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

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Outstanding balances which aged:		
90 days or below	66,611	73,349
91–180 days	8,980	5,007
181–365 days	731	436
More than 365 days	50	55
	76,372	78,847

The Group allows a credit period of 60 to 90 days to its trade debtors.

The ageing analysis of trade receivables which are past due but not impaired is as follows:

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Neither past due nor impaired	45,549	44,730
Within 90 days	25,950	32,568
91–180 days	2,985	1,255
181–365 days	1,888	265
More than 365 days	–	29
Past due but not impaired	30,823	34,117
	76,372	78,847

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014

Included in the Group's trade receivables balance are debtors with carrying amounts of approximately HK\$31 million as at 30 June 2014 (31 December 2013: HK\$34 million) which are past due at the end of the reporting period but which the Group has not impaired as there have not been any significant changes in credit quality and the Directors believe that the amounts are fully recoverable. The management had reviewed the subsequent settlement status and repayment history of these customers and no provision for doubtful debt is considered necessary. The Group does not hold any collateral over these balances.

Receivables that were neither past due nor impaired as at 30 June 2014 and 31 December 2013 relate to a wide range of customers for whom there was no history of default.

11(a) DUE FROM ASSOCIATES

The amounts due are unsecured, interest-free and have no fixed term of repayment.

12. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Bank balances and cash	66,134	40,405
Bank overdrafts (secured)	(8,031)	(3,515)
	58,103	36,890

Cash at bank earns interest at floating rates based on daily bank deposit rates. Bank overdrafts bear interest at prevailing market rate.

12(a) PLEDGED BANK DEPOSITS

At 30 June 2014 and 31 December 2013, pledged bank deposits of the Group mainly represent bank deposits are pledged to a bank against the general banking facilities as mentioned in note 17 to the unaudited interim financial statements.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014

13. TRADE AND OTHER PAYABLES

		Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Trade payables		43,453	57,092
Other payables			
Accrued charges and other creditors		15,485	22,002
Due to associates	13(a)	9,435	9,084
		24,920	31,086
		68,373	88,178

The ageing analysis of trade payables is as follows:

		Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
90 days or below		36,463	48,600
91–180 days		6,587	7,733
181–365 days		403	759
		43,453	57,092

13(a) DUE TO ASSOCIATES

The amounts due are unsecured, interest-free and have no fixed repayment term.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014

14. INTEREST-BEARING BORROWINGS

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Bank loans	17,482	12,392
Obligations under finance leases	3,574	4,025
	21,056	16,417
Current portion		
Portion of interest-bearing borrowings due for repayment within one year		
— Obligations under finance leases	946	918
— Bank loans	15,826	9,564
	16,772	10,482
Portion of interest-bearing borrowings due for repayment after one year which contain a repayment on demand clause		
— Bank loans	1,656	2,828
	1,656	2,828
Total current portion of interest-bearing borrowings	18,428	13,310
Non-current portion		
— Obligations under finance leases	2,628	3,107
Total interest-bearing borrowings	21,056	16,417

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Analysed as follows:		
Secured	3,574	4,025
Unsecured but guaranteed	17,482	12,392
	21,056	16,417

15. SHARE CAPITAL

	30 June 2014		31 December 2013	
	Number of shares	Nominal value HK\$'000	Number of shares	Nominal value HK\$'000
Ordinary shares of HK\$0.01 each				
Authorised				
At 1 January	10,000,000,000	100,000	38,000,000	380
Increase in authorized capital	-	-	9,962,000,000	99,620
At 30 June/31 December	10,000,000,000	100,000	10,000,000,000	100,000
Issued and fully paid:				
At 1 January	800,000,000	8,000	1	-
Issue of shares upon reorganisation	-	-	9,999,999	100
Listing by way of placing	-	-	200,000,000	2,000
Capitalisation issue	-	-	590,000,000	5,900
Placing of new shares (note)	160,000,000	1,600	-	-
At 30 June/31 December	960,000,000	9,600	800,000,000	8,000

Note: On 16 May 2014, 160,000,000 ordinary shares of HK\$0.01 each were issued by way of placing to placees at HK\$0.272 per placing share. A total consideration of HK\$43,520,000. The excess of the placing price over the par value of the shares issued, net of expenses of HK\$1,164,000 was credited to the share premium account.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014

16. RELATED PARTY TRANSACTIONS

During the period, save as disclosed elsewhere in the Interim Financial Statements, the Group had the following transactions with related parties:

(a) Significant related party transactions

	Unaudited 30 June 2014 HK\$'000	Unaudited 30 June 2013 HK\$'000
Ocean freight income received from:		
Echo Chain Shipping Limited	4,449	3,958
Ocean freight charge paid to:		
Echo Chain Shipping Limited	252	31
Vanco Logistics Limited	13	51
Management fee income received from:		
Full & Fame Oil Product Agency Limited	174	54
GFII	–	120
Equipment rental received from:		
Earnward Warehouse Limited	554	988
Vanco Logistics Limited	78	78
Echo Chain Shipping Limited	381	–
Fuel and oil fee received from:		
Vanco Logistics Limited	420	27
Fuel and oil fee paid to:		
Full & Fame Oil Product Agency Limited	2,144	3,820
Administrative expenses paid to:		
Earnward warehouse Limited	70	252

Notes:

- GFII is the ultimate holding company of the Group in which Mr. Lo Wong Fung has beneficial interests;
- Echo Chain Shipping Limited, Vanco Logistics Limited, Full & Fame Oil Product Agency Limited and Earnward Warehouse Limited are associates of the Group.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2014

(b) Key management personnel remuneration

The remuneration of Directors, who are also identified as key management personnel of the Group, during the period is as follows:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Salaries allowance and the other short-term employee benefits	396	984	1,029	2,033
Contribution to defined contribution plans	4	4	12	8
	400	988	1,041	2,041

17. PLEDGE OF ASSETS AND BANKING FACILITIES

The details of pledge of assets and the banking facilities granted to the Group are summarized as follows:

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Total banking facilities granted to the Group	42,687	44,406
Total utilized banking facilities	33,307	17,907

The banking facilities are secured by the followings:

- pledged deposits as shown in the note 12(a) to the Interim Financial Statements;
- guarantees of HK\$42,687,000 issued by the Company as at 30 June 2014 (31 December 2013: HK\$44,406,000) and the Company has issued several guarantees in respect of banking facilities granted to the subsidiaries without charge.

18. APPROVAL OF THE UNAUDITED INTERIM FINANCIAL STATEMENTS

The Interim Financial Statements were approved and authorised for issue by the Board on 12 August 2014.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company's shares were successfully listed on GEM of the Stock Exchange on 22 August 2013.

For the six months ended 30 June 2014 (the "**Period**"), the Group is principally engaged in the provision of integrated logistics freight services with a primary focus on logistics services between Hong Kong and the Pearl River Delta ("**PRD**") region and has the following major business activities.

Our integrated logistics freight services can be divided into below categories during the Period under review:

1. Integrated logistics freight services

(a) Land and ocean freight services

The land and ocean freight services composed as the core business of the Group. During the Period under review, the Group's containers throughput (to and from Hong Kong and PRD region) decreased by 22% to 125,017 Twenty-foot Equivalent Units ("**TEU**") for the Period from 159,412 TEUs in 2013. The revenue from land and ocean freight services has decreased 24% to approximately HK\$152 million (2013: HK\$201 million).

As disclosed in the annual report for the year ended 31 December 2013, the Group has implemented a profit optimization strategy ("**Profit Optimization Strategy**") from the first quarter of 2014. The Profit Optimization Strategy includes (i) gradual increase in shipping freight charges up to 30% ("**Pricing Strategy**") on customers to optimize the return on the shareholders' equity. This Pricing Strategy is, in a short-term, expected to incur loss from customers who contribute low profit margin, however the Board expects an optimization on the profit stream in the future and a more high quality services provided to high profit margin clients; (ii) The Pricing Strategy in a short term might increase the average cost, as fixed cost remains at the same level, that might have impact on gross profit margin.

The Board expects that the effects will be diminished as the Group is also implementing the cost optimization strategy including disposal of redundant and old facilities, eg. containers, tractors and trailers. During the Period, the Group had disposed certain redundant and old facilities and recognized a gain of approximately HK\$2.6 million.

MANAGEMENT DISCUSSION AND ANALYSIS

(b) Air freight forwarding services

During the Period, the Group continued to focus on its air freight forwarding services within the East Asia region. The air freight forwarding services income decreased to approximately HK\$17 million for the Period (2013: HK\$18 million), which is generally in line with the air cargo movement in the East Asia region.

(c) Operation equipment rental services

During the Period, the Group recorded the income from operation equipment rental services of approximately HK\$0.3 million (2013: HK\$6 million). The declined in income from operation equipment rental services reflected the decrease in containers being transported to and from the PRC and Hong Kong.

2. Supporting services

The Group's income from supporting services comprising of provision of fuel cards and tractor repair and maintenance services and insurance agency services. The relevant income increased from approximately HK\$9 million for the six months ended 30 June 2013 to approximately HK\$15 million for the Period.

(a) Provision of fuel cards

During the Period, the increase in the Group's supporting services income was mainly driven by the increase in income from provision of fuel cards of approximately 67% as a result of increased marketing efforts for the promotion discount offered to our clients.

(b) Tractor repair and maintenance services and insurance agency services

Tractor repair and maintenance services and insurance agency services, albeit their contribution to our Group's revenue being relatively insignificant, served as major types of value-added-services to our land and ocean freight clients during the Period. The relevant revenue decreased by approximately 23% during the Period.

OUTLOOKS

Looking forward, the Group will continue to engage in the integrated logistics freight service. The Group will also continue to enhance the core business in land and ocean freight services while also expand our business in air freight forwarding business and explore other business and investment opportunities to diversify the revenue stream and business portfolios to enhance the interest of the shareholders of the Company.



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's revenue declined by approximately 21% to approximately HK\$184 million for the Period (2013: HK\$234 million). The decrease in revenue was mainly attributable to the decline of the Group's business in integrated logistics freight services.

The Group's cost of sales decreased by 17% to approximately HK\$157 million for the Period (2013: HK\$188 million), mainly driven by the decline in revenue from integrated logistics freight services.

With the combined effects of revenue and cost of sales, the Group's gross profit margin significant declined by approximately 24.3% to 15.0% for the Period (2013: 19.8%).

The Group's overall finance costs had increased by 6% to approximately HK\$645,000 for the Period (2013: HK\$606,000), mainly due to increase in bank overdrafts and interest-bearing borrowings compared with the last period in 2013.

The Group recorded the loss for the Period of approximately HK\$7,396,000 (2013: profit of approximately HK\$7,317,000). The loss attributable to the equity holders of the Company was approximately HK\$7,946,000 (2013: profit of approximately HK\$5,153,000) and the loss per share was 0.95 HK cents (2013: earnings per share was 0.86 HK cents).

Liquidity and financial resources

The Group continued to adopt a prudent financial management policy and has a healthy financial position.

As at 30 June 2014, the Group had net current assets of approximately HK\$77 million (31 December 2013: approximately HK\$38 million) including bank balances and cash equivalents of approximately HK\$66 million (31 December 2013: approximately HK\$40 million).

The Group's equity capital and bank borrowings have been applied to fund its working capital and other operational needs. The Group's current ratio as at 30 June 2014 was 1.80 (31 December 2013: 1.35).

As at 30 June 2014, the Group's gearing ratio (defined as the ratio of total debts to total equity) was 28.0% (31 December 2013: 28.9%).

MANAGEMENT DISCUSSION AND ANALYSIS

Fund raising activities

Placing of new shares under general mandate

On 30 April 2014, the Company and the placing agent entered into the placing agreement, pursuant to which the placing agent agreed to place on a best effort basis, up to 160,000,000 ordinary shares of HK\$0.01 each to be issued by way of placing under general mandate at a price of HK\$0.272 per share to not fewer than six placees. The placing price of HK\$0.272 represents a discount of approximately 13.65% to the closing price of HK\$0.315 as quoted on GEM on the date of the placing agreement. The Company raised approximately HK\$43.5 million before deducting related fee and expenses. Related fee and expenses of approximately HK\$1.2 million arose from the placing was recognized in the share premium account of the Company. The net proceeds of the placing was approximately HK\$42.3 million, represented a net price of HK\$0.265 per placing share. Of these net proceeds, around HK\$1 million used as general working capital, and the remaining balance is reserved for intended use and is deposited in financial institutions in Hong Kong. The placing was completed on 16 May 2014. The details of the placing were set out in the Company's announcements dated 30 April 2014 and 16 May 2014.

Event after reporting period

Placing of new shares under general mandate

On 3 July 2014, the Company and the placing agent entered into the placing agreement, pursuant to which the placing agent agreed to place on a best effort basis, up to 160,000,000 ordinary shares of HK\$0.01 each to be issued by way of placing under general mandate at a price of HK\$0.25 per share to not fewer than six placees. The placing price of HK\$0.25 represents a discount of approximately 15.25% to the closing price of HK\$0.295 as quoted on GEM on the date of the placing agreement. The Company raised HK\$40 million before deducting related fee and expenses. Related fee and expenses of approximately HK\$1.1 million arose from the placing was recognized in the share premium account of the Company. The net proceeds of the placing was approximately HK\$38.9 million, represented a net price of HK\$0.243 per placing share. Of these net proceeds is intended to be used for general working capital and/or future investments of the Group, with an aim to diversify the business portfolios and/or income stream of the Group. The placing was completed on 17 July 2014. The details of the placing were set out in the Company's announcements dated 3 July 2014 and 17 July 2014.



MANAGEMENT DISCUSSION AND ANALYSIS

Capital structure

As at 1 January 2014, the issued share capital of the Company was 800,000,000 shares.

On 16 May 2014, a total of 160,000,000 ordinary shares were issued by way of placing under general mandate. Details of the placing were disclosed in the above "Fund raising activities" in this report.

As at 30 June 2014, the issued share capital of the Company was 960,000,000 shares.

Dividend

The Board does not recommend the payment of an interim dividend in respect of the Period (2013: Nil).

Significant investment

Save as disclosed in this report, the Group did not have any significant investment as at 30 June 2014.

Future plans for material investments or capital assets

Save as disclosed in this report, there was no specific plan for material investments or capital assets as at 30 June 2014.

Material acquisitions and disposals of subsidiaries and associated companies

The Group has no material acquisitions and disposals of subsidiaries and associated companies during the Period.

Pledge of assets

The Group used facilities from its bank and other borrowings to finance its expansion of its business. Secured borrowings are secured by the Group's property, plant and equipment, having carrying amounts of approximately HK\$3.2 million (31 December 2013: HK\$3.7 million), and pledged bank deposits of HK\$0.6 million (31 December 2013 HK\$0.4 million).

Foreign currency exposure

As at 30 June 2014, the Directors considered the Group's foreign exchange risk to be insignificant. During the Period, the Group did not use any financial instruments for hedging purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

Employees and emolument policy

As at 30 June 2014, the Group employed a total of 324 employees (31 December 2013: 347 employees) based in Hong Kong and the PRC. Total staff costs, including Directors' emoluments, amounted to approximately HK\$27 million (2013: HK\$28 million).

The Group reviews the emoluments of its directors and staff based on the qualification, experience performance and the market rates so as to maintain the remunerations of its directors and staff at a competitive level.

Contingent liabilities

As at 30 June 2014, the Group had no material contingent liabilities (31 December 2013: Nil).

Comparison between future plans and prospects and actual business progress

An analysis comparing the future plans and prospects as contained in the Prospectus with the Group's actual business progress from 7 August 2013, being the latest practicable date as defined in the Prospectus, to 30 June 2014 (the "**Relevant Period**") is set out below:

	Future plans and prospects	Actual business progress during the Relevant Period
1. Expanding core business	Explore new route in the PRD region	The Group is exploring new route in the PRD region
2. Value-added logistics services	Research and development of Vendor Inventory System (the " VIM System ")	The Group is selecting VIM Systems that are available in the market for customization
3. Expanding air-freight forwarding services	Explore business opportunities	The Group's managements has been exploring suitable opportunities with new airline companies for new Airline General Sales & Services Agency (the " GSSA ") partnerships
4. Trade centre development	Identify potential land to build trade centre	The Group is assessing the presented proposals land for trade centre in the area of PRC
5. Repayment of loans	Repayment of loans	The loan has been duly repaid as planned
6. Acquiring the remaining interest of Win Top Shipping Company Limited (" Win Top "), a subsidiary Company of the Group	Complete acquisition of Win Top	The acquisition has been completed



MANAGEMENT DISCUSSION AND ANALYSIS

Use of proceeds

The net proceeds from the Placing were approximately HK\$40 million, being the same amount as disclosed in the Prospectus. During the Relevant Period, the net proceeds from the Placing had been applied as follows:

	Planned use of net proceeds as stated in the Prospectus during the Relevant Period HK\$ million	Actual use of proceeds during the Relevant Period HK\$ million (Approximate)
Expanding the market share of our Group's core business	1.00	1.00
Developing high value-added logistics service and distribution service for international brands in Hong Kong	2.00	0.00
Expanding air-freight forwarding business	3.10	0.50
Developing an area as a centre for the clients to store, inspect and check the quality of clients' goods with other value-added services	0.50	0.00
Repaying some existing loans	2.60	2.60
Acquiring the remaining interests of Win Top	13.00	13.00
	22.20	17.10

Notes:

- a. Save as above, HK\$3.5 million had been applied as general working capital of the Group.
- b. The future plans and prospects as stated in the Prospectus were based on the best estimation of the future market conditions made by the Group at the time of preparing the Prospectus. The uses of proceeds were applied in accordance with the actual development of the markets:
 1. The Group is selecting VIM Systems that are available in the market for customization, however, no actual capital has been invested in the development of VIM Systems.
 2. The Group's managements has been exploring suitable opportunities with new airline companies for new GSSA partnerships to expand its GSSA network, however, no actual capital has been invested in the process.
 3. The loan of HK\$2.60 million has been repaid as planned during the Relevant Period.
 4. The transaction has been completed during the Relevant Period and the Group's interest in Win Top and its wholly-owned subsidiary have been increased to 100%.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2014, the interests and short positions of each director and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares of the Company

Name of Director	Capacity/ Nature of interests	Number of shares held	% of the Company's issued share capital (Approximate)
Mr. Lo Wong Fung	Interest of a controlled corporation (Note)	520,000,000	54.16%

Note: The shares are held by GFII, of which Mr. Lo Wong Fung is legally and beneficially owned as to 40% of the entire issued share capital. Under the SFO, Mr. Lo Wong Fung is deemed to be interested in the shares registered in the name of GFII.

Save as disclosed above, as at 30 June 2014, none of the Directors and chief executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.



OTHER INFORMATION

SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and to recognize and acknowledge the contributions that eligible persons had made or may make to the Group. The Scheme has been adopted pursuant to the written resolutions of the sole shareholder of the Company passed on 3 August 2013. During the Period, no share options were granted, exercised or cancelled by the Company under the Scheme and there were no outstanding share options under the Scheme as at 30 June 2014 and at the date of this report.

SUBSTANTIAL SHAREHOLDERS’ INTERESTS AND OTHER PERSONS’ INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2014, so far as was known to the Directors, the following persons/entities (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the shares or 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 under Section 336 of the SFO were as follows:

Name of shareholders	Capacity/ Nature of interests	Number of shares held (Note 1)	% of the Company’s issued share capital (Approximate)
GFII (Note 2)	Beneficial owner	520,000,000 (L)	54.16%
Smart Oriental Limited (Note 3)	Interest of controlled corporation	520,000,000 (L)	54.16%

Notes:

1. The letter “L” denotes a long position in the interest in the issued share capital of the Company.
2. GFII, a company incorporated in Hong Kong and an investment holding company, is beneficially owned as to 40% by Smart Oriental Limited, as to 20% by B & O Global Invest Limited and as to the remaining 40% by Mr. Lo Wong Fung.
3. Smart Oriental Limited is deemed to be interested in the shares held by GFII under the SFO.

Save as disclosed above, as at 30 June 2014, the Directors were not aware of any other persons/entities (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or 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 under Section 336 of the SFO.

OTHER INFORMATION

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

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by Asian Capital (Corporate Finance) Limited ("**Asian Capital**"), the compliance adviser of the Company, neither Asian Capital nor its directors or employees or associates had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 30 June 2014, except as disclosed in the Prospectus.

Asian Capital received and will receive fees for acting as the compliance adviser of the Company.

COMPETING BUSINESSES

Save and except for interests in the Group, none of the Directors and controlling shareholders of the Company nor their respective associates (as defined under the GEM Listing Rules) had any interest in any other companies as at 30 June 2014 which may, directly or indirectly, compete with the Group's business.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries to all the Directors, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors for the Period.

CHANGE IN INFORMATION OF DIRECTOR

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, the change in information of the Director since the date of the annual report of the Company for the year ended 31 December 2013 is set out below:

Name of Director

Mr. Luk Chi Shing

Details of change:

Appointed as an executive director of Tai Shing International (Holdings) Limited (stock code: 8103) with effect from 3 April 2014.



OTHER INFORMATION

CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company has complied all the code provisions as set out in the Corporate Governance Code contained in Appendix 15 to the GEM Listing Rules for the Period except the following:

Pursuant to Code Provision A.6.7, independent non-executive directors should attend general meetings. Mr. Lam Ying Hung, Andy and Mr. Zschiesche, Gustav (both resigned as independent non-executive Directors on 12 June 2014), were unable to attend an annual general meeting of the Company due to their other prior engagements.

AUDIT COMMITTEE

An audit committee of the Company (the “**Audit Committee**”) has been established on 3 August 2013 with written terms of reference in compliance with the GEM Listing Rules. The members of the Audit Committee comprise Mr. Luk Chi Shing, Mr. Zhang Fangmao, and Mr. Wang Zongbo, all of whom are independent non-executive Directors. The chairman of the Audit Committee is Mr. Luk Chi Shing. The primary duties of the Audit Committee are mainly to make recommendations to our Board on the appointment and removal of the external auditors, review the financial statements and related materials and provide advice in respect of the financial reporting process and oversee the internal control procedures of our Group.

The Interim Financial Statements have not been audited by the Company’s auditors, but have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the Interim Financial Statements complied with the applicable accounting standards, the GEM Listing Rules and legal requirements, and that adequate disclosures have been made.

APPRECIATION

On behalf of the Directors, I would like to extend our gratitude and sincere appreciation to all management and staff members for their diligence and dedication, the continuing support of our business partners, customers and the Company’s shareholders.

By order of the Board
Gamma Logistics Corporation
Lo Wong Fung
Chairman

Hong Kong, 12 August 2014

As at the date of this report, the Board comprises the following members:

<i>Executive Directors</i>	<i>Non-executive Director</i>	<i>Independent Non-executive Directors</i>
Mr. Lo Wong Fung <i>(Chairman)</i>	Mr. Ho Chi Ho	Mr. Luk Chi Shing
Mr. Lo Ka Man		Mr. Zhang Fangmao
Mr. Yang Yue Xia		Mr. Wang Zongbo
Mr. Jiang Tan Shan		