

Loco Hong Kong Holdings Limited

港銀控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 8162)



Third
Quarterly
Report
◦
2019



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 take 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 day of its posting and on the Company’s website at www.locohkholdings.com.

The board of Directors (the “Board”) presents the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and nine months ended 30 September 2019, together with the comparative unaudited figures for the corresponding periods in 2018, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited			
		Nine months ended 30 September		Three months ended 30 September	
		2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Revenue					
– Sales of metal		185,477	1,010,802	5,501	152,637
– Sales of electronic products		–	13,011	–	–
– Education management services		4,889	–	4,889	–
– Merchandising support services		–	1,039	–	–
– Interest income from customers and suppliers		5,273	5,767	475	2,163
– Processing fee		211	62	–	62
– Order commission		19	5	–	–
		195,869	1,030,686	10,865	154,862
Trading (losses)/gains on commodity forward contracts		(2,874)	1,909	(155)	1,090
Other income		240	274	37	87
		193,235	1,032,869	10,747	156,039
Total income		193,235	1,032,869	10,747	156,039
Carrying value of inventories sold		(184,972)	(1,019,601)	(5,278)	(154,285)
Employee costs		(19,483)	(13,140)	(9,193)	(4,240)
Depreciation		(2,393)	(1,273)	(755)	(337)
Rental expenses		(687)	(4,453)	(99)	(1,504)
Loss on disposal of property, plant and equipment		(16)	(333)	–	(333)
Other operating expenses		(10,162)	(7,994)	(2,979)	(2,416)
Share of losses of associates		(14)	(17)	(18)	(15)
Finance costs	3	(845)	(819)	(78)	(254)
		(25,337)	(14,761)	(7,653)	(7,345)
Loss before income tax expense		(25,337)	(14,761)	(7,653)	(7,345)
Income tax (expense)/credit	4	(1,039)	(42)	(1,039)	243
		(26,376)	(14,803)	(8,692)	(7,102)
Loss for the period		(26,376)	(14,803)	(8,692)	(7,102)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

	Note	Unaudited			
		Nine months ended 30 September		Three months ended 30 September	
		2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
(Loss)/Profit for the period attributable to:					
– Owners of the Company		(27,195)	(14,566)	(9,511)	(7,102)
– Non-controlling interests		819	(237)	819	–
		(26,376)	(14,803)	(8,692)	(7,102)
Loss for the period		(26,376)	(14,803)	(8,692)	(7,102)
Other comprehensive income					
Item that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations		(31)	(2,222)	(224)	(1,578)
Total comprehensive income for the period		(26,407)	(17,025)	(8,916)	(8,680)
Total comprehensive income for the period attributable to:					
– Owners of the Company		(27,219)	(16,759)	(9,726)	(8,676)
– Non-controlling interests		812	(266)	810	(4)
		(26,407)	(17,025)	(8,916)	(8,680)
		HK cents	HK cents	HK cents	HK cents
Basic and diluted loss per share	6	(4.89)	(3.03)	(1.65)	(1.48)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited							Total equity HK\$'000
	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	
At 1 January 2018	122,898	(1,357)	380	2,335	(11,441)	112,815	(145)	112,670
Loss for the period	-	-	-	-	(14,566)	(14,566)	(237)	(14,803)
Other comprehensive income:								
Exchange differences on translating foreign operations	-	-	-	(2,193)	-	(2,193)	(29)	(2,222)
Total comprehensive income for the period	-	-	-	(2,193)	(14,566)	(16,759)	(266)	(17,025)
Transactions with owners:								
Capital injection by non-controlling interest	-	-	-	-	-	-	2,364	2,364
Deemed disposal of a subsidiary	-	-	-	1	(1)	-	(2,379)	(2,379)
Acquisition of non-controlling interests	-	-	-	-	(426)	(426)	426	-
At 30 September 2018	122,898	(1,357)	380	143	(26,434)	95,630	-	95,630
At 1 January 2019	122,898	(1,357)	380	(183)	(39,284)	82,454	-	82,454
(Loss)/Profit for the period	-	-	-	-	(27,195)	(27,195)	819	(26,376)
Other comprehensive income:								
Exchange differences on translating foreign operations	-	-	-	(24)	-	(24)	(7)	(31)
Total comprehensive income for the period	-	-	-	(24)	(27,195)	(27,219)	812	(26,407)
Transactions with owners:								
Capital injection by non-controlling interest	-	-	-	-	-	-	509	509
Issue of placing shares	23,136	-	-	-	-	23,136	-	23,136
Transaction costs attributable to issue of placing shares	(1,554)	-	-	-	-	(1,554)	-	(1,554)
Partial disposal of interest in subsidiaries	-	-	-	84	(694)	(610)	610	-
Recognition of equity-settled share-based payments	-	-	4,147	-	-	4,147	-	4,147
Forfeited share options	-	-	(278)	-	278	-	-	-
At 30 September 2019	144,480	(1,357)	4,249	(123)	(66,895)	80,354	1,931	82,285

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Loco Hong Kong Holdings Limited (the “Company”) is a limited liability company incorporated in Hong Kong. Its shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of its registered office and principal place of business is Unit 401, 4/F., Fairmont House, 8 Cotton Tree Drive, Admiralty, Hong Kong.

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

The condensed consolidated financial statements of the Group for the nine months ended 30 September 2019 were authorised for issue by the Directors on 14 November 2019.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

These condensed consolidated financial statements do not include all the information and disclosures required in a full set of financial statements prepared in accordance with HKFRSs, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2018 (the “2018 annual financial statements”).

These condensed consolidated financial statements have been prepared with the same accounting policies adopted in the 2018 annual financial statements, except for those that relate to new or revised HKFRSs effective for the first time for periods beginning on or after 1 January 2019. The adoption of these new or revised HKFRSs has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements. The Group has not early adopted any other new or revised HKFRSs that has been issued but is not yet effective.

These condensed consolidated financial statements have not been audited but have been reviewed by the audit committee of the Company (the “Audit Committee”).

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

3. FINANCE COSTS

	Unaudited			
	Nine months ended 30 September		Three months ended 30 September	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Interests on bank loans and other borrowing	30	47	-	-
Interests on loan from a related company	608	712	17	240
Interest expenses on lease liabilities	149	-	44	-
Total interest expenses	787	759	61	240
Bank charges	58	60	17	14
	845	819	78	254

4. INCOME TAX EXPENSE/(CREDIT)

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

	Unaudited			
	Nine months ended 30 September		Three months ended 30 September	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Current tax	1,039	42	1,039	(243)

Hong Kong Profits Tax is calculated at 16.5% (2018: 16.5%) on the estimated assessable profits for the period. No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group incurred tax losses for the period.

Subsidiaries in the PRC are subject to PRC Enterprise Income tax at 25% (2018: 25%) on estimated assessable profits for the period.

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

5. DIVIDEND

The Board does not recommend the payment of any dividend of the Company for the nine months ended 30 September 2019 (2018: nil).

6. LOSS PER SHARE

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

	Unaudited			
	Nine months ended 30 September		Three months ended 30 September	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Loss for the purpose of basic loss per share	(27,195)	(14,566)	(9,511)	(7,102)
Weighted average number of ordinary shares for the purpose of basic loss per share	556,477,692	480,170,000	576,170,000	480,170,000

For the three months and nine months ended 30 September 2019 and 2018, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options since their exercise price is higher than the average market price of the shares of the Company for the period. Accordingly, the basic and diluted loss per share are the same.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's principal activities were mainly divided into four categories include sales of metal, trading of electronic products, provision of merchandising support services and provision of money lending services in the year 2018.

The Group has disposed its businesses in trading of electronic products and merchandising support services during the year ended 31 December 2018, and revenue was then contributed by sales of metal for the nine months ended 30 September 2019.

Besides, the Group has launched the education management services business since July 2019, providing exclusive management and consulting services to various schools controlled and/or operated by 成都市雅滙教育諮詢有限責任公司 (Chengdu Yahui Education Consulting Company Limited*) ("Chengdu Yahui") and 成都雅雲達教育管理有限責任公司 (Chengdu Yayunda Education Management Limited*) ("Chengdu Yayunda").

Sales of metal

During the nine months 30 September 2019, the performance of sales of metal business was unsatisfactory, mainly due to (i) the global economic downturn, and overall decline in the silver market, which adversely affected the overall silver supply in Hong Kong. While gold market was on an upward trend, however, was unstable with large fluctuations, the Group is seeking business opportunities and a right time to breakthrough; and (ii) Mr. Felipe Tan, the executive Director who was charged with the trading of metal segment since incorporation of the Group, has resigned on 20 July 2019. The segment was then taken over by Mr. Fung Chi Kin, who is the Honorary Permanent President and former President of The Chinese Gold & Silver Exchange Society, and joined the Group as an executive Director on 26 June 2019. In view of the poor performance of sale of silver products, the Group has slowed down the trading activities of silver products and is in the process to explore new business opportunities in trading of other metals with higher profit margin.

The Group processed approximately 47 tonnes (2018: 246 tonnes) of silver scrap for the nine months ended 30 September 2019 of which represent decrease of approximately 80.9% as compared with the same period of 2018. Over 99% of revenue from sales of metal are (2018: 100%) from sale of silver products.

During the nine months ended 30 September 2019, the Group recorded a revenue from sales of metal of approximately HK\$185.5 million (2018: HK\$1,010.8 million), which represented a decrease of approximately 81.6%.

* English name for identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Business Review *(Continued)*

Provision of education management services

On 26 February 2019, the Group has established a PRC subsidiary, 四川港銀雅滙教育管理有限公司 (Sichuan Loco Yahui Education Management Limited*) (“Loco Yahui”). During the nine months ended 30 September 2019, Loco Yahui has signed education management services agreements with six schools and contributed approximately HK\$4.9 million revenue to the Group. The Group expected that there will be nine contracted schools in total at the end of year 2019. The Group strives to expand the business in the future and wishes to increase 3 to 5 new contracted schools every year.

Provision of money lending services

One of the Group’s subsidiaries has obtained a money lenders license (under Money Lenders Ordinance, Chapter 163 of the Law of Hong Kong) since the year 2017 and is lawfully engaged in provision of money lending services in Hong Kong. The size of the business still small as the Group stand in prudent approach on money lending business to earn interest from our borrowers. As at 30 September 2019, there was only one overdue loan receivable amounted to approximately HK\$7.6 million from a customer, which is secured by third mortgage on a property in Hong Kong.

Outlook

The Group will continue to carry on sales of metal, provision of education management services and provision of money lending service in Hong Kong and PRC. Especially, the Group will further expand the provision of education management services business in the coming years.

The significantly fluctuation of the market price of silver may affect the silver industry of Hong Kong and our Group as we encountered in the past few years, the Group would actively seek for new market opportunities and extend the business to investment, finance and trade on other commodity. Besides, we have started new sector of business of provision of education management services, cooperating with several well-known education organisations in Sichuan province of the PRC.

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

* *English name for identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Financial Review

For the nine months ended 30 September 2019, the Group had a total income of approximately HK\$193.2 million (2018: HK\$1,032.9 million), representing a decrease of 81.3% as compared with the same period of 2018. The Group recorded loss of approximately HK\$26.4 million (2018: HK\$14.8 million) for the nine months ended 30 September 2019. The increase in loss was mainly attributable to (i) a significant decrease in revenue of approximately 81.6% from sales of metal as discussed in the “Business Review” section; (ii) increase in employee costs of approximately HK\$6.3 million, in particular expenses related to the share options granted to the Directors and employee on 27 August 2019; (iii) increase in other operating expenses of approximately HK\$2.2 million, in particular professional fees incurred for new projects; and (iv) trading losses on commodity forward contracts of approximately HK\$2.9 million (2018: trading gains of HK\$1.9 million) recorded for the period.

Placing of New Shares under General Mandate

The Company entered into a placing agreement dated 7 February 2019 with 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 placing shares of the Company at a placing price of HK\$0.241 per placing share.

The placing price represents (i) a discount of approximately 19.67% to the closing price of HK\$0.300 per share as quoted on the Stock Exchange on 4 February 2019, being the last trading day for the shares prior to the date of the placing agreement, and (ii) a discount of approximately 8.02% to the average closing price of approximately HK\$0.262 per share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the date of the placing agreement.

The placing was completed on 25 February 2019 in accordance with the terms and conditions of the placing agreement 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 net proceeds from the placing was approximately HK\$21.6 million, which will be used for the general working capital of the Group.

Details are disclosed in the Company’s announcements dated 7 February 2019 and 25 February 2019.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Dividend

The Board does not recommend the payment of any dividend of the Company for the nine months ended 30 September 2019 (2018: nil).

Significant Investments, Acquisitions and Disposals

On 7 May 2019, an inactive wholly-owned subsidiary of the Group, Loco Precious Metal Limited (“LPM”) allotted and issued a total of 19,990,000 fully paid new shares at price of HK\$1 per share. 7,990,000 shares were allotted to the Group and 12,000,000 shares were allotted to an independent third party. As a result, the issued shares of LPM was increased to 20,000,000 shares and the Group held 8,000,000 shares, representing 40% equity interest in LPM. The Group ceased to have the control over LPM, however, the Group still has significant influence over LPM and thus is accounted for as an associate since 7 May 2019.

On 30 April 2019, the Group acquired 7,920,000 shares of Lexus Group (Asia) Limited (“Lexus Group”), representing 18% equity interest in Lexus Group at consideration of HK\$7,920,000.

On 16 May 2019, the Group acquired further 1,200 new shares of Grand Max Enterprises Limited (“Grand Max”), representing 10% equity interest in Grand Max at consideration of HK\$7,500,000. As a result, the Group held 2,000 shares, representing 16.67% equity interest in Grand Max.

As Mr. Felipe Tan, the executive Director solely responsible for the above investments, has resigned on 20 July 2019, the management is handling the handover process, actively following up and in assessment for the status and business prospects of the above investments.

Save as disclosed above, there were no significant investment held as at 30 September 2019, nor other material acquisition and disposal of subsidiary during the nine months ended 30 September 2019.

Contingent Liabilities

The Group did not have any material contingent liabilities, guarantees or any litigation or claims of material importance pending or threatened against any member of our Group as at 30 September 2019 and there has not been any material change in the contingent liabilities of the Group since 30 September 2019.

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

At 30 September 2019, 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

Options to subscribe for ordinary shares of the Company

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

Name of Directors	Date of Grant	Exercise price per share HK\$	Exercise period	Number of share options and underlying shares					Outstanding as at 30.9.2019
				Outstanding as at 1.1.2019	Granted	Exercised	Cancelled	Lapsed	
Felipe Tan (note (i))	10.4.2015	0.78	10.4.2015 – 9.4.2025	250,000	-	-	-	(250,000)	-
Tsang Wai Chun Marianna (note (ii))	10.4.2015	0.78	10.4.2015 – 9.4.2025	80,000	-	-	-	(80,000)	-
Wang Wendong	27.8.2019	0.616	27.8.2019 – 26.8.2022 (note (iii))	-	5,700,000	-	-	-	5,700,000
Fung Chi Kin	27.8.2019	0.616	27.8.2019 – 26.8.2022 (note (iii))	-	5,700,000	-	-	-	5,700,000
Lau Yuen Sun Adrian	27.8.2019	0.616	27.8.2019 – 26.8.2022 (note (iii))	-	570,000	-	-	-	570,000
Wong Susan Chui San	27.8.2019	0.616	27.8.2019 – 26.8.2022 (note (iii))	-	570,000	-	-	-	570,000
Zhou Tianshu	27.8.2019	0.616	27.8.2019 – 26.8.2022 (note (iii))	-	570,000	-	-	-	570,000
Wu Liyan	27.8.2019	0.616	27.8.2019 – 26.8.2022 (note (iii))	-	570,000	-	-	-	570,000
				330,000	13,680,000	-	-	(330,000)	13,680,000

Notes:

- (i) Mr. Felipe Tan has resigned as an executive Director on 20 July 2019.
- (ii) Ms. Tsang Wai Chun Marianna has resigned as an independent non-executive Director on 28 June 2019.
- (iii) The share options granted will vest to the Directors at the date of grant, the first and second anniversary of the date of grant at an average amount, the share options once vested shall be exercisable on a cumulative basis.

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

(Continued)

Short Positions

At 30 September 2019, no short positions of Directors or chief executives in the shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

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

At 30 September 2019, 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	13.19%
Chu Fong	Beneficial owner	46,000,000	7.98%
Lin Chenchen	Beneficial owner	45,000,000	7.81%
Ho Mun Jing	Beneficial owner	29,730,000	5.16%

Save as disclosed above, no other interests or short positions of any persons/entities (other than the Directors and the chief executives of the Company) in the shares or underlying shares of the Company were recorded in the register or as otherwise notified to the Company and the Stock Exchange at 30 September 2019.

SHARE OPTIONS

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

Type of Participant	Date of Grant	Exercise price per share HK\$	Exercise period	Number of share options and underlying shares					Outstanding as at 30.9.2019
				Outstanding as at 1.1.2019	Granted	Exercised	Cancelled	Lapsed	
Directors	10.4.2015	0.78	10.4.2015 – 9.4.2025	330,000	-	-	-	(330,000)	-
	27.8.2019	0.616	27.8.2019 – 26.8.2022 (note)	-	13,680,000	-	-	-	13,680,000
Employees	10.4.2015	0.78	10.4.2015 – 9.4.2025	730,000	-	-	-	(530,000)	200,000
	27.8.2019	0.616	27.8.2019 – 26.8.2022 (note)	-	24,000,000	-	-	-	24,000,000
Others	10.4.2015	0.78	10.4.2015 – 9.4.2025	130,000	-	-	-	(10,000)	120,000
				1,190,000	37,680,000	-	-	(870,000)	38,000,000

Note:

The share options granted will vest to the grantees at the date of grant, the first and second anniversary of the date of grant at an average amount, the share options once vested shall be exercisable on a cumulative basis.

SHARE OPTIONS *(Continued)*

The fair value of equity-settled share options granted on 27 August 2019 was HK\$0.176 per option, amounted to approximately HK\$6.6 million in aggregate. It was estimated as at the date of grant, using the Binomial 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\$0.60
Exercise price	HK\$0.616
Risk-free rate	1.31%
Volatility	52.68%
Dividend yield	0%
Employee turnover rate	13.33%
Early exercise multiplier	2.80

Estimation of the value of the share options is subjective and uncertain as such values are subject to a number of assumptions and with regard to the limitation of the model. The expected volatility is based on the historical volatility reflecting the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The expected early exercise multiplier is also estimated and is not necessarily indicative of the exercise patterns that may occur.

All significant features necessary to be considered for the measurement of fair values of the share options granted during the period were incorporated into such measurement.

The Group recognised employee costs of approximately HK\$4.1 million for the nine months ended 30 September 2019 (2018: nil) in relation to share options granted by the Company.

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

On 25 February 2019, the Company allotted and issued a total of 96,000,000 fully paid new shares by way of placing at a price of HK\$0.241 per share.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPETITION AND CONFLICT OF INTEREST

Apart from the business of the Group, during the nine months ended 30 September 2019, Mr. Felipe Tan, who has resigned as an executive Director on 20 July 2019, 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 nine months ended 30 September 2019.

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

During the nine months ended 30 September 2019, to the best knowledge of the Board, the Company 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”), save for the deviation from A.2.1 of the Code Provisions as explained below.

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. Accordingly, the Company has not segregated the roles of the chairman and chief executive officer as required by A.2.1 of 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 nine months ended 30 September 2019.

Audit Committee

The Company established the Audit Committee on 22 July 2014 with written terms of reference that was amended and adopted with effect from 2 January 2019 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-yearly report and quarterly report and providing advice and comments to the Board. In this regard, members of the Audit Committee will liaise with the Board, our senior management and auditors. The Audit Committee will also consider any significant or usual items that are, or may need to be, reflected in such reports and accounts and give consideration to any matters that have been raised by our accounting staff, compliance officers or auditors. Members of the Audit Committee are also responsible for reviewing our Company’s financial reporting process, risk management and internal control systems.

CORPORATE GOVERNANCE *(Continued)*

As at the date of this report, the Audit Committee comprises four independent non-executive Directors, namely Mr. Zhou Tianshu (Chairman), Mr. Lau Yuen Sun Adrian, Ms. Wong Susan Chui San and Ms. Wu Liyan.

The Audit Committee has reviewed this quarterly report, including the condensed consolidated financial statements of the Group for the nine months ended 30 September 2019, prior to recommending them to the Board for approval.

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

Hong Kong, 14 November 2019

As at the date of this report, the executive Directors are Mr. Wang Wendong and Mr. Fung Chi Kin; and the independent non-executive Directors are Mr. Lau Yuen Sun Adrian, Ms. Wong Susan Chui San, Mr. Zhou Tianshu and Ms. Wu Liyan.