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

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 8162)**

Annual Report **2014**

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

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

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

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*This 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 for at least seven days from the date of its publication and on the Company's website at www.locohongkong.com.*

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# CORPORATE PROFILE AND STRUCTURE

The principal activity of the Company is investment holding. The subsidiaries of the Company (together with the Company, the "Group") are engaged in the trading of metals and commodity forward contracts in Hong Kong as well as property holding. A summary of our subsidiaries is set out below:

| Name | Place of incorporation & kind of legal entity | Percentage of ownership interests Directly | Percentage of ownership interests Indirectly | Particulars of issued share capital | Place of operation and principal activities |
|---|---|---|---|---|---|
| Loco HK Limited | British Virgin Islands, limited liability company | 100% | – | US$10 | Investment holding in Hong Kong |
| China Precision Material Limited | Hong Kong, limited liability company | – | 100% | HK$20,000,000 | Metal and commodity forward contracts trading in Hong Kong |
| CPM Silver Limited | Hong Kong, limited liability company | – | 100% | HK$10,000 | Silver processing and property holding in Hong Kong |
| United Bridge Limited | Hong Kong, limited liability company | – | 100% | HK$10,000 | Property holding in Hong Kong |

# CORPORATE INFORMATION

## Directors

### Executive Directors

Felipe TAN *(Chairman)*
CHAU Mei Fan

### Independent Non-Executive Directors

CHAN Ka Ling Edmond
TANG Cornor Kwok Kau
TSANG Wai Chun Marianna

## Audit Committee

CHAN Ka Ling Edmond *(Chairman)*
TANG Cornor Kwok Kau
TSANG Wai Chun Marianna

## Remuneration Committee

TANG Cornor Kwok Kau *(Chairman)*
CHAN Ka Ling Edmond
TSANG Wai Chun Marianna
Felipe TAN

## Nomination Committee

TSANG Wai Chun Marianna *(Chairlady)*
CHAN Ka Ling Edmond
TANG Cornor Kwok Kau
Felipe TAN

## Hedging Committee

TANG Cornor Kwok Kau *(Chairman)*
CHAN Ka Ling Edmond
Felipe TAN
CHAU Mei Fan

## Company Secretary

KO Yuen Kwan

## Compliance Officer

Felipe TAN

## Auditor

BDO Limited

## Share Registrar and Transfer Office

Tricor Investor Services Limited

## Compliance Adviser

Alliance Capital Partners Limited

## Registered Office

Room 2003, 118 Connaught Road West,
Hong Kong

## Listing

Growth Enterprise Market of
The Stock Exchange of Hong Kong Limited

## Stock Code

8162

## Authorised Representatives to the Stock Exchange

Felipe TAN
KO Yuen Kwan

## Website

www.locohongkong.com

## Email

Info@locohongkong.com

# CHAIRMAN'S STATEMENT

Dear Shareholders

Thanks to the support of the shareholders and the dedicated efforts of our colleagues, the Company completed its reorganisation and successfully listed its shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 5 August 2014. The Group was established in 2009 with HK$10,000 paid up capital and started as a silver trader. Through its efforts, by four profit capitalisations, the Group's net worth grew over HK$20 million with paid up capital of HK$20 million at the beginning of 2014. The reorganisation and successful listing marked a new milestone in the development history of the Company. The loan capitalisation of HK$27.7 million by a major shareholder and the net proceeds of HK$28.5 million raised from the placing strengthened our financial position for future expansion.

During the year under review, the Group recorded a substantial increase in turnovers by 42% from HK$1.5 billion to HK$2.1 billion. It is due to the growth in quantity of silver product sold by 79% from 243 tonnes to 435 tonnes during the year. While achieving strong business growth, we are also facing challenges in the volatile silver market. According to the statistics released by the Hong Kong Census and Statistic Department, the total export and re-export of silver in 2014 was 4,277 tonnes. Our turnover represented approximately 10% of the silver market of Hong Kong. However, Hong Kong experienced a setback in the fourth quarter of 2014. The statistics also show that silver export and re-export in Hong Kong in the fourth quarter of 2014 dropped significantly to 592 tonnes as compared to 1,167 tonnes in the third quarter. We were faced with the same situation and the turnover of the Group decreased substantially in the fourth quarter due to inadequate supply of silver. The supply of silver scraps in Hong Kong falls sharply because the import of silver decreased as a result of the significant drop in international silver prices.

To brace against this challenge, the Group is actively negotiating with metal suppliers to increase the supply and so as our turnover. We plan to expand our income by exploring more potential suppliers and diversifying our source of raw materials to include materials of a lower fineness by using the electrolysis facilities for processing. The registration and application of licenses required for electrolysis activities were completed in early 2015. The Group has engaged Hong Kong Productivity Council as our adviser for set up the testing laboratory and it is expected to be completed by May 2015. The Group is also studying the possibility of building a raw material supply base in the PRC.

Looking forward, global economy and the markets are still volatile and the policy-making environment continues to be complicated. The Company will remain vigilant and stand ready to face further challenges and will adopt a growth-yet-prudent attitude to sustain its growth. The management believes that once the electrolysis facilities and testing laboratory are in operation, we can be more flexible to adapt to the market change. Flexibility can enhance our results as we become more responsive to the complex business environment. The management also believes that the result of the Group will further be boosted in the long run when the businesses of the Group have successfully branched out to the PRC.

# CHAIRMAN'S STATEMENT

In the end, on behalf of the Board, I would like to extend my sincere appreciation for the valued support of our shareholders, clients, business associates and suppliers over the past years and during the listing process. I would also like to sincerely thank for the dedication, professionalism and hard work of our fellow Directors, management and staffs.

On behalf of the Board
**Felipe Tan**
*Chairman*

Hong Kong, 24 March 2015

# MANAGEMENT DISCUSSION AND ANALYSIS

## Reorganisation

The companies now comprising the Group completed the Reorganisation for the listing (the "Listing") of the Company's shares on GEM. Further details of the Reorganisation are set out in the section headed "History, Reorganisation and Corporate Structure" to the listing document of the Company dated 29 July 2014 (the "Prospectus").

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

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

### Corporate Strategy and Business Model

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

The Group purchases silver raw materials when we have sufficient capital and source of silver raw materials. For other metals, we obtain quotations from our suppliers upon receiving preliminary enquiries from our customers and therefore the purchase quantity of other metal is determined by the estimated demand and enquiry from our customers. In order to ensure a sufficient supply of silver products to our customers, we maintain a target inventory level, by taking into account silver supplies and our processing capacity. A sales contract is originated by an inquiry from and/or negotiation with our customers. The purchase or sales price is expressed as a discount to or premium over the prevailing market price at a date to be agreed. Such discount or premium is negotiated on a case by case basis between us and our suppliers or our 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 silver direct trading and trading of other metals are essentially identical to the trading of silver products which involve processing, except that we do not process the silver products sold under our silver direct trading.

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

## Business Review

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

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## London Silver Price

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

## Outlook

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

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

## Financial Review

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

## Capital Structure, Liquidity and Financial Resources

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

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

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

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

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

## Significant Investments, Acquisitions and Disposals

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

## Capital Commitment

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

## Employees and Remuneration Policy

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

## Charge on the Group's Assets

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

## Future Plan for Material Investments and Capital Assets

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

## Dividends

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

## Gearing Ratio

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

## Foreign Exchange Exposure

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

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

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

## Contingent Liabilities

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

## Comparison of Business Objectives with Actual Business Progress

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

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

# 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 Listing Date to 31 December 2014, the net proceeds had been applied as follows:

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

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

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## Executive Directors

**Mr. Felipe Tan**, aged 60, was appointed as a Director on 14 February 2014. He is also the Chairman of the Board and an executive Director. He is responsible for the overall corporate strategies, management, planning business development and hedging activities of our Group. Mr. Felipe Tan ("Mr. Tan") has over 30 years of experience in metal trading and monitoring hedging activities, including more than 13 years of management experience in the mining industry in the PRC. Currently, he is the chairman of the board, president and chief executive officer of GobiMin Inc. ("GobiMin"), a company engaged in the exploration and exploitation of mineral resources in Xinjiang, the PRC and shares of which have been listed on the TSX Venture Exchange since 1 October 2005 (Symbol: GMN). Mr. Tan has also been an executive director of Timeless Software Limited ("Timeless") (stock code: 8028) since 30 September 2012. Timeless is principally engaged in the computer hardware and software and mining business, the shares of which are listed on GEM. 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. Mr. Tan is the brother-in-law of Ms. Chau Mei Fan, an executive Director.

**Ms. Chau Mei Fan**, aged 53, was appointed as a Director on 14 February 2014. She is also an executive Director and mainly responsible for overseeing the daily operations of our Group. She joined our Group in 2009 and has served as a director of CPM and CPM Silver Limited ("CPM Silver") since July 2011, and a director of United Bridge Limited since June 2012. Prior to joining our Group, Ms. Chau has previously worked for various businesses in Hong Kong and has over 20 years of experience in trading metals, inducing silver, and over 10 years in monitoring hedging activities. Ms. Chau is the sister-in-law of Mr. Felipe Tan, the Chairman of our Board and an executive Director. Ms. Chau 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

## Independent Non-executive Directors

**Mr. Chan Ka Ling Edmond**, aged 56, was appointed as an independent non-executive Director on 22 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 is currently a director of an audit firm in Hong Kong. Mr. Chan has served as an independent non-executive director of China Nuclear Industry 23 International Corporation Limited (stock code: 611) since 7 August 1992. Other than his directorship 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.

**Mr. Tang Cornor Kwok Kau**, aged 54, was appointed as an independent non-executive Director on 22 July 2014. Mr. Tang has been the deputy managing director of Shougang Concord Century Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 103), since March 2000. Shougang Concord Century Holdings Limited is principally engaged in manufacturing of steel cords; and processing and trading of copper and brass products. He obtained a Bachelor's degree in Business Administration and a Master's degree in Business Administration from York University in Canada in June 1983 and June 1984 respectively. Prior to joining Shougang Concord Century Holdings Limited, Mr. Tang had held senior positions with various international investment banks. He also has over 15 years of experience in corporate and investment banking. Other than his directorship as disclosed above, Mr. Tang 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**, aged 60, was appointed as an independent non-executive Director on 22 July 2014. Ms. Tsang Wai Chun Marianna ("Ms. Tsang") is the Managing Director of TWC Management Limited. She 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 and the Chartered Institute of Arbitrators. She is appointed as a member of the Board of Review (Inland Revenue Ordinance). 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 an independent non-executive director of Timeless since 16 October 2003. Other than her directorship 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

**Mr. Felipe Tan** is the compliance officer of our Group.

## Senior Management

Our senior management comprises our executive Directors and the following persons:

**Mr. Huang Hongbin**, aged 52, is the relationship officer and one of the founders of our Group. He is responsible for overseeing the relationship with our customers and suppliers. Mr. Huang, who is also a director of CPM and CPM Silver, has more than 15 years of experience in trading of precious metals. Mr. Huang had been a member of the senior management of a jewelry trading company in Guangdong Province, the PRC since 1998 before joining our Group. Mr. Huang was appointed as relationship officer on 1 September 2010. Mr. Huang 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. Yeung Tsap Yee Harry**, aged 56, is the workshop manager of our Group. He is responsible for overseeing the processing workshop of our Group. Prior to joining our Group on 2 July 2010, Mr. Yeung has over 23 years of experience in processing precious metals. He had worked for different subsidiaries of a company formerly listed on the Main Board of the Stock Exchange, whose principal activities included wholesaling and trading of gold bullion, and wholesaling and retailing of gold ornaments, diamonds and other jewelry mainly in Hong Kong and the PRC. He 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. Lau Yun Fong Carman**, aged 48, is the chief accountant of our Group. She is responsible for the accounting function of our Group. Ms. Lau is an associate member of the HKICPA and has over 15 years of extensive experience in auditing and corporate finance management. Prior to joining our Group on 22 July 2014, Ms. Lau had worked in an international accounting firm and then served for 10 years in a listed company with securities listed on the Main Board of the Stock Exchange from 2003 to 2012. Ms. Lau graduated from the University of Hong Kong with a Bachelor's degree of Social Sciences. Ms. Lau has been the executive director of Timeless since 17 November 2014. Other than her directorship as disclosed above, Ms. Lau 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

## Company Secretary

**Ms. Ko Yuen Kwan**, aged 50, has comprehensive experience in finance, accounting and compliance matters of listed companies in Hong Kong and Canada. Ms. Ko is currently the Chief Financial Officer, Vice President Corporate Affairs & Secretary of GobiMin. From 1994 to 2006, Ms. Ko had been the company secretary of a listed company with securities listed on the Main Board of the Stock Exchange and was responsible for its company secretarial, legal and compliance matters. Ms. Ko is also a director of a subsidiary of Timeless and the company secretary of Timeless. Ms. Ko joined our Group on 14 February 2014. Ms. Ko obtained a Master's degree in Professional Accounting from the Hong Kong Polytechnic University in November 2000. She is a member of the HKICPA, the CPA Australia and the Hong Kong Institute of Chartered Secretaries. Ms. Ko 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 Company 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 2014 since the Listing Date, the Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 15 of the GEM Listing Rule ("Code Provisions"). The Board reviews and improves its corporate governance practices from time to time so as to ensure that they comply with the statutory requirements and the Code Provisions.

## 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 enquiry of all Directors, they confirmed their compliance with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company throughout the year ended 31 December 2014 since the Listing Date.

## Board of Directors

### (a) Board Composition

As at 31 December 2014, the Board of the Company comprised five Directors including two executive Directors, namely Mr. Felipe Tan and Ms. Chau Mei Fan; and three independent non-executive Directors, namely Mr. Chan Ka Ling Edmond, Mr. Tang Cornor Kwok Kau 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; develop and perform the corporate governance duties of the Company; monitor the implementation of these policies and strategies and responsible for the management of the Company. 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.

# CORPORATE GOVERNANCE REPORT

The 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. From the Listing Date to 31 December 2014, the Board held two board meetings. The Company Secretary prepares minutes and keeps records of 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 terms, 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 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 22 July 2014 or the Listing Date 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.

In compliance with A.4.2 of the Code Provisions, every director, including those appointed for a specific term, 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 but the office of the chief executive officer of the Company is vacated. The Board will continue to review the current Board composition from time to time and would take into account of the requirement of the Group's business development and fill the post as appropriate should candidate with suitable knowledge, skills and experience be identified. The Nomination Committee will also review the diversity of the Board to ensure its continued effectiveness.

## (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.

| Name of Directors | Attending training courses/reading relevant materials in relation to the business, GEM Listing Rules or directors' duties (Yes/No) |
|---|---|
| **Executive Directors:** | |
| Mr. Felipe Tan | Yes |
| Ms. Chau Mei Fan | Yes |
| **Independent Non-Executive Directors:** | |
| Mr. Chan Ka Ling Edmond | Yes |
| Mr. Tang Cornor Kwok Kau | Yes |
| Ms. Tsang Wai Chun Marianna | 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 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-yearly 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 accountant and auditor. 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 officer or auditor. Members of our Audit Committee are also responsible for reviewing our Company's financial reporting process and internal control system.

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

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

### (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 Mr. Tang Cornor Kwok Kau, Mr. Chan Ka Ling Edmond, Ms. Tsang Wai Chun Marianna and one executive Director, Mr. Felipe Tan. Mr. Tang Cornor Kwok Kau is the chairman of our Remuneration Committee.

Since the year under review was relatively short, the Remuneration Committee did not hold any meeting during the year.

# CORPORATE GOVERNANCE REPORT

## (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, Mr. Tang Cornor Kwok Kau and one executive Director, Mr. Felipe Tan. Ms. Tsang Wai Chun Marianna is the chairlady of the Nomination Committee.

Since the year under review was relatively short, the Nomination Committee did not hold any meeting during the year.

## (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. Tang Cornor Kwok Kau, Mr. Chan Ka Ling Edmond, Mr. Felipe Tan and Ms. Chau Mei Fan. Mr. Tang Cornor Kwok Kau is the chairman of the Hedging Committee.

### (e) Attendance at Board Meetings, Board Committee Meetings and General Meeting

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:

| | Number of Meetings Attended/Held During the Year under Review | | | | | |
|---|---|---|---|---|---|---|
| Name of Directors | Board Meeting | Audit Committee Meeting | Remuneration Committee Meeting | Nomination Committee Meeting | Hedging Committee Meeting | General Meeting |
| **Executive Directors:** | | | | | | |
| Mr. Felipe Tan | 2/2 | – | – | – | 2/2 | – |
| Ms. Chau Mei Fan | 2/2 | – | – | – | 2/2 | – |
| **Independent Non-Executive Directors:** | | | | | | |
| Mr. Chan Ka Ling Edmond | 2/2 | 2/2 | – | – | 2/2 | – |
| Mr. Tang Cornor Kwok Kau | 2/2 | 2/2 | – | – | 2/2 | – |
| Ms. Tsang Wai Chun Marianna | 2/2 | 2/2 | – | – | – | – |

During the year under review, there were no general meeting convened.

## Auditor's Remuneration

For the year ended 31 December 2014, the fees paid/payable to the auditor in respect of the audit and non-audit services were as follows:

| Type of Services | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| Audit Services | 520 | 150 |
| Non-Audit Services | 1,960 | — |
| Total: | 2,480 | 150 |

During the year under review, the Group had engaged the auditor to provide non-audit services in relation to application for listing of the shares of the Company on the GEM.

# CORPORATE GOVERNANCE REPORT

## Directors' and Auditor's Responsibility for the Financial Statements

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group for each financial period to give a true and fair view of the state of affairs of the Group and the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2014, the Board uses appropriate accounting policies that are consistently applied, makes judgment and estimates that are reasonable and prudent, and that all applicable accounting standards are followed. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The Directors continue to adopt the going concern approach in preparing the financial statements and not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The reporting responsibilities of the Company's auditor, BDO Limited, are set out in the section headed "Independent Auditor's Report" on pages 33 to 34 of this annual report.

During the year under review, the Board did not take a different view from the Audit Committee on the appointment of external auditor.

## Internal Control

The Board is responsible for the internal control of the Group for reviewing its effectiveness. The Audit Committee assists the Board in meeting its responsibilities for maintaining an effective system of internal control. It reviews the process by which the Group evaluates its control environment and risk assessment, and the way in which business and controls are managed. Procedures have been designed to facilitate the effectiveness and efficiencies of operations, safeguard assets against unauthorised 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 procedures aim to achieve reasonable assurance against material errors, losses and fraud.

## 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. For the year under review, the Company Secretary has confirmed that she 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

Pursuant to the special resolution of the sole shareholder passed on 22 July 2014, the articles of association of the Company was altered and adopted with effect from the Listing Date in order to comply with the GEM Listing Rules and other statutory requirements before listing of the shares of the Company on the GEM. Save as disclosed above, during the year ended 31 December 2014, there was no significant 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 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 convened 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, the following documents should be duly lodged at the head office of the Company at Room 2003, 118 Connaught Road West, 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.

## 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@locohongkong.com as stated on the Company's website.

# REPORT OF THE DIRECTORS

The Directors present their annual report together with the audited consolidated financial statements for the year ended 31 December 2014.

## Principal Activities

The Group is principally engaged in the trading of metals and commodity forward contracts and the processing of silver products in Hong Kong as well as property holding, which is the only reportable operating segment of the Group.

## Results and Appropriations

The results of the Group for the year ended 31 December 2014 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 35 to 86.

The directors do not recommend the payment of dividend in respect of the year ended 31 December 2014. Dividends declared and paid by CPM, to its then shareholders for the year ended 31 December 2014 was HK$1,500,000 (2013: nil).

## Closure of the Register of Members

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

## Share Capital

Details of the movements in the share capital of the Company during the year ended 31 December 2014 are set out in note 26 to the financial statements.

## Distributable Reserves of the Company

As at 31 December 2014, the Company has no reserve available for distribution in accordance with the provision of section 79B of the Companies Ordinance and with reference to the "Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Hong Kong Companies Ordinance" issued by HKICPA.

## Reserves

Details of the movements in reserves of the Group and the Company during the year are set out in consolidated statement of changes in equity and note 13 to the financial statements.

## 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 17 and 16 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 87.3% (2013: 80.7%) of the Group's total sales while the sales attributable to the Group's largest customer was approximately 49.8% (2013: 25.3%) of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers comprised approximately 99.4% (2013: 98.6%) of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 88.5% (2013: 62.1%) of the Group's total purchases.

Save as disclosed above, none of the directors, their 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. Felipe Tan *(Chairman)* | (appointed as director on 14 February 2014 and as executive director on 22 July 2014) |
| Ms. Chau Mei Fan | (appointed as director on 14 February 2014 and as executive director on 22 July 2014) |

**Independent Non-executive Directors**

| | |
|---|---|
| Mr. Chan Ka Ling Edmond | (appointed on 22 July 2014) |
| Mr. Tang Cornor Kwok Kau | (appointed on 22 July 2014) |
| Ms. Tsang Wai Chun Marianna | (appointed on 22 July 2014) |

# REPORT OF THE DIRECTORS

## Directors' Service Contracts

Each of the Executive Directors has entered into a service agreement with the Company for a term of three years. 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 Group.

No directors 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.

Other than 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 2014.

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

As at 31 December 2014, 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

| Name of Directors/ Chief Executives | Nature of Interests | Number of shares | % of shareholding |
|---|---|---|---|
| Felipe Tan | Interest of a controlled corporation | 192,080,000 (Note) | 48.02% |
| Chau Mei Fan | Beneficial owner | 1,209,365 | 0.30% |

Note: As at 31 December 2014, Mr. Tan directly and indirectly owned 56.87% 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 controlling shareholder of the Company. By virtue of the SFO, Mr. Tan is deemed to have interest in 192,080,000 shares of the Company.

### (b) Interests in Shares of Associated Corporation of the Company

| Name of Director | Name of Associated Corporation | Nature of Interests | Number of shares | % of shareholding |
|---|---|---|---|---|
| Felipe Tan | Good Omen Investments Limited | Beneficial owner | 100 | 100.00% |
| Felipe Tan | Belmont Holdings Group Limited | Interest of a controlled corporation & beneficial owner | 8,633 | 84.60% |
| Felipe Tan | GobiMin Inc. | Interest of a controlled corporation & beneficial owner | 32,069,000 | 56.87% |
| Felipe Tan | GobiMin Investments Limited | Interest of a controlled corporation | 1,000 | 56.87% |
| Felipe Tan | GobiMin Silver Limited | Interest of a controlled corporation | 1,000 | 56.87% |

# REPORT OF THE DIRECTORS

### Short Positions

As at 31 December 2014, 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.

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

As at 31 December 2014, 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 be directly or indirectly interested in 5% or more of the issued shares of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

| Name | Nature of Interests | Number of ordinary shares | % of shareholding |
|---|---|---|---|
| GobiMin Inc. | Interest of a controlled corporation | 192,080,000 | 48.02% |
| GobiMin Investments Limited | Interest of a controlled corporation | 192,080,000 | 48.02% |
| GobiMin Silver Limited | Beneficial owner | 192,080,000 | 48.02% |
| Huang Hongbin | Interest of a controlled corporation | 54,700,516 (Note 1) | 13.68% |
| Hong Jin Group Limited | Beneficial owner | 54,700,516 | 13.68% |
| Wong Kei Yuen | Interest of a controlled corporation | 25,608,095 (Note 2) | 6.40% |
| CHP1855 Limited | Beneficial owner | 25,608,095 | 6.40% |

Note 1: These shares are held by Hong Jin Group Limited, which is wholly and beneficially owned by Mr. Huang Hongbin. By virtue of the SFO, Mr. Huang Hongbin is deemed to have interest in the 54,700,516 ordinary shares of the Company held by Hong Jin Group Limited. Mr. Huang Hongbin is a director of subsidiaries of the Company.

Note 2: These shares are held by CHP 1855 Limited, which is wholly and beneficially owned by Mr. Wong Kei Yuen. By virtue of the SFO, Mr. Wong Kei Yuen is deemed to have interest in the 25,608,095 ordinary shares of the Company held by CHP1855 Limited.

## 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 (i) approximately 56.87% equity interests in GobiMin, 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) approximately 22.49% equity interests in Timeless, which is principally engaged in the information technology business and mining business, and shares of which are listed on GEM, as at 31 December 2014.

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 is involved in upstream activities of exploration and mining which involve entirely different technologies, machinery and expertise. Accordingly, the Group and GobiMin and its subsidiaries ("GobiMin Group") are positioned in different specialised 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. On 19 May 2014, the Group engaged Timeless to design and build a trading software system at a cost of HK$342,000 with an annual maintenance fee of HK$57,000. Mr. Tan and Ms. Tsang, the Company's Directors, also act as directors of Timeless.

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. Details of the deed of non-competition are set out in the section headed "Relationship with Our Controlling Shareholders" to the Prospectus. Mr. Tan and the Controlling Shareholders as defined in the Prospectus have provided the Company with (i) an annual written confirmation in respect of compliance by each of them with the terms of the deed of non-competition; (ii) his/its consent to inclusion of such confirmation in this annual report; and (iii) all information as may reasonably be requested by the Company and/or the Company's independent non-executive Directors for review and enforcement of the deed of non-competition.

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 2014.

# REPORT OF THE DIRECTORS

## Interests of the Compliance Adviser

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

## Connected Transactions

None of the "Related party transactions" as disclosed in the note 28 to the financial statements for the year ended 31 December 2014 constituted discloseable non-exempted connected transaction or non-exempted continuing connected transaction under the GEM Listing Rules.

## 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 24.

## 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.

## Events after the Reporting Period

Details of events after the reporting date are set out in note 34 to the financial statements.

## Auditor

The account for the year ended 31 December 2014 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 Board

**Loco Hong Kong Holdings Limited**
**Felipe TAN**
*Chairman*

Hong Kong, 24 March 2015

# INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2014

BDO

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香港干諾道中111號
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**TO THE SHAREHOLDERS OF LOCO HONG KONG HOLDINGS LIMITED**
*(incorporated in Hong Kong with limited liability)*

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 35 to 86, which comprise the consolidated and company statements of financial position as at 31 December 2014, 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 a summary of significant accounting policies and other explanatory information.

## Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, Cap. 32 by operation of the transitional and saving provisions in Schedule 11 to the Hong Kong Companies Ordinance, Cap. 622, 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.

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, Cap. 32 by operation of the transitional and saving provisions set out in Section 80 of Schedule 11 to the Hong Kong Companies Ordinance, Cap. 622, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

# INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2014

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance, Cap. 32.

**BDO Limited**
*Certified Public Accountants*
**Lee Ming Wai**
Practising Certificate Number: P05682

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

| | Notes | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Revenue** | | | |
| — Sales of metal | | **2,125,785** | 1,493,817 |
| — Interest income from customers and suppliers | | **2,198** | 2,305 |
| — Order commission | | **157** | 81 |
| | | **2,128,140** | 1,496,203 |
| Trading gains on commodity forward contracts | | **22,752** | 14,649 |
| Other income | | **108** | 94 |
| Total income | 7 | **2,151,000** | 1,510,946 |
| Inventories consumed | | **(2,125,875)** | (1,493,497) |
| Staff costs | 8 | **(4,393)** | (2,760) |
| Depreciation | | **(864)** | (601) |
| Foreign exchange (losses)/gain | | **(132)** | 237 |
| Listing expenses | | **(8,185)** | — |
| Other operating expenses | | **(5,895)** | (3,697) |
| Profit from operations | | **5,656** | 10,628 |
| Finance costs | 10 | **(1,578)** | (1,618) |
| Profit before income tax expense | 11 | **4,078** | 9,010 |
| Income tax expense | 12 | **(2,121)** | (1,302) |
| **Profit and total comprehensive income for the year** | | **1,957** | 7,708 |
| **Basic and diluted earnings per share** | 14 | **HK cents 0.74** | HK cents 4.56 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

| | Notes | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **3,119** | 3,507 |
| Investment property | 17 | **1,927** | 2,009 |
| | | **5,046** | 5,516 |
| **Current assets** | | | |
| Inventories | 18 | **41,778** | 91,369 |
| Accounts receivable, other receivables, deposits and prepayments | 19 | **27,927** | 38,444 |
| Derivative financial assets | 20 | **2** | 2,401 |
| Cash and cash equivalents | 21 | **37,314** | 3,940 |
| | | **107,021** | 136,154 |
| **Current liabilities** | | | |
| Accounts payable, accruals and deposits received | 22 | **22,524** | 7,409 |
| Derivative financial liabilities | 20 | **630** | 362 |
| Bank loans | 23 | **—** | 20,209 |
| Obligation under a finance lease | 24 | **—** | 60 |
| Amount due to a related company | 25 | **—** | 90,244 |
| Tax payable | | **787** | 3 |
| | | **23,941** | 118,287 |
| **Net current assets** | | **83,080** | 17,867 |
| **Total assets less current liabilities/Net assets** | | **88,126** | 23,383 |
| **Capital and reserves** | | | |
| Share capital | 26 | **85,643** | 15,000 |
| Reserves | | **2,483** | 8,383 |
| **Total equity** | | **88,126** | 23,383 |

On behalf of the Board

**Felipe TAN**
*Director*

**CHAU Mei Fan**
*Director*

24 March 2015

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

| | Notes | 2014 HK$'000 |
|---|---|---|
| **Non-current assets** | | |
| Investment in a subsidiary | 15 | **21,357** |
| **Current assets** | | |
| Amount due from a subsidiary | 15 | **55,989** |
| Deposits and prepayments | 19 | **140** |
| Cash and cash equivalents | 21 | **271** |
| | | **56,400** |
| **Current liabilities** | | |
| Accruals | 22 | **1,001** |
| **Net current assets** | | **55,399** |
| **Net assets** | | **76,756** |
| **Capital and reserves** | | |
| Share capital | 26 | **85,643** |
| Accumulated losses | 13 | **(8,887)** |
| **Total equity** | | **76,756** |

On behalf of the Board

**Felipe TAN**
*Director*

**CHAU Mei Fan**
*Director*

24 March 2015

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

| | Notes | Share capital HK$'000 | Merger reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2013 | | 10,000 | — | 5,675 | 15,675 |
| Profit and total comprehensive income for the year | | — | — | 7,708 | 7,708 |
| Transactions with owners: | | | | | |
| Capitalisation for issue of shares | 26(g) | 5,000 | — | (5,000) | — |
| At 31 December 2013 and 1 January 2014 | | **15,000** | **—** | **8,383** | **23,383** |
| Profit and total comprehensive income for the year | | **—** | **—** | **1,957** | **1,957** |
| Transactions with owners: | | | | | |
| Capitalisation for issue of shares | 26(g) | **5,000** | **—** | **(5,000)** | **—** |
| Dividend declared during the year | 27 | **—** | **—** | **(1,500)** | **(1,500)** |
| Arising from Reorganisation | 26(c) | **1,357** | **(1,357)** | **—** | **—** |
| Loan capitalisation | 26(e) | **27,715** | **—** | **—** | **27,715** |
| Issue of shares by placing | 26(f) | **36,571** | **—** | **—** | **36,571** |
| | | **70,643** | **(1,357)** | **(6,500)** | **62,786** |
| At 31 December 2014 | | **85,643** | **(1,357)** | **3,840** | **88,126** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

| | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|
| **Operating activities** | | |
| Cash received from customers | **2,135,046** | 1,468,657 |
| Interest received from customers and suppliers | **2,198** | 2,304 |
| Receipt of other income | **260** | 173 |
| Cash received/(Cash paid) regarding derivative financial instruments | **40,735** | (13,630) |
| Cash paid to suppliers | **(2,076,284)** | (1,518,469) |
| Cash paid to employees | **(3,825)** | (2,746) |
| Cash paid for other operating activities | **(5,524)** | (4,949) |
| Cash paid for listing expenses | **(8,185)** | — |
| Cash generated from/(used in) operation | **84,421** | (68,660) |
| Hong Kong profits tax paid | **(1,337)** | (1,949) |
| ***Net cash generated from/(used in) operating activities*** | **83,084** | (70,609) |
| **Investing activities** | | |
| Purchase of property, plant and equipment | **(394)** | (3,273) |
| Purchase of investment property | **—** | (2,050) |
| Interest received from banks | **5** | 2 |
| ***Net cash used in investing activities*** | **(389)** | (5,321) |
| **Financing activities** | | |
| Interest paid on bank and other borrowings | **(1,412)** | (1,474) |
| Interest paid on a finance lease | **(1)** | (8) |
| Bank charges paid | **(181)** | (146) |
| Dividend paid | **(1,500)** | (1,000) |
| Proceeds from issue of shares | **36,571** | — |
| Decrease in amount due to a shareholder | **—** | (428) |
| Repayment to a shareholder | **—** | (8,000) |
| Advance from a related company | **—** | 557,506 |
| Repayment to a related company | **(62,529)** | (474,473) |
| New bank loans raised | **13,209** | 26,418 |
| Repayment of bank loans | **(33,418)** | (22,648) |
| Repayment of obligation under a finance lease | **(60)** | (115) |
| ***Net cash (used in)/generated from financing activities*** | **(49,321)** | 75,632 |
| ***Net increase/(decrease) in cash and cash equivalents*** | **33,374** | (298) |
| **Cash and cash equivalents at beginning of year** | **3,940** | 4,238 |
| **Cash and cash equivalents at end of year** | **37,314** | 3,940 |
| **Analysis of the balances of cash and cash equivalents** | | |
| Cash at banks and in hand | **37,314** | 3,940 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

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

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

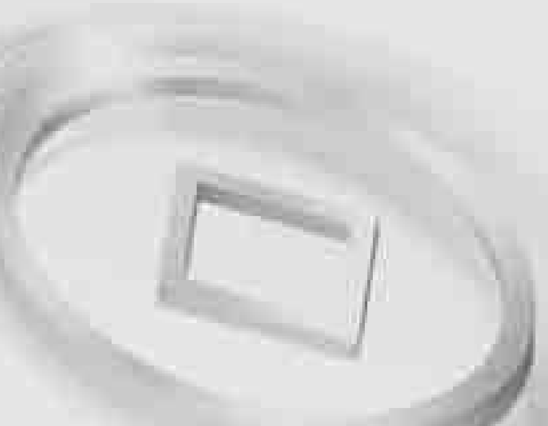
The adoption of these amendments has no material impact on the Group's financial statements.

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

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

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

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



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

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

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

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

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

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

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

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

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

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

#### HKFRS 15 — Revenue from Contracts with Customers (Continued)

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

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

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

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

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

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

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

## 3. BASIS OF PREPARATION

### (a) Basis of compliance

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

### (b) Basis of measurement

The financial statements have been prepared under the historical cost basis except for certain inventories and certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

### (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.

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

### (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.

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 | 4 years |
| Leasehold improvements | Over the shorter of 3 years and the remaining lease terms |
| 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.

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

### (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 (note 4(m)), 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.

### (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 Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

#### The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

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 as a finance lease of property, plant and equipment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

### (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.

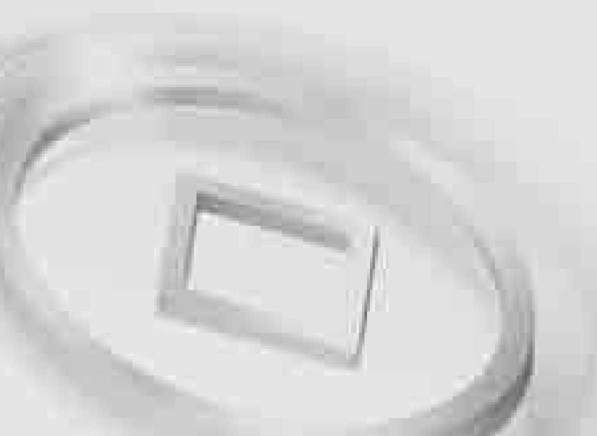
**Financial assets at fair value through profit or loss**

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.

**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.



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

### (f) Financial instruments (Continued)

#### (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 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.

## 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 accounts payable, accruals, bank loans, obligations under a finance lease and amount due to a related company 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.

#### (iv) 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.

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

### (f) Financial instruments (Continued)

#### (v) Equity instruments

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

The Hong Kong Companies Ordinance, Cap. 622, came into operation on 3 March 2014. Under the Ordinance, shares of the Company do not have a nominal value. Consideration received or receivable for the issue of shares on or after 3 March 2014 is credited to share capital. Commissions and expenses are allowed to be deducted from share capital under s. 148 and s. 149 of the Ordinance.

#### (vi) 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.

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

### (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.

### (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 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.

### (j) Inventories

Inventories mainly represent silver 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.

## 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 the 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 administered 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 currency

Transactions entered into by the Group 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.

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

### (m) Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amount of its property, plant and equipment and investment property 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.

### (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.

### (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.

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

### (p) 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 or the Company's parent.

(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).

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.

## 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 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) Impairment of property, plant and equipment and investment property

Property, plant and equipment and investment property are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgments and estimates.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flows projections, it may be necessary to take an impairment charge to profit or loss.

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

### (ii) Useful lives of property, plant and equipment and investment property

The Group's management determines the estimated useful lives, and related depreciation charges for its property, plant and equipment and investment property. 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.

### (iii) Impairment of accounts receivable

Recoverability of the accounts receivable are reviewed by management based on the receivables' ageing characteristics, the current creditworthiness and past collection history of each customer. Judgment is required in assessing the ultimate realisation of these receivables, and the financial conditions of the debtors may undergo adverse changes since the last management evaluation. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional provision may be required in future accounting periods.

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 6. SEGMENT INFORMATION (Continued)

### (b) Geographical information

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

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

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

* Based on location of customers

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

## 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:

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

## 7. INCOME

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

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

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

## 8. STAFF COSTS

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

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

# 9. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS

## (a) Directors' emoluments

Directors remuneration disclosed pursuant to Section 78(1) of Schedule 11 of the Hong Kong Companies Ordinance Cap. 622 which requires compliance with Section 161 of the Hong Kong Companies Ordinances Cap. 32 is as follows:

**Year ended 31 December 2014**

| | Fees HK$'000 | Performance related incentive payments (Note) HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Discretionary bonuses HK$'000 | Pension scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| Ms. Chau Mei Fan | – | – | 304 | 85 | 16 | 405 |
| Mr. Felipe Tan | – | 463 | – | – | 8 | 471 |
| Total | – | 463 | 304 | 85 | 24 | 876 |
| **Independent non-executive directors** | | | | | | |
| Mr. Chan Ka Ling Edmond | 54 | – | – | – | – | 54 |
| Ms. Tsang Wai Chun Marianna | 54 | – | – | – | – | 54 |
| Mr. Tang Cornor Kwok Kau | 54 | – | – | – | – | 54 |
| Total | 162 | – | – | – | – | 162 |

Note:

The performance incentive payment of 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 payments) 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 payments) at the end of the relevant year.

## 9. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS (Continued)

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

Year ended 31 December 2013

| | Fees HK$'000 | Performance related incentive payments HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Discretionary bonuses HK$'000 | Pension scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| Ms. Chau Mei Fan | – | – | 259 | 60 | 13 | 332 |
| Mr. Felipe Tan | – | – | – | – | – | – |
| Total | – | – | 259 | 60 | 13 | 332 |

Independent non-executive directors have not been appointed for the year ended 31 December 2013.

### (b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, two (2013: one) were directors of the Company whose emoluments are included in the analysis presented above. The emoluments of the remaining three (2013: four) individuals were as follows:

| | **2014 HK$'000** | 2013 HK$'000 |
|---|---|---|
| Wages and salaries | **1,262** | 1,208 |
| Contribution to defined contribution retirement plan | **46** | 29 |
| | **1,308** | 1,237 |

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 2014 and 2013.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 9. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS (Continued)

### (b) Five highest paid individuals (Continued)

During the years ended 31 December 2014 and 2013, 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 2014 and 2013.

### (c) Senior Management

Emoluments paid or payable to members of senior management who are not directors were within the following band:

| | **2014 No. of individuals** | 2013 No. of individuals |
|---|---|---|
| Nil to HK$1,000,000 | **3** | 2 |

## 10. FINANCE COSTS

| | **2014 HK$'000** | 2013 HK$'000 |
|---|---|---|
| Interests on bank loans wholly repayable within five years | **398** | 321 |
| Interests on amounts due to a shareholder and a related company wholly repayable within five years (note 28(a)) | **998** | 1,143 |
| Total interest expenses | **1,396** | 1,464 |
| Bank charges | **181** | 146 |
| Interest on a finance lease | **1** | 8 |
| | **1,578** | 1,618 |

## 11. PROFIT BEFORE INCOME TAX EXPENSE

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

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

Notes:

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

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

## 12. INCOME TAX EXPENSE

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

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

## 12. INCOME TAX EXPENSE (Continued)

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

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

| | **2014 HK$'000** | 2013 HK$'000 |
|---|---|---|
| Profit before income tax expense | **4,078** | 9,010 |
| Tax calculated at Hong Kong Profits Tax rate of 16.5% (2013: 16.5%) | **673** | 1,487 |
| Tax effect of revenue not taxable for tax purposes | **(1)** | (1) |
| Tax effect of expenses not deductible for tax purposes | **1,358** | — |
| Tax effect of tax losses not recognised | **129** | 9 |
| Tax effect of other temporary differences not recognised | **47** | (52) |
| Over-provision in respect of prior years | **(97)** | (130) |
| Others | **12** | (11) |
| Income tax expense | **2,121** | 1,302 |

As at 31 December 2014, the Group had estimated unused tax losses of approximately HK$842,000 (2013: HK$59,000) 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 2014 and 2013.

## 13. PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

Profit attributable to the owners of the Company includes a loss of approximately HK$8,887,000 which has been dealt with in the financial statements of the Company.

## 14. EARNINGS PER SHARE

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

The number of shares used to calculate the basic earnings per share for the year ended 31 December 2013 represents the number of shares of the Company immediately after the Reorganisation and the bonus issue (note 26(d)), but excluding any shares issued pursuant to the loan capitalisation (note 26(e)) and the placing (note 26(f)), as if the shares issued under the Reorganisation and the bonus issue had been in issue on 1 January 2013.

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

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

## 15. INTERESTS IN A SUBSIDIARY

| | **2014**<br>**HK$'000** |
|---|---|
| Unlisted investment, at cost | **21,357** |
| Amount due from a subsidiary | **55,989** |
| | **77,346** |

The amount due from the subsidiary is unsecured, interest bearing at 3% per annum and repayable on demand.

## 15. INTERESTS IN A SUBSIDIARY (Continued)

Details of subsidiaries as at 31 December 2014 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 ("Loco BVI") | Corporation | British Virgin Islands | Ordinary | 100% | – | Investment holding in Hong Kong |
| China Precision Material Limited ("CPM") | Corporation | Hong Kong | Ordinary | – | 100% | Metal and commodity forward contracts trading in Hong Kong |
| CPM Silver Limited ("CPM Silver") | Corporation | Hong Kong | Ordinary | – | 100% | Silver processing and property holding in Hong Kong |
| United Bridge Limited ("United Bridge") | Corporation | Hong Kong | Ordinary | – | 100% | Property holding in Hong Kong |

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

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Property for own use carried at cost HK$'000 | Equipment HK$'000 | Leasehold improvements HK$'000 | Motor vehicle HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2013 | — | 974 | 200 | 334 | 1,508 |
| Additions | 2,050 | 594 | 629 | — | 3,273 |
| At 31 December 2013 and 1 January 2014 | **2,050** | **1,568** | **829** | **334** | **4,781** |
| Additions | — | **394** | — | — | **394** |
| Written off | — | — | **(200)** | — | **(200)** |
| At 31 December 2014 | **2,050** | **1,962** | **629** | **334** | **4,975** |
| **Accumulated depreciation** | | | | | |
| At 1 January 2013 | — | 461 | 156 | 98 | 715 |
| Charge for the year | 41 | 304 | 131 | 83 | 559 |
| At 31 December 2013 and 1 January 2014 | **41** | **765** | **287** | **181** | **1,274** |
| Charge for the year | **82** | **407** | **210** | **83** | **782** |
| Written off | — | — | **(200)** | — | **(200)** |
| At 31 December 2014 | **123** | **1,172** | **297** | **264** | **1,856** |
| **Net carrying value** | | | | | |
| At 31 December 2014 | **1,927** | **790** | **332** | **70** | **3,119** |
| At 31 December 2013 | 2,009 | 803 | 542 | 153 | 3,507 |

The property represents a carpark located in Hong Kong which is held under long-term lease. Subsequent to the financial year ended date, the Group entered into a provisional agreement for sale and purchase with an independent third party to sell the carpark at HK$2,600,000 (note 34).

## 16. PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 31 December 2013, the Group pledged the property with carrying amount of approximately HK$2,009,000 to secure for the general loan facilities granted to the Group by a bank (note 23). During the year ended 31 December 2014, the general loan facilities were terminated, the related charge on the property was released.

As at 31 December 2013, the motor vehicle at the carrying amount of approximately HK$153,000 was acquired under a finance lease (note 24). The finance lease was fully repaid during the year ended 31 December 2014.

## 17. INVESTMENT PROPERTY

| | **HK$'000** |
|---|---|
| **Cost** | |
| At 1 January 2013 | — |
| Additions | 2,050 |
| At 31 December 2013, 1 January 2014 and 31 December 2014 | **2,050** |
| **Accumulated depreciation** | |
| At 1 January 2013 | — |
| Charge for the year | 41 |
| At 31 December 2013 and 1 January 2014 | **41** |
| Charge for the year | **82** |
| At 31 December 2014 | **123** |
| **Net carrying value** | |
| At 31 December 2014 | **1,927** |
| At 31 December 2013 | 2,009 |

Investment property represents a carpark located in Hong Kong which is held under long-term lease. The above investment property is depreciated on a straight-line basis over the shorter of the term of the leases and the estimated useful life of 25 years.

## 17. INVESTMENT PROPERTY (Continued)

The estimated fair value of the Group's investment property at the end of the reporting period was approximately HK$2,173,000 (2013: HK$2,150,000). The fair value was determined by the directors of the Company using market comparable approach by making reference to market evidence of the actual transaction prices for similar properties in the same or nearby locations and in similar conditions.

The fair value of the investment property is a level 2 non-recurring fair value measurement.

The fair value measurement is based on the above property's highest and best use, which does not differ from their actual use.

As at 31 December 2013, the Group pledged the investment property with carrying amount of approximately HK$2,009,000 to secure for the general loan facilities granted to the Group by a bank (note 23). During the year ended 31 December 2014, the general loan facilities were terminated. The related charge on the property was released.

## 18. INVENTORIES

| | **2014 HK$'000** | 2013 HK$'000 |
|---|---|---|
| Silver | **40,793** | 91,369 |
| Gold | **887** | — |
| Low value consumables | **98** | — |
| | **41,778** | 91,369 |

The fair values of the Group's Commodity Inventories were determined by the directors of the Company with reference to the price available in active markets including London Bullion Market Association ("LBMA").

The fair value of 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 2014

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

| | The Group | | The Company |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| | **HK$'000** | HK$'000 | **HK$'000** |
| Accounts receivable from customers | **15,898** | 25,159 | **–** |
| Margin deposits for commodity forward contracts | **11,312** | 13,024 | **–** |
| Deposits and prepayments | **443** | 261 | **140** |
| Deposit paid to a related party (note 28(d)) | **274** | – | **–** |
| | **27,927** | 38,444 | **140** |

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

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

The ageing of accounts receivable from customers which are past due but not impaired are as follows:

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Less than 1 month past due | **–** | 15,363 |

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

## 19. ACCOUNTS RECEIVABLE, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

Receivables that were neither past due nor impaired related to a customer for whom there was no recent history of default. Receivables that were past due but not impaired related to another customer with long business relationship. Based on past experience, management believes that no impairment allowance is necessary as there has not been a significant change in credit quality. The amounts receivable from customers are fully recovered after the end of the reporting period.

As mentioned in note 7, for trading purposes, the Group has to enter into forward arrangements with customers and suppliers as well as commodity traders. The margin deposits at the end of the reporting period mainly represent deposits placed with commodity traders for entering into forward arrangements, which the Group can freely withdraw.

## 20. DERIVATIVE FINANCIAL INSTRUMENTS

| | **2014** | 2013 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Derivative financial assets: | | |
| Commodity forward contracts | **2** | 2,401 |
| Derivative financial liabilities: | | |
| Commodity forward contracts | **630** | 362 |

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 2014 were approximately US$11,453,000 (2013: US$1,156,000).

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

## 21. CASH AND CASH EQUIVALENTS

| | The Group | | The Company |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| | **HK$'000** | HK$'000 | **HK$'000** |
| Cash at banks and in hand | **37,314** | 3,940 | **271** |

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

| | The Group | | The Company |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| | **HK$'000** | HK$'000 | **HK$'000** |
| Renminbi | **23** | 168 | **—** |
| United States dollars | **29,621** | 2,467 | **—** |
| | **29,644** | 2,635 | **—** |

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

## 22. ACCOUNTS PAYABLE, ACCRUALS AND DEPOSITS RECEIVED

| | The Group | | The Company |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| | **HK$'000** | HK$'000 | **HK$'000** |
| Accounts payable | **—** | 145 | **—** |
| Accruals | **1,597** | 633 | **1,001** |
| Trade deposits received | **690** | 165 | **—** |
| Margin deposits for commodity forward contracts | **20,237** | 6,466 | **—** |
| | **22,524** | 7,409 | **1,001** |

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

## 22. ACCOUNTS PAYABLE, ACCRUALS AND DEPOSITS RECEIVED (Continued)

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

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

As mentioned in note 7, for trading purposes, the Group has to enter into forward arrangements with customers and suppliers as well as commodity traders. The margin deposits at the end of the reporting period mainly represent deposits received from suppliers and customers for entering into forward arrangements.

## 23. BANK LOANS

| | **2014 HK$'000** | 2013 HK$'000 |
|---|---|---|
| Secured, interest bearing | | |
| — Bank loans (note (i)) | – | 13,209 |
| — Bank loan due for repayment after one year which contain a repayment on demand clause (note (ii)) | – | 7,000 |
| | – | 20,209 |

Notes:

(i) The loans are revolving bank loans which are guaranteed by Mr. Felipe Tan, a director, interest bearing at 2% per annum over 1-month or 3-month London Inter-bank Offered Rate (LIBOR) and secured by the properties of the Group (notes 16 and 17) and the property of a related company.

(ii) The loan is guaranteed by Mr. Felipe Tan, a director, and Mr. Huang Hongbin, senior management, interest bearing at 2.5% per annum over 1-month Hong Kong Inter-Bank Offered Rate (HIBOR) and is repayable by 36 monthly instalments up to September 2015. As at 31 December 2013, loan balance of HK$3,000,000 is not scheduled to repay within one year, however the entire loan is classified as a current liability as the related loan agreement contains a clause that provides the lender with an unconditional right to demand repayment at any time at its own discretion. None of the portion of this bank loan due for repayment after one year which contain a repayment on demand clause and that is classified as a current liability is expected to be settled within one year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 23. BANK LOANS (Continued)

The bank loans were scheduled to repay as of the end of the reporting period is as follows:

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| Within one year | **–** | 17,209 |
| More than one year, but not exceeding two years | **–** | 3,000 |
| More than two years, but not exceeding five years | **–** | — |
| | **–** | 20,209 |

The amounts due are based on the scheduled repayment dates in the loan agreements and ignore the effect of any repayment on demand clause.

The loans as at 31 December 2013 were fully repaid during the year ended 31 December 2014.

## 24. OBLIGATION UNDER A FINANCE LEASE

The Group has entered into a finance lease agreement for a motor vehicle. The lease obligation is secured by the leased asset. During the year ended 31 December 2014, the Group has fully repaid this finance lease.

As at 31 December 2013, the future lease payments under the finance lease are due as follows:

| | **Minimum lease payments HK$'000** | **Interest HK$'000** | **Present value of minimum lease payments HK$'000** |
|---|---|---|---|
| Not later than one year | 61 | (1) | 60 |
| Later than one year and not later than five years | — | — | — |
| | 61 | (1) | 60 |

The present value of future lease payments was classified as a current liability as at 31 December 2013.

## 25. AMOUNT DUE TO A RELATED COMPANY

The balance as at 31 December 2013 represented advance from Fine Asia Development Limited ("Fine Asia") in which Mr. Felipe Tan, a director of the Company, acts as director and has indirect equity interest. The advance is unsecured, interest bearing at 2% per annum and is repayable on demand. Such advance was fully settled by way of capitalisation of loan on 4 August 2014 (note 26 (e)).

## 26. SHARE CAPITAL

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 26. SHARE CAPITAL (Continued)

Notes:

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

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

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

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

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

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

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

## 27. DIVIDENDS

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

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

## 28. 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:

| Name | Related party relationship | Type of transaction | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|---|
| GobiMin Silver | Shareholder | Interest charged on advance from the shareholder (note 10) | **11** | 102 |
| Fine Asia | Common director who has equity interest in both entities | Interest charged on advance from the related company (note 10) | **987** | 1,041 |
| Fine Asia | Common director who has equity interest in both entities | Share of office rental and other related expenses | **135** | 491 |
| Mr. Felipe Tan | Director | Sales of gold | **–** | 1,610 |
| GobiMin Mineral Limited ("GobiMin Mineral") | Common director who has equity interest in both entities | Rental paid and share of other office related expenses | **300** | – |

Fine Asia and GobiMin Mineral are related companies in which Mr. Felipe Tan, one of the Company's directors, acts as director and has indirect equity interest.

Apart from the above, the Group has provided financial guarantee to GobiMin Mineral at 31 December 2013 as further detailed in note 33.

(b) Key management includes members of the board of directors and other members of key management of the Group. These emoluments are set out in note 9.

## 28. RELATED PARTY TRANSACTIONS (Continued)

(c) At 31 December 2014, Mr. Felipe Tan had provided personal guarantee to a bank in inspect of general facilities granted to the Group to the extent of US$10,000,000. The bank had agreed in principal to release the personal guarantee provided by Mr. Felipe Tan and the release is still in processing by the bank. For the year ended 31 December 2014 this facilities has not been utilised by the Group.

At 31 December 2013, Mr. Felipe Tan, a director, and Mr. Huang Hongbin, senior management, had provided personal guarantees to secure banking facilities granted to the Group (note 23). These guarantees have been released during the year ended 31 December 2014.

(d) On 19 May 2014, the Group engaged Timeless Software Limited (stock code: 8028) ("Timeless") to design and build a trading software system at a cost of HK$342,000 and an annual maintenance fee of HK$57,000. A deposit of approximately HK$274,000 was paid during the year (note 19). Mr. Felipe Tan and Ms. Tsang Wai Chun Marianna, a director, are also directors of Timeless and Mr. Felipe Tan has indirect equity interest in Timeless.

## 29. OPERATING LEASE

### Operating leases — lessor

The Group had future aggregate minimum lease receipts under non-cancellable operating leases in respect of the leasehold properties which are receivables as follows:

| | **2014**<br>**HK$'000** | 2013<br>HK$'000 |
|---|---|---|
| Within one year | **34** | 43 |

The Group leases out its investment property under operating lease arrangement which runs for initial period of one year. The terms of the lease require the tenant to pay security deposits.

### Operating leases — lessee

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

| | **2014**<br>**HK$'000** | 2013<br>HK$'000 |
|---|---|---|
| Within one year | **627** | 600 |
| Later than one year and not later than five years | **175** | 775 |
| | **802** | 1,375 |

## 30. 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 Company or its subsidiaries. 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$88,126,000 (2013: HK$21,883,000).

## 31. 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):

**THE GROUP**

| | **2014**<br>**HK$'000** | 2013<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Financial assets at fair value through profit or loss held for trading: | | |
| — Commodity forward contracts | **2** | 2,401 |
| Loans and receivables | **65,241** | 42,384 |
| | **65,243** | 44,785 |
| **Financial liabilities** | | |
| Financial liabilities at fair value through profit or loss held for trading: | | |
| — Commodity forward contracts | **630** | 362 |
| Financial liabilities measured at amortised cost: | | |
| — Accounts payable and accruals | **21,834** | 7,244 |
| — Bank loans | **—** | 20,209 |
| — Obligation under a finance lease | **—** | 60 |
| — Amount due to a related company | **—** | 90,244 |
| | **22,464** | 118,119 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

**THE COMPANY**

| | 2014<br>HK$'000 |
|---|---|
| **Financial assets** | |
| Loan and receivables | **56,400** |
| **Financial liabilities** | |
| Financial liabilities measured at amortised cost: | |
| — Accruals | **1,001** |

### Financial instruments not measured at fair value

Financial instruments not measured at fair value include accounts receivable, deposits paid and cash and cash equivalents, accounts payable, accruals, bank loans, obligation under a finance lease and amounts due from/to subsidiaries and related companies. Due to their short term nature, the carrying value of these financial instruments approximates its fair value.

### Financial instruments measured at fair value

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, mainly the LBMA, which is Level 2 fair value measurement.

The fair value of commodity forward contracts is determined with reference to the silver price available in active markets, mainly the LBMA.

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).

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

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

| | 2014 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| Financial assets at fair value through profit or loss held for trading: | | | | |
| — Commodity forward contracts | **—** | **2** | **—** | **2** |
| Financial liabilities at fair value through profit or loss held for trading: | | | | |
| — Commodity forward contracts | **—** | **630** | **—** | **630** |

| | 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Financial assets at fair value through profit or loss held for trading: | | | | |
| — Commodity forward contracts | — | 2,401 | — | 2,401 |
| Financial liabilities at fair value through profit or loss held for trading: | | | | |
| — Commodity forward contracts | — | 362 | — | 362 |

There is no transfer between Level 1 and Level 2 of the fair value hierarchy during the year.

## 32. 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 accounts receivables, deposits arising from trading of commodity forward contracts, other receivables, derivative financial assets and bank balances.

Except for accounts receivable from customers and other receivables, the counterparties of all 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.

In respect of accounts and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade customers and, where appropriate, credit guarantee insurance cover is purchased. Accounts receivable from customers are due within 2 days from the date of billing. Customers with balances that are more than 2 days past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group had a certain concentration of credit risk as the entire accounts receivable as at 31 December 2014 was due from a single customer.

### (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 interest rate risk arises from bank borrowings. Borrowings arranged at variable rates expose the Group to cash flow interest rate risk while loans arranged at fixed rates expose the Group to fair value interest rate risk.

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.

## 32. FINANCIAL RISK MANAGEMENT (Continued)

### (b) Interest rate risk (Continued)

#### Sensitivity analysis

The following table illustrates the sensitivity of the Group's profit for the year and equity to a possible change in interest rates of floating rate loans of +/- 0.5%, with effect from the beginning of the year. The calculations are based on the Group's bank loans held at the end of each of the reporting periods. All other variables are held constant.

| | Increase/(Decrease) in profit for the year and retained profits* | |
|---|---|---|
| | **HK$'000** | **HK$'000** |
| | **+0.5%** | **-0.5%** |
| Year ended 31 December: | | |
| **2014** | **–** | **–** |
| 2013 | (84) | 84 |

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents the management's assessment of a reasonably possible change in interest rate over the period until the next annual reporting period.

### (c) Currency risk

Currency risk to the Group is minimal as most of the Group's transactions are carried out in US$ or HK$ which is the functional currencies of the Company and its subsidiaries, and HK$ is pegged to US$.

### (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.

## 32. FINANCIAL RISK MANAGEMENT (Continued)

### (d) Liquidity risk (Continued)

The tables below analyse the maturity of the Group's financial liabilities including bank loans with a repayment on demand clause. Borrowings based on undiscounted cash flows (including interest payments computed using contractual rates or if floating, based on rates ruling at the reporting date) and the earliest date the Group can be required to pay. Specifically, for bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank loan is prepared based on the scheduled repayment date.

**THE GROUP**

| | 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 |
|---|---|---|---|---|
| **2014** | | | | |
| Accounts payable and accruals | **21,834** | **21,834** | **21,834** | **–** |
| Derivatives financial liabilities | **630** | **630** | **630** | **–** |
| 2013 | | | | |
| Accounts payable and accruals | 7,244 | 7,244 | 7,244 | – |
| Bank loan subject to a repayment demand clause | 7,000 | 7,000 | 7,000 | – |
| Other bank loans | 13,209 | 13,217 | 13,217 | – |
| Obligation under a finance lease | 60 | 61 | 61 | – |
| Amount due to a related company | 90,244 | 90,244 | 90,244 | – |
| | 117,757 | 117,766 | 117,766 | – |
| Derivatives financial liabilities | 362 | 362 | 362 | – |

## 32. FINANCIAL RISK MANAGEMENT (Continued)

### (d) Liquidity risk (Continued)

**THE COMPANY**

| | 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 |
|---|---|---|---|---|
| **2014** | | | | |
| Accruals | **1,001** | **1,001** | **1,001** | **–** |

The following tables summarise the maturity analysis of the Group's bank loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis contained above. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

**The Group**

| | 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 | More than 2 years but less than 5 years HK$'000 |
|---|---|---|---|---|---|
| **2014** | | | | | |
| Bank loan subject to a repayment demand clause | **–** | **–** | **–** | **–** | **–** |
| 2013 | | | | | |
| Bank loan subject to a repayment demand clause | 7,000 | 7,159 | 4,132 | 3,027 | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 32. FINANCIAL RISK MANAGEMENT (Continued)

### (e) Commodity price risk

The management frequently monitors the silver price exposure and when necessary, the Group enters into additional commodity forward contracts to hedge the metal price exposure.

The Group's commodity price risk arises from inventories (note 18). The Group enters into commodity forward arrangements with certain suppliers and customers as mentioned in note 6 and also 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. As assessed by the directors, the Group's exposure to price risk in respect of those outstanding commodity forward contracts for the year is not significant.

## 33. FINANCIAL GUARANTEE CONTRACT

### THE GROUP

During the year ended 31 December 2013, CPM has provided guarantee of repayment in respect of a mortgage loan granted to a related company, which is a subsidiary of one of the shareholders of the Company, amounting to HK$16,000,000. Such mortgage loan outstanding as at 31 December 2013 amounted to approximately HK$15,558,000. In the opinion of directors, the financial impact arising from providing the above financial guarantee is insignificant and accordingly, they are not accounted for in the financial statements. During the year ended 31 December 2014, the guarantee was released.

## 33. FINANCIAL GUARANTEE CONTRACT (Continued)

### THE COMPANY

During the year ended 31 December 2014, the Company provided guarantees to banks in respect of general banking facilities granted to CPM to the extent of approximately HK$97,700,000 and the facilities have not been utilised by CPM. In the opinion of the directors, the financial impact arising from providing the above financial guarantees are insignificant and accordingly, they are not accounted for in the financial statements.

## 34. SUBSEQUENT EVENTS

On 24 February 2015, United Bridge signed a provisional agreement for sale and purchase with an independent third party to sell the carpark at HK$2,600,000 (note 16).

# 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:

| **Results** | **2014 HK$'000** | 2013 HK$'000 | 2012 HK$'000 | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|---|---|
| Revenue | **2,128,140** | 1,496,203 | 1,093,109 | 1,385,924 | 231,377 |
| Trading gains/(losses) on commodity forward contracts | **22,752** | 14,649 | 13,284 | (121,835) | (49,305) |
| Total income | **2,151,000** | 1,510,946 | 1,107,332 | 1,270,677 | 184,009 |
| Inventories consumed | **(2,125,875)** | (1,493,497) | (1,088,057) | (1,253,358) | (179,136) |
| Profit before income tax | **4,078** | 9,010 | 10,029 | 10,037 | 1,850 |
| Profit and total comprehensive income for the year | **1,957** | 7,708 | 8,220 | 8,207 | 1,541 |

| **Assets and liabilities** | **2014 HK$'000** | 2013 HK$'000 | 2012 HK$'000 | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|---|---|
| Current assets | **107,021** | 136,154 | 102,501 | 305,871 | 183,742 |
| Current liabilities | **23,941** | 118,287 | 87,560 | 261,824 | 162,268 |
| Non-current assets | **5,046** | 5,516 | 794 | 1,158 | 699 |
| Non-current liabilities | **–** | – | 60 | 34,751 | 20,126 |
| Total equity | **88,126** | 23,383 | 15,675 | 10,454 | 2,047 |

| **Key financial ratios** | **2014** | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Current ratio | **4.47** | 1.15 | 1.17 | 1.17 | 1.13 |
| Quick ratio | **2.73** | 0.38 | 0.41 | 0.99 | 0.97 |
| Gearing ratio | **–** | 4.7 times | 2.1 times | 11.4 times | 35.0 times |
| Return on total assets | **1.8%** | 5.4% | 8.0% | 2.7% | 0.8% |
| Return on equity | **2.2%** | 33.0% | 52.4% | 78.5% | 75.3% |