



中持基業控股有限公司
Kate China Holdings Limited

KATE CHINA HOLDINGS LIMITED

中持基業控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 8125)

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

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF
THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK
EXCHANGE”)**

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Director(s)”) of Kate China Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

HIGHLIGHTS

For the six months ended 30 September 2016,

- (1) Revenue of the Group was approximately HK\$41.8 million, decreased approximately 41.1% as compared to the corresponding period in 2015;
- (2) Loss for the period attributable to owners of the Company was approximately HK\$15.5 million (Six months ended 30 September 2015: profit of approximately HK\$5.3 million);
- (3) Loss per share of the Company was approximately HK4.47 cents (Six months ended 30 September 2015: earnings of HK1.61 cents); and
- (4) The Directors did not recommend the payment of dividend.

THE FINANCIAL STATEMENTS

The Interim Results

The board (the “Board”) of Directors (the “Director(s)”) of Kate China Holdings Limited (the “Company”) announces the unaudited consolidated 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 unaudited figures for the corresponding period in 2015 as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 September 2016

		For the three months ended 30 September		For the six months ended 30 September	
		2016	2015	2016	2015
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Notes	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	4	11,284	34,390	41,809	70,975
Cost of sales		(19,821)	(27,497)	(47,299)	(56,783)
Gross (loss)/profit		(8,537)	6,893	(5,490)	14,192
Other income	5	229	–	419	53
Administrative expenses		(5,736)	(4,458)	(10,290)	(8,374)
Finance costs	6	(47)	(2)	(95)	(5)
Share of profit less loss of a joint venture		–	–	–	–
(Loss)/Profit before tax	7	(14,091)	2,433	(15,456)	5,866
Income tax expense	8	27	(391)	–	(562)

	For the three months ended 30 September		For the six months ended 30 September	
	2016	2015	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Notes</i>	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(Loss)/Profit for the period attributable to owners of the Company	(14,064)	2,042	(15,456)	5,304
Other comprehensive income/(expenses)				
Items that may be subsequently reclassified to profit or loss:				
Exchange differences arising on translation of foreign operations	<u>(32)</u>	<u>(259)</u>	<u>(58)</u>	<u>(191)</u>
Total comprehensive (expenses)/ income for the period attributable to owners of the Company	<u>(14,096)</u>	<u>1,783</u>	<u>(15,514)</u>	<u>5,113</u>
	<i>HK cents</i>	HK cents	<i>HK cents</i>	HK cents
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(Loss)/Earnings per share				
– Basic and diluted	10 <u>(3.89)</u>	<u>0.62</u>	<u>(4.47)</u>	<u>1.61</u>

Condensed Consolidated Statement of Financial Position

At 30 September 2016

		30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
	<i>Notes</i>		
Non-current assets			
Plant and equipment	11	2,588	2,310
Investment property	11	22,380	22,380
Investment in a joint venture		—	—
		<hr/> 24,968 <hr/>	<hr/> 24,690 <hr/>
Current assets			
Trade and other receivables	12	31,688	43,214
Amounts due from customers for contract work		32,473	48,538
Loan receivables	13	7,000	—
Amount due from a shareholder		5	5
Tax recoverable		283	625
Bank balances and cash		98,031	25,268
		<hr/> 169,480 <hr/>	<hr/> 117,650 <hr/>
Current liabilities			
Trade and other payables	14	5,760	32,534
Amounts due to customers for contract work		22,287	6,128
Income tax payable		614	929
Secured bank borrowings	15	7,112	7,256
Obligation under a finance lease		86	85
		<hr/> 35,859 <hr/>	<hr/> 46,932 <hr/>

		30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Net current assets		<u>133,621</u>	<u>70,718</u>
Total assets less current liabilities		<u>158,589</u>	<u>95,408</u>
Capital and reserves			
Share capital	16	154,851	76,113
Reserves		<u>3,379</u>	<u>18,893</u>
Equity attributable to owners of the Company		<u>158,230</u>	<u>95,006</u>
Non-current liabilities			
Deferred tax liabilities		225	225
Obligation under a finance lease		<u>134</u>	<u>177</u>
		<u>359</u>	<u>402</u>
		<u>158,589</u>	<u>95,408</u>

Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 September 2016

	Share capital HK\$'000	Retained profits HK\$'000	Exchange reserve HK\$'000	Total HK\$'000
At 1 April 2016 (Audited)	76,113	19,093	(200)	95,006
Issue of new shares, net of transaction costs	78,738	–	–	78,738
Loss for the period	–	(15,456)	–	(15,456)
Other comprehensive expense for the period	–	–	(58)	(58)
Total comprehensive expense for the period	–	(15,456)	(58)	(15,514)
At 30 September 2016 (Unaudited)	<u>154,851</u>	<u>3,637</u>	<u>(258)</u>	<u>158,230</u>
At 1 April 2015 (Audited)	76,113	28,463	(245)	104,331
Profit for the period	–	5,304	–	5,304
Other comprehensive expense for the period	–	–	(191)	(191)
Total comprehensive income for the period	–	5,304	(191)	5,113
At 30 September 2015 (Unaudited)	<u>76,113</u>	<u>33,767</u>	<u>(436)</u>	<u>109,444</u>

Condensed Consolidated Statement of Cash Flows
For the six months ended 30 September 2016

	For the six months ended 30 September	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(4,886)	(18,218)
Net cash used in investing activities	(750)	(16,923)
Net cash generated from/(used in) financing activities	78,457	(46)
	<hr/>	<hr/>
Net increase/ (decrease) in cash and cash equivalents	72,821	(35,187)
Cash and cash equivalents at beginning of period	25,268	50,004
Effect of foreign exchange rate changes	(58)	(191)
	<hr/>	<hr/>
Cash and cash equivalents at end of period	98,031	14,626
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents: Bank balances and cash	98,031	14,626
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Condensed Consolidated Financial Statement

For the six months ended 30 September 2016

1. GENERAL INFORMATION

The Company was incorporated in Hong Kong with limited liability and its shares are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office and the principal place of business of the Company is situated at Suite 2201, 22/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. The Company is an investment holding company while the Group is principally engaged in provision of design and fitting-out services and design and procurement of furnishings and decorative materials services. During the period, the Group was granted the money lender license and has commenced its money lending business.

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars (“HK\$”), unless otherwise stated. Other than subsidiaries operating in Singapore and in the People’s Republic of China (the “PRC”) of which functional currency is Singapore dollar and Renminbi respectively, the functional currency of the Company and other subsidiaries is HK\$.

The financial information relating to the year ended 31 March 2016 that is included in this interim report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with Section 436 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (“Companies Ordinance”) is as follows:

The Company has delivered the financial statements for the year ended 31 March 2016 to the Registrar of Companies as required by Section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under Sections 406(2), 407(2) or 407(3) of the Companies Ordinance.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 September 2016 have been prepared in accordance with the applicable disclosure requirements as prescribed in Chapter 18 of the Rules (the “GEM Listing Rules”) Governing the Listing of Securities on the GEM and with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

These unaudited condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2016.

3. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for investment property that is measured at fair value.

The accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 September 2016 are the same as those adopted in the preparation of the Group's annual financial statements for the year ended 31 March 2016, which has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

In the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to HKFRSs issued by the HKICPA.

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

The application of the above new or revised standards, amendments and interpretations in the current interim 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.

4. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising from design and fitting-out service provided, sales and procurement of furnishings and decorative materials, and money lending business. An analysis of the Group's revenue for the period is as follows:

	For the three months ended 30 September		For the six months ended 30 September	
	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)
Design & fitting-out service income	7,769	34,532	39,559	69,069
Design & procurement of furnishings and decorative materials service income	3,311	(142)	2,046	1,906
Interest income from money lending business	204	–	204	–
	11,284	34,390	41,809	70,975
	11,284	34,390	41,809	70,975

Information reported to the Chief Executive Officer (the “CEO”), being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. No operating segments identified by the CEO have been aggregated in arriving at the reportable segments of the Group.

Principal activities and reportable and operating segments are as follows:

- (1) Provision of design and fitting-out service (“Design and fitting-out service”);
- (2) Provision of design and procurement of furnishings and decorative materials service (“Design and procurement of furnishings and decorative materials service”); and
- (3) Money lending business (“Money lending”).

(a) **Segment revenue and results**

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

For the six months ended 30 September 2016 (Unaudited)

	Design and fitting-out service HK\$'000	Design and procurement of furnishings and decorative materials service HK\$'000	Money lending HK\$'000	Total HK\$'000
Segment revenue	<u>39,559</u>	<u>2,046</u>	<u>204</u>	<u>41,809</u>
Segment results	<u>(4,327)</u>	<u>(1,367)</u>	<u>204</u>	<u>(5,490)</u>
Other income				419
Central administrative costs				(10,290)
Finance costs				(95)
Loss before tax				<u><u>(15,456)</u></u>

For the six months ended 30 September 2015 (Unaudited)

	Design and fitting-out service HK\$'000	Design and procurement of furnishings and decorative materials service HK\$'000	Total HK\$'000
Segment revenue	<u>69,069</u>	<u>1,906</u>	<u>70,975</u>
Segment results	<u>13,951</u>	<u>241</u>	14,192
Other income			53
Central administrative costs			(8,374)
Finance costs			(5)
Profit before tax			<u><u>5,866</u></u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment result represents the profit/(loss) earned by each segment without allocation of certain other income, central administration costs (including directors' emoluments) and finance costs. This is the measure reported to the CEO for the purposes of resource allocation and performance assessment.

(b) Segment assets and liabilities

The following table presents segment assets and liabilities of the Group's operating segments as at 30 September 2016 and 31 March 2016:

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Segment assets		
Design and fitting-out service	49,182	56,759
Design and procurement of furnishings and decorative materials service	8,714	32,747
Money lending	7,204	–
	<hr/>	<hr/>
Total segment assets	65,100	89,506
Unallocated corporate assets	129,348	52,834
	<hr/>	<hr/>
Total assets	194,448	142,340
	<hr/> <hr/>	<hr/> <hr/>
Segment liabilities		
Design and fitting-out service	21,646	19,299
Design and procurement of furnishings and decorative materials service	5,339	17,713
Money lending	–	–
	<hr/>	<hr/>
Total segment liabilities	26,985	37,012
Unallocated corporate liabilities	9,233	10,322
	<hr/>	<hr/>
Total liabilities	36,218	47,334
	<hr/> <hr/>	<hr/> <hr/>

For the purpose of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than plant and equipment, investment property, certain prepayments, deposits and other receivables, amount due from a shareholder, tax recoverable and bank balances and cash as these assets are managed on a group basis.
- all liabilities are allocated to reportable segments other than certain accrued expenses and other payables, obligation under a finance lease, income tax payable, bank borrowing and deferred tax liability as these liabilities are managed on a group basis.

5. OTHER INCOME

	For the three months ended 30 September		For the six months ended 30 September	
	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)
Rental income	165	–	339	–
Bank interest income	1	–	1	5
Exchange gain	1	–	1	–
Sundry income	62	–	78	48
	<u>229</u>	<u>–</u>	<u>419</u>	<u>53</u>

6. FINANCE COSTS

	For the three months ended 30 September		For the six months ended 30 September	
	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)
Interest on:				
Secured bank borrowings wholly repayable beyond five years	45	–	91	–
Finance lease	2	2	4	5
	<u>47</u>	<u>2</u>	<u>95</u>	<u>5</u>

7. (LOSS)/PROFIT BEFORE TAX

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

	For the three months ended 30 September		For the six months ended 30 September	
	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)
Directors' emoluments (including contribution to defined contribution retirement benefits scheme)	826	645	1,613	1,683
Salaries, wages and other benefits (excluding directors' emoluments)	1,834	1,263	3,274	2,677
Contribution to defined contribution retirement benefits scheme (excluding directors)	89	82	153	163
	<u>2,749</u>	<u>1,990</u>	<u>5,040</u>	<u>4,523</u>
Auditor's remuneration	–	300	–	300
Depreciation of plant and equipment	258	82	473	164
Impairment loss in respect of trade receivables	–	–	–	–
Minimum lease payments under operating leases in respect of office premises	906	116	1,809	203
Gross rental income less outgoings	<u>(124)</u>	<u>–</u>	<u>(283)</u>	<u>–</u>

8. INCOME TAX EXPENSE

	For the three months ended 30 September		For the six months ended 30 September	
	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)
Current Tax				
Hong Kong Profits Tax	(27)	391	–	562
Deferred taxation	–	–	–	–
	<u>(27)</u>	<u>391</u>	<u>–</u>	<u>562</u>

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profits for the six months ended 30 September 2016 (six months ended 30 September 2015: 16.5%).

9. INTERIM DIVIDEND

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

10. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share for each of the three months and six months ended 30 September 2016 is based on the following information:

	For the three months ended 30 September		For the six months ended 30 September	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(Loss)/Profit for the period attributable to the owners of the company	<u>(14,064)</u>	<u>2,042</u>	<u>(15,456)</u>	<u>5,304</u>
	'000	'000	'000	'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares	<u>361,207</u>	<u>330,000</u>	<u>345,689</u>	<u>330,000</u>

Since there were no potential dilutive shares in issue during the three months and the six months ended 30 September 2016 and 2015, basic and diluted (loss)/earnings per share are the same for all periods.

11. PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

During the six months ended 30 September 2016, the Group spent approximately HK\$751,000 (six months ended 30 September 2015: approximately HK\$29,000) on additions to plant and equipment. During the six months ended 30 September 2016 and 2015, there was no disposal of plant and equipment.

A motor vehicle of the Group with carrying amount of approximately HK\$175,000 is held under a finance lease.

During the six months ended 30 September 2016, there was no addition or disposal of investment property; whilst in the corresponding period in 2015, the Group spent approximately HK\$24,300,000 to acquire an investment property located in Hong Kong which carried at fair value.

The Group's investment property with carrying amount of HK\$22,380,000 has been pledged to secure banking facilities granted to the Group.

12. TRADE AND OTHER RECEIVABLES

Included in the amounts were trade receivables of approximately HK\$24,527,000 (31 March 2016: HK\$36,096,000). The Group allows an average credit period ranging from 30 to 180 days to its trade customers. The following is an ageing analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Within 30 days	2,746	18,428
More than 30 days but within 90 days	158	854
More than 90 days but within 180 days	16,396	8,637
More than 180 days but within 365 days	2,924	2,818
More than 365 days	2,303	5,359
	<hr/>	<hr/>
Trade receivables	24,527	36,096
Deposit, prepayment and advance to suppliers	5,263	1,542
Other receivables	1,898	5,576
	<hr/>	<hr/>
Trade and other receivables	31,688	43,214

13. LOAN RECEIVABLES

Loan receivables represented receivables arising from money lending business of the Group, and were unsecured, bore interest from 10% to 20% per annum and were repayable within one year from dates of agreement.

The Group did not hold any collateral or other credit enhancements over these loan receivable balances.

An aged analysis of the loan receivables that were not considered to be impaired as at the end of the reporting period, based on the payment due date, is as follows:

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Neither past due nor impaired	7,000	—

14. TRADE AND OTHER PAYABLES

Included in the amounts were trade payables of approximately HK\$4,653,000 (31 March 2016: HK\$30,883,000). The following is an ageing analysis of trade payables presented based on the invoice received date at the end of the reporting period:

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Within 30 days	4,653	29,243
More than 30 days but within 90 days	–	379
More than 90 days	–	1,261
	<hr/>	<hr/>
	4,653	30,883
	<hr/> <hr/>	<hr/> <hr/>

15. SECURED BANK BORROWINGS

During the six months ended 30 September 2016, there was no inception of new bank borrowing (six months ended 30 September 2015: HK\$7,400,000) and the Group had repaid bank borrowings by instalments amounting to, in aggregate, approximately HK\$144,000 (six months ended 30 September 2015: Nil).

As at 30 September 2016, the bank borrowings carrying interest at an average floating interest rate of 2.5% per annum (31 March 2016: 2.5%) and is repayable in full on 30 September 2035. The bank borrowings carry a repayable on demand clause.

The carrying amount of the bank borrowings as at 30 September 2016 and 31 March 2016 is secured by an investment property (Note 11) of the Group.

16. SHARE CAPITAL

	Number of ordinary shares '000	Share capital HK\$'000
<i>Issued and fully paid:</i>		
As at 1 April 2015, 31 March 2016 (audited) and 1 April 2016	330,000	76,113
Issue of new shares upon placing, net of transaction costs (<i>Note</i>)	33,000	78,738
	<hr/>	<hr/>
As at 30 September 2016 (unaudited)	363,000	154,851
	<hr/> <hr/>	<hr/> <hr/>

Note:

On 14 June 2016, arrangements were made for a private placement to independent investors of up to 33,000,000 ordinary shares at a placing price of HK\$2.45 per placing share (the “Placing”). Details of the Placing were set out in an announcement of the Company dated 14 June 2016. The net proceeds of the placing is intended to be used as general working capital of the Group and/or other potential business development opportunities as considered appropriate, including but not limited to the application of at least HK\$30 million of the net proceeds for carrying out the money lending business. These new shares were issued under the general mandate granted to the directors at an annual general meeting of the Company held on 17 September 2015.

17. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Within one year	3,561	3,561
In the second to fifth years inclusive	4,038	5,471
	<u>7,599</u>	<u>9,032</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated and rentals are fixed for an average of three years.

The Group as lessor

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Within one year	487	297
In the second to fifth years inclusive	339	3
	<u>826</u>	<u>300</u>

The Group leases its investment property under operating lease arrangements, with leases negotiated for terms ranging from two to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

18. RELATED PARTY TRANSACTIONS AND BALANCE

(i) Transactions

(a) *During the six months ended 30 September 2016 and 2015, the Group entered into transactions with a related party as follows:*

	For the six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Salaries, allowances and other benefits	–	450
Contributions to retirement benefits scheme	–	9
	<u>–</u>	<u>9</u>
	<u>–</u>	<u>459</u>

(b) *Compensation of key management personnel*

The remuneration of key management personnel of the Group during the six months ended 30 September 2016 and 2015 is as follows:

	For the six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Salaries, allowances and other benefits	2,273	2,532
Contributions to retirement benefits scheme	45	53
	<u>2,318</u>	<u>2,585</u>

(ii) Balance

(a) Amount due from a shareholder is unsecured, interest free and repayable on demand.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in the provision of (i) design and fitting-out services and (ii) design and procurement of furnishings and decorative materials services. During the six months ended 30 September 2016, the Group has diversified its principal business and has commenced the money lending business.

The Group observed that there was an increasing demand in the fine wines market in the Asian countries such as the People's Republic of China, Hong Kong, etc. Subsequent to 30 September 2016, the Group has started the setting up of a new business segment in trading of fine wines. The Group expects that the new business will contribute a steady revenue to the Group in the future.

In September 2016, the Group, through a wholly-own subsidiary, entered into a sale and purchase agreement with an independent third party (the "Vendor"), pursuant to which the Group has agreed to acquire the entire issued share capital in a company (the "Target") with the licences of the Hong Kong Securities and Futures Commission (the "SFC") Regulated Activity Type 1, 4 and 9 from the Vendor. Up to the date of the announcement, the Group is in the process of application for the approval from the SFC in respect of the change in the substantial shareholder of the Target. The sale and purchase transaction will not be completed until the approval from the SFC is granted.

Looking forward, the Group will proactively look for new business opportunities and diversification in order to enlarge the revenue base and maximise the returns to the shareholders and the value of the Group.

Provision of (i) design and fitting-out services and (ii) design and procurement of furnishings and decorative materials services

As described in the first quarterly report of the Company, there was a fire break-out (the "Fire Incident") in one of the working sites engaging for both design and fitting-out services and design and procurement of furnishings and decorative materials services. Additional project costs have been incurred as a result of the Fire Incident.

The Group had made effort to restore the damage from the Fire Incident and proactively keep up the progress of the project. The Group had commenced discussion with the principal contractor and the project customer in respect of any compensation.

During the six months ended 30 September 2016, the Group has completed two projects relating to design and fitting-out services whilst two new projects relating to design and procurement of furnishings and decorative materials services has been contracted. As a result, as at 30 September 2016, the Group has 13 projects on hand, all of which are in Hong Kong. With regard to those 13 projects on hand, 7 of them relate to design and fitting-out services and 6 relates to design and procurement of furnishings and decorative materials services.

The Group expects the existing projects will be completed in the coming few months and has actively been looking for new customers and new projects in order to strengthen its customer/revenue base. During the six months ended 30 September 2016, the Group has submitted tenders for new projects and in the future, the Group will actively submit tenders for potential projects.

Money lending business

The Group was granted a money lender license in Hong Kong under the Money Lenders Ordinance in July 2016 and commenced its money lending business with new loans granted in August 2016.

There were loan portfolios with principal amount of HK\$7 million as at 30 September 2016. The Group recognised an aggregate interest income of approximately HK\$204,000 for the six months ended 30 September 2016.

The Group adopted a prudent risk management policy, with the money lending business continuously carrying out regular review of credit risk over the existing borrowers. While the Group will actively explore customers with good quality to expand its business scale, it will continue to adopt a prudent credit risk management strategy to ensure a healthy development in the money lending business.

Fine wine trading

As mentioned above, the Group is in the process of setting up a new business segment in trading of fine wines subsequent to the end of the reporting period. There was an increasing consumption and demand in the fine wines in the region and Hong Kong, as one of the regional business centres, acts as a trading regional hub. Taking advantage of the duty-free of fine wines policy from 2008 by the Hong Kong Government, the import and re-export of the fine wines has been increasing in both quantity and value. Accordingly, the Group expects the fine wine trading will contribute a steady revenue to the Group in the future.

FINANCIAL REVIEW

Revenue

The Group's revenue is mainly generated from (i) design and fitting-out services; (ii) design and procurement of furnishings and decorative materials services, and (iii) money lending.

Total revenue for the six months ended 30 September 2016 was approximately HK\$41.8 million (Six months ended 30 September 2015: HK\$71.0 million) which represents a reduction of approximately HK\$29.2 million or 41.1%. Such decrease was mainly due to fewer significant projects being undertaken by the Group than those in corresponding period in 2015. Despite the reduction in the project revenue, the Group has new source of revenue of approximately HK\$0.2 million derived from money lending business.

The Group's revenue by types of business is as follows:

	For the six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Design and fitting-out service income	39,559	69,069
Design and procurement of furnishings and decorative materials service income	2,046	1,906
Money lending	204	–
	<u>41,809</u>	<u>70,975</u>

For the six months ended 30 September 2016 and 2015, all the Group's revenue were derived in Hong Kong.

Gross loss and loss for the period

For the six months ended 30 September 2016, the Group recorded a gross loss of approximately HK\$5.5 million (Six months ended 30 September 2015: gross profit of approximately HK\$14.2 million) and the overall gross loss margin was approximately 13.1% (Six months ended 30 September 2015: gross profit margin of approximately 20.0%).

	For the six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Gross (loss)/profit by business:		
Design and fitting-out service	(4,327)	13,951
Design and procurement of furnishings and decorative materials service	(1,367)	241
Money lending	204	–
	<u>(5,490)</u>	<u>14,192</u>
	%	%
	(Unaudited)	(Unaudited)
Overall gross (loss)/profit margin	<u>(13.1)</u>	<u>20.0</u>

As mentioned in the “Business Review and Outlook” section, additional project costs have been incurred arising from the Fire Incident as described in the first quarterly report of the Company. Besides, as mentioned in “Revenue” above, the Group has also recognised a significant decrease in revenue compared with the corresponding period in 2015. Hence, during the six months ended 30 September 2016, there was gross loss amounting to approximately HK\$4.3 million (six months ended 30 September 2015: gross profit of HK\$14.0 million) and HK\$1.4 million (six months ended 30 September 2015: gross profit of HK\$0.2 million) respectively for design and fitting-out service and for design and procurement of furnishings and decorative materials service. On the other hand, a gross profit of approximately HK\$0.2 million was generated from the Group’s newly engaged money lending business.

Loss for the six months ended 30 September 2016 amounted to approximately HK\$15.5 million, representing a turnaround from the profit for the corresponding period in 2015 of approximately HK\$5.3 million. Such loss was mainly attributable to the decrease in revenue generated from the design and fitting-out contracts and the recording of additional contract costs for the period as a result of the Fire Incident. Except for such, there was no material fluctuation from the administrative and operating cost of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

During the six months ended 30 September 2016, apart from the Placing, the Group financed its operations by its internal resources. As at 30 September 2016, the Group had net current assets of approximately HK\$133.6 million (31 March 2016: HK\$70.7 million), including cash of approximately HK\$98.0 million (31 March 2016: HK\$25.3 million).

The current ratio, being the ratio of current assets to current liabilities, was approximately 4.7 times as at 30 September 2016 (31 March 2016: 2.5 times). The increase in the current ratio was mainly attributable to the improvement of the financial resource of the Group as proceeds of approximately HK\$78,738,000 was received from the Placing.

CAPITAL STRUCTURE AND GEARING

The capital of the Group comprises only ordinary shares. During the six months ended 30 September 2016, the Company issued 33,000,000 new shares through the Placing with proceeds amounting to approximately HK\$78,738,000, net of share issuing costs. Total equity attributable to owners of the Company amounted to approximately HK\$158.2 million as at 30 September 2016 (31 March 2016: HK\$95.0 million).

As at 30 September 2016, the Group’s borrowings comprised bank borrowings of approximately HK\$7.1 million (31 March 2016: HK\$7.2 million) and obligation under a finance lease of approximately HK\$0.2 million (31 March 2016: HK\$0.2 million). The Group’s gearing ratio, calculated by dividing total borrowings by total equity, was approximately 4.6% (31 March 2016: 7.9%). The drop in the gearing ratio was mainly due to the Placing which broadened the capital base of the Group.

PLACING OF NEW SHARE UNDER GENERAL MANDATE

Reference is made to the announcement issued by the Company on 14 June 2016 in relation to the placing of new shares under general mandate.

On 14 June 2016, the Company entered into a placing agreement with a placing agent to place up to 33,000,000 new shares (the “Placing Share(s)”) of the Company at a placing price of HK\$2.45 per Placing Share to not less than six placees. The closing price per share on that date was HK\$3.00.

The Placing was completed on 5 July 2016 with gross and net proceeds of HK\$80.85 million (equivalent to HK\$2.45 per Placing Share) and approximately HK\$78.5 million (equivalent to approximately HK\$2.38 per Placing Share) respectively. The net proceed of the Placing is intended to be used for the Group’s general working capital and/or other potential business development opportunities as considered appropriate, including but not limited to the application of at least HK\$30 million of the net proceeds for carrying out the money lending business.

The following table shows the intended and actual use of the proceeds as at the date of this report:

	Planned use of proceeds as described in the announcement dated 14 June 2016 HK\$'000	Further detailed use of proceeds as described in the annual results announcement dated 27 June 2016 HK\$'000	Actual use of proceeds up to date of this announcement HK\$'000
Net proceeds from the June 2016 Placing			
– General working capital and/or other potential business development opportunities	78,500	48,500	4,001
– Money lending business	–	30,000	10,500
Total	<u>78,500</u>	<u>78,500</u>	<u>14,501</u>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2016.

CHARGES ON THE GROUP'S ASSETS

As at 30 September 2016, an investment property and a motor vehicle of the Group with carrying value of approximately HK\$22.4 million (31 March 2016: HK\$22.4 million) and HK\$0.20 million (31 March 2016: HK\$0.2 million) respectively were pledged to banks to secure certain banking facilities of the Group.

SIGNIFICANT ACQUISITION AND DISPOSAL

There has been no significant acquisition and disposal of subsidiaries or assets of the Group during the six months ended 30 September 2016.

CONTINGENT LIABILITIES

On 9 December 2015, a supplier filed a statement of claim for cost dispute of approximately HK\$1 million against a subsidiary of the Group. As at date of the announcement, no proceeding has been occurred. Based on the legal advice, the Directors are of the opinion that the Group has meritorious defenses against the supplier. Therefore, no provision for the claim has been made in the consolidated financial statements for the six months ended 30 September 2016.

EMPLOYEE INFORMATION

Total remuneration for the six months ended 30 September 2016 (including directors' emoluments and salaries to staff and directors including MPF contributions) was approximately HK\$5.0 million (six months ended 30 September 2015: HK\$4.5 million). Such increase was mainly due to the increase in number of staff during the three months ended 30 September 2016 whilst the number of staff decreased during the corresponding period in 2015. As at 30 September 2016, the Group had 31 employees (30 September 2015: 28 employees).

OTHER INFORMATION

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 September 2016, the interests and short positions of the Directors and chief executive (the “Chief Executive”) of the Company in the shares of the Company (the “Share(s)”), underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) as recorded in the register required to be kept under section 352 of SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in rule 5.46 of the GEM Listing Rules (the “Required Standard of Dealings”) were as follows:

Long position in ordinary shares of the Company

Name of Director	Capacity/Nature of interests in capital	Number of Shares held	Approximate percentage of the issued Shares
Mr. Liu Rongsheng	Beneficial owner	3,000,000	0.83%

Save as disclosed above, as at 30 September 2016, none of the Directors or the Chief Executive had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Required Standard of Dealings.

Interests and Short Positions of Substantial Shareholders of the Company in the Shares and Underlying Shares of the Company

As at 30 September 2016, so far as is known to the Directors and the Chief Executive and based on the public records filed on the website of the Stock Exchange and records kept by the Company, the interest and short positions of the persons or corporations (other than the Directors and the Chief Executive) in the Shares or underlying Shares as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long position in ordinary shares of the Company

Name of Director	Capacity/Nature of interests in capital	Number of Shares held	Approximate percentage of the issued Shares
Time Vanguard Holdings Limited	Beneficial owner	50,000,000	13.77%
China Huarong International Holdings Limited (formerly, Huarong (HK) International Holdings Limited) <i>(Note 1)</i>	Interest of a controlled corporation	50,000,000	13.77%
Huarong Real Estate Co., Ltd. <i>(Note 1)</i>	Interest of a controlled corporation	50,000,000	13.77%
China Huarong Asset Management Co., Ltd. <i>(Note 1)</i>	Interest of a controlled corporation	50,000,000	13.77%
Good Virtue Capital Limited	Beneficial owner	47,000,000	12.95%
Ms. Zheng Juhua <i>(Note 2)</i>	Interest of a controlled corporation	47,000,000	12.95%
Taiping Quantum Prosperity Fund	Beneficial owner	31,808,000	8.76%
Mr. Wang Shengdong	Beneficial owner	20,484,000	5.64%
Genius Idea Holdings Limited	Beneficial owner	20,000,000	5.51%
Mr. Chan Tat Wah <i>(Note 3)</i>	Interest of a controlled corporation	20,000,000	5.51%
Ms. Lee Yuk Pui Kawina <i>(Note 3)</i>	Family interest	20,000,000	5.51%

Notes:

1. 50,000,000 Shares are registered in the name of Time Vanguard Holdings Limited, which is wholly-owned by China Huarong International Holdings Limited (“Huarong HK”). Huarong HK is a jointly-owned as to 11.9% by Huarong Zhiyuan Investment & Management Co., Ltd. (“Huarong Zhiyuan”) and 88.1% by Huarong Real Estate Co., Ltd. (“Huarong Real Estate”). Each of Huarong Zhiyuan and Huarong Real Estate is wholly-owned by China Huarong Asset Management Co., Ltd (“Huarong Asset”). Accordingly, each of Huarong HK, Huarong Real Estate and Huarong Asset is deemed to be interested in the relevant Shares under the SFO.
2. 47,000,000 Shares are registered in the name of Good Virtue Holdings Limited, which is owned as to 70% by Ms. Zheng Juhua. Accordingly, Ms. Zheng Juhua is deemed to be interested in the relevant Shares under the SFO.
3. 20,000,000 Shares are registered in the name of Genius Idea Holdings Limited, which is wholly-owned by Mr. Chan Tat Wah. Ms. Lee Yuk Pui Kawina is the spouse of Mr. Chan Tat Wah. Accordingly, each of Mr. Chan Tat Wah and Ms. Lee Yuk Pui Kawina is deemed to be interested in the relevant Shares under the SFO.

Save as disclosed above, as at 30 September 2016, there was no person or corporation (other than the Directors and the Chief Executive) who had any interest or short position in the Shares or underlying Shares as recorded in the register of interests required to be kept by the Company under section 336 of the SFO.

OTHER INTERESTS DISCLOSEABLE UNDER THE SFO

Save as disclosed above, so far as is known to the Directors, there was no other person who had interest or short positions in the Shares and underlying Shares that is discloseable under section 336 of the SFO.

SHARE OPTION SCHEME

The share option scheme enables the Company to grant options to any full-time or part time employee of the Company or any member of the Group (the “Eligible Participant”) as incentives or rewards for their contributions to the Group. The Company conditionally adopted a share option scheme (the “Scheme”) on 30 June 2014 whereby the Board are authorised, at their absolute discretion and subject to the terms of the Scheme, to grant options to subscribe for the Shares to the Eligible Participant, The Scheme will be valid and effective for a period of ten years commencing from the date of adoption of the Scheme.

As at 30 September 2016, the total number of Shares available for issue under the Scheme is 30,000,000 Shares, representing approximately 8.3% of the issued Shares.

Upon acceptance of an option to subscribe for Shares granted pursuant to the Scheme (the “Option”), the Eligible Participant shall pay HK\$1.00 to the Company by way of consideration for the grant. The Option will be offered for acceptance for a period of 21 days from the date on which the Option is granted. The subscription price for the Shares subject to Options will be a price determined by the Board and notified to each participant and shall be the highest of: (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant of the Options, which must be a day on which trading of Shares take place on the Stock Exchange (the “Trading Day”); and (ii) the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets for the 5 Trading Days immediately preceding the date of grant of the Options.

The Company shall be entitled to issue options, provided that the total number of Shares which may issue upon exercise of all options to be granted under the Scheme does not exceed 10% of the Shares in issue on the Listing Date. The Company may at any time refresh such limit, subject to the shareholders’ approval and the issue of a circular in compliance with the GEM Listing Rules, provided that the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the Shares in issued at the time. An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

Since the adoption of the Scheme, no share option has been granted by the Company.

DIRECTORS’ RIGHT TO ACQUIRE SHARES

Save as disclosed above, at no time during the six months ended 30 September 2016 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

Save as disclosed above, at no time during the six months ended 30 September 2016 had the Directors and the Chief Executive (including their spouses and children under 18 years of age) any interest in, or been granted, or exercised any rights to subscribe for the shares (or warrants or debentures, is applicable) of the Company and its associated corporations (within the meaning of the SFO).

COMPETING INTERESTS

During the six months ended 30 September 2016 and up to the date of this announcement, Mr. Chan Chi Yuen (“Mr. Chan”) is an executive director of Noble Century Investment Holdings Limited (stock code: 2322), a company listed on the Main Board, which has a subsidiary engaging in the money lending business and therefore, Mr. Chan is considered to have interests in the businesses which compete or may compete with the businesses of the Group and is required to be disclosed pursuant to Rule 11.04 of the GEM Listing Rules.

The money lending business of the Group was just commenced during the period and the amount was not significant compared with the other business segment of the Group. Further, loans were granted and approved by the credit committee. Mr. Chan has also confirmed he is fully aware of, and has been discharging, his fiduciary duty to the Company to avoid conflict of interest. In situations where any conflict of interests arises, Mr. Chan will refrain from taking part in the decision making process and from voting on the relevant board resolution at the board meeting.

Given the above, the Directors believe that any significant competition caused to the business of Group would be unlikely.

Save as disclosed above, no other Directors, the substantial shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

COMPLIANCE ADVISOR'S INTERESTS

As at 30 September 2016, neither Altus Capital Limited, the compliance advisor of the Company, nor any of its Directors, employees or associates had any interests in the securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities) pursuant to Rule 6A.32 of GEM Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for dealing in securities of the Company by the Directors in accordance with Rules 5.48 to 5.67 of the GEM Listing Rules ("Model Code"). Having made specify enquiry of all Directors, the Company was not aware of any non-compliance with the Model Code during the six months ended 30 September 2016.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to achieving high standards of corporate governance to safeguard the interests of the shareholders of the Company and enhance its corporate value. The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code and Corporate Governance Report in Appendix 15 to the GEM Listing Rules (the "CG Code"). To the best knowledge of the Board, the Company had complied with the code provisions in the CG Code during the six months ended 30 September 2016.

AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) currently comprises three independent non-executive Directors and is chaired by Mr. Chan Chiu Hung Alex. The other members are Mr. Wu Zhao and Mr. Lam Cheok Va. The primary duties of the Audit Committee include the oversight of the Group’s financial reporting system, risk management and the internal control systems of the Group.

The Audit Committee had reviewed the unaudited consolidated results of the Group for the six months ended 30 September 2016 with the management in connection with the compliance of the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal or disclosure requirements.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.katechina.hk). The interim report of the Company for the six months ended 30 September 2016 containing all the information required by the GEM Listing Rules will be despatched to the Company’s shareholders and published on the above websites in due course.

By order of the Board
Kate China Holdings Limited
Chan Chi Yuen
Chairman

Hong Kong, 10 November 2016

As at the date of this announcement, the executive Directors are Mr. Chan Chi Yuen (Chairman), Mr. Tsang Kei Cheong (Chief Executive Officer) and Mr. Liu Rongsheng; and the independent non-executive Directors are Mr. Chan Chiu Hung Alex, Mr. Wu Zhao and Mr. Lam Cheok Va.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the website of the Company at www.katechina.hk.