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Loco Hong Kong Holdings Limited

港銀控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 8162)

**FULFILLMENT OF RESUMPTION GUIDANCE
UPDATE ON BUSINESS PROGRESS
AND
RESUMPTION OF TRADING**

Financial adviser to the Company

AMASSE CAPITAL
寶 積 資 本

This announcement is made by Loco Hong Kong Holdings Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) pursuant to Rule 17.10(2)(a) of the Rules Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong Limited (the “**Exchange**”) (the “**GEM Listing Rules**”) and the Inside Information Provisions (as defined in the GEM Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to:

- (i) the announcement of the Company dated 31 October 2022 in relation to the decision of the Listing Division of the Exchange that the Company has failed to maintain a sufficient level of operations and assets of sufficient value to support its operations as required under Rule 17.26 of the GEM Listing Rules to warrant the continued listing of the Company’s shares (the “**Shares**”) (the “**Decision**”);
- (ii) the announcement of the Company dated 12 February 2023 in relation to the decision of the GEM Listing Committee in upholding the Decision (the “**LC Decision**”);
- (iii) the announcement of the Company dated 16 May 2023 in relation to the decision of the GEM Listing Review Committee (“**GLRC**”) in upholding the LC Decision (the “**GLRC Decision**”) and the suspension of trading of the Shares from 16 May 2023;

- (iv) the announcement of the Company dated 31 May 2023 in relation to the Exchange’s resumption guidance (the “**Resumption Guidance**”) for the resumption of trading in the Shares; and
- (v) the Group’s financial and business update announcements dated 15 August 2023, 15 November 2023, 15 February 2024 and 22 April 2024 respectively (the “**Update Announcements**”) following the Resumption Guidance.

Capitalised terms used in this announcement shall have the same meanings as those defined in the Update Announcements and the Company’s annual report for the year ended 31 December 2023 issued on 27 March 2024 (the “**Annual Report 2023**”) unless the context requires otherwise.

BACKGROUND ON SUSPENSION IN TRADING AND SUMMARY OF THE GLRC DECISION

The GLRC Decision at the time was concluded for the following principal reasons:

The Metal Business

- (a) The GLRC considered that the Company had changed the operation of the Metal Business to a back-to-back trading/supply chain business from a sales business of finished silver products made from silver scraps processed in the Company’s melting facilities and considered such change to coincide with a substantial decrease in operating revenue at the time;
- (b) The Metal Business then only had five customers and, for the first quarter of the financial year ended 31 December 2023 (“**FY2023**”), a majority of the revenue was generated by one new customer and the orders from the other four customers had decreased in the first quarter of FY2023 when comparing with the fourth quarter of the financial year ended 31 December 2022 (“**FY2022**”), which was then perceived as being overly reliant on a single customer; and
- (c) While the Company had at the time of the GLRC Decision exceeded its revenue forecast for FY2023 in the first quarter based on the large revenue generated from the one new customer at that time, it was unclear whether the Company would be able to maintain the increase in revenue for the duration of FY2023 to support its operations.

The Education Management Services Business

- (a) It was considered at the time of the GLRC Decision that the Education Management Services Business relied on external consultants and the Company had not provided details of any arrangement, contractual or otherwise, for securing the services from the external consultants and the relevant cost implication to the Company;

- (b) It was also considered at the time that the business relied on one senior management member which raised questions as to the sustainability of the Education Management Services Business as any material change in the Company's relation with such senior management and/or the consultants could lead to a material impact on the Education Management Services Business; and
- (c) Even if the Company would succeed in maintaining the revenue figures that the Education Management Services Business achieved for the fourth quarter of FY2022 and for the first quarter of FY2023 (and the requisite profit margin), the Company's forecasted revenue for FY2023 was not substantial, and, based on the long history of the Company incurring losses, it was then considered that the revenue generated by the Education Management Services Business might in any event not be sufficient to offset the Company's operating expenses.

The GLRC was of the view that the Company had incurred losses for a prolonged period of time up to the first quarter of FY2023, and was also not convinced that the Company's then net asset position was sufficient to support its operations going forward.

The GLRC therefore decided to uphold the LC Decision on the ground that the Company had failed to demonstrate that it carried out a business with a sufficient level of operations and assets of sufficient value to support its operations in line with Rule 17.26 of the GEM Listing Rules.

Accordingly, trading in the Shares on the Exchange has been suspended since 16 May 2023.

RESUMPTION GUIDANCE FROM THE EXCHANGE

As disclosed in the Company's announcement dated 31 May 2023, the Company is required under the Exchange's Resumption Guidance to:

- (i) demonstrate its compliance with Rule 17.26 of the GEM Listing Rules ("**Resumption Guidance (i)**"); and
- (ii) inform the market of all material information for the Shareholders and investors to appraise the Company's position ("**Resumption Guidance (ii)**"),

in order to apply for the resumption of trading of the Shares on the Exchange.

FULFILLMENT OF RESUMPTION GUIDANCE

The board (the "**Board**") of directors (the "**Directors**") of the Company is pleased to announce that the Company has demonstrated to the Exchange its compliance with the Resumption Guidance, details of which are set out below.

Resumption Guidance (i): Compliance with Rule 17.26 of the GEM Listing Rules

For FY2023, the Group's businesses and financial performance had picked up markedly on all fronts and its level of operations had reached new heights notwithstanding the challenging macro-economic environment, as its accumulated efforts in business development and optimisation had borne fruit. In this regard, the Company would like to provide an update summary as follows: -

Robust turnover growth and turnaround from loss to profit in FY2023

Following the GLRC Decision and Resumption Guidance, the Group's net assets position had grown significantly, while successfully transforming its historical net loss since 2017 into a net profit position, in FY2023.

For FY2023, the Group successfully delivered an increased turnover of approximately HK\$10.7 billion (FY2022: approximately HK\$48.3 million) and achieved a turnaround from loss to profit, recording a net profit attributable to the owners of the Company of approximately HK\$17.4 million (FY2022: approximately HK\$22.1 million net loss). The Group also maintained a net assets position of approximately HK\$40.0 million as at 31 December 2023 (as at 31 December 2022: approximately HK\$23.3 million).

For FY2023, the Group's operating segments: (i) the Metal Business achieved a turnaround from loss to profit and recorded a segment profit of approximately HK\$16.8 million (FY2022: segment loss of approximately HK\$7.4 million); and (ii) the Education Management Services Business recorded a segment profit of approximately HK\$27.0 million (FY2022: approximately HK\$5.8 million).

For further information on the business and financial performance of the Group in FY2023, please refer to the Annual Report 2023.

Material development in the Metal Business

The Group actively expanded and diversified the customer base for its Metal Business during the year, securing significant growths in customers and orders amid a challenging environment.

(i) Key metal products

The Group has been operating its metal business since 2010. At present, the segment handles bulk trading of metal commodities, including various types and varieties of metals such as copper, aluminum, nickel and metal parts, and bulk commodities such as copper concentrates, iron ore and ferronickel.

(ii) *Customers of the Metal Business*

The number of customers in the Metal Business has grown steadily from 4 in 2022 to 9 in 2023 following the GLRC Decision and Resumption Guidance, and to 11 as at the date of this announcement. The Group's major customers presently consist of large state-owned enterprises, large comprehensive key enterprises in the PRC and international corporations. It is the Group's strategy to continue to prioritize building enduring relationships with such top-tier business entities, which tend to support larger procurement orders and have a wider array of products offering, more stable continuing demand and supply, good reputation and financial strength, which contribute to more controllable risks. All of the segments' customers are third parties independent of and not connected with the Company and its connected persons (as defined under the GEM Listing Rules).

The period of the Group's business relationships with its major customers of the Metal Business during FY2023 ranges from a majority of around 1 year to 2 years.

The Metal Business's segment revenue for FY2023 was attributable to approximately 54.9% from the top 1 customer and approximately 96.1% in aggregate from the top 3 customers.

The Group maintains tight control and stringent selection criteria for new customers and, with the solid performance in FY2023 and for the period from 1 January 2024 to 19 April 2024 ("**Jan-Apr 2024**") as recapped in the section "*Continued sustainable development following a successful FY2023*" below, the Group is in a better position to continue approaching new customers and diversifying its customer base at a steady pace.

(iii) *Suppliers of the Metal Business*

The Group's major suppliers consist of large state-owned enterprises, large comprehensive key enterprises, medium-sized private-owned enterprises in the PRC and international corporations. All of the segments' suppliers are third parties independent of and not connected with the Company and its connected persons (as defined under the GEM Listing Rules).

The total carrying value of inventories sold of the Metal Business for FY2023 was attributable to approximately 33.4% for the top 1 supplier and approximately 70% in aggregate for the top 3 suppliers.

In view that some of the Group's customers were also the Group's suppliers or vice versa, the Company wishes to note, for the avoidance of doubt, that no product was purchased from a supplier and then sold back to the same supplier or its related entities as customer and vice versa. All products sold to customers of the Group were sourced from unrelated third parties. The Group may engage in both sales and purchase transactions with the same party, as such party may have varying needs and/or product offerings from time to time, which further contributes to the Group's business.

(iv) Competitive advantage of the Metal Business

(a) Experienced leadership

The Group has benefited from the guidance of Directors who are veterans in the metal industry and commerce. In approaching new potential customers, the Group communicates and gathers product preferences and requirements from such customers first. In approaching existing customers, based on the business relationship and transaction experience with the customers as well as assessment of the Group's senior management on the supply, demand and price trend, the Group purchases metal products in advance and keeps inventory. After that, the Group approaches such existing customers.

The Group's Executive Directors, Mr. Zhang Siyuan ("**Mr. Zhang**"), Mr. Wang Wendong ("**Mr. Wang**") and Mr. Fung Chi Kin ("**Mr. Fung**"), take the lead in identifying and soliciting new customers. Under their leadership, the Group has built a close-knit team with in-depth knowledge of metal markets, price dynamics, and trends, enabling informed trading decisions.

(b) Strong background and connections

The Company's Chairman, Mr. Zhang, has extensive experience in the metal industry. His past experience as general manager of a Germany business engaging in Sino-German trading of metal products, combined with his entrepreneurial ventures in metal trading, has contributed to his strong acumen and connections in the industry.

The Company's Chief Executive Officer, Mr. Wang, has over 29 years of extensive business management experience in the PRC and international trades and has implemented a tight execution of day-to-day operations and strong internal controls.

The Company's Executive Director, Mr. Fung, has over 36 years of extensive experience on banking, finance and the metal industry and held prominent public positions (including permanent honorary president of the Chinese Gold & Silver Exchange Society).

Such background and connections have distinguished the Group and facilitated strong relationships with business partners which drives the Group's growth.

(c) Tight Contract Fulfillment and Internal Controls

The Group emphasises strict controls on contract fulfillment timelines for customers and suppliers to maintain timely settlement and delivery, fostering a strong reputation for reliability, which enhances its competitive edge in attracting and retaining customers and suppliers. The Company has never defaulted in any procurement or sales contract, which is a testament to its tight controls.

(d) Proven business strategy

The Group has successfully established business relationships with a diverse selection of reputable business partners with reliable track records in the industry, including state-owned, large-scale enterprises and top-tier business entities. The Group has also maintained its strategy to focus on risk control to deal in metal commodities that have high liquidity and more transparent prices in the market, despite lower profit margin.

By prioritising stable orders, reputation, market presence, and a solid customer base, the Group aims for sustainable long-term growth rather than short-term profit maximisation, which further sets it apart from the competition.

(e) Value-added features of the Metal Business

With in-depth knowledge of the metal business, the Group's experienced operation team is also knowledgeable in purchases of insurance, monitoring of delivery, trade and customs declarations and resolving banks' enquiries on bills of lading in issuing documentary credits, as the customers may require, which are part of the one-stop services offered by the Group.

(v) *Ongoing contracts for the Metal Business*

Based on the information currently available, as at 8 May 2024, the Group has ongoing metal sales contracts on hand of an estimated HK\$2,663.9 million.

As at the date of this announcement, the Group has collected approximately 100% of receivables for metal sales contracts for FY2023.

Material development in the Education Management Services Business

The Group has been operating its Education Management Services Business since July 2019 through its wholly-owned subsidiary, Sichuan Loco Yahui Education Management Limited* (四川港銀雅匯教育管理有限公司), headquartered in Chengdu, the PRC. The Group provides business planning and education management services to different schools and educational training institutions in Chengdu as well as referral and advisory services to educational textbook distributors in the PRC.

The Group successfully captured the growth in demand, as face-to-face teaching and extracurricular activities gradually resumed, in FY2023 and onwards and the revenue of its school and educational institution customers saw significant growth. As the Group has adopted a revenue sharing model with its school and educational institution customers, their revenue growth had in turn reflected positively in the Group's service fees received. In addition, the Group had kept the segment's expenses stable and thus secured a substantial growth in profit for the segment.

(i) Customers of the Education Management Services Business

The Group's business is targeted to meet the State's initiatives to speed up all-rounded education development in the PRC. This has driven up schools' demand for teaching talents, as well as students' and parents' need for extracurricular training.

During FY2023, the Group has entered into continuing service engagements with 9 customers for the Education Management Services Business, including 4 arts and physical education and training institutions, 2 kindergartens, 2 humanistic well-rounded natural experience education providers and 1 educational textbook and book distributor. All of the segments' customers are third parties independent of and not connected with the Company and its connected persons (as defined under the GEM Listing Rules).

The period of the Group's business relationships with its major customers of the Education Management Services Business during FY2023 ranges from a majority of around 2 years to 5 years.

The Education Management Services Business's segment revenue for FY2023 was attributable to approximately 19.3% from the top 1 customer and approximately 49.5% in aggregate from the top 3 customers.

(ii) Suppliers of the Education Management Services Business

Due to the servicing nature of the Education Management Services Business, this segment had no major suppliers.

(iii) Experienced management team of the Education Management Services Business

The Education Management Services Business is managed and supervised by a team of experienced management, including Mr. Wang, Mr. Fung, Ms. Gao Xinna, Mr. Wang Neng and Mr. Chen Ming. Mr. Wang's business management experience included experience in community development projects and has built solid connections with community schools, education institutions and business partners in the education business as a result.

The Group has now operated the Education Management Services Business for around 5 years and has also secured additional customers since the GLRC Decision (such as Xiaofeiwa Shangyuan Cultural Tourism Co., Ltd., a new customer secured by the Group in the fourth quarter of FY2023, which is a business partner of an existing customer of the Group since 2022 and was referred by such existing customer to the Group). The Group has established solid relationships with its customers, through the dedicated and professional services provided by members of the Group's team, not by any single individual, to the customers' satisfaction. The servicing of customers in the Education Management Services Business (including the relevant approaches, negotiations, etc.) have always been handled through the team efforts of the senior management and education services department of the Group and no single person is solely responsible for soliciting the Group's customers on his or her own.

(iv) Proprietary database on teacher and lecturer talents

The Company noted that the external consultants mentioned in the GLRC Decision referred to the information on teacher and lecturer talents maintained by the Group in its proprietary database, which contains comprehensive data compiled by the Group such as contact information, qualifications and experiences, employment history, which is a useful resource to the Group in serving and providing added value to its customers, but the Group does not require the services of the individuals named in such database to operate its business nor regard them as consultants.

For instance, when advising a school to improve its course offerings, the Group may refer suitable talents that the school lacks for its hiring consideration. In turn, the talents will consider the merits of the positions offered and decide for themselves whether to accept. As the Group does not maintain contractual relationship with the talents nor act as the talents' agent, there is minimal cost-impact to the Group and the Group is free to provide its customers with impartial recommendations that is valued by customers. Such database is continually improved over time with each successive feedback received from customers and talents for every project undertaken by the Group and is considered a valuable edge of the Group. This enables the Group to effectively provide advice to its customers that are in-tune with their latest needs from time to time and promotes customer loyalty.

As at the date of this announcement, the Group maintains a proprietary database of over 300 teachers and lecturers specialised in different subjects covering physical education, art education, humanistic well-rounded education and pre-school education.

(v) Key services provided by the Group

The Group assists customers in analysing and designing the structure and content of their courses and broadening the types and contents of courses, and also provides customers with teaching and books recommendations that meet the curriculum and teaching objectives.

The Group also helps customers to conduct market research, including the latest government support policies, development trends of popular lesson plans, community/neighborhood population age distribution and big data on potential customer groups to help customers increase their enrollment sources and number of students. The Group also assists customers with enrollment strategies and publicity, and assists customers in attracting and recruiting students. These include organising campus open days and educational exhibitions for the customers.

In addition, the Group provides advice to educational textbook and book distributor on the needs, hobbies and trends for teaching materials and books of educational institutions, and help such distributors to establish incoming and outgoing inventory management systems so as to speed up delivery times, reduce inventory, improve capital liquidity and reduce direct operating costs.

(vi) Ongoing contracts for the Education Management Services Business

As at the date of this announcement, the Group has entered into ongoing service agreements with each of its customers with expiry dates ranging from August 2025 to June 2026.

Continued sustainable development following a successful FY2023

Based on the unaudited consolidated management accounts of the Group for Jan-Apr 2024:

- (i) for Jan-Apr 2024, the Group recorded a total revenue of approximately HK\$4,946.1 million and a profit for the period attributable to the owners of the Company of approximately HK\$3.3 million;
- (ii) for Jan-Apr 2024, the Metal Business and the Education Management Services Business recorded a segment profit of approximately HK\$3.4 million and HK\$6.9 million respectively;
- (iii) as at 19 April 2024, the total assets and net assets of the Group had grown to approximately HK\$419.6 million and HK\$42.7 million respectively. Such total assets of the Group mainly consisted of trade and other receivables and prepayments of approximately HK\$353.1 million and cash and cash equivalents of approximately HK\$56.3 million.

For further details, please refer to the announcement of the Company dated 22 April 2024 on the update on the Group's business progress for Jan-Apr 2024.

The Company would like to supplement that based on the information currently available, for the period from 1 January 2024 to 8 May 2024, the Group recorded a total revenue of approximately HK\$6,257.7 million, with approximately HK\$6,247.5 million from the Metal Business and approximately HK\$10.2 million from the Education Management Services Business respectively.

Working capital sufficiency of the Group

The Board has confirmed that the Group has sufficient working capital for the coming 24 months, having considered that the average of the Group's key operating costs (namely employee costs, other operating expenses and rental expenses) for FY2022 and FY2023 was in the region of HK\$25.7 million respectively. As such, the Company considers the Group has a strong financial performance and healthy financial position as well as sufficient assets and working capital for its business operation and development.

On the basis of the Group's present operating performance and the contracts on hand, the Board is of the view that the Group has clearly demonstrated it is operating a business of substance which is viable and sustainable, with sufficient level of operations and assets of sufficient value to support its operations, and accordingly has fulfilled Resumption Guidance (i).

Resumption Guidance (ii): Inform the market of all material information for the Shareholders and investors to appraise the Company's position

The Company has regularly published the Update Announcements to disclose the latest information, financial results and resumption progress updates to the Shareholders and potential investors. The Company considers that based on its best information and knowledge, it is not aware of any other material information which is required to be disclosed by the Company as at the date of this announcement for Shareholders and investors to appraise the Group's position. The Company will keep Shareholders and investors informed of any updates by making further announcement(s) as and when appropriate and in accordance with the requirements under the GEM Listing Rules.

Accordingly, the Board is of the view that Resumption Guidance (ii) has been fulfilled.

RESUMPTION OF TRADING

Trading in the Shares on the Exchange has been suspended with effect from 9:00 a.m. on Tuesday, 16 May 2023. As all the Resumption Guidance have been fulfilled, the Company has made an application to the Exchange for the resumption of trading in the Shares on the Exchange with effect from 9:00 a.m. on 5 June 2024.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company. In the event of doubt, Shareholders and potential investors of the Company should seek professional advice from professionals or financial consultants.

By order of the Board of
Loco Hong Kong Holdings Limited
Wang Wendong
Chief Executive Officer

Hong Kong, 4 June 2024

As at the date of this announcement, the executive Directors are Mr. Zhang Siyuan (Chairman of the Board), Mr. Wang Wendong and Mr. Fung Chi Kin; and the independent non-executive Directors are Mr. Zhou Tianshu, Ms. Wu Liyan and Ms. Wong Susan Chui San.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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 announcement 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 announcement misleading.

This announcement will remain on the “Latest Listed Company Announcements” page of the Exchange’s website at www.hkexnews.hk for at least 7 days from the date of its publication and will be available on the Company’s website at www.locohkholdings.com.