



Dafeng Port Heshun Technology Company Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8310

First Quarterly Report 2017



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

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

The board of Directors of the Company (the “**Board**”) is pleased to present the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the three months ended 31 March 2017 (the “**First Quarterly Financial Statements**”) together with the comparative figures for the corresponding periods in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2017

	Note	Unaudited Three months ended 31 March	
		2017 HK\$'000	2016 HK\$'000
Revenue	3	695,276	49,344
Cost of sales		(681,443)	(42,135)
Gross profit		13,833	7,209
Other income		6,363	923
Administrative expenses		(21,168)	(14,217)
Finance costs		(950)	(154)
Share of results of associates		(429)	6
Loss before taxation	4	(2,351)	(6,233)
Taxation	5	(374)	60
Loss for the period		(2,725)	(6,173)
Other comprehensive income:			
Item that may be reclassified to profit or loss in subsequent periods:			
Exchange difference arising from translation of foreign operations		(596)	(165)
Total comprehensive (loss)/income for the period		(3,321)	(6,338)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2017

	Note	Unaudited Three months ended 31 March	
		2017 HK\$'000	2016 HK\$'000
Loss attributable to:			
Equity holders of the Company		(2,693)	(6,163)
Non-controlling interests		(32)	(10)
		(2,725)	(6,173)
Total comprehensive loss attributable to:			
Equity holders of the Company		(3,289)	(6,328)
Non-controlling interests		(32)	(10)
		(3,321)	(6,338)
Loss per share attributable to equity holders of the Company			
Basic and Diluted (HK cents)	7	(0.21)	(0.55)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2017

	Attributable to equity holders of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Statutory reserve HK\$'000	Other reserve HK\$'000	Share-based payment reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Non-controlling equity HK\$'000	Total interests HK\$'000
At 1 January 2016 (audited)	11,200	106,171	(7,337)	891	170	(6,857)	-	169	104,407	335	104,742
Loss and total comprehensive income for the period	-	-	-	(165)	-	-	-	(6,163)	(6,328)	(10)	(6,338)
At 31 March 2016 (unaudited)	11,200	106,171	(7,337)	726	170	(6,857)	-	(5,994)	98,079	325	98,404
	Attributable to equity holders of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Statutory reserve HK\$'000	Other reserve HK\$'000	Share-based payment reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Non-controlling equity HK\$'000	Total interests HK\$'000
At 1 January 2017 (audited)	12,880	201,419	(7,337)	(3,134)	303	(6,857)	3,063	(36,923)	163,414	200	163,614
Loss and total comprehensive income for the period	-	-	-	(596)	-	-	-	(2,693)	(3,289)	(32)	(3,321)
At 31 March 2017 (unaudited)	12,880	201,419	(7,337)	(3,730)	303	(6,857)	3,063	(39,616)	160,125	168	160,293

NOTES TO THE UNAUDITED FIRST QUARTERLY FINANCIAL STATEMENTS

For the three months ended 31 March 2017

1. CORPORATION INFORMATION

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

2. BASIS OF PREPARATION

The First Quarterly Financial Statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards (“**HKAS**”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance (Cap 622 of the Laws of Hong Kong). The First Quarterly Financial Statements also complies with the applicable disclosure requirements under the GEM Listing Rules.

The First Quarterly Financial Statements have been prepared on a basis consistent with the accounting policies adopted in the Group’s audited financial statements for the year ended 31 December 2016.

Adoption of new/revised HKFRS

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

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

NOTES TO THE UNAUDITED FIRST QUARTERLY FINANCIAL STATEMENTS

For the three months ended 31 March 2017

3. REVENUE

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

	Unaudited Three months ended 31 March	
	2017 HK\$'000	2016 HK\$'000
Income from provision of integrated logistics freight services	66,754	43,741
Income from provision of fuel cards	7,028	5,513
Tractor repair and maintenance services and insurance agency services fee	121	90
Income from trading business	615,557	–
Income from provision of petrochemical storage business	5,816	–
	695,276	49,344

4. LOSS BEFORE TAXATION

	Unaudited Three months ended 31 March	
	2017 HK\$'000	2016 HK\$'000
This is stated after charging (crediting):		
Cost of inventories	609,655	–
Depreciation	5,763	1,305
Operating lease payments on premises	604	2,864
Finance costs		
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	683	62
Finance charge on obligations under finance leases	267	92

NOTES TO THE UNAUDITED FIRST QUARTERLY FINANCIAL STATEMENTS

For the three months ended 31 March 2017

5. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (2016: 16.5%) of the estimated assessable profits for the period. The People's Republic of China (the "PRC") Enterprise Income Tax is calculated at the prevailing tax rate at 25% (2016: 25%) on taxable income determined in accordance with the relevant laws and regulations in the PRC.

	Unaudited Three months ended 31 March	
	2017 HK\$'000	2016 HK\$'000
Current tax		
Hong Kong Profits Tax		
— Current period	–	(60)
PRC Enterprise Income Tax		
— Current period	(374)	–
— Under-provision in prior period	–	–
Total income tax recognised in profit or loss	(374)	(60)

6. DIVIDEND

The Board did not recommend the payment of an interim dividend for the three months ended 31 March 2017 (2016: Nil).

NOTES TO THE UNAUDITED FIRST QUARTERLY FINANCIAL STATEMENTS

For the three months ended 31 March 2017

7. LOSS PER SHARE

Basic loss per share for the three months ended 31 March 2017 and 2016 are calculated by dividing the loss attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue.

	Unaudited Three months ended 31 March	
	2017 HK\$'000	2016 HK\$'000
Loss attributable to equity holders of the Company	(2,693)	(6,163)
Weighted average number of ordinary shares in issue	1,288,000,000	1,120,000,000
Basic loss per share (HK cents)	(0.21)	(0.55)

Basic and diluted loss per share are the same as the Company did not have any dilutive potential ordinary shares during the three months ended 31 March 2017 and 2016.

8. APPROVAL OF THE UNAUDITED CONSOLIDATED FIRST QUARTERLY FINANCIAL STATEMENTS

The First Quarterly Financial Statements were approved and authorised for issue by the Board on 9 May 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the three months ended 31 March 2017 (the “**Period**”), the Group was principally engaged in trading business, the provision of integrated logistics freight services and the relevant supporting services and petrochemical products storage business.

Our major business activities can be divided into below categories during the Period:

1. Trading Business

The Group engages in the business of trading, importing and exporting of electronic products and various other products. During the Period, the Group’s trading business recorded revenue of approximately HK\$615.6 million (2016: Nil).

2. Integrated logistics freight services

During the Period, the Group’s revenue in integrated logistics freight services recorded an increase of approximately 52.6% to approximately HK\$66.8 million (2016: HK\$43.7 million).

3. Supporting Services

The Group’s revenue from supporting services which comprised provision of fuel cards and tractor repair and maintenance services and insurance agency services, increased from approximately HK\$5.6 million for the three months ended 31 March 2016 to approximately HK\$7.1 million for the Period.

(a) Provision of fuel cards

During the Period, the increase in the Group’s supporting services revenue was mainly driven by the increase in revenue from provision of fuel cards. The relevant revenue increased by approximately 27.5% to approximately HK\$7.0 million (2016: HK\$5.5 million). The Group will continue to increase marketing efforts for the promotion discount offered to our clients.

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

Tractor repair and maintenance services and insurance agency services, albeit their contribution to our Group’s revenue being relatively insignificant, served as major types of value-added-services to our land and ocean freight clients during the Period. The relevant revenue increased by approximately 34.4% to approximately HK\$121,000 during the Period (2016: HK\$90,000).

MANAGEMENT DISCUSSION AND ANALYSIS

4. Petrochemical Products Storage Business

The Group engages in petrochemical products storage business through 江蘇中南滙石化倉儲有限公司 (Jiangsu Zhongnanhui Petrochemical Storage Company Limited*). During the Period, the Group's petrochemical products storage business recorded revenue of approximately HK\$5.8 million (2016: Nil).

FINANCIAL REVIEW

The Group's revenue increased by approximately 1,309.0% to approximately HK\$695.3 million for the Period (2016: HK\$49.3 million). The increase in revenue was mainly attributable to the increase in revenue of the Group's trading business.

The Group's cost of sales increased by approximately 1,517.3% to approximately HK\$681.4 million for the Period (2016: HK\$42.1 million), which was mainly driven by the increase in cost of the trading business, the new business developed by the Group during last year.

With the combined effects of revenue and cost of sales, the Group's gross profit margin decreased to approximately 2.0% for the Period (2016: 14.6%), which was mainly due to the low profit margin of the Group's trading business.

The Group's finance cost amounted to approximately HK\$950,000 for the Period (2016: HK\$154,000), the finance costs consist of interests on bank loans, overdrafts and other borrowings, the finance charge on the obligations under finance leases as well as interest on consideration payable in respect of the acquisition of 大豐海港港口物流有限公司 (Dafeng Harbour Port Logistics Company Limited*).

The Group recorded the loss for the Period of approximately HK\$2.7 million (2016: HK\$6.2 million). The loss attributable to the equity holders of the Company was approximately HK\$2.7 million (2016: HK\$6.2 million) and the loss per share was 0.21 HK cents (2016: 0.55 HK cents).

MANAGEMENT DISCUSSION AND ANALYSIS

Capital structure

As at 31 March 2017, the Group's total equity attributable to equity holders of the Company amounted to approximately HK\$160.1 million (31 December 2016: HK\$163.4 million). The capital of the Company mainly comprised ordinary shares, share premium and capital reserves.

Dividend

The Board did not recommend the payment of an interim dividend in respect of the Period (2016: Nil).

Pledge of assets

The Group used facilities from its bank and other borrowings to finance the expansion of its business. Secured borrowings are secured by the Group's property, plant and equipment, having carrying amounts of approximately HK\$41.6 million as at 31 March 2017 (31 December 2016: HK\$44.3 million), prepaid lease payments of approximately HK\$43.5 million as at 31 March 2017 (31 December 2016: HK\$43.1 million) and pledged bank deposits of approximately HK\$1.3 million as at 31 March 2017 (31 December 2016: HK\$1.3 million).

DISPOSALS OF EQUITY INTERESTS IN SUBSIDIARIES

Disposal of 49% equity interests in Qianhai Mingtian and termination of the Subscription Agreement

On 6 March 2017, Dafeng Port Heshun International Investment Limited (大豐港和順國際投資有限公司) ("**Heshun International**"), an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement (the "**Equity Transfer Agreement**") with 深圳市正億企業管理有限公司 (Shenzhen Zhengyi Enterprise Management Company Limited*) ("**Zhengyi Enterprise**"). According to the Equity Transfer Agreement, Zhengyi Enterprise agreed to purchase, and Heshun International agreed to sell 49% of the equity interest in 前海明天供應鏈(深圳)有限公司 (Qianhai Mingtian Supply Chain (Shenzhen) Company Limited*) ("**Qianhai Mingtian**") (the "**Disposal**") in consideration of Mr. Wu Heng ("**Mr. Wu**") entering into a deed of termination (the "**Deed of Termination**"), pursuant to which, among other things, the Company is released from its obligations to allot new shares of the Company to Mr. Wu under a subscription agreement (the "**Subscription Agreement**") dated 19 June 2016 upon completion of the Disposal.

For further details, please refer to (1) the announcements of the Company dated 19 June 2016 and 20 June 2016 in relation to the establishment of Qianhai Mingtian and the Subscription Agreement; and (2) the announcement of the Company dated 6 March 2017 and the circular of the Company dated 27 March 2017 in relation to the Disposal and the Deed of Termination.

MANAGEMENT DISCUSSION AND ANALYSIS

Disposal of 49% of the issued share capital in Gamma Logistics (B.V.I.) Corporation (“Gamma Logistics”)

On 13 March 2017, the Company and Wharf Limited entered into a disposal agreement (the “**Disposal Agreement**”), pursuant to which, the Company conditionally agreed to sell, and Wharf Limited conditionally agreed to purchase 49% of the issued share capital of Gamma Logistics at a consideration of HK\$8.5 million (the “**Gamma Disposal**”).

All terms and conditions under the Disposal Agreement were fulfilled on 11 April 2017. Following the completion of the Gamma Disposal, Gamma Logistics became a direct non-wholly owned subsidiary of the Company.

For further details, please refer to (1) the announcements of the Company dated 13 March 2017 and 11 April 2017, and (2) the circular of the Company dated 31 March 2017 in relation to the Gamma Disposal.

Save as disclosed, the Group had no significant investment, material acquisitions and disposals of subsidiaries and associated companies during the Period.

OUTLOOKS

Having regard that the integrated logistics freight services have caused substantial losses to the Group in the past few years. The Group intends to focus less on the integrated logistics freight services.

Looking forward, the Group will continue to expand its trading business. In this regard, the Group intends to venture into the petrochemical products trading business, with a view to diversifying the revenue stream and business portfolio of the Group, and to enhance the interest of the shareholders of the Company.

CONTINGENT LIABILITIES

As at 31 March 2017, the Group had no material contingent liabilities (31 December 2016: Nil).

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

As at 31 March 2017, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("**SFO**")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "**Scheme**") for the purpose of providing incentives and to recognise and acknowledge the contributions that eligible persons had made or may make to the Group. The Scheme has been adopted pursuant to the written resolutions of the sole shareholder of the Company passed on 3 August 2013. Since the Scheme came into effect after the Company was listed on GEM of the Stock Exchange, no share options were granted, exercised or cancelled by the Company under the Scheme during the Period and there were no outstanding share options under the Scheme as at 31 March 2017 and on the date of this report.

OTHER INFORMATION

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

As at 31 March 2017, so far as was known to the Directors, the following persons/entities (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholders	Capacity/ Nature of interests	Number of shares held (Note 1)	% of the Company's issued share capital (Approximate)
Dafeng Port Overseas Investment Holdings Limited ("Dafeng Port Overseas") (Note 2)	Beneficial owner	740,040,000 (L)	57.46%
江蘇大豐海港控股集團有限公司 (Jiangsu Dafeng Harbour Holdings Limited*) ("Jiangsu Dafeng") (Note 3)	Interest of controlled corporation	740,040,000 (L)	57.46%
大豐區人民政府 (People's Government of Dafeng District*) ("PGDD") (Note 3)	Interest of controlled corporation	740,040,000 (L)	57.46%

Notes:

1. The letter "L" denotes a long position in the interest in the issued share capital of the Company.
2. Dafeng Port Overseas, a company incorporated in Hong Kong with limited liability, and is owned as to 40% by Jiangsu Dafeng, which in turn is wholly owned by PGDD.
3. Jiangsu Dafeng and PGDD are deemed to be interested in the shares of the Company held by Dafeng Port Overseas under the SFO.

Save as disclosed above, as at 31 March 2017, the Directors were not aware of any other persons/entities (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

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

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

COMPETING INTERESTS

Jiangsu Dafeng, a controlling shareholder of the Company, has two indirect wholly-owned subsidiaries, namely 大豐海融國際貿易有限公司 (Dafeng Hairong International Trading Limited*) ("**Dafeng Hairong**") and 鹽城市港城商業管理有限公司 (Yancheng City Gangcheng Commercial Management Co., Ltd*) ("**Yancheng Commercial**"), which are engaged in trading of various goods including coals, metal ores, non-metallic ores, non-ferrous metal, chemical products, non-metal construction materials, scrap steel and wood. Whereas the Group, through its indirect wholly-owned subsidiaries, namely 鹽城大豐和順國際貿易有限公司 (Yancheng Dafeng Heshun International Trading Company Limited*) and Qianhai Mingtian, has also developed the business of trading of electronic products and various other products. Accordingly, the businesses of Jiangsu Dafeng and its subsidiaries (the "**Jiangsu Dafeng Group**") may be construed as businesses competing with or are likely to compete with one of the core principal activities of the Group. The Board considered that the businesses of the Jiangsu Dafeng Group do not pose material competitive threat to the Group because the Group and Jiangsu Dafeng Group have different focuses on the type of products offered which target at different customers in the market.

OTHER INFORMATION

Other than Mr. Ni Xiangrong, Mr. Wang Yijun and Mr. Pan Jian who are the directors of Jiangsu Dafeng, there is no overlap in the directorships among the Company, Jiangsu Dafeng, Dafeng Hairong and Yancheng Commercial. The Directors consider that the Board can operate independently from Jiangsu Dafeng, because (i) pursuant to the articles of association of the Company, a Director shall not vote on any board resolution approving any contract or arrangement or any other proposal in which such Director or any of his associates has a material interest nor shall he be counted in the quorum present at the meeting; and (ii) the Directors are fully aware of their fiduciary duties owing to the shareholders of the respective companies and their duty to avoid conflicts to the shareholders of the respective companies and their duty to avoid conflicts of interests in carrying out their respective duties as directors of the relevant companies.

Save as disclosed above, as at 31 March 2017, none of the Directors, controlling shareholders of the Company or their respective close associates had any interests in a business, which competes or is likely to compete either directly or indirectly with the business of the Group which would be required to be disclosed under Rule 11.04 of the GEM Listing Rules.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company has complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix 15 to the GEM Listing Rules during the Period.

AUDIT COMMITTEE

An audit committee of the Company (the "**Audit Committee**") has been established on 3 August 2013 with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules and code provision C.3.3. The members of the Audit Committee comprise Mr. Lau Hon Kee, Dr. Bian Zhaoxiang and Mr. Zhang Fangmao, all of whom are independent non-executive Directors. The chairman of the Audit Committee is Mr. Lau Hon Kee. The primary duties of the Audit Committee are to make recommendations to our Board on the appointment and removal of the external auditor, review the financial statements and related materials and provide advice in respect of the financial reporting process and oversee the internal control procedures of the Group.

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

OTHER INFORMATION

APPRECIATION

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

By order of the Board
Dafeng Port Heshun Technology Company Limited
Ni Xiangrong
Chairman

Hong Kong, 9 May 2017

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

<i>Executive Director</i>	<i>Non-executive Directors</i>	<i>Independent Non-executive Directors</i>
Mr. Ni Xiangrong (<i>Chairman</i>)	Mr. Ji Longtao	Dr. Bian Zhaoxiang
Mr. Wang Yijun	Mr. Yang Yue Xia	Mr. Lau Hon Kee
Mr. Shum Kan Kim		Mr. Yu Xugang
Mr. Yu Xingmin		Mr. Zhang Fangmao
Mr. Pan Jian		

* For identification purpose only