



UKF (HOLDINGS) LIMITED

英裘(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

GEM stock code: 8168



Third Quarterly Report 2014

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This report, for which the directors (the “Directors”) of UKF (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.

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Financial highlight

- Recorded an unaudited turnover of approximately HK\$212.5 million for the nine months ended 31 December 2014, representing an increase of approximately 7.6% over the same period of the previous year.
- Recorded an unaudited profit attributable to the shareholders of the Company of approximately HK\$39.7 million for the nine months ended 31 December 2014, representing an increase of approximately 19.2% over the same period of the previous year.
- Basic earnings per share for the nine months ended 31 December 2014 were HK2.16 cents (2013: HK1.91 cents).
- The Directors do not recommend the payment of dividend for the three months ended 31 December 2014.

Chairman's statement

Results

The Group's unaudited turnover for the nine months ended 31 December 2014 was approximately HK\$212.5 million, representing an increase of approximately 7.6% from approximately HK\$197.5 million during the same period in 2013.

The gross profits for the Group were approximately HK\$56.1 million for the nine months ended 31 December 2014, representing an increase of approximately 12.9% from HK\$49.7 million for the same period in 2013. The increase in gross profit was primarily due to the increase in demand of fur skins as a result of the decrease in fur skins prices, the increase in turnover from the fur skins brokerage and financing services of Loyal Speed Limited ("Loyal Speed") and the increase in turnover from the operation of mink farms in Denmark.

Further, the Group recorded an unaudited profit attributable to the shareholders of the Company of approximately HK\$39.7 million for the nine months ended 31 December 2014, representing an increase of approximately 19.2% over the same period of the previous year.

Business review

The business performance of the Group remained steady and solid during the period under review. The operation of our three operating segments — fur skin trading, fur skins brokerage and financing services and mink farming, was stable.

The winter season arrived earlier this year, which stimulated the fur trading market. The snow fell in China, Russia, America, Korea and Japan as early as in November 2014, which contributed to favourable results to the previous quarter. The extreme and persistent coldness in those countries in December created a big selling craze for fur garments and fur-trimmed garments. As a result, the mink price increased by over 10% at the Kopenhagen Fur auction held in January 2015.

In view of the early winter and lower trading prices compared with the previous two years, top luxury brands took advantage of the high market demand and achieved better sales of fur garments, indicating a thriving fur industry.

Trading

Apart from the early winter season, since the Chinese New Year will begin in the second half of February 2015, the selling season for fur skins and fur garments are longer.

The effect of a longer selling period is especially prominent in China, where the number of buyers who contributed most to the increased demand for fur garments, has been growing substantially. This increased demand created a very steady profit to the Group during the period under review.

The North American Fur Auction ("NAFA"), which predominantly specialises in the trading of fur trimming raw materials, opened with a buzz of excitement at their Toronto headquarters in January 2015. The Auction welcomed a large, energetic and growing international crowd that pushed fur skin prices higher.

The Copenhagen Fur auction held in January 2015 also observed encouraging results as those achieved in NAFA. Approximately 3.3 million mink skins were sold at the auction in Copenhagen Fur in January 2015 at an average price DKK 386/EUR 52/USD 61, which was over 10% increase compared to the prices attained for similar type of skins sold at the auction in Copenhagen in September 2014. This result suggested a positive year of trading mink and fox of the Group.

In view of the higher trading price recorded in the January Copenhagen Fur auction, the management of the Group decided to withhold the sales of 160,000 good-valued mink skins purchased in June 2014 till the coming season(s) as to take advantage of the expected steady increase in fur skin prices which may raise the Group's profit margins.

Fur Skins Brokerage & Financing Services

Since Copenhagen Fur's first auction of the 2015 season, which used to be held in December in previous years, was rescheduled to January 2015, commission and interest income generated from such auction was not reflected in the results of Loyal Speed Limited ("Loyal Speed") during the three months ended 31 December 2014. Nevertheless, given the increased demand for financing for fur garments, Loyal Speed was able to sustain a similar level of profit during the nine months ended 31 December 2014 compared with the same period in 2013.

Further, Loyal Speed established new partnership with financial institutions in Hong Kong to increase the Group's credit so as to accommodate the future expansion of its business.

Farming

Our mink farming business is becoming profitable. The Group was able to deliver over 50% more of pelted skins than previous year for sale throughout the year at the Copenhagen Fur auctions.

The Group is continuously looking for ways to improve the quality of animals raised on our farms. Over the reporting period, UKF (Denmark) A/S started the construction of our highest quality farm to extend its breeding capacity from 2,300 breeders to 4,800 breeders. Construction is expected to complete ahead of schedule at the end of February 2015 and the Group is looking forward to seeing great benefits.

Operations on our farms are efficient under the supervision of the CEO of UKF (Denmark) A/S, John Eggert, and assistance from our well-trained farm managers. As our team expands in Denmark, we are expanding our network to learn new practices, source high quality breeders and to continuously seek good value farms that are available for future acquisitions.

The health of animals on our farms continued to be healthy as we receive great training from our friends at Copenhagen Fur. The Group have committed all of our skins to be sold in Copenhagen Fur to assure the quality and strong partnership with them continues to prosper.

Prospect

Overall the Group experienced a very good quarter due to the solid performance across all our three business segments and is looking forward to an even greater coming months ahead.

The early winter and later start of Chinese New Year, extend the selling period for fur garments during the season. The persistently cold weather in China during December 2014 has been crucial to the positive development in the fur-related retail industry. The rising price for fur skins reflected the increasing demand for fur garments by consumers in China.

The first auction of Copenhagen Fur in January 2015 recorded over 10% price jump in the average mink skin prices compared to the auction price in the previous auction in September 2014. The auction of NAFA which followed announced that Demi female minks were “sold out at levels that were 10-20% above those achieved at the most recent international auctions”, leaving the Group and the entire fur industry to be optimistic for a great year to come. Furthermore, our decision to withhold the trading of 160,000 mink skins has proved to be beneficial to the Group as mink skins sold at January 2015 auction of Copenhagen Fur have already recorded an approximately 26% increase in value from June 2014 auction.

Loyal Speed, our subsidiary which operates brokerage and financing business, is expected to have steady performance as all of our existing customers have been enjoying a very good retail season. With a high turnover rate of their stock due to high demand from the market, we anticipate that our clients will be placing larger orders through Loyal Speed in the coming months.

Our farming business continues to be the developing segment of the Group and is showing promising results. Under the leadership from our CEO of UKF (Denmark) A/S, John Eggert and our skilled labor coming from farm managers, we are confident in the continuous production of good quality skins. The Group will continue to seek new acquisition opportunities as we implement more unified practices across all of our farms.

As UKF continues to see our segments growing in preparation for bigger business, the Group has applied to transfer from the GEM to Main Board of The Stock Exchange of Hong Kong Limited. The Group is hoping that the proposed transfer of listing will encourage and support larger investment institutions to invest in our company to promote the our business and profits for all.

Wong Chun Chau

Chairman

Hong Kong, 4 February 2015

The board of directors (the “Board”) of the Company is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months and nine months ended 31 December 2014 together with comparative figures, as follows:

Unaudited condensed consolidated statement of profit or loss and other comprehensive income

For the three months and nine months ended 31 December 2014

	Notes	Three months ended 31 December		Nine months ended 31 December	
		2014 HK\$ (unaudited)	2013 HK\$ (unaudited)	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)
Turnover	3	38,884,345	45,773,605	212,510,888	197,449,901
Cost of sales		(24,929,523)	(32,998,940)	(156,395,078)	(147,752,516)
Gross profit		13,954,822	12,774,665	56,115,810	49,697,385
Other income	4	551,321	832,556	738,327	3,009,526
Change in fair value less cost to sell of biological assets		13,767,781	10,898,686	24,511,054	11,499,871
Administrative expenses		(12,567,953)	(10,374,069)	(34,856,760)	(25,477,737)
Finance costs	5	(1,557,739)	(1,139,270)	(5,267,287)	(3,747,942)
Profit before tax	6	14,148,232	12,992,568	41,241,144	34,981,103
Income tax expenses	7	(97,775)	(266,713)	(1,502,123)	(1,645,013)
Profit for the period and attributable to shareholders of the Company		14,050,457	12,725,855	39,739,021	33,336,090
Other comprehensive expenses					
Change in fair value of available-for-sale investment		85,918	—	(1,832,302)	—
Exchange difference on translation of overseas operations		(290,951)	948,099	95,170	1,040,965
Total comprehensive income for the period and attributable to shareholders of the Company		13,845,424	13,673,954	38,001,889	34,377,055
Earnings per share (cents)	9				
Basic		0.70	0.64	2.16	1.91
Diluted		0.66	0.63	2.10	1.88

Unaudited condensed consolidated statement of financial position

At 31 December 2014

	Notes	31 December 2014 HK\$ (unaudited)	31 March 2014 HK\$ (audited)
Non-current assets			
Property, plant and equipment	10	37,161,139	40,007,400
Investment properties		1,290,977	1,473,621
Goodwill		75,433,142	75,433,142
Available-for-sale investment		10,037,136	—
Deferred tax asset		920,900	—
		124,843,294	116,914,163
Current assets			
Biological assets		19,949,375	14,009,767
Inventories		88,869,184	55,325,234
Trade and other receivables	11	47,145,169	104,980,483
Loan receivables	12	129,260,465	106,742,130
Pledged bank deposits		—	8,528,800
Bank balances and cash		82,237,923	60,756,260
		367,462,116	350,342,674
Current liabilities			
Trade and other payables	13	70,841,233	55,204,135
Tax payables		10,484,809	8,108,216
Obligations under finance lease		192,784	186,580
Bank borrowings	14	98,520,545	103,373,132
		180,039,371	166,872,063
Net current assets		187,422,745	183,470,611
Total assets less current liabilities		312,266,039	300,384,774
Non-current liabilities			
Corporate bond	15	10,000,000	10,000,000
Promissory note	16	—	18,574,714
Obligations under finance lease		66,152	211,525
Deferred tax liability		119,353	127,081
		10,185,505	28,913,320
Net assets		302,080,534	271,471,454
Capital and reserves			
Share capital	17	20,063,020	16,517,760
Reserves		282,017,514	254,953,694
Total equity		302,080,534	271,471,454

Unaudited condensed consolidated statement of changes in equity

For the nine months ended 31 December 2014

	Share capital	Share premium	Merger reserve	Share options reserve	Warrants reserve	Translations reserve	Retained profits	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 April 2013 (audited)	11,520,000	114,649,721	(7,122,000)	4,561,909	—	(7,722)	47,423,191	171,025,099
Dividend paid	—	—	—	—	—	—	(8,257,760)	(8,257,760)
Issue of Shares upon exercise of Pre-IPO share options	334,400	9,498,025	—	(2,800,105)	—	—	—	7,032,320
Issue of Shares upon bonus issue	2,359,360	(2,359,360)	—	—	—	—	—	—
Issue of Shares by placing	2,304,000	62,208,000	—	—	—	—	—	64,512,000
Expenses attributable to issue of Shares	—	(1,831,793)	—	—	—	—	—	(1,831,793)
Issue of warrants	—	—	—	—	570,000	—	—	570,000
Expenses attributable to issue of warrants	—	—	—	—	(366,819)	—	—	(366,819)
Recognition of equity-settled share based payment	—	—	—	1,600,432	—	—	—	1,600,432
Issue of share options	—	—	—	756,316	—	—	—	756,316
Other comprehensive expenses for the period	—	—	—	—	—	1,040,965	—	1,040,965
Profit for the period and total comprehensive income for the period	—	—	—	—	—	—	33,336,090	33,336,090
At 31 December 2013 (unaudited)	16,517,760	182,164,593	(7,122,000)	4,118,552	203,181	1,033,243	72,501,521	269,416,850

	Share capital	Share premium	Merger reserve	Share options reserve	Warrants reserve	Available- for-sale investment revaluation reserve	Translations reserve	Retained profits	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 April 2014 (audited)	16,517,760	182,167,594	(7,122,000)	4,811,474	203,180	—	(113,252)	75,006,698	271,471,454
Dividend paid	—	—	—	—	—	—	—	(10,212,871)	(10,212,871)
Issue of Shares upon exercise of Pre-IPO share options (Note 17(b))	29,608	674,906	—	(168,609)	—	—	—	—	535,905
Issue of Shares upon bonus issue (Note 17(a))	3,303,552	(3,303,552)	—	—	—	—	—	—	—
Expenses attributable to issue of Shares	—	(36,900)	—	—	—	—	—	—	(36,900)
Lapse of warrants	—	—	—	—	(203,180)	—	—	203,180	—
Issue of warrants	—	—	—	—	1,200,000	—	—	—	1,200,000
Expenses attributable to issue of warrants	—	—	—	—	(274,500)	—	—	—	(274,500)
Issue of shares upon exercise of warrants (Note 17(c))	500,000	9,681,375	—	—	(231,375)	—	—	—	9,950,000
Recognition of equity-settled share based payment	—	—	—	48,733	—	—	—	—	48,733
Issue of share options	—	—	—	870,327	—	—	—	—	870,327
Shares repurchased and cancelled (Note 17(d))	(287,900)	(9,185,603)	—	—	—	—	—	—	(9,473,503)
Other comprehensive expenses for the period	—	—	—	—	—	(1,832,302)	95,170	—	(1,737,132)
Profit for the period and total comprehensive income for the period	—	—	—	—	—	—	—	39,739,021	39,739,021
At 31 December 2014 (unaudited)	20,063,020	179,997,820	(7,122,000)	5,561,925	694,125	(1,832,302)	(18,082)	104,736,028	302,080,534

Notes to the unaudited condensed consolidated financial statements

For the nine months ended 31 December 2014

1. General information

UKF (Holdings) Limited (the “Company”) was incorporated in the Cayman Islands on 31 March 2011 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The addresses of the registered office and the principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and 902, Harbour Centre, Tower 2, 8 Hok Cheung Street, Hung Hom, Kowloon, Hong Kong respectively.

The Company is engaged in investment holding while the Group is principally engaged in trading of fur skins, fur skins brokerage and financing services and mink farming.

These condensed quarterly financial statements have not been audited.

2. Basis of preparation and accounting policies

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants as well as with the applicable disclosure requirements of Chapter 18 of the Rules (the “GEM Listing Rules”) Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the nine months ended 31 December 2014 are the same as those used in the preparation of the Group’s financial information for the year ended 31 March 2014 as included in the annual report 2014.

3. Segment information

HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the board of directors) in order to allocate resources to the segments and to assess their performance.

The board of directors reviewed the sales of major products for the purpose of resources allocation and performance assessment and considered that the Group operates in three business units based on their products, and has three reportable and operating segments: trading of fur skins, fur skins brokerage and financing services and mink farming.

An analysis of the Group's turnover for each reporting period is as follows:

	Three months ended 31 December		Nine months ended 31 December	
	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)
Trading of fur skins	33,617,195	40,710,604	176,586,682	177,299,322
Fur skins brokerage and financing services	5,252,382	4,549,110	22,179,745	17,785,139
Mink farming	14,768	513,891	13,744,461	2,365,440
	38,884,345	45,773,605	212,510,888	197,449,901

Geographical information

An analysis of the Group's turnover for each reporting period by geographical market is as follows:

	Three months ended 31 December		Nine months ended 31 December	
	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)
The People's Republic of China ("PRC")	37,692,609	44,156,482	186,661,299	158,600,816
Europe	14,768	513,891	13,744,462	15,234,613
Russia*	—	—	—	13,490,044
Canada	—	—	—	2,086,204
Hong Kong	1,176,968	1,103,232	12,105,127	8,038,224
	38,884,345	45,773,605	212,510,888	197,449,901

* Due to the price adjustment of the fur skins, Russian garment buyers purchased fur skins from Chinese fur manufacturers instead.

4. Other income

	Three months ended 31 December		Nine months ended 31 December	
	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)
Bank interest income	32,410	8,332	74,419	8,828
Exchange gain, net	—	—	—	1,886,848
Rental income	43,960	24,578	122,360	81,990
Sundry income	—	3,550	14,406	235,764
Bonus and rebate from auction houses	474,951	796,096	527,142	796,096
	551,321	832,556	738,327	3,009,526

5. Finance costs

	Three months ended 31 December		Nine months ended 31 December	
	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)
Interest wholly repayable within five year:				
Trust receipt loan interest	524,086	439,326	1,840,126	1,451,175
Term loan interest	444,823	75,652	1,086,425	187,944
Overdraft interest	—	5,429	421	10,212
Imputed interest on promissory note	205,644	286,496	1,425,286	666,700
Interest on finance lease	3,171	5,172	11,032	7,004
Corporate bond interest	137,499	137,503	412,497	412,501
Auction interest	242,516	189,692	491,500	360,972
Auction finance interest	—	—	—	651,434
	1,557,739	1,139,270	5,267,287	3,747,942

6. Profit before tax

	Three months ended 31 December		Nine months ended 31 December	
	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)
Profit before tax has been arrived at after charging:				
Cost of inventories recognized as expenses	2,732,716	4,035,500	160,748,557	75,133,478
Staff costs (including directors' remuneration)				
— Salaries and allowances	3,637,159	3,102,981	10,076,162	7,271,082
— Defined contribution retirement benefit scheme contributions	40,276	34,388	110,324	96,429
Depreciation	977,674	540,806	2,836,233	1,706,621
Exchange loss, net	2,996,786	66,541	8,075,874	—
Equity-settled share-based payments	16,244	533,477	919,060	2,356,748
Loss on fixed assets written off	—	—	1,100	15,030
Operating lease payments	225,818	142,169	655,574	410,491

7. Income tax expenses

	Three months ended 31 December		Nine months ended 31 December	
	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)
The charge comprises:				
Hong Kong Profits Tax	537,971	528,287	2,428,437	2,080,116
Other jurisdictions	—	—	—	—
	537,971	528,287	2,428,437	2,080,116
Deferred taxation	(440,196)	(261,574)	(926,314)	(435,103)
	97,775	266,713	1,502,123	1,645,013

7. Income tax expenses *(Continued)*

- (i) Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.
- (ii) Denmark subsidiary is subject to Denmark Income Tax at 24.5% for the period (2013: 25%).
- (iii) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

8. Dividends

The Directors of the Company do not recommend the payment of dividend for the three months ended 31 December 2014 (three months ended 31 December 2013: Nil). The interim dividend paid of HK0.26 cents in cash per share on 12 December 2014.

9. Earnings per share

The calculation of basic and diluted earnings per Share is based on the following data:

	Three months ended 31 December		Nine months ended 31 December	
	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)
Profit attributable to the shareholders of the Company for the purpose of basic and diluted earnings per Share	14,050,457	12,725,855	39,739,021	33,336,090
Number of Shares:				
Weighted average number of ordinary shares for the purpose of the calculation of the basic earnings per Share	2,014,425,350	1,982,131,200	1,841,328,794	1,744,568,553
Effect of dilutive potential ordinary shares:				
Share options	41,004,383	28,486,369	29,000,985	24,635,734
Warrants	58,258,563	—	26,190,069	—
Weighted average number of ordinary shares for the purpose of the calculation of the diluted earnings per Share	2,113,688,296	2,010,617,569	1,896,519,848	1,769,204,287

10. Movements in property, plant and equipment

During the nine months ended 31 December 2014, the Group spent approximately HK\$4,456,226 (nine months ended 31 December 2013: approximately HK\$24,927,146) on acquisition of property, plant and equipment.

Items of property plant and equipment with carrying value of approximately HK\$9,614 (nine months ended 31 December 2013: HK\$15,030) were written off by the Group during the nine months ended 31 December 2014.

11. Trade and other receivables

	31 December 2014 HK\$ (unaudited)	31 March 2014 HK\$ (audited)
Trade receivables	38,864,761	101,427,009
Commission receivables	684,438	—
Prepayments	1,458,714	383,858
Deposits and other receivables	6,137,256	3,169,616
	47,145,169	104,980,483

The Group offers credit periods ranging from 0 to 120 days to its trade customers. The Group did not hold any collateral over the trade receivable balances. The following is an aged analysis of trade receivables presented based on invoice date at the end of the reporting period.

	31 December 2014 HK\$ (unaudited)	31 March 2014 HK\$ (audited)
0 - 60 days	11,767,441	75,169,520
61 - 90 days	21,985,489	13,339,649
91 - 120 days	5,111,831	12,917,840
Over 120 days	—	—
	38,864,761	101,427,009

12. Loan receivables

	31 December 2014 HK\$ (unaudited)	31 March 2014 HK\$ (audited)
Loan to customers	118,301,236	96,842,633
Accrued interest receivables	10,959,229	9,899,497
	129,260,465	106,742,130

The Group offered a credit period of 180 days from the date of the advancement to its customers with the range of interest rate from 12% to 18% per annum. The Group maintained strict control over its outstanding loans to minimize the credit risk. Overdue balance is reviewed regularly by the management.

The loans to customers represented about 70% of the purchase price of the relevant fur skins purchased by the customers in the auction houses which were secured by a lien over such fur skins purchased.

Approximately HK\$48.1 million of the loan to customers has been subsequently settled up to the date of this report.

13. Trade and other payables

The following is an aged analysis of the Group's trade payables presented based on the invoice date at the end of the reporting periods:

	31 December 2014 HK\$ (unaudited)	31 March 2014 HK\$ (audited)
0 - 60 days	2,491,369	32,070,051
61 - 90 days	—	—
91 - 120 days	846,386	—
Over 120 days	41,300,861	—
Trade payables	44,638,616	32,070,051
Receipt in advance	19,916,126	20,272,230
Other payables and accruals	6,286,491	2,861,854
	70,841,233	55,204,135

14. Bank borrowings

	31 December 2014 HK\$ (unaudited)	31 March 2014 HK\$ (audited)
Trust receipt loans	43,689,068	84,646,046
Term loans	54,831,477	18,727,086
	98,520,545	103,373,132

15. Corporate bond

The Group issued a corporate bond with the principal amount of HK\$10,000,000 at the interest rate of 5.5% p.a. payable annually for 7 years.

16. Promissory note

	31 December 2014 HK\$ (unaudited)	31 March 2014 HK\$ (audited)
At beginning of the period	18,574,714	—
Issued during the period	—	17,620,146
Repaid during the period	(20,000,000)	—
Imputed interest	1,425,286	954,568
	—	18,574,714

The promissory note was issued by Trade Region Limited (“Trade Region”), a direct wholly-owned subsidiary of the Company, in connection with the acquisition of the entire issued share capital of Loyal Speed on 13 May 2013. The promissory note is non-interest bearing and is payable on maturity of two years. The fair value of the promissory note in principal amount of HK\$20,000,000 was HK\$17,620,146 as at the issue date (i.e. 13 May 2013), based on the professional valuation performed by Assets Appraisal Limited. The effective interest rate of the promissory note is determined to be 6.54% per annum.

17. Share capital

	31 December 2014		31 March 2014	
	Number of shares	Nominal value of ordinary shares HK\$	Number of shares	Nominal value of ordinary shares HK\$
Authorised:				
Ordinary shares of HK\$0.01 each	2,500,000,000	25,000,000	2,500,000,000	25,000,000
Issued and fully paid:				
At the beginning of period/year	1,651,776,000	16,517,760	1,152,000,000	11,520,000
Issue of shares upon bonus issue	330,355,200	3,303,552	235,936,000	2,359,360
Exercise of Pre-IPO share options	2,960,800	29,608	33,440,000	334,400
Exercise of warrants	50,000,000	500,000	—	—
Share re-purchased and cancelled	(28,790,000)	(287,900)	—	—
Issue of shares by placing	—	—	230,400,000	2,304,000
At the end of the reporting period	2,006,302,000	20,063,020	1,651,776,000	16,517,760

- (a) On 4 August 2014, the Company issued one bonus share for every five existing ordinary shares held on 25 July 2014. The issued share capital of the Company was increased by 330,355,200 shares of HK\$0.01 each accordingly.

Upon the completion of the bonus issue, approximately HK\$3,303,552 was credited to share capital and the same amount was debited to the share premium account.

- (b) During the nine months ended 31 December 2014, 2,960,800 new ordinary shares of HK\$0.01 each were issued on exercise of share options ("Pre-IPO Share Options") under the Pre-IPO Share Option Scheme of the Company (the "Pre-IPO Share Option Scheme") at an aggregate consideration of HK\$535,905, of which HK\$29,608 was credited to share capital and the remaining balance of HK\$506,297 was credited to the share premium account. In addition, an amount attributable to the related Pre-IPO Share Options of HK\$168,609 has been transferred from share options reserve to the share premium account.
- (c) During the nine months ended 31 December 2014, 50,000,000 new ordinary shares of HK\$0.01 each were issued on exercise of 50,000,000 warrants ("2014 warrants") at an aggregate consideration of HK\$9,950,000, of which HK\$500,000 was credited to share capital and the remaining balance of HK\$9,450,000 was credited to the share premium account. In addition, an amount attributable to the related 2014 warrants of HK\$231,375 has been transferred from warrants reserve to the share premium account.
- (d) During the nine months ended 31 December 2014, the Company repurchased and cancelled a total of 28,790,000 shares on the Stock Exchange at an aggregate consideration of HK\$9,473,503.

Management discussion and analysis

Financial review

Turnover

The Group's turnover for the nine months ended 31 December 2014 was approximately HK\$212.5 million, representing an increase of approximately 7.6% from approximately HK\$197.4 million of the corresponding period in 2013. The increase in the turnover was mainly attributable to (i) the increase in turnover from the fur skins brokerage and financing services of Loyal Speed; and (ii) the increase in turnover from the operation of mink farms in Denmark.

Cost of fur skins sold

The cost of fur skins sold amounted to approximately HK\$156.4 million for the nine months ended 31 December 2014, representing an increase of approximately 5.8% from approximately HK\$147.8 million of the corresponding period in 2013. The increase in the cost of fur skins sold was mainly attributable to the increase in sales of fur skins during the period under review as compared with the nine months ended 31 December 2013.

Gross profit and gross profit margin

The gross profits for the Group were approximately HK\$56.1 million for the nine months ended 31 December 2014, representing an increase of approximately 12.9% from HK\$49.7 million for the same period in 2013. The gross profit margin of the Group rose slightly to approximately 26.4% for the nine months ended 31 December 2014 from approximately 25.2% of the same period of the previous year. The increase in gross profit was primarily due to (i) the increase in demand of fur skins as a result of the decrease in fur skins prices, (ii) the increase in turnover from the fur skins brokerage of Loyal Speed and (iii) the increase in turnover from the operation of mink farms in Denmark.

Administrative expenses

The administrative expenses of the Group increased by approximately 36.8% from approximately HK\$25.5 million for the nine months ended 31 December 2013 to approximately HK\$34.9 million for the nine months ended 31 December 2014. The increase in the administrative expenses of the Group for the nine months ended 31 December 2014 was primarily due to (i) the increase in exchange loss as a result of depreciation in Danish Kroner during the period; and (ii) increase in staff salaries and depreciation due to the operation cost of five mink farms during the nine months ended 31 December 2014 (2013: 3 mink farms).

Finance costs

The finance costs of the Group increased by approximately 40.5% from approximately HK\$3.7 million for the nine months ended 31 December 2013 to approximately HK\$5.3 million for the nine months ended 31 December 2014. The increase in the finance costs of the Group for the nine months ended 31 December 2014 was primarily due to the increase in trust receipt loan interest, term loan interest and auction interest and imputed interest on promissory note. The amount of term loans increased from approximately HK\$18.7 million as at 31 March 2014 to approximately HK\$54.8 million as at 31 December 2014. The Group obtained advance from the Copenhagen Fur for working capital of the mink farming business of approximately HK\$19.0 million and therefore recorded an increase in auction interest. As part of consideration for the acquisition of Loyal Speed on 13 May 2013, the Group issued a promissory note in an aggregate principal amount of HK\$20 million and imputed interest was therefore incurred. The fair value of the promissory note was HK\$17,620,146 as at the issue date (i.e. 13 May 2013) at the effective interest rate of 6.54% per annum. The Group has early repaid the principal amount of HK\$20 million during the nine months ended 31 December 2014.

Liquidity, financial resources and capital structure

The Group generally finances its operations with internally generated cash flow, bank borrowings and corporate bond. The Group maintained bank balances and cash of approximately HK\$82.2 million as at 31 December 2014 (as at 31 March 2014: approximately HK\$60.8 million). The net assets of the Group as at 31 December 2014 were approximately HK\$302.1 million (as at 31 March 2014: approximately HK\$271.5 million).

On 8 August 2014, the Group issued unlisted warrants to subscribe for a maximum of 200,000,000 shares at the exercise price of HK\$0.199 per share within 2 years commencing from that day. The details of the warrants have been disclosed in the announcement of the Company dated 20 July 2014. The net proceeds to be raised from the issue of shares underlying the warrants were intended to be used as general working capital for its newly acquired business, including the mink farms and the provision of finance for its fur skins brokerage customers. As at 31 December 2014, net proceeds of HK\$9,950,000 have been raised from the issue of 50,000,000 shares pursuant to the exercise of subscription rights of a warrant holder.

As at 31 December 2014, the Group had bank borrowings, which represented trust receipt loans and term loans of approximately HK\$98.5 million of which, approximately HK\$43.7 and approximately HK\$54.8 million respectively to finance its purchases of fur skins and general working capital. The Group has obtained banking facilities of up to HK\$180.8 million (31 March 2014: HK\$181 million) with a corporate guarantee provided by the Company and the banking facilities are available subject to the restriction that (i) the net external gearing ratio shall not more than 150% and (ii) the net assets of the Group shall grow by at least HK\$15 million annually. The net external gearing ratio representing the ratio of total interest bearing borrowings to the net assets of the Group, was approximately 36.0% as at 31 December 2014 (31 March 2014: approximately 48.8%).

The Directors consider that the Group can meet the conditions of the banking facilities for the nine months ended 31 December 2014 and in the future.

Pledge of assets

As at 31 December 2014, the Group did not pledge any of its assets for bank borrowings (31 March 2014: approximately HK\$8.5 million).

Capital commitments

As at 31 December 2014, the Group did not have any significant capital commitments (31 March 2014: Nil).

Contingent liabilities

As at 31 December 2014, the Group granted corporate guarantees to secure general banking facilities up to HK\$180.8 million. (31 March 2014: HK\$181 million).

Material acquisitions or disposals and significant investments

During the nine months period ended 31 December 2014, the Group had no material acquisitions or disposals and significant investments.

Employee information

As at 31 December 2014, the Group had a total of 28 staff members including Directors (31 March 2014: 28). Staff costs including Director's remuneration amounted to approximately HK\$10.1 million for the nine months ended 31 December 2014 (nine months ended 31 December 2013: approximately HK\$7.3 million). Remuneration is determined based on the individual's qualification, experience, position, job responsibility and market conditions. Salary adjustments and staff promotion are based on the annual evaluation of staff performance, and discretionary

bonuses would be paid to staff with reference to the financial performance of the Group of the preceding financial year. Other benefits include contributions to statutory mandatory provident fund scheme to its employees in Hong Kong, options that may be granted under the pre-IPO Share Options (“Pre-IPO Share Option Scheme”) and share option scheme (“Share Option Scheme”) of the Company, both adopted on 1 August 2012.

Risk management

Credit Risk

Credit risk exposure represents trade receivables from customers which principally arise from our business activities. The Group has a credit policy in place and the credit risk is monitored on an on-going basis.

In order to minimise the credit risk, management of the Group reviews the recoverable amount of each individual trade debt at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Board of Directors considers that the Group’s credit risk is significantly reduced.

Liquidity risk

The Group monitors its current and expected liquidity requirements regularly and ensuring sufficient liquid cash and adequate committed lines of funding from reputable financial institutions are available to meet the Group’s liquidity requirements in the short and long term.

Foreign currency risk

The Group carries out its business in Hong Kong and worldwide and most of the transactions are denominated in United States dollars (“US\$”) and Danish Kroner (“DKK”). The sales and purchases transactions of the Group have exposed to the foreign currency risk.

To mitigate the impact of exchange rate fluctuations, the Group continually assesses and monitors the exposure of foreign currency risk. During the period, the management of the Group did not consider it necessary to use foreign currency hedging policy as the Group’s assets and liabilities denominated in currencies other than the functional currency of the entity to which they related are short term foreign currency cash flows. As the HK\$ is pegged to the US\$, the Group considers the risk of movements in exchange rates between the HK\$ and the US\$ to be insignificant.

During the period under review, the Group has certain investments in foreign operations in Denmark, whose net assets are exposed to foreign currency risk. The impact of exchange rate fluctuations on the net assets of the Group’s foreign operations is considered to be manageable as such impact will be offset by borrowings denominated in DKK.

Advances to the entities

Pursuant to the Rules 17.15 and 17.17 of the GEM Listing Rules, a disclosure obligation arises where the relevant advance to the entities from the Group exceeds 8% under the assets ratio as defined under Rule 19.07(1) of the GEM Listing Rules. As at 31 December 2014, Loyal Speed Limited, an indirect wholly owned subsidiary of the Company, has made advances to two fur brokerage customers, namely Fur Supply (China) Limited (the “FSC Loans”) and Modern Fur Company Limited (the “MF Loans”) to finance their purchase of fur skins from the auction houses and the amounts due to the Group from the above customer exceeded 8% of the total assets of the Group.

The table below sets out the details of the FSC Loans and MF Loans as at 31 December 2014:

	FSC Loans	MF Loans
Amount due to the Group	HK\$89,185,054	HK\$29,116,182
Credit Term	180 days	180 days
Interest Rate	1.2% per month if the repayment is made within the first 90 days of the credit period; 1.5% per month if the repayment is made after the first 90 days of the credit period	12% per annum if the repayment is made within the first 120 days of the credit period; 14.4% per annum if the repayment is made after the first 120 days of the credit period
Collateral	The fur skins purchased with the relevant part of the FSC Loan	The fur skins purchased with the relevant part of the MF Loan

Share options schemes

The Company has two share option schemes namely, Pre-IPO Share Option Scheme and the Share Option Scheme.

Pre-IPO Share Option Scheme

The Company has adopted the Pre-IPO Share Option Scheme for the purpose of providing incentives and rewards for eligible participants who contribute to the success of the Group's operations on 1 August 2012.

The following share options were outstanding under the Pre-IPO Share Option Scheme during the nine months ended 31 December 2014:

Name or category of participant	Number of share options				Adjusted number of share options	As at 31 December 2014	Date of grant of share options	Exercise price of share options (Note 1) HK\$	Exercise period of share options
	As at 1 April 2014	Granted during the period	Exercised during the period	Lapsed during the year					
<i>Directors</i>									
Mr. WONG Chun Chau	24,096,000	—	—	—	4,819,200	28,915,200	1 August 2012	0.144	Note 2
Ms. KWOK Yin Ning	15,840,000	—	—	—	3,168,000	19,008,000	1 August 2012	0.144	Note 2
<i>Consultant</i>	11,520,000	—	—	—	2,304,000	13,824,000	1 August 2012	0.181	Note 3
<i>Employees</i>	6,336,000	—	(2,960,800)	—	1,267,200	4,642,400	1 August 2012	0.181	Note 4
	57,792,000	—	(2,960,800)	—	11,558,400	66,389,600			

Note:

1. The number and the exercise price of the Pre-IPO Share Options were adjusted as a result of the issue of one bonus share for every five then existing shares held by qualifying shareholders whose names appeared on the register of members of the Company on 25 July 2014.
2. (i) Half of such share options are exercisable after the expiry of 6 months; (ii) outstanding share options up to all such share options are exercisable after the expiry of 18 months. In any event, no option can be exercised after the expiry of 120 months from the date of grant.
3. All such share options are exercisable after the expiry of 9 months but not later than the end of 120 months from the date of grant.
4. (i) One-third of such share options are exercisable after the expiry of 8 months from the date of grant, (ii) outstanding share options up to two-third of all such share options are exercisable after the expiry of 20 months from the date of grant, and (iii) outstanding share options up to all such share options are exercisable after the expiry of 32 months from the date of grant. In any event, no option can be exercised after the expiry of 120 months from the date of grant.

Share Option Scheme

The Share Option Scheme was approved by the shareholders' written resolutions of the Company, is valid and effective for a period of 10 years. It is a share incentive scheme and is established to recognise and motivate the contribution of the eligible participants and to provide them with a direct economic interest in attaining the long term business objectives of the Company. Pursuant to the Share Option Scheme, the Board may, at its discretion, offer to grant an option to any Director, employee and any advisor or consultant who has contributed or is expected to contribute to the Group.

The following share options were outstanding under the Share Option Scheme during the nine months ended 31 December 2014:

Name or category of participant	Number of share to be allotted and issue upon exercise of share options					As at 31 December 2014	Date of grant of share options	Exercise price of share options HK\$	Exercise period of share option
	As at 1 April 2014	Granted during the period	Exercised during the period	Lapsed during the year	Adjusted number of share options (note 1)				
<i>Directors</i>									
Mr. WONG Chun Chau	12,250,000	–	–	–	2,450,000	14,700,000	13 August 2013	0.34 (note 1)	Note 2
	–	6,000,000	–	–	–	6,000,000	14 August 2014	0.218	Note 2
Ms. KWOK Ying Ning	–	13,000,000	–	–	–	13,000,000	13 August 2014	0.226	Note 2
<i>An employee</i>									
	–	480,000	–	–	–	480,000	13 August 2014	0.226	Note 2
	12,250,000	19,480,000	–	–	2,450,000	34,180,000			

Notes:

1. The number and the exercise price of the Share Options were adjusted as a result of the issue of one bonus share for every five then existing shares held by qualifying shareholders whose name appeared on the register of members of the Company on 25 July 2014.
2. The above share options are exercisable within 24 months after the date of grant.

Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures

As at 31 December 2014, the interest and or short position of the Directors and the chief executive of the Company in the shares of the Company, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) ("SFO")) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO; or (ii) were recorded in the register required to be kept under Section 352 of the SFO; or (iii) had to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Long position in Shares

Name	Nature of Interest	Name of Shares	Approximate Percentage of Shareholding in the Company
Mr. WONG, Chun Chau (Note 1)	Interest of controlled corporation	1,044,360,000	52.05%
	Beneficial owner	23,616,000	1.18%
Ms. KWOK Ying Ning	Beneficial owner	15,552,000	0.78%
Mr. Jean-pierre PHILIPPE (Note 2)	Interest of controlled corporation	1,944,000	0.10%
	Beneficial owner	1,600,000	0.08%
	Interest held jointly with another person	900,000	0.04%

Notes:

- Under the SFO, Mr. Wong is deemed to be interested in 1,044,360,000 Shares which are held by Trader Global Investments Limited, a company wholly owned by Mr. Wong.
- Under the SFO, Mr. Philippe is deemed to be interested in 1,944,000 Shares which are held by Aglades Investment Pte Limited, a company wholly owned by Mr. Philippe.

Long position in underlying Shares or equity derivatives of the Company

Name	Nature of Interest	Share Options	Approximate Percentage of Shareholding in the Company	Approximate Percentage of Shareholding in the Company assuming all the options granted under the Share Option Schemes were exercised
Mr. WONG, Chun Chau	Beneficial owner	49,615,200	2.47%	2.35%
Ms. KWOK, Yin Ning	Beneficial owner	32,008,000	1.60%	1.52%

Interest in the Associated Corporation — Long position in shares of Trade Global Investments Limited (Note 2)

Name	Nature of Interest	Number of Share(s)	Approximate Percentage of Shareholding in the Associated Corporation
Mr. WONG, Chun Chau	Beneficial owner	1	100%

Notes:

- Under the SFO, Mr. Wong is deemed to be interested in 1,044,360,000 shares which are held by Trade Global Investments Limited, a company wholly owned by Mr. Wong.
- Trade Global Investments Limited is the ultimate holding company of the Company.

Save as disclosed above, as at 31 December 2014, neither of the Directors nor the chief executive of the Company had interests and or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations ((within the meaning of Part XV of the SFO which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO; or (iii) had to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at 31 December 2014, according to the register of interests kept by the Company under Section 336 of the SFO, the following parties (in addition to those disclosed above in respect of the Directors and chief executive of the Company) (i) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions in Divisions 2 and 3 of Part XV of the SFO; and/or (ii) interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Long position in shares of the Company

Name	Nature of Interest	Name of Shares	Approximate Percentage of Shareholding in the Company
Trader Global Investment Limited (Note 1 and 2)	Beneficial owner	1,044,360,000	52.05%
Carafe Investment Company Limited (Note 3)	Beneficial owner	139,597,834	6.96%

Notes:

- 1 Mr. Wong Chun Chau was deemed to be interested in 1,044,360,000 shares held by Trader Global Investments Limited, a company wholly and beneficially owned by him, for the purpose of the SFO.
- 2 Mr. Wong Chun Chau is also the sole director of Trader Global Investments Limited
- 3 Mr. Merzbacher Werner was deemed to be interested in 102,897,834 shares held by Carafe Investment Company Limited, a company wholly and beneficially owned by him, for the purpose of the SFO.

Save as disclosed above, as at 31 December 2014, the Directors were not aware of any other persons who (i) had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions in Division 2 and 3 of Part XV of the SFO and (ii) were interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at the general meeting of any other members of the Group.

Purchase, sale or redemption of listed securities

During the nine months ended 31 December 2014, the Company repurchased and cancelled a total of 28,790,000 shares on the Stock Exchange at an aggregate consideration of HK\$9,473,503 (2013: Nil). Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities during the nine months ended 31 December 2014.

Corporate governance

The Board is of the view that the Company has met the code provisions set out in the Corporate Governance Code contained in Appendix 15 to the GEM Listing Rules for the nine months ended 31 December 2014.

Securities transactions by directors

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings. The Company has also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors during the nine months ended 31 December 2014.

Competing interests

None of the Directors, controlling shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had any interests in any business which competes or may compete with the business of the Group or any other conflicts of interest which such person has or may have with the Group as at 31 December 2014.

Interest of compliance adviser

As notified by VC Capital Limited ("VC Capital"), the Company's compliance adviser, neither VC Capital nor any of its directors or employees or associates had any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) as at 31 December 2014.

Audit committee

The Company has established an audit committee (the “Audit Committee”) with written terms of reference in compliance with the GEM Listing Rules for the purpose of reviewing and providing supervision over the Group’s financial reporting process, internal control system and the Group’s financial statements. The Audit Committee comprises a total of three members, namely, Mr. Ang Wing Fung, Mr. Tang Tat Chi and Mr. Jean-pierre Philippe, all of whom are independent non-executive Directors. The Group’s unaudited consolidated results for the nine months ended 31 December 2014 have been reviewed by the Audit Committee. The Audit Committee is of opinion that the preparation of such financial information complied with the applicable accounting standards, the requirements under the GEM Listing Rules and any other applicable legal requirements, and that adequate disclosures have been made.

By Order of the Board
UKF (Holdings) Limited
Wong Chun Chau
Chairman

Hong Kong, 4 February 2015

As at the date of this report, the Directors are as follows:

Executive Directors:

Wong Chun Chau (*Chairman*)
Kwok Yin Ning

Independent Non-executive Directors:

Ang Wing Fung
Tang Tat Chi
Jean-pierre Philippe