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

(incorporated in Hong Kong with limited liability)

(Stock Code: 8162)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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.

This announcement, for which the directors (the "Directors" or individually a "Director") of Loco Hong Kong Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

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

The Board of Directors of the Company (the "Board") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016, together with comparative figures for the previous year, as set out below:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Revenue			
– Sales of metal		**2,165,048**	1,071,221
– Interest income from customers and suppliers		**4,287**	4,379
– Processing fee		**332**	330
– Order commission		**977**	146
		2,170,644	1,076,076
Trading (losses)/gains on commodity forward contracts		**(14,859)**	2,304
Other income		**928**	84
Total income		**2,156,713**	1,078,464
Carrying value of inventories sold		**(2,129,755)**	(1,063,969)
Employee costs	*6*	**(11,032)**	(8,423)
Depreciation		**(1,058)**	(980)
Rental expenses		**(2,841)**	(1,180)
Fair value gain on derivative component of convertible bonds		**1,929**	–
Fair value gain on investments held for trading		**3,095**	–
Gain on disposal of property, plant and equipment		**24**	775
Other operating expenses		**(9,795)**	(4,668)
Profit from operations		**7,280**	19
Finance costs	*7*	**(2,686)**	(382)
Profit/(Loss) before income tax expense	*8*	**4,594**	(363)
Income tax (expense)/credit	*9*	**(1,724)**	50
Profit/(Loss) for the year		**2,870**	(313)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operation		**(120)**	–
Total comprehensive income for the year		**2,750**	(313)
Earnings/(Loss) per share			
– Basic and diluted	*10*	**HK cents 0.72**	HK cents (0.08)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment		**3,962**	3,695
Investment property		**–**	–
		3,962	3,695
Current assets			
Inventories	*11*	**47,077**	40,628
Other receivables, deposits and prepayments	*12*	**37,688**	28,925
Derivative financial assets	*13*	**1**	218
Investments held for trading		**10,520**	–
Tax recoverable		**679**	2,208
Cash and cash equivalents		**119,930**	35,958
		215,895	107,937
Current liabilities			
Other payables, accruals and deposits received	*14*	**25,770**	22,076
Derivative financial liabilities	*13*	**10,065**	1,091
Amounts due to related companies		**28,795**	–
Amount due to a director		**55**	–
Loan from a related company		**27,195**	–
Tax payable		**682**	–
		92,562	23,167
Net current assets		**123,333**	84,770
Total assets less current liabilities		**127,295**	88,465
Non-current liabilities			
Liability component of convertible bonds	*15*	**34,203**	–
Derivative component of convertible bonds	*15*	**1,877**	–
		36,080	–
Net assets		**91,215**	88,465
Capital and reserves			
Share capital		**85,830**	85,830
Reserves		**5,385**	2,635
Total equity		**91,215**	88,465

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

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

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

The financial information relating to the years ended 31 December 2016 and 2015 included in this preliminary announcement of annual results 2016 do not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance will deliver the financial statements for the year ended 31 December 2016 in due course.

The Company's auditor has reported on the financial statements of the Group for both years. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

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

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

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

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

Amendments to HKAS 1 – Disclosure Initiative

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

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

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

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

Amendments to HKAS 27 – Equity Method in Separate Financial Statements

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

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

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

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

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

[1] Effective for annual periods beginning on or after 1 January 2017
[2] Effective for annual periods beginning on or after 1 January 2018
[3] Effective for annual periods beginning on or after 1 January 2019

Amendments to HKAS 7 – Disclosure Initiative

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

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

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

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

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

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

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

HKFRS 9 – Financial Instruments

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

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.

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

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

HKFRS 15 – Revenue from Contracts with Customers

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

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

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

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

Amendments HKFRS 15 – Revenue from Contracts with customers

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

HKFRS 16 – Leases

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

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

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

HKFRS 16 – Leases (Continued)

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

The Group is in the process of making an assessment of the potential impact of these pronouncements. The directors are not yet in a position to state whether the application of these new pronouncement will result in substantial changes to the Group's accounting policies and financial statements.

3. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the provisions of the Hong Kong Companies Ordinance which concern the preparation of financial statements. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

4. SEGMENT INFORMATION

(a) Reportable segments

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

4. SEGMENT INFORMATION (Continued)

(b) Geographical information

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

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

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

* Based on location of customers

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

(c) Information about major customers

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

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

5. INCOME FROM PRINCIPAL ACTIVITIES

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

Revenue mainly comprises net invoiced value of inventories mainly represent silver, tin and gold ("Commodity Inventories") sold by the Group as well as interest income generated from customers and suppliers. The Group enters into sale and purchase agreements for Commodity Inventories with certain customers and suppliers and under the terms of those agreements, the selling or purchase price of silver is determined based on the market silver price on the date subsequent to the delivery date as specified by the customer or supplier (the "Forward Arrangements"). Interest is charged to the customers and suppliers of those agreements during the period of Forward Arrangements.

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

6. EMPLOYEE COSTS

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

7. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Interests on bank loans	**147**	235
Interests on convertible bonds	**1,869**	–
Interests on loan from a related company	**542**	–
Total interest expenses	**2,558**	235
Bank charges	**128**	147
	2,686	382

8. PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE

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

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

Notes:

(a) Included in the balances was office rental paid under the tenancy agreement entered into by the Group with a related company amounting to approximately HK$936,000 (2015: HK$461,000).

(b) The direct outgoing expenses from the investment property during the year 2015 was insignificant.

9. INCOME TAX EXPENSE/(CREDIT)

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

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

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

9. INCOME TAX EXPENSE/(CREDIT) (Continued)

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

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

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

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

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

10. EARNINGS/(LOSS) PER SHARE

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

	2016	2015
Earnings/(Loss)	***HK$'000***	*HK$'000*
Profit/(Loss) for the purpose of basic earnings/(loss) per share	**2,870**	(313)

Number of shares	**2016**	2015
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	**400,170,000**	400,097,342

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

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

11. INVENTORIES

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

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

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

12. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

Note:

As mentioned in note 5, for trading purposes, the Group has to enter into Forward Arrangements with customers and suppliers as well as forward contracts with commodity traders. The balance represents margin deposits placed with commodity traders for entering into forward contracts, as well as deposits in the cash account held at the commodity traders.

13. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

14. OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

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

Note:

As mentioned in note 5, for trading purposes, the Group has to enter into Forward Arrangements with customers and suppliers as well as forward contracts with commodity traders. The balance represents cash deposits received from suppliers and customers for entering into Forward Arrangements.

15. CONVERTIBLE BONDS

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

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

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

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

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

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

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

	Liability component of convertible bonds	**Derivative component of convertible bonds**	**Total**
	HK\$'000	*HK\$'000*	*HK\$'000*
Fair value on initial recognition on 15 July 2016	32,994	3,806	36,800
Less: Direct transaction cost	(660)	–	(660)
	32,334	3,806	36,140
Interest expense *(note 7)*	1,869	–	1,869
Fair value adjustment	–	(1,929)	(1,929)
At 31 December 2016	34,203	1,877	36,080

16. DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Corporate Strategy and Business Model

The Group is principally engaged in the trading of metals in Hong Kong accompanied with trading of forward contracts for hedging purpose. We intend to strengthen our market position by (i) the expansion of the trading business with existing and potential suppliers and customers; (ii) the expansion and maintenance of the processing facilities; (iii) exercise of strict control over its expenditure; and (iv) implementation of risk management measures to face the challenges caused by the industry depression.

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

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

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

Business Review

The Group's income was mainly generated from the sales of silver products. During the year under review, the silver market price significantly increase in the mid year which give a rebound in overall silver supply in Hong Kong. Therefore, the sales volume of the silver products of the Group recorded an increase during this year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business Review (Continued)

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

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

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

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

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

London Silver Price

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

Outlook

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

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

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

Financial Review

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

Capital Structure, liquidity and financial resources

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

Capital Structure, liquidity and financial resources (Continued)

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

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

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

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

Capital commitment

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

Employees and Remuneration Policy

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

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

Charge on the Group's assets

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Future Plan for Material Investments and Capital Assets

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

Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: nil).

Gearing ratio

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

Foreign Exchange Exposure

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

Contingent liabilities

The Group did not have any material contingent liabilities, guarantees or any litigation or claims of material importance pending or threatened against any member of our Group as at 31 December 2016 and there has not been any material change in the contingent liabilities of the Group since 31 December 2016.

Comparison of Business Objectives with Actual Business Progress

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

Business Objectives for the year ended 31 December 2016	Actual Business Progress for the year ended 31 December 2016
Expansion of our trading business	
• Continue to develop relationship with existing and potential customers and suppliers of silver, gold and other metals as well as silver raw material with a lower fineness	• The Group continued to trade with existing customers and suppliers and had four new customers and three new suppliers on silver business, and one new supplier on tin business during the year.
• Continue to liaise with members of CGSE to promote silver to local investors	• The Group continued to maintain good relationship with members of CGSE so as to expand potential business locally.
Expansion and maintenance of processing facilities	
• Evaluate the effectiveness and efficiency of the processing facilities and improve on automated processing	• The Group is laying down the plan in evaluating the effectiveness and efficiency of the processing facilities and fine tuning the automated processing for improvement.

Use of Proceeds

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

	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 in 2014, the laboratory was completed in 2015. The total cost of set-up of the testing laboratory and acquisition of machinery amounted to approximately HK$1.4 million, funded by the cash generated from the operation.

AUDIT COMMITTEE AND REVIEW OF ACCOUNTS

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

The audit committee has reviewed the annual results and the audited financial statements of the Group for the year ended 31 December 2016.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this announcement did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by the Company's compliance adviser, Alliance Capital Partners Limited ("Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 27 March 2014 and effective on 5 August 2014, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company as at 31 December 2016 which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

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

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

CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2016, the Group has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 15 of the GEM Listing Rules ("Code Provisions"). The Board reviews and improves its corporate governance practices from time to time so as to ensure that they comply with the statutory requirements and the Code Provisions.

CLOSURE OF THE REGISTER OF MEMBERS

For the purpose of determining shareholders' entitlement to attend and vote at the forthcoming annual general meeting of the Company, the register of members of the Company will be closed from Wednesday, 14 June 2017 to Friday, 16 June 2017 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for attending at the meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 13 June 2017.

By order of the Board
Loco Hong Kong Holdings Limited
Zhu Hongguang
Chairman

Executive Directors:
Mr. Zhu Hongguang *(Chairman)*
Mr. Zha Jianping *(Chief Executive Officer)*
Mr. Felipe Tan

Independent non-executive Directors:
Mr. Chan Ka Ling Edmond
Dr. Wang Lin
Ms. Tsang Wai Chun Marianna

Hong Kong, 24 March 2017