



Dafeng Port Heshun Technology Company Limited

大豐港和順科技股份有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8310

Third Quarterly Report
2018



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

FINANCIAL SUMMARY

The Group's total revenue for the nine months ended 30 September 2018 (the "Period") was approximately HK\$3,241.0 million, representing an increase of approximately 43.7% as compared with the total revenue of approximately HK\$2,255.0 million for the corresponding period in 2017.

Loss before taxation for the Period was approximately HK\$84.5 million, representing an increase of approximately 1,595.8% as compared with the loss before taxation of approximately HK\$5.0 million for the corresponding period in 2017.

Loss attributable to the equity holders of the Company for the Period was approximately HK\$76.1 million, representing an increase of approximately 646.1% as compared with the loss attributable to the equity holders of the Company of approximately HK\$10.2 million for the corresponding period in 2017.

Loss per share for the Period was approximately HK5.91 cents (the corresponding period in 2017: approximately HK0.79 cents).

The board of Directors of the Company (the “**Board**”) presents the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the three months and nine months ended 30 September 2018 (the “**Third Quarterly Financial Statements**”) together with the comparative figures for the corresponding periods in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2018

	Note	Unaudited Three months ended 30 September 2018		Unaudited Nine months ended 30 September 2018	
		2017	2017	2017	2017
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	3	1,149,251	775,532	3,240,958	2,254,994
Cost of sales		(1,150,348)	(756,948)	(3,238,432)	(2,198,432)
Gross profit		(1,097)	18,584	2,526	56,562
Other income		6,114	(9,380)	8,644	201
Administrative expenses		(22,712)	(15,206)	(74,020)	(63,046)
Finance costs		(7,087)	(6,895)	(21,413)	(11,127)
Gain on disposal of subsidiaries		–	–	–	12,844
Share of results of associates		79	101	(262)	(418)
Loss before taxation	4	(24,703)	(12,796)	(84,525)	(4,984)
Taxation	5	(122)	(98)	(268)	(2,416)
Loss for the period		(24,825)	(12,894)	(84,793)	(7,400)
Other comprehensive income/(loss):					
Item that may be reclassified to profit or loss in subsequent periods:					
Exchange difference arising from translation of foreign operations		(27,637)	1,652	(30,235)	3,545
Total comprehensive loss for the period		(52,462)	(11,242)	(115,028)	(3,855)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2018

	Note	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Profit/(Loss) attributable to:					
Equity holders of the Company		(23,621)	(11,254)	(76,063)	(10,178)
Non-controlling interests		(1,204)	(1,640)	(8,730)	2,778
		(24,825)	(12,894)	(84,793)	(7,400)
Total comprehensive income/ (loss) attributable to:					
Equity holders of the Company		(51,864)	(9,602)	(106,143)	(6,633)
Non-controlling interests		(598)	(1,640)	(8,885)	2,778
		(52,462)	(11,242)	(115,028)	(3,855)
Loss per share attributable to equity holders of the Company					
Basic and diluted (HK cents)	7	1.83	(0.87)	(5.91)	(0.79)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For nine months ended 30 September 2018

	Attributable to equity holders of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Statutory reserve HK\$'000	Other reserve HK\$'000	Share-based payment reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total Equity HK\$'000
At 1 January 2017 (audited)	12,880	201,419	(7,337)	(3,134)	303	(6,857)	3,063	(36,923)	163,414	200	163,614
Profit/(Loss) for the period	-	-	-	-	-	-	-	(10,178)	(10,178)	2,778	(7,400)
Exchange difference arising from translation of foreign operations	-	-	-	3,545	-	-	-	-	3,545	-	3,545
Total comprehensive income/(loss) for the period	-	-	-	3,545	-	-	-	(10,178)	(6,633)	2,778	(3,855)
Share-based payment	-	-	-	-	-	-	(3,063)	-	(3,063)	-	(3,063)
Partial disposal of interest in subsidiaries	-	-	(2,294)	-	-	-	-	-	(2,294)	21,497	19,203
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	11,505	11,505
At 30 September 2017 (unaudited)	12,880	201,419	(9,631)	411	303	(6,857)	-	(47,101)	151,424	35,980	187,404

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For nine months ended 30 September 2018

	Attributable to equity holders of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Statutory reserve HK\$'000	Other reserve HK\$'000	Share-based payment reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total Equity HK\$'000
At 1 January 2018 (audited)	12,880	201,419	(7,337)	(239)	826	(9,151)	-	(37,271)	161,127	35,334	196,461
Loss for the period	-	-	-	-	-	-	-	(76,063)	(76,063)	(8,730)	(84,793)
Exchange difference arising from translation of foreign operations	-	-	-	(30,080)	-	-	-	-	(30,080)	(155)	(30,235)
Total comprehensive income for the period	-	-	-	(30,080)	-	-	-	(76,063)	(106,143)	(8,885)	(115,028)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	2,266	2,266
At 30 September 2018 (unaudited)	12,880	201,419	(7,337)	(30,319)	826	(9,151)	-	(113,334)	54,984	28,715	83,699

NOTES TO THE UNAUDITED THIRD QUARTERLY FINANCIAL STATEMENTS

For the three months and nine months ended 30 September 2018

1. CORPORATION INFORMATION

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

2. BASIS OF PREPARATION

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

Except as described below for changes in accounting policies resulting from application of new to HKFRSs, the Third Quarterly Financial Statements have been prepared on a basis consistent with the accounting policies adopted in the Group’s audited financial statements for the year ended 31 December 2017.

Adoption of new/revised HKFRS

During the period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA, which are effective from the annual period beginning on or after 1 January 2018 for the preparation of the Group’s Third Quarterly Financial Statements:

- HKFRS 9, Financial Instruments;
- HKFRS 15, Revenue from Contracts with Customers and the related Amendments; and
- HK(IFRIC)–Int 22, Foreign Currency Transactions and Advance Consideration.

Except for the impact disclosed below, the adoption of the above new HKFRS does not have a significant impact on the Group’s accounting policies.

NOTES TO THE UNAUDITED THIRD QUARTERLY FINANCIAL STATEMENTS

For the three months and nine months ended 30 September 2018

HKFRS 9 replaces the provisions of HKAS 39 that related to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to the financial instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to the financial instruments that have already been derecognised as at 1 January 2018.

The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

The table below illustrates the classification and measurement (including impairment) of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	HKAS 39 carrying amount at 31 December 2017 HK\$ '000	Reclassification HK\$ '000	Remeasurement HK\$ '000	HKFRS 9 carrying amount at 1 January 2018 HK\$ '000
Available-for-sale financial assets	8,806	(8,806)	-	-
Financial assets at FVTPL	-	8,806	528	9,334

Note:

At the date of initial application of HKFRS 9, the Group's equity investments of HK\$8.8 million were reclassified from available-for-sale financial assets to financial assets at FVTPL. The assets were disposed on 10 September 2018. There is no impact on current and deferred tax and non-controlling interests upon these changes.

NOTES TO THE UNAUDITED THIRD QUARTERLY FINANCIAL STATEMENTS

For the three months and nine months ended 30 September 2018

Trade debtors arising from contracts with customers are initially measured in accordance with HKFRS 15.

HKFRS 15 and the related clarification to HKFRS 15 (“**HKFRS 15**”) presents new requirements for the recognition of revenue, replacing HKAS 18 “Revenue”, HKAS 11 “Construction Contracts”, and several revenue-related Interpretations. HKFRS 15 establishes a single comprehensive model that applies to contracts with customers and two approaches to recognising revenue; at a point in time or overtime. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

The adoption of HKFRS 15 has no material impact on the financial position and the financial results of the Group.

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

NOTES TO THE UNAUDITED THIRD QUARTERLY FINANCIAL STATEMENTS

For the three months and nine months ended 30 September 2018

3. REVENUE

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

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Income from provision of integrated logistics freight services	54,814	44,030	120,444	183,912
Income from provision of fuel cards	13,958	9,069	29,859	24,076
Tractor repair and maintenance services and insurance agency services fee	50	91	126	241
Income from trading business	1,078,437	716,943	3,084,337	2,030,041
Income from provision of petrochemical products storage business	1,992	5,399	6,192	16,724
	1,149,251	775,532	3,240,958	2,254,994

NOTES TO THE UNAUDITED THIRD QUARTERLY FINANCIAL STATEMENTS

For the three months and nine months ended 30 September 2018

4. LOSS BEFORE TAXATION

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
This is stated after charging:				
Finance costs				
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	6,918	6,782	21,074	9,729
Finance charge on obligations under finance leases	169	113	339	1,398
	7,087	6,895	21,413	11,127
Other items				
Cost of inventories	1,089,383	707,114	3,103,115	1,999,491
Depreciation	1,131	11,772	8,815	27,703
Operating lease payments on premises	1,274	1,690	5,312	6,467
Staff costs				
Salaries, allowance and the other short-term employee benefits including Directors' emoluments	12,265	15,215	50,108	57,590
Contributions to defined contribution plans	1,050	791	3,343	4,653
	13,315	16,006	53,451	62,243

NOTES TO THE UNAUDITED THIRD QUARTERLY FINANCIAL STATEMENTS

For the three months and nine months ended 30 September 2018

5. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (2017: 16.5%) of the estimated assessable profits for the period. The People's Republic of China (the "PRC") Enterprise Income Tax is calculated at the prevailing tax rate at 25% (2017: 25%) on taxable income determined in accordance with the relevant laws and regulations in the PRC.

One of the Company's subsidiaries in the PRC is qualified as an eligible entity for enjoying a preferential EIT rate of 15% pursuant to the Notice on Guidelines for Preferential Corporate Income Tax in Shenzhen Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, which has become effective since 1 January 2014.

Pursuant to the rules and regulations of the British Virgin Islands (the "BVI"), the Cayman Islands and the Marshall Islands, the Group is not subject to any taxation under those jurisdictions.

	Unaudited Three months ended 30 September 2018		Unaudited Nine months ended 30 September 2017	
	HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Current tax				
Hong Kong Profits Tax				
— Current period	123	—	220	—
PRC Enterprise Income Tax				
— Current period	—	98	—	2,004
— Under-provision in prior period	(1)	—	48	412
	(1)	98	48	2,416
Total income tax recognized in profit or loss	122	98	268	2,416

NOTES TO THE UNAUDITED THIRD QUARTERLY FINANCIAL STATEMENTS

For the three months and nine months ended 30 September 2018

6. DIVIDEND

The Board did not recommend the payment of an interim dividend for the Period (2017: Nil).

7. LOSS PER SHARE

Basic loss per share for the three months and nine months ended 30 September 2018 and 2017 are calculated by dividing the loss attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue.

	Unaudited Three months ended 30 September 2018		Unaudited Nine months ended 30 September 2018	
	2018	2017	2018	2017
Loss attributable to equity holders of the Company (HK\$'000)	(23,621)	(11,254)	(76,063)	(10,178)
Weighted average number of ordinary shares in issue	1,288,000,000	1,288,000,000	1,288,000,000	1,288,000,000
Basic loss per share (HK cents)	(1.83)	(0.87)	(5.91)	(0.79)

Basic and diluted loss per share are the same as the Company did not have any dilutive potential ordinary shares during the three months and nine months ended 30 September 2018 and 2017.

8. APPROVAL OF THE UNAUDITED THIRD QUARTERLY FINANCIAL STATEMENTS

The Third Quarterly Financial Statements were approved and authorised for issue by the Board on 9 November 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the Period, the Group was principally engaged in trading business, the provision of integrated logistics freight services and the relevant supporting services as well as petrochemical products storage business.

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

1. Trading business

The Group engages in the business of trading, importing and exporting of electronic products, petrochemical products and various other products. During the Period, the Group's trading business recorded revenue of approximately HK\$3,084.3 million (2017: approximately HK\$2,030.0 million). The increase in revenue was mainly attributable to the acquisition of 天津聯企成石油製品銷售有限公司 (Tianjin Lian Qi Cheng Petroleum Products Trading Company Limited*) ("**Tianjin Lian Qi Cheng**") on 30 June 2017 and 深圳市泛海控股有限公司 (Shenzhen Fanhai Holdings Limited*) ("**Shenzhen Fanhai**") on 12 December 2017, and the increase of customers of the trading business, the new business of electrolytic copper which 鹽城大豐和順國際貿易有限公司 (Yancheng Dafeng Heshun International Trading Company Limited*) ("**Heshun Trading**") is engaged in, the Group continues to deepen and expand the business of trading, importing and exporting of various products, and the trading business of subsidiaries has maintained a growth rate exceeding that of the corresponding period of last year.

2. Integrated logistics freight services

During the Period, the Group's revenue in integrated logistics freight services recorded a decrease of approximately 34.5% to approximately HK\$120.4 million (2017: approximately HK\$183.9 million). The decrease in revenue was mainly attributable to the disposal of the entire equity interest in 大豐海港港口物流有限公司 (Dafeng Harbour Port Logistics Company Limited*) ("**Dafeng Logistics**") on 13 June 2017, and the increasingly fierce competition in the industry and the declined regional trade activities.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Supporting services

The Group's revenue from supporting services which comprised provision of fuel cards and tractor repair and maintenance services and insurance agency services, increased from approximately HK\$24.3 million for the nine months ended 30 September 2017 to approximately HK\$30.0 million for the Period.

(a) Provision of fuel cards

During the Period, the increase in the Group's supporting services revenue was mainly driven by the increase in revenue from provision of fuel cards. The relevant revenue increased by approximately 24.0% to approximately HK\$29.9 million (2017: approximately HK\$24.1 million). The Group will continue to increase its marketing efforts for the promotion discount offered to our clients.

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

Tractor repair and maintenance services and insurance agency services, albeit their contribution to our Group's revenue being relatively insignificant, served as major types of value-added-services to our land and ocean freight clients during the Period. The relevant revenue decreased by approximately 47.7% to approximately HK\$126,000 during the Period (2017: approximately HK\$241,000).

4. Petrochemical products storage business

The Group engages in petrochemical products storage business through 江蘇中南滙石化倉儲有限公司 (Jiangsu Zhongnanhui Petrochemical Storage Company Limited*). During the Period, the Group's petrochemical products storage business recorded revenue decreased by approximately 63.0% to approximately HK\$6.2 million (2017: approximately HK\$16.7 million). The decrease in revenue was mainly attributable to the construction of additional petrochemical storage tanks which interfered with the normal operation of some storage tanks around, and the rectification and reformation subject to the requirements of safety and environmental protection department has further caused suspended operation of some storage tanks.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's revenue increased by approximately 43.7% to approximately HK\$3,241.0 million for the Period (2017: approximately HK\$2,255.0 million). The increase in revenue was mainly attributable to the increase in revenue of the Group's trading business.

The Group's cost of sales increased by approximately 47.3% to approximately HK\$3,238.4 million for the Period (2017: approximately HK\$2,198.4 million). The increase in cost was mainly attributable to the increase in cost of the Group's trading business.

With the combined effects of revenue and cost of sales, the Company's gross profit margin decreased to approximately 0.1% for the Period (2017: approximately 2.5%), which was mainly due to the change of international market that leads to the increase of purchasing cost of goods, while the selling prices remain stable.

The Group's other income decreased by approximately 33.7% to approximately HK\$8.6 million (2017: approximately HK\$13.0 million). The decrease in other income was mainly attributable to the one-off subsidies received from the government, the one-off gain recognised from the disposal of certain of the Group's property, plant and equipment and the one-off gain recognised from the disposal of Dafeng Logistics for the corresponding period in 2017, whereas no such gain was recognised for the Period.

The Group's finance costs increased by approximately 92.4% to approximately HK\$21.4 million for the Period (2017: approximately HK\$11.1 million), the finance costs consist of the interests on bank loans, overdrafts, other borrowings and interest on amounts due to connected companies as well as the finance charge of the obligations under finance leases. The increase in finance cost was mainly attributable to the placing of the unlisted secured bonds of US\$50 million.

The Group recorded the loss for the Period of approximately HK\$84.8 million (2017: loss of approximately HK\$7.4 million). The loss attributable to the equity holders of the Company was approximately HK\$76.1 million (2017: loss of approximately HK\$10.2 million) and the loss per share was approximately 5.91 HK cents (2017: loss of approximately 0.79 HK cents).

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

As at 30 September 2018, the Group's total equity attributable to equity holders of the Company amounted to approximately HK\$55.0 million (31 December 2017: HK\$161.1 million). The capital of the Company mainly comprises ordinary share capital, share premium and capital reserves.

DIVIDEND

The Board did not recommend the payment of an interim dividend in respect of the Period (2017: Nil).

PLEDGE OF ASSETS

The Group used bank and other borrowings to finance the expansion of its business. Secured borrowings are secured by the Group's property, plant and equipment, having carrying amounts of approximately HK\$57.5 million as at 30 September 2018 (31 December 2017: approximately HK\$75.4 million), prepaid lease payments of approximately HK\$41.2 million as at 30 September 2018 (31 December 2017: HK\$45.4 million) and security deposit for a loan from a third party of approximately HK\$3.4 million as at 30 September 2018 (31 December 2017: approximately HK\$3.6 million).

The US\$50.0 million of the secured and guaranteed borrowings are secured and guaranteed by all of 大豐港海外投資控股有限公司 (Dafeng Port Overseas Investment Holdings Limited*) ("**Dafeng Port Overseas**") rights, titles and interests from time to time in and to each secured account, the deposit and all related rights in relation thereto.

MANAGEMENT DISCUSSION AND ANALYSIS

PLACING OF UNLISTED SECURED BONDS IN THE AGGREGATE PRINCIPAL AMOUNT OF UP TO US\$50,000,000 AND ACCOUNT CHARGE BY CONTROLLING SHAREHOLDER

On 27 March 2018, the Company, as issuer, 江蘇大豐海港控股集團有限公司 (Jiangsu Dafeng Harbour Holdings Limited*) (“**Jiangsu Dafeng**”), as guarantor, and Industrial Bank Co., Ltd. Hong Kong Branch (the “**Placing Agent**”), entered into a placing agreement pursuant to which the Company agreed to appoint the Placing Agent as a placing agent for the purpose of procuring, and to use its best efforts, the subscription of the bonds of up to an aggregate principal amount of US\$50 million (the “**Placing**”).

Dafeng Port Overseas, a controlling shareholder of the Company, entered into a deed of account charge (the “**Account Charge**”) with the security trustee on 29 March 2018, pursuant to which Dafeng Port Overseas assigned and agreed to assign to the security trustee, as trustee for the bondholders, all of Dafeng Port Overseas’ right, title and interest from time to time in and to each secured account, which represented approximately 57.46% of the total issued shares as at 29 March 2018, as security for the payment and discharge of the secured obligations.

The Placing was completed on 29 March 2018. Pursuant to the results of a book building exercise, the bonds in the principal amount of US\$50 million has been placed to bondholders at a coupon rate of 7.5% per annum, and terms of 3 years.

The proceeds will be used to satisfy the needs of the Group’s continual business development. The Group is considering utilising the net proceeds for future expansion of and investment in the Group’s main business.

For further details, please refer to the announcements of the Company dated 27 March 2018 and 29 March 2018 in relation to the Placing.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The acquisition of the entire equity in Jiangsu Hairong Dafeng Port Petrochemical Product Terminal Company Limited

On 29 May 2018, Heshun Trading (the “**Purchaser**”), an indirect wholly-owned subsidiary of the Company, as purchaser, and (i) Jiangsu Dafeng and (ii) 江蘇華海投資有限公司 (Jiangsu Huahai investment Company Limited*) (the “**Sellers**”), as vendors, entered into the framework equity purchase agreement and together with any supplemental agreement thereto (the “**Framework Equity Purchase Agreement**”), pursuant to which the Purchaser conditionally agreed to purchase and each of the Sellers conditionally agreed to sell 60% and 40% of their respective equity interest in 江蘇海融大豐港油品化工碼頭股份有限公司 (Jiangsu Hairong Dafeng Port Petrochemical Product Terminal Company Limited*) (the “**Target Company**”) at the aggregate consideration of RMB405.9 million in cash (the “**Acquisition**”).

For further details, please refer to (1) the announcement of the Company dated 29 May 2018, and (2) the circular of the Company dated 29 June 2018 in relation to the Acquisition.

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

OUTLOOKS

The Group decided to implement the strategy of expanding its scope of business and diversifying its core business by providing a more integrated logistics freight services and enhancing its capacity. In view of the decline of the land and ocean freight services business, the Group intends to carry out the provision of petrochemical products terminal handling services which would enable the Group to strengthen its logistics business and generate synergies with the Group’s principal business.

CONTINGENT LIABILITIES

As at 30 September 2018, the Group had no material contingent liabilities (31 December 2017: Nil).

OTHER INFORMATION

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

As at 30 September 2018, none of the Directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (the “SFO”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives, recognising and acknowledging the contributions that eligible persons had made or may make to the Group. The Scheme was adopted pursuant to the written resolutions of the sole shareholder of the Company passed on 3 August 2013. The expiry date of the Scheme is 2 August 2023. Since the Scheme came into effect after the Company was listed on GEM of the Stock Exchange, no share options were granted, exercised or cancelled by the Company under the Scheme during the Period and there was no outstanding share options under the Scheme as at 30 September 2018 and as at the date of this report.

OTHER INFORMATION

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

As at 30 September 2018, so far as was known to the Directors, the following persons/entities (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholders	Capacity/ Nature of interests	Number of shares held (Note 1)	% of the Company's issued share capital (Approximate)
Dafeng Port Overseas (Note 2)	Beneficial owner and have provided an interest in the shares as security to a person other than a qualified lender	740,040,000 (L)/(S)	57.46%
Jiangsu Dafeng (Note 3)	Interest of controlled corporation	740,040,000 (L)/(S)	57.46%
大豐區人民政府 (the People's Government of Dafeng District*) ("PGDD") (Note 3)	Interest of controlled corporation	740,040,000 (L)/(S)	57.46%

Notes:

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

OTHER INFORMATION

Save as disclosed above, as at 30 September 2018, the Directors were not aware of any other persons/entities (other than the Directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

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

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

COMPETING INTERESTS

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

OTHER INFORMATION

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

Save as disclosed above, as at 30 September 2018, none of the Directors, controlling shareholders of the Company or their respective close associates had any interests in a business, which competes or is likely to compete either directly or indirectly with the business of the Group which would be required to be disclosed under Rule 11.04 of the GEM Listing Rules.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

CORPORATE GOVERNANCE CODE

The Company is committed to maintain a high standard of corporate governance. In the opinion of the Directors, the Company has complied with all the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 15 to the GEM Listing Rules during the Period. The Company will continue to review its corporate governance practices in order to enhance its corporate governance standard, comply with regulatory requirements and meet the growing expectations of its shareholders and investors.

OTHER INFORMATION

AUDIT COMMITTEE

An audit committee of the Company (the “**Audit Committee**”) has been established on 3 August 2013 with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules and code provision C.3.3 of the CG Code. As at 30 September 2018, the members of the Audit Committee comprise Mr. Lau Hon Kee(Chairman), Dr. Bian Zhaoxiang and Mr. Zhang Fangmao, all of whom are independent non-executive Directors. The primary duties of the Audit Committee are mainly to make recommendations to our Board on the appointment and removal of the external auditor, review the financial statements and related materials and provide advice in respect of the financial reporting process and oversee the internal control procedures of the Group.

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

APPRECIATION

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

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

Hong Kong, 9 November 2018

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

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

* *For identification purpose only*