



UKF (HOLDINGS) LIMITED

英裘(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1468



Interim Report 2016

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Corporate Information

Board of directors

Executive Directors

Mr. WONG Chun Chau (*Chairman*)

Ms. KWOK Yin Ning (*CEO*)

Independent Non-Executive Directors

Mr. TANG Tat Chi

Ms. MAK Yun Chu

Mr. HUNG Wai Che

Company secretary

Mr. CHAN Siu Lun

Authorised representatives

Mr. WONG Chun Chau

Ms. KWOK Yin Ning

Audit committee

Ms. MAK Yun Chu (*Chairperson*)

Mr. TANG Tat Chi

Mr. HUNG Wai Che

Remuneration committee

Mr. HUNG Wai Che (*Chairperson*)

Mr. TANG Tat Chi

Ms. MAK Yun Chu

Nomination committee

Mr. TANG Tat Chi (*Chairperson*)

Ms. MAK Yun Chu

Mr. HUNG Wai Che

Mr. WONG Chun Chau

Website

www.ukf.com.hk

Auditor

HLM CPA Limited

Principal bankers

The Hongkong and Shanghai Banking Corporation Limited

CTBC Bank Co. Limited

Nanyang Commercial Bank, Limited

DBS Bank (Hong Kong) Limited

Share registrars and transfer offices

Principal Registrar

Codan Trust Company (Cayman) Limited

Cricket Square, Hutchins Drive

PO Box 2681, Grand Cayman

KY1-1111, Cayman Islands

Hong Kong Branch Registrar

Tricor Investor Services Limited

Level 22, Hopewell Centre

183 Queen's Road

Hong Kong

Registered office

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman

KY1-1111

Cayman Islands

Head office and principal place of business

902, Harbour Centre, Tower 2

8 Hok Cheung Street, Hunghom

Kowloon, Hong Kong

Stock code

1468

Chairman's Statement

Business Review

During the six months ended 30 September 2016, the fur industry has been undergoing a period of change. First of all, after the great plunge of 50 percent in the price of mink and fox skins, the excess supply of fur skins and garment produced before the price drop have yet to be digested by the market. Hence, many furriers have suffered substantial loss as a result of the drastic drop in fur skin price. Given the collapse in fur skin price is mainly caused by the oversupply of poor quality fur skins, China, Greece and a few Eastern European countries have cut down their excessive fur production enormously because of their inferior quality, on the other hand, the Scandinavian and Polish production of fur, which in general are of higher quality, have only dropped by a few percent. As a result, the quantity of fur skins supplied at the world's latest biggest three auctions have dropped by around 10 percent.

The second biggest concern faced by the fur industry is the shifting of major market to only one country — China. Demand for fur skins in Russia, which used to be the powerhouse of fur consumption, remains weak as their domestic economy has not yet recovered from the drop in oil price, economic sanctions imposed by the European etc. Therefore, the fur trading industry is currently in a period of transition and experimentation.

Luckily, with the vast experience of the Group in the fur industry, we foresaw the big change in the fur industry and have responded to such change by diversifying our business — on 30 July 2016, Pearl Bay Investments Limited, a wholly owned subsidiary of the Company entered into a sale and purchase agreement to acquire a profitable securities firm, Great Roc Capital Securities Limited, the acquisition was approved by shareholders of the Company at the extraordinary general meeting held on 14 November 2016.

Fur Skin Trading

With a lot of fur skin dealers selling their fur skin inventory produced in 2015 at a loss to maintain their cash flow, it was extremely difficult to trade fur skins under this condition. However, since the Management has over 30 years of experience under their belt, our fur skin trading business managed to make a small profit during this reporting period.

Fur Skin Brokerage and Financing

The business environment for our fur skin brokerage and financing business has also been difficult during the six months ended 30 September 2016 since the biggest four auction houses, namely North American Fur Auctions, KF, Saga Furs and American Legend Cooperative, have extended the invitation to and granted new buyers' numbers to a few Chinese furriers to be auction brokers in order to simulate sales and prices. This has unfortunately intensified the competition among fur skin brokers which turned into a commission 'price war', pushing down the buying commission rate into half of what it was before. Fortunately, as the Group has always been careful in selecting reputable customers with sound financial position, our fur skin brokerage and financing business was able to secure a small profit amid the difficult market condition during the six months ended 30 September 2016.

Mink Farming

Even though the average auction price of fur skins during the six months ended 30 September 2016 was still below the farming cost of most Danish mink farms, the mink farming business of the Group still managed to make a small profit because we have implemented a big cost saving plan. The organization and management of our 12 mink farms in Denmark is shaping up nicely after a year of running and fine-tuning.

Prospect

The 50 percent drop in fur skin price when compared with last year had an adverse effect to the fur trade industry which resulted in bankruptcy of a lot of small furriers in China, and the market is expected to take one to two more years to digest the excess supply of expensive fur skins and garment produced prior to the price drop. Therefore, the Group will continue to adopt a conservative approach in conducting its fur skin trading and brokerage business during this difficult period. On the other hand, we are waiting for the Russian economy to recover and other cold climate countries to start their winter season to drive up the demand for fashion in fur. Fortunately, following the recent acquisition of Great Roc Capital Securities Limited which was approved by the shareholders at the extraordinary general meeting held on 14 November 2016, the Company is on its way to embark on a new area of business in the securities and financial sector of Hong Kong. Also, one of the Company's wholly-owned subsidiary, UKF Finance Limited, has obtained a money lender's licence under Money Lenders Ordinance (Cap 163 Laws of Hong Kong), the Group has also ventured into the money lending business to further diversify its business. The Group will continue to look for good opportunities to further diversify into long-term beneficial business in order to broaden its revenue source thereby enhancing our shareholder value.

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 six months ended 30 September 2016 together with comparative unaudited figures for the corresponding period in 2015, as follows:

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

For the six months ended 30 September 2016

	Notes	Six months ended 30 September	
		2016 HK\$ (unaudited)	2015 HK\$ (unaudited)
Revenue	3	75,798,426	157,662,130
Cost of sales		(70,794,394)	(131,818,835)
Gross profit		5,004,032	25,843,295
Other income	4	208,533	3,994,488
Change in fair value less cost to sell of biological assets		30,307,553	29,225,155
Administrative expenses		(33,112,978)	(27,681,560)
Finance costs	5	(2,101,140)	(2,891,280)
Profit before tax	6	306,000	28,490,098
Income tax expenses	7	(310,732)	(1,951,737)
(Loss) profit for the period and attributable to owners of the Company		(4,732)	26,538,361
Other comprehensive income (expenses)			
Change in fair value of available-for-sale investment		215,781	(72,762)
Exchange difference on translation of overseas operations		722,993	221,555
Total comprehensive income for the period and attributable to the owners of the Company		934,042	26,687,154
(Loss) earnings per share (cents)	9		
Basic		—	1.19
Diluted		—	1.14

Unaudited condensed consolidated statement of financial position

At 30 September 2016

	Notes	30 September 2016 HK\$ (unaudited)	31 March 2016 HK\$ (audited)
Non-current asset			
Property, plant and equipment	10	129,338,692	135,362,408
Goodwill		37,857,253	37,857,253
Available-for-sale investment		10,718,892	10,503,111
Deferred tax asset		495,259	495,259
		178,410,096	184,218,031
Current assets			
Biological assets		81,555,355	29,483,556
Inventories		4,999,869	54,287,749
Trade and other receivables	11	53,847,510	27,709,702
Loan receivables	12	72,490,813	107,046,011
Tax recoverable		1,617,551	2,249,037
Bank balances and cash		69,732,348	66,138,753
		284,243,446	286,914,808
Current liabilities			
Trade and other payables	13	20,755,658	37,021,416
Tax payables		6,277,192	6,038,043
Obligations under finance leases		287,908	293,116
Bank borrowings	14	106,485,524	130,960,159
		133,806,282	174,312,734
Net current assets		150,437,164	112,602,074
Total assets less current liabilities		328,847,260	296,820,105
Non-current liabilities			
Corporate bond	15	10,000,000	10,000,000
Obligations under finance leases		544,406	693,942
Deferred tax liability		534	534
		10,544,940	10,694,476
Net assets		318,302,320	286,125,629
Capital and reserves			
Share capital	16	30,244,452	28,350,744
Reserves		288,057,868	257,774,885
Total equity		318,302,320	286,125,629

Unaudited condensed consolidated statement of changes in equity

For the six months ended 30 September 2016

	Share capital	Share premium	Merger reserve	Share options reserve	Warrants reserve	Investments revaluation reserve	Translations reserve	Retained profits	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 April 2015 (audited)	20,063,020	179,991,821	(7,122,000)	5,578,169	694,125	(1,746,797)	1,662,122	101,636,160	300,756,620
Dividend paid	–	–	–	–	–	–	–	(2,430,075)	(2,430,075)
Issue of shares upon bonus issue	4,050,124	(4,050,124)	–	–	–	–	–	–	–
Exercise of pre-IPO share options	37,600	857,082	–	(214,122)	–	–	–	–	680,560
Exercise of warrants	150,000	2,904,413	–	–	(69,413)	–	–	–	2,985,000
Issue of shares by placing	4,050,000	77,355,000	–	–	–	–	–	–	81,405,000
Expenses attributable to issue of shares	–	(4,415,636)	–	–	–	–	–	–	(4,415,636)
Issue of share options	–	–	–	2,380,839	–	–	–	–	2,380,839
Other comprehensive (expenses) income for the period	–	–	–	–	–	221,555	(72,762)	–	148,793
Profit for the period	–	–	–	–	–	–	–	26,538,361	26,538,361
At 30 September 2015 (unaudited)	28,350,744	252,642,556	(7,122,000)	7,744,886	624,712	(1,525,242)	1,589,360	125,744,446	408,049,462
At 1 April 2016 (audited)	28,350,744	252,642,555	(7,122,000)	6,963,342	624,713	(1,366,326)	486,741	5,545,860	286,125,629
Exercise of share options	233,760	4,988,055	–	(870,327)	–	–	–	–	4,351,488
Exercise of warrants	1,659,948	25,855,906	–	–	(624,693)	–	–	–	26,891,161
Warrants lapsed	–	–	–	–	(20)	–	–	20	–
Other comprehensive income for the period	–	–	–	–	–	215,781	722,993	–	938,774
Loss for the period	–	–	–	–	–	–	–	(4,732)	(4,732)
At 30 September 2016 (unaudited)	30,244,452	283,486,516	(7,122,000)	6,093,015	–	(1,150,545)	1,209,734	5,541,148	318,302,320

Unaudited condensed consolidated statement of cash flows

For the six months ended 30 September 2016

	Six months ended 30 September	
	2016 HK\$ (unaudited)	2015 HK\$ (unaudited)
Net cash used in operating activities	(28,702,147)	(74,699,238)
Net cash used in investing activities	(1,453,719)	(98,192,270)
Net cash generated from financing activities	31,942,995	54,575,008
Effect of foreign exchange rate changes, net	1,806,466	(1,635,315)
Net increase (decrease) in cash and cash equivalents	3,593,595	(119,951,815)
Cash and cash equivalents at 1 April	66,138,753	136,483,466
Cash and cash equivalents at 30 September, represented by bank balances and cash	69,732,348	16,531,651

Notes to condensed interim financial information

1. General information

UKF (Holdings) Limited (the “Company” together with its subsidiaries the “Group”) 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.

2(a). Basis of preparation and accounting policies

This unaudited condensed consolidated interim financial information for the six months ended 30 September 2016 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

This unaudited condensed consolidated interim financial information should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2016.

- (i) The following amendments to existing standards are mandatory for accounting periods beginning on or after 1 April 2016, but do not have material effect to the Group:

HKFRS 10, HKFRS 12 and HKAS 28 (Amendment)	Investment Entities: Applying the Consolidation Exception
HKFRS 11 (Amendment)	Accounting for Acquisition of Interest in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
HKAS 1 (Amendment)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 (Amendment)	Agriculture: Bearer Plants
HKAS 27 (Amendment)	Equity Method in Separate Financial Statements
Annual Improvements Project	Annual Improvement 2012-2014 Cycle

2(a).Basis of preparation and accounting policies *(Continued)*

- (ii) The following published standards and amendments to existing standards are mandatory for the Group's accounting periods beginning on or after 1 April 2016 and have not been early adopted by the Group:

Amendments to HKAS 7	Disclosure Initiative ¹
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised loss ¹
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ²
HKFRS 9	Financial Instruments ²
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 16	Leases ³

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

⁴ Effective date to be determined

The Group is in the process of making an assessment of the impact of the above new standards and amendments to standards and is not yet in a position to state whether these new standards and amendments to standards would have a significant impact to its results and financial position.

2(b).Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 March 2016.

There have been no changes in the risk management policies since the last year end.

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) (the "Board") in order to allocate resources to the segment and to assess its performance.

The Board 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 skin brokerage and financing services, and mink farming.

3. Segment information *(Continued)*

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment:

Six months ended 30 September 2016

	Trading of fur skins HK\$	Fur skins brokerage HK\$	Mink farming HK\$	Total HK\$
REVENUE	24,707,863	4,277,444	46,813,119	75,798,426
RESULTS				
Segment results	3,201,713	4,277,444	(2,475,125)	5,004,032
Other income	93,845	111,992	2,696	208,533
Change in fair value less costs to sell of biological assets	—	—	30,307,553	30,307,553
Allowance for bad and doubtful debts	—	(1,206,373)	—	(1,206,373)
Unallocated corporate expenses				(31,906,605)
Finance costs				(2,101,140)
Profit before tax				306,000
Income tax expense				(310,732)
Loss for the period				(4,732)

Six months ended 30 September 2015

	Trading of fur skins HK\$	Fur skins brokerage HK\$	Mink farming HK\$	Total HK\$
REVENUE	120,406,186	15,896,103	21,359,841	157,662,130
RESULTS				
Segment results	4,905,509	15,896,103	5,041,683	25,843,295
Other income	559,951	213,420	3,221,117	3,994,488
Change in fair value less costs to sell of biological assets	—	—	29,225,155	29,225,155
Unallocated corporate expenses				(27,681,560)
Finance costs				(2,891,280)
Profit before tax				28,490,098
Income tax expense				(1,951,737)
Profit for the period				26,538,361

3. Segment information *(Continued)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments for the period/year:

At 30 September 2016

	Trading of fur skins HK\$	Fur skins brokerage HK\$	Mink farming HK\$	Total HK\$
ASSETS				
Segment assets	29,223,186	110,503,185	210,052,594	349,778,965
Unallocated corporate assets				112,874,577
Total assets				462,653,542
LIABILITIES				
Segment liabilities	30,629,964	7,866,486	9,012,836	47,509,286
Unallocated corporate liabilities				96,841,936
Total liabilities				144,351,222

At 31 March 2016

	Trading of fur skins HK\$	Fur skins brokerage HK\$	Mink farming HK\$	Total HK\$
ASSETS				
Segment assets	22,028,226	145,300,525	212,953,329	380,282,080
Unallocated corporate assets				90,850,759
Total assets				471,132,839
LIABILITIES				
Segment liabilities	60,278,844	—	31,237,532	91,516,376
Unallocated corporate liabilities				93,490,834
Total liabilities				185,007,210

3. Segment information *(Continued)*

Geographical information

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

	Six months ended 30 September	
	2016 HK\$ (unaudited)	2015 HK\$ (unaudited)
PRC	28,985,307	93,192,731
Europe	46,813,119	59,714,690
Hong Kong	—	4,754,709
	75,798,426	157,662,130

4. Other income

	Six months ended 30 September	
	2016 HK\$ (unaudited)	2015 HK\$ (unaudited)
Bank interest income	4,203	36,950
Exchange gain, net	—	3,738,905
Sundry income	89,828	3,021
Bonus and rebate from auction houses	114,502	215,612
	208,533	3,994,488

5. Finance costs

	Six months ended 30 September	
	2016 HK\$ (unaudited)	2015 HK\$ (unaudited)
Interest wholly repayable within five year :		
Trust receipt loan interest	719,092	1,563,691
Bank loans interest	377,682	899,562
Overdraft interest	729,305	80
Interest on finance lease	61	3,748
Corporate bond interest	275,000	275,000
Auction interest	—	149,199
	2,101,140	2,891,280

6. Profit before tax

	Six months ended 30 September	
	2016 HK\$ (unaudited)	2015 HK\$ (unaudited)
Profit before tax has been arrived at after charging:		
Cost of inventories recognized as expenses	70,794,394	131,818,835
Staff costs (including directors' remuneration)		
– Salaries and allowances	12,037,656	8,630,114
– Defined contribution retirement benefit scheme contributions	60,870	75,665
Exchange loss, net	2,115,050	—
Depreciation	6,449,220	3,794,832
Equity-settled share-based payments	—	2,380,839
Loss on fixed assets written off	89	—
Operating lease payments	820,826	451,959

7. Income tax expenses

	Six months ended 30 September	
	2016 HK\$ (unaudited)	2015 HK\$ (unaudited)
The charge comprises:		
Hong Kong Profits Tax	310,732	1,985,475
	310,732	1,985,475
Deferred taxation	—	(33,738)
	310,732	1,951,737

- (i) Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the both periods.
- (ii) Denmark subsidiary is subject to Denmark Income Tax at 22% for the period (2015: 23.5%).
- (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 BVI.

8. Dividends

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 September 2016 (six months ended 30 September 2015: nil).

9. (Loss) earnings per share

The calculation of basic and diluted (loss) earnings per share is based on the following data:

	Six months ended 30 September	
	2016 HK\$ (unaudited)	2015 HK\$ (unaudited)
(Loss) profit attributable to the owners of the Company for the purpose of basic and diluted (loss) earnings per share	(4,732)	26,538,361
Number of shares:		
Weighted average number of ordinary shares for the purpose of the calculation of the basic (loss) earnings per share	2,912,466,346	2,235,579,722
Effect of dilutive potential ordinary shares:		
Share options	—	37,954,455
Warrants	—	47,768,600
Weighted average number of ordinary shares for the purpose of the calculation of the diluted (loss) earnings per share	2,912,466,346	2,321,302,777

No adjustment was made in calculating diluted loss per share for current period as the exercise of warrants and share options would result in decrease in loss per share. Accordingly, the diluted loss per share is same as the basic loss per share.

10. Property, plant and equipment

During the six months ended 30 September 2016, the Group spent HK\$868,656 (six months ended 30 September 2015: HK\$92,923,874) on acquisition of property, plant and equipment.

11. Trade and other receivables

	30 September 2016 HK\$ (unaudited)	31 March 2016 HK\$ (audited)
Trade receivables	23,381,863	15,852,059
Commission receivables	155,119	393,044
Less: impairment losses on trade receivables	—	—
	23,536,982	16,245,103
Other receivables:		
Receivables from auction houses	17,990,842	8,426,886
Feed deposit	5,768,886	1,186,922
Prepayments	1,854,062	1,506,747
Rental deposit	196,475	196,475
Utilities deposit	26,000	26,000
Others	4,474,263	121,569
	53,847,510	27,709,702

The Group allows 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.

	30 September 2016 HK\$ (unaudited)	31 March 2016 HK\$ (audited)
0 – 60 days	19,980,268	4,586,335
61 – 90 days	3,503,158	2,205,171
91 – 120 days	—	6,454,500
Over 120 days	53,556	2,999,097
	23,536,982	16,245,103

12. Loan receivables

	30 September 2016 HK\$ (unaudited)	31 March 2016 HK\$ (audited)
Loan to customers	72,760,666	105,082,631
Accrued interest receivables	1,987,069	3,013,929
	74,747,735	108,096,560
Less: allowance for bad and doubtful debts	(2,256,922)	(1,050,549)
	72,490,813	107,046,011

The Group offered a credit period of 180 days from the date of the advancement to its customers at the interest rate of 0.4% per month. The Group maintained strict control over its outstanding loans to minimize the credit risk. Overdue balance is reviewed regularly by the management.

The loans 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.

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 period:

	30 September 2016 HK\$ (unaudited)	31 March 2016 HK\$ (audited)
0 – 60 days	—	1,491,190
61 – 90 days	—	—
91 – 120 days	—	—
Over 120 days	3,811,475	3,764,157
Trade payables	3,811,475	5,255,347
Other payables:		
Accruals	10,783,285	31,733,113
Rental deposit	32,704	32,956
Receipt in advance	6,128,194	—
	20,755,658	37,021,416

14. Bank borrowings

	30 September 2016 HK\$ (unaudited)	31 March 2016 HK\$ (audited)
Term loans	71,800,550	71,442,472
Trust receipt loans	34,684,974	59,517,687
	106,485,524	130,960,159

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 which will be due on 19 November 2019.

16. Share capital

	30 September 2016		31 March 2016	
	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	10,000,000,000	100,000,000	10,000,000,000	100,000,000
Issued and fully paid:				
At the beginning of period/year	2,835,074,400	28,350,744	2,006,302,000	20,063,020
Exercise of Pre-IPO share options	—	—	3,760,000	37,600
Exercise of share options	23,376,000	233,760	—	—
Issue of shares upon exercise of warrants	165,994,815	1,659,948	15,000,000	150,000
Issue of shares upon bonus issue	—	—	405,012,400	4,050,124
Issue of shares by top-up placing	—	—	405,000,000	4,050,000
At the end of the reporting period	3,024,445,215	30,244,452	2,835,074,400	28,350,744

17. Events after the end of the reporting period

During the reporting period, the Group entered into a sale and purchase agreement with Excel Blaze Limited in relation to the acquisition of the entire issued share capital of Great Roc Capital Securities Limited, and an interest free shareholder's loan amounting to HK\$25,000,000 (the "Acquisition"). Subsequent to the end of the reporting period, the Acquisition was approved by shareholders at an extraordinary general meeting held on 14 November 2016 but has not yet completed by the date of this report. Details of the Acquisition is disclosed in the Company's circular dated 26 October 2016.

On 29 November 2016, the Company completed a placing of 210,000,000 new shares of the Company at a placing price of HK\$0.18 per share, and received gross proceeds of approximately HK\$37,800,000. Detail of this transaction is disclosed in the Company's announcement dated 29 November 2016.

Management discussion and analysis

Financial review

For the six months ended 30 September 2016, revenue of the Group was approximately HK\$75.8 million, representing a decrease of 51.9% (2015: approximately HK\$157.7 million). The decrease in revenue was mainly attributable to the low fur skin price recorded in the last three auctions of the seasons and the weak demand for fur skins, which resulted in (i) a substantial drop in the volume of fur traded by the Group, and (ii) the reduction in commission income of the Group's fur skins brokerage and financing business. The Group's gross profit was approximately HK\$5.0 million (2015: approximately HK\$25.8 million).

Change in fair value of biological assets was approximately HK\$30.3 million, representing an increase by 3.7% or approximately HK\$1.1 million compared with approximately HK\$29.2 million of last year's corresponding period.

General and administrative expenses was approximately HK\$33.1 million, representing an increase of 19.6% or approximately HK\$5.4 million compared with approximately HK\$27.7 million of last year's corresponding period. The increase was mainly due to the expansion of operations subsequent to the acquisitions of several mink farms in Denmark.

As a result of the above, the Group recorded a loss of approximately HK\$5,000 from its continuing operations for the six months ended 30 September 2016 (2015: profit of approximately HK\$26.5 million).

As at 30 September 2016, the Group's inventory valued at approximately HK\$5 million (31 March 2016: approximately HK\$54.3 million) while the trade and other receivables amounted to approximately HK\$53.8 million (31 March 2016: approximately HK\$27.7 million). The decrease in inventory but the increase in trade receivables was due to most of inventory was sold near to the end of the six months ended 30 September 2016 but have yet settled; the increase in other receivables was in connection with the receivables from auction houses and feed deposits.

Liquidity, financial resources and capital structure

The Group generally finances its operations with internally generated cash flow, bank borrowings and exercise of warrants and share options. The Group maintained bank balances and cash of approximately HK\$69.7 million as at 30 September 2016 (as at 31 March 2016: approximately HK\$66.1 million). The increase in bank balances and cash was primarily due to the net results of receipt the proceeds from exercising of warrants and share options and operating businesses less the settlements of operating costs. The net assets of the Group as at 30 September 2016 were approximately HK\$318.3 million (as at 31 March 2016: approximately HK\$286.1 million).

During the period, net proceeds of approximately HK\$4.35 million have been raised from the issue of 23,376,000 shares pursuant to the exercise of share options and approximately HK\$26.9 million have been raised from exercise of subscription rights by warrant holders.

Subsequently on 29 November 2016, the Company completed a placing of 210,000,000 new shares of the Company at a placing price of HK\$0.18 per share under the specific mandate granted by the shareholders of the Company at the extraordinary general meeting held on 14 November 2016 (the "EGM"). The gross and net proceeds from the said placing was HK\$37,800,000 and approximately HK\$37,000,000 respectively. The net proceeds are intended to be applied to the business development of Great Roc Capital Securities Limited ("Great Roc") upon the completion of acquisition of Great Roc.

As at 30 September 2016, the Group had bank borrowings, which represented trust receipt loans and term loans of approximately HK\$34.7 million and approximately HK\$71.8 million respectively (31 March 2016: approximately HK\$59.5 million and approximately HK\$71.4 million respectively). The Group has obtained various banking facilities of up to approximately HK\$262 million (31 March 2016: approximately HK\$280 million) with different covenants such as (i) corporate guarantees provided by the Company, (ii) charge over fixed assets, inventories and biological assets and/or (iii) the requirements that the net external gearing ratio shall not be more than 150% and the tangible net worth 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 36.9% as at 30 September 2016 (31 March 2016: approximately 49.6%).

The Directors consider that the Group had complied with the covenants of the banking facilities during the six months ended 30 September 2016.

The Group adopts a conservative approach on foreign exchange exposure management and ensures that its exposure to fluctuations in foreign exchange rates is minimised.

During the period under review, apart from the foreign currency forward contracts for HK\$ to DKK, the Group had not engaged in any financial instruments for hedging or speculative activities.

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.

Capital commitments and contingent liability

The Group had no capital commitment and no significant contingent liability as at 30 September 2016 (31 March 2016: Nil).

Charge of assets

As at 30 September 2016, the Group charged the key management insurance contract which is classified as an available-for-sale investment of approximately HK\$10.7 million (31 March 2016: approximately HK\$10 million), property, plant and equipment, biological assets and inventories of approximately DKK100,845,000 or approximately HK\$117,787,000 (31 March 2016: DKK104,403,000 or approximately HK\$122,882,000) for bank borrowings. No land and building had been pledged by the Group to secure debts to the Group (31 March 2016: approximately DKK26,471,000 or approximately HK\$31,157,000).

Material acquisitions or disposals and significant investments

On 30 July 2016, Pearl Bay Investments Limited, a company incorporated in the British Virgin Islands and wholly owned by the Company, entered into a conditional sale and purchase agreement with Excel Blaze Limited (the "Vendor") to acquire (i) the entire issued share capital of Great Roc, a limited liability company incorporated under the Laws of Hong Kong, which is principally engaging in the dealing of securities (Type 1 regulated activity under the Securities and Future Ordinance (Cap 571 of the Laws of Hong Kong, "SFO")), and (ii) an interest free shareholder's loan amounting to HK\$25,000,000, indebted by Great Roc for a total consideration of HK\$264,300,000 (the "Acquisition"). Of which, HK\$118,000,000 was proposed to be settled by issue of 660,000,000 new shares of the Company and the remaining HK\$145,500,000 to be settled by issue of promissory note by the Company to the Vendor. As the Acquisition constitutes a major transaction according to the definition under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the EGM was held on 14 November 2016 to consider, discuss and approve the Acquisition, as well as the specific mandate (the "Specific Mandate") to issue new shares of the Company for the partial settlement of the consideration. At the EGM, the shareholders of the Company approved the transaction and the Specific Mandate and the Acquisition would proceed to completion upon the satisfaction of all conditions precedent.

Save as disclosed above, the Group had no material acquisitions or disposals and significant investments during the six months ended 30 September 2016.

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 on-going basis.

In order to minimize the credit risk, management of the Group reviews the recoverable amount of each individual trade debt at each reporting date to ensure that appropriate and speedy follow up actions are taken in respect of overdue balances. In this regard, the Board of Directors consider 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 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. Apart from foreign currency forward contracts for HK\$ to DKK, 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 13.13 and 13.15 of the 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 14.07(1) of the Listing Rules. As at 30 September 2016, Loyal Speed Limited, an indirect wholly owned subsidiary of the Company, has advanced 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 customers exceeded 8% of the total assets of the Group (approximately HK\$462.7 million).

The table below sets out the details of the FSC Loans and MF Loans as at 30 September 2016:

	FSC Loans	MF Loans
Amount due to the Group	HK\$59,237,131	HK\$11,637,192
Credit term	180 days	180 days
Interest rate	0.4% per month	0.4% per month
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

Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the company or any associated corporation

As at 30 September 2016, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO (i) which were required, 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 taken under such provisions of the SFO), to be notified to the Company and the Stock Exchange, or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company, or (iii) which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(a) Interests in the Company — Long position in shares of the Company

Name of Director	Number of Ordinary Shares Held		Number of Shares Held under Equity Derivatives (Note 2)	Percentage to the issued share capital of the Company (%) (Note 3)
	Personal interests (Shares)	Corporate interests (Shares)		
Mr. Wong Chun Chau (Note 1)	35,539,200	653,232,000	51,698,240	22.77
Ms. Kwok Yin Ning	34,262,400	—	46,809,600	1.13

- Notes:
1. The corporate interests owned by Mr. Wong is held by Trader Global Investments Limited, which is wholly owned by Mr. Wong.
 2. These equity derivative were outstanding share options granted to the relevant directors under the share option scheme of the Company.
 3. Such percentage was calculated against the number of issued shares of the Company as at 30 September 2016, being 3,024,455,215 Shares.

(b) Interests in the Associated Corporation — Long position in shares of Trader Global Investments Limited

Name of shareholder	Nature of Interest	Number of share(s) (%)
Mr. Wong Chun Chau	Beneficial owner	1 (100%)

Note: Trader Global Investments Limited was incorporated in the British Virgin Islands.

Save as disclosed above, as at 30 September 2016, neither the Directors nor the chief executives of the Company had interests or short positions in the shares, underlying shares and debentures of the Company and 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 Model Code.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Share and Underlying Shares

As at 30 September 2016, the interests and short positions of the persons, other than the Directors or chief executive of the Company, in the Shares, underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Interest in the Shares, or underlying shares of the Company

Name	Nature of Interest	Number of Shares	Approximate percentage of shareholding in the Company (Note 2)
Trader Global Investments Limited (Note 1)	Beneficial owner	653,232,000	21.60
Zhuo Kun	Beneficial owner	282,480,000	9.34

- Notes:
1. Mr. Wong Chun Chau was deemed to be interested in 653,232,000 shares held by Trader Global Investments Limited, a company wholly and beneficially owned by him, for the purpose of the SFO.
 2. Such percentage was calculated against the number of issued shares of the Company as at 30 September 2016, being 3,024,445,215 shares.

Save as disclosed above, the Company were not aware of any other persons (other than a Director or chief executive of the Company) who, as at 30 September 2016, had interests or short positions in the Shares and underlying shares in the Company which were recorded in the register required to be kept under section 336 of the SFO.

Share option schemes

The Company has adopted, on 1 August 2012, two share option schemes namely, the Pre-IPO Share Option Scheme and the Share Option Scheme for the purpose of providing incentives to eligible employees (including Directors) and any advisers or consultants who contributes to the success of the Group.

The following table sets out the change of number of share options outstanding under the share option schemes:

Name or category of participants	Option scheme	Date of grant	Exercise price (adjusted) HK\$	As at 1 April 2016	Exercise during the period	As at 30 September 2016
<i>Director</i>						
Wong Chun Chau	Pre-IPO	1 August 2012	0.12	34,698,240	—	34,698,240
	Share Option Scheme	14 August 2014	0.182	7,200,000	(7,200,000)	—
	Share Option Scheme	18 August 2015	0.249	17,000,000	—	17,000,000
Kwok Yin Ning	Pre-IPO	1 August 2012	0.12	22,809,600	—	22,809,600
	Share Option Scheme	13 August 2014	0.188	15,600,000	(15,600,000)	—
	Share Option Scheme	18 August 2015	0.249	24,000,000	—	24,000,000
<i>Consultant</i>	Pre-IPO	1 August 2012	0.151	16,588,800	—	16,588,800
<i>Employees</i>	Pre-IPO	1 August 2012	0.151	1,058,880	—	1,058,880
	Share Option Scheme	13 August 2014	0.188	576,000	(576,000)	—
	Share Option Scheme	18 August 2015	0.249	500,000	—	500,000
						116,655,520

Save as disclosed above, during the six months ended 30 September 2016, no share options have been granted, exercised, lapsed or cancelled.

Purchase, sale or redemption of shares

During the six months ended 30 September 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Code on corporate governance practices

Save for the following deviation from the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules, none of the Directors is aware of any information which would reasonably indicate that the Company has not complied with the code provision of the Code during the six months ended 30 September 2016.

Code Provision F.1.1

Mr. Chan Siu Lun was appointed as company secretary of the Company with effect from 27 November 2015. Although Mr. Chan is not an employee of the Company as required under Code Provision F.1.1 of the Code, the Company has assigned Ms. Kwok Yin Ning, the Chief Executive Officer and an executive Director, as the contact person with Mr. Chan. Information in relation to the performance, financial position and other major developments and affairs of the Group are speedily delivered to Mr. Chan through the contact person assigned. Having in place a mechanism that Mr. Chan will get hold of the Group's development promptly without material delay and with his expertise and experience, the Board is confident that having Mr. Chan as the company secretary is beneficial to the Group's compliance with the relevant board procedures, applicable laws, rules and regulations.

Code of conduct regarding securities transactions by directors

The Company has adopted the Model Code as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, the Company was not aware of any non-compliance with the required standard set out in the Model Code regarding securities transactions by the directors throughout the six months ended 30 September 2016.

Employees and emolument policy

As at 30 September 2016, the Group had 57 full-time employees (30 September 2015: approximately 28). The pay scale of the Group's employees is maintained at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system. Other employee benefits include contribution to provident fund, insurance and medical cover as well as options that were granted or may be granted under the share option schemes of the Company.

Audit committee

The audit committee has three members comprising three independent non-executive directors, namely, Ms. Mak Yun Chu (Chairperson), Mr. Tang Tat Chi and Mr. Hung Wai Che, with terms of reference in compliance with the Listing Rules. The audit committee review the Group's financial reporting, internal controls and make relevant recommendations to the Board.

The audit committee has reviewed the Company's interim report for the six months ended 30 September 2016 and are in the opinion that such report has complied with the applicable accounting standards and adequate disclosures have been made.

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

Hong Kong, 30 November 2016