Loco Hong Kong Holdings Limited
港銀控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 8162)

Annual Report

2018

CHARACTERISTICS OF GEM ("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.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange takes no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 date of its posting and on the Company's website at www.locohkholdings.com.

CONTENTS

CORPORATE INFORMATION

Directors

Executive Directors

Mr. Wang Wendong
(Chairman and Chief Executive Officer)
Mr. Zhu Hongguang
Mr. Felipe Tan

Independent Non-Executive Directors

Ms. Wong Susan Chui San
Mr. Lau Yuen Sun Adrian
Ms. Wu Liyan
Mr. Zhou Tianshu
Ms. Tsang Wai Chun Marianna

Audit Committee

Mr. Zhou Tianshu *(Chairman)*
Ms. Wong Susan Chui San
Mr. Lau Yuen Sun Adrian
Ms. Wu Liyan
Ms. Tsang Wai Chun Marianna

Executive Committee

Mr. Wang Wendong *(Chairman)*
Mr. Zhu Hongguang
Mr. Kwan Fai

Remuneration Committee

Ms. Wu Liyan *(Chairlady)*
Mr. Wang Wendong
Ms. Wong Susan Chui San
Mr. Lau Yuen Sun Adrian
Mr. Zhou Tianshu
Ms. Tsang Wai Chun Marianna

Nomination Committee

Mr. Wang Wendong *(Chairman)*
Mr. Zhu Hongguang
Mr. Lau Yuen Sun Adrian
Ms. Wu Liyan
Ms. Tsang Wai Chun Marianna

Company Secretary

Mr. Kwan Fai

Compliance Officer

Mr. Zhu Hongguang

Auditor

Crowe (HK) CPA Limited

Share Registrar and Transfer Office

Union Registrars Limited

Registered Office

Unit 401, 4/F., Fairmont House,
8 Cotton Tree Drive, Admiralty, Hong Kong

Listing

GEM of The Stock Exchange of Hong Kong Limited

Stock Code

8162

Authorised Representatives to the Stock Exchange

Mr. Wang Wendong
Mr. Kwan Fai

Website

www.locohkholdings.com

Email

info@locohkholdings.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

2018 was a challenging year for many metal industrial companies in Hong Kong due to market upheavals and a number of macro-economic factors, including the China – United States trade war.

At this difficult time, thanks to the trust and confidence placed by the board (the "Board") of Directors, I was appointed as Chief Executive Officer and Chairman of the Company on 31 October 2018 and 11 January 2019 respectively.

During the year under review, the Company and its subsidiaries (the "Group") recorded a net loss of approximately Hong Kong dollars ("HK$") 27.7 million, increased by approximately 53% as compared to last year. Such loss was mainly attributable to a significant decrease in revenue of approximately 52% from sales of metal during the year caused by the significant decrease of the market price of silver since the middle of 2018 which adversely affected the overall silver supply in Hong Kong, and one-off loss of approximately HK$5.3 million from the disposal of 深圳時代健康科技控股有限公司 (Shenzhen New Era Health Science And Technology Holdings Limited*) ("SZ New Era").

In order to mitigate the impact of silver trading business that we heavily rely on, the Group have explored several new sectors of business since last year, however, these new businesses could not reach the appropriate scale and to generate commensurate investment return due to lack of growth potential. Eventually, we have disposed two business segments, including trading of electronic products and provision of merchandising support services during the year.

Although it is expected that the Group will continue to experience challenges in the coming year, the management team and myself will make our best effort to turn the tide; seek 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.

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our shareholders, customers and business partners for their continuous support and to our senior management and staff members for their diligence, dedication and contribution to the growth of the Group.

Wang Wendong
Chairman and Chief Executive Officer

Hong Kong, 22 March 2019

* *English name for identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

Corporate Strategy and Business Model

The Group is principally engaged in trading of metal in Hong Kong accompanied with trading of commodity forward contracts for hedging purpose. Besides, the Group also engaged in trading of electronic products, provision of merchandising support services and provision of money lending services during 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

Sales of metal business

The Group's income was mainly generated from the sales of silver products. During the year under review, the market price of silver significantly decreases since the middle of the year, which adversely affected the overall silver supply in Hong Kong. Therefore, the sales volume of the silver products of the Group recorded a decrease during this year.

For the year ended 31 December 2018, the Group recorded a revenue from sales of metal of approximately HK$1.1 billion (2017: HK$2.2 billion) of which 99% (2017: 99%) was contributed by sale of silver products and the remaining was contributed by sale of gold (2017: tin).

For the year ended 31 December 2018, the Group processed 264 tonnes (2017: 525 tonnes) of silver scrap. The total processing volume represented a decrease of approximately 50% when compared with last year.

Discontinued operation – Trading of electronic products

SZ New Era, a subsidiary established in People's Republic of China (the "PRC") has started operation of trading of electronic products since last year and contributed approximately HK$88.9 million revenue to the Group in 2017. However, the revenue generated from SZ New Era is declining as a result of unfavourable market conditions and price competition in the relevant industry, and the businesses of SZ New Era were stagnant since the first quarter in 2018, approximately HK$13.0 million revenue has been generated for the year ended 31 December 2018, represented a decrease of approximately 85% when compared with last year. The trading of electronic products segment no longer be part of the Group since the Group disposed the entire issued share capital in SZ New Era in December 2018.

Discontinued operation – Provision of merchandising support services

During the year under review, 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 煙台孚瑞克森汽車部件有限公司 (China Yantai Friction Co., Ltd.*) ("CYFC"), 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.*) 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

United Worth Finance Limited, a subsidiary of the Group has obtained a money lenders license (under Money Lenders Ordinance, Chapter 163 of the Law of Hong Kong) since 2017 and is lawfully engaged in provision of money lending services in Hong Kong. For the year ended 31 December 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 31 December 2018, the amount of loan receivable from a customer is secured by a property in Hong Kong.

* *English name for identification purpose only*

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 trading of metal and provision of money lending service in Hong Kong. The significantly fluctuation of the market price of silver 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 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.

In view of the declining business of SZ New Era and it may incur significant loss in foreseeable future, the Group disposed the entire equity interest of SZ New Era for a consideration of HK$30.0 million in December 2018. Although a loss of approximately HK$5.3 million was recorded from the disposal, the Group was able to dispose SZ New Era for cash in a simple and timely way, in order to expand other new businesses with potential profitability, compared to the time and cost required to collect trade receivables of SZ New Era and its uncertainty. The disposal of SZ New Era also represents a continuation of the Group’s strategy to strip slow-growing or loss-making business, streamline its businesses and increase its overall performance and prospects.

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

Financial Review

For the year ended 31 December 2018, the Group had a total income from continuing and discontinued operations of approximately HK$1.1 billion (2017: HK$2.3 billion), representing a decrease of approximately 52% as compared with 2017. Despite no finance cost incurred on convertible bonds and lower general operating expenses incurred during the year, the Group recorded loss after tax of approximately HK$27.7 million (2017: HK$18.1 million) for the year ended 31 December 2018, representing an increase of approximately 53% as compared with 2017. The increase in loss was mainly due to (i) a significant decrease in revenue of approximately 52% from sales of metal during the year, from HK$2.2 billion in last year to HK$1.1 billion in current year; and (ii) a one-off loss of approximately HK$5.3 million from the disposal of SZ New Era. The key performance indicators of the Group include those provided above and in the sections "Environmental, Social and Governance Report", "Business Review", "Capital Structure, Liquidity and Financial Resources" and "Financial Summary" of this annual report. They help the management to set, evaluate, implement and control strategies so as to improve our performance.

Capital Structure, Liquidity and Financial Resources

As at 31 December 2018, the Group had cash and bank balances of approximately HK$82.3 million (2017: HK$46.6 million) and net current assets of approximately HK$76.2 million (2017: HK$110.0 million). As at 31 December 2018, the current ratio stood at 1.88 times (2017: 1.90 times).

The Group generally finances its operations primarily with internally generated cash and loan from a related company. The increase in cash balance of HK$35.7 million mainly represented of less inventories were purchased, and proceeds from disposal of SZ New Era, netting off repayment of advance from related companies.

As at 31 December 2018, the Group had a loan from a related company of approximately HK$27.2 million (2017: HK$27.2 million) and a loan from a shareholder of approximately HK$4.1 million (2017: nil).

As at 31 December 2018, no banking facilities were granted the Group (2017: HK$10 million). The Directors believed that the Group has adequate financial resources to fulfill its commitments and working capital requirements.

Capital Commitment

As at 31 December 2018, the Group did not have any significant capital commitment.

Employees and Remuneration Policy

As at 31 December 2018, the Group employed a total of 25 staff. The total employee costs for continuing and discontinued operations, including remuneration of the Directors, for the year ended 31 December 2018 amounted to approximately HK$18.5 million.

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

Charge on the Group's Assets

As at 31 December 2018, no assets of the Group were pledged as security.

Future Plan for Material Investments and Capital Assets

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

Significant Investments, Acquisitions and Disposals

Save as disclosed under the sections "Business Review" and "Outlook" and note 11 to the consolidated financial statements in relation to the disposal of SZ New Era and acquisition and deemed disposal of Shanghai Friction, there were no significant investment held as at 31 December 2018, nor other material acquisition and disposals of subsidiary during the year ended 31 December 2018.

Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: nil).

Gearing Ratio

As at 31 December 2018, the gearing ratio of the Group, calculated as debt (being borrowing and loan from a related company) divided by total equity was approximately 0.38 (2017: 0.24).

Foreign Exchange Exposure

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

Contingent Liabilities

The Group did not have any material contingent liabilities, guarantees or any litigation or claims of material importance pending or threatened against any member of our Group as at 31 December 2018 and there has not been any material change in the contingent liabilities of the Group since 31 December 2018.

Event after the Reporting Period

On 7 February 2019, the Company entered into the placing agreement (the "Placing Agreement") with the placing agent (the "Placing Agent"), pursuant to which the Placing Agent agrees, as agent of the Company, to procure on a best effort basis not less than six placees who and whose ultimate beneficial owners shall be independent third parties to subscribe for up to 96,000,000 new shares of the Company (the "Placing Share(s)") at the placing price of HK$0.241 per Placing Share (the "Placing"). On 25 February 2019, the Placing have been completed and the Placing Agent has successfully placed an aggregate of 96,000,000 Placing Shares to not fewer than six placees at the placing price of HK$0.241 per Placing Share. The gross proceeds from the Placing was approximately HK$23.1 million and the issued share capital of the Company was enlarged by the allotment and issue of 96,000,000 Placing Shares.

Details of the above transactions were published in the Company's announcements dated 7 February 2019 and 25 February 2019.

Save and except for this, up to the date of this annual report, there was no significant event relevant to the business or financial performance of the Group that come to the attention of the Directors after the reporting period.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Wang Wendong ("Mr. Wang"), aged 51, has been appointed as an executive Director in May 2018 and re-designated as chief executive officer of the Company in October 2018. Mr. Wang was also appointed as the chairman of the Company since January 2019. Mr. Wang has more than 25 years of extensive experience in real economy investment. Since the 1990s, Mr. Wang has served as a group vice president in an international group of companies. Such group has significant footprint in the PRC and Hong Kong including international trade, farming, education, culture industry, real estate and consumer goods.

Mr. Zhu Hongguang ("Mr. Zhu"), aged 46, has been appointed as an executive Director since August 2016. Mr. Zhu has over ten years' experience in operations and management in the segment of real economy investment. Mr. Zhu established 四川雯傑物資有限公司 (Sichuan Wenjie Materials Co., Ltd.*) and 成都元太實業投資有限公司 (Chengdu Yuantai Industrial Investment Co., Ltd.*) 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 成都嶺多吉投資有限公司 (Chengdu Lingduoji Investment Co., Limited*) and 成都威德股權投資基金管理有限公司 (Chengdu Weide Equity Investment Fund Management Co., Limited*) in 2013. Mr. Zhu obtained a Master degree of Science in Business Operation and Management from the University of Bath in 2007.

Mr. Felipe Tan ("Mr. Tan"), aged 64, has been appointed as an executive Director since February 2014. Mr. Tan has served as a director of China Precision Material Limited and CPM Silver Limited 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. (Symbol: GMN) which is listed on the TSX Venture Exchange in Canada, and its subsidiaries are 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, mainly in Xinjang, the PRC. GobiMin Inc. is a shareholder of the Company and holds the shares in the Company through its subsidiaries. Mr. Tan has served as an executive director since September 2012 and has been appointed as chairman of the board of Timeless Software Limited (Stock Code: 8028) since July 16. Timeless Software Limited is listed on GEM of the Stock Exchange, and principally engaged in the computer hardware and software and mining business since September 2012. In addition, Mr. Tan has served as the director of Jiangmen Proudly Water-soluble Plastic Co., Ltd. (NEEQ: 833367) which is listed on the National Equities Exchange and Quotations in the PRC since September 2015.

* *English name for identification purpose only*

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Ms. Wong Susan Chui San ("Ms. Wong"), aged 45, has been appointed as an independent non-executive Director since February 2019. Ms. Wong has been a certified practising accountant of the Australian Society of Certified Practising Accountants and a certified public accountant of the Hong Kong Institute of Certified Public Accountants since May 1999 and May 2000, respectively. She is also a member of The Society of Chinese Accountants and Auditors, a fellow and a certified tax adviser of the Taxation Institute of Hong Kong. Ms. Wong has more than 19-year experience in auditing, accounting and taxation. She is the founder of Messrs. C.S. Wong & Co. and the Director of Pan-China (H.K.) CPA Limited. Ms. Wong has been an independent non-executive director of Ban Loong Holdings Limited (Stock Code: 30) which is listed on the Main Board of the Stock Exchange since October 2014. Ms. Wong is currently the chief financial officer and company secretary of Astrum Financial Holdings Limited (Stock Code: 8333) which is listed on GEM of the Stock Exchange. Ms. Wong resigned as the company secretary of Yin He Holdings Limited (formerly known as Zebra Strategic Holdings Limited) (Stock Code: 8260) on 31 August 2015 which is listed on GEM of the Stock Exchange and resigned as the company secretary of Grand Investment International Limited (Stock Code: 1160) which is listed on the Main Board of the Stock Exchange on 16 June 2017.

Mr. Lau Yuen Sun Adrian ("Mr. Lau"), aged 64, has been appointed as an independent non-executive Director since January 2019. Mr. Lau holds a Bachelor Degree in Commerce from University of Windsor in Canada, has extensive experience in banking and investment. Mr. Lau had worked for the National Bank of Canada as the vice president of Asia region as well as the chief executive of the Hong Kong branch from September 1994 to December 1996. Mr. Lau has served directorships in various listed companies in Hong Kong, he was an independent non-executive director of PT International Development Corporation Limited (Stock Code: 372), a company listed on the Main Board of the Stock Exchange from March 2017 to April 2018. Mr. Lau is currently an independent non-executive director of Yeebo (International Holdings) Limited (Stock Code: 259), a company listed on the Main Board of the Stock Exchange.

Ms. Wu Liyan ("Ms. Wu"), aged 33, has been appointed as an independent non-executive Director since September 2018. Ms. Wu is currently the marketing director of Pacific International Securities Limited. Ms. Wu received a bachelor's degree in science from University of Minnesota and a master's degree in science from New York University. Ms. Wu has more than 9 years of marketing and business development experiences in renowned investment management companies.

Mr. Zhou Tianshu ("Mr. Zhou"), aged 43, has been appointed as an independent non-executive Director since September 2018. Mr. Zhou is currently the executive CEO of Skyho Aviation Technology Co., Ltd.. Mr. Zhou received a bachelor's degree in engineering from Civil Aviation University of China and a master's degree in law from Wuhan University. Mr. Zhou has over 20 years of experience in enterprise planning, business investment and risk control. Mr. Zhou has worked in a major state-owned aviation enterprise in the PRC for over 17 years, mainly in enterprise planning and management positions. Mr. Zhou also held management positions in China Aircraft Leasing Group Holdings Limited (Stock Code: 1848), a company listed on the Main Board of the Stock Exchange and its subsidiary, Aircraft Recycling International Limited.

Ms. Tsang Wai Chun Marianna ("Ms. Tsang"), aged 64, has been appointed as an 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 Software Limited (Stock Code: 8028) which is listed on GEM of the Stock Exchange since October 2003.

Compliance Officer

Mr. Zhu Hongguang is the compliance officer of the Company.

Company Secretary

Mr. Kwan Fai ("Mr. Kwan"), aged 33, has been appointed as the company secretary of the Company since August 2018. Mr. Kwan has more than 8 years of accounting and auditing experiences in reputable international accounting firms. Prior to joining the Company, he served as a manager of BDO Limited, an international accounting firm. Mr. Kwan received a degree of Bachelor of Business Administration in Accountancy from the Hong Kong Polytechnic University in October 2009. Mr. Kwan has been admitted as a member of the Hong Kong Institute of Certified Public Accountants since March 2015.

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 2018, 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") except the deviation from A.2.1 of the 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 2018.

Board of Directors

(a) Board Composition

The Board currently consists of eight Directors including three executive Directors, namely Mr. Wang Wendong, Mr. Zhu Hongguang and Mr. Felipe Tan; and five independent non-executive Directors, namely Ms. Wong Susan Chui San, Mr. Lau Yuen Sun Adrian, Ms. Wu Liyan, Mr. Zhou Tianshu and Ms. Tsang Wai Chun Marianna.

The biographical details of all Directors and senior management of the Company are set out on pages 11 to 13 of this 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"), the GEM Listing Rules and other applicable laws and regulations.

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.

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 service contract with the Company for a term of one year commencing from date of appointment or re-appointment subject to termination, among others, by giving not less than one month's written notice.

Each of the executive Directors have entered into a service contract with the Company for a term of three years commencing from date of appointment or re-appointment 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, 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, 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 five independent non-executive Directors which complies with Rule 5.05(1) of the GEM Listing Rules. Among the five independent non-executive Directors, Ms. Wong Susan Chui San 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

A.2.1 of the Code Provisions stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Wang Wendong currently holds both positions. Since Mr. Wang Wendong joined the Company in May 2018, he has held the key leadership position of the Group and has been involved in the formulation of corporate strategies and management of business and operations of the Group gradually. Taking into account the consistent leadership within the Group and in order to enable more effective and efficient overall strategic planning and continuation of the implementation of such plans, the Directors (including independent non-executive Directors) consider that Mr. Wang Wendong is the best candidate for both positions and the present arrangements are beneficial and in the interests of the Group and the shareholders as a whole.

(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. Wang Wendong (appointed on 11 May 2018)	Yes
Mr. Zhu Hongguang	Yes
Mr. Felipe Tan	Yes
Mr. Lam Chi Chung Tommy (appointed on 11 May 2018 and resigned on 31 December 2018)	Yes
Mr. Tsang Zee Ho Paul (appointed on 11 May 2018 and resigned on 31 October 2018)	Yes
Mr. Zha Jianping (resigned on 29 September 2018)*	Yes
Independent Non-Executive Directors:	
Ms. Wu Liyan (appointed on 29 September 2018)	Yes
Mr. Zhou Tianshu (appointed on 29 September 2018)	Yes
Ms. Tsang Wai Chun Marianna	Yes
Ms. Dai Meihong (resigned on 27 February 2019)	Yes
Dr. Wang Lin (resigned on 29 September 2018)	Yes

* Mr. Zha Jianping re-designated as a non-executive Director on 11 May 2018 and resigned as a non-executive Director on 29 September 2018.

(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.

(i) Board Diversity Policy

The Board has adopted a board diversity policy, setting out the approach to achieve diversity within the Board. The Company considered diversity of Board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, culture and education background, professional experience, skills, knowledge and length of service. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

The nomination committee of the Company (the "Nomination Committee") is responsible for reviewing the board diversity policy and monitor the progress on achieving the objectives set for implementing the said policy from time to time. The Nomination Committee shall review this policy and the measurable objectives at least annually, and as appropriate, to ensure the continued effectiveness of the Board.

Board Committees

(a) Audit Committee

We established our audit committee (the "Audit Committee") on 22 July 2014 with written terms of reference 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 currently comprises five independent non-executive Directors, namely Mr. Zhou Tianshu, Ms. Wong Susan Chui San, Mr. Lau Yuen Sun Adrian, Ms. Wu Liyan and Ms. Tsang Wai Chun Marianna. Mr. Zhou Tianshu is the chairman of the Audit Committee.

The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2018.

(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 currently comprises two executive Directors, namely Mr. Wang Wendong, Mr. Zhu Hongguang and one key personnel of the Company, Mr. Kwan Fai. Mr. Wang Wendong is the chairman of the Executive Committee.

(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 currently comprises five independent non-executive Directors, namely Ms. Wu Liyan, Ms. Wong Susan Chui San, Mr. Lau Yuen Sun Adrian, Mr. Zhou Tianshu and Ms. Tsang Wai Chun Marianna and one executive Director, Mr. Wang Wendong. Ms. Wu Liyan is the chairlady of the Remuneration Committee.

(d) Nomination Committee

We established 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 of a number of aspects, including but not limited to gender, age, culture and education background, professional experience, skills, knowledge and length of service 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 currently comprises three independent non-executive Directors, namely Mr. Lau Yuen Sun Adrian, Ms. Wu Liyan and Ms. Tsang Wai Chun Marianna and two executive Directors, namely Mr. Wang Wendong and Mr. Zhu Hongguang. Mr. Wang Wendong is the chairman of the Nomination Committee.

(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:

	Number of Meetings Attended/Held During the Year under Review				
Name of Directors	**Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee Meeting**	**Nomination Committee Meeting**	**Executive Committee Meeting**
Executive Directors					
Mr. Wang Wendong (Note 1)	8/8	–	1/1	1/1	1/1
Mr. Zhu Hongguang (Note 2)	10/10	–	–	3/3	1/1
Mr. Felipe Tan	10/10	–	–	–	–
Mr. Lam Chi Chung Tommy (Note 3)	8/8	–	1/1	–	1/1
Mr. Tsang Zee Ho Paul (Note 4)	5/5	–	–	–	1/1
Mr. Zha Jianping (Note 5)	4/6	–	2/2	–	0/0
Independent Non-Executive Directors					
Ms. Wu Liyan (Note 6)	3/3	1/1	0/0	0/0	–
Mr. Zhou Tianshu (Note 7)	3/3	1/1	0/0	–	–
Ms. Tsang Wai Chun Marianna	10/10	5/5	3/3	3/3	–
Ms. Dai Meihong (Note 8)	9/10	5/5	3/3	3/3	–
Dr. Wang Lin (Note 9)	3/6	3/4	2/2	2/2	–

Note 1: appointed as Director, chairman of the Nomination Committee and member of each of the Nomination Committee, the Remuneration Committee and the Executive Committee on 11 May 2018; appointed as chairman of the Executive Committee on 31 October 2018; appointed as chairman of the Board on 11 January 2019

Note 2: resigned as chairman and remained as member of the Nomination Committee on 11 May 2018; resigned as chairman of the Board on 11 January 2019

Note 3: appointed as Director, member of each of the Remuneration Committee and the Executive Committee on 11 May 2018; resigned as member of each of the Remuneration Committee and the Executive Committee on 29 September 2018; resigned as Director on 31 December 2018

Note 4: appointed as Director, chairman and member of the Executive Committee on 11 May 2018; resigned as Director, chairman and member of the Executive Committee on 31 October 2018

Note 5: resigned as chairman of the Executive Committee and member of each of the Remuneration Committee and Executive Committee on 11 May 2018; resigned as Director on 29 September 2018

Note 6: appointed as Director, chairlady of the Remuneration Committee and member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee on 29 September 2018

Note 7: appointed as Director, chairman of the Audit Committee and member of each of the Audit Committee and the Remuneration Committee on 29 September 2018

Note 8: resigned as chairlady and remained as member of the Audit Committee on 29 September 2018; resigned as Director, member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee on 27 February 2019

Note 9: resigned as Director, chairlady of the Remuneration Committee and member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee on 29 September 2018

Auditor' s Remuneration

The total remuneration paid or payable to the Company's external auditors in respect of audit services and non-audit services for the year ended 31 December 2018 amounted to HK$634,000 (2017: HK$634,000) and HK$267,000 (2017: nil) respectively. The non-audit services mainly included review of the Company's interim financial statements.

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. Kwan Fai, 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 13 of this annual report.

Changes in Constitutional Documents

During the year ended 31 December 2018, 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 convened 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 Unit 401, 4/F., Fairmont House, 8 Cotton Tree Drive, Admiralty, 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.

Communication with Shareholders

The Company recognises 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.

Policy on Payment of Dividends

The Company currently do not have a fixed dividend policy and may declare dividends by way of cash or by other means that the Directors consider appropriate. A decision to declare any interim dividend or recommend any final dividend would require the approval of the Board and depend upon the following factors:

(a) the Group' s financial results;

(b) the shareholders' interests;

(c) general business conditions, strategies and future expansion needs;

(d) the Group' s capital requirements;

(e) the payment by its subsidiaries of cash dividends to the Company;

(f) possible effects on liquidity and financial position of the Group; and

(g) other factors as the Board may consider relevant.

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.

PERFORMANCE OF THE GROUP ON ENVIRONMENTAL AND SOCIAL ASPECTS AND AREAS

(A) ENVIRONMENTAL ASPECTS

We are principally engaged in the trading of metal in Hong Kong and China. Scrap silver is purchased as raw material for processing into finished silver products in our scrap metal processing facility in Kwai Chung. Its operation enhances the marketability and facilitates the trading of our silver products. The metal processing facility in Kwai Chung occupying 7,500 sq. ft. houses the fully integrated metal melting plant.

Hong Kong has a very stringent control regime on matters which are covered by the Environmental, Social and Governance Report and especially on pollution and water discharge. The Group, in order to develop a sustainable business and striving for a higher level of product quality and business return, undertakes environmental protection in a very serious and responsible manner. We are determined and committed to developing a sustainable business and have taken initiatives to secure a sustainable and environmentally-friendly production and operating processes by taking all practicable and possible measures to comply with the relevant applicable statutory provisions. Abiding by the law and complying with regulatory standards are the guiding principle of the Group.

A1. Emissions

(a) Policy

Most of the Group's business activities are of a general office nature and do not generate air emission which has a significant impact or materiality to the environment as far as the Group is concerned with the exception of the scrap metal processing facility. Scrap silver is melted in our scrap metal processing facility and processed into various sizes, shapes and forms as specified by our customers. In this process, water is used for cooling after which is then discharged as waste water.

Except for this waste water, there are no other air emissions, greenhouse gas emissions and hazardous wastes generated from our operations. As for waste water disposal, the Group strictly complies with the stipulations of the Water Pollution Control Ordinance (Cap. 358) and the terms and conditions per the license issued pursuant to Section 20 of the Ordinance. The Group attaches serious concern and attention to this area and abides by all applicable laws and statutory provisions and takes all measures to ensure strict compliance.

(b) Compliance with relevant laws and regulations that have significant impact

The operations and activities of the scrap metal processing facility are subject to the statutory control regime of pollution control. The Group has obtained all the required statutory registrations and licenses required of the metal processing facility: (i) Waste Disposal Ordinance (Cap. 354) – Waste Disposal (Chemical Waste) (General) and (ii) Regulation Registration as a Chemical Waste Producer and (iii) Water Pollution Control Ordinance (Cap. 358) – Victoria Harbour (Phase One) Water Control Zone.

In order to obtain relevant registrations or licenses, the Group must ensure its chemical wastes (e.g. residual acidic solution, if any) will undergo proper treatment before final disposal. This process is under the supervision and monitoring of third party companies registered with HKSAR Government and subject to the inspection of the law enforcers.

The Group adopts all appropriate measures to ensure that the quantity, quality and composition of any discharge from our metal processing facility shall not exceed the limits stipulated by the Environmental Protection Department of HKSAR. The Group strictly complies with all stipulations of the laws, regulations and policies on disposal.

Our metal processing facility is subject to the unannounced visits and inspection of the government authority and in the year 2018, the Group has not received any fines, complaints or warnings with regard to any hazardous gas emissions or pollutions in air, noise, water or waste discharge.

Besides non-toxic cooling water, other wastes produced which are of a general office nature are properly disposed of by licensed waste collector after undergoing the required treatment.

The types of emission and emission data of the Group (KPI A1.1)

General business operations and activities of the Group are no different from an ordinary office. With the exception of the metal processing facility, we do not generate complicate emission which is considered of significant impact or materiality to the environment, our operations or the control regime. Hazardous and non-hazardous emissions are identified and reported in below.

Hazardous and Non-hazardous Greenhouse Gas Emission (KPI A1.2)

The Group only generates greenhouse gas – Carbon Dioxide (“CO_2”) emission, through the use of electricity in the offices and the metal processing facility. No hazardous air emission is produced.

For the year 2018, the Group emitted approximately 105.14 tonnes of greenhouse gas CO_2 through the use of electricity (2017: 165.37 tonnes). The CO_2 emitted from our Hong Kong factory and office had been drastically reduced to 100 tonnes for the year 2018, a decrease of 59.2 tonnes or -37% against the year 2017, which was the result of in the decrease in the business turnover of the Group especially in the metal sector. Our Shenzhen office also recorded a slight decrease in CO_2 emission of 1 tonne or -17% against the year 2017.

Total hazardous waste produced (KPI A1.3)

Only the operation scrap metal processing facility generate a small amount of chemical wastes which we consider to have impact on the environment and our business operations. Such wastes are mainly chemical in nature and disposal is made through a third party collector under the close supervision and control of the Government. These wastes are required to comply with its chemical requirements as specified by the collectors and the law enforcers.

Total non-hazardous waste produced (KPI A1.4)

Water is mainly consumed for cooling in the metal processing operation. For the year 2018, the scrap metal processing facility recorded a total of 1,656 tonnes of water, a decrease of 1,559 tonnes or -49% against the year 2017. This decrease was due to the decrease in business turnover especially in the metal sector.

All waste water disposed of by the Group is in compliance with the Water Pollution Control Ordinance. The Group continues to stay vigilant on the use and application of modern technologies and installations to improve our performance in this regard.

The other types of non-hazardous wastes are general office wastes such as used papers and office utensils, the amount of which is insignificant and they are collected by the cleaning workers of the building management offices on a daily basis.

Mitigation measures on emission and results (KPI A.1.5)

The emissions generated by the Group has insignificant impact and materiality on the environment due to our operational nature. The indirect emission of CO_2, through the use of electricity, can be deemed to be our major emission. Electricity consumption has cost implications and is under closely monitoring. The Group also stays abreast on any technological advancement which can be used for reducing emissions.

Handling and reduction of hazardous and non-hazardous waste (KPI A.1.6)

Hazardous wastes from the metal processing facility are required to be collected by a designated waste collector for ultimate disposal. Our metal processing facility has to follow all the prescribed steps, standards and measures to properly handle the wastes before disposal. The Group believes that by having complied fully and without deviation from the prescribed norm and standard, our hazardous wastes are properly and duly handled. Our focus is therefore on emphasizing adherence closely to prescribed procedures.

Per our data on non-hazardous waste per production capita, it is evident that the metal processing facility is progressing towards the right path of accomplishing reduction in hazardous and non-hazardous waste production per product capita.

A2. Use of Resources

Policy on efficient use of resources including energy, water and other raw materials

Water, electricity, and packaging materials (paper and plastic bags) are the three major types of resources which the Group uses. In respect of effective use of resources (including energy, water and packaging materials), the Group is committed to improving on energy efficiency, conserving resources for our operations and activities and raising the awareness of our employees in these areas.

Direct and indirect energy consumption by type (KPI A2.1)

Electricity is the direct and only source of energy which the Group uses. It is vital to and has significant impact on the operation of our metal processing facility.

For the year 2018, a total of 146,400 kilowatt hour ("kWh"), 10,030 kWh, and 5,002 kWh electricity were consumed by our metal processing facility, Hong Kong office and Shenzhen office respectively. Overall electricity consumption of the Group had a decrease of 95,557 kWh or -37.2 % compared to the year 2017, in which the metal processing facility had a decrease of 96,720 kWh mainly due to the decrease in the business turnover. Overall, the usage of electricity in various offices and metal processing facility of the Group is considered normal and consistent with our production and turnover levels.

Water Consumption in total and intensity (KPI A2.2)

Fresh water is sourced from the city's central supply network and is mainly used by our metal processing facility for cooling purpose during smelting of the metal. For the year 2018, the aggregate water consumption of the Group was 1,672 tonnes (2017: 3,215 tonnes), representing a decrease of 1,543 tonnes or -48% against the year 2017 as result of the decrease in business turnover especially in the metal sector.

Description of energy use efficiency initiatives and results achieved (KPI A2.3)

Driven by electricity conservation and cost saving incentives, the Group has implemented measures and initiatives to encourage employees avoid unnecessarily energy consumption. We have reminded our staff to turn off electrical appliances especially computers when not in use, to set the offices room temperature to 24℃ and to use natural ventilation whenever possible. The Group has purchased energy efficient appliances and has installed LED light in one of our offices. Discrete electric meters are also installed for monitoring the electricity consumption of strategic processes in our metal processing facility.

Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved (KPI A2.4)

The existing supply of water resources is sufficient to satisfy the Group's needs in all aspects of volume, quality and supply reliability. With the help of new discrete water meters, the Group is able to better monitor water usage to facilitate to uncover more effective measures.

Packaging Materials for Finished Products in tonnes (KPI A2.5)

Packaging materials do not constitute a major issue to the Group given our product is mainly silver which does not warrant fancy components. Main packaging materials of the Group comprise (a) wooden boxes (b) paper and (c) plastic bags. For the year 2018, the respective quantities of each of them are 15.47 tonnes, 2.41 tonnes and 0.27 tonnes respectively (compared to 31.46 tonnes, 4.86 tonnes and 0.54 tonnes in the year 2017). Their net decreases are 15.99 tonnes or -50.8%, 2.45 tonnes or -50.4%, and 0.27 tonnes or -50% respectively compared with the year 2017. The Group believes that such decreases were mainly due to our decrease in our metal production operation and total turnover.

A3. The Environment and Natural Resources

Policies on minimizing the Group's significant impact on environment and natural resources

The Group is committed to, on an ongoing pace, minimizing impacts on environment and natural resources within our limits and abilities. Areas in new technology advancement and process efficiency on minimizing impact on environment and natural resources are looked into from time to time to integrate into our production activities and business goals. General staff education are also our measures considered effective.

Description of significant impacts of activities on the environment and natural resources and the actions taken to manage them (KPI A3.1)

The Group is an enterprise engaged in the trading of metal in Hong Kong and operates a metal processing facility in Kwai Chung. Scrap silver which we acquired is further processed into finished silver products of various sizes, forms and shapes complying with requirements of the clients.

Our metal processing facility involve usage of water and electricity which may have some impact on the environment and natural resources. The other office locations are immaterial. The Group will endeavor to make all efforts possible and practicable to reduce and minimize the impact on the environment and resources by adopting and implementing measures to recycle, reuse and reduce the consumption of water and electricity.

(B) SOCIAL RESPONSIBILITY

Employment and Labor Practices

B1. Employment

(a) Policy

The Group takes all measures to ensure that our statutory duties and responsibilities as an employer are duly complied within our operating locations. The Group adopts a serious view and attaches great importance to complying with all the labour laws on employment, employee compensation etc. which are applicable to our office operating locations.

In this connection, the Group has formulated policies and regulations on employment and other labour welfare and protection matters which include but not limited to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits.

The Group also strikes to provide equal opportunity for our staff in recruitment, promotion, compensation and benefits and is dedicated to establish and promote a fair, harmonious and respectful workplace.

(b) Compliance with the relevant laws and regulations that have a significant impact on the Group

The Group provides and maintains employment welfare and benefits for our staff, including but not limited to mandatory provident fund, medical insurance and work injury insurance. Staff are entitled to paid leave on public holidays and personal occasions like wedding, bereavement and maternity.

Terms and employment conditions of all employees are entered into written contracts signed by the employee and a representative of the Group.

Office staff work 8.5 hours per weekday and 4 hours on Saturday quadri-weekly on a roster system. Staff working in the processing facility work 9 hours on weekdays and 4 hours on Saturday and are entitled to overtime allowance and production bonus.

The Group is committed to creating a fair employment environment with equal opportunity. All applications for vacancies, transfers and promotions will receive fair consideration with regardless of age, race, colour, religion, gender, sexual orientation, disability or other discriminating basis. We seek to provide a fair playing field for all employees.

The Group has established qualifications and requirements for each job. Processing for recruitment or promotion is carried out by the user department and the human resources department in an open and transparent manner.

To enhance employee cohesion and foster morale and productivity, it is the culture of the Group to hold gatherings for all employees on various festivals like Mid-Autumn, Winter Solstice, Christmas and Annual Dinner every year.

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

For the year 2018, the Group received no complaints, warnings, litigations or fine from the law enforcing agents or the staff, same as the year 2017.

Workforce by employment type, age group (KPI B1.1)

As at year ended 31 December 2018, the Group employed a total of 25 employees (15 in the metal processing facility, 7 in Hong Kong office and 3 in Shenzhen office) compared to 28 as at year end 31 December 2017. The decrease took place mainly in the 2 offices. Among the 25 employees, 18 and 7 were male and female respectively, 8 and 17 were managerial roles and general/operational roles respectively, which were quite similar to the year 2017. The gender and age group of the staff have no abnormality nor concern to our operation.

We consider the employment turnover in the year 2018 to remain normal and in line with our business operations and turnover. **(KPI B1.2)**

B2. Health and Safety

(a) Policy

The Group is committed to complying with all the health and safety statutory requirements applicable to us to safeguard the health and safety of our employees. The Employees Handbook sets out detailed occupational safety policies and procedures especially and specifically for processing staff. All employees are required to strictly observe our health and safety policies and work procedures.

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

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 or damage.

(b) Compliance of relevant laws that have significant impact

Our metal processing facility is the operation which may give rise to potential of causing significant impact on health and safety. The Group is always mindful of this risk and has given great attention to the metal processing operation. We ensure that this operation is safe and without risk to our property and people as far as practicable by complying with all laws, rules, regulations and standards in Hong Kong. It includes but not limited to on-site medical and emergency facilities, all relevant required medical and safety equipment. For the year 2018, our metal processing facility passed all relevant government inspections with regard to means of escape and fire safety, plants and equipment and there was no accident reported, same as the year 2017.

B3. Development and Training

(a) Policy on improving employee knowledge and skills

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 qualification examinations.

(b) Compliance with relevant laws

The Group does not reckon any problems or difficulties in meeting the legal requirements. There had no complaints or breaches of regulations in this regards in the year 2018.

B4. Labor Standards

(a) Policy

The Group adopts the applicable statutory standard as its minimum standard on labour protection and welfare. The Company is committed to ensuring its stringent compliance. In addition, the Company adopts a serious view and attaches great importance to the compliance of statutory duties and obligations as an employer.

The Group is adamant in banning and prohibiting the employment of child labour, illegal workers and forced labour and is achieved through the recruitment and employment processes at source by the Human Resources department. The Human Resources department has been fully charged with the statutory duties and is being oversighted by the senior levels with constant reviews at periodic intervals.

All job applicants are required to submit their credentials like academic qualifications, professional skill certificates, references, and identity card for verification and record purpose during recruitment.

The Group strictly abides by the government laws in labour protection and welfare to ensure employee health, safety and welfare during their employment. Wages and salaries, benefits, compensation payments and insurances are paid on time strictly laws within the prescribed statutory period.

(b) Compliance with relevant laws

The Group strictly regulates and supervises the recruitment process, performs the responsibilities of supervision and management and as far as possible to prevent any breach of relevant laws and regulations on employment of illegal or forced child labor, etc.

Measures and steps are established and taken to examine and verify personal information of the applicants in the recruitment process in accordance with the statutory employment requirements in an effort to eliminate any potential non-compliance. In addition, other technical skills or academic credentials required of a job are also checked and examined.

The Group strictly complies with the relevant requirements of Employment Ordinances of Hong Kong for its Hong Kong operations, and the Labor Law of the PRC with regard to its Shenzhen operations. Various statutory provisions on labor protection, safety and health are closely monitored and duly complied with.

Employee remuneration, compensation and welfare are duly paid on time in accordance with the statutory time limit.

The Group is committed to discharging our obligations as a responsible employer. For the year 2018, and in fact since the establishment of the Group, we have complied fully with these employment provisions and have honored all of its obligations towards staff and no labor disputes or litigations were reported for the year 2018, same as the year 2017.

Operation Practices

B5. Supply Chain Management

(a) Policies

In our supply chain management, the Groups primarily looks for factors like fit for purpose, cost effectiveness, supply reliability and quality assurance. Where necessary and appropriate, considerations on impact to the environment and social risks are also taken into consideration.

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. Raw silver is also purchased for processing into different sizes and shapes to meet customer needs.

Given the nature of operation of our representative business of silver processing, the raw materials i.e. scrap silver or raw silver, are rather unique in nature and constant in composition depending on the source. Scrap silver has in general a relatively wider and varied composition than raw silver. Our silver scrap suppliers are mainly metal trading companies in Hong Kong. The Group reckons there are only minimal implications, if any, on environmental and social risks arising from supply chain management.

For the year 2018, all our silver scraps are sourced from local suppliers.

(b) Practices

To ensure a stable, quality assured and cost efficient and well managed supply chain, the Group has issued and implemented a 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.

Our purchases are however 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's relationships with its suppliers are stable and the Group did not experience any major difficulty in obtaining adequate supplies of raw materials to meet its production requirements in the past.

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 to arrange for site visits.

We continue to support local industry and in the year 2018, all our suppliers were local suppliers in Hong Kong.

B6. Product Responsibility

(a) Policy

Recommended by the Environmental, Social and Governance Guide, with reference to the Group's business, there are 4 major areas on product responsibility which would have impact on our businesses. They are (i) product quality; (ii) customer services and complaints handling; (iii) intellectual property rights; and (iv) privacy.

We are committed to providing high quality silver products as the quality and consistency of our products are critical to our reputation and marketability.

The Group takes all reasonable steps to ensure that our products are safe and not harmful to customers and that the products meet with all agreed or legally required standards.

(b) Compliance with relevant laws and regulations that have a significant impact on the issue

(i) Products Quality

Our products include various types of metals. In the year 2018, our products comprise mainly 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 expect to have any product returns and warranty problems and there is no such requirement for a policy. However, as 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, we have invested on a new testing laboratory and the acquisition of related equipment and machinery in our metal processing facility so to enhance efficiency of the metal fineness testing. Also, our product quality controllers regularly inspect silver goods coming off our processing lines to ensure that they are compliant with both internal and external quality assurance codes with respect to fineness etc.

Furthermore, in Hong Kong, for silver, apart from the Trade Description Ordinance (Chapter 362 of the laws of Hong Kong), there is no law or regulation which specifically governs the purity and fineness of silver. Nevertheless, the LBMA Goods 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.

(ii) Customer Service and Complaints handling

As described above, through a strict production control purpose, we guarantee our products have and will meet all the legal and trade standards. In the year 2018, the Group did not have any return or complaints on our products quality, same as the year 2017.

(iii) Intellectual Property Rights ("IPR")

For the year 2018, the Group did not have any IPR infringement case against us, same as the year 2017.

(iv) Privacy

The Group maintains internal employee data, supplier data and customer data for its operations. The 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:

- Access to documents and data: restrict access to information and the database on a strict need-to-know basis by maintaining policies specifying the access levels and extents of documentation required in its key business activities. Approval from the management shall be obtained before release of documents;

- 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; and

- Physical security of the environment: the Group implements passcode controls in certain working areas of the offices where access is limited to supervisory employees.

For the year 2018, there was no information leakage or privacy cases against us, same as the year 2017.

B7. Anti-corruption

Our Group recognizes the importance of the value of honesty, integrity and fairness of our employees and in our business activities. Our staff handbook and general internal control system emphasis clearly and explicitly the need for such values and their importance in 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 associate 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.

Same as the year 2017, the Group did not have any bribery or corruption cases reported in the year 2018.

B8. Community Investment

In the year 2018, the Group maintained its contribution level and donated HK$300,000 to MeeLin Charity Foundation Limited in Hong Kong. The Group also encourages and supports employees and their family members to participate in charity, volunteer, cultural, sports and educational services and activities. Such services are supported with paid leave upon application.

REPORT OF THE DIRECTORS

The Directors present their annual report together with the audited consolidated financial statements for the year ended 31 December 2018.

Principal Activities

The principal activity of the Company is investment holding. During the current year, 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 PRC.

Results and Appropriations

The results of the Group for the year ended 31 December 2018 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 63 to 155.

The Directors do not recommend the payment of dividend in respect of the year ended 31 December 2018.

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 10 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.

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.

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 156. 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, 18 June 2019 to Friday, 21 June 2019 (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, 17 June 2019.

Share Capital

Details of the movements in the share capital of the Company during the year ended 31 December 2018 are set out in note 30 to the consolidated financial statements.

Debenture Issue

For the year ended 31 December 2018, the Company has not issued any debenture.

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 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 6.66% of total number of Shares in issue as at the date of this report.

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.

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 2018 was about 5.6 years.

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

				Number of Share Options and Underlying Shares					
Type of Participants	Grant Date	Exercise Price per Share HK$	Exercise Period	Outstanding as at 1.1.2018	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 31.12.2018
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

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.

No share options were granted during the year ended 31 December 2018 (2017: 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 2018 (2017: nil).

Distributable Reserves

As at 31 December 2018, 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$300,000.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

Major Customers and Suppliers

During the year, the aggregate sales (including continuing and discontinued operations) attributable to the Group's five largest customers comprised approximately 85% (2017: 84%) of the Group's total sales while the sales attributable to the Group's largest customer was approximately 41% (2017: 33%) of the Group's total sales.

The aggregate purchases (including continuing and discontinued operations) during the year attributable to the Group's five largest suppliers comprised approximately 99% (2017: 97%) of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 93% (2017: 82%) 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. Wang Wendong (appointed on 11 May 2018)
Mr. Zhu Hongguang
Mr. Felipe Tan
Mr. Lam Chi Chung Tommy (appointed on 11 May 2018 and resigned on 31 December 2018)
Mr. Tsang Zee Ho Paul (appointed on 11 May 2018 and resigned on 31 October 2018)
Mr. Zha Jianping (re-designated as a non-executive Director on 11 May 2018 and resigned on 29 September 2018)

Independent Non-executive Directors

Ms. Wong Susan Chui San (appointed on 27 February 2019)
Mr. Lau Yuen Sun Adrian (appointed on 30 January 2019)
Ms. Wu Liyan (appointed on 29 September 2018)
Mr. Zhou Tianshu (appointed on 29 September 2018)
Ms. Tsang Wai Chun Marianna
Ms. Dai Meihong (resigned on 27 February 2019)
Dr. Wang Lin (resigned on 29 September 2018)

In accordance with article 68 of the Articles, Mr. Zhou Tianshu, Ms. Wu Liyan, Mr. Lau Yuen Sun Adrian and Ms. Wong Susan Chui San shall retire from office at the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-election. In accordance with article 69 of the Articles, Mr. Zhu Hongguang shall retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, will offer himself for re-election.

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 Mr. Chen Lifan and Mr. Kwan Fai. Mr. Lam Chi Chung Tommy, Mr. Tsang Zee Ho Paul, Mr. Zha Jianping, Ms. Wei Zhemin, Mr. Fok Chi Wing, Mr. Li Han, Mr. Jiang Yingwei and Ms. Ngan Yip Lam were resigned as directors 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

Each of the independent non-executive Directors has entered into a service contract with the Company for a term of one year.

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 2018.

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

As at 31 December 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 Directors/ Chief Executives	Nature of Interests	Number of Shares	% of Shareholding
Mr. Felipe Tan ("Mr. Tan")	Interest of a controlled corporation & beneficial owner	40,510,000 (Note)	8.44%

Note: Mr. Tan directly and indirectly owned 69.50% 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 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	69.50%
Felipe Tan	GobiMin Investments Limited	Interest of a controlled corporation	1,000	69.50%
Felipe Tan	GobiMin Silver Limited	Interest of a controlled corporation	1,000	69.50%

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

				Number of Share Options and Underlying Shares					
Name of Directors	Grant Date	Exercise Price per Share HK$	Exercise Period	Outstanding as at 1.1.2018	Granted	Exercised	Cancelled	Lapsed	Outstanding as at 31.12.2018
Mr. Felipe Tan	10.4.2015	0.78	10.4.2015 – 9.4.2025	250,000	–	–	–	–	250,000
Ms. 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

As at 31 December 2018, 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.

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

As at 31 December 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 as at 31 December 2018.

Competition and Conflict of Interest

Apart from the business of the Group, as at 31 December 2018, Mr. Tan is also engaged in the other businesses including directly and indirectly owned equity interests in (i) GobiMin Inc. ("GobiMin"), the shares of which are listed on the TSX Venture Exchange in Canada. GobiMin and its subsidiaries ("GobiMin Group") are engaged in the investment in equity, debt or other securities as well as direct ownership stakes in projects, including the development of mineral properties, mainly in Xinjiang, the PRC; and (ii) Timeless Software Limited ("Timeless"), the shares of which are listed on GEM of the Stock Exchange. Timeless and its subsidiaries are principally engaged in the information technology business and mining business.

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 metal in Hong Kong, while 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 2018.

Related Party Transactions

Details of the related party transactions undertaken by the Group are set out in note 34 to the consolidated financial statements. Those related party transactions which constituted continuing connected transactions under the GEM Listing Rules are set out in the paragraph headed "Connected Transactions' below. These continuing connected transactions have complied with the requirements under Chapter 20 of the GEM Listing Rules.

Connected Transactions

One-off Connected Transactions

During the year under review, the Group had not entered into any non-exempt one-off connected transactions which were subject to the reporting, annual review, announcement and/or independent shareholders' approval requirements under the GEM Listing Rules.

Continuing Connected Transactions

During the year under review, the Group conducted the following continuing connected transactions which are subject to the reporting, announcement, annual review and/or independent shareholders' approval requirements under the GEM Listing Rules:

Sales agreement and purchase agreement on automotive parts

1) Sales Agreement

Parties:	(a) Shanghai Friction, a subsidiary of the Group. The Group lost control over Shanghai Friction upon revocation of the voting undertaking with effect from 30 June 2018. Accordingly, Shanghai Friction ceased to be subsidiary of the Group as from 30 June 2018 and it became an associate of the Group with effect from the same date. Shanghai Friction is indirectly held by the Group by a wholly-owned subsidiary of the Group, New Visual International Holdings Limited before disposal. In October 2018, the Group completed the disposal of the entire issued share capital in New Visual International Holdings Limited, to an independent third party.
	(b) CYFC, a shareholder of 20% indirect equity interest in Shanghai Friction.
Transactions:	On 13 February 2018, Shanghai Friction and CYFC entered into a sales agreement (the "Sales Agreement"), pursuant to which Shanghai Friction would sell host supporting assembly and ancillary products on automotive parts to CYFC.
Terms:	Eleven months commencing from 1 February 2018 to 31 December 2018
Annual cap for the year ended 31 December 2018:	RMB50,000,000
Transaction amount for the year ended 31 December 2018:	Approximately RMB6,547,000

2) Purchase Agreement

Parties:	(a) Shanghai Friction
	(b) CYFC
Transactions:	On 13 February 2018, Shanghai Friction and CYFC entered into a purchase agreement (the "Purchase Agreement"), pursuant to which Shanghai Friction would purchase main component on automotive parts, including front and rear axle assembly, disc brake, drive motor and brake pad etc. from CYFC.
Terms:	Eleven months commencing from 1 February 2018 to 31 December 2018
Annual cap for the year ended 31 December 2018:	RMB110,000,000
Transaction amount for the year ended 31 December 2018:	Approximately RMB12,811,000

Implication under the GEM Listing Rules

煙台孚瑞恒眾機電科技有限公司 (China Yantai Technology Company Limited*) ("CTC"), a company established under the laws of the PRC with limited liability, a 20% equity holder of Shanghai Friction and a wholly-owned subsidiary of CYFC as at 13 February 2018. Hence, CTC is a connected person of the Company at subsidiary level. Also, CTC is a directly wholly-owned subsidiary of CYFC and so CYFC is an associate of CTC in accordance with Rules 20.11 of the GEM Listing Rules, and accordingly a connected person of the Company at subsidiary level. CYFC is principally engaged in manufacturing and sale of automotive parts.

* *English name for identification purpose only*

As CYFC is a connected person of the Company, the transaction under both the Sales Agreement and the Purchase Agreement constitute continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules. By virtue of Rule 20.99 of the GEM Listing Rules, as (i) CYFC is a connected person of the Company at the subsidiary level; (ii) the transactions contemplated under both the Sales Agreement and the Purchase Agreement are on normal commercial terms; (iii) the Board (including all the independent non-executive Directors) have approved the transactions and confirmed that the transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, the transactions contemplated under both the Sales Agreement and the Purchase Agreement and the annual caps thereof are subject to reporting, annual review, announcement but are exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The Group lost control over Shanghai Friction upon revocation of the voting undertaking with effect from 30 June 2018. Accordingly, Shanghai Friction ceased to be subsidiary of the Group as from 30 June 2018 and it became an associate of the Group with effect from the same date. Accordingly, CYFC has ceased to be a connected person of the Company and the transactions contemplated under the Sales Agreement and Purchase Agreement no longer constitute continuing connected transactions of the Company under the GEM Listing Rules after the deemed disposal of Shanghai Friction.

Auditors' Letter on Continuing Connected Transactions

The Company's auditors were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The Company's auditors have issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions set out above in accordance with Rule 20.54 of the GEM Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Confirmation of Independent Non-executive Directors

The independent non-executive Directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that the transactions have been entered into (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms or better; and (3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

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 14 to 24.

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 on pages 25 to 39 of 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

Crowe (HK) CPA Limited ("Crowe"), who has been appointed as the auditor of the Company with effect from 25 January 2019 to fill the casual vacancy following the resignation of BDO Limited and to hold office until the conclusion of the forthcoming annual general meeting of the Company. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Crowe as the auditor of the Company.

By order of the directors

Loco Hong Kong Holdings Limited
Wang Wendong
Chairman and Chief Executive Officer
Hong Kong, 22 March 2019

INDEPENDENT AUDITOR'S REPORT

國富浩華(香港)會計師事務所有限公司
Crowe (HK) CPA Limited
香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF LOCO HONG KONG HOLDINGS LIMITED
(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 ("the Group") set out on pages 63 to 155, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 2018, 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 disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") 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 the 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 Matter

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.

Key Audit Matter (Continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
Refer to note 4(k) and note 7 to the consolidated financial statements.	
Revenue principally comprises revenue from sales of metal. We identified revenue recognised from sales of metal as a key audit matter as revenue recognised is quantitatively significant to the consolidated statement of comprehensive income and material revenue transactions may occur close to the end of the reporting period. Revenue from sales of metal is recognised when the control of the goods are considered to have been transferred to the customer. The accounting policy for revenue recognition is disclosed in note 4(k) to the consolidated financial statements. The Group recognised revenue of approximately HK$1,075,894,000 from sales of metal for the year ended 31 December 2018, which is disclosed in the consolidated statement of comprehensive income.	Our audit procedures in relation to revenue recognised from sales of metal included: • Obtaining an understanding of the revenue business process regarding sales of metal; • Understanding and testing the key controls over the recognition of sales of metal; • Checking the terms set out in the sales agreements and assessing whether the control of the goods are considered to have been transferred by reviewing the relevant documents, including the delivery notices and acknowledgement to receipts, on a sample basis; and • Testing the recognition of material sales transactions close to the end of the reporting period to assess whether those sales transactions were recorded in appropriate accounting period in accordance with the Group's revenue recognition policy.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 23 March 2018.

Information other than the Consolidated Financial Statements and Auditor's Report thereon

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than 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.

Responsibilities of the Directors for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of 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 assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs 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 HKSAs, we exercise professional judgment 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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- 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.

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 Audit Committee, 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.

The engagement director on the audit resulting in this independent auditor's report is Fong Yat Sing, Cyrus.

Crowe (HK) CPA Limited
*Certified Public Accountant*s
Hong Kong, 22 March 2019

Fong Yat Sing, Cyrus
Practising Certificate Number P07150

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000 (restated)
Continuing operations			
Revenue			
– Sales of metal		**1,075,894**	2,243,881
– Interest income from customers and suppliers		**7,979**	6,159
– Order commission		**67**	464
Total revenue	7	**1,083,940**	2,250,504
Trading losses on commodity forward contracts	7	**(1,093)**	(1,299)
Other income	8	**350**	336
		1,083,197	2,249,541
Carrying value of inventories sold		**(1,066,363)**	(2,231,499)
Change in fair value of commodity inventories		**(3,226)**	5,712
Employee costs	9	**(17,481)**	(17,372)
Depreciation		**(1,446)**	(1,822)
Rental expenses		**(5,304)**	(5,698)
Fair value gain on derivative component of convertible bonds	29	**–**	1,411
Fair value loss on investments held for trading		**–**	(2,017)
Loss on disposal of property, plant and equipment		**(278)**	–
Gain on disposal of a subsidiary		**–**	4
Other operating expenses		**(10,482)**	(12,374)
Impairment loss on loan receivable	22	**(76)**	–
Share of loss of associates	18	**(19)**	(1)
Finance costs	12	**(1,094)**	(3,718)
Loss before income tax expense	13	**(22,572)**	(17,833)
Income tax credit/(expense)	14	**60**	(841)
Loss for the year from continuing operations		**(22,512)**	(18,674)
Discontinued operations			
(Loss)/Profit for the year from discontinued operations	15	**(5,141)**	575
Loss for the year		**(27,653)**	(18,099)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000 (restated)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Release of translation reserve upon disposal of a subsidiary		**42**	–
Exchange differences on translating foreign operations		**(2,589)**	2,486
Other comprehensive (loss)/income for the year, net of tax		**(2,547)**	2,486
Total comprehensive loss for the year		**(30,200)**	(15,613)
(Loss)/Profit attributable to owners of the Company:			
– from continuing operations		**(22,261)**	(18,498)
– from discontinued operations		**(5,156)**	575
Loss for the year attributable to owners of the Company		**(27,417)**	(17,923)
(Loss)/Profit attributable to non-controlling interests:			
– from continuing operations		**(251)**	(176)
– from discontinued operations		**15**	–
Loss for the year attributable to non-controlling interests		**(236)**	(176)
Total comprehensive loss for the year attributable to:			
– owners of the Company		**(29,935)**	(15,468)
– non-controlling interests		**(265)**	(145)
		(30,200)	(15,613)
Total comprehensive (loss)/income attributable to owners of the Company:			
– from continuing operations		**(22,436)**	(18,463)
– from discontinued operations		**(7,499)**	2,995
		(29,935)	(15,468)
(Loss)/Earnings per share attributable to owners of the Company during the year (basic and diluted)			
– from continuing operations	16	**HK cents (4.64)**	HK cents (4.24)
– from discontinued operations	16	**HK cents (1.07)**	HK cents 0.13
		HK cents (5.71)	HK cents (4.11)

The notes on pages 70 to 155 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	17	**1,241**	2,396
Interest in an associate	18	**–**	299
Other financial asset	19	**5,000**	1
		6,241	2,696
Current assets			
Inventories	20	**41,972**	105,280
Trade and other receivables and prepayments	21	**23,926**	61,352
Loan receivable	22	**7,513**	9,000
Derivative financial assets	23	**6,889**	8,935
Amount due from a related company		**–**	54
Tax recoverable		**277**	319
Cash and cash equivalents	24	**82,288**	46,630
		162,865	231,570
Current liabilities			
Other payables, accruals and deposits received	25	**51,183**	43,647
Borrowing	26	**4,100**	–
Derivative financial liabilities	23	**1**	76
Amount due to an associate	18	**–**	295
Amounts due to related companies	27	**4,173**	50,023
Amounts due to directors	27	**–**	154
Loan from a related company	28	**27,195**	27,195
Tax payable		**–**	206
		86,652	121,596
Net current assets		**76,213**	109,974
Total assets less current liabilities		**82,454**	112,670
Net assets		**82,454**	112,670

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Equity			
Share capital	30	**122,898**	122,898
Reserves		**(40,444)**	(10,083)
Equity attributable to the owners of the Company		**82,454**	112,815
Non-controlling interests		**–**	(145)
Total equity		**82,454**	112,670

Approved and authorised for issue by the board of directors on 22 March 2019.

WANG Wendong
Director

ZHU Hongguang
Director

The notes on pages 70 to 155 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Notes	Share capital HK$'000	Merger reserve* HK$'000	Share option reserve* HK$'000	Exchange reserve* HK$'000	Accumulated losses* 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 year		–	–	–	–	(17,923)	(17,923)	(176)	(18,099)
Other comprehensive income for the year:									
Exchange difference on translating foreign operation		–	–	–	2,455	–	2,455	31	2,486
Total comprehensive (loss)/ income for the year		–	–	–	2,455	(17,923)	(15,468)	(145)	(15,613)
Transaction with owners:									
Conversion of convertible bonds	29	37,068	–	–	–	–	37,068	–	37,068
Forfeited share option	31(b)	–	–	(41)	–	41	–	–	–
At 31 December 2017 and 1 January 2018		122,898	(1,357)	380	2,335	(11,441)	112,815	(145)	112,670
Loss for the year		–	–	–	–	(27,417)	(27,417)	(236)	(27,653)
Other comprehensive income for the year:									
Release of translation reserve upon disposal a subsidiary		–	–	–	42	–	42	–	42
Exchange difference on translating foreign operation		–	–	–	(2,560)	–	(2,560)	(29)	(2,589)
Total comprehensive loss for the year		–	–	–	(2,518)	(27,417)	(29,935)	(265)	(30,200)
Transaction with owners:									
Capital injection by non-controlling interest		–	–	–	–	–	–	2,363	2,363
Deemed disposal of a subsidiary	11	–	–	–	–	–	–	(2,379)	(2,379)
Acquisition of additional interest in a subsidiary		–	–	–	–	(426)	(426)	426	–
At 31 December 2018		122,898	(1,357)	380	(183)	(39,284)	82,454	–	82,454

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

The notes on pages 70 to 155 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Cash flows from operating activities		
Cash receipts from customers	**1,087,892**	2,298,478
Interest and order commission received from customers and suppliers	**7,859**	6,531
Receipt of other income	**348**	336
Cash receipt regarding derivative financial instruments	**8,663**	5,551
Cash paid to suppliers	**(1,018,498)**	(2,366,826)
Loan repaid from/(granted to) a customer of money lending business	**1,411**	(9,000)
Cash paid to directors and employees	**(18,140)**	(19,076)
Cash paid for other operating activities	**(13,486)**	(20,876)
Cash generated from/(used in) operation	**56,049**	(104,882)
Income taxes paid	**(142)**	(1,324)
Net cash generated from/(used in) operating activities	**55,907**	(106,206)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(642)**	(261)
Proceeds from disposal of property, plant and equipment	**3**	–
Disposal of trading securities	**–**	8,503
Net cash from acquisition of a subsidiary	**883**	–
Bank deposit with maturity over three months	**(30,000)**	–
Proceeds upon maturity of bank deposit with original maturity over three months	**30,000**	–
Net cash from disposal of subsidiaries	**29,839**	–
Investment in an associate	**(4,727)**	–
Deposit returned by an investment manager	**–**	516
Deposit refunded for a potential investment	**–**	2,900
Proceeds from sale of other financial assets	**1**	–
Advance to an associate	**–**	(5)
Investment in other financial asset	**(5,000)**	–
Repayment from/(advance to) a related company	**54**	(64)
Interest received from banks	**6**	2
Net cash generated from investing activities	**20,417**	11,591

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Cash flows from financing activities		
Interest paid on borrowings	(1,018)	(1,184)
Bank charges paid	(82)	(137)
Repayment to directors	(367)	–
Advance from directors	213	99
Repayment to related companies	(69,160)	–
Funds transferred from related companies	23,310	21,228
Capital injection by non-controlling interests	2,363	–
Advance from non-controlling interests	2,364	–
Proceeds from new borrowings	12,647	48,563
Repayment of borrowings	(8,547)	(48,563)
Net cash (used in)/generated from financing activities	(38,277)	20,006
Net increase/(decrease) in cash and cash equivalents	38,047	(74,609)
Effect of foreign exchange rate changes	(2,389)	1,309
Cash and cash equivalents at beginning of year	46,630	119,930
Cash and cash equivalents at end of year	82,288	46,630
Analysis of the balances of cash and cash equivalents		
Cash at banks and in hand	82,288	46,630

The notes on pages 70 to 155 form part of these 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"). Prior to 13 September 2018, 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. On 13 September 2018, the Company has changed the addresses of its registered office and principal place of business to 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 People's Republic of China (the "PRC"). The Group ceased the business of 上海孚瑞恒眾汽車科技有限公司 (Shanghai Friction Automotive Technology Co., Ltd*) ("Shanghai Friction") an indirect subsidiary of the Company, which was principally engaged in the business of provision of merchandising support services with effect from 30 June 2018 and 深圳時代健康科技控股有限公司 (Shenzhen New Era Health Science And Technology Holdings Limited*) ("SZ New Era") an indirect wholly-owned subsidiary of the Company, which was principally engaged in the business of trading of electronic products with effect on 4 December 2018, respectively.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars ("HK$'000"), unless otherwise stated. The financial statements were approved and authorised for issue by the directors on 22 March 2019.

2. CHANGES IN ACCOUNTING POLICIES

(a) Application of new or revised Hong Kong Financial Reporting Standards ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers
HK(IFRIC)-Int 22	Foreign currency transactions and advance consideration

* *English name for identification purpose only*

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Application of new or revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

The impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers have been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2018 did not have any material impact on the Group's accounting policies.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(i) HKFRS 9 "Financial Instruments"

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Application of new or revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

(i) HKFRS 9 "Financial Instruments" (Continued)

a. Classification of financial assets and financial liabilities (Continued)

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement	HKFRS 9 carrying amount at 1 January 2018
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets carried at amortised cost				
Trade and other receivables	60,936	–	–	60,936
Cash and cash equivalents	46,630	–	–	46,630
Loan receivable	9,000	–	–	9,000
Amount due from a related company	54	–	–	54
	116,620	–	–	116,620
Financial assets carried at FVPL				
Equity securities (note (i))	–	1	–	1
Derivative financial assets (note (ii))	8,935	–	–	8,935
	8,935	1	–	8,936
Financial assets classified at available-for-sale under HKAS 39 (note (i))	1	(1)	–	–

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Application of new or revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

(i) HKFRS 9 "Financial Instruments" (Continued)

a. Classification of financial assets and financial liabilities (Continued)

Notes:

(i) Under HKAS 39, equity securities were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the Group.

(ii) Derivative financial assets were classified as financial assets at FVPL under HKAS 39. These assets continue to be measured at FVPL under HKFRS 9.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in notes 4(f), 4(h), 4(i), 4(l), 4(m) and 4(u).

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

b. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables, loan receivable and amount due from a related company). The impact of adopting ECL model under HKFRS 9 was not significant and, therefore, the Group made no adjustment to equity as of 1 January 2018 for the changes in impairment.

For further details on the Group's accounting policy for accounting for credit losses, see note 4(i).

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Application of new or revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

(i) HKFRS 9 "Financial Instruments" (Continued)

c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in accumulated losses and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):

  - the determination of the business model within which a financial asset is held

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) HKFRS 15 "Revenue from contracts with customers"

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Application of new or revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

(ii) HKFRS 15 "Revenue from contracts with customers" (Continued)

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. Timing of revenue recognition

Previously, revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers. Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

- When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

- When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced; or

- When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Application of new or revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

(ii) HKFRS 15 "Revenue from contracts with customers" (Continued)

a. Timing of revenue recognition (Continued)

The Group's contracts with customers for the sales of metal and electronic products generally include one performance obligation. The Group has concluded that revenue from sale of goods should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition.

b. Principal versus agent considerations

The Group has completed the acquisition of 50% equity interest in Shanghai Friction during the year and accounted for as a subsidiary of the Group (see note 11(c)). The principal activities of Shanghai Friction are to procure automotive parts from 煙台孚瑞克森汽車部件有限公司 (China Yantai Friction Co., Ltd.*) ("CYFC"), a shareholder of 20% indirect equity interest in Shanghai Friction, and to arrange for sales of those automotive parts to customers in the PRC. Upon adoption of HKFRS 15, the Group determined that it does not control the goods before they are transferred to customers, and hence, is an agent in these contracts because it does not have the ability to direct the use of those automotive parts. The performance obligation of the Group is to provide merchandising support services to facilitate the sales of those automotive parts by CYFC to customers. Accordingly, upon adoption of HKFRS 15, the Group has recognised revenue of HK$1,039,000 in its consolidated financial statements for the year ended 31 December 2018 which sum represents income derived from providing such merchandising support services.

* *English name for identification purpose only*

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Application of new or revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

(ii) HKFRS 15 "Revenue from contracts with customers" (Continued)

c. Presentation and disclosure requirements

As required for the consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group has also disclosed information about the relationship between the disclosures of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to note 6 for the disclosure on disaggregated revenue.

(iii) HK(IFRIC) 22 "Foreign currency transactions and advance consideration"

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) New standards and amendments to standards not yet adopted

The following new standards, amendments to standards and interpretations to existing standards have been issued but are not yet effective for the financial year beginning 1 January 2018 and have not been early adopted:

	Effective for accounting periods beginning on or after
HKFRS 16, Leases	1 January 2019
Amendments to HKFRS 9	1 January 2019
HK(IFRIC)-Int 23, Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, Long-term interest in associates and joint ventures	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) New standards and amendments to standards not yet adopted (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 consolidated 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 2018, the Group had non-cancellable operating lease commitments of approximately HK$6,082,000 as disclosed in note 35. 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 consolidated statement of comprehensive income, 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 expected to apply in the Group's interim financial report for the six months ending 30 June 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.

2. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) New standards and amendments to standards not yet adopted (Continued)

HKFRS 16 – Leases (Continued)

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.

3. BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosures provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange. Significant accounting policies adopted by the Group are disclosed in note 4.

(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.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may 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.

3. BASIS OF PREPARATION (Continued)

(b) Basis of measurement (Continued)

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 5.

(c) Functional and presentation currency

The functional currency of the Company and some major subsidiaries is United States dollar ("US$"). The functional currency of the subsidiaries incorporated in the PRC is Renminbi ("RMB"). However, the financial statements are presented in Hong Kong dollar ("HK$") 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 and associates. An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

(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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Associate

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

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:

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(i)).

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.

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.

(f) Other investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries and associates, are set out below.

Investments in equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 37. These investments are subsequently accounted for as follows, depending on their classification.

(a) Policy applicable from 1 January 2018

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to accumulated losses. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other investments in equity securities (Continued)

(b) Policy applicable prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments which did not fall into the above category were classified as available-for-sale 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.

(g) Convertible bonds

Convertible bonds issued by the Company 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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Convertible bonds (Continued)

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.

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.

(h) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedges of net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets

(a) Credit losses from financial instruments

(i) Policy applicable from 1 January 2018

The Group recognises a loss allowance for ECLs on financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables, loan receivable and amount due from a related company).

Financial assets measured at fair value, including equity securities measured at FVPL and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade and other receivables and loan receivable: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(a) Credit losses from financial instruments (Continued)

(i) Policy applicable from 1 January 2018 (Continued)

Measurement of ECLs (Continued)

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(a) Credit losses from financial instruments (Continued)

(i) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(a) Credit losses from financial instruments (Continued)

(i) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk (Continued)

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(a) Credit losses from financial instruments (Continued)

(i) Policy applicable from 1 January 2018 (Continued)

Basis of calculation of interest income (Continued)

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(a) Credit losses from financial instruments (Continued)

(ii) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables, loan receivable, amount due from a related company and available-for-sale financial asset). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– significant financial difficulties 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; and

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation.

For loans and receivables

An impairment loss on loans 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(a) Credit losses from financial instruments (Continued)

(ii) Policy applicable prior to 1 January 2018 (Continued)

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.

(b) Impairment of other non-current 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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of comprehensive income, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(k) Revenue and other income recognition

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Revenue and other income recognition (Continued)

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sales of metal is recognised when the control of the goods are considered to have been transferred to the customer.

In the comparative period, revenue from sales of metal was recognised when the customer has accepted the related risks and rewards of ownership.

(ii) Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

(iii) Commission income is recognised at the point in time when the control of goods is passed to customers.

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

(l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 4(i)).

(m) 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. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 4(i).

(n) Other payables

Other payables are initially recognised at fair value. Other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 4(p)).

(p) 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.

(q) Income taxes

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income taxes (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Inventories

Inventories mainly represent silver 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.

(s) Employee benefits

(a) 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Employee benefits (Continued)

(b) 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.

(t) 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.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(u) Loans receivable

Loans receivable are loans granted to customers in the ordinary course of business. If the collection of loans receivable is expected to be one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Loans receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for credit losses (see note 4(i)).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) 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.

(w) 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) 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 applies:

(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.

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 on-going 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) Impairment of loan receivable

Impairment loss on loan receivable represents management's best estimate of losses incurred in the loan portfolio at the reporting date under ECL models. Management assesses whether the credit risk of loan receivable has increased significantly since its initial recognition and apply a three-stage impairment model to calculate its ECL. The Group is required to exercise judgement in making assumptions and estimates when calculating loan impairment loss, including any observable data indicating that there is a measurable decrease in the estimated future cash flows from loan portfolio and historical loss experience on the basis of the relevant observable data that reflects current economic conditions.

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

(ii) Impairment of loan receivable (Continued)

The measurement of the ECL involves significant management judgments and assumptions, primarily including the selection of appropriate models and determination of relevant key measurement parameters, criteria for determining whether or not there was a significant increase in credit risk or a default was incurred, economic indicators for forward-looking measurement, and the application of economic scenarios and weightings, management consideration due to significant uncertain factors not covered in the models and the estimated future cash flows in stage 3.

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. The Group manages its business by divisions, which are organised by business lines.

During the year ended 31 December 2018, the Group disposed its businesses in trading of electronic products and merchandising support services which are classified as discontinued operations for the year ended 31 December 2018. Further details of the disposal of the businesses in trading of electronic products and merchandising support services are set out in notes 11 and 15.

During the year, there are four 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:

Continuing operations:

– Trading of metal – Sales of metal and interest income from Forward Arrangements (as defined in note 7) in Hong Kong

– Money lending – Provision of money lending service in Hong Kong

Discontinued operations:

– Trading of electronic products – Trade of electronic products in the PRC. The segment is discontinued and disposed of on 4 December 2018. Further details are disclosed in notes 11 and 15.

– Merchandising support services – The Group commenced the merchandising support services for trading of automotive parts in the PRC since February 2018 following the completion of acquisition of a PRC entity. This segment is deemed to be disposed of on 30 June 2018. Further details are disclosed in notes 11 and 15.

6. SEGMENT REPORTING (Continued)

(a) Segments results, assets and liabilities

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of profit/(loss) before tax from continuing operations. The profit/(loss) before tax from continuing operations is measured consistently with the Group's loss before income tax expense from continuing operations except that unallocated depreciation, unallocated interest expenses, unallocated employee costs, share of loss of associates, gain on disposal of a subsidiary, fair value loss on investments held for trading, fair value gain on derivative component of convertible bonds, unallocated rental expenses and other unallocated corporate expenses.

Segment assets exclude interest in an associate, unallocated cash and cash equivalents, unallocated property, plant and equipment and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated corporate liabilities as these liabilities are managed on a group basis.

6. SEGMENT REPORTING (Continued)

(a) Segments results, assets and liabilities (Continued)

Segment information about these reportable segments is for the years ended 31 December 2018 and 2017 is set out below.

	Year ended 31 December 2018				
	Continuing operations		Discontinued operations (note 15)		
	Trading of metal HK$'000	Money lending HK$'000	Merchandising support services HK$'000	Trading of electronic products HK$'000	Total HK$'000
Reportable segment revenue (note)	1,083,348	592	1,039	13,011	1,097,990
Reportable segment (loss)/profit	(2,815)	46	34	122	(2,613)
Interest income	7,434	592	1	1	8,028
Interest expenses	(999)	–	–	–	(999)
Depreciation	(461)	–	(28)	(11)	(500)
Change in fair value of Commodity Inventories	(3,226)	–	–	–	(3,226)
Income tax expenses	60	–	(2)	(39)	19
Reportable segment assets	123,043	9,380	–	–	132,423
Reportable segment liabilities	80,216	58	–	–	80,274
Additions to specified non-current assets	51	–	204	–	255

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

6. SEGMENT REPORTING (Continued)

(a) Segments results, assets and liabilities (Continued)

	Year ended 31 December 2017 (restated)			
	Continuing operations		Discontinued operation (note 15)	
	Trading of metal HK$'000	Money lending HK$'000	Trading of electronic products HK$'000	Total HK$'000
Reportable segment revenue (note)	2,250,232	272	88,905	2,339,409
Reportable segment profit/(loss)	5,221	(495)	942	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	9,280	37,025	211,017
Reportable segment liabilities	119,131	9	801	119,941
Additions to specified non-current assets	163	–	61	224

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

6. SEGMENT REPORTING (Continued)

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

	2018 HK$'000	2017 HK$'000 (restated)
Revenue		
Reportable segment revenue	**1,097,990**	2,339,409
Elimination of discontinued operations	**(14,050)**	(88,905)
Consolidated revenue from continuing operations	**1,083,940**	2,250,504

	2018 HK$'000	2017 HK$'000 (restated)
Loss before income tax expense from continuing operations		
Reportable segment (loss)/profit	**(2,613)**	5,668
Depreciation	**(985)**	(1,204)
Interest expenses	**(19)**	(2,399)
Employee costs	**(10,510)**	(10,198)
Share of loss of associates	**(19)**	(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	**(2,812)**	(3,994)
Other unallocated corporate expenses	**(5,458)**	(4,161)
Elimination of discontinued operations	**(156)**	(942)
Loss before income tax expense from continuing operations	**(22,572)**	(17,833)

6. SEGMENT REPORTING (Continued)

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

	2018	2017
	HK$'000	HK$'000
Asset		
Reportable segment assets	**132,423**	211,017
Cash and cash equivalents	**34,635**	19,627
Property, plant and equipment	**973**	1,662
Interest in an associate	**–**	299
Other unallocated corporate assets	**1,075**	1,661
Consolidated total assets	**169,106**	234,266

	2018	2017
	HK$'000	HK$'000
Liabilities		
Reportable segment liabilities	**80,274**	119,941
Unallocated corporate liabilities	**6,378**	1,655
Consolidated total liabilities	**86,652**	121,596

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*	
	2018	2017
	HK$'000	HK$'000
		(restated)
Continuing operations		
Singapore	**537,495**	999,940
Hong Kong	**339,295**	996,747
Australia	**80,129**	124,806
Japan	**126,921**	103,448
PRC	**100**	99
United Kingdom	**–**	25,464
	1,083,940	2,250,504
Discontinued operations		
PRC	**14,050**	88,905
	1,097,990	2,339,409

* Based on location of customers

6. SEGMENT REPORTING (Continued)

(c) Geographical information (Continued)

	Specified non-current assets	
	2018	2017
	HK$'000	HK$'000
Hong Kong	**1,241**	2,639
PRC	**–**	56
	1,241	2,695

(d) Disaggregation of revenue

	Continuing operations				Discontinued operations					
	Trading of metal		Money lending		Merchandising support services		Trading of electronic products		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Primary geographical markets										
Singapore	**537,495**	999,940	**–**	–	**–**	–	**–**	–	**537,495**	999,940
Hong Kong	**338,703**	996,475	**592**	272	**–**	–	**–**	–	**339,295**	996,747
Australia	**80,129**	124,806	**–**	–	**–**	–	**–**	–	**80,129**	124,806
Japan	**126,921**	103,448	**–**	–	**–**	–	**–**	–	**126,921**	103,448
PRC	**100**	99	**–**	–	**1,039**	–	**13,011**	88,905	**14,150**	89,004
United Kingdom	**–**	25,464	**–**	–	**–**	–	**–**	–	**–**	25,464
	1,083,348	2,250,232	**592**	272	**1,039**	–	**13,011**	88,905	**1,097,990**	2,339,409

(e) Information about major customers

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

	2018	2017
	HK$'000	HK$'000
Customer A	**446,770**	764,919
Customer B	**N/A**	416,995
Customer C	**183,965**	390,638
Customer D	**N/A**	235,021
Customer E	**126,921**	N/A

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

7. INCOME FROM PRINCIPAL ACTIVITIES

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

Trading of metal and commodity forward contracts

Revenue from trading of metal is mainly arising from sales of Commodity Inventories (note 4(r)) 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 price of silver 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.

Provision of money lending services

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

7. INCOME FROM PRINCIPAL ACTIVITIES (Continued)

Trading of electronic products

Revenue from trading of electronic products is arising from sales of electronic products during the year. The operation of trading of electronic products has been eventually ceased and disposed in December 2018.

Merchandising support services

Revenue from merchandising support services represent income derived from providing merchandising support services of automotive parts. The operation of merchandising support services was deemed to be disposed of on 30 June 2018.

8. OTHER INCOME

	2018 **HK$'000**	2017 HK$'000 (restated)
Continuing operations:		
Lab-test service income	**258**	265
Others	**92**	71
	350	336

9. EMPLOYEE COSTS

	2018 **HK$'000**	2017 HK$'000 (restated)
Continuing operations:		
Employee costs (including directors' emoluments) comprise:		
Salaries and bonus, allowances and benefits	**17,115**	17,057
Contributions to defined contribution retirement plans	**366**	315
	17,481	17,372

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 2018

	Fees HK$'000 (note (ii))	Performance related incentive payments HK$'000 (note (iii))	Salaries, allowances and benefits in kind HK$'000 (note (iv))	Discretionary bonus HK$'000	Pension scheme contributions HK$'000	Total HK$'000
Executive directors						
Mr. Felipe Tan	1,144	–	852	190	18	2,204
Mr. Zhu Hongguang	144	–	1,892	–	–	2,036
Mr. Zha Jianping (note (i))	108	–	918	–	38	1,064
Mr. Lam Chi Chung Tommy (note (i))	96	–	830	–	25	951
Mr. Wang Wendong (note (i))	96	–	1,045	–	21	1,162
Mr. Tsang Zee Ho Paul (note (i))	72	–	659	–	15	746
Total	1,660	–	6,196	190	117	8,163
Independent non-executive directors ("INED")						
Ms. Tsang Wai Chun Marianna	144	–	–	–	–	144
Ms. Dai Meihong	144	–	–	–	–	144
Dr. Wang Lin (note (i))	108	–	–	–	–	108
Mr. Zhou Tianshu (note (i))	51	–	–	–	–	51
Ms. Wu Liyan (note (i))	51	–	–	–	–	51
Total	498	–	–	–	–	498

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

(a) Directors' emoluments (Continued)

Year ended 31 December 2017

	Fees HK$'000	Performance related incentive payments HK$'000 (note (iii))	Salaries, allowances and benefits in kind HK$'000 (note (iv))	Discretionary bonus HK$'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
Dr. Wang Lin	144	–	–	–	–	144
Ms. Dai Meihong	98	–	–	–	–	98
Total	434	–	–	–	–	434

Notes:

(i) Mr. Wang Wendong, Mr. Tsang Zee Ho Paul and Mr. Lam Chi Chung Tommy were appointed as executive director on 11 May 2018. Subsequently, Mr. Zha Jianping, Mr. Tsang Zee Ho Paul and Mr. Lam Chi Chung Tommy were resigned as executive director on 29 September 2018, 31 October 2018 and 31 December 2018 respectively. Dr. Wang Lin was resigned as INED on 29 September 2018, whereas Mr. Zhou Tianshu and Ms. Wu Liyan were appointed as INED on the same date. Mr. Chan Ka Ling Edmond was resigned as INED on 25 April 2017.

(ii) Fees included director's fee received from subsidiaries of the Company.

(iii) For the period from 1 January 2017 to 30 June 2017, Mr. Felipe Tan ("Mr. 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 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 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.

(iv) 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.

(v) None of the directors waived or agreed to waive any emoluments during the years ended 31 December 2018 and 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, five (2017: three) were directors of the Company whose emoluments are included in the analysis presented above. The emoluments of the remaining individual was as follows:

	2018 **HK$'000**	2017 HK$'000
Salaries and bonus, allowances and benefits	**–**	3,111
Contribution to defined contribution retirement plan	**–**	27
	–	3,138

Their emoluments were within the following bands:

	2018 **No. of** **individuals**	2017 No. of individuals
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	1
HK$2,000,001 to HK$2,500,000	**–**	1
	–	2

During the years ended 31 December 2018 and 2017, 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:

	2018 **No. of** **individuals**	2017 No. of individuals
Nil to HK$1,000,000	**3**	1
HK$1,000,001 to HK$1,500,000	**–**	1
	3	2

11. DISPOSAL OF SUBSIDIARIES AND DEEMED DISPOSAL OF A SUBSIDIARY

(a) In December 2018, the Group completed the disposal of the entire issued share capital in a wholly-owned subsidiary of the Group, SZ New Era, to an independent third party, for a consideration of HK$30,000,000. SZ New Era was principally engaged in trading of electronic products business in PRC. The net assets of SZ New Era being disposed of are as follows:

	Note	2018 HK$'000
Net assets disposed of:		
Property, plant and equipment		6
Trade and other receivables and prepayment		35,074
Cash and cash equivalents		157
Other payables and accruals		(23)
Net asset disposed of		35,214
Consideration received:		
Cash received		30,000
Loss on disposal of a subsidiary:		
Consideration received		30,000
Net asset disposed of		(35,214)
Release of translation reserve upon disposal of a subsidiary		(42)
	15(a)	(5,256)

11. DISPOSAL OF SUBSIDIARIES AND DEEMED DISPOSAL OF A SUBSIDIARY (Continued)

(a) (Continued)

An analysis of the net inflow of cash and cash equivalents during the year ended 31 December 2018 in respect of the disposal of a subsidiary is as follows:

	2018 HK$'000
Cash consideration	30,000
Cash and cash equivalents disposed of	(157)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	29,843

(b) On 12 October 2018, the Group completed the disposal of the entire issued share capital in a wholly-owned subsidiary of the Group, New Visual International Holdings Limited, to an independent third party, for a consideration of HK$1. New Visual International Holdings Limited was principally engaged in investment holding in PRC. The net assets of New Visual International Holdings Limited being disposed of are as follows:

	2018 HK$'000
Net assets disposed of:	
Interest in an associate	–
Net asset disposed of	–
Consideration received:	
Cash received	–
Loss on disposal of a subsidiary:	
Consideration received	–
Net asset disposed of	–
	–

11. DISPOSAL OF SUBSIDIARIES AND DEEMED DISPOSAL OF A SUBSIDIARY (Continued)

(c) On 1 January 2018, a wholly-owned subsidiaries of the Group, New Visual International Holdings Limited completed the acquisition of 50% equity interest in Shanghai Friction which is principally engaged in provision of merchandising support services for trading of automotive parts in the PRC. The consideration of the acquisition is RMB1. Given that the another 30% equity holder of Shanghai Friction, 上海厚途汽車科技有限公司 (Shanghai Houtu Automotive Technology Co., Ltd.*) ("Shanghai Houtu") has signed the statement of the voting undertaking, Shanghai Friction is accounted for as a subsidiary of the Group. By virtue of the voting undertaking, the Group has obtained control over Shanghai Friction from the voting rights granted.

The fair value of identifiable assets and liabilities of Shanghai Friction as at the date of acquisition were as follows:

	Date of acquisition HK$'000
Property, plant and equipment	191
Other receivables	105
Cash and cash equivalents	883
Trade and other payables	(1,178)
Total identifiable assets acquired and liabilities assumed	1
Less: Non-controlling interest	(1)
	–
Cash consideration	–

* *English name for identification purpose only*

11. DISPOSAL OF SUBSIDIARIES AND DEEMED DISPOSAL OF A SUBSIDIARY (Continued)

(c) (Continued)

Since the acquisition, Shanghai Friction contributed revenue of HK$1,039,000 and profit of HK$32,000 to the Group for the year ended 31 December 2018.

In June 2018, Shanghai Houtu served a notice to the Group to revoke the statement of the voting undertaking. On 29 June 2018, the Group issued a letter to Shanghai Houtu consenting the revocation of the voting undertaking by Shanghai Houtu with effect from 30 June 2018. As a result, the Group ceased to have the control over Shanghai Friction. Meanwhile, the Group still has significant influence over Shanghai Friction and thus is accounted for as an associate upon loss of control (see note 18).

As the Group has lost control over Shanghai Friction, it has derecognised the assets and liabilities of Shanghai Friction from the consolidated statement of financial position of the Group (“deemed disposal”); recognised the investment retained in Shanghai Friction at its fair value; and recognised the gain or loss associated with the loss of control attributable to the former controlling interest.

The net assets of Shanghai Friction at the date of the deemed disposal were as follows:

	Date of deemed disposal HK$’000
Property, plant and equipment	175
Other receivables	523
Cash and cash equivalents	4
Interest in an associate	4,727
Trade and other payables	(3,035)
	2,394
Less: Non-controlling interest	(2,379)
Carrying amount of the Group’s interest in Shanghai Friction deemed disposed of	15
Interest in Shanghai Friction retained as an associate	15
Gain/loss on deemed disposal	–

12. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Continuing operations:		
Interests on bank loans and other borrowing	**66**	232
Interests on convertible bonds (note 29)	**–**	2,399
Interests on loan from a related company (note 34(a))	**952**	952
Total interest expenses	**1,018**	3,583
Bank charges	**76**	135
	1,094	3,718

13. LOSS BEFORE INCOME TAX EXPENSE

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

	2018 HK$'000	2017 HK$'000 (restated)
Continuing operations:		
Auditor's remuneration	**634**	634
Impairment loss on loan receivable	**76**	–
Minimum lease payments under operating leases (note)	**4,882**	5,137
Fees charged by an investment manager	**–**	472
Depreciation of property, plant and equipment	**1,446**	1,822
Donation	**300**	301
Exchange gains, net	**(320)**	(15)
Gain on disposal of a subsidiary	**–**	4
Loss on disposal of property, plant and equipment	**278**	–
Interest income	**(8,037)**	(6,161)

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 (2017: HK$936,000) (note 34(a)).

14. INCOME TAX (CREDIT)/EXPENSE

The amount of income tax (credit)/expense in the consolidated statement of comprehensive income represents:

	2018 **HK$'000**	2017 HK$'000 (restated)
Continuing operations:		
Current tax		
– charge for the year	**–**	930
– over-provision in respect of prior years	**(60)**	(89)
Income tax (credit)/expense	**(60)**	841

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operates.

Pursuant to the rules and regulations of the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the BVI.

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits for the years ended 31 December 2018 and 2017.

Under the law of the PRC on Enterprise Income Tax (the "EIT Laws") and Interpretation Regulation of the EIT Laws, the tax rate of the PRC subsidiaries is 25% for the years ended 31 December 2018 and 2017.

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

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

	2018 HK$'000	2017 HK$'000 (restated)
Continuing operations:		
Loss before income tax expense	(22,572)	(17,833)
Tax calculated at domestic tax rate of 16.5% (2017: 16.5%)	(3,724)	(2,942)
Effect of different tax rate of subsidiaries operating in other jurisdiction	(6)	(17)
Tax effect of revenue not taxable for tax purposes	(16)	(233)
Tax effect of expenses not deductible for tax purposes	3,290	2,988
Tax effect of tax losses not recognised	521	900
Tax effect of other temporary differences not recognised	(65)	234
Over-provision in respect of prior years	(60)	(89)
Income tax (credit)/expense for the year	(60)	841

As at 31 December 2018, the Group had estimated unused tax losses of approximately HK$15,176,000 (2017: HK$12,131,000) 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$14,905,000 may be carried forward indefinitely and approximately RMB229,000 (equivalent to HK$271,000) will expire in five years.

The Group has no significant unrecognised deferred tax liabilities as at 31 December 2018 and 2017.

15. DISCONTINUED OPERATIONS

(a) In December 2018, the Group ceased and disposed its business in trading of electronic products as a result of unfavourable market conditions and price competition in the relevant industry, and the businesses were stagnant since the first quarter in 2018. The disposal of the disposal group was completed in December 2018. Details of the disposal are set out in note 11(a).

The analysis of the results of discontinued operation is as follows. The comparative consolidated statement of comprehensive income has been re-presented to show the discontinued operation from continuing operation separately.

	Note	2018 HK$'000	2017 HK$'000
Revenue		**13,011**	88,905
Carrying value of inventories sold		**(12,217)**	(82,836)
Other income		**2**	2
Administrative and other operating expenses		**(674)**	(5,129)
Profit before income tax expense		**122**	942
Income tax expense		**(39)**	(367)
		83	575
Loss on sale of discontinued operation	11(a)	**(5,256)**	–
(Loss)/Profit for the year from discontinued operation		**(5,173)**	575
Net cash used in operating activities		**(192)**	(34,301)
Net cash generated from/(used in) investing activities		**1**	(58)
Net cash generated from financing activities		**1,250**	13,785
Total net cash inflows/(outflows)		**1,059**	(20,574)

15. DISCONTINUED OPERATIONS (Continued)

(b) As set out in note 11(c), the Group lost control over Shanghai Friction upon revocation of the voting undertaking with effect from 30 June 2018. Accordingly, Shanghai Friction ceased to be subsidiary of the Group as from 30 June 2018 and it became an associate of the Group with effect from the same date and Shanghai Friction has since been accounted for in the consolidated financial statements using the equity method of accounting.

The management of the Group considers Shanghai Friction as a separate component of the Group. Accordingly, the operation of Shanghai Friction is presented as discontinued operation. The analysis of the results of discontinued operation is as follows:

	2018 **HK$'000**	2017 HK$'000
Revenue	**1,039**	–
Other income	**2**	–
Administrative and other operating expenses	**(1,007)**	–
Profit before income tax expense	**34**	–
Income tax expense	**(2)**	–
Profit for the year from discontinued operation	**32**	–
Net cash generated from operating activities	**1,485**	–
Net cash used in investing activities	**(4,729)**	–
Net cash generated from financing activities	**2,364**	–
Total net cash outflows	**(880)**	–

16. (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	**2018** **HK$'000**	2017 HK$'000 (restated)
(Loss)/Profit for the purpose of basic (loss)/earnings per share		
– from continuing operations	**(22,261)**	(18,498)
– from discontinued operations	**(5,156)**	575
	(27,417)	(17,923)

Number of shares	**2018**	2017
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	**480,170,000**	435,457,671

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 31) since their exercise price is higher than the average market price of the Company's share for the year. In addition, it does not assume the conversion of the Company's convertible bonds (note 29) 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 2018, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options (note 31) since their exercise price is higher than the average market price of the Company's share for the year. Accordingly, the basic and diluted loss per share are the same.

17. PROPERTY, PLANT AND EQUIPMENT

	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 2017	3,423	2,679	417	772	7,291
Additions	116	86	59	–	261
Exchange alignment	–	–	2	–	2
At 31 December 2017 & 1 January 2018	**3,539**	**2,765**	**478**	**772**	**7,554**
Acquired on acquisition from a subsidiary	**12**	**109**	**70**	**–**	**191**
Additions	**75**	**518**	**49**	**–**	**642**
Released on disposal of subsidiaries	**(36)**	**(109)**	**(68)**	**–**	**(213)**
Disposals	**(7)**	**(1,827)**	**(281)**	**–**	**(2,115)**
Exchange alignment	**–**	**–**	**(3)**	**–**	**(3)**
At 31 December 2018	**3,583**	**1,456**	**245**	**772**	**6,056**
Accumulated depreciation					
At 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 & 1 January 2018	**2,836**	**1,968**	**113**	**241**	**5,158**
Charge for the year	**443**	**723**	**126**	**193**	**1,485**
Released on disposal of subsidiaries	**(6)**	**(24)**	**(2)**	**–**	**(32)**
Written back on disposal	**(2)**	**(1,675)**	**(119)**	**–**	**(1,796)**
At 31 December 2018	**3,271**	**992**	**118**	**434**	**4,815**
Net carrying value					
At 31 December 2018	**312**	**464**	**127**	**338**	**1,241**
At 31 December 2017	703	797	365	531	2,396

18. INTEREST IN AN ASSOCIATE

	2018 HK$'000	2017 HK$'000
Share of net assets	–	299
Amount due to the associate#	–	(295)
	–	4

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

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 2018	2017
Shanghai Friction (note (i))	Ordinary shares	Provision of merchandising support service in PRC	–	–
Luban Hong Kong Finance Group Limited (note (ii))	Ordinary shares	Inactive in Hong Kong	–	30%

(i) As set out in note 11(c), the Group lost control over Shanghai Friction upon revocation of the voting undertaking with effect from 30 June 2018. Accordingly, Shanghai Friction ceased to be subsidiary of the Group as from 30 June 2018 and it became an associate of the Group with effect from the same date and Shanghai Friction has since been accounted for in the consolidated financial statements using the equity method of accounting.

Shanghai Friction is indirectly held by the Company by a wholly-owned subsidiary of the Group, New Visual International Holdings Limited before disposal. In October 2018, the Group completed the disposal of the entire issued share capital in New Visual International Holdings Limited, to an independent third party.

18. INTEREST IN AN ASSOCIATE (Continued)

(ii) During the year ended 31 December 2018, the Group has disposed of its entire 30% interest in Luban Hong Kong Finance Group Limited at a consideration of HK$1.

(iii) The following table illustrates the aggregate information of associates that are not individually material:

	2018 **HK$'000**	2017 HK$'000
Aggregate amounts of the Group's share of those associates		
Loss from continuing operations	**(19)**	(1)
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Total comprehensive loss	**(19)**	(1)

19. OTHER FINANCIAL ASSET

	Notes	**31 December 2018 HK$'000**	1 January 2018 HK$'000	31 December 2017 HK$'000
Financial assets measured at FVPL				
Unlisted equity securities	(i) and (ii)	**5,000**	1	–
		5,000	1	–
Available-for-sale financial assets				
Unlisted equity securities	(i)	**–**	–	1
		–	–	1

19. OTHER FINANCIAL ASSET (Continued)

(i) Available-for-sale financial assets represent 5% equity interest in 深圳港銀教育控股有限公司 (Shenzhen Loco Education Holdings Limited*) ("SZ Loco Education") and 5% equity interest in Loco Hong Kong Investment Holdings Limited ("LHKI"). Available-for-sale financial assets were reclassified to financial assets measured at FVPL upon the initial application of HKFRS 9 at 1 January 2018 (see note 2(a)(i)). During the year ended 31 December 2018, the equity interests in SZ Loco Education and LHKI were disposed to independent third parties at consideration of approximately HK$1,000.

(ii) The unlisted equity securities as at 31 December 2018 are shares in Grand Max Enterprises Limited ("Grand Max"), a company incorporated in Hong Kong which is currently investing in some innovative technology projects. As at 31 December 2018, the Group held 7.4% of the share capital of Grand Max.

20. INVENTORIES

	2018 **HK$'000**	2017 HK$'000
Silver	**41,558**	105,189
Gold	**320**	–
Low value consumables	**94**	91
	41,972	105,280

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.

* *English name for identification purpose only*

21. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2018 HK$'000	2017 HK$'000
Trade and loan interest receivables (notes (a) and (c))	**279**	35,602
Deposits for commodity forward contracts (note (b))	**22,547**	24,015
Other receivables and deposits	**821**	1,319
Prepayments	**279**	416
	23,926	61,352

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

Notes:

(a) Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. All these receivables were either guaranteed by a personal guarantor or secured by a pledged property. As at 31 December 2018, the aging of these receivables, based on invoice dates, are all within six months (2017: 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.

(c) The Group assesses the impairment for its trade debtors, grouped by a matrix of shared credit risk characteristics and the days past due, because each of these trade debtors groupings consist of a large number of small trade debtors with common risk characteristics that are representative of the trade debtors' abilities to pay all amounts due in accordance with the contractual terms.

The following table provides information about the exposure to credit risk and ECL for trade receivables that are assessed collectively based on provision matrix as at 31 December 2018.

	Expected average loss rate	**Gross carrying amount** HK$'000	**Impairment loss allowance** HK$'000
Current (not past due)	0%	279	–

The estimated loss rates are estimated based on historical observed default rates over the expected life of the trade debtors and are adjusted for forward-looking information that is available without undue cost or effort.

22. LOAN RECEIVABLE

	2018 HK$'000	2017 HK$'000
Collateralised loan	**7,589**	9,000
Less: allowance for impairment	**(76)**	–
	7,513	9,000

The collateralised loan 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 dominated in HK$. As at years ended 31 December 2018 and 2017, no loan receivables have been past due.

The exposure of the Group's fixed-rate loan receivable to fair value interest risks and its contractual maturity date is as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**7,589**	9,000

The Group continues to manage its loan receivables based on the credit management policies as disclosed in note 38(a), including the estimation of credit exposure. Such estimation requires consideration over changes in market conditions, expected cash flows and the passage of time, for the assessment of the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The credit risk of the loan receivables has been measured using probability of default, exposure at default and loss given default, which are in line with the approach used for the purposes of measuring ECL under HKFRS 9.

22. LOAN RECEIVABLE (Continued)

The Group measures ECL for significant individual balances and on a collective basis for the remaining balances, grouped by their shared risk characteristics and past due status. ECL model used by the Group for the assessment and provision of impairment for loan receivables is based on the "three-stages" model by referring to the changes in credit quality since initial recognition, and is summarised as below:

– The loan receivables that are not credit-impaired on initial recognition are classified in 'Stage 1' and have their credit risk continuously monitored by the Group. The expected credit loss is measured on a 12-month basis.

– If a significant increase in credit risk since initial recognition, i.e., the borrower is more than 30 days past due on its contractual payments, is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The expected credit loss is measured on lifetime basis.

– If the loan receivables are credit-impaired, that is when the borrower is more than 90 days past due on its contractual payments, the financial instrument is then moved to 'Stage 3'. The expected credit loss is measured on lifetime basis.

– In Stage 1 and 2, interest income is calculated on the gross carrying amount (without deducting the loss allowance). If a financial asset subsequently becomes credit-impaired as Stage 3, the Group calculates the interest income by applying the effective interest method in subsequent reporting periods to the amortised cost of the financial asset (the gross carrying amount net of loss allowance) rather than the gross carrying amount.

The calculation of ECL incorporate forward-looking information. The Group identified the borrowers' underlying business performance and market trends of the industries the borrowers are engaged in together with the regional gross domestic product the borrowers are incorporated as the key economic variables impacting credit risk and expected credit losses.

22. LOAN RECEIVABLE (Continued)

There has been no change from Stage 1 to other stages as of the date of this annual report. The following table provides information about the exposure to credit risk and ECL for loan receivable as at 31 December 2018.

	Expected average loss rate	Gross carrying amount HK$'000	Impairment loss allowance HK$'000
Not past due	1%	7,589	76

23. DERIVATIVE FINANCIAL INSTRUMENTS

	2018 HK$'000	2017 HK$'000
Derivative financial assets:		
Commodity forward contracts	**6,889**	8,935
Derivative financial liabilities:		
Commodity forward contracts	**1**	76

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 carried at fair value through profit or loss. The notional principal amounts of the outstanding metal forward contracts as at 31 December 2018 were approximately US$31,593,000 (2017: US$28,726,000), equivalent to approximately HK$245,480,000 (2017: HK$223,201,000).

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

The maximum exposure to credit risk at the reporting date is the carrying value of the financial instruments.

24. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2018 HK$'000	2017 HK$'000
Cash at banks and in hand	**82,288**	46,630

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

	2018 HK$'000	2017 HK$'000
RMB	**4,688**	1,640
US$	**43,268**	24,423
Euro	**9**	–
	47,965	26,063

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

24. CASH AND CASH EQUIVALENTS (Continued)

(b) Reconciliation of liabilities arising from financing activities:

	Borrowing HK$'000	Amounts due to related companies HK$'000	Amounts due to directors HK$'000	Loan from a related company HK$'000	Total HK$'000
At 1 January 2018	–	50,023	154	27,195	77,372
Changes from financing cash flows:					
Proceeds from new borrowings	12,647	–	–	–	12,647
Repayment of borrowings	(8,547)	–	–	–	(8,547)
Interest paid	(66)	–	–	(952)	(1,018)
Funds transferred from related companies	–	23,310	–	–	23,310
Repayment to related companies	–	(69,160)	–	–	(69,160)
Repayment to directors	–	–	(367)	–	(367)
Advance from directors	–	–	213	–	213
	4,034	(45,850)	(154)	(952)	(42,922)
Other changes:					
Interest expenses	66	–	–	952	1,018
At 31 December 2018	4,100	4,173	–	27,195	35,468

24. CASH AND CASH EQUIVALENTS (Continued)

(b) Reconciliation of liabilities arising from financing activities: (Continued)

	Borrowing HK$'000	Amounts due to related companies HK$'000	Amounts due to directors HK$'000	Loan from a related company HK$'000	Convertible bonds HK$'000	Total HK$'000
At 1 January 2017	–	28,795	55	27,195	36,080	92,125
Changes from financing cash flows:						
Proceeds from new borrowings	48,563	–	–	–	–	48,563
Repayment of borrowings	(48,563)	–	–	–	–	(48,563)
Interest paid	(232)	–	–	(952)	–	(1,184)
Funds transferred from related companies	–	21,228	–	–	–	21,228
Advance from directors	–	–	99	–	–	99
	(232)	21,228	99	(952)	–	20,143
Changes in fair value	–	–	–	–	(1,411)	(1,411)
Other changes:						
Interest expenses	232	–	–	952	2,399	3,583
Conversion right exercised	–	–	–	–	(37,068)	(37,068)
	232	–	–	952	(34,669)	(33,485)
At 31 December 2017	–	50,023	154	27,195	–	77,372

25. OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	2018 HK$'000	2017 HK$'000
Other payables and accruals	**3,554**	2,335
Deposits for commodity forward contracts (note)	**47,629**	41,312
	51,183	43,647

25. OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED (Continued)

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.

26. BORROWING

The borrowing represents a loan from a shareholder, Ms. Jiang Lei bear interest at 5.125% per annum, are unsecured and are repayable on demand.

27. 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 in which Mr. Tan, one of the Company's directors, act as director and has controlling equity interests in these companies, to the Group for entering into Forward Arrangements (note 34(a)).

28. LOAN FROM A RELATED COMPANY

The loan is unsecured, interest bearing at 3.5% per annum and repayable on demand (note 34(a)).

29. 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.

29. CONVERTIBLE BONDS (Continued)

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

The convertible bonds contain two components, liability component and derivative component which comprise the conversion right and the early redemption right. On issuance of the convertible bonds, the fair value of the derivative component is determined using the Crank-Nicolsen Finite-difference method. The remaining 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.

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

	Liability component of convertible bonds HK$'000	**Derivative component of convertible bonds** HK$'000	**Total** 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	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 12)	2,399	–	2,399
Fair value adjustment	–	(1,411)	(1,411)
Conversion	(36,602)	(466)	(37,068)
At 31 December 2017 and 2018	–	–	–

30. SHARE CAPITAL

	2018 Number of shares	**2018 HK$'000**	2017 Number of shares	2017 HK$'000
Issued and fully paid:				
At beginning of year	**480,170,000**	**122,898**	400,170,000	85,830
Conversion of convertible bonds (note 29)	**–**	**–**	80,000,000	37,068
At end of year	**480,170,000**	**122,898**	480,170,000	122,898

Details of placing subsequent to the end of the reporting period are disclosed in note 39.

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Notes	**Share capital** HK$'000	**Share option reserve** HK$'000	**Accumulated losses** HK$'000	**Total equity** HK$'000
At 1 January 2017		85,830	421	(10,649)	75,602
Loss and total comprehensive loss for the year		–	–	(3,432)	(3,432)
Transaction with owners:					
Conversion of convertible bonds	29	37,068	–	–	37,068
Forfeited share option	31(b)	–	(41)	41	–
At 31 December 2017		122,898	380	(14,040)	109,238
Loss and total comprehensive loss for the year		**–**	**–**	**(41,343)**	**(41,343)**
At 31 December 2018		**122,898**	**380**	**(55,383)**	**67,895**

31. 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 2018**	Number of options outstanding at 31 December 2017
Directors	10 April 2015	10 April 2015 to 9 April 2025	HK$0.78	**330,000**	330,000
Employee	10 April 2015	10 April 2015 to 9 April 2025	HK$0.78	**730,000**	730,000
Others	10 April 2015	10 April 2015 to 9 April 2025	HK$0.78	**130,000**	130,000
				1,190,000	1,190,000

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 2018	**Number of options 2018**	Weighted average exercise price 2017	Number of options 2017
Outstanding at beginning of the year	**HK$0.78**	**1,190,000**	HK$0.78	1,320,000
Forfeited during the year	**–**	**–**	HK$0.78	(130,000)
Outstanding at the end of the year	**HK$0.78**	**1,190,000**	HK$0.78	1,190,000

The weighted average remaining contractual life was 6.25 years (2017: 7.25 years).

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

AS AT 31 DECEMBER 2018

	Note	2018 HK$'000	2017 HK$'000
Non-current assets			
Investments in subsidiaries		**21,553**	21,513
Current assets			
Amounts due from subsidiaries		**47,553**	85,838
Deposits and prepayments		**48**	191
Cash and cash equivalents		**103**	2,591
		47,704	88,620
Current liabilities			
Other payables and accruals		**1,184**	750
Amounts due to subsidiaries		**178**	145
		1,362	895
Net current assets		**46,342**	87,725
Total assets less current liabilities		**67,895**	109,238
Net assets		**67,895**	109,238
Capital and reserves			
Share capital	30	**122,898**	122,898
Accumulated losses		**(55,383)**	(14,040)
Share option reserve		**380**	380
Total equity		**67,895**	109,238

Approved and authorised for issue by the board of directors on 22 March 2019.

WANG Wendong
Director

ZHU Hongguang
Director

33. PARTICULARS OF SUBSIDIARIES

Details of subsidiaries as at 31 December 2018 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 Directly	Indirectly	Place of operation and principal activities
Loco HK Limited	Corporation	British Virgin Islands ("BVI")	Ordinary shares	100% (2017:100%)	– (2017: –)	Investment holding in Hong Kong
Success Vision International Holdings Limited	Corporation	BVI	Ordinary shares	100% (2017:100%)	– (2017: –)	Investment holding in Hong Kong
Edge Faith Limited	Corporation	BVI	Ordinary shares	100% (2017:100%)	– (2017: –)	Investment holding in Hong Kong
China New Era Investment Limited	Corporation	BVI	Ordinary shares	100% (2017:100%)	– (2017: –)	Investment holding in Hong Kong
China Precision Material Limited	Corporation	Hong Kong	Ordinary shares	– (2017: –)	100% (2017:100%)	Metal and commodity forward contracts trading in Hong Kong
CPM Silver Limited	Corporation	Hong Kong	Ordinary shares	– (2017: –)	100% (2017:100%)	Silver processing in Hong Kong
United Bridge Limited	Corporation	Hong Kong	Ordinary shares	– (2017: –)	100% (2017:100%)	Investment holding in PRC
World Bridge Limited	Corporation	Hong Kong	Ordinary shares	– (2017: –)	100% (2017:100%)	Inactive
United Worth Finance Limited	Corporation	Hong Kong	Ordinary shares	– (2017: –)	100% (2017:100%)	Provision of money lending services in Hong Kong
Loco Precious Metal Limited	Corporation	Hong Kong	Ordinary shares	– (2017: –)	100% (2017:100%)	Inactive
Loco Hong Kong Green Energy Limited	Corporation	Hong Kong	Ordinary shares	– (2017: –)	100% (2017:55%)	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	– (2017: –)	100% (2017:55%)	Inactive
New Eagle International Limited	Corporation	Hong Kong	Ordinary shares	100% (2017: –)	– (2017: –)	Investment holding in Hong Kong
Gold Convergence Limited	Corporation	Hong Kong	Ordinary shares	100% (2017: –)	– (2017: –)	Investment holding in Hong Kong
Lead The Way Limited	Corporation	Hong Kong	Ordinary shares	100% (2017: –)	– (2017: –)	Inactive
Gold Prosperous City Limited	Corporation	Hong Kong	Ordinary shares	100% (2017: –)	– (2017: –)	Investment holding in Hong Kong

* *English name for identification purpose only*

33. PARTICULARS OF SUBSIDIARIES (Continued)

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	
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	– (2017: –)	– (2017:100%)	Trading of electronic products in PRC
New Visual International Holdings Limited	Corporation	Hong Kong	Ordinary shares	– (2017: –)	– (2017:100%)	Investment holding in PRC
Loco Hong Kong Finance Holdings Limited	Corporation	Hong Kong	Ordinary shares	– (2017: –)	– (2017:100%)	Investment holding in Hong Kong
Golden Bridge Precision Material Limited (formerly known as China New Era Group Holdings Limited)	Corporation	Hong Kong	Ordinary shares	– (2017: –)	– (2017:100%)	Inactive

Note: It is wholly-foreign-owned enterprise under the PRC law.

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

There is no material non-controlling interest for the year ended 31 December 2018 and 2017.

* *English name for identification purpose only*

34. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

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

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

Type of transaction	**2018** **HK$'000**	2017 HK$'000
Interest charged on loan granted to the Group (note (i))	**952**	952
Share of staff cost charged to the Group (note (ii))	**507**	774
Office rental and other related expenses charged to the Group (note (ii))	**1,070**	1,075
Interest and commission charged by the Group for entering into Forward Arrangements (note (iii))	**122**	190
Disposal of a subsidiary to a company controlled by a director	**–**	10
Donation by the Group (note (iv))	**300**	300
Internal control service fee charged to the Group (note (v))	**–**	300

Notes:

(i) Interest was charged to the Group on the loan granted by a company in which Mr. Tan, one of the Company's directors, acts as director and has controlling equity interest (notes 12 and 28).

(ii) The Group paid rent to a related company for occupation of office space (note 13) 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) Interest income and commission income generated for entering into Forward Arrangements during the year (note 27) were conducted with companies in which Mr. Tan acts as a director and has controlling equity interest.

(iv) Donation was made to a charitable company in which Mr. Tan acts as one of the founder members.

(v) Fee for the services was charged by a company in which Mr. Tan acts has control and controlling equity interest.

34. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (Continued)

(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:

	2018 HK$'000	2017 HK$'000
Salaries and bonus, allowances and benefits	**9,731**	7,650
Contributions to defined contribution retirement plans	**145**	114
	9,876	7,764

(c) On 1 January 2018, the Group completed the acquisition of 50% equity interest in Shanghai Friction and given that the another 30% equity holder of Shanghai Friction has signed the statement of the voting undertaking, Shanghai Friction is accounted for as the subsidiary of the Group. Before the deemed deposal of Shanghai Friction on 30 June 2018, Shanghai Friction and CYFC, a company established under the laws of the PRC with limited liability entered into the Sales Agreement and the Purchase Agreement in relation to the sale of host supporting assembly and ancillary products on automotive parts ("Products A") and purchase of main component on automotive parts, including front and rear axle assembly, disc brake, drive motor and brake pad etc. ("Products B") respectively for the year ended 31 December 2018. The respective caps for the sale of Products A and purchase of Products B for the year ended 31 December 2018 was RMB50,000,000 (equivalent to HK$61,497,000) and RMB110,000,000 (equivalent to HK$135,293,000) respectively.

煙台孚瑞恒眾機電科技有限公司 (China Yantai Technology Company Limited*) ("CTC") is a company established under the laws of the PRC with limited liability and directly holds 20% equity interest in Shanghai Friction. Hence, CTC is a connected person of the Company at subsidiary level. Also, CTC is a directly wholly-owned subsidiary of CYFC and so CYFC is an associate of CTC in accordance with Rules 20.11 of the GEM Listing Rules, and accordingly a connected person of the Company at subsidiary level.

During the year, the amounts of sale of Products A and purchase of Products B were RMB6,547,000 (equivalent to HK$8,052,000) and RMB12,811,000 (equivalent to HK$15,756,000) respectively.

* *English name for identification purpose only*

34. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (Continued)

(d) The related party transaction in respect of note 34(c) above constitute continuing connected transactions (as defined in Chapter 20 of the GEM Listing Rules). The disclosures required by Chapter 20 of the GEM Listing Rules are provided in the paragraph headed "Connected Transactions" in the Report of the Directors as set out in the Company's annual report for the year ended 31 December 2018.

35. COMMITMENTS

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 three years (2017: two years). The total future minimum lease payments under the leases are due as follows:

	2018	2017
	HK$'000	HK$'000
Within one year	**2,614**	3,110
Later than one year and not later than three years	**3,468**	–
	6,082	3,110

36. 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 of Group's companies are not regarded by the directors as capital. The capital of the Group at the end of reporting date was approximately HK$82,454,000 (2017: HK$112,670,000).

37. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amount of financial assets and liabilities as at the end of the reporting period.

Year ended 31 December 2018

	HK$'000
Financial assets	
Financial assets carried at amortised cost:	
– Trade and other receivables	23,647
– Loan receivable	7,513
– Cash and cash equivalents	82,288
Financial assets carried at FVPL:	
– Other financial asset	5,000
– Derivative financial assets	6,889
Financial liabilities	
Financial liabilities measured at amortised cost:	
– Other payables, accruals and deposits received	51,183
– Borrowing	4,100
– Amounts due to related companies	4,173
– Loan from a related company	27,195
Financial liability carried at FVPL:	
– Derivative financial liabilities	1

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

Year ended 31 December 2017

	HK$'000
Financial assets	
Available-for-sale financial assets	1
Fair value through profit or loss held for trading:	
– Derivative financial assets	8,935
Loans and receivables:	
– Trade and other receivables	60,936
– Loan receivable	9,000
– Amount due from a related company	54
– Cash and cash equivalents	46,630
Financial liabilities	
Fair value through profit or loss held for trading:	
– Derivative financial liabilities	76
Financial liabilities measured at amortised cost:	
– Other payables, accruals and deposits received	43,647
– Amount due to an associate	295
– Amounts due to related companies	50,023
– Amounts due to directors	154
– Loan from a related company	27,195

Financial instruments not measured at fair value

Financial instruments not measured at fair value mainly include trade and other receivables, loan receivable, amount due from a related company, cash and cash equivalents, other payables, accruals and deposits received, borrowing, 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.

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

Financial instruments measured at fair value

Commodity forward contracts are financial assets or liabilities carried 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 unlisted equity securities is referenced to the recent transaction price of the shares without adjustment, and therefore no disclosure on quantitative information on unobservable input and sensitivity analysis is required.

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).

	2018			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets carried at FVPL:				
– Unlisted equity securities	–	–	5,000	5,000
– Commodity forward contracts	–	6,889	–	6,889
Financial liabilities carried at FVPL:				
– Commodity forward contracts	–	1	–	1

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

Financial instruments measured at fair value (Continued)

	2017			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'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

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 (2017: nil).

The following table presents the Group's assets that is measured at fair value and classified as level 3 instruments for the year ended 31 December 2018 and 2017.

	Unlisted equity securities HK$'000
Balance as at 1 January 2017 and 31 December 2017	–
Impact on initial application of HKFRS 9	1
Adjusted balance at 1 January 2018	1
Disposal (note 19)	(1)
Investment in equity shares of an unlisted company (note 19)	5,000
Balance as at 31 December 2018	5,000

38. 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 and other receivables, loan receivable and derivative financial assets and bank balances.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. As at 31 December 2017, the Group has certain concentrations of credit risk as 99% of the Group's trade receivables was due from one trade debtor. Management considers that the credit risk in respect of this trade debtor is minimal because there is no history of default or late payment. The Group has no significant concentrations of credit risk as at 31 December 2018.

The Group's trade receivables and loan receivable for the year ended 31 December 2018 and 2017 were either guaranteed by a personal 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 borrowing and 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. Accordingly, no sensitivity analysis for interest rate risk is presented.

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.

38. 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 ended 31 December 2017: 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. Management considers that there is no significant foreign currency risk for the year ended 31 December 2018.

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.

38. 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
2018			
Other payables, accruals and deposits received	**51,183**	**51,183**	**51,183**
Borrowing	**4,100**	**4,100**	**4,100**
Amounts due to related companies	**4,173**	**4,173**	**4,173**
Loan from a related company	**27,195**	**27,195**	**27,195**
Derivatives financial liabilities (note)	**1**	**1**	**1**
	86,652	**86,652**	**86,652**
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

Note: The remaining contractual maturities of these commodity forward contracts (note 23) are within one month (2017: one month).

38. FINANCIAL RISK MANAGEMENT (Continued)

(e) Commodity price risk

The Group is exposed to commodity price risk arises from inventories (note 20) 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 monitor 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.

39. EVENTS AFTER THE REPORTING PERIOD

On 7 February 2019, the Company entered into a conditional placing and subscription agreement with a placing agent in relation to, among others, the placing of a maximum of up to 96,000,000 new ordinary shares of the Company of HK$0.241 each to not less than six places who are not acting in concert with connected persons of the Company (the "Placing"). The Placing and subscription have been completed on 25 February 2019. The net proceeds of approximately HK$21,478,000 will be used for the general working capital of the Group. Details are disclosed in the announcements of the Company dated 7 February 2019 and 25 February 2019.

40. COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to the disclosure requirement in respect of the discontinued operations set out in note 15 to the financial statements. In addition, the comparative figures in the consolidated statement of comprehensive income have been restated as if the operations discontinued during the current year had been discontinued at the beginning of the prior period.

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

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:

Results	2018 HK$'000	2017 HK$'000 (restated)	2016 HK$'000	2015 HK$'000	2014 HK$'000
Revenue from continuing operations	**1,083,940**	2,250,504	2,170,644	1,076,076	2,128,140
Trading (losses)/gains on commodity forward contracts	**(1,093)**	(1,299)	(14,859)	2,304	22,752
Total income from continuing operations	**1,083,197**	2,249,541	2,156,713	1,078,464	2,151,000
Carrying value of inventories sold from continuing operations	**(1,066,363)**	(2,231,499)	(2,129,087)	(1,064,801)	(2,126,115)
Change in fair value of commodity inventories	**(3,226)**	5,712	(668)	832	240
(Loss)/Profit before income tax from continuing operations	**(22,572)**	(17,833)	4,594	(363)	4,078
Total comprehensive (loss)/ income for the year (including discontinued operations)	**(30,200)**	(15,613)	2,750	(313)	1,957

Assets and liabilities	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Current assets	**162,865**	231,570	215,895	107,937	107,021
Current liabilities	**86,652**	121,596	92,562	23,167	23,941
Non-current assets	**6,241**	2,696	3,962	3,695	5,046
Non-current liabilities	**–**	–	36,080	–	–
Total equity	**82,454**	112,670	91,215	88,465	88,126

Key financial ratios	2018	2017	2016	2015	2014
Current ratio	**1.88**	1.90	2.33	4.66	4.47
Quick ratio	**1.40**	1.04	1.82	2.91	2.73
Gearing ratio	**0.38 times**	0.24 times	0.67 times	–	–
Return on total assets	**(17.9%)**	(6.7%)	1.3%	(0.3%)	1.8%
Return on equity	**(36.6%)**	(13.9%)	3.1%	(0.4%)	2.2%