



ANNUAL
REPORT

2017



Loco Hong Kong Holdings Limited

港銀控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 8162)

CHARACTERISTICS OF THE GEM (“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.locohkholdings.com.



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CORPORATE INFORMATION

Directors

Executive Directors

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

Independent Non-Executive Directors

Dai Meihong
Wang Lin
Tsang Wai Chun Marianna

Audit Committee

Dai Meihong (*Chairlady*)
Wang Lin
Tsang Wai Chun Marianna

Executive Committee

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

Remuneration Committee

Wang Lin (*Chairlady*)
Dai Meihong
Tsang Wai Chun Marianna
Zha Jianping

Nomination Committee

Zhu Hongguang (*Chairman*)
Dai Meihong
Wang Lin
Tsang Wai Chun Marianna

Company Secretary

Fok Chi Wing

Compliance Officer

Zhu Hongguang

Auditor

BDO Limited

Share Registrar and Transfer Office

Union Registrars Limited

Registered Office

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

Listing

GEM of The Stock Exchange of Hong Kong Limited

Stock Code

8162

Authorised Representatives to the Stock Exchange

Zha Jianping
Fok Chi Wing

Website

www.locohkholdings.com

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info@locohkholdings.com



CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Loco Hong Kong Holdings Limited (the "Company"), I would like to extend my sincere appreciation to the shareholders of the Company and stakeholders for their support to the Company. As a Chairman of the Board, I hereby present the annual results of the Company and its subsidiaries (collectively, the "Group") of the year ended 31 December 2017.

During the year under review, the Group recorded a revenue of sales of metal of approximately HK\$2.2 billion (2016: HK\$2.2 billion) which show a steady silver trading business since our hard time in 2015. A steady silver industry doesn't mean that our performance is better than last year because the narrow profit margin of silver trading as usual and the cost incurred by the Group is larger as compared with last year. We recorded a net loss while a net profit is recorded in last year.

Looking to 2018, it is not guaranteed that the silver industry is steady as in 2017 and we still need to explore more new opportunity and business for the Group in order to mitigate the impact of silver trading business that we heavily rely on. New business of trading of electronic products and provision of money lending services were commenced and started contribution to the Group during the year 2017. We hope the development of the two new business grows healthy and more new sector of business would be explored in the coming 2018.

On behalf of the Board, may I once again express my heartfelt gratitude to all shareholders of the Company, customers, and strategic partners for their unfailing trust and support amidst extremely challenging business conditions during the past year, as well as to the management team and all employees for their hard work and dedication to the Group.

On behalf of the Board

Zhu Hongguang

Chairman

Hong Kong, 23 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

Corporate Strategy and Business Model

Beside the exploration of new business on trading of electronic products and provision of money lending services during the year. The Group's principally activities still engaged in trading of metal in Hong Kong accompanied with trading of forward contracts for hedging purpose for the year.

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 fluctuates between US\$15.22 per ounce and US\$18.56 per ounce.

For the year ended 31 December 2017, the Group recorded a revenue from sales of metal of approximately HK\$2.2 billion (2016: HK\$2.2 billion) of which 99% (2016: 70%) was contributed by sale of silver products and the remainings were contributed by sale of tin (2016: gold and tin).

For the year ended 31 December 2017, the Group processed 525 tonnes (2016: 343 tonnes) of silver scrap. The total processing volume represented an increase of 53% when compared with last year.

深圳時代健康科技控股有限公司 (Shenzhen New Era Health Science And Technology Holdings Limited*), a newly established subsidiary of the Company in People's Republic of China ("PRC") has started operation of trading business and contributed approximately HK\$89 million revenue to the Group during the year ended 31 December 2017.

* English name for identification purpose only



MANAGEMENT DISCUSSION AND ANALYSIS

United Worth Finance Limited, a wholly-owned subsidiary of the Company has obtained a money lenders license (under Money Lenders Ordinance, Chapter 163 of the Laws of Hong Kong) on 28 March 2017. Provision of money leading services has started and contributed HK\$272,000 revenue to the Group during the year ended 31 December 2017.

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 significantly fluctuation of silver market price may affect the silver industry of Hong Kong and our Company as we encountered 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.

During the year, we have successfully explored two new sectors of business include trading of electronic products and provision of money lending services, which contributed in aggregate approximately HK\$89 million of revenue.

On 13 February 2018, we have successfully entered into a sales agreement and purchase agreement with China Yantai Friction Co. Ltd. (the “CYFC”) in relation to the trading of automotive parts for the year 2018. Our relationship with CYFC and newly explored business of trading of automotive parts which enable us having a steady and reliable income for the Group.

On 28 February 2018, one of the Group’s subsidiaries entered into a cooperation agreement with Party C regarding the construction of a solar power facility (the “Facility”) in the PRC and the generation of income by supplying electricity which is to be generated from the Facility. The estimated total investment cost for the Facilities is RMB14,000,000 (equivalent to approximately HK\$16,785,000). The Group will further enter into a construction contract with Party C to set out the terms of details, including the exact investment cost, of the construction Facility after including but not limited to Party C obtaining relevant approval or license from relevant government authority for the construction of the Facility.

In order to minimize the impact of silver industry that we may face in the future, the Group still 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the year ended 31 December 2017, the Group had a total income of approximately HK\$2.3 billion (2016: HK\$2.2 billion), representing an increase of 8.4% as compared with 2016. The Group recorded loss after tax of approximately HK\$18 million (2016: profit of HK\$2.9 million) for the year ended 31 December 2017. The Group went from a profit to a loss mainly due to the fair value loss on investment held for trading which was gain in last year and increase in general expenses (including employee costs and rental expenses) as compared with last year.

Capital Structure, liquidity and financial resources

As at 31 December 2017, the Group had cash and bank balances of approximately HK\$47 million (2016: approximately HK\$120 million) and net current assets of approximately HK\$110 million (2016: approximately HK\$123 million). As at 31 December 2017, the current ratio stood at 1.90 times (2016: 2.33 times).

The Group generally finances its operations primarily with internally generated cash and loan from a related company. The decrease in cash balance mainly represented of more inventories were purchased, increase in trade receivable and loan receivable as at year ended 31 December 2017.

As at 31 December 2017, the Group had a loan from a related company approximately HK\$27 million (2016: HK\$27 million).

As at 31 December 2017, 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

Details of the Group's capital commitment are set out in note 33 to the financial statements.

Employees and Remuneration Policy

As at 31 December 2017, the Group employed a total of 28 staff. The total of employee remuneration, including remuneration of the Directors, for the year ended 31 December 2017 amounted to approximately HK\$19 million.

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



MANAGEMENT DISCUSSION AND ANALYSIS

Charge on the Group's assets

As at 31 December 2017, no Group's assets was pledged as security.

Future Plan for Material Investments and Capital Assets

Save as disclosed in note 38 to the financial statements regarding a cooperation agreement entered into on 28 February 2018, 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 2017 (2016: nil).

Gearing ratio

As at 31 December 2017, the gearing ratio of the Group, calculated as debt (being loan from a related company and liability component of convertible bonds) divided by total equity was approximately 0.24 (2016: 0.67).

Foreign Exchange Exposure

The functional currencies of the Group's respective principal subsidiaries are HK\$, US\$ and RMB. For subsidiaries with HK\$ and US\$ as their functional currencies, since most of their transactions and financial instruments are denominated in HK\$ and US\$ and HK\$ is pegged to US\$, their exposure to foreign currencies risk is minimal. For a subsidiary with RMB as its functional currency, it is exposed to foreign currency risk as all of its sales and purchases during the year were transacted in US\$. The Group does not have a foreign currency hedging policy. However management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

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 2017 and there has not been any material change in the contingent liabilities of the Group since 31 December 2017.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Zhu Hongguang (“Mr. Zhu”), aged 45, has been appointed as the executive director of the Company (the “Executive Director(s)”) since August 2016 and redesignated as the chairman of the Board (the “Chairman”) since September 2016. Mr. Zhu has over ten years’ experience in operations and management in the segment of real economy investment. Mr. Zhu established Sichuan Wenjie Materials Co., Ltd. (四川雯傑物資有限公司) and Chengdu Yuntai Industrial Investment Co., Ltd. (成都元太實業投資有限公司) in 1995 and 2000 respectively. Mr. Zhu served as the director of Chengdu College of Arts and Sciences in 2003. Mr. Zhu has established and served as the chairman of Chengdu Zhongxing Water-supply Company Limited since 2004. Mr. Zhu has further developed himself with extensive financial experiences; has established and served as the general manager of Chengdu Lingduoji Investment Co., Limited (成都嶺多吉投資有限公司) and Chengdu Weide Equity Investment Fund Management Co., Limited (成都威德股權投資基金管理有限公司) in 2013. Mr. Zhu obtained a Master degree of Science in Business Operation and Management from the University of Bath in 2007. Save as disclosed above, Mr. Zhu has not been a director of any public listed company, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

Mr. Zha Jianping (“Mr. Zha”), aged 47, has been appointed as Executive Director and chief executive officer of the Company (the “Chief Executive Officer”) since November 2016. Mr. Zha graduated from the Shanghai University of Finance and Economics with a bachelor degree in economics majoring in accounting in 1993. Mr. Zha continued his education at the Graduate School of Chinese Academy of Social Sciences in 1996, which Mr. Zha obtained his master degree in economics in 1998. Mr. Zha also obtained a master degree in business administration from the Wisconsin International University in the United States in 2001. Mr. Zha is a qualified senior accountant in the PRC and has extensive business and management experience in a wide range of industries including finance, information technology and logistics. Prior to joining the Company, Mr. Zha worked as senior management in a number of large enterprise groups, including Nam Kwong (Group) Company Limited in Macau, Jinbei Automotive Company Limited (listed on the Shanghai Stock Exchange, stock code: 600609) and Brilliance China Automotive Holdings Limited (listed on the Main Board of the Hong Kong Stock Exchange, stock code: 01114). Mr. Zha was the chairman, chief executive officer and executive director of Chinese Energy Holdings Limited (listed on the GEM Board of the Hong Kong Stock Exchange, stock code: 08009), and the deputy managing director of Asia Allied Infrastructure Holdings Limited (formerly known as China City Construction Group Holdings Limited, listed on the Main Board of the Hong Kong Stock Exchange, stock code: 00711). Save as disclosed above, Mr. Zha has not been a director of any public listed company, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Felipe Tan (“Mr. Tan”), aged 63, has been appointed as Executive Director since February 2014. Mr. Tan has served as a director of China Precision Material Limited (“CPM”) and CPM Silver Limited (“CPM Silver”) since March 2009 and May 2009 respectively. Mr. Tan has experience in metal trading and monitoring hedging activities. Mr. Tan is the chairman of the board, president and chief executive officer of GobiMin Inc. (“GobiMin”) (listed on the TSX Venture Exchange in Canada, symbol: GMN), a company engaged in the exploration and exploitation of mineral resources in the PRC since 2005. GobiMin is a substantial shareholder of the Company and holds the shares in the Company through its subsidiaries. Mr. Tan has served as the executive director and chairman of the board of Timeless Software Limited (“Timeless”) (listed on the GEM Board of the Hong Kong Stock Exchange, stock code: 08028), a company principally engaged in the computer hardware and software and mining business since 2012. In addition, Mr. Tan has served as the director of Jiangmen Proudly Watersoluble Plastic Co., Ltd. (listed on the National Equities Exchange and Quotations in the PRC, NEEQ: 833367). Save as disclosed above, Mr. Tan has not been a director of any public listed company, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

Independent Non-executive Directors

Ms. Dai Meihong (“Ms. Dai”), aged 46, has been appointed as independent non-executive Director (the “Independent Non-Executive Director(s)”) since April 2017. Ms. Dai was graduated from Shanghai University of Finance and Economics with a bachelor degree in economics majoring in accounting in 1993. Ms. Dai continued her education at The University of Texas at Arlington, which Ms. Dai obtained her master degree of business administration in 2009. Ms. Dai is certified public accountant in PRC, chartered associate member of the Chartered Institute of Management Accountants and chartered global management accountant. Ms. Dai has wide range of experience in multinational companies, including finance, accounting, budgeting, business operation, internal control, ERP system management, legal and compliance. Ms. Dai is currently a partner of Shanghai Youfou Information Technology Company Limited (上海優否信息科技有限公司). Ms. Dai served as chief financial officer of Shanghai Bracco Sine Pharmaceutical Corp., Ltd. (上海博萊科信誼藥業有限責任公司), financial controller of Shanghai (Singer) Sewing Machine Company Limited (上海勝家縫紉機有限公司) and senior internal auditor of internal audit of China region of Sinar Mas Group (金光集團亞洲區稽核部). Save as disclosed above, Ms. Dai has not been a director of any public listed company, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Wang Lin (“Dr. Wang”), aged 51, has been appointed as an Independent Non-Executive Director of the Company in September 2016. Dr. Wang is a professor at the Institute of Biophysics, Chinese Academy of Sciences. Dr. Wang is a director of Beijing Wantai Bio-Pharmaceutical Incorporation (北京萬泰生物藥業股份有限公司), a director of National Bio-Founder Biotech Co., Ltd. (中生方政生物技術股份有限公司), a director of United Electronics Co., Ltd. (北京榮之聯科技股份有限公司), a director of Beijing Quantobio Biotechnology Co., Ltd. (北京曠博生物技術股份有限公司), a chairman of Beijing Sophonix Biotechnology, Ltd. (北京美聯泰科生物技術有限公司). Dr. Wang was a co-founder, director and general manager of Allele Biotechnology & Pharmaceuticals, Inc. in the United States from September 2000 to August 2004. Dr. Wang was recruited through the renowned “100 Talents Program”(百人計劃) by the Chinese Academy of Science (中國科學院) to be a professor at the Institute of Microbiology, Chinese Academy of Sciences from September 2004 to August 2005. Dr. Wang was a professor at the Institute of Biophysics, Chinese Academy of Sciences since March 2006, and served as head of the Liaison Office (所地合作處) from March 2006 to August 2009. Dr. Wang was vice president, executive vice president and executive director of Biosino Bio-Technology and Science Incorporation (listed on the GEM Board of the Hong Kong Stock Exchange, stock code: 08247) from September 2005 to May 2015. Dr. Wang served as an expert in the field of biology and pharmaceutical technology under the National 863 High Technology Program (國家高技術研究發展計劃 “863計劃”) during the Eleventh Five-Year Plan (2006-2010). Dr. Wang was also elected as the vice chairman of the “Legend Star” Entrepreneurial Alliance (“聯想之星”創業聯盟) in 2010 and served as its council member for four sessions. Dr. Wang graduated from the Department of Biology of Peking University in 1990. Dr. Wang obtained a Ph.D. degree in biochemistry from the University of Wisconsin-Madison in the United States in 1997. Dr. Wang conducted post-doctoral research at the Department of Biochemistry (HHMI) of the University of California – San Diego in the United States from 1997 to 2000. Dr. Wang participated in the CEO training program at the School of Economics and Management of the Tsinghua University from 2007 to 2009 and the 1st “Legend Star” CEO Special Training Class (“聯想之星” CEO特訓班) from 2008 to 2009. Save as disclosed above, Dr. Wang has not been a director of any public listed company, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

Ms. Tsang Wai Chun Marianna (“Ms. Tsang”), aged 63, was appointed as the Independent Non-Executive Director since July 2014. Ms. Tsang is the Managing Director of TWC Management Limited. Ms. Tsang is a member of the Institute of Chartered Secretaries and Administrators, the Hong Kong Institute of Company Secretaries, the Taxation Institute of Hong Kong, the Chartered Institute of Personnel and Development, the Society of Registered Financial Planners, the Chartered Institute of Arbitrators, the Institute of Financial Accountants in UK and Institute of Public Accountants in Australia. Ms. Tsang was appointed as a member of the Board of Review (Inland Revenue Ordinance) from 2010 to 2016. Ms. Tsang has over 30 years of company secretarial, corporate affairs, and related legal working experience in major commercial corporations and in professional firms. She obtained a postgraduate certificate in Professional Accounting in November 2002. Ms. Tsang has served as the independent non-executive director of Timeless since October 2003. Save as disclosed above, Ms. Tsang has not been a director of any public listed company, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Compliance Officer

Zhu Hongguang is the compliance officer of the Company.

Senior Management

Ms. Wei Zhemín (“Ms. Wei”), aged 58, was appointed as the deputy chief executive officer of the Company and the director of a Company’s subsidiary since August 2016. Ms. Wei graduated from the Sun Yat-Sen University (廣東中山大學) with certificate in Business Administration for In-service Manager (在職經理工商管理課程結業證書). Ms. Wei has extensive senior management experience in sizable stated-owned enterprise, sino-foreign joint venture technology group, investment management company and professional firms. Ms. Wei organized and participated in investment operation and management in various projects. She is familiar with operation in capital market management, and tax law and regulations in the PRC. Ms. Wei has professional skills and practicing experience in operation of capital market, financial management, companies merger and restructuring, operation strategy and risk management, etc. Save as disclosed above, Ms. Wei has not been a director of any public listed company, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

Company Secretary

Mr. Fok Chi Wing (“Mr. Fok”), aged 35, was appointed as the company secretary of the Company (the “Company Secretary”) since December 2016. Mr. Fok graduated from the Hong Kong University of Science and Technology with bachelor degree in engineering. Mr. Fok is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom, as well as a member of Hong Kong Institute of Certified Public Accountants. Prior to joining the Company, Mr. Fok acted as company secretary of other listed companies and major international accounting firm. Mr. Fok had experience of company secretarial, auditing, accounting and financing. Save as disclosed above, Mr. Fok has not been a director of any public listed company, the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

CORPORATE GOVERNANCE REPORT

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

Code on Corporate Governance Practices

During the year ended 31 December 2017, the Group has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 15 of the GEM Listing Rules (“Code Provisions”). The Board reviews and improves its corporate governance practices from time to time so as to ensure that they comply with the statutory requirements and the Code Provisions.

Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions carried out by Directors, that is not laxer than relevant standards of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries to all Directors, they confirmed they have complied with the standards of dealings and the code of conduct regarding securities transactions carried out by Directors, adopted by the Company throughout the year ended 31 December 2017.

Board of Directors

(a) Board Composition

As at 31 December 2017, the Board comprised a total of six Directors including three Executive Directors, namely Mr. Zhu Hongguang, Mr. Zha Jianping and Mr. Felipe Tan; and three Independent Non-Executive Directors, namely Ms. Dai Meihong, Dr. Wang Lin and Ms. Tsang Wai Chun Marianna.

The biographical details of all Directors and senior management of the Company are set out on pages 9 to 12 of the annual report. To the best knowledge of the Company, save as disclosed under the section “Biographical Details of Directors and Senior Management”, there is no financial, business, family or other material or relevant relationships among members of the Board.

(b) Function of the Board

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



CORPORATE GOVERNANCE REPORT

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. The Company Secretary prepares minutes to record matters discussed and decisions resolved at the Board meetings. Minutes are kept by the Company Secretary with copies circulated to all Directors for information and records.

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

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

Each of the Executive Directors have entered into a service agreement with the Company for a term of three years commencing from date of appointment or reappointment 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, 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, Ms. Dai Meihong 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

The Chairman of the Board is Mr. Zhu Hongguang and the Chief Executive Officer is Mr. Zha Jianping. The role of the Chairman and Chief Executive Officer are separate and exercised by different individual which complies with Rule A.2.1.

CORPORATE GOVERNANCE REPORT

(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.

Name of Directors	Attending training courses/reading relevant materials in relation to the business, GEM Listing Rules or directors' duties
Executive Directors:	
Mr. Zhu Hongguang	Yes
Mr. Zha Jianping	Yes
Mr. Felipe Tan	Yes
Independent Non-Executive Directors:	
Ms. Dai Meihong (appointed on 25 April 2017)	Yes
Dr. Wang Lin	Yes
Ms. Tsang Wai Chun Marianna	Yes

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

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

Our Audit committee comprises three Independent Non-Executive Directors, namely Ms. Dai Meihong, Dr. Wang Lin and Ms. Tsang Wai Chun Marianna. Ms. Dai Meihong is the chairlady of the Audit Committee.

The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2017.

(b) Executive Committee

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

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



CORPORATE GOVERNANCE REPORT

(c) Remuneration Committee

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

Our Remuneration Committee comprises three Independent Non-Executive Directors, namely Dr. Wang Lin, Ms. Dai Meihong, Ms. Tsang Wai Chun Marianna and one Executive Director, Mr. Zha Jianping. Dr. Wang Lin is the chairlady of the Remuneration Committee.

(d) Nomination Committee

We established our nomination committee (the “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. Dai Meihong, Dr. Wang Lin, Ms. Tsang Wai Chun Marianna and one Executive Directors, Mr. Zhu Hongguang. Mr. Zhu Hongguang is the chairman of the Nomination Committee.

(e) Hedging Committee

We established our hedging committee (the “Hedging Committee”) on 22 July 2014 with written terms of reference. The Hedging Committee was abolished on 25 April 2017.

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

Details of the attendance of the Directors at the Board Meetings, Board committee meetings and general meetings during the year under review are as follows:

Name of Directors	Number of Meetings Attended/Held During the Year under Review					
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Hedging Committee Meeting	Executive Committee Meeting
Executive Directors						
Mr. Zhu Hongguang (Note 1)	3/4	-	-	2/2	-	2/2
Mr. Zha Jianping (Note 2)	4/4	-	0/0	-	-	2/2
Mr. Felipe Tan (Note 3)	4/4	-	1/1	1/1	1/1	-
Independent Non-Executive Directors						
Ms. Dai Meihong (Note 4)	3/3	3/3	0/0	0/0	-	-
Dr. Wang Lin	4/4	5/6	2/2	2/2	-	-
Ms. Tsang Wai Chun (Note 5)	4/4	6/6	2/2	2/2	1/1	-
Mr. Chan Ka Ling (Note 6)	1/1	2/2	1/1	1/1	1/1	-

Note 1: appointed as chairman and member of the Nomination Committee on 25 April 2017

Note 2: appointed as member of the Remuneration Committee on 25 April 2017

Note 3: resigned as member of each of the Nomination Committee and Remuneration Committee on 25 April 2017

Note 4: appointed as Director; a chairman of the Audit Committee; and a member of each of the Audit Committee, Nomination Committee and Remuneration Committee on 25 April 2017

Note 5: resigned as a chairman of the Nomination Committee a member of the Hedging Committee

Note 6: resigned as Director; a chairman of each of the Audit Committee and Hedging Committee; and a member of each of the Audit Committee, Nomination Committee, Remuneration Committee and Hedging Committee on 25 April 2017



CORPORATE GOVERNANCE REPORT

Auditor's Remuneration

For the audit of the Group's consolidated financial statements for the year ended 31 December 2017, the total remuneration paid or payable to the Company's external auditors, BDO Limited, for audit services amounted to HK\$634,000 (2016: HK\$550,000)

Directors' and Auditors' Responsibility for the Financial Statements

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

Risk Management and Internal Control

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

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

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

Company Secretary

The Company Secretary is an employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary reports to the Chairman and is responsible for advising the Board on governance matters. The Company Secretary, Mr. Fok, has confirmed that he has taken no less than 15 hours of relevant professional training. The biography of the Company Secretary is set out on page 12 of this annual report.

Changes in Constitutional Documents

During the year ended 31 December 2017, there was no change in the constitutional documents.

Shareholders' Rights

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

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

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



CORPORATE GOVERNANCE REPORT

Communication with Shareholders

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

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

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

Voting by Poll

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

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

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

Enquiries to the Board

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL AND SOCIAL SUBJECT AREAS, AND THE GROUP'S ENVIRONMENTAL AND SOCIAL OBLIGATIONS PERFORMANCE

(A) Environmental

In order to develop a sustainable business, the Group has taken the initiative to engage in conservation and to promote environment responsibility. We take an active role to ensure a sustainable, environmentally-friendly production and operating process and aim to reduce any pollution at all levels of our operations.

We are principally engaged in the trading of metals in Hong Kong and China. During the year, we have operated our silver processing facilities with a view to enhancing the marketability as well as facilitating the trading of our silver products. We purchase silver scraps as raw materials for processing into finished silver products. We operate a fully integrated processing facility in Kwai Chung with a total gross floor area of approximately 7,500 sq. ft.

The Group's business does not produce any direct greenhouse or hazardous gas emissions. As part of our silver processing business we do produce non-toxic water which is dealt with under strict rules and regulations in Hong Kong.

A1. Emissions

Our processing involves melting silver raw materials and molding them into the shapes and forms required by our customers. Water is used for cooling purpose which is then discharged as waste water. Except the waste water, there are no other air emissions, greenhouse gas emission (A1.2), and hazardous wastes (A1.3) generated from our processing. In the process of waste water disposal, the Group mainly complied with the stipulations of the Water Pollution Control Ordinance (CAP. 358) and the terms and conditions as per the license pursuant to Section 20 of the Ordinance.

The wastes disposed by the Group was only non-toxic cooling water requiring corresponding treatment. The Group strictly complied with the stipulation of the laws, regulations and policies to the disposal.

In the year of 2017, the Group discharged approximately 3,215 tonnes (2016: 2,297 tonnes) waste water, all being non-toxic cooling water which was reasonable given the increase in business volume. As explained further below, despite the increase in discharged waste water overall, we reduced the amount of discharged water per tonne of product produced.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group obtained the registrations on the following Ordinances enforced by Environmental Protection Department of HKSAR Government:

- I) Waste Disposal Ordinance (Cap.354) – Waste Disposal (Chemical Waste) (General) Regulation Registration as a Chemical Waste Producer.

In order to obtain this registration, the Group must ensure the chemical wastes (e.g. Residual acidic solution, if any) will undergo proper treatment with all handling being assigned to companies registered with HKSAR Government (A1.5).

- II) Water Pollution Control Ordinance (Cap. 358) – Victoria Harbour (Phase One) Water Control Zone.

The Group adopts appropriate measures to ensure the quantity and composition of any discharge from the processing facilities workshop in Kwai Chung, and offices in Hong Kong and Shenzhen shall not exceed the limits stated by the Environmental Protection Department of HKSAR. (A1.6). During the year ended 31 December 2017, a total of 165 tonnes (2016: total 118 tonnes) of indirect greenhouse gas mainly CO₂ was emitted, which was 39.8% more than 2016. The reasons were an increase in processing and business turnover, and a new office in Shenzhen was established during the year.

During the year ended 31 December, 2017, the Group did not receive any penalties, complaints or warnings with regard to any hazardous gas emissions, or any air, noise, water or waste discharge or pollution.

A2. Use of Resources

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

In 2017, the aggregate electricity consumed by our Group was 256,989 kWh which included 243,120 kWh for workshop, 7,837 kWh for our Hong Kong office and 6,032 kWh for our Shenzhen office (2016: total 187,497 kWh, which included 185,840 kWh for workshop and 1,657 kWh for Hong Kong office), and was 69,492 kWh more than 2016. The reasons were an increase in processing and business turnover and a new office was established in Shenzhen. Regarding the use of electricity for our processing center, in 2017 approximately 463 kWh (2016: 542 kWh) was used per tonne of product produced which demonstrated an improvement of 14.6% in the efficiency of our use of electricity used per tonne of product produced over 2016 (A2.1).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2017, the aggregate water consumed by our Group was 3,215 tonnes (2016: 2,297 tonnes), approximately 6.1 tonnes (2016: 6.7 tonnes) of which was used per tonne of product produced over 2016 by 9.0% (A2.2). The Group has had no problem in securing sufficient volumes of water from Hong Kong's water supply system that was fit for use as cooling water for later discharge.

LED lighting has been installed by Group in our offices in order to reduce our electricity consumption. We have also installed meters for monitoring the electricity consumption of our processing facility (A2.3).

The existing supply of water resources is sufficient to satisfy the Group's needs in the all aspects of volume, quality of water and the guarantee of water supply facilities. With the installation of a new monitoring meter, the Group will be able to better monitor and manage our use of water (A2.4).

All of the packing material used by the main products of the Group included the wooden box, paper packing and the plastic packing. In 2017, the Group consumed wooden box of 484 pcs = 31.46 tonnes (2016: 312 pcs = 20.28 tonnes) in total (approximately of 59.92 kg (2016: 59.13 kg) was used per product per tonne), paper packing of 25,684 pcs = 4.85 tonnes (2016: 16,274 pcs = 3.08 tonnes) in total (approximately of 9.25 kg (2016: 8.97 kg) was used for products per tonne) and plastic bag of 25,684 pcs = 0.54 tonnes (2016: 16,274 pcs = 0.34 tonnes) in total (approximately of 1.03 kg (2016: 1.00 kg) was used for products per tonne) (A2.5). All of the increases in the use of such materials was reasonable in the circumstances given that our total volume of business has increased in the year to 31 December, 2017 over 2016.

A3. The Environment and Natural Resources

The Group is an enterprise engaged in the trading of metals in Hong Kong and operates silver processing facilities in our workshop in Kwai Chung. We purchase silver scraps as raw materials for further processing into finished silver products. The Group legally obtains silver scraps from suppliers and ensures the proper disposal of any and all wastes in accordance with all relevant rules and regulation.

The Group will endeavor to continue to increase its volume of recycling and reduce the material influence of the Group's operational footprint on the environment and natural resources.

All waste water disposed by the Group is in compliance with the Water Pollution Control Ordinance.

The Group continues to increase investment in new skills and techniques and to improve the technical skills of the enterprise with a view to achieving more efficient use of resources (A3.1).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(B) Social Responsibility

In 2017, we continued the monitoring of our social obligations in relation to human resources, products responsibilities and operation practices, through assessment of the following established KPIs:

- “Employment Record” listing total number of employees with breakdown on skills, gender, age distribution, and sources;
- “Accidents and Injuries Record” listing number of cases, types, reasons and results of accidents and injuries;
- “Training Programs Record” listing the types of programs, number of attendants, hours of training;
- “Purchases Record” listing the total number of suppliers with a breakdown of local and overseas suppliers; and
- “Sales Complaints And Return Record”, listing the total number, types and amount of products returns and complaints.

Employment and Labour Practices

B1. Employment

The Group strictly complies with the relevant laws and regulations of the “Employment Ordinances of the Hong Kong Special Administrative Region” (the “HKSAR”) and the “Labour Law of the PRC” 《中華人民共和國勞動法》. All employees are required to sign contracts containing detailed terms and conditions including but not limited to amount of salaries and wages, benefits, medical and accidental insurance, mandatory provident fund, working hours, holidays and so on.

Policies and regulations principally adopted by the Group in respect of compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare are as covered below.

The Group ensures that the policies and regulations cover a comprehensive range of employment protection and benefits, and comply with the relevant labour laws. Our management highly recognises employee’s contribution to its business growth, provides equal opportunities for our staff including recruitment, promotion, compensation and benefits. We establish and implement policies that promote a harmonious and respectful workplace.

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We are committed to creating a diverse environment. All qualified job applications, internal transfers and promotions will receive consideration with no regard to age, race, colour, religion, gender, sexual orientation, disability or other discriminating basis, we seek to provide an equal growth platform for all employees.

To maintain a rational and adequate personnel structure, the Group has established qualifications and requirements specific to different posts of departments, which are taken as criteria in recruitment. The staff recruitment requirement is nominated by Department Head/ Manager, and they also provide the requirement and job duties related to the vacancy. Our recruitment channels included social recruitment and internal referral, and each candidate submitted his/her curriculum vitae to HR department for the first interview arrangement. HR department is responsible for screening that applicant and to arrange the second interview for department head to further to select an appropriate candidate.

In accordance with the requirements of the laws in Hong Kong, regulations and related policies, we provide and maintain benefits for our staff, including but not limited to mandatory provident fund, medical insurance and work injury insurance. Staff is entitled to day-off on public holiday, wedding leave, bereavement leave and maternity leave. For office staff, we adopt a working hour system of not more than 9 hours per weekday and some office staff is assigned to work 4 hours on Saturday quadri-weekly under a rostering system. Processing facility staff is assigned to work 9 hours on weekdays and 4 hours on Saturday. Processing facility staff is entitled to overtime allowance and production bonus.

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

Remunerations of the employees of the Group are determined with reference to the prevailing market level as well as the competency, qualifications and experience of individual employee. Discretionary bonus based on individual performance will be paid to the employees as recognition and a reward for their contributions to the Group. Salary will be credited to the bank account of the employee within the last working day of the month.

The Group has a policy and system for promotional development. Employees may apply to transfer to vacant positions in other departments provided that they have worked continuously in the department for a minimum of one year. Employees should first discuss his/her intention to transfer with the department head. He/She can then contact the HR department which will take appropriate action as necessary.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2017, due to an increase in business and the opening of a Shenzhen office, our total employee headcount increased by 7 to 28 people of which 9 are female and 19 are male. The reason for the discrepancy in the ratio of male to female is mainly because our processing facilities workshop in Kwai Chung employs the majority of our workers and such work requires some heavy labour more suitable for male workers.

B2. Health and Safety

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

In case of accidents, employees are required to notify their superior. Regardless of whether the accident is minor or serious, the superior should take appropriate measures to mitigate the impact and avoid any further recurrence.

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

Our processing facilities in Kwai Chung operate in compliance with all laws, rules, regulations and standards in Hong Kong and includes on-site medical and emergency facilities, all relevant required medical and safety equipment, and has passed all relevant government inspections with regard to Fire Access and Exits and equipment.

In the year to 31 December, 2017, there were no health and safety incidents.

B3. Development and Training

Employees are encouraged to formulate their own training objectives that will equip themselves with the skills and knowledge necessary for their jobs.

To encourage employees to engage in self-development by enrolling for external training programs and seminars, all permanent employees who have completed one year of services can apply for sponsorship from the Group to cover the cost of taking job-relevant external training programs and professional or qualification examinations (B3).

B4. Labour Standards

The Group strictly regulated the recruitment process, performed the responsibilities of supervision and management, and prevented any breach of relevant laws and regulations on child labour etc.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group reviewed and verified personal information in the recruitment process according to relevant laws and regulations in an effort to eliminate any potential non-compliance (B4.1). To verify a candidate's academic qualifications and professional skill certificates as well as relevant interviews, he/she is requested to provide identity card, working reference and academic certificate to prove his/her qualification to prevent any child and forced labour (B4.2).

The Group strictly complied with relevant requirements of Employment Ordinances of Hong Kong for its Hong Kong operations, and the Labour Law of the PRC with regard to its new Shenzhen operations, and provided various labour protection and safety and health conditions relating to production required by the laws and regulations to ensure employees' safety during their services.

Meanwhile, the Group paid remuneration on schedule, provided employee's compensation insurance to safeguard the legal interests of the employees.

In the year ending 31 December 2017 and in fact since the establishment of the Group, the Group complied with, and no labour infringement charges were or have been laid against us for any infringement of, all labour employment laws, rules and regulations of China and HKSAR, and we honored all our obligations under the employment contracts providing a safe, healthy and pleasant working environment across all our operations.

B5. Supply Chain Management

Supply chain management primarily refers to the management of sourcing, and procurement. To ensure a stable, quality assured and cost efficient and well managed supply chain, the Group has clear Procurement Managements Rules and Guidelines containing policies and procedures with respect to procurement including quality control, warehousing, payment and documentation approval process, and methods of payment.

For metal trading business, our purchases include various types of metals, such as silver and tin. The Group purchases silver scraps as raw materials for processing into finished silver products. Our suppliers are mainly metal trading companies in Hong Kong during the year. For electronic products trading business, our suppliers are mainly electronic products importer in PRC during the year.

For metal trading business, our purchases are not driven by confirmed customer orders. In order to ensure a sufficient supply of silver products to our customers, the Group purchases silver raw materials from time to time to maintain a target inventory level. The Group did not experience any major difficulty in obtaining adequate supplies of raw materials to meet its production requirements in the past. The Group's relationships with its suppliers are stable for both metal trading business and electronic products trading business.

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Suppliers are chosen based on the supplier's continuous ability to guarantee satisfactory product quantity and quality, reasonable price and timely delivery. When selecting suppliers, the Group requires potential suppliers to provide relevant certifications/documents and arrange for site visits (B5.2).

For the year ending 31 December 2017, 100% of our suppliers on metal trading business and electronic products business are in HK and PRC respectively (B5.1).

Inspection/examination

Upon receipt of raw materials to be used in our processing, we inspect their quality and weigh them and issue a temporary receipt for each delivery. Our processing workshop staff will then prepare a weight report to the supplier for confirmation. The Group reserves the right to inspect/examine, upon receipt, the fineness of the raw materials the Group has purchased. If the fineness of the raw materials delivered by the supplier falls below the fineness specified in the purchase contract, the Group may claim against the supplier for any material loss incurred by us arising from such deviation.

B6. Product Responsibility

There are three major aspects to our Group's production responsibility policies and practices: product quality, intellectual property rights and privacy.

To continue the monitoring process on product responsibility, the Group has established the following KPIs:

- “Suppliers Record” listing the total numbers and breakdown of local and overseas suppliers; and
- “Products Returns And Complaints Record” listing the total numbers of returns and complaints, reasons and results.

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

Our products include various types of metals. During the year, our products comprised silver and tin. Silver is our principal product. Due to the nature of metals, our products have a relatively long life cycle and we do not have any product returns and warranty policy.

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

- **Product Quality**

The Group takes all reasonable steps to ensure that the goods we produce or trade are safe and are not harmful to consumers and we ensure that the goods we produce or trade meet all agreed or legally required standards for consumer health and safety, including health warnings and product safety and information labels.

Our product quality controllers regularly inspect silver goods coming off our processing lines to ensure they are compliant with both internal and external quality assurance codes with respect to fineness etc. Electronic products will be inspected upon receipt from suppliers if quality is met before trading to our customers.

We are proud that we had no major returns or complaints due to any product quality defects in 2016 and 2017.

- **Intellectual Property Rights**

The Group respects and strictly complies with both Hong Kong, China and international IP Rights, and in 2016 and 2017 there were no records of any IP Right infringements.

- **Privacy**

The Group maintains both internal employee and supplier data as well as customer data for its operations. This information is extremely sensitive and important, and by law must be safeguarded. To safeguard the security and confidentiality of the Group's data and information in its database, the Group has implemented the following internal control procedures:

- (i) Access to documents: restrict access to information and the database on a stringent need-to-know basis by maintaining policies specifying the level and extent of documentation required in its key business activities and for general use. Approval from the management shall be obtained before any external requests to review the document and any release of the documents are executed;



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- (ii) Storage of electronic data: the Group has installed a server in the office and all electronic information is stored in the server. There are backup policies for each department in order to safeguard the information in any unexpected situation;
- (iii) Physical security of the environment: the Group implements passcode controls in certain working areas of the offices where access is limited to supervisory employees; and
- (iv) System security: there are security measures in every process of the Group's operation, which include requiring confidential data to be accessed through designated user accounts by authorised employees and passwords, disabling or alteration of data by general employees, encrypting backup data and installing anti-virus software to prevent hackers etc.

No privacy information leakage was reported in 2016 and 2017.

B7. Anti-corruption

Our Group is well aware of the importance of honesty, integrity and fairness, and our internal staff handbook and general internal control system includes clear policies and processes on sales, procurement, operations, database control and finance, and the adoption of a high standards, especially on the senior management. We have a zero-tolerance policy on bribery and corruption in any form or at any level in association with any aspect of the Group's activities. These policies encourage all employees to discharge their duties with integrity and comply with relevant laws and regulations. The internal control department is responsible for counter-checking and following up any remedial actions.

The Group did not have any bribery or corruption cases reported in 2016 or 2017.

B8. Community Investment

During the year the Group has donated HK\$300,960 (2016: HK\$417,000) to charitable organisations which are all Approved Charitable Organizations in Hong Kong. The Group also encourages and supports employees and their family members to participate in charity, volunteer, cultural, sport and education services activities, and may grant pay leave on application.

The Directors present their annual report together with the audited consolidated financial statements for the year ended 31 December 2017.

Principal Activities

The principal activity of the Company is investment holding. The Group are principally engaged in trading of metals and commodity forward contracts, trading of electronic products and provision of money lending services, which are conducted in Hong Kong and PRC.

Results and Appropriations

The results of the Group for the year ended 31 December 2017 and the state of the Company's and the Group's affairs as at the date are set out in the financial statements on pages 54 to 117.

The Directors do not recommend the payment of dividend in respect of the year ended 31 December 2017.

Business Review and Performance

Review of business and performance

A review of the business of the Company and a discussion and analysis of the Group's performance during the year and the outlook of Company's business can be found in the Management Discussion and Analysis set out on pages 5 to 8 of this annual report. This discussion forms part of this Directors' Report.

Principal Risks and Uncertainties

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

1. Competition

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



REPORT OF THE DIRECTORS

2. Forward contracts trading and competition

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

3. Supply of metal materials

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

4. Customer base

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

5. Financial risk

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

6. Operational risk

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

7. Health and safety

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

8. Certificates and approvals

The Group requires certain certificates, licences and permits and approvals for the operation, such as registration as a chemical waste producer under the Waste Disposal (Chemical Waste) (General) Regulation (Chapter 354C of the laws of Hong Kong), licence for discharge of industrial effluent pursuant to section 20 of the Water Pollution Control Ordinance (Chapter 358 of the laws of Hong Kong), certificate of fitness for a pressure vessel pursuant to Boilers and Pressure Vessels Ordinance (Chapter 56 of the laws of Hong Kong), lifting appliances certificate of results of thorough examination in the preceding twelve months pursuant to the Factories and Industrial Undertakings (Lifting Appliances and Lifting Gear) Regulations (Chapter 59J of the laws of Hong Kong) and money lenders license pursuant to the Money Lenders Ordinance (Chapter 163 of the laws of Hong Kong). We must comply with the relevant standards, laws and regulations and as well as restrictions and conditions, imposed by the governmental authorities on application and renewal. The Group must also comply with new standards, laws and regulations that may entail greater or lesser costs and delays. New laws and regulations, amendments to existing laws and regulations, or more stringent enforcement would have adverse impacts on the Group's result of operations and financial position. If we fail to comply with any of the relevant regulations, we may not be able to maintain our certificates and approvals and our operations would be significantly disrupted or even suspended. The Group commits to comply with the laws and regulatory requirements applicable to our operations. We ensure full compliance through close monitoring of legislative requirements and, when needed, engagement with professional advisers.



REPORT OF THE DIRECTORS

9. Key personnel and management

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

Environmental Policies and Performance

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

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

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

Compliance with the Relevant Laws and Regulations

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

Relationship with Employees, Suppliers and Customers

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

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

Summary financial information

A summary of the results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 118. This summary does not form part of the audited financial statements.

Closure of the Register of Members

For the purpose of determining shareholders' entitlement to attend and vote at the forthcoming annual general meeting of the Company, the register of members of the Company will be closed from Tuesday, 5 June 2018 to Friday, 8 June 2018 (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, Union Registrars Limited at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not later than 4:00 p.m. on Monday, 4 June 2018.

Share Capital

Details of the movements in the share capital of the Company during the year ended 31 December 2017 are set out in note 28 to the financial statements.

Debenture Issue

For the year ended 31 December 2017, the Company has not issued any debenture.

REPORT OF THE DIRECTORS

Equity-linked Agreements

Share option scheme

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

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

The Company has granted 1,630,000 shares of the Company under the Scheme up to the date of this report. The total number of shares (the “Shares”) of the Company available for issue under the Scheme was 38,370,000 Shares, representing 7.99% of total number of Shares in issue the date of approval of these financial statements.

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

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

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

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

REPORT OF THE DIRECTORS

The Scheme shall be valid and effective for a period commencing from the date on which the Scheme was conditionally adopted by an ordinary resolution of the shareholder of the Company on 22 July 2014 and ending on the tenth anniversary of the date of listing of the Company's shares on GEM of the Stock Exchange on 4 August 2014 (both dates inclusive), after which no further option will be granted but the provisions of the Scheme shall remain in full force and effect in all other respects to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Scheme and options granted prior thereto but not yet exercised shall continue to be valid and exercisable in accordance with the Scheme. The remaining life of the Scheme as at 31 December 2017 was about 6.6 years.

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

Type of Participants	Grant Date	Exercise Price per Share HK\$	Exercise Period	Number of Share Options and Underlying Shares					Outstanding as at 31.12.2017
				Outstanding as at 1.1.2017	Granted	Exercised	Cancelled	Lapsed	
Directors	10.4.2015	0.78	10.4.2015 – 9.4.2025	410,000	-	-	-	(80,000)	330,000
Employees	10.4.2015	0.78	10.4.2015 – 9.4.2025	780,000	-	-	-	(50,000)	730,000
Others	10.4.2015	0.78	10.4.2015 – 9.4.2025	130,000	-	-	-	-	130,000
				1,320,000	-	-	-	(130,000)	1,190,000

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

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

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



REPORT OF THE DIRECTORS

No share options were granted during the year ended 31 December 2017 (2016: nil). The closing price of the shares of the Company immediately before the share options granted on 10 April 2015 was HK\$0.78.

No share options were exercised during the year ended 31 December 2017 (2016: nil).

Placing Agreement of Convertible Bond

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

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

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

During the year, all the conversion rights attaching to the Convertible Bonds have been exercised and 80,000,000 ordinary shares of the Company have been allotted and issued by the Company. No outstanding Convertible Bonds as at 31 December 2017.

Distributable Reserves

As at 31 December 2017, the Company had no reserve available for distribution in accordance with the provision of sections 291, 297 and 299 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong).

Reserves

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

Charitable Contributions

During the year, the Group had made charitable contributions totaling HK\$300,960.

Material Acquisitions and Disposals of Subsidiaries

The Group did not have any material acquisitions or disposals of subsidiaries during the year ended 31 December 2017.

Property, Plant and Equipment

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

Major Customers and Suppliers

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 84% (2016: 88%) of the Group's total sales while the sales attributable to the Group's largest customer was approximately 33% (2016: 38%) of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers comprised approximately 97% (2016: 89%) of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 82% (2016: 40%) of the Group's total purchases.

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

Directors

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

Executive Directors

Mr. Zhu Hongguang
Mr. Zha Jianping
Mr. Felipe Tan

Independent Non-executive Directors

Ms. Dai Meihong (appointed on 25 April 2017)
Dr. Wang Lin
Ms. Tsang Wai Chun Marianna
Mr. Chan Ka Ling Edmond (resigned on 25 April 2017)



REPORT OF THE DIRECTORS

In accordance with Article 69 of the Articles of Association, Mr. Felipe Tan and Dr. Wang Lin shall retire at the general meeting and, being eligible, offer themselves for re-election of the Company.

Directors of Subsidiaries

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

Permitted Indemnity Provision

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

Directors’ Service Contracts

Mr. Tan will receive a non-discretionary bonus, on a date as the Board may resolve, in the amount equivalent to the higher of (i) 8% on the portion which exceeds HK\$5,000,000 of the Company’s audited consolidated net profit before taxation (excluding such bonus) for the relevant financial year/period; 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/period. Due to the change in Mr. Tan’s employment payment terms, starting from July 2017. Mr. Tan is no longer entitled to performance related incentive payment but entitled to monthly salary and discretionary bonus.

Each of the Independent Non-Executive Directors has entered into a letter of appointment with the Company for a term of three years.

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

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

Directors' Interests in Contracts of Significance

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

Save as disclosed above, there was no contract of significance to which the Company or its subsidiaries, or its holding companies or any of its fellow subsidiaries was a party, and in which a Director was materially interested, whether directly or indirectly, subsisting during the year ended or as at 31 December 2017.

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

As at 31 December 2017, 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 & beneficial owner	40,510,000 (Note)	8.44%

Note: Mr. Tan directly and indirectly owned 69.37% equity interests in GobiMin Inc. which held 100% equity interests in GobiMin Investments Limited, which in turn held 100% equity interests in GobiMin Silver Limited, the substantial shareholder of the Company. By virtue of the SFO, Mr. Tan, GobiMin Inc. and GobiMin Investments Limited are deemed to have interest in the 40,260,000 ordinary shares of the Company held by GobiMin Silver Limited. Mr. Tan was granted by the Company 250,000 share options on 10 April 2015 pursuant to the Company's option scheme.

REPORT OF THE DIRECTORS

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

Name of Directors	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	10,205	100.00%
Felipe Tan	GobiMin Inc.	Interest of a controlled corporation & beneficial owner	34,689,000	69.37%
Felipe Tan	GobiMin Investments Limited	Interest of a controlled corporation	1,000	69.37%
Felipe Tan	GobiMin Silver Limited	Interest of a controlled corporation	1,000	69.37%

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

Name of Directors	Grant Date	Exercise Price per Share HK\$	Exercise Period	Number of Share Options and Underlying Shares					Outstanding as at 31.12.2016
				Outstanding as at 1.1.2016	Granted	Exercised	Cancelled	Lapsed	
Felipe Tan	10.4.2015	0.78	10.4.2015 – 9.4.2025	250,000	-	-	-	-	250,000
Chan Ka Ling Edmond (Note 1)	10.4.2015	0.78	10.4.2015 – 9.4.2025	80,000	-	-	-	(80,000)	-
Tsang Wai Chun Marianna	10.4.2015	0.78	10.4.2015 – 9.4.2025	80,000	-	-	-	-	80,000
				410,000	-	-	-	(80,000)	330,000

Note 1: Chan Ka Ling Edmond has resigned as Director on 25 April 2017. According to the Share Option Scheme, the option granted shall be forfeited automatically and not be exercisable.

Short Positions

As at 31 December 2017, no short positions of Directors and chief executives in the shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rule.

REPORT OF THE DIRECTORS

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

As at 31 December 2017, the following persons/entities (other than the Directors and chief executives of the Company as disclosed above) have interest or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Name	Nature of Interests	Number of ordinary shares	% of Shareholding
Hon Pok	Beneficial owner	76,000,000	15.83%
Belmont Holdings Group Limited	Interest of a controlled corporation	40,260,000	8.75%
GobiMin Inc.	Interest of a controlled corporation	40,260,000	8.75%
GobiMin Silver Limited	Beneficial owner	40,260,000	8.75%
Good Omen Investments Limited	Interest of a controlled corporation	40,260,000	8.75%

Save as disclosed above, no other interests or short positions of any persons/entities (other than the Directors and the chief executives of the Company) in the shares or underlying shares of the Company were recorded in the register or as otherwise notified to the Company and the Stock Exchange as at 31 December 2017.

Competition and Conflict of Interest

Apart from the business of the Group, Mr. Tan is also engaged in the other businesses including directly and indirectly owned equity interests in (i) GobiMin Inc., which is engaged in the exploration and exploitation of mineral resources in Xinjiang, PRC, and shares of which are listed on the TSX Venture Exchange in Canada; and (ii) Timeless Software Limited ("Timeless"), which is principally engaged in the information technology business and mining business, and shares of which are listed on GEM, as at 31 December 2017.

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

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 2017.

Connected Transactions

None of the “Related party transactions” as disclosed in the note 32 to the financial statements for the year ended 31 December 2017 constituted discloseable non-exempted connected transaction or non-exempted continuing connected transaction under the GEM Listing Rules.



REPORT OF THE DIRECTORS

Management Contract

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

Purchase, Sale or Redemption of the Company's Listed Securities

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

Corporate Governance

Principal corporate governance policies adopted by the Company are set out in the Corporate Governance Report on pages 13 to 22.

Environmental, Social and Governance Report

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

Sufficiency of Public Float

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

Auditors

The account for the year ended 31 December 2017 were audited by BDO Limited whose term of office will expire upon the forthcoming annual general meeting. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint the auditor, BDO Limited.

By order of the directors

Loco Hong Kong Holdings Limited
Zhu Hongguang

Chairman

Hong Kong, 23 March 2018

INDEPENDENT AUDITOR'S REPORT



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TO THE MEMBERS OF LOCO HONG KONG HOLDINGS LIMITED

(港銀控股有限公司)

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Loco Hong Kong Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) set out on pages 54 to 117, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

BDO Limited
香港立信德豪會計師事務所有限公司

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INDEPENDENT AUDITOR'S REPORT

Valuation of derivative component of convertible bonds

(Refer to notes 5(ii) and 27 to the consolidated financial statements)

The Company's convertible bonds contain multiple embedded derivatives which are treated as a single derivative. Such derivative is measured at fair value.

During the year, the convertible bonds have been fully converted and fair value gain on the derivative component of the convertible bonds amounting to HK\$1,411,000 has been recognised. The fair value of the derivative at each of the conversions was determined with reference to the valuation carried out by an external appraiser. We focused on this area because significant judgment is required in selecting appropriate valuation methodology and input parameters in arriving at the fair values of the derivative. Model deficiencies or inaccurate input parameters could lead to a material misstatement to the financial statements.

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

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

Other Information in the Annual Report

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

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

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

Directors' Responsibilities for the Consolidated Financial Statements

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

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

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

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

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



INDEPENDENT AUDITOR'S REPORT

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

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

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

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



INDEPENDENT AUDITOR'S REPORT

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

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

BDO Limited

Certified Public Accountants

Lee Ming Wai

Practising Certificate Number: P05682

Hong Kong, 23 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Revenue			
– Sales of metal		2,243,881	2,165,048
– Sales of electronic products		88,905	–
– Interest income from customers and suppliers		6,159	4,287
– Processing fee		–	332
– Order commission		464	977
		2,339,409	2,170,644
Trading losses on commodity forward contracts		(1,299)	(14,859)
Other income	8	338	928
Total income		2,338,448	2,156,713
Carrying value of inventories sold		(2,314,335)	(2,129,087)
Change in fair value of commodity inventories		5,712	(668)
Employee costs	9	(18,808)	(11,032)
Depreciation		(1,829)	(1,058)
Rental expenses		(6,191)	(2,841)
Fair value gain on derivative component of convertible bonds	27	1,411	1,929
Fair value (loss)/gain on investments held for trading		(2,017)	3,095
Gain on disposal of property, plant and equipment		–	24
Gain on disposal of a subsidiary		4	–
Other operating expenses		(15,567)	(9,795)
Share of loss of an associate		(1)	–
Finance costs	11	(3,718)	(2,686)
(Loss)/Profit before income tax expense	12	(16,891)	4,594
Income tax expense	13	(1,208)	(1,724)
(Loss)/Profit for the year		(18,099)	2,870
(Loss)/Profit for the year attributable to:			
– Owners of the Company		(17,923)	2,870
– Non-controlling interests		(176)	–
		(18,099)	2,870

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
(Loss)/Profit for the year		(18,099)	2,870
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		2,486	(120)
Total comprehensive income for the year		(15,613)	2,750
Total comprehensive income for the year attributable to:			
– Owners of the Company		(15,468)	2,750
– Non-controlling interests		(145)	–
		(15,613)	2,750
(Loss)/Earnings per share			
– Basic and diluted	14	HK cents (4.11)	HK cents 0.72

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Non-current assets			
Property, plant and equipment	15	2,396	3,962
Interest in an associate	16	299	–
Available-for-sale financial assets	17	1	–
		2,696	3,962
Current assets			
Inventories	18	105,280	47,077
Trade and other receivables, deposits and prepayments	19	61,352	37,688
Loan receivable	20	9,000	–
Derivative financial assets	21	8,935	1
Investments held for trading	22	–	10,520
Amount due from a related company	17	54	–
Tax recoverable		319	679
Cash and cash equivalents	23	46,630	119,930
		231,570	215,895
Current liabilities			
Other payables, accruals and deposits received	24	43,647	25,770
Derivative financial liabilities	21	76	10,065
Amount due to an associate	16	295	–
Amounts due to related companies	25	50,023	28,795
Amounts due to directors	25	154	55
Loan from a related company	26	27,195	27,195
Tax payable		206	682
		121,596	92,562
Net current assets		109,974	123,333
Total assets less current liabilities		112,670	127,295
Non-current liabilities			
Liability component of convertible bonds	27	–	34,203
Derivative component of convertible bonds	27	–	1,877
		–	36,080
Net assets		112,670	91,215

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Equity			
Share capital	28	122,898	85,830
Reserves		(10,083)	5,385
Equity attributable to the owners of the Company		112,815	91,215
Non-controlling interests		(145)	–
Total equity		112,670	91,215

On behalf of the directors

ZHU Hongguang
Director

ZHA Jianping
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Notes	Share capital HK\$'000	Merger reserve* HK\$'000	Share option reserve* HK\$'000	Exchange reserve* HK\$'000	(Accumulated losses)/ Retained profits* HK\$'000	Equity attributable to owners of the Company HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2016		85,830	(1,357)	459	-	3,533	88,465	-	88,465
Profit for the year		-	-	-	-	2,870	2,870	-	2,870
Other comprehensive income:									
Exchange differences on translating foreign operation		-	-	-	(120)	-	(120)	-	(120)
Total comprehensive income for the year		-	-	-	(120)	2,870	2,750	-	2,750
Transactions with owners:									
Forfeited share options	29(b)	-	-	(38)	-	38	-	-	-
At 31 December 2016 and 1 January 2017		85,830	(1,357)	421	(120)	6,441	91,215	-	91,215
Loss for the year		-	-	-	-	(17,923)	(17,923)	(176)	(18,099)
Other comprehensive income:									
Exchange differences on translating foreign operations		-	-	-	2,455	-	2,455	31	2,486
Total comprehensive income for the year		-	-	-	2,455	(17,923)	(15,468)	(145)	(15,613)
Transactions with owners:									
Conversion of convertible bonds	27	37,068	-	-	-	-	37,068	-	37,068
Forfeited share options	29(b)	-	-	(41)	-	41	-	-	-
At 31 December 2017		122,898	(1,357)	380	2,335	(11,441)	112,815	(145)	112,670

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 HK\$'000	2016 HK\$'000
Cash flows from operating activities		
Cash receipts from customers	2,298,478	2,165,380
Interest and order commission received from customers and suppliers	6,531	5,264
Receipt of other income	336	670
Cash receipt/(paid) regarding derivative financial instruments	5,551	(5,373)
Cash paid to suppliers	(2,366,826)	(2,136,204)
Loan granted to a customer of money lending business	(9,000)	–
Cash paid to directors and employees	(19,076)	(11,511)
Cash paid for other operating activities	(20,876)	(12,714)
Cash (used in)/generated from operation	(104,882)	5,512
Hong Kong profits tax (paid)/refunded	(1,324)	487
Net cash (used in)/generated from operating activities	(106,206)	5,999
Cash flows from investing activities		
Purchase of property, plant and equipment	(261)	(3,095)
Disposal of property, plant and equipment	–	1,794
Disposal of/(Investment in) trading securities	8,503	(9,000)
Deposit returned by an investment manager	516	–
Deposit refunded/(paid) for a potential investment	2,900	(2,900)
Advance to an associate	(5)	–
Advance to a related company	(64)	–
Interest received from banks	2	2
Net cash generated from/(used in) investing activities	11,591	(13,199)
Cash flows from financing activities		
Interest paid on borrowings	(1,184)	(689)
Bank charges paid	(135)	(128)
Proceeds from issue of convertible bonds	–	36,064
Advance from a director	97	55
Loan from a related company	–	58,275
Repayment of loan from a related company	–	(31,080)
Funds transferred from related companies	21,228	28,795
New bank loans raised	48,563	36,519
Repayment of bank loans	(48,563)	(36,519)
Net cash generated from financing activities	20,006	91,292
Net (decrease)/increase in cash and cash equivalents	(74,609)	84,092
Effect of foreign exchange rate changes	1,309	(120)
Cash and cash equivalents at beginning of year	119,930	35,958
Cash and cash equivalents at end of year	46,630	119,930
Analysis of the balances of cash and cash equivalents		
Cash at banks and in hand	46,630	119,930

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL INFORMATION

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

The Company and its subsidiaries (collectively the “Group”) are principally engaged in trading of metal and commodity forward contracts, trading of electronic products and provision of money lending services, which are conducted in Hong Kong and People’s Republic of China (“PRC”).

The financial statements were approved and authorised for issue by the directors on 23 March 2018.

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2017

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 12 Disclosure of Interests in Other Entities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2017 (Continued)

Amendments to HKAS 7 – Disclosure Initiative

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

The adoption of the amendments has led to the additional disclosure presented in the note to the cash flow statement (note 37).

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

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

The adoption of the amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group assess whether to recognise a deferred tax assets.

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 12 Disclosure of Interests in Other Entities

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 12 *Disclosure of Interests in Other Entities* to clarify that the disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity's interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*.

The adoption of the amendments to HKFRS 12 has no impact on these financial statements as the disclosure requirement is consistent with the manner in which the Group has previously dealt with disclosures relating to its interests in other entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

(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.

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28 Investments in Associates and Joint Ventures ¹
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3 Business Combinations; HKFRS 11 Joint Arrangements; HKAS 12 Income Taxes; and HKAS 23 Borrowing Costs ²
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions ¹
HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers ¹
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15) ¹
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
HKFRS 16	Leases ²
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associates or Joint Venture ³
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ²

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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

The directors anticipate that all of the relevant pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Those new or revised HKFRSs that are expected to have a material impact on the Group's financial statements are set out below.

HKFRS 9 – Financial Instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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

HKFRS 9 – Financial Instruments (Continued)

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

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

Debt instruments classified as trade receivables, loans receivable, other receivables, deposits, and cash and bank balances carried at amortised cost are held within a business model which objective is to collect the contractual cash flows that are solely payments of principal and interest on principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9. There will be no impact on the Group’s accounting for financial liabilities as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

Except for the expected credit loss model which may result in earlier provision of credit losses, the directors do not anticipate that the application of HKFRS 9 will have material impact on the Group’s financial statements.

The above assessments were made based on an analysis of the Group’s financial instruments as at 31 December 2017 on the basis of the facts and circumstances that existed at that date. As facts and circumstances may change during the period leading up to the initial date of application of HKFRS 9, which is expected to be 1 September 2018, the assessment of the potential impact is subject to change.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Classification to HKFRS 15 in relation to the identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, they do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 *Leases* and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

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

As at 31 December 2017, the Group had non-cancellable operating lease commitments of approximately HK\$3,110,000 as disclosed in note 33(a). A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In the income statement, as the leases will be capitalised in future, operating lease expenses will no longer be recorded for these leases while depreciation and interest expense will increase due to the depreciation charge on the right-of-use asset and the interest expense on the lease liability. The new standard is not expected to apply until the financial year ending 31 December 2019 and the impact on the Group’s financial position and results upon the adoption of HKFRS 16 on those leases are not expected to be material. In addition, more quantitative and qualitative disclosures about the leases will be made following the requirements of HKFRS 16.

Except for the above, other new or revised HKFRSs that have been issued but are not yet effective are unlikely to have material impact on the Group’s results and financial position upon application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations (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 some 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.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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) Associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associate is accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associate's net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associate are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) 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 and computer software	4 years
Leasehold improvements	Over the shorter of 3 years and the remaining lease terms
Furniture and fixture	4 years
Motor vehicle	4 years

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Leasing

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

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

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

(f) Financial instruments

(i) Financial assets

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

Financial assets at fair value through profit or loss

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

(i) Financial assets (Continued)

Loans and receivables

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

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

(ii) Impairment loss on financial assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

For loans and receivables

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.

For available-for-sale financial assets

The amount of impairment loss on available-for-sale equity investments that is carried at costs is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

(iii) Financial liabilities (Continued)

Financial liabilities at fair value through profit or loss (Continued)

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

Financial liabilities at amortised cost

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

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

(iv) Convertible bonds

Convertible bonds issued by the Company (note 27) contain both the liability component and the derivative component which comprise the conversion right and the early redemption right. Conversion right that will be settled other than by the exchange of a fixed amount of cash or other financial instrument for a fixed number of the Company's equity instrument is embedded derivative which is accounted for separately from the host debt contract. Redemption right at the option of the Company which is not closely related to the host contract is also embedded derivative. The conversion right and the early redemption right are treated as a single derivative. At the date of issue of the convertible bonds, both the liability component and the derivative component are recognised at fair value. The excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability component and derivative component in proportion to their relative fair values. Transaction costs relating to the derivative component is charged to profit or loss immediately. Transaction costs relating to the liability component is included in the carrying amount of the liability component.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

(iv) Convertible bonds (Continued)

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

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

(v) Effective interest method

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

(vi) Equity instruments

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

(vii) Derecognition

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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

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

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

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

(h) Cash and cash equivalents

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

(i) Income taxes

Income taxes comprise current tax and deferred tax.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Income taxes (Continued)

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

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

(j) Inventories

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Employee benefits

(i) Defined contribution retirement plan

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

The Group’s PRC operations participate in defined contribution retirement plans managed by the local municipal government in the locations in which it operates. The relevant authorities of the local municipal government in the PRC are responsible for the retirement benefit obligations payable to the Group’s retired employees. The Group has no obligation for payment of retirement benefits beyond the annual contribution. The contribution payable is charged as an expense to profit or loss as and when incurred.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Foreign currencies

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

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

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

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

At the end of each reporting period, the Group reviews the carrying amount of the following assets 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.

- property, plant and equipment
- investments in subsidiaries and associate

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

(n) Borrowing costs

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

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Share-based payments

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of key management personnel of the Group.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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) Useful lives of property, plant and equipment

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

(ii) Valuation of derivative component of convertible bonds

As described in note 27, the Company's convertible bonds contain multiple embedded derivatives which are treated as a single derivative. Such derivative is measured at fair value. The convertible bonds have been fully converted during the year. The Company engaged an independent appraiser to assist the directors of the Company in determining the fair value of the derivative at each of the conversions. Judgement is required in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For valuation of derivative financial instruments, assumptions are made based on quoted market rates to the extent possible and adjusted for specific features of the instrument. During the year, fair value gain on this derivative amounted to HK\$1,411,000 (note 27) has been recognised. Any changes in the assumptions of the valuation model may have a material effect on the fair value of the derivative on each of the conversion dates and thus the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

(iii) Recoverability assessment on trade and loan receivables

The Group determines impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. A considerable amount of estimation and judgment is required in identifying receivables of impairment concern taking into account creditworthiness of customers including their settlement history, value of customers' collateral, if any, and the level of collateral in portion to the outstanding receivables balances; as well as assessing the ultimate realisation of these receivables. If the financial conditions of customers deteriorate or if the value of the collateral is reduced, allowance or additional allowance for bad and doubtful debts may be required.

6. SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the executive directors, who are the chief operating decision-maker that are used to make strategic decision.

For the year ended 31 December 2016, the information reported to the executive directors for the purpose of resource allocation and assessment of performance was 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 determined that the Group had only one single reportable segment which was trading of metal and commodity forward contracts. The executive directors allocated resources and assessed performance on an aggregated basis.

During the year, the Group has diversified its business. Other than trading of metal, the Group also engaged in trading of electronic products and money lending. For the year ended 31 December 2017, the Group has three reportable segments. The segments are managed separately as each business offers different products and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Trading of metal – Trading of metal and commodity forward contracts in Hong Kong.
- Trading of electronic products – The Group has engaged in trade of electronic products in the PRC since January 2017.
- Money lending – In August 2017, the Group launched its money lending service in Hong Kong.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT REPORTING (Continued)

(a) Business segments

2017

	Trading of metal HK\$'000	Trading of electronic products HK\$'000	Money lending HK\$'000	Total HK\$'000
Reportable segment revenue (note)	2,250,232	88,905	272	2,339,409
Reportable segment profit/(loss)	5,221	942	(495)	5,668
Interest income	5,887	-	272	6,159
Interest expenses	(1,184)	-	-	(1,184)
Depreciation	(618)	(7)	-	(625)
Change in fair value of Commodity Inventories	5,712	-	-	5,712
Income tax expenses	(840)	(367)	-	(1,207)
Reportable segment assets	164,712	37,025	9,280	211,017
Reportable segment liabilities	119,131	801	9	119,941
Additions to specified non-current assets	163	61	-	224

Note: There is no inter-segment revenue for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT REPORTING (Continued)

(b) Reconciliation of reportable segment results, segment assets and segment liabilities

	2017 HK\$'000
Loss before income tax expense	
Reportable segment profit	5,668
Depreciation	(1,204)
Interest expenses	(2,399)
Employee costs	(10,198)
Share of loss of an associate	(1)
Gain on disposal of a subsidiary	4
Fair value loss on investments held for trading	(2,017)
Fair value gain on derivative component of convertible bonds	1,411
Rental expenses	(3,994)
Other unallocated corporate expenses	(4,161)
Loss before income tax expense	(16,891)
Assets	
Reportable segment assets	211,017
Cash and cash equivalents	19,627
Property, plant and equipment	1,662
Interest in an associate	299
Other unallocated corporate assets	1,661
Consolidated total assets	234,266
Liabilities	
Reportable segment liabilities	119,941
Unallocated corporate liabilities	1,655
Consolidated total liabilities	121,596

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT REPORTING (Continued)

(c) 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 specified non-current assets, comprising property, plant and equipment and interest in an associate, by geographical location are detailed below:

	Revenue from customers*	
	2017 HK\$'000	2016 HK\$'000
Singapore	999,940	1,392,915
Hong Kong	996,747	505,193
Australia	124,806	49,138
Japan	103,448	80,118
PRC	89,004	5,258
United Kingdom	25,464	138,022
	2,339,409	2,170,644

* Based on location of customers

	Specified non-current assets	
	2017 HK\$'000	2016 HK\$'000
Hong Kong	2,639	3,962
PRC	56	-
	2,695	3,962

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. SEGMENT REPORTING (Continued)

(d) Information about major customers

Revenue from major customers, each of them accounted for 10% or more of the Group's revenue and is reported under the segment of trading of metal, are set out below:

	2017 HK\$'000	2016 HK\$'000
Customer A	764,919	819,273
Customer B	416,995	234,660
Customer C	390,638	N/A
Customer D	235,021	573,643

N/A: Not applicable as the revenue generated by the customer is less than 10% of the Group's revenue.

7. INCOME FROM PRINCIPAL ACTIVITIES

The Group is principally engaged in (i) trading of metal and commodity forward contracts; (ii) trading of electronic products and (iii) provision of money lending services.

Trading of metal and commodity forward contracts

Revenue from trading of metal comprises mainly net invoiced value of Commodity Inventories (note 4(j)) 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 metal is determined based on the market silver price on the date subsequent to the delivery date as specified by the customer or supplier (the "Forward Arrangements"). Interest is charged to the customers and suppliers of those agreements during the period of Forward Arrangements.

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

Trading of electronic products

Revenue from trading of electronic products represents the net invoiced value of goods sold during the year.

Money lending

Apart from interest income earned from the Forward Arrangements as mentioned above, the Group also earned interest income from a loan lend to the borrower.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

8. OTHER INCOME

	2017	2016
	HK\$'000	HK\$'000
Lab-test service income	265	203
Dividend income from investments held for trading	–	254
Others	73	471
	338	928

9. EMPLOYEE COSTS

	2017	2016
	HK\$'000	HK\$'000
Employee costs (including directors' emoluments) comprise:		
Salaries and bonus, allowances and benefits	18,360	10,780
Contributions to defined contribution retirement plans	448	252
	18,808	11,032

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS AND HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

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

Year ended 31 December 2017

	Fees HK\$'000	Performance related incentive payments HK\$'000 (note (ii))	Salaries, allowances and benefits in kind HK\$'000 (note (iii))	Discretionary bonus HK\$'000	Pension scheme contributions HK\$'000	Total HK\$'000
Executive directors						
Mr. Felipe Tan	144	200	213	163	8	728
Mr. Zha Jianping	144	-	2,529	-	70	2,743
Mr. Zhu Hongguang	144	-	2,054	-	-	2,198
Total	432	200	4,796	163	78	5,669
Independent non-executive directors ("INED")						
Mr. Chan Ka Ling Edmond (note (i))	48	-	-	-	-	48
Ms. Tsang Wai Chun Marianna	144	-	-	-	-	144
Ms. Wang Lin	144	-	-	-	-	144
Ms. Dai Meihong (note (i))	98	-	-	-	-	98
Total	434	-	-	-	-	434

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS AND HIGHEST PAID INDIVIDUALS (Continued)

(a) Directors' emoluments (Continued)

Year ended 31 December 2016

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

Notes:

- (i) Mr. Chan Ka Ling Edmond was resigned as INED on 25 April 2017, whereas Ms. Dai Meihong was appointed as INED on the same date.
- (ii) For the year ended 31 December 2016 and the period from 1 January 2017 to 30 June 2017, Mr. Felipe Tan's performance related incentive payment was determined as the higher of (i) a percentage on the portion which exceeds HK\$5,000,000 of the Group's audited net profit before taxation (excluding such payment) for relevant year/period, or (ii) a percentage on the portion which exceeds HK\$50,000,000 of the Group's audited net asset value (excluding such payment) at the end of the relevant year/period. Due to the change in Mr. Tan's employment terms, starting from July 2017, Mr. Tan is no longer entitled to performance related incentive payment but entitled to monthly salary and discretionary bonus.
- (iii) Salaries allowance and benefits in kind paid to or for the executive directors are generally emoluments paid or receivable in respect of those persons' other services in connection with the management of the affairs of the Company and its subsidiaries.
- (iv) None of the directors waived or agreed to waive any emoluments during the years ended 31 December 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS AND HIGHEST PAID INDIVIDUALS (Continued)

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2016: three) were directors of the Company whose emoluments are included in the analysis presented above. The emoluments of the remaining two (2016: two) individual was as follows:

	2017 HK\$'000	2016 HK\$'000
Salaries and bonus, allowances and benefits	3,111	1,314
Contribution to defined contribution retirement plan	27	18
	3,138	1,332

Their emoluments were within the following bands:

	2017 No. of individuals	2016 No. of individuals
Nil to HK\$1,000,000	–	2
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$2,000,001 to HK\$2,500,000	1	–
	2	2

During the years ended 31 December 2017 and 2016, 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.

(c) Senior management

Emoluments paid or payable to the senior management who is not director were within the following bands:

	2017 No. of individuals	2016 No. of individuals
Nil to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	1	–
	2	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

11. FINANCE COSTS

	2017 HK\$'000	2016 HK\$'000
Interests on bank loans	232	147
Interests on convertible bonds (note 27)	2,399	1,869
Interests on loan from a related company (note 32(a))	952	542
Total interest expenses	3,583	2,558
Bank charges	135	128
	3,718	2,686

12. (LOSS)/PROFIT BEFORE INCOME TAX EXPENSE

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

	2017 HK\$'000	2016 HK\$'000
Auditor's remuneration	634	550
Minimum lease payments under operating leases (note)	5,630	2,577
Fees charged by an investment manager	472	843
Depreciation of property, plant and equipment	1,829	1,058
Donation	301	417
Exchange losses/(gains), net	1,032	(91)
Interest income	(6,161)	(4,291)

Note:

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 (2016: HK\$936,000) (note 32(a)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

13. INCOME TAX EXPENSE

The amount of income tax expense in the consolidated statement of comprehensive income represents:

	2017 HK\$'000	2016 HK\$'000
Current tax		
– charge for the year	1,297	1,724
– over-provision in respect of prior years	(89)	–
Income tax expense	1,208	1,724

Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) on the estimated assessable profits for the year.

For the year ended 31 December 2017, Enterprise Income Tax (“EIT”) exposed by the Company’s subsidiaries in the PRC is calculated at 25% on the estimated assessable profits for the year. For the year ended 31 December 2016, the Company’s subsidiary in the PRC had no estimated assessable profit under EIT.

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

	2017 HK\$'000	2016 HK\$'000
(Loss)/Profit before income tax expense	(16,891)	4,594
Tax calculated at domestic tax rate of 16.5% (2016: 16.5%)	(2,787)	758
Effect of different tax rate of subsidiaries operating in other jurisdiction	63	(27)
Tax effect of revenue not taxable for tax purposes	(233)	(362)
Tax effect of expenses not deductible for tax purposes	2,988	320
Tax effect of tax losses not recognised	900	1,201
Utilisation of tax losses previous not recognised	(79)	(80)
Tax effect of other temporary differences not recognised	234	(137)
Over-provision in respect of prior years	(88)	–
Others	210	51
Income tax expense	1,208	1,724

As at 31 December 2017, the Group had estimated unused tax losses of approximately HK\$12,131,000 (2016: HK\$8,399,000) 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. Tax losses amounted to approximately HK\$11,925,000 may be carried forward indefinitely and approximately RMB172,000 (equivalent to HK\$206,000) will expire in five years.

The Group has no significant unrecognised deferred tax liabilities as at 31 December 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

14. (LOSS)/EARNINGS PER SHARE

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

(Loss)/Earnings	2017	2016
	HK\$'000	HK\$'000
(Loss)/Profit for the purpose of basic (loss)/earnings per share	(17,923)	2,870
<hr/>		
Number of shares	2017	2016
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	435,457,671	400,170,000

For the year ended 31 December 2017, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options (note 29) since their exercise price is higher than the average market price of the Company for the year. In addition, it does not assume the conversion of the Company's convertible bonds (note 27) as they have anti-dilutive effect on the loss per share calculation. Accordingly, the basic and diluted loss per share are the same.

For the year ended 31 December 2016, the computation of diluted earnings per share did not assume the exercise of the Company's outstanding share options (note 29) since their exercise price was higher than the average market price of the Company for the year. In addition, it did not assume the conversion of the Company's convertible bonds (note 27) as they had anti-dilutive effect on the earnings per share calculation. Accordingly, the basic and diluted earnings per share were the same.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

15. PROPERTY, PLANT AND EQUIPMENT

	Property for own use carried at cost HK\$'000	Equipment and computer software HK\$'000	Leasehold improvements HK\$'000	Furniture and fixture HK\$'000	Motor vehicle HK\$'000	Total HK\$'000
Cost						
At 1 January 2016	2,050	3,344	852	-	-	6,246
Additions	-	79	1,827	417	772	3,095
Disposal	(2,050)	-	-	-	-	(2,050)
At 31 December 2016 and 1 January 2017	-	3,423	2,679	417	772	7,291
Additions	-	116	86	59	-	261
Exchange alignment	-	-	-	2	-	2
At 31 December 2017	-	3,539	2,765	478	772	7,554
Accumulated depreciation						
At 1 January 2016	205	1,651	695	-	-	2,551
Charge for the year	75	603	310	22	48	1,058
Written back on disposal	(280)	-	-	-	-	(280)
At 31 December 2016 and 1 January 2017	-	2,254	1,005	22	48	3,329
Charge for the year	-	582	963	91	193	1,829
At 31 December 2017	-	2,836	1,968	113	241	5,158
Net carrying value						
At 31 December 2017	-	703	797	365	531	2,396
At 31 December 2016	-	1,169	1,674	395	724	3,962

16. INTEREST IN AN ASSOCIATE

	2017 HK\$'000	2016 HK\$'000
Share of net assets	299	-
Amount due to the associate [#]	(295)	-
	4	-

[#] The amount due is unsecured, interest free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

16. INTEREST IN AN ASSOCIATE (Continued)

Details of the Group's associate are as follow:

Name	Particulars of issued shares held	Place of incorporation and operation and principal activity	Percentage of equity interest attributable to the Group
Luban Hong Kong Finance Group Limited	Ordinary shares	Inactive in Hong Kong	30%

As the associate is inactive since its incorporation, it is immaterial to the Group. For the year ended 31 December 2017, the Group shared the loss of the associate amounted to HK\$1,353.

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 HK\$'000	2016 HK\$'000
Unlisted shares, at cost	1	–

Available-for-sale financial assets represents 5% equity interest in 深圳港銀教育控股有限公司 (Shenzhen Loco Education Holdings Limited*) ("Shenzhen Loco Education") and 5% equity interest in Loco Hong Kong Investment Holdings Limited ("LHKI").

Shenzhen Loco Education is a company incorporated in the PRC and is inactive since its incorporation on 1 December 2017. The rest of the 95% equity interest in Shenzhen Loco Education is held by Mr. Zhu Hongguang ("Mr. Zhu"), one of the directors of the Company.

LHKI was incorporated in Hong Kong on 23 June 2017 as a wholly-owned subsidiary of the Group. On 6 December 2017, the Group disposed of 95% equity interest in LHKI at a consideration of HK\$9,500 to a company in which Mr. Zhu has controlling interest. As a result of the disposal, the Group recognised a gain on disposal of subsidiary amounted to HK\$4,427. LHKI is inactive since its incorporation. As at 31 December 2017, the amount due from LHKI amounted to HK\$54,510, which is unsecured, interest free and repayable on demand. The maximum balance outstanding during the year ended 31 December 2017 was HK\$54,510.

The investments in Shenzhen Loco Education and LHKI are measured at cost less impairment as they have no quoted market price in active markets and the range of reasonable fair value estimates is too significant that the directors are of the opinion that their fair values cannot be measured reliably.

* English name for identification purpose only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

18. INVENTORIES

	2017 HK\$'000	2016 HK\$'000
Silver	105,189	30,661
Tin	–	16,315
Low value consumables	91	101
	105,280	47,077

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.

19. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2017 HK\$'000	2016 HK\$'000
Trade and loan interest receivables (note (a))	35,602	–
Deposits for commodity forward contracts (note (b))	24,015	31,624
Other receivables and deposits	1,319	5,330
Prepayments	416	734
	61,352	37,688

Credit period granted to a customer of trading of electronic products segment is six months.

Notes:

- (a) As at 31 December 2017, these receivables were neither past due nor impaired and were related to customers for whom there was no recent history of default. In addition, all these receivables were either guaranteed by a corporate guarantor or secured by a pledged property. As at 31 December 2017, the aging of these receivables, based on invoice dates, are all within six months.
- (b) As mentioned in note 7, for trading purposes, the Group has to enter into Forward Arrangements with customers and suppliers as well as forward contracts with commodity traders. The balance represents margin deposits placed with commodity traders for entering into forward contracts, as well as deposits in the cash account held at the commodity traders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

20. LOAN RECEIVABLE

The amount due is arising from the Group's money lending business. It is secured by a property in Hong Kong, interest bearing at 8% per annum and repayable on 16 August 2018.

21. DERIVATIVE FINANCIAL INSTRUMENTS

	2017 HK\$'000	2016 HK\$'000
Derivative financial assets:		
Commodity forward contracts	8,935	1
Derivative financial liabilities:		
Commodity forward contracts	76	10,065

The Group enters into Forward Arrangements with customers and suppliers and 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 2017 were approximately US\$28,726,000 (2016: US\$26,170,000), equivalent to approximately HK\$223,201,000 (2016: HK\$203,341,000).

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

22. INVESTMENTS HELD FOR TRADING

	2017 HK\$'000	2016 HK\$'000
Hong Kong listed equity securities, at fair value	-	10,520

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

23. CASH AND CASH EQUIVALENTS

	2017 HK\$'000	2016 HK\$'000
Cash at banks and in hand	46,630	119,930

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

	2017 HK\$'000	2016 HK\$'000
Renminbi ("RMB")	1,640	1,071
United States dollars	24,423	60,280
	26,063	61,351

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

24. OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	2017 HK\$'000	2016 HK\$'000
Other payables and accruals	2,335	2,622
Deposits for commodity forward contracts (note)	41,312	23,148
	43,647	25,770

Note:

The Group has to enter into Forward Arrangements with customers and suppliers as well as forward contracts with commodity traders. The balance represents cash deposits received from suppliers and customers for entering into Forward Arrangements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

25. AMOUNTS DUE TO RELATED COMPANIES AND DIRECTORS

The amounts due are unsecured, interest-free and repayable on demand. The amounts due to related companies represent deposits placed by the related companies to the Group for entering into forward arrangements (note 32(a)).

26. LOAN FROM A RELATED COMPANY

The loan is unsecured, interest bearing at 3.5% per annum and repayable on 6 April 2018 or within three days upon receiving demand notice from the lender (note 32(a)).

27. 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 number 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-Nicolson Finite-difference method. The remainder amount of the proceeds is allocated to the liability component. The derivative component is classified as derivative liability and is subsequently measured at fair value, with changes in fair value recognised in profit or loss. The liability component is classified as financial liabilities at amortised cost and is subsequently measured at amortised cost using the effective interest rate of 12.19% per annum.

The convertible bonds are fully converted during the year ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

27. CONVERTIBLE BONDS (Continued)

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 11)	1,869	–	1,869
Fair value adjustment	–	(1,929)	(1,929)
At 31 December 2016 and 1 January 2017	34,203	1,877	36,080
Interest expenses (note 11)	2,399	–	2,399
Fair value adjustment	–	(1,411)	(1,411)
Conversion	(36,602)	(466)	(37,068)
At 31 December 2017	–	–	–

28. SHARE CAPITAL

	2017 Number of shares	2017 HK\$'000	2016 Number of shares	2016 HK\$'000
Issued and fully paid:				
At beginning of year	400,170,000	85,830	400,170,000	85,830
Conversion of convertible bonds (note 27)	80,000,000	37,068	–	–
At end of year	480,170,000	122,898	400,170,000	85,830

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

29. SHARE-BASED PAYMENT

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

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

Category of grantee	Date of grant	Exercise period	Exercise price per share	Number of options outstanding at 31 December 2017	Number of options outstanding at 31 December 2016
Directors	10 April 2015	10 April 2015 to 9 April 2025	HK\$0.78	330,000	410,000
Employee	10 April 2015	10 April 2015 to 9 April 2025	HK\$0.78	730,000	780,000
Others	10 April 2015	10 April 2015 to 9 April 2025	HK\$0.78	130,000	130,000
				1,190,000	1,320,000

The options granted on 10 April 2015 are not subject to vesting condition.

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

	Weighted average exercise price 2017	Number of options 2017	Weighted average exercise price 2016	Number of options 2016
Outstanding at beginning of the year	HK\$0.78	1,320,000	HK\$0.78	1,440,000
Forfeited during the year	HK\$0.78	(130,000)	HK\$0.78	(120,000)
Outstanding at the end of the year	HK\$0.78	1,190,000	HK\$0.78	1,320,000

The weighted average remaining contractual life was 7.25 years (2016: 8.25 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

AS AT 31 DECEMBER 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Non-current assets			
Investments in subsidiaries		21,513	21,513
Current assets			
Amounts due from subsidiaries		85,838	89,680
Deposits and prepayments		191	230
Cash and cash equivalents		2,591	1,197
		88,620	91,107
Current liabilities			
Accruals and other payables		750	793
Amounts due to subsidiaries		145	145
		895	938
Net current assets		87,725	90,169
Non-current liabilities			
Liability component of convertible bonds	27	–	34,203
Derivative component of convertible bonds	27	–	1,877
		–	36,080
Net assets		109,238	75,602
Capital and reserves			
Share capital	28	122,898	85,830
Accumulated losses		(14,040)	(10,649)
Share option reserve		380	421
Total equity		109,238	75,602

On behalf of the directors

ZHU Hongguang
Director

ZHA Jianping
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

31. PARTICULARS OF SUBSIDIARIES

Details of subsidiaries as at 31 December 2017 are as follows:

Name of subsidiary	Form of business structure	Place of incorporation	Description of issued shares held	Percentage of equity interest attributable to the Company		Place of operation and principal activities
				Directly	Indirectly	
Loco HK Limited	Corporation	British Virgin Islands ("BVI")	Ordinary shares	100%	–	Investment holding in Hong Kong
Success Vision International Holdings Limited	Corporation	BVI	Ordinary shares	100%	–	Investment holding in Hong Kong
Edge Faith Limited	Corporation	BVI	Ordinary shares	100%	–	Investment holding in Hong Kong
China New Era Investment Limited	Corporation	BVI	Ordinary shares	100%	–	Investment holding in Hong Kong
China Precision Material Limited	Corporation	Hong Kong	Ordinary shares	–	100%	Metal and commodity forward contracts trading in Hong Kong
CPM Silver Limited	Corporation	Hong Kong	Ordinary shares	–	100%	Silver processing in Hong Kong
United Bridge Limited	Corporation	Hong Kong	Ordinary shares	–	100%	Investment holding in PRC
World Bridge Limited	Corporation	Hong Kong	Ordinary shares	–	100%	Inactive
United Worth Finance Limited	Corporation	Hong Kong	Ordinary shares	–	100%	Provision of money lending services
深圳時代健康科技控股有限公司 Shenzhen New Era Health Science And Technology Holdings Limited* (note)	Corporation	PRC	Registered capital	–	100%	Trading of electronic products in the PRC
Loco Precious Metal Limited	Corporation	Hong Kong	Ordinary shares	–	100%	Inactive
Loco Hong Kong Finance Holdings Limited	Corporation	Hong Kong	Ordinary shares	–	100%	Investment holding in Hong Kong
Golden Bridge Precision Material Limited (formerly known as China New Era Group Holdings Limited)	Corporation	Hong Kong	Ordinary shares	–	100%	Inactive
Loco Hong Kong Green Energy Limited	Corporation	Hong Kong	Ordinary shares	–	55%	Investment holding in PRC
港銀新能源(深圳)有限公司 Loco Hong Kong Green Energy (Shenzhen) Limited* (note)	Corporation	PRC	Registered capital	–	55%	Operation of solar power facilities
New Visual International Holdings Limited	Corporation	Hong Kong	Ordinary shares	–	100%	Investment holding in PRC

* *English name for identification purpose only*

Note: They are wholly-foreign-owned enterprise under the PRC law.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

32. RELATED PARTY TRANSACTIONS

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

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

Type of transaction	2017 HK\$'000	2016 HK\$'000
Interest charged on loan granted to the Group (note (i))	952	542
Share of staff cost charged to the Group (note (ii))	774	791
Office rental and other related expenses charged to the Group (note (ii))	1,075	1,089
Sale of carpark (note (iii))	–	1,800
Interest and commission charged by the Group for entering into forward arrangements (note (iv))	190	118
Disposal of a subsidiary to a company controlled by a director (note 17)	10	–
Donation by the Group (note (v))	300	400
Development and maintenance of software system for the Group (note (vi))	–	250
Internal control service fee charged to the Group (note (vi))	300	300
Data hosting service fee charged to the Group (note (vi))	–	13

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

32. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

Notes:

- (i) Interest was charged to the Group on the loan granted by a company in which Mr. Felipe Tan (“Mr. Tan”), one of the Company’s directors, acts as director and has controlling equity interest (note 11 and 26).
- (ii) The Group paid rent to a related company for occupation of office space (note 12) and shared staff cost and office related expenses with other related companies. Mr. Tan acts as a director and has controlling equity interest in those companies.
- (iii) The carpark was disposed to a company in which Mr. Tan acts as a director and has controlling equity interest.
- (iv) Interest income and commission income generated for entering into forward arrangements during the year (note 25) were conducted with companies in which Mr. Tan acts as a director and has controlling equity interest.
- (v) Donation was made to a charitable company in which Mr. Tan acts as one of the founder members.
- (vi) Fees for these services were charged by companies in which Mr. Tan acts has control and controlling equity interest.

(b) Key management includes members of the board of directors and other members of key management of the Group. Their emoluments are set out as follows:

	2017	2016
	HK\$'000	HK\$'000
Salaries and bonus, allowances and benefits	7,650	3,087
Contributions to defined contribution retirement plans	114	44
	7,764	3,131

(c) At 31 December 2017 and 2016, Mr. Tan provided personal guarantee to a bank in respect of general facilities granted to a subsidiary of the Group to the extent of HK\$10,000,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

33. COMMITMENTS

(a) Operating leases commitment – lessee

The Group leases a workshop and offices under operating lease arrangement. Each of the lease runs for an initial period of two years (2016: two years). The total future minimum lease payments under the leases are due as follows:

	2017 HK\$'000	2016 HK\$'000
Within one year	3,110	4,356
Later than one year and not later than two years	–	2,846
	3,110	7,202

(b) Capital commitment

As at 31 December 2017, the Group was committed to make capital injection into Shenzhen Loco Education (note 17) amounted to RMB1,000,000 (equivalent to approximately HK\$1,199,000).

34. CAPITAL MANAGEMENT

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

The Group defines "capital" as including all components of equity less unaccrued proposed dividend. Trading balances that arise as a result of trading transactions with Group companies are not regarded by the directors as capital. The capital of the Group at the end of reporting date was approximately HK\$112,670,000 (2016: HK\$91,215,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

35. 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):

	2017 HK\$'000	2016 HK\$'000
Financial assets		
Available-for-sale financial assets	1	–
Fair value through profit or loss held for trading:		
– Commodity forward contracts	8,935	1
– Listed equity securities	–	10,520
Loans and receivables	116,620	156,884
Financial liabilities		
Fair value through profit or loss held for trading:		
– Commodity forward contracts	76	10,065
– Derivative component of convertible bonds	–	1,877
Financial liabilities measured at amortised cost:		
– Other payables, accruals and deposits received	43,647	25,770
– Amount due to an associate	295	–
– Amounts due to related companies	50,023	28,795
– Amounts due to directors	154	55
– Loan from a related company	27,195	27,195
– Liability component of convertible bonds	–	34,203

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

Financial instruments not measured at fair value

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

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

Financial instruments measured at fair value

The fair value of listed equity securities as at 31 December 2016 was determined with reference to quoted market bid prices which is level 1 fair value measurement.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

Financial instruments measured at fair value (Continued)

Below is a summary of significant unobservable inputs to the valuations of the derivative component of convertible bonds during the year and as at 31 December 2016:

	Valuation technique	Significant unobservable input	2017 Ratio	2016 Ratio
Derivative component of convertible bonds	Crank-Nicolson Finite-difference method	Option adjusted spread	4.05% – 4.31%	5.67%

A 5% increase in option adjusted spread would result in increase in fair value by HK\$50,000 (2016: HK\$143,000). While a 5% decrease in option adjusted spread would result in decrease in fair value by HK\$50,000 (2016: HK\$144,000).

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Financial instruments measured at fair value (Continued)

	2017			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets at fair value through profit or loss held for trading:				
– Commodity forward contracts	–	8,935	–	8,935
Financial liabilities at fair value through profit or loss held for trading:				
– Commodity forward contracts	–	76	–	76
	2016			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets at fair value through profit or loss held for trading:				
– Commodity forward contracts	–	1	–	1
– Listed equity securities	10,520	–	–	10,520
Financial liabilities at fair value through profit or loss held for trading:				
– Commodity forward contracts	–	10,065	–	10,065
– Derivative component of convertible bonds	–	–	1,877	1,877

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2016: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. 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 trade receivables, loan receivable, deposits arising from trading of commodity forward contracts, other receivables, derivative financial assets and bank balances.

The Group's trade receivables and loan receivable as at 31 December 2017 were either guaranteed by a corporate guarantor or secured by a pledged property. On the other hand, most of the counterparties of the rest of the financial assets are reputable banks or financial institutions. In this regard, the directors consider the Group's exposure to credit risk is significantly reduced.

(b) Interest rate risk

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. FINANCIAL RISK MANAGEMENT (Continued)

(c) Currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The functional currencies of the Group's respective principal subsidiaries are HK\$, US\$ and RMB.

For subsidiaries with HK\$ and US\$ as their functional currencies, since most of their transactions and financial instruments are denominated in HK\$ and US\$ and HK\$ is pegged to US\$, their exposure to foreign currencies risk is minimal.

For a subsidiary with RMB as its functional currency, it is exposed to foreign currency risk as all of its sales and purchases during the year were transacted in US\$. As at 31 December 2017, if US\$ had weakened/strengthened by 5% against RMB with all other variables held constant, the Group's loss for the year then ended would have been approximately HK\$1,332,000 higher/lower, mainly as a result of the foreign exchange losses/gains on translation of its trade receivables denominated in US\$ to RMB.

The Group does not have a foreign currency hedging policy. However management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

36. FINANCIAL RISK MANAGEMENT (Continued)

(d) Liquidity risk (Continued)

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

	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000
2017				
Other payables, accruals and deposits received	43,647	43,647	43,647	–
Amount due to an associate	295	295	295	–
Amounts due to related companies	50,023	50,023	50,023	–
Amounts due to directors	154	154	154	–
Loan from a related company	27,195	27,445	27,445	–
Derivatives financial liabilities (note)	76	76	76	–
	121,390	121,640	121,640	–
2016				
Other payables, accruals and deposits received	25,770	25,770	25,770	–
Amounts due to related companies	28,795	28,795	28,795	–
Amount due to a director	55	55	55	–
Loan from a related company	27,195	27,445	27,445	–
Liability component of convertible bonds and interest payable	34,203	41,216	–	41,216
Derivatives financial liabilities (note)	10,065	10,065	10,065	–
	126,083	133,346	92,130	41,216

Note: The remaining contractual maturities of these commodity forward contracts (note 21) are within one month (2016: three months).

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36. FINANCIAL RISK MANAGEMENT (Continued)

(e) Commodity price risk

The Group is exposed to commodity price risk arises from inventories (note 18) and Forward Arrangements with certain suppliers and customers (note 7). In order to mitigate these risks, the Group enters into forward contracts with commodity traders to hedge the commodity price exposures. As there is a Group policy to maintain its exposure to commodity price risk at a low level, the management would frequently monitors the current net exposures as well as exposures that are anticipated to be encountered in the new future. As the forward contracts with commodity traders are for hedging the position arising from inventories and Forward Arrangements, the directors considered the Group's exposure to commodity price risk as a whole is minimal.

37. NOTE SUPPORTING CASH FLOW STATEMENT

Reconciliation of liabilities arising from financing activities:

	Amounts due to related companies HK\$'000	Bank loans and loan from a related company HK\$'000	Convertible bonds HK\$'000
At 1 January 2017	28,795	27,195	36,080
Changes from cash flows			
Proceeds from new bank loans	–	48,563	–
Repayment of bank loans	–	(48,563)	–
Interest paid	–	(1,184)	–
Funds transferred from related companies	21,228	–	–
Total changes from financing cash flows	21,228	(1,184)	–
Changes in fair value	–	–	(1,411)
Other change			
Interest expenses	–	1,184	2,399
Conversion right exercised	–	–	(37,068)
Total other changes	–	1,184	(34,669)
At 31 December 2017	50,023	27,195	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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38. EVENTS AFTER THE REPORTING DATE

- 1) On 29 November 2017, one of the Group's subsidiaries entered into an equity transfer agreement with Party A and Party B for the proposed acquisition of the equity interest in a PRC company ("Shanghai Friction") which was a wholly owned subsidiary of Party B. Pursuant to the equity transfer agreement, since Party B has not yet made any capital contribution to Shanghai Friction, Party B agreed to sell its 50% equity interest in Shanghai Friction to the Group's subsidiary at a consideration of RMB1. Shanghai Friction is engaging in trading of automotive parts in the PRC and as at 31 December 2017, it had net assets of RMB1,082. On 1 January 2018, the acquisition was completed and upon completion of the acquisition, the Group, Party A and Party B hold 50%, 30% and 20% equity interest in Shanghai Friction respectively. According to Shanghai Friction's article of association, the Group's subsidiary is committed to make capital contribution to Shanghai Friction amounted to RMB5,000,000 (equivalent to approximately HK\$5,995,000) at any time prior to 3 January 2047. In addition, pursuant to the shareholders' agreement signed by the Group, Party A and Party B, if Shanghai Friction is unable to achieve the financial performance for two consecutive years since acquisition as set out in the shareholders' agreement, the Group has the right to request Party A and Party B to act individually or collectively to buy back its 50% equity interest in Shanghai Friction. The sale consideration is calculated based on the amount of capital contribution made by the Group to Shanghai Friction by that time plus a reasonable mark-up for interest.
- 2) On 28 February 2018, one of the Group's subsidiaries entered into a cooperation agreement with Party C regarding the construction of a solar power facility (the "Facility") in the PRC and the generation of income by supplying electricity which is to be generated from the Facility. The estimated total investment cost for the Facilities is RMB14,000,000 (equivalent to approximately HK\$16,785,000). The Group will further enter into a construction contract with Party C to set out the terms of details, including the exact investment cost, of the construction Facility after including but not limited to Party C obtaining relevant approval or license from relevant government authority for the construction of the Facility.

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:

	2017	2016	2015	2014	2013
Results	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	2,339,409	2,170,644	1,076,076	2,128,140	1,496,203
Trading (losses)/gains on commodity forward contracts	(1,299)	(14,859)	2,304	22,752	14,649
Total income	2,338,448	2,156,713	1,078,464	2,151,000	1,510,946
Carrying value of inventories sold	(2,314,335)	(2,129,087)	(1,064,801)	(2,126,115)	(1,492,810)
Change in fair value of commodity inventories	5,712	(668)	832	240	(687)
(Loss)/Profit before income tax	(16,891)	4,594	(363)	4,078	9,010
(Loss)/Profit and total comprehensive income for the year	(15,613)	2,750	(313)	1,957	7,708

	2017	2016	2015	2014	2013
Assets and liabilities	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current assets	231,570	215,895	107,937	107,021	136,154
Current liabilities	121,596	92,562	23,167	23,941	118,287
Non-current assets	2,696	3,962	3,695	5,046	5,516
Non-current liabilities	–	36,080	–	–	–
Total equity	112,670	91,215	88,465	88,126	23,383

	2017	2016	2015	2014	2013
Key financial ratios					
Current ratio	1.90	2.33	4.66	4.47	1.15
Quick ratio	1.04	1.82	2.91	2.73	0.38
Gearing ratio	0.24 times	0.67 times	–	–	4.7 times
Return on total assets	(6.7%)	1.3%	(0.3%)	1.8%	5.4%
Return on equity	(13.9%)	3.1%	(0.4%)	2.2%	33.0%