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HENRY GROUP HOLDINGS LIMITED

鎮科集團控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 859)

UNAUDITED INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

The board of directors (the “Board” or the “Directors”) of Henry Group Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 September 2016, together with the comparative figures for the corresponding period in 2015. The interim results have been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2016

		Unaudited Six months ended 30 September	
		2016	2015
	Notes	HK\$'000	HK\$'000
Revenue	3	37,221	24,891
Other income and gains	4	1,290	6,383
Net gain in fair value of investment properties		—	5,192
Staff costs	5	(6,634)	(8,454)
Other operating expenses		(6,990)	(12,717)
Profit from operations	5	24,887	15,295
Finance costs	6	(22,345)	(12,981)
Profit before taxation		2,542	2,314
Taxation	7	2,289	(1,646)
Profit for the period		4,831	668
Other comprehensive income for the period		—	—
Total comprehensive income for the period		4,831	668
Profit and total comprehensive income for the period attributable to owners of the Company		4,831	668

* for identification purpose only

		Unaudited	
		Six months ended 30 September	
		2016	2015
	<i>Note</i>	<i>HK\$</i>	<i>HK\$</i>
Earnings per share	8		
— Basic (HK cents)		0.50	0.07
— Diluted (HK cents)		<u>0.33</u>	<u>0.07</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2016

		Unaudited 30 September 2016 <i>Notes</i> <i>HK\$'000</i>	Audited 31 March 2016 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment		3,288	82
Investment properties		<u>3,034,800</u>	<u>3,034,800</u>
		<u>3,038,088</u>	<u>3,034,882</u>
CURRENT ASSETS			
Trade and other receivables	9	5,197	6,220
Available-for-sale financial assets		—	74
Derivative financial instruments	10	10,628	21,300
Cash and bank balances		<u>412,388</u>	<u>299,680</u>
		<u>428,213</u>	<u>327,274</u>
CURRENT LIABILITIES			
Other payables, rental deposits received and accruals, current portion		8,436	7,783
Bank borrowings, current portion (secured)		27,300	26,750
Tax payable		<u>2,951</u>	<u>1,924</u>
		<u>38,687</u>	<u>36,457</u>
NET CURRENT ASSETS		<u>389,526</u>	<u>290,817</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,427,614</u>	<u>3,325,699</u>

		Unaudited	Audited
		30 September	31 March
		2016	2016
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Other payables and rental deposits received, non-current portion		12,485	14,679
Bank borrowings, non-current portion (secured)		1,159,375	1,054,623
Convertible notes	<i>11</i>	44,505	73,170
Deferred tax liabilities	<i>12</i>	17,310	21,325
		<u>1,233,675</u>	<u>1,163,797</u>
NET ASSETS		<u>2,193,939</u>	<u>2,161,902</u>
CAPITAL AND RESERVES			
Share capital	<i>13</i>	102,854	97,180
Reserves		2,091,085	2,064,722
TOTAL EQUITY		<u>2,193,939</u>	<u>2,161,902</u>

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 September 2016

1. BASIS OF PREPARATION

Statement of compliance

The unaudited condensed consolidated interim financial statements for the six months ended 30 September 2016 (the “Interim Financial Statements”) have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (the “HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The preparation of the Interim Financial Statements in conformity with HKAS 34 requires management to make judgement, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The Interim Financial Statements has been prepared in accordance with same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in note 2.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Interim Financial Statements has been prepared under the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values.

The Group has adopted the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA for the first time for the Interim Financial Statements.

Amendments to HKFRS 10, HKFRS 12 and HKFRS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKFRS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle
HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation

The adoption of the above new and revised HKFRSs has had no significant financial effect on the Interim Financial Statements and there have been no significant changes to the accounting policies applied in the Interim Financial Statements.

The Group has not early applied any new or revised HKFRSs that have been issued but are not yet effective for the current accounting period.

3. REVENUE AND SEGMENT INFORMATION

The segmentations are based on the information about the operation of the Group that management uses to make decisions and regularly review by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. For the six months ended 30 September 2016 and 2015, the Group only engaged operating segment in property leasing and development. No analysis of the Group's results, assets and liabilities of other reportable segment is presented.

Information about major customers

Unaudited turnover for the six months ended 30 September 2016 and 2015 represented gross rental income from investment properties in Hong Kong. Included in unaudited turnover of approximately HK\$37,221,000 (2015: HK\$24,891,000) are unaudited turnover of approximately HK\$10,320,000 (2015: HK\$4,300,000) which arose from the Group's largest one (2015: one) customer with whom transactions in aggregate have exceeded 10% of the Group's unaudited turnover for both periods.

4. OTHER INCOME AND GAINS

	Unaudited	
	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
Bank interest income	465	4,523
Fair value gain of derivative financial instruments	—	1,732
Forfeited convertible note interest payable on conversion of convertible note before maturity date (<i>note 11</i>)	717	—
Sundry income	108	128
	1,290	6,383

5. PROFIT FROM OPERATIONS

Unaudited
Six months ended 30 September
2016 **2015**
HK\$'000 **HK\$'000**

Profit from operations has been arrived at after charging/(crediting) the followings:

Directors' remuneration	4,866	6,566
Other staff costs	1,768	1,888
Total staff costs	6,634	8,454
Depreciation of property, plant and equipment	36	16
Share-based payment expenses	2,312	4,283
Exchange loss	—	5,478
Gross rental income from investment properties, net of direct outgoings of approximately HK\$1,845,000 (2015: HK\$1,720,000)	(35,376)	(23,171)

6. FINANCE COSTS

Unaudited
Six months ended 30 September
2016 **2015**
HK\$'000 **HK\$'000**

Change in fair value of derivative financial assets component of convertible notes (<i>note 11</i>)	2,854	—
Effective interest expense on convertible notes (<i>note 11</i>)	5,088	—
Bank charges	3,795	—
Interest on bank borrowings		
— wholly repayable within five years	5,242	5,074
— wholly repayable after five years	5,366	7,907
	22,345	12,981

7. TAXATION

	Unaudited	
	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
Current tax — Hong Kong		
— Provision for the period	1,420	720
— Under provisions in prior years	306	—
Deferred taxation		
— (Credited)/charged to the consolidated statement of profit or loss and other comprehensive income	(4,015)	926
	(2,289)	1,646

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits of the Group's operation in Hong Kong for both periods.

8. EARNINGS PER SHARE

The diluted earnings per share for the six months ended 30 September 2016 was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The outstanding share options and convertible notes were assumed to have been converted into ordinary shares, and the profit for the six months ended 30 September 2016 was adjusted to reflect the interest expense on convertible notes less tax effect, if any.

	Unaudited	
	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
Earnings		
Earnings for the period for the purpose of calculating basic and diluted earnings per share	4,831	668
Effects of dilutive ordinary shares		
Effective interest expenses on convertible notes	2,966	—
(Income tax credit) on deferred tax recognised on conversion of convertible note	(4,926)	—
Forfeited convertible note interest payable on conversion of convertible note before maturity date	(991)	—
Fair value loss on derivative financial assets components of convertible notes	1,641	—
Earnings for purpose of diluted earnings per share	3,521	668

	Unaudited	
	Six months ended 30 September	
	2016	2015
	Number of	Number of
	ordinary shares	ordinary shares
Number of ordinary shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	973,348,767	959,238,774
Effect of dilutive potential ordinary shares:		
Share options	6,947,967	4,702,075
Convertible notes	77,087,794	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,057,384,528	963,940,849

9. TRADE AND OTHER RECEIVABLES

As at 30 September 2016, the Group's trade receivables included in trade and other receivables were of approximately HK\$3,321,000 (31 March 2016: HK\$2,855,000). Rental income from investment properties are received in advance and sufficient rental deposits and or guarantees are held to cover potential default risk. The trade receivables represented rental receipt in arrears. The aging analysis of the Group's trade receivables (net of provisions) is as follows:

	Unaudited 30 September 2016 HK\$'000	Audited 31 March 2016 HK\$'000
Effective rental receivables	2,506	2,506
Up to 30 days	460	349
31–60 days	163	—
61–90 days	192	—
	3,321	2,855
Other receivables, deposits and prepayments	1,876	3,365
	5,197	6,220

10. DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited 30 September 2016 HK\$'000	Audited 31 March 2016 HK\$'000
Derivative financial asset component of convertible notes (<i>note 11</i>)	10,628	21,300

11. CONVERTIBLE NOTES

The Company issued in aggregate of HK\$125,000,000 1.68% convertible notes on 7 December 2015 (the “Issue Date”) and recognised its book as of fair values appraised by BMI Appraisals Limited, being an independent financial valuer. The convertible notes entitle the holders to convert them into ordinary shares of the Company at any time between the date of issue of the notes and their settlement date on (i) the fifth anniversary of the Issue Date or (ii) if it is not a business date, the first business day immediately following the fifth anniversary date of the Issue Date (the “Maturity Date”) at a conversion price of HK\$0.934 per share per convertible notes. If the notes have not been converted, they will be redeemed by the Company on the Maturity Date at the aggregate of (i) its principal amount outstanding as at the Maturity Date; and (ii) all interest accrued thereon up to and including the Maturity Date. Interest of 1.68% will be payable by the Company on maturity date. The Company shall have the right to redeem the convertible notes, in full or in part (provided that in the case of a partial redemption the aggregate principal amount of the convertible notes being redeemed shall be at least HK\$3,000,000 or above), held by the noteholder at an amount equal to the aggregate of (a) the aggregate principal amount of the convertible notes held by such noteholder being the subject of the redemption (the “Redeemed Principal”); and (b) all interest accrued thereon up to and including the date of such redemption at any time on or after the first month from the Issue Date by giving a redemption notice setting out the Redeemed Principal, the Company redemption amount and the early redemption date to such noteholder not less than five business days prior to the early redemption date. The convertible notes contain three components: liability component, equity component and redemption option derivative, which is classified as derivative financial asset component. The equity component is presented in equity heading “convertible notes equity reserve”. The redemption option derivative is measured at fair value with changes in fair value recognised in profit or loss. The effective interest rate of the liability component is 13.73% per annum. The key inputs used for the calculation of the fair value of redemption option derivative component of convertible notes are as follows:

	(Unaudited) At 30 September 2016	(Audited) At 31 March 2016
Risk free rate	0.61%	0.96%
Expected life	4.19 years	4.69 years
Expected volatility	70%	67.40%
Expected dividend yield	Nil	Nil

The movement of the equity component, liability component and redemption option derivative of the convertible notes for the period is set out below:

	Liability component HK\$'000	Equity component HK\$'000	Redemption option derivative HK\$'000	Total HK\$'000
At 31 March 2016 (Audited) and 1 April 2016 (Unaudited)	73,170	63,859	(21,300)	115,729
Effective interest expenses on convertible notes (note 6)	5,088	—	—	5,088
Interest payable	(1,041)	—	—	(1,041)
Release to share premium upon exercise of a convertible note	(32,712)	(27,076)	7,818	(51,970)
Change in fair value of derivative financial asset component of convertible notes (note 6)	—	—	2,854	2,854
At 30 September 2016 (Unaudited)	<u>44,505</u>	<u>36,783</u>	<u>(10,628)</u>	<u>70,660</u>

During the period, a convertible note with principal amounted to HK\$53,000,000 was converted into 56,745,182 ordinary shares at its conversion price of HK\$0.934 per share. Upon the conversion, its accrued interests payable of approximately HK\$717,000 has been forfeited under the terms of the convertible note and its corresponding deferred taxation liabilities amounted to HK\$3,347,000 has been fully write back, both of them credited to income statement as disclosed in notes 4 and 7 respectively.

As at 30 September 2016, the outstanding principal of the convertible note was approximately HK\$72,000,000. Its fair value of convertible note as at 30 September 2016 was appraised by Access Partner Consultancy & Appraisals Limited.

12. DEFERRED TAX LIABILITIES

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the period were as follows:

	Depreciation allowances in excess of the related depreciation HK\$'000	Convertible notes HK\$'000	Total HK\$'000
At 31 March 2016 (Audited) and 1 April 2016 (Unaudited)	12,773	8,552	21,325
Credited to the consolidated statement of profit or loss and other comprehensive income (<i>note 7</i>)	—	(668)	(668)
Credited to the consolidated statement of profit or loss and other comprehensive income upon exercise of convertible note (<i>note 7</i>)	—	(3,347)	(3,347)
At 30 September 2016 (Unaudited)	<u>12,773</u>	<u>4,537</u>	<u>17,310</u>

13. SHARE CAPITAL

	(Unaudited) As at 30 September 2016		(Audited) As at 31 March 2016	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each	<u>2,000,000</u>	<u>200,000</u>	<u>2,000,000</u>	<u>200,000</u>
Issued and full paid:				
Ordinary shares of HK\$0.10 each				
At 1 April 2016/1 April 2015	971,798	97,180	950,876	95,088
Issue of shares upon conversion of the convertible note (<i>note a</i>)	56,745	5,674	—	—
Issue of shares upon exercise of the share options (<i>note b</i>)	—	—	20,922	2,092
At 30 September 2016/31 March 2016	<u>1,028,543</u>	<u>102,854</u>	<u>971,798</u>	<u>97,180</u>

Notes:

- During the period, a convertible note with principal amounted to HK\$53,000,000 was converted into 56,745,182 ordinary shares at its conversion price of HK\$0.934 per share.
- During the year ended 31 March 2016, the Company allotted and issued 20,921,688 ordinary shares by virtue of exercise of share options in aggregate of 19,419,688 share options granted under share option scheme adopted on 3 September 2003 and 1,502,000 share options granted under share option scheme adopted on 3 September 2013.

All the shares issued by the Company for both periods rank pari passu with the then existing ordinary shares in all respects.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of the year, uncertain global financial markets presented us with many new challenges, but at the same time also abundant opportunities. Of the former, the most severe had to be the shocking result of the Brexit referendum in late June which intensified market volatility and worsened the already sluggish global outlook.

In Hong Kong, during the interim period, the economy regained momentum. In the second quarter, her Gross Domestic Product (GDP) grew by a modest 1.7% in real terms compared with a year ago up from 0.8% in the preceding quarter. Domestic demand held up well on the back of nearly full employment, with the seasonal adjusted unemployment rate at 3.4% (*Census and Statistics Department figure*). The retail market remained fragile with the Hong Kong Dollar peg to the strong US Dollar suppressing both the number of in-bound tourists from Mainland China and retail sales, particularly of jewellery & watches which saw double-digit drops. Despite the generally jaded economic sentiment worldwide and in the city, the local property market has not been adversely affected. Luxury residential properties and office buildings in core districts performed outstandingly in terms of transaction volume and value during the review period. The robust growth in sales of luxury residential properties was driven mainly by an influx of Mainland buyers undeterred by the rising prices. For example, in the residential segment, the HK\$2.1 billion paid for No. 15 Gough Hill Road, the Peak set a new record and, at HK\$228,000 per sq ft saleable, was the most expensive in the world. Other encouraging news for the Hong Kong property market is that investment in and leasing of office spaces during the review period was robust, also setting price records. This phenomenon owed very much to the desire of Mainland Chinese enterprises to set up offices at prime locations, which are in tight supply, in the city. It is proof that Hong Kong remains as one of the most favourable places for investment even in the turbulent global financial environment.

During the review period, the Group's investment properties portfolio performance remained resilient. Its total revenue increased from approximately HK\$24.9 million in the same period of 2015 to approximately HK\$37.2 million, up by 49.5%. During the period, the overall occupancy rate of the Group's investment properties exceeded 93% stemming from its premises at prime locations in Causeway Bay. The Group's core investment properties include two Ginza-style buildings — **Jardine Center** at **No. 50 Jardine's Bazaar**, and **L'hart** at **Nos. 487–489 Lockhart Road**, as well as a street shop at **Ground Floor, No. 38 Jardine's Bazaar** and **First Floor, Nos. 38–40 Jardine's Bazaar**. The increase was driven by the new income stream provided by four diverse properties from two acquisition transactions approved by independent shareholders of the Company as disclosed in the Company's annual report for the year ended 31 March 2016 ("Acquisitions"). The Acquisitions included a single-unit residence at **House 12, Villa Bel-Air** in Island South; a street-level shop at **Shop 1 Ground Floor, Nos. 119, 121 & 125 Caine Road**; and two street shops at **Ground Floor Nos. 41, 57 Jardine's Bazaar** in Causeway Bay. They have not only enriched the rental portfolio and market presence of the Group placing it in a more resilient position, but also broadened its long-term earning sources to withstand market volatility. During the review period, the Acquisitions together contributed a total of rental income for the period of approximately HK\$4.0 million which represented 10.8% of the Group's total revenue, aiding a marked double digital growth in its turnover. The credit also goes to the management team for refining the tenant mix of the Group's Ginza-style buildings into a strategically well-balanced and diverse tenant mix better able to respond to changes in the market and business environment while nurturing the portfolio growth of our investment properties. Our tenant portfolio is now made up of differentiated vertical service-based retailers including quality spa and beauty services, premium food and beverage catering, etc., answering the growing demand of consumers for unique personal care services and healthy dining experiences.

The Group's investment properties portfolio

Properties and location	(Unaudited)		Properties
	Rental revenue		valuation
	Six months ended		30 September
	30 September	2015	2016
	2016	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Jardine Center at No. 50 Jardine's Bazaar	14,319	12,434	1,280,000
L'hart at Nos. 487–489 Lockhart Road	17,588	10,026	1,100,000
Ground Floor, No. 38 Jardine's Bazaar	1,080	1,080	102,000
First Floor, Nos. 38–40 Jardine's Bazaar	210	—	12,800
Ground Floor, No. 57 Jardine's Bazaar	1,512	—	143,000
Ground Floor, No. 41 Jardine's Bazaar	1,260	—	139,000
House 12, Villa Bel-Air	1,122	814	202,000
Shop 1 Ground Floor, Nos. 119, 121 & 125 Caine Road	130	537	56,000
Total (Unaudited)	37,221	24,891	3,034,800

For **Jardine Center at No. 50 Jardine's Bazaar**, 24-storey Ginza-style building marking the Group's first adoption of Gin-za-i-za-tion (our created word) — *enabling retail businesses to operate above the ground floor level of buildings, giving them an effective CBD presence in a city* — the concept has since proven successful over almost a decade of our ownership. Right in the heart of Causeway Bay, it is just steps away from Jardine's Crescent, a traditional “must-visit” tourist destination in the city as recommended by the Hong Kong Tourism Board. As such, **Jardine Center** boasts a consistently high occupancy rate during the period. With structural frontage construction works at ground floor leasable areas and the lobby renovation completed in mid-September, **Jardine Center** now has a higher appeal to consumers and is able to better cope with peak hour customer traffic, which will translate into more rental income contributions to the Group. **Jardine Center** also has been relaunched as the brand “**50 Jardine**” to suit changes in consumption trends. For added leverage the Group also has several other street-front shops at Nos. 38, 41 and 57 Jardine's Bazaar neighbouring **Jardine Center**. These properties and **Jardine Center** together are presenting synergies conducive to enhancing return on investments for the Group.

For **L'hart at Nos. 487–489 Lockhart Road** — another Ginza-style building of the Group rising 26-storeys, it has the special attraction for characteristic of a duplex floor layout offering retail tenants the opportunity to truly customise business space and reinforce the distinctive personality of their unique business style and brand. During the period, **L'hart** has brought in on its podium ground level a number of renowned fashion brands (e.g., Giordano and Belle International) to meet changing consumer preference and also attract new retailers in the mid-range-to-affordable retail goods segments.

Going forward, the global economy is expected to remain uncertain as the impact of Brexit unfolds, the timing and pace of US interest rate hikes is unknown, the ongoing downside risks in the Euro area, the likelihood of the Japanese economy to stay weak, devaluation of the Renminbi amid a notable economic slowdown in China. And the ongoing divergence of monetary policies of central banks is set to increase market volatility. Hong Kong is an open economy, hence business here is inevitably affected by the aforementioned as well as other external factors. In spite of a less-than-reassuring environment, Hong Kong is striving to maintain its competitive edge, as reflected in the city (i) retaining the top position among major stock exchanges in the world in terms of funds raised

through Initial Public Offerings during the first half of 2016; (ii) again being named by the International Institute for Management Development (IMD) as the world's most competitive economy, moving up from second place last year; (iii) remaining as a leading offshore RMB trading hub; and (iv) Hong Kong's prime shopping district of Causeway Bay continuing as the most expensive place to rent a shop in the Asia-Pacific region in 2016 and its rental area ranking just behind New York's Fifth Avenue despite being in the midst of a retail slump (*according to property consultancy DTZ/Cushman & Wakefield*). We believe, with those attributes plus the approval of the Shenzhen-Hong Kong Stock Connect by China's State Council on 16 August and its expected launch by December, the prospects of Hong Kong remains positive with reasonably stable moderate growth expected in the foreseeable future. On the foundation of its solid investment property portfolio, the Group will continue to heed the changing spending patterns of local consumers and mainland visitors and seize opportunities to refine its overall tenant and portfolio mix so as to maximise its value to shareholders.

Financial review

Revenue

For the six months ended 30 September 2016, the Group's unaudited revenue was approximately HK\$37.2 million, representing an increase of approximately HK\$12.3 million (2015: HK\$ 24.9 million). The increase in revenue was primarily attributable to the increase in rental income generated from two core Ginza-style buildings and the Acquisitions during the period.

Other income and gains

Other income and gains for the six months declined by approximately HK\$1.3 million to approximately HK\$5.1 million (2015: HK\$6.4 million). The decrease was mainly due to reduction of bank deposits interest income in line with the decrease in bank balances after settlements of cash considerations for the Acquisitions.

Profit from operations

Profit from operations increased by approximately HK\$9.6 million to approximately HK\$24.9 million (2015: HK\$15.3 million). The increase was benefited from the decrease in other operation costs by approximately HK\$5.8 million as a result of the absence of non-recurring realisation of exchange loss of HK\$5.5 million arose from conversion of RMB denominated fixed deposits into Hong Kong Dollars in corresponding period of last year. In addition, staff cost for the period declined by approximately HK\$1.8 million to approximately HK\$6.6 million (2015: HK\$8.4 million).

Finance costs

Finance costs increased by approximately HK\$9.4 million to approximately HK\$22.3 million (2015: HK\$12.9 million). The increase was primarily attributable to non-cash flow accounting adjustments in a total of approximately HK\$7.9 million ("Adjustments") in compliance with accounting standards for convertible notes with an aggregate principal amount of HK\$125 million ("CNs") (included a term of redemption option held by the Company classified as derivative financial assets components of the CNs). The Adjustments included (i) effective interest expenses on CNs of approximately HK\$5.1 million; and (ii) loss in fair values of derivative financial assets components of the CNs amounted to approximately HK\$2.8 million. In addition, bank borrowings cost increased by approximately HK\$1.4 million due to the increase in bank interest of new bank borrowings raised and one-off bank arrangement costs incurred for several new bank borrowings raised and facilities granted during the period.

Net profit attributable to owners of the Company

Net profit attributable to owners of the Company was approximately HK\$4.8 million (2015: HK\$668,000), representing an increase of approximately HK\$4.2 million as compared with the same of corresponding period in 2015. The increase was due to the write back of deferred tax liability upon the conversion of a convertible note and credited to the income statement amounted to approximately HK\$3.3 million.

Liquidity and financial resources

Save for the Acquisitions was partially financed by the CNs, the Group mainly finances its business operations with its internal resources and bank borrowings. As at 30 September 2016, the Group had cash and bank balances (included bank deposits) of approximately HK\$412.4 million (as at 31 March 2016: HK\$299.7 million). The increase in cash and bank balances was mainly attributable to the new bank borrowings raised. The Group's cash and bank balances are deposited in Hong Kong Dollars ("HKD") which mainly are preserved in risk-free bank deposits to maintain highly liquidity financial resources available for facilitating future investment activities and acquisitions when opportunities arise. In addition, the Group has undrawn banking facilities with a total of approximately HK\$110 million (as at 31 March 2016: HK\$100 million) which will provide adequate funding for the Group's operational and capital expenditure requirements.

As at 30 September 2016, the Group's total bank borrowings all denominated in HKD and carry interest at Hong Kong Interbank Offer Rate (HIBOR) plus a margin in aggregate of approximately HK\$1,186.7 million (as at 31 March 2016: HK\$1,081.3 million) with maturity profile set out as follows:

	Unaudited As at 30 September 2016 HK\$'000	Audited As at 31 March 2016 HK\$'000
Repayable		
Within 1 year	27,300	26,750
After 1 year but within 2 years	33,300	29,750
After 2 years but within 5 years	478,075	498,251
Over 5 years	648,000	526,622
	<u>1,186,675</u>	<u>1,081,373</u>

The Group's gearing ratio as of 30 September 2016, which is calculated on the basis of total liabilities over total assets, was approximately 36.7% (as at 31 March 2016: 35.7%) whilst the current ratio of the Group which expressed a ratio of current assets over current liabilities as of 30 September 2016, was approximately 11.1 (as at 31 March 2016: 9.0). The Group will continue to adopt a prudent financial policy so as to sustain an optimal level of borrowings to meet its funding requirements.

Capital Structure

During the period under review, the Company issued and allotted 56,745,182 ordinary shares by virtue of exercise of a convertible note with principal amount of HK\$53,000,000 at its conversion price of HK\$0.934 per share, accordingly the issued share capital of the Company increased from 971,798,352 ordinary shares to 1,028,543,534 ordinary shares as of 30 September 2016.

As at 30 September 2016, the unaudited net assets attributable to owners of the Company amounted to approximately HK\$2,193.9 million (as at 31 March 2016: HK\$2,161.9 million), representing an increase of approximately 1.5% as compared with the same as of 31 March 2016. With the total number of 1,028,543,534 ordinary shares in issue as of 30 September 2016, the unaudited net assets value per share was approximately HK\$2.13 (as at 31 March 2016: HK\$2.22).

Treasury Policy

The Group's business has been conducted in Hong Kong and its monetary assets and liabilities are mainly denominated in HKD.

INTERIM DIVIDEND AND DISTRIBUTION

The Directors do not recommend interim dividend for the six months ended 30 September 2016 (2015: HK\$549,916,000).

On 31 March 2015, the board of directors has resolved to make the distribution of an aggregate payment of approximately HK\$550,000,000 to the shareholders of the Company on the record date out of the credit standing in the contributed surplus account of the Company (the "Distribution"). The Distribution was approved by the shareholders of the Company at a special general meeting held on 13 May 2015 and it was paid in cash at HK\$0.5767 per ordinary share of approximately HK\$549,916,000 on 27 May 2015.

GUARANTEE

As of 30 September 2016, the Company given several corporate guarantees of approximately HK\$1,316,000,000 (31 March 2016: HK\$1,877,500,000) for securing banking facilities granted to its subsidiaries.

CHARGES ON GROUP ASSETS

At of 30 September 2016, the Group has pledged the following assets for securing bank facilities granted from several banks to its subsidiaries:

- (1) Certain investment properties in Hong Kong with an aggregate carrying amount of approximately HK\$3,022,000,000 (31 March 2016: HK\$2,740,000,000); and
- (2) Share mortgage of several subsidiaries.

CONTINGENT LIABILITIES

High Fly Investments Limited (“High Fly”), an indirect non-wholly subsidiary of the Company which were dissolved by virtue of voluntary liquidation with the British Virgin Islands BVI Registry of Corporate Affairs approved on 24 January 2014 and Premium Assets Development Limited (“Premium Assets”) (collectively the “Indemnifiers”) had signed Deed of Indemnity (the “Deed”) on 4 October 2013 (being date of completion of the sale and purchase agreement (“SPA”) with Double Favour Limited (“Double Favour”). Pursuant to the Deed, each of the Indemnifiers hereby severally, pro rata to their respective shareholdings in the High Luck International Limited (“High Luck”) immediately before completion of the SPA (i.e. 45% as to Premium Assets and 55% as to High Fly) (the “Relevant Proportion”) undertakes to Double Favour (for itself and as trustee of the High Luck and its subsidiaries (“Disposal Group”)) to pay them an amount or amounts equal to each of the following:

- (a) any liability to taxation in connection with any claim in respect of all taxation falling on any member of the Disposal Group resulting from or by reference to any transaction, event, matters or thing occurred or effected during the period from 1 September 2007 to 4 October 2013 (being date of completion of the SPA) (“Relevant Period”), or in respect of any gross receipts, income, profits or gains earned, accrued or received, or alleged or deemed to have been earned, accrued, or received by any member of the Disposal Group during the Relevant Period, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company; and
- (b) all action, claims, losses, damages, cost (including all legal costs), charges, expenses, interests, penalties or any other liabilities to which any member of the Disposal Group is or may be subject or which any member of the Disposal Group or Double Favour may reasonably and properly incur in connection with:
 - (i) any investigation, assessment or the contesting of any claim or any of the matter referred to in (a) above;
 - (ii) the settlement of any claim or any of the matters referred to in (a) above;
 - (iii) any legal proceedings or actions in which the Purchaser or any member of the Disposal Group claims under or in respect of the Deed and in which judgment is given in favour of Double Favour or any member to the Disposal Group; or
 - (iv) the enforcement of any such settlement or judgment,

and each of the Indemnifiers severally in the Relevant Proportion undertakes to indemnify an hold harmless or demand any member of the Disposal Group and Double Favour in respect of the matters referred to (a) to (b) (inclusive) above.

Notwithstanding anything to the contrary herein provided and the guarantee provided in the SPA, Double Favour further agrees and acknowledges to High Fly acting as trustee for the benefit of Uptodate Management Limited (“Uptodate”), an indirect wholly owned subsidiary of the Company and Best Task Limited that their respective obligations under the guarantee in respect of any obligations arising from any claims against High Fly under the Deed and/or the SPA (“Relevant Claims”), the obligations of Uptodate under the guarantee for such Relevant Claims should only be limited to 54.55% of the said claims (i.e. not more than 30% of total claims).

Based on legal advice, the Board is of the opinion that it would be unlikely for the Group through Uptodate to suffer any material financial loss as a result of giving the aforesaid indemnity on several basis limited to 30% of the Relevant Claims.

LITIGATION

On 21 November 2014, Land Base Limited (“LBL”), a wholly owned subsidiary of the Company, the owner of a building named “*L’hart*” located at Nos. 487 and 489 Lockhart Road Hong Kong, which is built upon certain pieces of land including The Remaining Portion of Subsection 14 of Section A of Inland Lot No. 2836 (“Subsection 14”), received an originating summons issued by Tierra Trading Limited and Keep Forever Development Limited (as Plaintiffs), the owners of a building named “Kyoto Plaza” located at Nos. 491, 493, 495, 497 and 499 Lockhart Road, Hong Kong, which is built upon certain pieces of land, including Subsection 15 of Section A of Inland Lot No. 2836 (“Subsection 15”) against LBL (as defendant) and filed with the High Court of the Hong Kong Special Administrative Region Court of First Instance.

The litigation relates to a dispute regarding the ownership of a strip of land (the “Disputed Area”) which is the common staircase located on Subsection 15, in between L’hart and Kyoto Plaza, which the Plaintiffs had not used since 1992. It is LBL’s case that, since, the demolition of the old building on Subsection 14 and the construction of Kyoto Plaza which has been in use since 1992, LBL’s predecessors in title had been in exclusive possession, management and control of the Disputed Area by using the common staircase and other parts of the Disputed Area for various purposes. Since LBL became the registered owner of Subsection 14, it continued in exclusive possession, management and control of the Disputed Areas without interruption. Since the development of the L’hart building, LBL have, for safety, hygiene and aesthetic reasons, sealed off the Disputed Area by erecting a façade over the entrance to the Disputed Area from Lockhart Road forming part of L’hart.

The hearing was convened on 13 August 2015. On 21 August 2015 Recorder Cheng SC handed down a written decision refusing LBL’s application and acceding to the Plaintiffs’ application to proceed in the form of Originating Summons and gave directions for the cross-examination of witnesses and the filing of a report by a single joint expert (the “Order”). The Order further provides for leave for filing a further Affirmation by LBL (“2nd Affirmation”).

Pursuant to the Order, on 4 September 2015, LBL and the Plaintiffs agreed to jointly appoint Mr. Daniel Tong of Daniel Tong Chartered Architect and Associates Limited (“Mr. Tong”) as single joint expert to opine on three issues.

On 15 September 2015, LBL filed the 2nd Affirmation in reply to the 2nd Affirmation of Leung Mei Sze, following which neither party may file further affirmation evidence without leave of the court.

LBL has requested that two additional issues (which only came in place after the filing of the 2nd Affirmation) be addressed by Mr. Tong. These relate to (1) the residual plot ratio of Subsection 15, and (2) whether the permissible plot ratio of the Kyoto Plaza development was in fact exceeded.

The Plaintiffs refused to include the additional issues and LBL have on 7 October 2015 issued a summons for the matter to be heard before a judge. On 15 February 2016 Recorder Cheng SC handed down a written decision granting leave to include the first issue.

On 17 March 2016, joint instructions were sent to Mr. Tong, who has accordingly rendered his report on 13 April 2016. The next step forward would be for parties to fix the date for the substantive hearing of the originating summons in consultation with counsel's diary, with 5 days reserved. The substantive hearing of the originating summons has now been fixed to be heard on 5 June 2017, reserved for 5 days, namely to take place from 5 to 9 June 2017.

The Directors, based on legal advice, consider that the case does not have any adverse financial impact upon the Group at all. Therefore, no provision in respect of such claims was made in the consolidated financial statements.

COMMITMENTS

As of 30 September 2016, the Group had no material capital commitments.

EMPLOYEES AND REMUNERATION POLICY

As of 30 September 2016, the Group had about 8 employees based in Hong Kong. The Group offers its employees competitive remuneration packages which commensurate with their performance, experience and job nature. The Group also provides other benefits including but not limited to medical insurance, discretionary bonus, share options and mandatory provident fund schemes.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

The Group did not have any significant investments, material acquisitions or disposals during the period under review.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules during the period under review, with the following exceptions:

1. Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. After the appointment of Mr. Ng Ian as the Chairman of the Company with effect from 28 March 2013, he resigned as the Deputy Chairman and Chief Executive Officer ("CEO") of the Company. The Board considered that the management structure of the Board could be optimised by Mr. Ng Ian (the former CEO of the Company, the current Chairman and executive Director of the Company) taking up both the roles of Chairman and CEO of the Company after considering the following factors:
 - a. it will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high calibre individuals who meet regularly to discuss issues pertaining to the operations of the Company;
 - b. it is conducive to strong and consistent leadership, and enables the Group to make and implement decisions promptly and efficiently; and
 - c. it is beneficial to the Company and its shareholders as a whole having taken into account that the Group's business scale has been narrowed down to business operation in Hong Kong after disposal of the joint-venture-based property under construction (located at No. 68 Yu Yuan Road, Jing An district of Shanghai).

2. Code provision A.6.7 of the CG Code stipulates that independent non-executive Directors and other non-executive Directors should attend the general meetings of the Company. Mr. Ng Chun For, Henry did not attend annual general meeting of the Company 2015-2016 held on 12 August 2016 due to his other prior business engagement.
3. Under Code Provision D.1.4, all Directors should clearly understand delegation arrangements in place, and the Company should have formal letters of appointment for directors setting out the key terms and conditions of their appointment.

The Company has no formal letters of appointment for all Directors as most of them have been serving as Directors for a considerable period of time, clear understanding of the terms and conditions of their appointment already exists between the Company and the Directors, and so there is no written record of the same. In any event, all Directors, including those without a letter of appointment and those appointed for a specific term, shall be subject to retirement by rotation in the manner prescribed under the Bye-laws of the Company and on re-election of the retiring Directors, shareholders are given information that is reasonably necessary for them to make an informed decision on the reappointment of the relevant Directors

REVIEW BY AUDIT COMMITTEE

The Audit Committee comprises an non-executive Director and two independent non-executive Directors, namely, Mr. Mak Wah Chi, Mr. Li Kit Chee (Chairman of the Audit Committee) and Mr. Chan Kam Man. The unaudited interim results and the condensed consolidated interim financial information of the Group for the six months ended 30 September 2016 have been reviewed by the Audit Committee.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry by the Company, that they have fully complied with the required standard as set out in the Model Code throughout the period under review.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the period.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is published on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) as well as the website of the Company (www.henrygroup.hk). The 2016/2017 interim report will be despatched to shareholders and will be published on the aforementioned websites in due course.

By Order of the Board
Henry Group Holdings Limited
Ng Ian
Chairman

Hong Kong, 29 November 2016

As at the date of this announcement, the Board comprises: Mr. Ng Ian (Chairman) and Mr. Chan Kwok Hung as executive directors, Mr. Ng Chun For, Henry and Mr. Mak Wah Chi as non-executive directors and Mr. Li Kit Chee, Mr. Chan Kam Man and Mr. Chu Tak Sum as independent non-executive directors.