

Loco Hong Kong Holdings Limited

港銀控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 8162)



Third
Quarterly
Report
◦
2018





CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized 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.

Given that the companies listed on GEM are generally small and mid-sized companies, 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 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 day of its posting and on the Company’s website at www.locohkholdings.com.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited			
		Nine months ended 30 September		Three months ended 30 September	
		2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Revenue					
– Sales of metal		1,010,802	1,765,053	152,637	700,361
– Sales of electronic products		13,011	64,395	–	11,568
– Merchandising support services		1,039	–	–	–
– Interest income from customers and suppliers		5,767	4,510	2,163	1,732
– Processing fee		62	14	62	–
– Order commission		5	431	–	121
		1,030,686	1,834,403	154,862	713,782
Trading gains/(losses) on commodity forward contracts		1,909	4,032	1,090	(350)
Other income		274	294	87	131
Total income		1,032,869	1,838,729	156,039	713,563
Carrying value of inventories sold		(1,019,601)	(1,815,395)	(154,285)	(705,084)
Employee costs		(13,140)	(12,692)	(4,240)	(4,225)
Depreciation		(1,273)	(1,377)	(337)	(468)
Rental expenses		(4,453)	(4,099)	(1,504)	(1,444)
Fair value gain on derivative component of convertible bonds		–	970	–	970
Fair value loss on investments held for trading		–	(2,017)	–	–
Loss on disposal of property, plant and equipment		(333)	–	(333)	–
Other operating expenses		(7,994)	(10,437)	(2,416)	(3,416)
Share of losses of associates		(17)	(1)	(15)	(1)
Finance costs	3	(819)	(3,365)	(254)	(672)
Loss before income tax expense		(14,761)	(9,684)	(7,345)	(777)
Income tax (expense)/credit	4	(42)	(892)	243	(406)
Loss for the period		(14,803)	(10,576)	(7,102)	(1,183)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

	Note	Unaudited			
		Nine months ended 30 September		Three months ended 30 September	
		2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Loss for the period attributable to:					
– Owners of the Company		(14,566)	(10,571)	(7,102)	(1,178)
– Non-controlling interests		(237)	(5)	–	(5)
		(14,803)	(10,576)	(7,102)	(1,183)
Loss for the period		(14,803)	(10,576)	(7,102)	(1,183)
Other comprehensive income					
Item that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations		(2,222)	2,179	(1,578)	1,128
Total comprehensive income for the period		(17,025)	(8,397)	(8,680)	(55)
Total comprehensive income for the period attributable to:					
– Owners of the Company		(16,759)	(8,392)	(8,676)	(50)
– Non-controlling interests		(266)	(5)	(4)	(5)
		(17,025)	(8,397)	(8,680)	(55)
		HK cents	HK cents	HK cents	HK cents
Basic and diluted loss per share	6	(3.03)	(2.52)	(1.48)	(0.26)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Merger reserve HK\$'000	Share option reserve HK\$'000	Exchange reserve HK\$'000	Unaudited (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 2017	85,830	(1,357)	421	(120)	6,441	91,215	-	91,215
Loss for the period	-	-	-	-	(10,571)	(10,571)	(5)	(10,576)
Other comprehensive income:								
Exchange differences on translating foreign operations	-	-	-	2,179	-	2,179	-	2,179
Total comprehensive income for the period	-	-	-	2,179	(10,571)	(8,392)	(5)	(8,397)
Transactions with owners:								
Conversion of convertible bonds	37,509	-	-	-	-	37,509	-	37,509
Forfeited of share options	-	-	(41)	-	41	-	-	-
At 30 September 2017	123,339	(1,357)	380	2,059	(4,089)	120,332	(5)	120,327
At 1 January 2018	122,898	(1,357)	380	2,335	(11,441)	112,815	(145)	112,670
Loss for the period	-	-	-	-	(14,566)	(14,566)	(237)	(14,803)
Other comprehensive income:								
Exchange differences on translating foreign operations	-	-	-	(2,193)	-	(2,193)	(29)	(2,222)
Total comprehensive income for the period	-	-	-	(2,193)	(14,566)	(16,759)	(266)	(17,025)
Transactions with owners:								
Capital injection by non-controlling interest	-	-	-	-	-	-	2,364	2,364
Deemed disposal of a subsidiary	-	-	-	1	(1)	-	(2,379)	(2,379)
Acquisition of non-controlling interests	-	-	-	-	(426)	(426)	426	-
At 30 September 2018	122,898	(1,357)	380	143	(26,434)	95,630	-	95,630

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Loco Hong Kong Holdings Limited (the “Company”) is a limited liability company incorporated in Hong Kong. Its shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of its registered office and principal place of business is Unit 401, 4/F., Fairmont House, 8 Cotton Tree Drive, Admiralty, 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, provision of merchandising support services and provision of money lending services, which are conducted in Hong Kong and the People’s Republic of China (“PRC”).

The condensed consolidated financial statements of the Group for the nine months ended 30 September 2018 were authorised for issue by the Directors on 12 November 2018.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These condensed consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as the “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

These condensed consolidated financial statements do not include all the information and disclosures required in a full set of financial statements prepared in accordance with HKFRSs, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2017.

These condensed consolidated financial statements have been prepared with the same accounting policies adopted in the 2017 annual financial statements, except for those that relate to new or revised HKFRSs effective for the first time for periods beginning on or after 1 January 2018. The adoption of these new or revised HKFRSs has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements. The Group has not early adopted any other new or revised HKFRSs that has been issued but is not yet effective.

These condensed consolidated financial statements have not been audited but have been reviewed by the audit committee of the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

3. FINANCE COSTS

	Unaudited			
	Nine months ended 30 September		Three months ended 30 September	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Interests on bank loans	47	145	-	84
Interests on convertible bonds	-	2,399	-	278
Interests on loan from a related company	712	712	240	240
Total interest expenses	759	3,256	240	602
Bank charges	60	109	14	70
	819	3,365	254	672

4. INCOME TAX (EXPENSE)/CREDIT

The amount of the income tax expense/(credit) represents the following:

	Unaudited			
	Nine months ended 30 September		Three months ended 30 September	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Current tax	42	892	(243)	406

Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) on the estimated assessable profits for the period.

PRC subsidiaries are subject to Enterprise Income Tax at 25% (2017: 25%).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

5. DIVIDENDS

The board of directors (the “Board”) does not recommend the payment of any dividend of the Company for the nine months ended 30 September 2018 (2017: nil).

6. LOSS PER SHARE

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

	Unaudited			
	Nine months ended 30 September		Three months ended 30 September	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Loss for the purpose of basic loss per share	(14,566)	(10,571)	(7,102)	(1,178)
Weighted average number of ordinary shares for the purpose of basic loss per share	480,170,000	420,096,740	480,170,000	459,300,435

For the nine months ended and three months ended 30 September 2018, the computation of diluted loss per share does not assume the exercise of the Company’s outstanding share options since their exercise price is higher than the average market price of the shares of the Company for the period. Accordingly, the basic and diluted loss per share are the same.

For the nine months ended and three months ended 30 September 2017, the computation of diluted loss per share does not assume the exercise of the Company’s outstanding share options since their exercise price is higher than the average market price of the shares of the Company for the period. In addition, it does not assume the conversion of the Company’s convertible bonds as they had anti-dilutive effect on the loss per share calculation. Accordingly, the basic and diluted loss per share are the same.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Group's principal activities mainly divided into four categories include sales of metal, trading of electronic products, provision of merchandising support services and provision of money lending services.

Sales of metal business

The Group processed approximately 246 tonnes (2017: 402 tonnes) of silver scrap for the nine months ended 30 September 2018 of which represent decrease of 38.8% as compared with the same period of 2017. Revenue from sales of metal represent 100% (2017: 98%) from sale of silver products and the remaining were sale of gold and tin in the same period of 2017.

Trading of electronic products

One of the Group's subsidiaries established in PRC has started operation of trading of electronic products in PRC since 2017. As our performance are highly dependent on source of electronic products from our suppliers, the business performance may fluctuate and may not as better as the same period of 2017. For the nine months ended 30 September 2018, revenue of approximately HK\$13.0 million (2017: HK\$64.4 million) has been generated and contributed to the Group.

Provision of merchandising support services

During the period, the Group has completed the acquisition of 50% equity interest in 上海孚瑞恒眾汽車科技有限公司 (Shanghai Friction Automotive Technology Co., Ltd*) ("Shanghai Friction") which is principally engaged in provision of merchandising support services for trading of automotive parts in the PRC. The merchandising support services were mainly provided to China Yantai Friction Co., Ltd., a shareholder of 20% indirect equity interest in Shanghai Friction. On 29 June 2018, the Group consent the revocation of the voting undertaking by 上海厚途汽車科技有限公司 (Shanghai Houtu Automotive Technology Co., Ltd.*) ("Shanghai Houtu") with effective from 30 June 2018 which resulted in losing control over Shanghai Friction. Shanghai Friction become an associate of the Company and the merchandising support services segment no longer be part of the Group since 30 June 2018.

Provision of money lending services

One of the Group's subsidiaries has obtained a money lenders license (under Money Lenders Ordinance, Chapter 163 of the Law of Hong Kong) since the year 2017 and is lawfully engaged in provision of money lending services in Hong Kong. For the nine months ended 30 September 2018, the size of the business still small as the Group stand in prudent approach on money lending business to earn interest from our borrowers. As at 30 September 2018, the amount of loan receivable from a customer is secured by a property in Hong Kong.

* English name for identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Outlook

The Group will continue to carry on sales of metal, trading of electronic products and provision of money lending service in Hong Kong and PRC.

During the period, we have explored new sector of business of provision of merchandising support services for trading of automotive parts. However, the management of the Group conducted an effective and in-depth review of the operation and prospects of all business units since May 2018 and concluded that the business segment of merchandising support services could not reach the appropriate scale and generate commensurate investment return due to lack of growth potential. Such business segment no longer be part of the Group since 30 June 2018.

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

Financial Review

For the nine months ended 30 September 2018, the Group had a total income of approximately HK\$1,032.9 million (2017: HK\$1,838.7 million), representing a decrease of 43.8% as compared with the same period of 2017. Despite no finance cost incurred on convertible bonds which were fully converted during the year 2017, the Group recorded loss of approximately HK\$14.8 million (2017: HK\$10.6 million), representing an increase of 39.6% as compared with the same period of 2017. The increase in loss was mainly due to decrease in revenue while the operating expenses remained constant.

Dividend

The Board does not recommend the payment of any dividend of the Company for the nine months ended 30 September 2018 (2017: nil).

Significant investments, acquisitions and disposals

Save as disclosed under the section “Management Discussion and Analysis – Business Review” in relation to acquisition and deemed disposal of Shanghai Friction, there were no significant investment held as at 30 September 2018, nor other material acquisition and disposals of subsidiary during the nine months ended 30 September 2018.

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 30 September 2018 and there has not been any material change in the contingent liabilities of the Group since 30 September 2018.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 September 2018, 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 Director	Nature of Interests	Number of shares	% of shareholding
Felipe Tan ("Mr. 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.

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

Name of Director	Name of Associated Corporation	Nature of Interests	Number of shares	% of shareholding
Felipe Tan	Good Omen Investments Limited	Beneficial owner	100	100.00%
Felipe Tan	Belmont Holdings Group Limited	Interest of a controlled corporation & beneficial owner	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%

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(Continued)

Long positions (Continued)

(c) Options to subscribe for ordinary shares of the Company

The Company adopted a share option scheme on 22 July 2014 ("Share Option Scheme"). Particulars of the directors' interests in Share Options Scheme were as follows:

Name of Director	Grant Date	Exercise price per share HK\$	Vesting and Exercise period	Number of share options and underlying shares					Outstanding as at 30.9.2018
				Outstanding as at 1.1.2018	Granted	Exercised	Cancelled	Lapsed	
Felipe Tan	10.4.2015	0.78	10.4.2015 – 9.4.2025	250,000	-	-	-	-	250,000
Tsang Wai Chun Marianna	10.4.2015	0.78	10.4.2015 – 9.4.2025	80,000	-	-	-	-	80,000
				330,000	-	-	-	-	330,000

Short Positions

At 30 September 2018, no short positions of Directors or 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 Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 September 2018, 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	8.38%
GobiMin Inc.	Interest of a controlled corporation	40,260,000	8.38%
GobiMin Silver Limited	Beneficial owner	40,260,000	8.38%
Good Omen Investments Limited	Interest of a controlled corporation	40,260,000	8.38%

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 at 30 September 2018.

SHARE OPTIONS

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

Type of Participant	Grant Date	Exercise price per share HK\$	Vesting and Exercise period	Number of share options and underlying shares					Outstanding as at 30.9.2018
				Outstanding as at 1.1.2018	Granted	Exercised	Cancelled	Lapsed	
Directors	10.4.2015	0.78	10.4.2015 – 9.4.2025	330,000	-	-	-	-	330,000
Employees	10.4.2015	0.78	10.4.2015 – 9.4.2025	730,000	-	-	-	-	730,000
Others	10.4.2015	0.78	10.4.2015 – 9.4.2025	130,000	-	-	-	-	130,000
				1,190,000	-	-	-	-	1,190,000

SHARE OPTIONS *(Continued)*

The fair value of equity-settled share options granted 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.

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

During the nine months ended 30 September 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 principally engaged in the investment in equity, debt or other securities as well as direct ownership stakes in projects, including the development of mineral properties 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, at 30 September 2018.

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. One of the business of the Group is 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 mainly involved in the mining business which is entirely different from our metal processing and trading business.

COMPETITION AND CONFLICT OF INTEREST *(Continued)*

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 nine months ended 30 September 2018.

AUDIT COMMITTEE

The Company established the 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 paragraph C.3 of the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. The duties of the Audit Committee include reviewing, in draft form, our annual report and accounts, half-yearly report and quarterly report and providing advice and comments to the Board. In this regard, members of the Audit Committee will liaise with the Board, our senior management and auditors. The 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 auditors. Members of the Audit Committee are also responsible for reviewing our Company’s financial reporting process, risk management and internal control systems. As at the date of this report, the Audit Committee comprises four independent non-executive Directors namely Mr. Zhou Tianshu (chairman), Ms. Wu Liyan, Ms. Dai Meihong and Ms. Tsang Wai Chun Marianna.

The Audit Committee has reviewed this quarterly report, including the condensed consolidated financial statements of the Group for the nine months ended 30 September 2018, prior to recommending them to the Board for approval.

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

Executive Directors:

Mr. Zhu Hongguang
Mr. Wang Wendong
Mr. Lam Chi Chung, Tommy
Mr. Felipe Tan

Independent non-executive Directors:

Mr. Zhou Tianshu
Ms. Wu Liyan
Ms. Dai Meihong
Ms. Tsang Wai Chun Marianna

Hong Kong, 12 November 2018