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UKF (HOLDINGS) LIMITED

英裘(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01468)

INTERIM RESULTS ANNOUNCEMENT

For the six months ended 30 September 2019

The board of directors (the “**Board**”) of UKF (Holdings) Limited (the “**Company**”) presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 September 2019 together with the comparative figures for the corresponding period in 2018. The unaudited condensed consolidated financial statements have been reviewed by the audit committee of the Company.

CHAIRMAN’S STATEMENT

I hereby present the unaudited condensed consolidated interim results of the Group for the six months ended 30 September 2019.

Business Review

The business environment in the first half of our 2019/20 financial year has become more difficult but the diversification of the our business allows the Group to extend to more revenue source amid the current dire situation.

Securities

The Securities business is one of our major revenue sources but is unavoidably affected adversely by the persistently low market turnover. In the first half of 2019/20, the global, including Hong Kong, stock markets of the securities business remained volatile due to the China-United States trade war and economic downturn in China. Despite the challenging environment, for the six months ended 30 September 2019, revenue increased by approximately 20.9% to approximately HK\$16.2 million (2018: approximately HK\$13.4 million), as a result of the increase in revenue from underwriting and placing commission income by approximately HK\$3.6 million.

Insurance Brokerage

The insurance brokerage has been actively expanding its product categories and extending its scope of service. It is registered with the Insurance Authority (“IA”) and staffed by a team of over 75 experienced insurance professionals, and representing over 23 major life and general insurance providers. Up to 30 September 2019, King Privilege Wealth Management Limited (“KPWM”) has been managing about 3,900 insurance policies for over 2,500 clients. For the six months ended 30 September 2019, KPWM has handled 865 new insurance policies for 696 clients and accumulated total Annualized First Year Premium (“AFYP”) amount of over HK\$206 million; with total Annualized First Year Commission (“AFYC”) amount of over HK\$84 million.

Fur

For the industry as a whole, Danish mink production was estimated by Copenhagen Fur, the world’s leading fur auction house, to reduce by 40%, reflecting a similar decline in the number of breeding females. The demand for fur was further weakened in the first half of this financial year due to (i) the slowdown of global economic growth, in particular, Russia and China; (ii) oversupply of rancher fur, fewer consumers are purchasing fur coats and accessories in Russia and China; and (iii) some high-end fashion brands ceased to use fur as a material of their products. As a result, the prices from the April, June and September auctions stayed low and under the farming cost.

Prospects

The Group has diversified its core business from fur-related business into securities business and financial services. Although the current conditions of the worldwide capital market are uncertain and volatile, the Group’s securities and financial services segments managed to become a major income drive.

Regarding the fur business, due to the weak demand and expected low prices of fur in 2019, the Company has kept the inventory and suspended trading. In anticipation of the prolonged slowdown, the management further tightened cost control by operating fewer farms in order to incur less overheads. It is expected that a stabilisation of the market and price of mink will recover to a normal level in the coming year as the oversupply of the ranch fur shall begin to resolve itself in a year's time. It is expected that the supply of fur will meet the demand and a new equilibrium will be sought.

The management will start increasing the farming business and resume trading in February 2020 to test the water. Nevertheless, due to the usually fewer number of auctions in the second half of the financial year, an overall decline in revenue from the fur business as compared with last year is expected.

Although demand is not expected to rise soon, the reduction in global production will bring a massive decline in supply. The management is looking to a stabilisation of the market and price of mink will recover to a reasonable level. The management is cautiously optimistic of an improvement in the fur business in the coming year.

In response to the unstable investment environment, the Group is now concentrating on improving the financial and risk management while exploring opportunities in assets management and other financial services related businesses, mitigating the impact from the macroeconomic situations.

On behalf of the Board, I would like to take this opportunity to express my heartfelt gratitude to my fellow directors, management and all staff for the hard work and dedication in endorsing the development of the Group, and the shareholders for their continuing support and confidence in the Group.

Wong Chun Chau

Chairman

Hong Kong, 28 November 2019

The Board presents the unaudited condensed consolidated interim results of the Group for the six months ended 30 September 2019 together with the comparative figures for the corresponding period in 2018, as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2019

		Six months ended 30 September	
		2019	2018
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Revenue	3	66,802	60,819
Cost of sales		(43,448)	(48,501)
Gross profit		23,354	12,318
Other income	4	2,821	2,199
Change in fair value less costs to sell of biological assets		6,238	23,640
Changes in fair value of financial asset at fair value through profit or loss		—	205
Provision for impairment of trade receivables, net		(998)	(96)
Administrative expenses		(40,044)	(49,647)
Finance costs	5	(5,732)	(6,263)
Loss before tax	6	(14,361)	(17,644)
Income tax expenses	7	(811)	(469)
Loss for the period		(15,172)	(18,113)
Other comprehensive expense			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of overseas operations		(3,979)	(8,764)
Other comprehensive expense for the period, net of tax		(3,979)	(8,764)
Total comprehensive expense for the period		(19,151)	(26,877)
(Loss) profit for the period attributable to:			
Owners of the Company		(15,202)	(16,321)
Non-controlling interests		30	(1,792)
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		(19,181)	(25,085)
Non-controlling interests		30	(1,792)
Loss per share (HK cent)	9		
Basic		(0.33)	(0.36)
Diluted		(0.33)	(0.36)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2019

		30 September 2019	31 March 2019
	Notes	HK\$'000 (unaudited)	HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	10	96,355	105,515
Right-of-use assets	10	7,350	—
Goodwill		106,814	106,814
Intangible asset	10	500	500
Financial asset at fair value through profit or loss		—	11,559
Deposits	11	1,195	2,121
		212,214	226,509
Current assets			
Biological assets		21,341	8,954
Inventories		50,926	54,192
Trade and other receivables	11	270,554	274,185
Loan receivables	12	13,404	36,004
Interest receivables		638	—
Tax recoverable		6,766	7,577
Bank balances held on behalf of clients		125,311	49,011
Bank balances and cash		52,673	100,821
		541,613	530,744
Current liabilities			
Trade and other payables	13	137,716	83,140
Tax payables		6,692	6,692
Bank borrowings	14	98,772	199,182
Amount due to a shareholder	15	55,000	—
Obligation under finance lease		—	182
Corporate bond – within one year	16	10,000	10,000
Lease liabilities		6,569	—
		314,749	299,196
Net current assets		226,864	231,548
Total assets less current liabilities		439,078	458,057

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30 September 2019

		30 September 2019	31 March 2019
	<i>Note</i>	HK\$'000	HK\$'000
		(unaudited)	(audited)
Non-current liabilities			
Obligation under finance lease		—	78
Lease liabilities		603	—
		603	78
Net assets		438,475	457,979
Capital and reserves			
Share capital	17	46,155	46,155
Reserves		395,203	414,581
Equity attributable to the owners of the Company		441,358	460,736
Non-controlling interests		(2,883)	(2,757)
Total equity		438,475	457,979

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2019

	Attributable to the owners of the Company							Attributable to non-controlling interests		Total
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Share option reserve HK\$'000	Investments revaluation reserve HK\$'000	Translations reserve HK\$'000	Accumulated losses HK\$'000	Sub-total HK\$'000	HK\$'000	
At 31 March 2018 (audited)	45,569	619,545	(7,122)	2,950	(663)	(6,958)	(105,504)	547,817	475	548,292
Upon initial application of HKFRS 9	—	—	—	—	663	—	(663)	—	—	—
At 1 April 2018 (after adjustment)	45,569	619,545	(7,122)	2,950	—	(6,958)	(106,167)	547,817	475	548,292
Capital injection by non-controlling interests	—	—	—	—	—	—	—	—	191	191
Exercise of share options	586	9,425	—	(2,950)	—	—	—	7,061	—	7,061
Other comprehensive expense for the period	—	—	—	—	—	(8,764)	—	(8,764)	—	(8,764)
Loss for the period	—	—	—	—	—	—	(16,321)	(16,321)	(1,792)	(18,113)
At 30 September 2018 (unaudited)	<u>46,155</u>	<u>628,970</u>	<u>(7,122)</u>	<u>—</u>	<u>—</u>	<u>(15,722)</u>	<u>(122,488)</u>	<u>529,793</u>	<u>(1,126)</u>	<u>528,667</u>
At 31 March 2019 (audited)	46,155	628,970	(7,122)	4,723	—	(19,219)	(192,771)	460,736	(2,757)	457,979
Upon initial application of HKFRS 16	—	—	—	—	—	—	(197)	(197)	(156)	(353)
At 1 April 2019 (after adjustment)	46,155	628,970	(7,122)	4,723	—	(19,219)	(192,968)	460,539	(2,913)	457,626
Other comprehensive expense for the period	—	—	—	—	—	(3,979)	—	(3,979)	—	(3,979)
(Loss) profit for the period	—	—	—	—	—	—	(15,202)	(15,202)	30	(15,172)
At 30 September 2019 (unaudited)	<u>46,155</u>	<u>628,970</u>	<u>(7,122)</u>	<u>4,723</u>	<u>—</u>	<u>(23,198)</u>	<u>(208,170)</u>	<u>441,358</u>	<u>(2,883)</u>	<u>438,475</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2019

		Six months ended	
		30 September	
		2019	2018
	Note	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Operating activities			
Cash generated from operations		51,646	78,637
Tax paid		—	(736)
Net cash generated from operating activities		51,646	77,901
Investing activities			
Acquisition of property, plant and equipment	10	(76)	(934)
Other cash flows arising from investing activities		585	201
Net cash generated from (used in) investing activities		509	(733)
Financing activities			
Capital element of lease rentals paid		(4,896)	—
Interest element of lease rentals paid		(261)	—
Other cash flows arising from financing activities		(94,131)	(84,118)
Net cash used in financing activities		(99,288)	(84,118)
Net decrease in cash and cash equivalents		(47,133)	(6,950)
Cash and cash equivalents at 1 April		100,821	100,440
Effect of foreign exchange rate changes, net		(1,015)	(255)
Cash and cash equivalents at 30 September		52,673	93,235
Cash and cash equivalents represented by			
Bank balances and cash		52,673	93,235

Note: The Group has initially applied HKFRS 16 on 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2(a).

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

1. GENERAL INFORMATION

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.

2(a). BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated interim financial information for the six months ended 30 September 2019 has been prepared in accordance with Hong Kong Accounting Standards (“**HKASs**”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

This unaudited condensed consolidated interim financial information should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2019, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKASs and HKFRSs issued by the HKICPA that are relevant for the preparation of the Group’s unaudited condensed consolidated financial statements:

HKFRS 16	Leases
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKAS 19	Plan Amendments, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKFRSs	Annual Improvement to HKFRSs 2015 – 2017 Cycle

Except as described below, the application of the above new and amendments to HKASs and HKFRSs in the current period has had no material effect on the amounts reported in these unaudited condensed consolidated financial statements and/or disclosures set out in these unaudited condensed consolidated financial statements.

Impacts and changes in accounting policies of application on HKFRS 16 “Leases”

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 “*Leases*” and the related interpretations.

Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of motor vehicles, equipment and offices that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low-value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 “*Financial Instruments*” and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;

- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 “*Income Taxes*” requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 “*Determining whether an Arrangement contains a Lease*” and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 April 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 April 2019. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- (i) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- (ii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- (iii) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

- The Group recognised lease liabilities of approximately HK\$12,239,000 and right-of-use assets of approximately HK\$12,107,000 at 1 April 2019.

- When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 5%.

The reconciliation of lease liabilities as at 1 April 2019 to the operating leases commitments as at 31 March 2019 is as follows:

	At 1 April 2019 HK\$'000
Operating lease commitments disclosed at 31 March 2019	12,909
Lease liabilities discounted at relevant incremental borrowing rates	(883)
Less: Recognition exemption – short-term leases	(47)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16	11,979
Add: Reclassified from obligation under finance leases	260
Lease liabilities as at 1 April 2019	12,239
Analysed as	
Current	9,241
Non-current	2,998
	12,239

The carrying amount of right-of-use assets as at 1 April 2019 comprises the following:

	Right-of-use assets HK\$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	11,626
Adjustment included in property, plant and equipment under HKAS 17	
— Plant and Machinery held under finance leases	481
	12,107
By class:	
Buildings	11,626
Plant and machinery	481
	12,107

The following table summarises the impacts of transition to HKFRS 16 on accumulated losses at 1 April 2019.

	Impacts of adopting HKFRS 16 at 1 April 2019 HK\$'000
Accumulated losses	
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	11,626
Lease liabilities relating to operating leases recognised upon application of HKFRS 16	(11,979)
Impact at 1 April 2019	(353)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 April 2019. Line items that were not affected by the changes have not been included.

Impacts on assets and (liabilities) as at 1 April 2019

	Carrying amount previously reported at 31 March 2019 HK\$'000 (audited)	Impacts of adopting HKFRS 16 HK\$'000	Carrying amount under HKFRS 16 at 1 April 2019 HK\$'000 (restated)
Property, plant and equipment	105,515	(481)	105,034
Right-of-use assets	—	12,107	12,107
Obligation under finance leases			
— current	(182)	182	—
Obligation under finance leases			
— non-current	(78)	78	—
Lease liabilities – current	—	(9,241)	(9,241)
Lease liabilities – non-current	—	(2,998)	(2,998)

The summary of net impacts of HKFRS 16 on the unaudited condensed consolidated statement of profit or loss of the Group for the six months ended 30 September 2019 are set out as below. Line items that were not affected by the changes have not been included.

Impacts on the unaudited condensed consolidated statement of profit and loss and other comprehensive income for six months ended 30 September 2019

	As per HKFRS 16 HK\$ '000 (unaudited)	As per HKAS 17 HK\$ '000 (unaudited)	Impact due to change HK\$ '000 (unaudited)
Administrative expenses	(40,044)	(40,306)	262
Finance costs	(5,732)	(5,471)	(261)
Loss for the period	(15,172)	(15,173)	1
(Loss) profit for the period attributable to:			
Owners of the Company	(15,202)	(15,175)	(27)
Non-controlling interests	30	2	28
	(15,172)	(15,173)	1
	<i>HK cent</i>	<i>HK cent</i>	<i>HK cent</i>
Loss per share			
Basic	0.33	0.33	—
Diluted	0.33	0.33	—

The Group has not early applied the following new and amendments to HKASs and HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts ³
Amendments to HKAS 1 and HKAS 8	Definition of Material ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴

- ¹ Effective for annual periods beginning on or after 1 January 2020, with earlier application permitted
- ² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020, with earlier application permitted
- ³ Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted
- ⁴ Effective for annual periods beginning on or after a date to be determined

The Group has already commenced an assessment of the impact of these new and amendments to HKASs and HKFRSs but is not yet in a position to state whether these new and amendments to HKASs and HKFRSs would have a material impact on its results of operations and financial positions.

2(b). FINANCIAL RISK MANAGEMENT

Financial risk factors

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

The unaudited condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 March 2019.

There have been no changes in the risk management policies of the Group since year ended.

Financial assets and liabilities measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 "*Fair Value Measurement*". The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Financial asset	Fair value as at		Fair value hierarchy	Valuation technique(s) and key inputs
	30 September 2019	31 March 2019		
	HK\$'000	HK\$'000		
	(unaudited)	(audited)		
Financial asset at fair value through profit or loss ("FVTPL")	—	11,559	Level 2	Quoted value from financial institution

During the six months ended 30 September 2019, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities.

During the six months ended 30 September 2019, there were no transfers between levels of fair value estimation and no change in valuation techniques in financial assets or financial liabilities.

3. SEGMENT AND REVENUE 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) in order to allocate resources to the segment and to assess its performance.

The Board reviewed the sales performance of the goods and services delivered or provided for the purpose of resources allocation and performance assessment and considered that the Group operates in four business units based on their products, and has four reportable and operating segments: securities, insurance brokerage, fur and other segment.

Segment revenue and results

Information reported to the chief operating decision maker for the purpose of resources allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

Securities	—	Operation of securities brokerage, margin financing, underwriting, placing and consultancy services
Insurance brokerage	—	Provision of insurance brokerage and wealth management services

Fur	—	Provision of breeding, farming and sale of livestock and pelted skin, fur skin brokerage and financing services and trading of fur skin of foxes and minks
Other segment	—	Provision and arrangement of money lending services in Hong Kong

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

Six months ended 30 September 2019

	Securities <i>HK\$'000</i> (unaudited)	Insurance brokerage <i>HK\$'000</i> (unaudited)	Fur <i>HK\$'000</i> (unaudited)	Other segment <i>HK\$'000</i> (unaudited)	Total <i>HK\$'000</i> (unaudited)
REVENUE	<u>16,152</u>	<u>45,981</u>	<u>2,011</u>	<u>2,658</u>	<u>66,802</u>
RESULTS					
Segment results	<u>16,152</u>	<u>4,190</u>	<u>354</u>	<u>2,658</u>	<u>23,354</u>
Other income	525	2,187	46	—	2,758
Change in fair value less costs to sell of biological assets	—	—	6,238	—	6,238
Provision for impairment of trade receivables, net	(998)	—	—	—	(998)
Unallocated other income					63
Unallocated corporate expenses					(40,044)
Finance costs					<u>(5,732)</u>
Loss before tax					(14,361)
Income tax expenses					<u>(811)</u>
Loss for the period					<u><u>(15,172)</u></u>

Six months ended 30 September 2018 (restated)

	Securities	Insurance	Fur	Other	Total
	brokerage	brokerage		segment	
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
REVENUE	13,439	10,624	33,066	3,690	60,819
RESULTS					
Segment results	13,439	1,391	(6,202)	3,690	12,318
Other income	696	1,072	401	—	2,169
Change in fair value less costs to sell of biological assets	—	—	23,640	—	23,640
Provision for impairment of trade receivables, net	(96)	—	—	—	(96)
Changes in fair value of financial assets of FVTPL					205
Loss on early redemption of promissory note					(7,099)
Unallocated other income					30
Unallocated corporate expenses					(42,548)
Finance costs					(6,263)
Loss before tax					(17,644)
Income tax expenses					(469)
Loss for the period					(18,113)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current interim period (six months ended 30 September 2018: Nil).

Segment assets and liabilities

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

At 30 September 2019

	Securities <i>HK\$'000</i> (unaudited)	Insurance brokerage <i>HK\$'000</i> (unaudited)	Fur <i>HK\$'000</i> (unaudited)	Other segment <i>HK\$'000</i> (unaudited)	Total <i>HK\$'000</i> (unaudited)
ASSETS					
Segment assets	494,003	1,956	165,338	14,042	675,339
Unallocated corporate assets					78,488
Total assets					<u>753,827</u>
LIABILITIES					
Segment liabilities	162,055	5,091	45,044	19,000	231,190
Unallocated corporate liabilities					84,162
Total liabilities					<u>315,352</u>

At 31 March 2019

	Securities <i>HK\$'000</i> (audited)	Insurance brokerage <i>HK\$'000</i> (audited)	Fur <i>HK\$'000</i> (audited)	Other segment <i>HK\$'000</i> (audited)	Total <i>HK\$'000</i> (audited)
ASSETS					
Segment assets	419,322	1,949	168,749	36,004	626,024
Unallocated corporate assets					131,229
Total assets					<u>757,253</u>
LIABILITIES					
Segment liabilities	101,025	3,137	60,621	20,000	184,783
Unallocated corporate liabilities					114,491
Total liabilities					<u>299,274</u>

Revenue information

An analysis of revenue is as follows:

	Six months ended	
	30 September	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Revenue from contracts with customers		
Securities brokerage		
Securities dealing commission income	1,466	3,115
Underwriting and placing commission income	4,246	686
Insurance brokerage service income	45,981	10,624
Trading and brokerage of fur skin and mink farming	2,011	33,066
Revenue from other sources		
Interest income from margin financing, cash clients and		
IPO Loans	10,440	9,638
Interest income from money lending services	2,658	3,690
	66,802	60,819

Note: Revenue includes commission income from securities brokerage, underwriting, sub-underwriting, placing and sub-placing, insurance brokerage services income, trading and brokerage of fur skin and mink farming are recognised at point in time.

Geographical information

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

	Six months ended	
	30 September	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Hong Kong	64,791	27,753
Europe	1,412	32,260
The People's Republic of China	599	806
	66,802	60,819

4. OTHER INCOME

	Six months ended	
	30 September	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Administrative fee income	391	—
Bank interest income	30	40
Bonus and rebate from auction houses	31	102
Consultancy fee income	30	—
Gain on disposal of property, plant and equipment, net	—	170
Handling income	454	570
Referral income	585	—
Sundry income	1,300	1,317
	2,821	2,199

5. FINANCE COSTS

	Six months ended	
	30 September	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Interest on:		
— Bank loans	4,278	2,508
— Overdraft	885	1,008
— Corporate bond	275	275
— Lease liabilities	261	—
— Cash clients' accounts	14	4
— Margin clients' accounts	19	2
— Promissory note (imputed)	—	2,457
— Finance leases	—	9
	5,732	6,263

6. LOSS BEFORE TAX

Loss before tax has been arrived at after charging (crediting):

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Auditor's remuneration	6	—
Cost of inventories recognised as expenses	1,657	39,271
Staff costs (including directors' remuneration)		
— salaries and allowances	17,420	19,922
— retirement benefit scheme contributions	419	380
Net foreign exchange loss	20	54
Depreciation	10,549	7,305
Provision for impairment of trade receivables, net	998	96
Gain on disposal of property, plant and equipment, net	—	(170)
Loss on early redemption of promissory note	—	7,099
Operating lease payments	—	3,833
	=====	=====

7. INCOME TAX EXPENSES

The charge comprises:

	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax		
Hong Kong Profits Tax	811	469
	=====	=====
Total income tax expenses for the period	811	469

- (i) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, starting from the current year, the Hong Kong Profits Tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

- (ii) The Danish subsidiary is subject to Denmark Corporate Tax at 22% for the period (2018: 22%).
- (iii) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the “BVI”), the Group is not subject to any income tax in the Cayman Islands and BVI.

8. DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 September 2019 (six months ended 30 September 2018: Nil).

9. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the loss attributable to owners of the Company for the six months ended 30 September 2019 of approximately HK\$15,202,000 (six months ended 30 September 2018: approximately HK\$16,321,000) and the weighted average number of ordinary shares of 4,615,489,735 (2018: 4,571,964,741 shares).

Diluted loss per share

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

10. PROPERTY, PLANT AND EQUIPMENT/RIGHT-OF-USE ASSETS/INTANGIBLE ASSET

(a) Owned property, plant and equipment

During the six months ended 30 September 2019, the Group approximately spent HK\$76,000 (six months ended 30 September 2018: approximately HK\$934,000) on acquisition of property, plant and equipment and there was no disposal of property, plant and equipment (six months ended 30 September 2018: Nil).

(b) Right-of-use assets

As disclosed in note 2(a), the Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 April 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. In addition, the depreciated carrying amount of the finance leased assets which were previously included in property, plant and equipment is also identified as right-of-use assets.

During the six months ended 30 September 2019, the Group did not entered into any lease agreement and therefore no recognition of the additions to right-of-use assets.

(c) *Intangible asset*

The Group had no acquisition and disposal of intangible asset for the six months ended 30 September 2019 and 2018.

11. TRADE AND OTHER RECEIVABLES/DEPOSITS

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Trade receivables from:		
Securities business (<i>Note a</i>)		
— Cash clients	3,408	4,639
— Margin clients	249,855	246,864
— Clearing house	7,887	10,921
— Brokers	1,988	719
	<u>263,138</u>	<u>263,143</u>
Mink farming business (<i>Note b</i>)	—	4,310
Fur skin brokerage business (<i>Note b</i>)	170	164
	<u>263,308</u>	<u>267,617</u>
Less: Provision for trade receivables	<u>(3,560)</u>	<u>(2,562)</u>
	259,748	265,055
Other receivables and deposits:		
Amount due from non-controlling interests	191	191
Deposits with auction houses and suppliers	5,777	4,355
Prepayment	1,270	1,574
Rental, utilities and other deposits	1,829	2,252
Statutory deposit	230	—
Value-added tax recoverable	1,539	2,491
Others	1,165	388
	<u>271,749</u>	<u>276,306</u>
Analysis for reporting purpose as:		
Current assets – Trade and other receivables	270,554	274,185
Non-current assets – Deposits	1,195	2,121
	<u>271,749</u>	<u>276,306</u>

Notes:

- (a) The Group seeks to maintain tight control over its outstanding trade receivables and has procedures and policies to assess its clients' credit quality and defines credit limits for each client. All clients' acceptances and credit limits are approved by designated approvers according to the clients' credit worthiness.

Save for the credit period allowed by the Company, the normal settlement terms of trade receivables from cash client, a clearing house and brokers arising from the ordinary course of business of securities services are two days after the trade date.

Cash clients

Trade receivables due from cash clients bear interest at interest rate by reference to Hong Kong prime rate plus certain basis points based on management's discretion, normally at Hong Kong prime rate plus 7%. It relates to a wide range of cash clients for whom there was no recent history of default payments or any significant change in credit quality of these clients and the balances are considered fully recoverable by the management.

Margin clients

Trade receivables due from margin clients are repayable on demand. Except for pending trade settlement the balance of margin clients, bear interest at interest rates by reference to Hong Kong prime rate plus certain basis points based on management's discretion, normally at Hong Kong prime rate plus 3%. The majority of trade receivables are secured and covered by clients' pledged securities, which are publicly traded securities listed in Hong Kong.

The Company maintains a list of approved securities collaterals for margin lending at a specified loan-to-collateral ratio. The credit facility limits granted to margin clients are determined by the discounted value of the securities collaterals accepted by the Company's management. A margin call may occur when the balances of the outstanding receivables from margin clients exceed the permitted margin loan limit, or when the discounted value of the collateral securities is less than the balances due from margin clients.

As at 30 September 2019, the fair values of the pledged securities amounted to approximately HK\$455,237,000 (31 March 2019: HK\$680,833,000). Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or securities collaterals are required if the amount of trade receivables outstanding from margin clients exceeds the eligible margin value of securities deposited. If any significant margin call was overdue from the clients, the Company is allowed to dispose the securities collaterals in settlements of the obligations of margin clients to maintain the agreed level of margins and any other liabilities of the margin clients due to the Company.

Clearing house and brokers

Trade receivables from a clearing house and brokers represents outstanding balance pending to be settled arising from the business of dealing in securities, which are normally due within two trading days after the trade date.

- (b) The Group allows a credit period ranging from 0 to 120 days to its customers from the business of mink farming and fur skin brokerage.

The aging analysis of the Group's trade receivables from business of securities, net of allowance for expected credit loss ("ECL"), are as follows:

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Neither past due nor impaired	256,170	255,942
Past due but not impaired	3,408	4,639
	259,578	260,581

The aging analysis of the Group's trade receivables from cash clients which are past due but not impaired are as follows:

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Past due within one month	33	1,453
Past due from one month to three months	3,375	3,186
	3,408	4,639

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted and subsequent settlement up to the end of the reporting period. In the opinion of the directors of the Company, there is no further credit provision required in excess of the allowance ECL. The Group does not hold any collateral over these balances.

The aging analysis of trade receivables from business of mink farming and fur skin brokerage, net of allowance for ECL, based on invoice date are as follows:

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
0 - 60 days	170	4,473
61 - 90 days	—	1
91 - 120 days	—	—
	170	4,474

Trade receivables from the business of mink farming and fur skin brokerage disclosed above include amounts which are past due for which the Group has not recognised an allowance for ECL because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements for these balances nor does it have a legal right to offset against any amounts owed by the Group to the counterparty.

Trade receivables from the business of mink farming and fur skin brokerage that were neither past due nor impaired related to a wide range of customers for whom there is no recent history of default.

12. LOAN RECEIVABLES

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Loans from money lending business – unsecured	13,500	36,100
Less: Provision for impairment	(96)	(96)
	13,404	36,004

The Group offered a credit period of 1 year for the loans to its customers in money lending business with interest rate of 13%-18% per annum (31 March 2019: 12%-48% per annum). The Group maintains strict control over its outstanding loans to minimise credit risk. Overdue balance is reviewed regularly by management.

The Company has measured the loss allowances of loan receivables by using HKFRS 9 general approach as of 1 April 2018 by assuming all the customers shared a similar credit risk characteristic under the life-time ECLs calculations. Provision matrix is used to measure the ECLs of loan receivables for all categories of customers. The default rates are based on past due days in terms of grouping the customers who have similar loss patterns. The calculation reflects the probability-weighted outcome, time value of money, and reasonable and supportable information that is available related to the past events, current conditions and forecasts of future economic conditions. Generally, loan receivables are written off in full if it is past due more than 90 days and are not subject to any enforcement activities.

The following is an aging analysis of the Group's loan receivables by age, presented based on the advancement date and net of allowance for ECL at 30 September 2019 and 31 March 2019:

	30 September 2019 <i>HK\$'000</i> (unaudited)	31 March 2019 <i>HK\$'000</i> (audited)
0 – 60 days	1,500	20,600
61 – 90 days	—	—
91 – 180 days	—	12,000
Over 180 days	11,904	3,404
	13,404	36,004

Loan receivables that were neither past due nor impaired related to a wide range of customers for whom there is no recent history of default.

13. TRADE AND OTHER PAYABLES

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Trade payables from:		
Securities business (<i>Note a</i>)		
— Cash clients	23,008	26,865
— Margin clients	104,047	19,523
— Clearing house	—	16,645
— Brokers	272	2,993
	127,327	66,026
Mink farming business (<i>Note b</i>)	—	6,438
Insurance brokerage business (<i>Note c</i>)	5,091	3,137
	132,418	75,601
Other payables:		
Accruals	860	5,204
Value-added tax payable	—	139
Other operating expenses payables	3,905	2,176
Others	533	20
	137,716	83,140

Based on the invoice dates, aging analysis of trade payables from mink farming business are as follows:

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
0 - 60 days	—	246
61 - 90 days	—	4,264
91 - 120 days	—	1,928
	—	6,438

Based on the invoice dates, aging analysis of trade payables from insurance brokerage business as follow:

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
0 - 60 days	5,091	3,137
61 - 90 days	—	—
Over 90 days	—	—
	5,091	3,137

Notes:

- (a) Trade payables to securities clients represent the monies received from and repayable to brokerage clients in respect of the trust and segregated bank balances received and held for clients in the course of the conduct of regulated activities. However, the Group does not have a currently enforceable right to offset these payables with those balances received.

The majority of the trade payables balances are repayable on demand except for certain balances relating to margin deposits received from clients for their trading activities under the normal course of business. Only the excess amounts over the required margin deposits stipulated are repayable on demand.

The trade payables from the securities business are normally settled within two trading days after the trade date except for the money held on behalf of clients at the segregated bank accounts which is repayable on demand. The money held on behalf of clients at the segregated bank accounts carries interest at prevailing interest rate of 0.01% (31 March 2019: 0.01%) per annum.

No aging analysis is disclosed as, in the opinion of directors, an aging analysis does not give additional value in view of the nature of the business.

- (b) The Group normally settles the trade payables from fur business within 21 days of the credit term.
- (c) The Group normally settles the trade payables from insurance brokerage business within 15 days of the credit term.

14. BANK BORROWINGS

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Term loans	19,000	112,940
Revolving loans	35,000	35,000
Bank overdraft	44,772	51,242
	<u>98,772</u>	<u>199,182</u>

15. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder is unsecured, interest-free and repayable on demand.

16. CORPORATE BOND

The Group issued a corporate bond with the principal amount of HK\$10,000,000 at the interest rate of 5.5% per annum payable annually for a term of 7 years, which was due and has been fully repaid in November 2019.

17. SHARE CAPITAL

	30 September 2019		31 March 2019	
	Number of shares	Nominal value of ordinary shares HK\$'000 (unaudited)	Number of shares	Nominal value of ordinary shares HK\$'000 (audited)
Authorised:				
Ordinary shares of HK\$0.01 each	<u>10,000,000,000</u>	<u>100,000</u>	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:				
At the beginning of period/year	4,615,489,735	46,155	4,556,923,015	45,569
Exercise of share options	—	—	58,566,720	586
At the end of the period/year	<u>4,615,489,735</u>	<u>46,155</u>	<u>4,615,489,735</u>	<u>46,155</u>

18. EVENT AFTER REPORTING PERIOD

In addition to the events disclosed elsewhere in these unaudited condensed consolidated financial statements, the Group had the following subsequent events:

- (a) On 7 November 2019, the Company successfully completed a placing of 234,140,000 new shares to not less than six independent placees at a price of HK\$0.205 per placing share (the “**Placing Share**”), representing (i) a discount of approximately 16.33% to the closing price of HK\$0.245 per share as quoted on the Stock Exchange on 21 October 2019, being the date of the placing agreement (further details of the placing are contained in the Company’s announcement dated 21 October 2019); and (ii) a discount of approximately 18% to the average closing price of HK\$0.25 per share as quoted on the Stock Exchange for the five consecutive trading days up to and including 18 October 2019.

The gross and net proceeds from the Placing (after deducting the commission payable to the Placing Agent and other expenses incurred in the Placing) are approximately HK\$48.0 million and HK\$47.7 million respectively. Accordingly, the gross and the net placing price of the Placing Share was HK\$0.205 and HK\$0.204 respectively. The Company intends to apply the maximum net proceeds from the Placing for (i) repayment of loans; (ii) development of Company’s existing business; and (iii) general working capital of the Company and potential investments to be identified. As at the date of this announcement, approximately HK\$40.6 million has been utilised for repayment of loans.

- (b) On 27 September 2019, the Company proposed to change the English name of the Company from “UKF (Holdings) Limited” to “Kingkey Financial International (Holdings) Limited”, and adopt a new Chinese name “京基金融國際(控股)有限公司” as the secondary name of the Company to replace the Chinese name “英裘(控股)有限公司” (the “**Proposed Change of Company Name**”). The Board considers that the Proposed Change of Company Name will better reflect the business nature and strategic direction of future development of the Group. The Board also believes that the new English and Chinese names can provide the Company with a new corporate image and identity which will benefit the Company’s future business development and is in the interests of the Company and the shareholders of the Company as a whole.

The Proposed Change of Company Name is subject to the following conditions having been satisfied:

- the passing of a special resolution by the Shareholders at the extraordinary general meeting (“**EGM**”) of the Company to approve the Proposed Change of Company Name; and
- the Registrar of Companies in the Cayman Islands approving the Proposed Change of Company Name.

Subject to the satisfaction of the conditions set out above, the Proposed Change of Company Name will become effective from the date of entry of the new English name of the Company and the date of entry of the new Chinese secondary name of the Company, in each case, on the register maintained by the Registrar of Companies in the Cayman Islands. Upon taking effect of the Proposed Change of Company Name and the receipt of the Certificate of Incorporation on Change of Name and the Certificate of Secondary Name, the Company will then carry out the necessary filing procedures with the Companies Registry in Hong Kong.

The EGM was held on 5 November 2019 and the Proposed Change of Company Name was duly approved by the Registrar of Companies in Cayman Islands on 6 November 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue and Segment Results

Revenue of the Group for the six months ended 30 September 2019 was approximately HK\$66.8 million (2018: approximately HK\$60.8 million).

Securities

During the six months ended 30 September 2019, the Group's commission income from securities brokerage, underwriting and placing, plus interest income from securities margin financing, cash clients and IPO loans amounted to approximately HK\$16.2 million (2018: approximately HK\$13.4 million), representing an increase of approximately 20.9% as compared to last corresponding period.

The increase in revenue was mainly contributed by 5 times increase in revenue from underwriting and placing commission income to approximately HK\$4.2 million during the period, which outweigh the decrease in securities brokerage commission, showing a positive feedback of the Group's business strategy.

The decrease in securities brokerage commission was mainly attributable to the declining market trend as shown by the movement of Hang Seng Index during the period under review and the deterioration of market sentiment indicated lower average daily turnover.

The securities business reported segment profit of approximately HK\$3.6 million for the six months ended 30 September 2019 (2018: approximately HK\$2.2 million)

Insurance brokerage

Insurance brokerage represented the provision of insurance brokerage and wealth management services which commenced during last financial year.

KPWM, the insurance brokerage arm of the Group, is registered with the IA and staffed by a team of over 75 experienced insurance professionals, and representing 23 major life and general insurance providers.

The Group is keeping the business on track. Up to 30 September 2019, KPWM has been managing about 3,900 insurance policies for over 2,500 clients. For the six months ended 30 September 2019, revenue from insurance brokerage amounted to approximately HK\$46.0 million (2018: HK\$10.6 million), which represented commission income received from broking and dealing in insurance product. It reported a segment profit of approximately HK\$0.1 million (2018: loss of approximately HK\$3.7 million)

Fur

The Group's fur business remained difficult and revenue of the fur business decreased sharply by 94.0% to approximately HK\$2.0 million (2018: approximately HK\$33.1 million) for the six months ended 30 September 2019. The decrease in revenue was mainly attributable to the weak demand for fur due to the global economic outlook and fierce competition, which resulted in shrinking volume of fur sales.

The Group were responding to the weaker demand by tightening cost controls and rationalizing operations to ensure the fur business remains competitive in this difficult operating environment. The fur business reported segment loss of approximately HK\$6.1 million for the six months ended 30 September 2019 (2018: approximately HK\$18.1 million)

Other segment

Other segment represented the provision of money lending services in Hong Kong.

The Group holds a money lenders license under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). During the period, the Group conducted several money lending transactions and the individual loan size ranged for approximately HK\$0.5 million to approximately HK\$20.6 million.

The money lending business contributed approximately HK\$2.7 million to the revenue of the Group for the six months ended 30 September 2019 (2018: approximately HK\$3.7 million).

Other income

Other income for the period was approximately HK\$2.8 million compared to approximately HK\$2.2 million for the corresponding period last year. The increase was mainly due to administrative fee income and referral income derived from insurance brokerage industry.

Change in fair value less costs to sell of biological assets

For the six months ended 30 September 2019, gain arising from changes in fair value of biological assets less costs to sell, which amounted to approximately HK\$6.2 million (2018: approximately HK\$23.6 million), was recognised and it represented the net increase of fair value of the mated female minks and male minks for breeding for the mink farming business.

Administrative expenses

Administrative expenses decreased by approximately 19.3% to approximately HK\$40.0 million (2018: approximately HK\$49.6 million). The decrease was mainly due to absence of the loss on early redemption of promissory note, amounted to approximately HK\$7.0 million. The promissory note was fully redeemed on 27 July 2018.

Finance costs

For the six months ended 30 September 2019, the finance costs, which mainly represented interest expenses for the bank borrowings, decreased by 8.5% to approximately HK\$5.7 million due to the absence of the imputed interest on the promissory note, amounted to approximately HK\$2.5 million. The promissory note was fully redeemed on 27 July 2018.

Loss for the period

Loss for the period of approximately HK\$15.2 million was reported for the six months ended 30 September 2019 (2018: approximately HK\$18.1 million).

Dividend

The Board did not recommend the payment of an interim dividend for the six months ended 30 September 2019 (2018: Nil).

Significant investments and acquisition

The Group has no significant investment and acquisition during the period (2018: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operations with internally generated cash flow, bank borrowings and shareholders' equity. The Group maintained bank balances and cash in mainly HK\$, United States dollars ("US\$") and Danish Krone ("DKK") of approximately HK\$52.7 million as at 30 September 2019 (31 March 2019: approximately HK\$100.8 million). The net assets of the Group as at 30 September 2019 were approximately HK\$438.5 million (31 March 2019: approximately HK\$458.0 million).

As at 30 September 2019, the Group had bank borrowings of approximately HK\$98.8 million (31 March 2019: approximately HK\$199.2 million) which bore interest primarily at floating rate. All of bank borrowings were held in HK\$, US\$ and DKK. The net external gearing ratio representing the ratio of total interest bearing borrowings to the net assets of the Group, was approximately 24.8% as at 30 September 2019 (31 March 2019: approximately 45.7%).

The Group actively and regularly reviews and manages its capital structure and makes adjustments in light of changes in economic conditions. For the licensed subsidiaries, the Group ensures that each of the subsidiaries maintains a liquidity level adequate to support the level of activities with a sufficient buffer to accommodate increases in liquidity requirements arising from potential increases in the level of business activities. During the period under review, all the licensed subsidiaries complied with the liquidity requirements under the Securities and Futures (Financial Resources) Rules ("FRR").

On 21 October 2019, the Company and Differ Financial and Securities Limited as placing agent (the "**Placing Agent**") entered into a placing agreement, pursuant to which the Company has conditionally agreed to place, through the Placing Agent, on a best-effort basis, a maximum of 250,000,000 new shares ("**Placing Shares**", each "**Placing Share**") of the Company to be placed to not less than six placees who and whose ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons as ascribed by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited at a price (the "**Placing Price**") of HK\$0.205 per Placing Share (the "**Placing**").

The Placing completed on 7 November 2019 and an aggregate of 234,140,000 Placing Shares were successfully placed to not less than six independent placees at the Placing Price of HK\$0.205 per Placing Share. The gross proceeds and net proceeds raised from the Placing (after deducting the commission payable to the Placing Agent and other expenses incurred in the Placing) were approximately HK\$48.0 million and approximately HK\$47.7 million, respectively. The Company intends to apply the maximum net proceeds from the Placing for (i) repayment of loans; (ii) development of Company's existing business; and (iii) general working capital of the Company and potential investments to be identified. As at the date of this announcement, approximately HK\$40.6 million has been utilised for repayment of loans.

CAPITAL COMMITMENT AND CONTINGENT LIABILITY

The Group had no material capital commitment and contingent liability as at 30 September 2019 (31 March 2019: Nil).

CHARGE OF ASSETS

As at 30 September 2019, the Group charged property, plant and equipment, biological assets and inventories of approximately DKK76,158,000 or approximately HK\$87,224,000 (31 March 2019: DKK80,418,000 or approximately HK\$94,982,000) for bank borrowings.

As at 30 September 2019, the Group also charged the key management insurance contract, which is classified as a financial asset at FVTPL of approximately HK\$11.6 million. The insurance contract was uplifted in September 2019 thus no more charge on it.

RISK MANAGEMENT

Credit risk

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

In respect of trade receivables from customers, management of the Group reviews the recoverable amount of each individual trade debt at each reporting date to ensure that appropriate and speedy follow up actions are taken in respect of overdue balances.

In respect of amounts due from clients, individual credit evaluations are performed on all clients (including cash and margin clients). Cash clients are required to place deposits as prescribed in the Group's credit policy before execution of any purchase transactions. Receivables due from cash clients are due within the settlement period commonly adopted in the relevant market practices, which is usually within two trading days after the trade date. The Group normally obtains liquid securities and/or cash deposits as collateral for providing financing to its cash and margin clients. Margin loans due from margin clients are repayable on demand. Market conditions and adequacy of securities collateral and margin deposits of each cash account and margin account are monitored by the management on a daily basis. Margin calls and forced liquidation are made where necessary.

In respect of amounts receivable from brokers and clearing houses, credit risks are considered low as the Group normally enters into transactions with brokers and clearing houses which are registered with regulatory bodies and enjoy sound reputation in the industry.

In respect of loan receivables from clients, the Group has no concentration of credit risk on aggregate amount of loans, with exposure spread over a number of clients. The Group continued to adopt stringent credit policies to mitigate the credit risk arising from the money lending business. The credit policies specify the credit approval, review and other monitoring procedures to ensure that follow-up action is taken for the recoverable amount.

The Group has no significant concentration of credit risk as credits are granted to a large population of clients.

The Group does not provide any other guarantees which would expose the Group to credit risk.

Liquidity risk

The Group monitors its current and expected liquidity requirements regularly and ensuring sufficient liquid cash and adequate committed lines of funding from reputable financial institutions are available to meet the Group's liquidity requirements in the short and long term. Individual operating entities within the Group are responsible for their own cash management, including the raising of loans to cover expected cash demands, and to ensure compliance with FRR.

Interest rate risk

The Group charges interest on its margin clients and cash clients with outstanding loan amounts on the basis of Hong Kong prime rate plus a mark-up. Financial assets (such as margin loans and deposits with banks) and financial liabilities (such as bank loans) are primarily related to the fluctuation of Hong Kong prime rate and prevailing floating rates. The Group's income and operating cash flows are not subject to significant interest rate risk.

Foreign currency risk

The Group carries out its business in Hong Kong and worldwide and its assets and liabilities as well as the income and expenses are exposed to foreign currency risk primarily arising from sales and purchases transactions, investments and borrowings denominated in US\$ and DKK.

To mitigate the impact of exchange rate fluctuations, the Group continually assesses and monitors the exposure of foreign currency risk. 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. As for exchange rate of DKK against Hong Kong dollar, management manages the currency risk by closely monitoring the movement of the foreign currency exchange rate and would consider appropriate measures if required. Currently, the Group has no hedging arrangement for foreign currencies and has not entered into any financial derivatives arrangement.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 September 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of good governance practices and procedures. During the period under review, the Company has complied with the provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules, except for the deviations of the following:

- (i) code provision A.6.7 of the CG Code which stipulates, among others, that independent non-executive Directors and other non-executive Directors should attend general meetings. Due to other business engagement, Mr. Tang Tat Chi, an independent non-executive Director, retired and did not seek for re-election at the annual general meeting on 16 August 2019 and was therefore absent from the said annual general meeting; and
- (ii) Mr. Tsang Hing Bun (“**Mr. Tsang**”) was appointed as company secretary of the Company (the “**Company Secretary**”) with effect from 25 January 2019. Although Mr. Tsang is not an employee of the Company as required under code provision F.1.1 of the Code, the Company has assigned Ms. Kwok Yin Ning, the executive director, as the contact person with Mr. Tsang. Information in relation to the performance, financial position and other major developments and affairs of the Group are speedily delivered to Mr. Tsang through the contact person assigned. Hence, all directors are still considered to have access to the advice and services of the Company Secretary in light of the above arrangement in accordance with code provision F.1.4 of the Code. Having in place a mechanism that Mr. Tsang will get hold of the Group’s development promptly without material delay and with his expertise and experience, the Board is confident that having Mr. Tsang as the Company Secretary is beneficial to the Group’s compliance with the relevant board procedures, applicable laws, rules and regulations.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding directors’ securities transactions. Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard set out in the Model Code regarding securities transactions by the directors throughout the six months ended 30 September 2019.

EMPLOYEES AND EMOLUMENT POLICY

As at 30 September 2019, the Group had 79 full-time employees (31 March 2019: 74). The pay scale of the Group's employees is maintained at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system. Other employee benefits include contribution to provident fund, insurance and medical cover as well as discretionary options based on their contributions to the Group.

AUDIT COMMITTEE

The audit committee has three members comprising all three independent non-executive Directors, namely, Ms. Mak Yun Chu (Chairperson), Mr. Leung Siu Kee and Mr. Hung Wai Che, with terms of reference in compliance with the Listing Rules. The audit committee reviews the Group's financial reporting, internal controls and makes relevant recommendations to the Board.

The audit committee has reviewed the Company's unaudited condensed consolidated financial statements report for the six months ended 30 September 2019.

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

Hong Kong, 28 November 2019

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

Executive Directors:

Mr. Wong Chun Chau (*Chairman*)

Ms. Kwok Yin Ning

Independent Non-executive Directors:

Ms. Mak Yun Chu

Mr. Hung Wai Che

Mr. Leung Siu Kee