



UKF (HOLDINGS) LIMITED

英裘(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

GEM stock code: 8168



First 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.

Contents

Financial Highlights	3
Chairman's Statement	4
Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	7
Unaudited Condensed Consolidated Statement of Financial Position	8
Unaudited Condensed Consolidated Statement of Changes in Equity	9
Notes to the Unaudited Condensed Consolidated Financial Statements	10
Management Discussion and Analysis	18

Financial highlight

- Recorded an unaudited turnover of approximately HK\$92.5 million for the three months ended 30 June 2014, representing an increase of approximately 18.8% over the same period of the previous year.
- Recorded an unaudited profit attributable to the shareholders of the Company of approximately HK\$12.5 million for the three months ended 30 June 2014, representing an increase of approximately 37.7% over the same period of the previous year.
- Basic earnings per share for the three months ended 30 June 2014 were HK0.76 cents (2013: HK0.66 cents).
- The Directors do not recommend the payment of a dividend for the three months ended 30 June 2014.

Chairman's Statement

Results

The Group's unaudited turnover for the three months ended 30 June 2014 was approximately HK\$92.5 million, representing an increase of approximately 18.8% from approximately HK\$77.8 million during the same period in 2013.

The gross profit for the Group was approximately HK\$16.9 million and HK\$16.8 million for the three months ended 30 June 2014 and 30 June 2013 respectively, representing an increase of approximately 1.0%. The increase in gross profit was primarily due to the enlargement of the customer base after the acquisition of the entire issue share capital Loyal Speed Limited ("Loyal Speed").

Business Review

Moving swiftly through the calendar year, we now have all eyes set on the fur fashion trends for the upcoming season. Top designer brands such as Fendi, Hermes and Gucci are releasing their designs for the coming season that not only set the trends for the following winter but also create demand for skins at the upcoming auctions. UKF is pleased to see that fur garment is still in high demand and is an essential core element to the fashion industry.

As the Danish and Finnish governments control the quota of skins produced annually, we have seen keen competition among clients to bid for top quality skins at the auctions. In view of a limited supply, we expect the market price of fur skins will recover steadily by the end of this year.

Mid-year marks the beginning of the buying season for the fur industry as manufacturers have their designs complete and orders placed for the upcoming season. This creates a more competitive environment at the auction houses as the final auction to be held in September is the last auction just before the start of winter season. Compared to the average price for mink skins at the most recent May auction, the fur skin prices in the auctions of Copenhagen Fur in June auction increased by about 20-30%.

Trading

Compared to the first half year of 2013, the auction prices for both Fox and Mink skins dropped in the same period of 2014. While it is normal to expect skins to be traded at lower prices at the beginning of the year compared to the skin prices recorded in June and September auctions in general, we did see the price dropped slightly lower than usual.

While the price was lower than the average in the previous year, UKF saw an opportunity as the lower trading price opened up new markets and attracted clients for the Group. With the lower skin prices, our Chinese agents were able to engage their new clients from Russia and the USA who are accustomed to purchase fur skins at such lower price and trade in larger volumes. As a result, we were able to attain profit margins similar to that of the corresponding period in 2013.

It is due to our established customers that allow us to expand our client network and maintained a steady performance during this retreat in the market. Whilst the market experiences a downturn, UKF is still in good standing.

Fur Skin Brokerage

During the period under review, Loyal Speed had a significant increase in commission and financial interest income as our fur skin trading business expanded due to an increase in demand from our agents in different markets. With higher buying power, our Chinese agents were able to extend their network and generated a larger trading volume when the trading price for skins stood low.

To take advantage of the increase in trading volume, we received great support from our partner banks that enabled us to purchase more skins from the auction houses for our clients, thereby increasing our commission and interest income.

Mink Farming

UKF's farming business remains to be the fastest growing sector of the Group's business. With 5 farms in our portfolio, we are constantly looking for ways to improve the quality of our minks and increasing our production.

The Group received permits from the Danish government to extend the total production area of two of our top performing farms by 70%. These permits are very difficult to be obtained and are as valuable as the farm and land. As part of our initial investment strategy, UKF will continue to apply for extension permits for our remaining farms.

With our implemented breeding program, UKF has continuing improvements in both the quality and sizes of our minks. To continue with this improvement, UKF will raise a larger number of our top female breeders and place them into the expanded sections of our farms in the coming quarter. With the new measures, we expect that the overall performance of our existing farms will continue to improve.

Prospect

The months leading up to winter are the most engaging months for all sectors of the fur industry. Top designers will be launching their collection campaigns that further boost up the demand for fur. The beautifully designed and luxurious fur coats will increase the demand for quality skins that are of limited supply.

The final auctions in 2014 will come in September. We are optimistic about the skin prices for both foxes and minks, as it is the last opportunity for furriers to grab their skins to prepare for this season. Further, with the 20% increase in price for mink skins in June auctions and the expected increase in skin prices during the final quarter of 2014, among other factors, the value of UKF's biological assets is expected to have a healthy gain.

With the hopes for a normal to cold winter and that the skin prices will naturally increase, UKF estimates the prices will remain within the 5-year average for both mink and fox skins.

Loyal Speed, UKF's brokerage business, is looking at a profitable quarter as assured by the confirmation from many clients from our agents to attend the September auction. With the appealing trading prices, UKF is expecting a decent numbers orders from our agents who will receive good orders across the markets. Further, the attractive prices are driving new sales outlets into Russia as they look to purchase their final round of buying for the season. In anticipation, UKF has a healthy cash flow to support financing and purchasing, leaving UKF with a handsome income.

The limited supply of skins to the auction houses promotes the trading of high quality skins. With the great performance of UKF's farms, we are expecting a good demand for our skins at the September auction. UKF will continue to promote the development of our breeding program and the quality of our farms.

The demand for Scandinavian skins are expected to grow further as various farms producing skins of lower quality in China have closed down or downsized. Additionally, farms in Greece and Eastern Europe also suffer from quality and cash flow problems which will result in a decrease of approximately one-third of their production.

UKF is looking forward to a great quarter with the support of expected higher trading prices of fur skins at the September auctions and the favourable trading results of skins produced in our farms.

Finally, with the proposed submission of UKF's application for transfer of listing from GEM to the Main Board of the Stock Exchange ("Transfer of Listing"), the Group believes that the profile and public recognition of the Company as well as its financial stability will be enhanced. The Group also believes that the Transfer of Listing will increase the trading liquidity of the shares and beneficial to the future growth and business development of the Group.

Wong Chun Chau

Chairman

Hong Kong, 12 August 2014

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

For the three months ended 30 June 2014

	Notes	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)
Turnover	3	92,454,160	77,845,049
Cost of sales		(75,521,599)	(61,076,060)
Gross profit		16,932,561	16,768,989
Other income	4	108,418	319,879
Change in fair value less cost to sell of biological assets		7,164,001	566,436
Administrative expenses		(9,067,353)	(7,390,601)
Finance costs	5	(1,316,625)	(843,553)
Profit before tax	6	13,821,002	9,421,150
Income tax expenses	7	(1,338,737)	(355,336)
Profit for the period attributable to the shareholders of the Company		12,482,265	9,065,814
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of overseas operations		39,280	—
Total comprehensive income for the period attributable to the shareholders of the Company		12,521,545	9,065,814
Earnings per share (cents)	9		
Basic		0.76	0.66
Diluted		0.75	0.64

Unaudited condensed consolidated statement of financial position

At 30 June 2014

	Notes	30 June 2014 HK\$ (unaudited)	31 March 2014 HK\$ (audited)
Non-current assets			
Property, plant and equipment	10	39,551,819	40,007,400
Investment properties		1,453,798	1,473,621
Goodwill		75,433,142	75,433,142
Deferred tax asset		29,857	—
		116,468,616	116,914,163
Current assets			
Biological assets		23,390,371	14,009,767
Inventories		132,324,575	55,325,234
Trade and other receivables	11	137,903,427	104,980,483
Loan receivables	12	130,044,114	106,742,130
Pledged bank deposits		—	8,528,800
Bank balances and cash		106,202,342	60,756,260
		529,864,829	350,342,674
Current liabilities			
Trade and other payables	13	140,419,099	55,204,135
Tax payables		9,424,758	8,108,216
Bank borrowings	14	183,129,485	103,373,132
Obligations under finance lease		188,626	186,580
		333,161,968	166,872,063
Net current assets		196,702,861	183,470,611
Total assets less current liabilities		313,171,477	300,384,774
Non-current liabilities			
Obligations under finance lease		163,595	211,525
Corporate bond	15	10,000,000	10,000,000
Promissory note	16	18,873,664	18,574,714
Deferred tax liability		124,975	127,081
		29,162,234	28,913,320
Net assets		284,009,243	271,471,454
Capital and reserves			
Share capital	17	16,517,760	16,517,760
Reserves		267,491,483	254,953,694
Total equity		284,009,243	271,471,454

Unaudited condensed consolidated statement of changes in equity

For the three months ended 30 June 2014

	Share capital HK\$	Share premium HK\$	Merger reserve HK\$	Share options reserve HK\$	Warrants reserve HK\$	Translations reserve HK\$	Retained profits HK\$	Total 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
Recognition of equity-settled share based payments	—	—	—	533,477	—	—	—	533,477
Profit and total comprehensive income for the period	—	—	—	—	—	—	9,065,814	9,065,814
At 30 June 2013 (unaudited)	11,520,000	114,649,721	(7,122,000)	5,095,386	—	(7,722)	56,489,005	180,624,390
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
Recognition of equity-settled share based payments	—	—	—	16,244	—	—	—	16,244
Other comprehensive income for the period	—	—	—	—	—	39,280	—	39,280
Profit for the period	—	—	—	—	—	—	12,482,265	12,482,265
At 30 June 2014 (unaudited)	16,517,760	182,167,594	(7,122,000)	4,827,718	203,180	(73,972)	87,488,963	284,009,243

Notes to the unaudited condensed consolidated financial statements

For the three months ended 30 June 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 skin brokerage and mink farming.

These condensed consolidated financial statements have not been audited.

2. Basis of preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which in collective terms include all applicable individual Hong Kong Accounting Standards (“HKASs”), interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules of The Stock Exchange of Hong Kong Limited (“Stock Exchange”).

The HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the current accounting period. There have been no significant changes to the accounting policies applied in these financial statements for the periods presented as a result of these developments.

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

The preparation of financial statements in conformity with the HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise their judgments in the process of applying the Group’s accounting policies.

The accounting policies adopted in preparing the unaudited condensed consolidated financial statements were consistent with those applied for the financial statements of the Group for the year ended 31 March 2014.

3. Turnover and 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 segment and to assess its 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 skin brokerage and financing services and mink farming.

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

	Three months ended 30 June	
	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)
Trading of fur skins	72,032,774	71,638,399
Fur skin brokerage and financing services	9,727,764	5,055,047
Mink farming	10,693,622	1,151,603
	92,454,160	77,845,049

Geographical information

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

	Three months ended 30 June	
	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)
The People's Republic of China ("PRC")	77,478,201	49,271,278
Europe	10,693,623	10,585,671
Russia*	—	13,490,044
Canada	—	2,086,204
Hong Kong	4,282,336	2,411,852
	92,454,160	77,845,049

* 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 30 June	
	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)
Bank interest income	20,389	362
Exchange gain, net	—	153,865
Bonus and rebate from auction houses	42,042	—
Rental income	40,180	7,271
Sundry income	5,807	158,381
	108,418	319,879

5. Finance costs

	Three months ended 30 June	
	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)
Interest on borrowings wholly repayable within five years:		
Trust receipt loans interest	639,871	444,635
Bank loan interest	159,727	28,767
Overdrafts interest	1,598	572
Imputed interest on promissory note	298,950	95,051
Interest on finance lease	4,182	—
Auction interest	74,798	5,857
Auction finance interest	—	131,172
	1,179,126	706,054
Interest on borrowings not wholly repayable within five years:		
Corporate bond interest	137,499	137,499
	1,316,625	843,553

6. Profit before tax

	Three months ended 30 June	
	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)
Profit before tax has been arrived at after charging:		
Cost of inventories recognised as expenses	75,251,327	61,008,683
Staff costs (including directors' remuneration)		
— Salaries and allowances	3,304,001	2,061,375
— Defined contribution retirement benefit scheme contributions	34,174	29,245
Depreciation	929,296	485,929
Equity-settled share-based payments	16,244	533,477
Exchange loss, net	667,010	—
Operating lease payments	211,031	125,161

7. Income tax expenses

	Three months ended 30 June	
	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)
The charge comprises:		
Hong Kong Profits Tax	1,368,594	774,812
Other jurisdictions	—	—
	1,368,594	774,812
Deferred taxation	(29,857)	(419,476)
	1,338,737	355,336

- (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 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 30 June 2014 (Three months ended 30 June 2013: Nil).

9. Earnings per share

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

	Three months ended 30 June	
	2014 HK\$ (unaudited)	2013 HK\$ (unaudited)
Profit attributable to the shareholders of the Company for the purpose of basic and diluted earnings per share	12,482,265	9,065,814
Number of shares:		
Weighted average number of ordinary shares for the purpose of the calculation of the basic earnings per share	1,651,776,000	1,382,400,000
Effect of dilutive potential ordinary shares:		
Share options	13,987,441	37,147,489
Weighted average number of ordinary shares for the purpose of the calculation of the diluted earnings per share	1,665,763,441	1,419,547,489

10. Property, plant and equipment

During the three months ended 30 June 2014, the Group spent HK\$788,780 (three months ended 30 June 2013: HK\$9,906,623) on acquisition of property, plant and equipment.

11. Trade and other receivables

	30 June 2014 HK\$ (unaudited)	31 March 2014 HK\$ (audited)
Trade receivables	117,400,269	101,427,009
Commission receivables	726,947	—
Prepayments	14,832,987	383,858
Deposits and other receivables	4,943,224	3,169,616
	137,903,427	104,980,483

The Group offered 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 aging analysis of trade receivables presented based on invoice date at the end of the reporting periods.

	30 June 2014 HK\$ (unaudited)	31 March 2014 HK\$ (audited)
0 – 60 days	43,551,401	75,169,520
61 – 90 days	26,950,768	13,339,649
91 – 120 days	46,898,100	12,917,840
Over 120 days	—	—
	117,400,269	101,427,009

12. Loan receivables

	30 June 2014 HK\$ (unaudited)	31 March 2014 HK\$ (audited)
Loan to customers	125,190,770	96,842,633
Accrued interest receivables	4,853,344	9,899,497
	130,044,114	106,742,130

The Group offered a credit period of 180 days from the date of the advancement to its customers with the interest rate ranging 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 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 aging analysis of the Group's trade payables presented based on the invoice date at the end of the reporting periods:

	30 June 2014 HK\$ (unaudited)	31 March 2014 HK\$ (audited)
0 – 60 days	130,106,510	32,070,051
61 – 90 days	—	—
91 – 120 days	—	—
Over 120 days	—	—
Trade payables	130,106,510	32,070,051
Receipt in advance	5,155,462	20,272,230
Other payables and accruals	5,157,127	2,861,854
	140,419,099	55,204,135

14. Bank borrowings

	30 June 2014 HK\$ (unaudited)	31 March 2014 HK\$ (audited)
Revolving loan	5,000,000	—
Term loans	53,498,872	18,727,086
Trust receipt loans	124,630,613	84,646,046
	183,129,485	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

	30 June 2014 HK\$ (unaudited)	31 March 2014 HK\$ (audited)
At beginning of the period	18,574,714	—
Issued during the period	—	17,620,146
Imputed interest	298,950	954,568
	18,873,664	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

	30 June 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	—	—	235,936,000	2,359,360
Exercise of Pre-IPO share options	—	—	33,440,000	334,400
Issue of shares by placing	—	—	230,400,000	2,304,000
At the end of the reporting period	1,651,776,000	16,517,760	1,651,776,000	16,517,760

18. Subsequent events

- (i) On 4 August 2014, the Company issued bonus shares on the basis of one bonus share for every 5 shares in issue as at 25 July 2014 pursuant to an ordinary resolution by shareholders at annual general meeting held on 18 July 2014. As a result, adjustments were made to the exercise price and number of shares to be allotted and issued under the then outstanding share options with effect from 26 July 2014.
- (ii) On 8 August 2014, the Company issued 200,000,000 unlisted warrants, the holders of which may exercise subscription rights to subscribe for up to 200,000,000 shares at the exercise price HK\$0.199 each during the period of 24 months ending 8 August 2016.

Management discussion and analysis

Financial review

Turnover

The Group's turnover for the three months ended 30 June 2014 was approximately HK\$92.5 million, representing an increase of approximately 18.8% from approximately HK\$77.8 million of the corresponding period in 2013. The increase in the turnover was mainly attributable to the enlargement of customer base after the acquisitions of the entire issued share capital of Loyal Speed. The operation of mink farms in Denmark also provided additional sources of income for the Group.

Cost of fur skins sold

The cost of fur skins sold amounted to approximately HK\$75.5 million for the three months ended 30 June 2014, representing an increase of approximately 23.7% from approximately HK\$61.1 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 for the three months ended 30 June 2014 as compared with the three months ended 30 June 2013.

Gross profit and gross profit margin

The gross profit of the Group were approximately HK\$16.9 million and HK\$16.8 million for the three months ended 30 June 2014 and 2013 respectively, representing an increase of approximately 1.0%. The increase in gross profit was primarily due to the increase in the turnover from fur skin brokerage and financing services and mink farming during the three months ended 30 June 2014. The gross profit margin of approximately 18.3% for the three months ended 30 June 2014 represented a decrease from approximately 21.5% for the three months ended 30 June 2013. The decrease in gross profit margin was primarily due to the decrease in the selling price of fur skins.

Administrative expenses

The administrative expenses of the Group increased by approximately 22.7% from approximately HK\$7.4 million for the three months ended 30 June 2013 to approximately HK\$9.1 million for the three months ended 30 June 2014. The increase in the administrative expenses of the Group for the three months ended 30 June 2014 was primarily due to the increase in the number of staff members and staff salaries, depreciation and farms operating cost during the three months ended 30 June 2014.

Finance costs

The finance costs of the Group increased by approximately 56.1% from approximately HK\$0.8 million for the three months ended 30 June 2013 to approximately HK\$1.3 million for the three months ended 30 June 2014. The increase in the finance costs of the Group for the three months ended 30 June 2014 was primarily due to the increase in trust receipt loan interest, term loan interest and imputed interest on promissory note. As at 30 June 2014, the Group obtained banking facilities of up to approximately HK\$185.2 million (30 June 2013: approximately HK\$100 million); therefore, the trust receipt loans interest and term loan interest increased significantly. As part of consideration for the acquisition of the entire issued share capital 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 as at the issue date (i.e. 13 May 2013) was HK\$17,620,146 and the effective interest rate was 6.54% per annum.

Liquidity, financial resources and capital structure

The Group generally finances its operations with internally generated cash flow, bank borrowings and a corporate bond. The Group maintained bank balances and cash of approximately HK\$106.2 million as at 30 June 2014 (as at 31 March 2014: approximately HK\$60.8 million). The net assets of the Group as at 30 June 2014 amounted to approximately HK\$284.0 million (as at 31 March 2014: approximately HK\$271.5 million)

As at 30 June 2014, the Group had bank borrowings, which represented trust receipt loans, term loans and revolving loan, of approximately HK\$124.6 million, approximately HK\$53.5 million and approximately HK\$5.0 million respectively for its purchases of fur skins and general working capital. The Group obtained banking facilities of up to HK\$185.2 million (31 March 2014: approximately HK\$181 million) with a corporate guarantee provided by the Company and the banking facilities are available subject to the restrictions that (i) the net external gearing ratio shall not be 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 74.8% as at 30 June 2014 (31 March 2014: approximately 48.8%).

The Directors consider that the Group can meet the conditions of the banking facilities for the three months ended 30 June 2014 and in the future.

Pledge of assets

As at 30 June 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 30 June 2014, the Group did not have any significant capital commitments (31 March 2014: Nil).

Contingent liabilities

As at 30 June 2014, the Group granted a corporate guarantee to secure general banking facilities up to HK\$185.2 million. (31 March 2014: approximately HK\$181 million).

Material acquisitions or disposals and significant investments

During the three month period ended 30 June 2014, the Group had no material acquisitions or disposals and significant investments.

Employee information

As at 30 June 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\$3.3 million for the three months ended 30 June 2014 (three months ended 30 June 2013: approximately HK\$2.1 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 evaluation of staff performance by way of annual review, and discretionary bonuses would be paid to staff members 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 option scheme ("Pre-IPO Share Option Scheme") and the share option scheme ("Share Option Scheme") of the Company, both adopted on 1 August 2012.

Risk management

Credit Risk

Credit risk exposure mainly arises from trade receivables from customers in the course of conducting 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 consider that the Group's credit risk is significantly reduced.

Liquidity risk

The Group monitors its current and expected liquidity requirements regularly and ensures 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 sale and purchase transactions of the Group have been 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 three months ended 30 June 2014, the management of the Group did not consider it necessary to use foreign currency hedge 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 management of the Group did not consider it necessary to use foreign currency forward contracts to hedge the exposure to foreign currency risk since the operation of the overseas subsidiary in Denmark, as the exchange rate of DKK was relatively stable.

Advance to an entity

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 30 June 2014, Loyal Speed, an indirect wholly owned subsidiary of the Company, had advances to a fur brokerage customer, namely Fur Supply (China) Limited (the "FSC Loans") to finance its purchase of fur skins from the auction house(s) and the amount due to the Group from the above customer exceeded 8% of the total assets of the Group (approximately HK\$646.3 million).

The table below sets out the details of the FSC Loans as at 30 June 2014:

FSC Loans	
Amount due to the Group	HK\$92,757,746
Credit Term	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
Collateral	The fur skins purchased with the relevant part of the FSC Loans

Share options schemes

The Company has two share option schemes namely, Pre-IPO Share Option Scheme and the Share Option Scheme (collectively the “Share Option Schemes”).

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. In accordance with the Pre-IPO Share Option Scheme, the Company granted options to subscribe for 80,640,000 shares.

Name or category of participant	As at 1 April 2014	Number of shares to be allotted and issued upon exercise of share options			As at 30 June 2014	Date of grant of share options	Exercise price of share options (Note 1) HK\$	Exercise period of share options
		Granted during the period	Exercised during the period	Lapsed during the year				
<i>Directors</i>								
Mr. WONG Chun Chau	24,096,000	—	—	—	24,096,000	1 August 2012	0.173	Note 2
Ms. KWOK Yin Ning	15,840,000	—	—	—	15,840,000	1 August 2012	0.173	Note 2
<i>Consultant</i>	11,520,000	—	—	—	11,520,000	1 August 2012	0.217	Note 3
<i>Employees</i>	6,336,000	—	—	—	6,336,000	1 August 2012	0.217	Note 4
	57,792,000	—	—	—	57,792,000			

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 name appeared on the register of members of the Company on 5 July 2013.
2. (i) Half of such share options are exercisable after the expiry of 6 months but not later than the end of 18 months from the date of grant, (ii) outstanding share options up to all such share options are exercisable after the expiry of 18 months but not later than the end of 36 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.
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 but not later than the end of 20 months from the date of grant, (ii) outstanding share options up to two-thirds of all such share options are exercisable after the expiry of 20 months but not later than the end of 32 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 but not later than the end of 36 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 and, is valid and effective for a period of 10 years. It is a share incentive scheme and was 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 option was outstanding under the Share Option Scheme during the three months ended 30 June 2014:

Name or category of participant	As at 1 April 2014	Number of shares to be allotted and issued upon exercise of share options			As at 30 June 2014	Date of grant of share options	Exercise price of share options HK\$
		Granted during the period	Exercised during the period	Lapsed during the year			
<i>Director</i>							
Mr. WONG Chun Chau	12,250,000	—	—	—	12,250,000	13 August 2013	0.408

The share option is 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 30 June 2014, the interests and or short positions 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	Number of Shares	Approximate Percentage of Shareholding in the Company
Mr. WONG Chun Chau (Note 1)	Interest of controlled corporation	870,300,000	52.69%
	Beneficial owner	19,680,000	1.19%
Ms. KWOK Yin Ning	Beneficial owner	12,960,000	0.78%
Mr. Jean-pierre PHILIPPE (Note 2)	Interest of controlled corporation	1,620,000	0.10%

Note 1: Under the SFO, Mr. Wong was deemed to be interested in 870,300,000 shares held by Trader Global Investments Limited, a company wholly owned by Mr. Wong.

Note 2: Under the SFO, Mr. Philippe was deemed to be interested in 1,620,000 shares 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	36,340,000	2.20%	2.11%
Ms. KWOK Yin Ning	Beneficial owner	15,840,000	0.96%	0.92%

Save as disclosed above, as at 30 June 2014, neither of the Directors nor the chief executive of the Company had interests and 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); (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 30 June 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 Executives 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 provision in Divisions 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 member of the Group:

Long position in Shares of the Company

Name	Nature of Interest	Number of Shares	Approximate Percentage of Shareholding in the Company
Mr. WONG Chun Chau (Note 1, 2)	Interest in controlled corporation	870,300,000	52.69%
Mr. Merzbacher WERNER (Note 3)	Interest in controlled corporation	85,748,195	5.19%

Notes:

1. Mr. Wong Chun Chau was deemed to be interested in 870,300,000 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 85,748,195 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 30 June 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 Divisions 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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the three months ended 30 June 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 competed or may compete with the business of the Group or had any other conflicts of interest with the Group as at 30 June 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 30 June 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 three months ended 30 June 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, 12 August 2014

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