



ASCENT

INTERNATIONAL HOLDINGS LIMITED
INTERIM REPORT

2016

(Incorporated in the Cayman Islands with limited liability)

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Wu David Hang
(Chairman and Chief Executive Officer)
 Hou Jian

Independent Non-executive Directors

Wong Yik Chung John
 Ernst Rudolf Zimmermann
 Ng Man Fai Matthew

COMPANY SECRETARY

Chu Kin Ming

AUDIT COMMITTEE

Ng Man Fai Matthew
(Committee Chairman)
 Wong Yik Chung John
 Ernst Rudolf Zimmermann

REMUNERATION COMMITTEE

Wong Yik Chung John
(Committee Chairman)
 Ernst Rudolf Zimmermann
 Ng Man Fai Matthew
 Wu David Hang

NOMINATION COMMITTEE

Wu David Hang *(Committee Chairman)*
 Wong Yik Chung John
 Ernst Rudolf Zimmermann
 Ng Man Fai Matthew

REGISTERED OFFICE

Cricket Square
 Hutchins Drive
 P.O. Box 2681
 Grand Cayman KY1-1111
 Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 510, Chater House,
 8 Connaught Road Central
 Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co. Ltd.
 Hong Kong Branch
 Nanyang Commercial Bank Limited
 OCBC Wing Hang Bank Limited

AUDITOR

BDO Limited
Certified Public Accountants

LEGAL ADVISER ON THE CAYMAN ISLANDS LAW

Conyers Dill & Pearman

LEGAL ADVISER ON HONG KONG LAW

Michael Li & Co.

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
 4th Floor, Royal Bank House
 24 Shedden Road, George Town
 Grand Cayman KY1-1110
 Cayman Islands

HONG KONG BRANCH SHARE AND REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
 Shops 1712-1716, 17th Floor
 Hopewell Centre
 183 Queen's Road East
 Hong Kong

COMPANY WEBSITE

www.irasia.com/listco/hk/ascent/index.htm

STOCK CODE

264

FINANCIAL HIGHLIGHTS

For the six months ended
30 September

| | 2016 Unaudited HK\$'000 | 2015 Unaudited HK\$'000 |
|--|-------------------------------|-------------------------------|
|--|-------------------------------|-------------------------------|

Operating results

| | | |
|--------------------------------|-----------------|----------|
| Revenue | 51,229 | 64,597 |
| Gross profit | 13,183 | 13,354 |
| Loss before income tax expense | (11,095) | (16,704) |
| Loss for the period | (11,452) | (16,815) |

Business performance ratios

| | | |
|--------------------------------|--------------|-------|
| Gross profit margin | 25.7% | 20.7% |
| Net profit margin | N/A | N/A |
| Return on shareholders' equity | N/A | N/A |
| Current ratio | 3.25 | 2.98 |
| Quick ratio | 1.57 | 1.52 |

Share data

| | | |
|--|-----------------------|----------------|
| Shares in issue ('000) | 347,904 | 347,904 |
| Shares closing price (as at period end date) | HK\$1.18 | HK\$1.65 |
| Market capitalization (HK\$'000) | 410,527 | 574,042 |
| Loss per share | (HK3.29 cents) | (HK5.14 cents) |
| Net asset value per share | HK\$0.15 | HK\$0.21 |

The Board of Directors (the “Directors”) of Ascent International Holdings Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

| | Notes | Six months ended 30 September | |
|--|-------|----------------------------------|-------------------------------|
| | | 2016 Unaudited HK\$'000 | 2015 Unaudited HK\$'000 |
| Revenue | 4 | 51,229 | 64,597 |
| Cost of sales | | (38,046) | (51,243) |
| Gross profit | | 13,183 | 13,354 |
| Other income and gains | | 776 | 3,577 |
| Selling and distribution costs | | (13,984) | (13,628) |
| Administrative and other operating expenses | | (11,070) | (20,007) |
| Loss before income tax expense | 5 | (11,095) | (16,704) |
| Income tax expense | 6 | (357) | (111) |
| Loss for the period attributable to owners of the Company | | (11,452) | (16,815) |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

| | | Six months ended 30 September | |
|---|-------|----------------------------------|-------------------------------|
| | | 2016 Unaudited HK\$'000 | 2015 Unaudited HK\$'000 |
| | Notes | | |
| Other comprehensive income | | | |
| <i>Items that may be subsequently reclassified to profit or loss:</i> | | | |
| Exchange differences arising on translation of financial statements of operations outside Hong Kong | | (109) | (1,202) |
| Change in fair value of available-for-sale investments | | - | (516) |
| Transfer of fair value gain to profit or loss upon disposal of available-for-sale investments | | - | (1,621) |
| Other comprehensive income for the period | | (109) | (3,339) |
| Total comprehensive income for the period attributable to owners of the Company | | (11,561) | (20,154) |
| Loss per share | | | |
| - Basic | 8 | (HK3.29 cents) | (HK5.14 cents) |
| - Diluted | 8 | (HK3.29 cents) | (HK5.14 cents) |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2016

| | | 30 September 2016 Unaudited HK\$'000 | 31 March 2016 Audited HK\$'000 |
|--|--------------|---|---|
| | <i>Notes</i> | | |
| Non-current assets | | | |
| Property, plant and equipment | | 1,738 | 1,254 |
| Rental deposits | | 1,606 | 4,478 |
| | | 3,344 | 5,732 |
| Current assets | | | |
| Inventories | | 35,231 | 40,488 |
| Trade and bills receivables | 9 | 7,338 | 8,244 |
| Other receivables, deposits and prepayments | | 4,399 | 1,858 |
| Tax recoverable | | 64 | 276 |
| Bank balances and cash | | 21,336 | 24,008 |
| | | 68,368 | 74,874 |
| Current liabilities | | | |
| Trade payables | 10 | 5,817 | 6,285 |
| Other payables and accrued charges | | 12,995 | 11,494 |
| Amount due to a fellow subsidiary | | 1,525 | 11 |
| Amount due to an intermediate holding company | | 590 | 590 |
| Amount due to a director | | 120 | – |
| | | 21,047 | 18,380 |
| Net current assets | | 47,321 | 56,494 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

AS AT 30 SEPTEMBER 2016

| <i>Notes</i> | 30 September 2016 Unaudited HK\$'000 | 31 March 2016 Audited HK\$'000 |
|---|---|---|
| Total assets less current liabilities | 50,665 | 62,226 |
| Non-current liabilities | | |
| Deferred tax liabilities | 61 | 61 |
| Total Net Assets | 50,604 | 62,165 |
| Capital and reserves attributable to owners of the Company | | |
| Share capital | 3,479 | 3,479 |
| Reserves | 47,125 | 58,686 |
| Total Equity | 50,604 | 62,165 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

| | Share capital | Share premium | Share option reserve | Foreign exchange reserve | Available-for-sale investments reserve | Statutory and discretionary reserve | Retained earnings/ (Accumulated losses) | Total |
|---|---------------|---------------|----------------------|--------------------------|--|-------------------------------------|---|-----------|
| | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 April 2015 | 3,188 | 32,608 | 4,904 | 6,284 | 2,137 | 2,919 | 174,316 | 226,356 |
| Total comprehensive income for the period | - | - | - | (1,202) | (2,137) | - | (16,815) | (20,154) |
| Share issued upon exercise of share options | 291 | 21,200 | (4,904) | - | - | - | - | 16,587 |
| 2015/2016 special interim dividend | - | - | - | - | - | - | (147,998) | (147,998) |
| At 30 September 2015 | 3,479 | 53,808 | - | 5,082 | - | 2,919 | 9,503 | 74,791 |
| At 1 April 2016 | 3,479 | 53,808 | - | 3,693 | - | 5,249 | (4,064) | 62,165 |
| Total comprehensive income for the period | - | - | - | (109) | - | - | (11,452) | (11,561) |
| At 30 September 2016 | 3,479 | 53,808 | - | 3,584 | - | 5,249 | (15,516) | 50,604 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

| | Six months ended 30 September | |
|--|----------------------------------|-------------------------------|
| | 2016 Unaudited HK\$'000 | 2015 Unaudited HK\$'000 |
| Net cash used in operating activities | (4,531) | (14,737) |
| Net cash (used in)/from investing activities | (46) | 7,058 |
| Cash flows from financing activities | | |
| Proceeds from exercise of share options | – | 16,587 |
| Payment of 2015/2016 special interim dividends | – | (147,998) |
| Other cash flows arising from financing activities | 1,634 | – |
| Net cash from/(used in) financing activities | 1,634 | (131,411) |
| Net decrease in cash and cash equivalents | (2,943) | (139,090) |
| Cash and cash equivalents at the beginning of the period | 24,008 | 161,434 |
| Effect of foreign exchange rate changes on cash and cash equivalents | 271 | (534) |
| Cash and cash equivalents at the end of the period | 21,336 | 21,810 |

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated in the Cayman Islands on 12 April 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”). As at 30 September 2016, the Company’s immediate holding company was Zhurong Global Limited, a company incorporated in the British Virgin Islands; and the directors of the Company consider that its ultimate holding company was Zhonghong Holding Co., Ltd. (“Zhonghong”), a company established in the People’s Republic of China (the “PRC”) with its shares listed on the Shenzhen Stock Exchange (stock code: 000979), and its ultimate controlling party was Mr. Wang Yonghong, who holds approximately 26.55% of the issued shares of Zhonghong through one of his wholly owned companies. The address of the registered office and principal place of business of the Company are disclosed in the corporate information to the interim report.

The unaudited condensed interim financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

The unaudited condensed interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange and the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

3. PRINCIPAL ACCOUNTING POLICIES

The condensed interim financial statements have been prepared under the historical cost convention 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 preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2016.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

In the current interim period, the Group has applied a number of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) that are first effective for current accounting period of the Group. The adoption of these amendments to HKFRSs has no material impact on the Group’s financial statements.

The following new/revised HKFRSs, potentially relevant to the Group’s financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

| | |
|------------------------|--|
| Amendments to HKAS 7 | Disclosure Initiative ¹ |
| HKFRS 9 (2014) | Financial Instruments ² |
| HKFRS 15 | Revenue from Contracts with Customers ² |
| Amendments to HKFRS 15 | Clarifications to 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

The Group is in the process of making an assessment of the potential impact of these pronouncements. The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group’s accounting policies and financial statements.

4. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold to external customers, less returns and discount, if any, during the period.

The principal activities of the Group are manufacture and distribution of leather products and retail of fashion apparel, footwear and leather accessories.

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker that are used to make strategic decisions.

The Group has two reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Manufacturing business – Manufacture and distribution of leather products
- Retail business – Retail of fashion apparel, footwear and leather accessories

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' result that is used by the chief operating decision makers for assessment of segment performance.

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

| | Manufacturing business | | Retail business | | Total | |
|---|----------------------------------|-------------------------------|----------------------------------|-------------------------------|----------------------------------|-------------------------------|
| | Six months ended 30 September | | Six months ended 30 September | | Six months ended 30 September | |
| | Unaudited 2016 HK\$'000 | Unaudited 2015 HK\$'000 | Unaudited 2016 HK\$'000 | Unaudited 2015 HK\$'000 | Unaudited 2016 HK\$'000 | Unaudited 2015 HK\$'000 |
| Revenue from external customers | 35,803 | 51,291 | 15,426 | 13,306 | 51,229 | 64,597 |
| Inter-segment revenue | 4,086 | 3,922 | - | - | 4,086 | 3,922 |
| Reportable segment revenue | 39,889 | 55,213 | 15,426 | 13,306 | 55,315 | 68,519 |
| Reportable segment loss | (7,701) | (14,557) | (2,813) | (2,383) | (10,514) | (16,940) |
| Elimination of inter-segment losses | | | | | - | 52 |
| Dividend income from available-for-sale investments | | | | | - | 502 |
| Gain on disposal of available-for-sale investments | | | | | - | 1,621 |
| Interest income | | | | | 27 | 1,308 |
| Unallocated other income and gains | | | | | 749 | 146 |
| Unallocated corporate expenses | | | | | (1,357) | (3,393) |
| Loss before income tax expense | | | | | (11,095) | (16,704) |
| Income tax expense | | | | | (357) | (111) |
| Loss for the period | | | | | (11,452) | (16,815) |

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

| | Manufacturing business | | Retail business | | Total | |
|---------------------------------------|---|---|---|---|---|---|
| | 30 September 2016 Unaudited HK\$'000 | 31 March 2016 Audited HK\$'000 | 30 September 2016 Unaudited HK\$'000 | 31 March 2016 Audited HK\$'000 | 30 September 2016 Unaudited HK\$'000 | 31 March 2016 Audited HK\$'000 |
| Reportable segment assets | 53,749 | 64,609 | 15,804 | 14,197 | 69,553 | 78,806 |
| Tax recoverable | | | | | 64 | 276 |
| Unallocated bank balances and cash | | | | | 2,004 | 998 |
| Other unallocated corporate assets | | | | | 91 | 526 |
| | | | | | 71,712 | 80,606 |
| Reportable segment liabilities | 15,171 | 14,841 | 1,247 | 1,181 | 16,418 | 16,022 |
| Deferred tax liabilities | | | | | 61 | 61 |
| Unallocated corporate liabilities | | | | | 4,629 | 2,358 |
| | | | | | 21,108 | 18,441 |

5. LOSS BEFORE INCOME TAX EXPENSE

Loss before income tax expense is arrived at after charging:

| | Six months ended 30 September | |
|--|--|-------------------------------|
| | 2016 Unaudited HK\$'000 | 2015 Unaudited HK\$'000 |
| Cost of inventories recognised as expenses | 38,046 | 51,243 |
| Depreciation of property, plant and equipment | 469 | 576 |
| Foreign exchange loss, net | 437 | 5,150 |
| Operating lease rentals in respect of land and buildings | 9,370 | 9,322 |
| Staff costs (excluding directors' emoluments) | 14,284 | 10,296 |
| and crediting: | | |
| Dividend income from available-for-sale investments | - | 502 |
| Interest income | 27 | 1,308 |
| Gain on disposal of available-for-sale investments | - | 1,621 |
| Reversal of write down of inventories | - | 495 |

6. INCOME TAX EXPENSE

| | Six months ended 30 September | |
|-----------------------------|--|--|
| | 2016 Unaudited HK\$'000 | 2015 Unaudited HK\$'000 |
| Current taxation: | | |
| – PRC enterprise income tax | 357 | 111 |

No provision for Hong Kong profits tax has been made for the period as the Group has sustained estimated tax losses for both periods. The PRC enterprise income tax rate for the Company's subsidiaries in the PRC is 25% (2015: 25%).

7. DIVIDEND

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 September 2016 and 2015 other than 2015/2016 special interim dividend.

8. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss for the period of HK\$11,452,000 (2015: loss of HK\$16,815,000) attributable to owners of the Company and weighted average number of 347,904,000 (2015: 327,072,852) ordinary shares in issue during the period.

8. LOSS PER SHARE (CONTINUED)

For the six months ended 30 September 2016 and 2015, diluted loss per share is equal to the basic loss per share for the respective periods as there is no potential dilutive ordinary share in issue for the six months ended 30 September 2016 and there was no dilutive effect on the outstanding share options for the six months ended 30 September 2015.

9. TRADE AND BILLS RECEIVABLES

| | 30 September 2016 Unaudited HK\$'000 | 31 March 2016 Audited HK\$'000 |
|-----------------------------|---|---|
| Trade and bills receivables | 8,091 | 9,038 |
| Less: impairment loss | (753) | (794) |
| | 7,338 | 8,244 |

9. TRADE AND BILLS RECEIVABLES (CONTINUED)

Customers are generally granted with credit terms of 30 to 90 days. The ageing analysis of trade and bills receivables (net of impairment loss) at the end of reporting period is as follows:

| | 30 September 2016 Unaudited HK\$'000 | 31 March 2016 Audited HK\$'000 |
|--------------------|---|---|
| Less than 30 days | 2,706 | 4,643 |
| 31-60 days | 2,011 | 612 |
| 61-90 days | 2,368 | 1,965 |
| 91-120 days | 14 | 501 |
| 121-365 days | 239 | 438 |
| More than 365 days | – | 85 |
| | 7,338 | 8,244 |

10. TRADE PAYABLES

Details of the ageing analysis are as follows:

| | 30 September 2016 Unaudited HK\$'000 | 31 March 2016 Audited HK\$'000 |
|--------------------|---|---|
| Less than 30 days | 2,641 | 3,100 |
| 31-60 days | 1,199 | 671 |
| 61-90 days | 353 | 1,128 |
| 91-120 days | 897 | 1,042 |
| 121-365 days | 474 | 174 |
| More than 365 days | 253 | 170 |
| | 5,817 | 6,285 |

11. SHARE CAPITAL*Authorised and issued share capital*

| | Number of shares | Amount HK\$'000 |
|---|---------------------|--------------------|
| Ordinary shares of HK\$0.01 each | | |
| Authorised: | | |
| At 1 April 2015, 31 March 2016, 1 April 2016 and 30 September 2016 | 2,000,000,000 | 20,000 |
| Issued and fully paid: | | |
| At 1 April 2015 | 318,804,000 | 3,188 |
| Shares issued upon exercise of share options | 29,100,000 | 291 |
| At 31 March 2016, 1 April 2016 and 30 September 2016 | 347,904,000 | 3,479 |

12. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 September 2016 and 31 March 2016.

13. RELATED PARTY TRANSACTIONS

(a) During the period, the Group had entered into the following transactions with related parties:

| | Six months ended 30 September | |
|---|--|--|
| | 2016 Unaudited HK\$'000 | 2015 Unaudited HK\$'000 |
| Rental expenses paid to Mr. Chan Woon Man and Ms. Tsang Sau Lin for office premises | 390 | 390 |

Mr. Chan Woon Man is a director of a subsidiary of the Company and was previously a substantial shareholder of the Company up to 7 September 2015. Ms. Tsang Sau Lin is the wife of Mr. Chan Woon Man.

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

| | Six months ended 30 September | |
|--------------------------|--|--|
| | 2016 Unaudited HK\$'000 | 2015 Unaudited HK\$'000 |
| Short-term benefits | 234 | 5,548 |
| Post employment benefits | - | 83 |
| | 234 | 5,631 |

DIVIDEND

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

For the six months ended 30 September 2016, the Group's revenue decreased by approximately 20.69% from approximately HK\$64,597,000 for the corresponding period in 2015 to approximately HK\$51,229,000 which was mainly due to the decrease of revenue from manufacturing business segment. Gross profit decreased by approximately 1.28% from approximately HK\$13,354,000 for the corresponding period in 2015 to approximately HK\$13,183,000 which was mainly due to better cost control. Gross profit margin also increased from approximately 20.7% for the corresponding period in 2015 to approximately 25.7%.

Other income and gains sharply decreased by 78.31% from approximately HK\$3,577,000 for the corresponding period in 2015 to approximately HK\$776,000 because the Group no longer held any available-for-sale investments in the reporting period and hence received no dividend income nor gain on the disposal of these assets. Moreover, the interest income has been decreased from HK\$1,308,000 for the corresponding period in 2015 to only HK\$27,000 in the reporting period.

Selling and distribution costs increased by approximately 2.61% from approximately HK\$13,628,000 for the corresponding period in 2015 to approximately HK\$13,984,000 which was mainly due to the increase in the average number of retail stores which resulted in higher staff costs and transportation cost. Administrative and other operating expenses decreased by approximately 44.67% from approximately HK\$20,007,000 for the corresponding period in 2015 to approximately HK\$11,070,000 which was mainly due to net foreign exchange loss of HK\$437,000 in the reporting period in comparison with net foreign exchange loss of HK\$5,150,000 for the corresponding period in 2015 and the effects of better cost control.

As a result of the above, the Group recorded a net loss attributable to owners of the Company of approximately HK\$11,452,000 for the reporting period (2015: approximately HK\$16,815,000). Loss per share for the six months ended 30 September 2016 was HK3.29 cents (2015: HK5.14 cents).

BUSINESS REVIEW

In the reporting period, the two business segments – manufacturing and retailing accounted for approximately 69.9% (2015: approximately 79.4%) and approximately 30.1% (2015: approximately 20.6%) of the Group revenue respectively.

MANUFACTURING BUSINESS

For the six months ended 30 September 2016, revenue of manufacturing business segment from external customers decreased by 30.2% from approximately HK\$51,291,000 for the corresponding period in 2015 to approximately HK\$35,803,000. This was mainly due to the decrease in demand from Hong Kong, PRC and overseas markets except for the United States (the “US”) market.

Geographically, sales to Europe decreased by approximately 39.8% from approximately HK\$17,216,000 for the corresponding period in 2015 to approximately HK\$10,359,000. Sales to the US increased by approximately 30.3% from approximately HK\$6,104,000 for the corresponding period in 2015 to approximately HK\$7,956,000. Sales in Hong Kong decreased by approximately 7.6% from approximately HK\$4,272,000 for the corresponding period in 2015 to approximately HK\$3,949,000. Sales to PRC decreased by approximately 57.6% from approximately HK\$4,572,000 for the corresponding period in 2015 to approximately HK\$1,939,000. Apart from the major markets, sales to other countries including Australia, Japan, Canada, India, Korea, Singapore and Malaysia, etc. decreased by approximately 39.4% from approximately HK\$19,127,000 for the corresponding period in 2015 to approximately HK\$11,600,000.

In terms of product category, sales of belts decreased by approximately 33.8% to approximately HK\$30,059,000 (2015: HK\$45,396,000) while sales of leather goods and other accessories decreased by approximately 2.6% to approximately HK\$5,744,000 (2015: HK\$5,895,000). In the reporting period, the Group endeavored to reduce the inventory level of raw materials in particular to consume the slow-moving cowhide leathers. However, the utilization rate of production capacity remained low. Against the backdrop of tough operating environment, the Group's manufacturing business segment recorded an operating loss of approximately HK\$7,701,000 (2015: approximately HK\$14,557,000).

RETAIL BUSINESS

The Group's revenue from its retail business increased by 15.9% from HK\$13,306,000 for the corresponding period in 2015 to approximately HK\$15,426,000. The Group's in-house brand sales increased by approximately 19.4% and it accounted for approximately 96% of total retail sales as compared to approximately 93.2% of same period last year. The increase was mainly due to the surge of sales of in-house brand leather bags and sales generated by the Group's leather workshop in the reporting period. High in-house brand sales drove up gross profit margin from approximately 67% to approximately 68%.

The overall shop rental to revenue ratio slightly increased to 45.1% (2015: 43.1%). The staff cost to revenue ratio slightly decreased to 24% (2015: 26.5%).

As a consequence of the above, the Group's retail business segment recorded an operating loss of approximately HK\$2,813,000 (2015: approximately HK\$2,383,000). During the reporting period, the Group operated nine AREA 0264 stores and one Leather workshop in Hong Kong, same number as the corresponding period in 2015.

PROSPECTS

Looking forward, the economic situation locally and worldwide remains stumbling. The manufacturing business of the Group continues to face a lot of challenges and the Group will remain vigilant to the situation ahead by broaden the sources of income, striving for efficiency and economize on expenditure such as returning part of the underutilized factory area to the landlord. On the other hand, the continued depreciation of Chinese Yuan may be one of the favourable factors to the Group.

In view of the decelerated rate of Chinese economy growth, the weak local market demand and intense competition of retail market, the Group's retail business is expected to be sluggish. The Group will prudently reexamine the use of the resources such as closing down Tsuen Wan retail store in October 2016 upon expiry of the tenancy and continue to look for retail business opportunity.

After Zhonghong Holding Co., Ltd and Zhurong Global Ltd. became the controlling shareholders of the Company on 2 November 2015, the Group is exploring more business opportunities in the mainland China such as developing the property management services for a range of recreational properties, including hotels, resorts and theme parks. The brand management services which aim at operating business properties for travel and resort, healthcare and cultural innovation will also be the focus of the future business of the Group.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 September 2016, the Group's cash and bank deposits were approximately HK\$21,336,000 as compared to approximately HK\$24,008,000 as at 31 March 2016.

The Group recorded total current assets of approximately HK\$68,368,000 (31 March 2016: approximately HK\$74,874,000) and total current liabilities of approximately HK\$21,047,000 (31 March 2016: approximately HK\$18,380,000). The decrease of total current assets was mainly due to the decrease in cash and bank deposits and the inventory balance in the reporting period. The current ratio of the Group, calculated by dividing the total current assets by the total current liabilities, was approximately 3.2 times as at 30 September 2016 (31 March 2016: approximately 4.1 times).

The Group recorded shareholders' funds of approximately HK\$50,604,000 (31 March 2016: approximately HK\$62,165,000). The decrease was mainly attributable to operating loss incurred in the reporting period.

TREASURY POLICY

The Group generally finances its operation with internally generated resources. Cash and bank deposits of the Group are mainly denominated in Hong Kong dollars ("HK\$"), US dollars ("USD") and Renminbi ("RMB"). Transactions of the Group are mainly denominated in HK\$, USD and RMB. As HK\$ is pegged to USD, the Group does not expect any significant movements in the USD/HK\$ exchange rate. In this regard, the Group does not expose to significant currency risk arising from USD. In addition, it is estimated that the Group's exposure to foreign exchange fluctuation in Renminbi against Hong Kong dollars would have insignificant effects on profit or loss and other component of equity of the Group. Foreign exchange forward contract can be used to eliminate the currency risk exposure. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

CHANGES ON ASSETS

The Group did not have any assets pledged.

MATERIAL ACQUISITION AND DISPOSAL

The Group had no material acquisition or disposal of subsidiaries for the six months ended 30 September 2016.

HUMAN RESOURCES

As at 30 September 2016, the Group had approximately 60 employees in Hong Kong and in the PRC and approximately 347 workers in the PRC. The Group remunerated its employees mainly based on their individual performance. Apart from basic salaries, discretionary bonus, contribution to the statutory retirement scheme, the Group adopted a share option scheme whereby certain employees of the Group may be granted options to subscribe for shares of the Company. The share option scheme has expired on 17 February 2013.

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

As at 30 September 2016, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which 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 or short positions which were taken or deemed to have been taken under such provisions of the SFO), or as recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers ("Model Code") contained in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS OF INTEREST IN SHARES

As at 30 September 2016, other than the interests and short positions of the Directors or chief executives of the Company disclosed above, person or corporation who had interests in the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was, directly or Indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

LONG POSITIONS

(a) Ordinary shares of HK\$0.01 each of the Company

| Name | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital |
|-----------------------------|--------------------------------------|---------------------------------------|--|
| Wang Yonghong | Interest of a controlled corporation | 229,948,000 (Note) | 66.10 |
| Zhonghong Holding Co., Ltd. | Interest of a controlled corporation | 229,948,000 (Note) | 66.10 |
| Zhurong Global Limited | Beneficial owner | 229,948,000 (Note) | 66.10 |

Note:

229,948,000 shares are held by Zhurong Global Limited, a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Zhu Rong Hong Kong Investment Limited. Zhu Rong Hong Kong Investment Limited, a company incorporated in Hong Kong, is directly wholly owned by 珠海橫琴著融資產管理有限公司. 珠海橫琴著融資產管理有限公司, a company incorporated in the PRC, is directly wholly owned by 中弘文化投資有限公司. 中弘文化投資有限公司, a company incorporated in the PRC, is 80% directly owned by 北京中弘投資有限公司. 北京中弘投資有限公司, a company incorporated in the PRC, is directly wholly owned by 中弘控股股份有限公司 (Zhonghong Holding Co., Ltd.)* ("Zhonghong") which is a company incorporated in the PRC and its shares are listed on the Shenzhen Stock Exchange (stock code: 000979). Mr. Wang Yonghong, through one of his wholly-owned companies, 中弘卓業集團有限公司 (Zhonghong Zhuoye Group Company Limited)* was the controlling shareholder of Zhonghong and holds approximately 26.55% of the issued shares of Zhonghong.

* For identification purposes only

Save as disclosed above, as at 30 September 2016 the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTIONS

Pursuant to the written resolutions of all the shareholders of the Company passed on 18 February 2003, the Company adopted a share option scheme (the “Share Option Scheme”).

The Share Option Scheme expired on 17 February 2013 and the Company has not adopted any new share option scheme thereafter.

There was no any outstanding share option of the Company under the Share Option Scheme as at 1 April 2016 and 30 September 2016 respectively and no share option of the Company being granted, exercised, lapsed or cancelled during the period under review.

DIRECTORS’ RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading “Directors’ and chief executives’ interests and short position in the shares, underlying shares and debentures” and “Share options” above, at no time during the period under review were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries, holding companies and fellow subsidiaries, a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

CHANGES IN INFORMATION OF DIRECTORS

Upon specific enquiry by the Company and following confirmations from the Directors, there was no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules subsequent to the date of the Company's 2016 annual report.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 September 2016.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions (the "Code Provision(s)") as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules during the six months ended 30 September 2016, except for the deviations from Code Provisions A.1.8, A.2.1 and E.1.2 of the CG Code. Under the Code Provision A.1.8 of the CG Code, the Company should arrange appropriate insurance cover in respect of legal action against its Directors. During the reporting period, the Board decided that it was not necessary to arrange insurance cover to the Directors because Directors had always been prudent in making business decision for the Company and so the legal risk to the Directors was quite low. With effective from 10 May 2016, the Company arranged appropriate insurance cover for Directors' and officers' liabilities, which has complied with the CG Code. According to Code Provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. During the reporting period, the roles of the chairman and chief executive officer of the Company were performed by Mr. Wu David Hang. The Board is of the view that given the small size of the existing management team, Mr. Wu David Hang has considerable experience in business development and the Board believes that the current structure will enable us

to make and implement decisions promptly and efficiently. The Board will meet regularly to consider that this structure will not impair the balance of power and authority between the Board and the management of the Group. Under the Code Provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting and he should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. During the reporting period, at the annual general meeting of the Company held on 5 September 2016, the whole Board and the auditor of the Company have attended the meeting to answer questions of the shareholders of the Company except that Mr. Wu David Hang (chairman and chief executive officer of the Board and chairman of nomination committee) and Mr. Hou Jian, the executive Director, could not attend the meeting due to other business engagement but they have appointed the other attended Directors as their representative at the meeting to answer questions of the shareholders of the Company. In the future, the Company will try its best to encourage and ensure all of the Directors will attend the general meetings.

The Company will periodically review its corporate governance practices to ensure its continuous compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed compliance with the required standard set out in the Model Code during the six months ended 30 September 2016.

The Company has also adopted a code of conduct regarding securities transactions by relevant employees on terms no less exacting than the required standard set out in the Model Code. All the relevant employees who, because of office or employment, are likely to be in possession of inside information in relation to the Company's securities has been requested to follow such code when dealing in the securities of the Company.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, Mr. Ng Man Fai Matthew (Chairman), Mr. Wong Yik Chung John, and Mr. Ernst Rudolf Zimmermann. The Audit Committee has reviewed with Group's management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including a review of the unaudited consolidated interim financial statements and the results of the Group for the six months ended 30 September 2016.

By order of the Board

Wu David Hang

Chairman

Hong Kong, 30 November 2016