Loco Hong Kong Holdings Limited
港銀控股有限公司
(incorporated in Hong Kong with limited liability)
(Stock Code: 8162)

SUPPLEMENTAL ANNOUNCEMENT TO THE THIRD QUARTERLY REPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

This supplementary announcement sets out a review and outlook of the Company's trading of metal business for the nine months ended 30 September 2021. All unaudited operating and financial information contained in the Third Quarterly Report remains unchanged.

The trading of metal business of the Company improved slightly in the third quarter of 2021, but it was still under the impact of repeated COVID-19 outbreaks and quarantine measures, as well as extremely volatile gold and silver market prices. Sales revenue of the trading of metal business for the nine months ended 30 September 2021 was recorded at approximately HK$5.35 million (second quarter: approximately HK$1.78 million; first quarter: nil);

Looking to the future, the Company is confident to continue to take active measures to restore, and further improve and expand its trading of metal business under controllable risks.

Reference is made to the third quarterly report of Loco Hong Kong Holdings Limited (the "**Company**") for the nine months ended 30 September 2021 published on 12 November 2021 (the "**Third Quarterly Report**"). Unless otherwise stated, capitalised terms used herein shall bear the same meanings as defined in the Third Quarterly Report.

Further to the information disclosed in the Third Quarterly Report, the Company wishes to provide to its shareholders and potential investors with the following supplementary information about the status and prospects of its trading of metal business.

1. IMPACT OF COVID-19 ON THE TRADING OF METAL BUSINESS

The Group's trading of metal business was slightly improved in the third quarter of 2021 compared with the corresponding period in 2020 but was still subject to the continuous emergence of COVID-19 variants, which continued to affect recovery of the global economy. The different public health policies adopted by different countries against COVID-19 e.g. "living with COVID" versus "COVID-zero", the political battles among countries in respect of the fight against and economic recovery from COVID-19, and the quantitative easing monetary policy adopted by western countries and led by the United States not only caused drastic increase in prices of commodities, raw materials and food products, but also restrictions on travelling and logistics transportation, as well as disruption of air and ocean freight schedules. Such factors have greatly increased the default risks in global trading. Considering the strict risk control measures implemented by the Group, such risks are inevitably reflected in the Group's pricing strategy for its trading of metal business.

As at the date of this announcement, normal clearance of business traveler has not resumed between Hong Kong and mainland China and Southeast Asian countries, which hindered normal business activities such as face to face meetings for the purpose of building business connections, including inspection of product samples and understanding the business scale, credit and source of business funds, etc. of potential business partners, which led to difficulties in decision making.

2. IMPACT OF GOLD AND SILVER MARKET CONDITIONS ON THE TRADING OF METAL BUSINESS

In view of the severe COVID-19 global pandemic, many western countries as led by the United States implemented extreme quantitative easing monetary policy involving trillions of dollars and maintained ultra-low interest rates in the financial market, a few of which even implemented negative interest rates, flooding the market with hot money, and resulting in extreme volatility in the commodity, agricultural products and precious metal markets. Demand for physical silver and gold remains weak as businesses and households struggle to survive in an unrecovered economy and when silver and gold prices reach high levels, they were often met with profit-taking. The extreme fluctuation in the prices of gold and silver has further increased the risk in the hedging transactions of the Group and increased costs.

Due to the supply shortage in the market, the narrowed bargaining space from the buyers' side, and the increase in hedging risks and transaction costs, the Company has grown more cautious when engaging in its trading in metal business, keeping strict risk control as priority.

The process of the Company's purchase of silver scraps and sale of high-quality silver ingots and granules is set out below:

1) After procuring supply sources, suppliers in mainland China ask for an offer price from the Group, usually by reference to the Loco London Silver Spot Price (the "**Reference Price**") (e.g. at a discount of US$0.40/ounce to the Reference Price). If any supplier agrees to the Group's offer price, it will then arrange delivery in Hong Kong.

2) Meanwhile, the Group asks for offer prices from trader buyers in Hong Kong, Japan or Singapore, which usually depend on the offer prices from their ultimate buyers, similarly by reference to the Reference Price (e.g. at a premium of US$0.10/ounce to the Reference Price). After locking in the price, the Group will derive the actual purchase price for the silver scraps based on the Reference Price on the date they are delivered to Hong Kong. For instance, if the Reference Price is US$14.50/ounce, after deducting the discount of US$0.40/ounce, the actual purchase price payable by the Group is US$14.10/ounce. At the time of pricing, the Group will conduct hedging by reference to the real time quotations from market traders through selling the same amount of silver "forward" without entering into a physical settlement contract. The purpose of such hedging transaction is to prevent price loss from the purchase of silver scraps when the price of silver falls.

3) After converting the silver scraps into high quality silver granules and ingots, the Group determines on the actual selling price with the buyers. For instance, if the Reference Price is US$15/ounce, and the Group agreed to sell at a premium of US$0.10/ounce, then the actual selling price is US$15.10/ounce. At the time of pricing, the Group will make a "close position" transaction, e.g. buying back the silver contract that was previously hedged at US$14.50/ounce at US$15/ounce (the loss from such hedge transaction is US$0.50/ounce). As the silver market price fluctuates from time to time (the volatility has been particularly severe in recent years), hedging transactions are prone to losses in the bid-ask spread (of course they may also result in a profit). If the two hedging transactions result in a total loss of US$0.60/ounce, the entire transaction will result in a gross profit of US$0.40/ounce throughout the purchase to sales to hedging processes.

From 2020, shortage of silver scraps supplied to Hong Kong, intense competition in the metal trading industry, as well as the negative impact of COVID-19 pandemic have resulted in an increase in logistic cost and uncertainties in transportation, the discounts provided by suppliers are further narrowed. On the other hand, due to significant increase in price of silver in the international market, demand for physical silver has further weakened. Meanwhile, international logistics costs have substantially increased due to disruption of flights, which add uncertainties to delivery time. In 2020, because of flights suspension, a batch of physical gold failed to be delivered to New York's futures market on time, which resulted in an unprecedented gold price difference between New York and London and severe losses for London commodity dealers.

As such, buyers have grown more cautious and the negotiable bargaining space from the buyers' side have further narrowed. Taking into account the above as well as the potential hedging losses, a transaction in the trading of metal business of the Group has become high-risk, unprofitable or even loss making. Considering other uncontrollable risks, the Company can only strictly adhere to established risk control measures in procurement and sales, and for those transactions which involve high uncertainties and generate a low margin, the Company would rather not enter into.

3. CURRENT OPERATING STATUS OF THE TRADING OF METAL BUSINESS

1) Client and contract portfolio of the Group

The Company had one client (the "**Client**") based in Hong Kong during the nine months ended 30 September 2021. This is because when selecting customers, the Company needs to assess the credibility of potential customers and the source of their funds; whereas customers place orders as needed based on market conditions, after they "shop around". Therefore, in terms of paying attention to risk control and carefully selecting sales customers, the Company has only chosen the Client at present.

To the knowledge of the directors of the Company (the "**Directors**"), the Client is a Hong Kong company with over 20 years of history in the refinery of gold and silver products and metal trading industry, and an independent third party.

During the nine months ended 30 September 2021, the Company issued six sales invoices to the Client for the sales of physical gold with each transaction amount ranging between USD100,000 to USD200,000.

The Company currently expects to continue supplying gold to the Client in the foreseeable future. Even though it is the general practice of the market players not to enter into long term supply/sales contracts, the Company currently expects that as long as there is no extreme fluctuation in the market price of gold, sales will continue to grow. Meanwhile, the Company will continue to look for business opportunities with other local gold traders in Hong Kong.

The Company is currently in early stage of negotiation with a possible new client for possible business partnership. As such negotiation is still preliminary, and given the current COVID-19 restrictions on traveler clearance and logistics between Hong Kong and the mainland China, the Company is unable to estimate at this stage whether such business opportunities will materialise and if so, the expected contract sums to be brought by such possible business opportunities.

2) Use of proceeds from the placing

As at 30 September 2021, even though the trading of metal business of the Company has not recorded profit due to adverse factors including the global pandemic still not being under control, the situation has slightly improved as compared to 2020. Reducing the number of employees also helped the control of management and operating costs. The employees of the Group's trading of metal business currently include executive Director Mr. Fung Chi Kin, three employees responsible for collection and delivery and administrative function, and the number of technicians working in the metal processing facilities of the Group as full-time employees has been reduced from eight as of two years ago to two as at the date of this announcement. The Group plans to make an initial cash allocation of HK$5 million from the proceeds of the placing completed in August 2021 to strengthen the metal trading business for further development in the future, which is consistent with the use of proceeds as disclosed in the Company's announcements dated 12 August 2021 and 20 August 2021, respectively.

4. DEVELOPMENT PROSPECTS OF THE TRADING OF METAL BUSINESS

As set out above, although Hong Kong's economy is gradually recovering from COVID-19, the Company's trading of metal business is dependent on supply sources from mainland China and the overseas sales import and export business. Therefore, it still faces severe challenges due to the abovementioned factors. Notwithstanding that, the Group has never considered suspending or reducing its trading of metal business but rather, has been strictly adhering to the strategy of actively restoring and continuously expanding the core business as much as possible, and never slacked off during the period.

The Company has endured nearly two years of repeated global COVID-19 pandemic outbreaks during which the business environment and market conditions of various operational links are difficult to control. Despite that, the Company has full confidence that after the pandemic situation is further stabilised and the customs clearance between Hong Kong and mainland China returns to normal, the Company will be able to further improve and expand its trading of metal business.

The above supplemental information does not affect any other information contained in the Third Quarterly Report.

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

Hong Kong, 17 December 2021

As at the date of this announcement, the executive Directors are 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 Information" page of the GEM website at www.hkgem.com for at least 7 days from the date of its publication and will be available on the Company's website at www.locohkholdings.com.