



中發展控股有限公司
ZHONG FA ZHAN HOLDINGS LIMITED

Incorporated in the Cayman Islands with limited liability
Stock Code : 00475

Interim Report
2014/15

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Wu Hao (*Chairman*)
Mr. Hu Yangjun
Mr. Hu Yishi
Mr. Chan Wing Yuen, Hubert (*Chief Executive*)
Ms. Kwong Wai Man, Karina (*Chief Financial Officer*)

Non-executive Director

Mr. Li Wei Qi, Jacky

Independent non-executive Directors

Mr. Wu Chi Keung
Mr. Heung Chee Hang, Eric
Ms. Kwok Pui Ha

Audit Committee

Mr. Wu Chi Keung (*Chairman*)
Mr. Heung Chee Hang, Eric
Ms. Kwok Pui Ha

Remuneration Committee

Mr. Wu Chi Keung (*Chairman*)
Mr. Chan Wing Yuen, Hubert
Mr. Heung Chee Hang, Eric

Nomination Committee

Mr. Wu Chi Keung (*Chairman*)
Mr. Chan Wing Yuen, Hubert
Ms. Kwok Pui Ha

Company Secretary

Mr. Ng Kwok Kit

Head Office and Principal Place of Business in Hong Kong

23/F., Chinachem Century Tower
178 Gloucester Road
Wanchai
Hong Kong

Registered Office

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

Principal Share Registrar

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

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers

The Hong Kong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

Legal Advisers

K&L Gates
Angela Ho & Associates

Auditor

Deloitte Touche Tohmatsu

Company Website

www.475hk.com

Stock Code

00475

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

Zhong Fa Zhan Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) recorded a drop in revenue for the six months ended 30 September 2014 (the “Review Period”). The sales turnover of the Group decreased by 7.8% from HK\$41.2 million to HK\$38.0 million for the Review Period. The Group maintained a similar level of gross profit margin of 10.8% for the Review Period as compared to the 10.4% of last reporting period; while the gross profit reduced slightly by 4.7% from HK\$4.3 million to HK\$4.1 million. The Group recorded a net loss of HK\$9.1 million for the six months ended 30 September 2014 (2013: net loss of HK\$7.2 million). Basic loss per share were 3.2 HK cents (2013: basic loss per share were 2.7 HK cents).

Business Review

The Group focused on jewelry wholesale business in domestic market of the People Republic of China (the “PRC”) for the Review Period. We were able to keep our gross profit margin at approximately 10% by sustaining our cost control measures but the tough operating environment has diminished our turnover further. The competition remained intense during the Review Period, posing a great challenge to our business. The relatively small scale of the Group’s business has put us in a difficult position where we find it harder year by year to bargain for favourable terms; hence placing the odds on our competitors in terms of pricing and cost saving. As a result, our sales turnover has decreased by 7.8% to HK\$38.0 million during the Review Period owing to the decline in overall demand of fine jewelry of the Group.

Future Prospects

Going forward, the Group expects the global economy to be still volatile and unstable. Moreover, the diminishing spending momentum in the PRC may further drive down the demand for fine jewelry and therefore bringing us a more challenging future ahead. To cope with these challenges, we will optimize our resources allocation and adopt a prudent approach to operate our business in the PRC to attain a more satisfactory result.

The Group will also closely monitor and review our business operations and financial position for the purposes of formulating business plans and strategies for the future business development of the Group. Should suitable investment or business opportunities arise, the Group may consider diversifying its business with an objective to broaden its income source; in this regard, the Group will also consider whether corresponding financing arrangements are needed to cope with such diversification. Currently no such investment or business opportunities had been identified nor had the Group entered into any agreement, arrangements, understandings, intention or negotiation in relation to the injection of any assets or business into the Group.

Liquidity and Financial Resources

As at 30 September 2014, the Group’s net current assets and current ratio stood at HK\$35.6 million and 2.7 respectively (31 March 2014: HK\$13.5 million and 1.5 respectively). Net gearing ratio (total interest bearing borrowings net of bank balances and cash as a percentage of total equity) was nil as at 30 September 2014 (31 March 2014: Nil).

As at 30 September 2014, the Group had no bank borrowings (31 March 2014: Nil) and no banking facilities (31 March 2014: Nil). As at 30 September 2014, the Group’s bank balances and cash amounted to HK\$24.7 million (31 March 2014: HK\$13.4 million).

Charges on Group Assets

As at 30 September 2014, the Group did not have any charges on the Group’s assets (31 March 2014: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Capital Structure

For the six months ended 30 September 2014, the Group financed its liquidity requirements through cash flows as generated from operation and loan from a controlling shareholder.

Dividend

The board (the "Board") of directors (the "Directors") of the Company has resolved not to recommend the payment of an interim dividend for the six months ended 30 September 2014.

Capital Commitment and Contingent Liabilities

As at 30 September 2014, the Group did not have any capital commitments (31 March 2014: Nil) and had HK\$2.8 million of operating lease commitments (31 March 2014: HK\$4.2 million). As at 30 September 2014, the Group did not have any significant contingent liabilities (31 March 2014: Nil).

Staff and Remuneration Policy

As at 30 September 2014, the Group had a total of 48 employees (31 March 2014: 51). Staff costs for the Review Period was HK\$7.8 million, representing an increase of 8.3% as compared to the corresponding period ended 30 September 2013 of HK\$7.2 million. The Group remunerates its employees based on their performance and work experience and the prevailing market rates. Salaries of employees are maintained at competitive levels while bonuses are granted by reference to the performance of the Group and individual employees.

The Group also provides internal training to its employees when necessary and other benefits including share option scheme and contribution to statutory mandatory provident fund scheme to its employees in Hong Kong and the statutory central pension schemes to its employees in the PRC.

Foreign Exchange Fluctuation and Hedges

Currently, the Group was principally based in the PRC and was not significantly exposed to foreign exchange risk. Foreign exchange risk arises from future commercial transaction and recognized assets and liabilities. While the Group would closely monitor the volatility of the RMB exchange rate, the Directors considered that the Group's risk exposure to foreign exchange rate fluctuation remained minimal currently.

As at 30 September 2014, no forward foreign currency contracts are designated in hedging accounting relationships (31 March 2014: Nil).

CORPORATE GOVERNANCE AND OTHER INFORMATION

Share Option Scheme

The Group has approved and adopted a share option scheme on 26 February 2007 for the Directors, its employees and other eligible participants with a view to provide an incentive to or as a reward for their contribution to the Group.

Details of the movements of share options granted, exercised or cancelled/lapsed during the period under review and outstanding as at 30 September 2014 are as follows:

| | Number of share options | | | | Outstanding as at 30 September 2014 | Exercise period (both dates inclusive) | Exercise price HK\$ | Closing price immediately before the date of grant HK\$ |
|-----------------------------|-------------------------|---------------------------------|-----------------------------------|--|--|--|---------------------------|--|
| | At 1 April 2014 | Granted during the period | Exercised during the period | Cancelled/ lapsed during the period | | | | |
| Directors: | | | | | | | | |
| Mr. Wu Hao | 2,736,000 | – | (2,736,000) | – | – | 27 June 2012 to 30 December 2016 | 1.53 | 1.53 |
| Mr. Hu Yangjun | 2,736,000 | – | (2,736,000) | – | – | 27 June 2012 to 30 December 2016 | 1.53 | 1.53 |
| Mr. Hu Yishi | 2,736,000 | – | (2,736,000) | – | – | 27 June 2012 to 30 December 2016 | 1.53 | 1.53 |
| Mr. Chan Wing Yuen, Hubert | 2,736,000 | – | – | – | 2,736,000 | 27 June 2012 to 30 December 2016 | 1.53 | 1.53 |
| Mr. Li Wei Qi, Jacky | 2,736,000 | – | (2,736,000) | – | – | 27 June 2012 to 30 December 2016 | 1.53 | 1.53 |
| Mr. Wu Chi Keung | 270,000 | – | – | – | 270,000 | 27 June 2012 to 30 December 2016 | 1.53 | 1.53 |
| Mr. Heung Chee Hang, Eric | 270,000 | – | – | – | 270,000 | 27 June 2012 to 30 December 2016 | 1.53 | 1.53 |
| Ms. Kwok Pui Ha | 270,000 | – | – | – | 270,000 | 27 June 2012 to 30 December 2016 | 1.53 | 1.53 |
| Total Directors | 14,490,000 | – | (10,944,000) | – | 3,546,000 | | | |
| Employees | 4,150,000 | – | (3,800,000) | (50,000) | 300,000 | 27 June 2012 to 30 December 2016 | 1.53 | 1.53 |
| Total Employees | 4,150,000 | – | (3,800,000) | (50,000) | 300,000 | | | |
| Other Grantees | 5,400,000 | – | (5,400,000) | – | – | 27 June 2012 to 30 December 2016 | 1.53 | 1.53 |
| Total Other Grantees | 5,400,000 | – | (5,400,000) | – | – | | | |
| Total All Categories | 24,040,000 | – | (20,144,000) | (50,000) | 3,846,000 | | | |

CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

Directors' Interests and Short Positions in Shares

As at 30 September 2014, the interests and short positions of the Directors and their associates in the shares and underlying shares of the Company ("Shares") as recorded in the register to be kept under Section 352 of the Securities and Futures Ordinance ("SFO") were as follows:

Long Positions

Ordinary Shares of HK\$0.01 each

| Name of Director | Capacity | Number of issued ordinary Shares held (Including underlying Shares) (Note 1) | Percentage of the issued ordinary share capital of the Company |
|----------------------------|----------|---|--|
| Mr. Hu Yangjun | (Note 2) | 207,454,000 | 70.62% |
| Mr. Hu Yishi | (Note 3) | 207,454,000 | 70.62% |
| Mr. Wu Hao | | 2,736,000 | 0.93% |
| Mr. Chan Wing Yuen, Hubert | (Note 4) | 2,736,000 | 0.93% |
| Mr. Li Wei Qi, Jacky | | 2,736,000 | 0.93% |
| Mr. Wu Chi Keung | (Note 5) | 270,000 | 0.09% |
| Mr. Heung Chee Hang, Eric | (Note 5) | 270,000 | 0.09% |
| Ms. Kwok Pui Ha | (Note 5) | 270,000 | 0.09% |

Notes:

- (1) The share options granted by the Company to Directors which are outstanding as shown under the section "Share Option Scheme" of this interim report have been included in the long positions of respective Directors.
- (2) Mr. Hu Yangjun had a direct interest of 2,736,000 Shares and a deemed interest of 204,718,000 Shares held by Resources Rich Capital Limited ("Resources Rich"), a company 50% owned by Mr. Hu Yangjun, within the meaning of Part XV of the SFO.
- (3) Mr. Hu Yishi had a direct interest of 2,736,000 Shares and a deemed interest of 204,718,000 Shares held by Resources Rich, a company 50% owned by Mr. Hu Yishi, within the meaning of Part XV of the SFO.
- (4) Mr. Chan Wing Yuen, Hubert had a direct interest of 2,736,000 Shares which are outstanding share options granted by the Company to subscribe for 2,736,000 Shares at exercise price of HK\$1.53 per Share.
- (5) Each of Mr. Wu Chi Keung, Mr. Heung Chee Hang, Eric and Ms. Kwok Pui Ha had a direct interest of 270,000 Shares which are outstanding share options granted by the Company to subscribe for 270,000 Shares at exercise price of HK\$1.53 per Share.

Save as disclosed above, as at 30 September 2014, no interests and short position in the Shares or underlying Shares were held or deemed or taken to be held under Part XV of the SFO by any Director or chief executives of the Company or any of their respective associates which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein.

CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

Substantial Shareholders' Interests in Shares

As at 30 September 2014, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of Directors and their associates, the following shareholders have notified the Company of relevant interests in the issued share capital of the Company:

Long Positions

Ordinary Shares of HK\$0.01 each

| Name of Shareholder | Capacity | Number of issued ordinary Shares held | Percentage of the issued ordinary share capital of the Company |
|---------------------|----------|---------------------------------------|--|
| Resources Rich | (Note 1) | 204,718,000 | 69.69% |
| Ms. Zhang Qi | (Note 2) | 207,454,000 | 70.62% |
| Ms. Lin Min | (Note 3) | 207,454,000 | 70.62% |

Notes:

- (1) 50% of the entire issued share capital of Resources Rich is owned by Mr. Hu Yangjun while the other 50% is owned by Mr. Hu Yishi. Mr. Hu Yangjun and Mr. Hu Yishi are deemed to be interested in all the Shares in which Resources Rich is interested by virtue of the SFO.
- (2) Ms. Zhang Qi is the spouse of Mr. Hu Yangjun. Accordingly, she is deemed to be interested in the 207,454,000 Shares which Mr. Hu Yangjun is interested in pursuant to the SFO.
- (3) Ms. Lin Min is the spouse of Mr. Hu Yishi. Accordingly, she is deemed to be interested in the 207,454,000 Shares which Mr. Hu Yishi is interested in pursuant to the SFO.

Save as disclosed above, as at 30 September 2014, no other parties, other than the Directors whose interests are set out in the section "Directors' Interests and Short Positions in Shares" above, had registered an interest or short position in the Shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Corporate Governance Practices

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing Rules (the "Listing Rules") on the Stock Exchange of Hong Kong Limited. The Company has applied the principles and complied with all the applicable code provisions set out in the Code throughout the six months ended 30 September 2014.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, they confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 September 2014.

CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

Audit Committee and Independent Review by External Auditor

The Company has established an audit committee with written terms of reference in compliance with the code provisions under the Code set out in Appendix 14 to the Listing Rules. The audit committee comprises three independent non-executive Directors, namely Mr. Wu Chi Keung, Mr. Heung Chee Hang, Eric and Ms. Kwok Pui Ha.

The Group's unaudited interim results for the six months ended 30 September 2014 have been reviewed by the audit committee at an audit committee meeting held on 27 November 2014.

The Group's external auditor, Deloitte Touche Tohmatsu, has been appointed to review the interim financial information. On the basis of their review, they are not aware of any material modifications that should be made to the interim financial information for the six months ended 30 September 2014.

Purchase, Sale or Redemption of the Company's Listed Shares

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed Shares during the six months ended 30 September 2014.

Change in Information of Director

Mr. Chan Wing Yuen, Hubert (also known as Mr. Hubert Chan), executive director of the Company, has been appointed as the executive director and chief executive officer of Noble House (China) Holdings Limited (stock code: 8246) with effect from 15 August 2014 and 3 October 2014 respectively. Mr. Hubert Chan has also been appointed as the independent non-executive director of Tian Ge Interactive Holdings Limited (stock code: 1980) with effect from 16 June 2014.

Ms. Kwong Wai Man, Karina (also known as Ms. Karina Kwong), executive director of the Company, has been appointed as the executive director of Noble House (China) Holdings Limited (stock code: 8246) with effect from 15 August 2014. Ms. Karina Kwong has resigned as the executive director of Sheng Yuan Holdings Limited (stock code: 851) with effect from 1 August 2014.

Mr. Wu Chi Keung (also known as Mr. Edward Wu), independent non-executive director of the Company, has been appointed as the independent non-executive director of Link Holdings Limited (stock code: 8237) with effect from 20 June 2014. Mr. Edward Wu has resigned as the independent non-executive director of GreaterChina Professional Services Limited (stock code: 8193), China Renji Medical Group Limited (stock code: 648) and Link Holdings Limited (stock code: 8237) with effect from 2 July 2014, 15 July 2014 and 3 October 2014 respectively.

On behalf of the Board

Wu Hao

Chairman and Executive Director

Hong Kong, 27 November 2014

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



TO THE BOARD OF DIRECTORS OF ZHONG FA ZHAN HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Zhong Fa Zhan Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 10 to 20, which comprise the condensed consolidated statement of financial position as of 30 September 2014 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

27 November 2014

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2014

| | NOTES | Six months ended 30 September | |
|---|-------|---------------------------------|---------------------------------|
| | | 2014 HK\$'000 (unaudited) | 2013 HK\$'000 (unaudited) |
| Revenue | 3 | 38,009 | 41,177 |
| Cost of sales | | (33,932) | (36,924) |
| Gross profit | | 4,077 | 4,253 |
| Other income | | 58 | 103 |
| Other gains and losses | 4 | 201 | 485 |
| Distribution costs | | (2,590) | (2,698) |
| Administrative expenses | | (10,845) | (9,570) |
| Finance costs | 5 | (4) | (8) |
| Loss before taxation | | (9,103) | (7,435) |
| Income tax credit | 6 | – | 198 |
| Loss for the period | 7 | (9,103) | (7,237) |
| Other comprehensive (expense) income | | | |
| Item that will not be reclassified to profit or loss: | | | |
| Exchange differences arising on translation | | (230) | 210 |
| Total comprehensive expense for the period | | (9,333) | (7,027) |
| Loss per share | 8 | | |
| Basic and diluted (HK cents) | | (3.22) | (2.65) |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2014

| | NOTES | At 30 September 2014 HK\$'000 (unaudited) | At 31 March 2014 HK\$'000 (audited) |
|--|-------|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 10 | 2,752 | 3,278 |
| Rental deposits | | 396 | 501 |
| | | 3,148 | 3,779 |
| Current assets | | | |
| Inventories | | 14,998 | 14,578 |
| Trade receivables | 11 | 15,913 | 12,235 |
| Deposits, prepayments and other receivables | | 1,220 | 1,402 |
| Bank balances and cash | | 24,717 | 13,372 |
| | | 56,848 | 41,587 |
| Current liabilities | | | |
| Trade payables | 12 | 10,198 | 8,840 |
| Other payables and accruals | | 4,978 | 3,631 |
| Loan from a controlling shareholder | 13 | 6,043 | 15,605 |
| | | 21,219 | 28,076 |
| Net current assets | | 35,629 | 13,511 |
| Total assets less current liabilities | | 38,777 | 17,290 |
| Capital and reserves | | | |
| Share capital | 14 | 2,938 | 2,736 |
| Reserves | | 35,839 | 14,554 |
| Equity attributable to owners of the Company | | 38,777 | 17,290 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2014

| | Share capital HK\$'000 | Share premium account HK\$'000 | Share options reserve HK\$'000 | Revaluation reserve HK\$'000 | Exchange reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|--|------------------------------|---|---|------------------------------------|---------------------------------|-----------------------------------|-------------------|
| At 1 April 2014 (audited) | 2,736 | 32,243 | 16,347 | - | 8,047 | (42,083) | 17,290 |
| Loss for the period | - | - | - | - | - | (9,103) | (9,103) |
| Other comprehensive expense for the period | - | - | - | - | (230) | - | (230) |
| Total comprehensive expense for the period | - | - | - | - | (230) | (9,103) | (9,333) |
| Transfer upon lapse of share options | - | - | (34) | - | - | 34 | - |
| Exercise of share options | 202 | 30,618 | - | - | - | - | 30,820 |
| At 30 September 2014 (unaudited) | 2,938 | 62,861 | 16,313 | - | 7,817 | (51,152) | 38,777 |
| At 1 April 2013 (audited) | 2,736 | 32,243 | 16,381 | 551 | 7,410 | (22,676) | 36,645 |
| Loss for the period | - | - | - | - | - | (7,237) | (7,237) |
| Other comprehensive income for the period | - | - | - | - | 210 | - | 210 |
| Total comprehensive income (expense) for the period | - | - | - | - | 210 | (7,237) | (7,027) |
| Transfer between reserves upon disposal of the property | - | - | - | (551) | - | 551 | - |
| Transfer upon lapse of share options | - | - | (34) | - | - | 34 | - |
| At 30 September 2013 (unaudited) | 2,736 | 32,243 | 16,347 | - | 7,620 | (29,328) | 29,618 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2014

| | Six months ended 30 September | |
|---|---------------------------------|---------------------------------|
| | 2014 HK\$'000 (unaudited) | 2013 HK\$'000 (unaudited) |
| Net cash used in operating activities | (9,878) | (9,365) |
| Net cash (used in) from investing activities | | |
| Interest received | 14 | 6 |
| Purchases of property, plant and equipment | (60) | (3,038) |
| Proceeds on disposal of property, plant and equipment | – | 11,998 |
| | (46) | 8,966 |
| Net cash from financing activities | | |
| Advance from a controlling shareholder | 3,000 | 10,956 |
| Repayment to a controlling shareholder | (12,333) | – |
| Proceeds from exercise of share options | 30,820 | – |
| | 21,487 | 10,956 |
| Net increase in cash and cash equivalents | 11,563 | 10,557 |
| Cash and cash equivalents at beginning of the period | 13,372 | 7,552 |
| Effect of foreign exchange rate changes | (218) | 63 |
| Cash and cash equivalents at end of the period | 24,717 | 18,172 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2014

1. Basis of Preparation

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

2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2014.

In addition, in the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements.

| | |
|---|--|
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | Investment entities |
| Amendments to HKAS 32 | Offsetting financial assets and financial liabilities |
| Amendments to HKAS 36 | Recoverable amount disclosures for non-financial assets |
| Amendments to HKAS 39 | Novation of derivatives and continuation of hedge accounting |
| HK(IFRIC) – INT 21 | Levies |

The application of the above new interpretation and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2014

3. Revenue and Segment Information

Revenue

Revenue represents the amounts received and receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Segmental information

The Group's revenue and result is solely derived from a single business operation of jewelry manufacturing and wholesale business in the People Republic of China (the "PRC") (the "Wholesale Business"). The financial information for the Wholesale Business as a whole is regularly reviewed by the executive directors of the Company and used for the purposes of assessment of performance and resource allocation. Accordingly, the Wholesale Business as a whole constitute the sole operating segment for the purpose of segment information presentation under HKFRS 8. Accordingly, no segment information was disclosed.

4. Other Gains and Losses

| | Six months ended 30 September | |
|---|-------------------------------|-------------|
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Gain on disposal of property, plant and equipment | – | 419 |
| Net foreign exchange gain | 201 | 66 |
| | 201 | 485 |

5. Finance Costs

| | Six months ended 30 September | |
|--------------|-------------------------------|-------------|
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Bank charges | 4 | 8 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2014

6. Income Tax Credit

The income tax credit for the six months ended 30 September 2013 represented the release of deferred tax liability upon disposal of leasehold land and building.

No provision for Hong Kong Profits Tax has been made as there were no assessable profits generated in Hong Kong for both periods.

No provision for PRC Enterprise Income Tax has been made for the Group's PRC subsidiary as the PRC subsidiary has no assessable profits for both periods.

7. Loss for the Period

Loss for the period has been arrived at after charging:

| | Six months ended 30 September | |
|--|-------------------------------|-------------|
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Cost of inventories recognised as expense | 33,932 | 36,924 |
| Depreciation of property, plant and equipment | 574 | 372 |
| Staff cost (including directors' remuneration) | 7,784 | 7,182 |
| Auditor's remuneration | 142 | 120 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2014

8. Loss Per Share

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

| | Six months ended 30 September | |
|--|-------------------------------|-------------|
| | 2014 | 2013 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| The Group's loss for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share calculation | (9,103) | (7,237) |
| | '000 | '000 |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | 282,306 | 273,610 |

The computation of diluted loss per share for the six months ended 30 September 2014 and 30 September 2013 does not assume the exercise of the Company's outstanding share options as their exercise would result in a decrease in loss per share.

9. Dividends

No dividends were paid, declared or proposed during the interim period. The directors have determined that no dividend will be paid in respect of the current interim period (2013: nil).

10. Movements in Property, Plant and Equipment

During the current interim period, there was no significant addition or disposal of property, plant and equipment.

During the last interim period, the Group disposed of a property with carrying amount of approximately RMB9.1 million (equivalent to HK\$11.6 million) for net cash proceeds of RMB9.4 million (equivalent to HK\$12 million), resulting in a gain on disposal of RMB329,000 (equivalent to HK\$419,000).

In addition, during the last interim period, the Group paid approximately HK\$3,038,000 for decoration and purchases of furniture, fixture and equipment for a new office premise.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2014

11. Trade Receivables

The credit terms granted by the Group to its customers normally range from 60 to 180 days.

The following is an analysis of the Group's trade receivables by age, presented based on the invoice date, which approximated the revenue recognition date.

| | At 30 September 2014 HK\$'000 (unaudited) | At 31 March 2014 HK\$'000 (audited) |
|-----------------------------------|--|---|
| Within 1 month | 4,506 | 3,627 |
| Over 1 month but within 3 months | 8,588 | 7,396 |
| Over 3 months but within 6 months | 2,819 | 683 |
| Over 6 months | – | 529 |
| | 15,913 | 12,235 |

12. Trade Payables

The following is an analysis of the Group's trade payables by age, presented based on the invoice date.

| | At 30 September 2014 HK\$'000 (unaudited) | At 31 March 2014 HK\$'000 (audited) |
|-----------------------------------|--|---|
| Within 1 month | 1,881 | 5,165 |
| Over 1 month but within 3 months | 7,432 | 3,642 |
| Over 3 months but within 6 months | 881 | 29 |
| Over 6 months | 4 | 4 |
| | 10,198 | 8,840 |

13. Loan from a Controlling Shareholder

The loan is unsecured, interest-free and repayable within 60 days upon the receipt of written notice of repayment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2014

14. Share Capital

| | Number of shares '000 | Amount HK\$'000 |
|--|-----------------------------|--------------------|
| Ordinary shares with nominal value of HK\$0.01 each | | |
| Authorised: | | |
| At 31 March 2014, 30 September 2013 and 30 September 2014 | 10,000,000 | 100,000 |
| Issued and fully paid: | | |
| At 1 April 2013 (audited), 30 September 2013 (unaudited) and 1 April 2014 (audited) | 273,610 | 2,736 |
| Exercise of share options | 20,144 | 202 |
| At 30 September 2014 (unaudited) | 293,754 | 2,938 |

15. Share Option Scheme

The Company's share option scheme was adopted pursuant to a resolution passed on 26 February 2007 for the primary purpose of providing incentives to directors, employees and other eligible participants.

On 27 June 2012, 24,090,000 share options were granted. The options granted were all vested at the date of grant and exercisable during the period from 27 June 2012 to 30 December 2016. The fair value of the options determined at the date of grant using the Binomial model was approximately HK\$16,381,000.

The table below discloses movement of the Company's share options held by the directors, employees and other eligible participants.:

| | Number of share options |
|-------------------------------------|----------------------------|
| Outstanding as at 1 April 2014 | 24,040,000 |
| Lapsed during the period | (50,000) |
| Exercised during the period | (20,144,000) |
| Outstanding as at 30 September 2014 | 3,846,000 |

No options were granted during the current interim period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 September 2014

16. Operating Leases Commitments

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:

| | At 30 September 2014 HK\$'000 (unaudited) | At 31 March 2014 HK\$'000 (audited) |
|-----------------------------|--|---|
| Within one year | 1,645 | 2,132 |
| In the second to fifth year | 958 | 1,798 |
| Later than five years | 169 | 224 |
| | 2,772 | 4,154 |

17. Related Party Transactions

Apart from the loan from a controlling shareholder as disclosed in note 13, the Group had entered into the following related party transactions during the period:

Compensation of key management personnel

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

| | 2014 HK\$'000 (unaudited) | 2013 HK\$'000 (unaudited) |
|------------------------------|--|---------------------------------|
| Short-term employee benefits | 4,798 | 2,657 |
| Post-employment benefit | 210 | 72 |
| | 5,008 | 2,729 |

Other than as disclosed above, there was no material related party transaction during the current interim period.

18. Fair Value Measurement of Financial Instruments

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.