HIFOOD GROUP HOLDINGS CO., LIMITED
海福德集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 442)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

FINANCIAL HIGHLIGHTS

Revenue was approximately HK$76.2 million for the six months ended 30 September 2018 (the "**Period**"), representing a decrease of approximately 75.2% as compared with the same for the six months ended 30 September 2017.

Gross profit was approximately HK$9.7 million for the six months ended 30 September 2018, representing a decrease of approximately 81.3% as compared with the same for the six months ended 30 September 2017.

Gross profit margin decreased to approximately 12.8% for the six months ended 30 September 2018, as compared with approximately 16.9% for the six months ended 30 September 2017.

For the six months ended 30 September 2018, Hifood Group Holdings Co., Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**") recorded a consolidated loss attributable to the owners of the parent of approximately HK$23.8 million, compared with consolidated losses of approximately HK$6.3 million for the corresponding period of 2017.

Basic and diluted losses per share amounted to approximately HK$0.14 for the six months ended 30 September 2018, compared with the basic and diluted losses per share of approximately HK$0.04 for the six months ended 30 September 2017.

The board (the "**Board**") of directors (the "**Directors**") of the Company does not recommend the payment of an interim dividend for the six months ended 30 September 2018.

INTERIM RESULTS

The Board announces the unaudited condensed consolidated interim financial results of the Group for the six months ended 30 September 2018 together with the comparative figures for the corresponding period in 2017. The condensed consolidated interim financial statements have not been audited by the Company's independent auditors but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2018

	Notes	Six months ended 30 September 2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
Revenue	4	**76,172**	307,402
Cost of sales		**(66,457)**	(255,550)
Gross profit		**9,715**	51,852
Other income		**1,946**	1,890
Selling expenses		**(11,387)**	(19,281)
Administrative expenses		**(24,212)**	(38,347)
Operating loss		**(23,938)**	(3,886)
Other gains, net		**1,120**	6,064
Finance costs	5	**(511)**	(5,954)
Share of loss of a joint venture		**(18)**	(136)
Loss before tax	6	**(23,347)**	(3,912)
Income tax expense	7	**(456)**	(2,369)
Loss for the Period attributable to the owners of the parent		**(23,803)**	(6,281)
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods, net of tax			
Change in fair value of an available-for-sale investment		**307**	278
Exchange differences on translation of foreign operations		**(5,643)**	10,527
Realisation of exchange fluctuation reserve upon disposal of subsidiaries		**–**	1,020
Other comprehensive (loss)/income for the period, net of tax		**(5,336)**	11,825
Total comprehensive (loss)/income for the period attributable to the owners of the parent		**(29,139)**	5,544
Losses per share attributable to ordinary equity holders of the parent:			
Basic and diluted	9	**HK$(0.14)**	HK$(0.04)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2018

	Notes	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**27,500**	27,460
Investment in a joint venture		**126**	140
Other non-current assets		**–**	454
Available-for-sale investment	*10*	**15,981**	15,674
Total non-current assets		**43,607**	43,728
Current assets			
Inventories	*11*	**64,151**	49,659
Trade receivables	*12*	**35,240**	67,934
Prepayments, deposits and other receivables		**26,520**	7,741
Tax recoverable		**532**	1,158
Cash and bank balances		**212,041**	230,489
Total current assets		**338,484**	356,981
Total assets		**382,091**	400,709
Current liabilities			
Trade and other payables	*13*	**41,996**	28,034
Obligations under finance leases		**–**	560
Total current liabilities		**41,996**	28,594
Non-current liabilities			
Obligations under finance leases		**–**	1,417
Deferred tax liabilities		**458**	1,922
Total non-current liabilities		**458**	3,339
Total liabilities		**42,454**	31,933
Equity			
Equity attributable to owners of parent			
Share capital	*15*	**863**	863
Reserves		**338,774**	367,913
Total equity		**339,637**	368,776
Total equity and liabilities		**382,091**	400,709

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Hifood Group Holdings Co., Limited (the "**Company**") was incorporated as an exempted company with limited liability in the Cayman Islands on 6 June 2014. The registered office of the Company is located at Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The Company was formerly known as KTL International Holdings Group Limited and the name of the Company was changed to its current name on 24 October 2017.

During the year, the Company and its subsidiaries (collectively the "**Group**") were principally involved in the manufacture and sale of jewellery and related products.

In the opinion of the directors, the holding company of the Company is HNA Aviation Investment Holding Company Ltd., which was incorporated in Cayman Islands. The ultimate controlling company is HNA Group Co., Ltd.

The Shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 11 March 2015 (the "**Listing**").

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The unaudited condensed consolidated interim financial statements for the Period have been prepared in accordance with the Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The condensed consolidated interim financial statements have not been audited by the Company's independent auditors but have been reviewed by the Company's audit committee.

The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention except for available-for-sale investment, which has been measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**", which also include HKASs and Interpretations), the significant accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those used in the Group's audited consolidated financial statements for the year ended 31 March 2018.

2.2 Changes in accounting policies and disclosures

(a) New standards, new interpretations and amendments to standards and interpretations already adopted

The Group has adopted the following new standards, new interpretations and amendments to standards and interpretations for the first time since the financial year beginning 1 April 2018.

HKFRS 1 (Amendments)	First time adoption of HKFRS
HKFRS 2 (Amendments)	Classification and measurement of share-based payment transactions
HKFRS 4 (Amendments)	Insurance contracts
HKFRS 9 (Amendments)	Financial instruments
HKFRS 15	Revenue from contracts with customers
HK (IFRIC) 22	Foreign currency transactions and advance consideration
HKAS 28 (Amendments)	Investments in associates and joint ventures
HKAS 40 (Amendments)	Transfers of investment property
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012–2014 Cycle

The Group has assessed the impact of the adoption of these new standards, new interpretations and amendments to standards and interpretations, except for the effects of the adoption of HKFRS 9 and HKFRS 15 disclosed in note 2.2(c) and (d), there was no significant impact on the Group's results and financial position nor any substantial changes in the Group's accounting policies and presentation of the condensed consolidated interim financial information for the other new standards, new interpretations and amendments to standards and interpretations

(b) Issued but not yet effective new standards and amendments to standards

The Group has not applied the following new standards and amendments to standards, that have been issued but are not yet effective, in these financial statements.

		Effective for annual periods beginning on or after
HKFRS 16	Leases	1 January 2019
HK (IFRIC) 23	Uncertainty over income tax treatments	1 January 2019
HKFRS 17	Insurance contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2015–2017 Cycle	1 January 2019

The Group is in the process of making an assessment of the impact of these new standards, new interpretations and amendments to standards and interpretations upon initial application. The Group is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

(c) Adoption of HKFRS 9

HKFRS 9 replaces HKAS 39. HKFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit losses ("**ECL**") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than the "incurred loss" under the accounting model in HKAS 39. The Group applies the ECL model to the financial assets measured at amortised cost (i.e. trade and other receivables and cash).

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls. Cash shortfall is the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

Where the effect of discounting is material, the expected cash shortfalls are discounted using the effective interest rate determined at initial recognition or an approximation thereof for trade and other receivables.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowance for trade and other receivables is always measured at an amount equal to lifetime ECL. ECLs are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

The Group has not restated comparative information for financial instruments in the scope of HKFRS 9. Therefore, the comparative information is reported under HKAS 39 and is not comparable to the information presented as at and for the period ended 30 September 2018.

The adoption of the ECL model under HKFRS 9 has no material impact on the Group.

(d) Adoption of HKFRS 15

HKFRS 15 replaces HKAS 18, HKAS 11 and the related interpretation. HKFRS 15 establishes a comprehensive framework for recognising revenue arising from contracts with customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the distinct good or service. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the distinct good or service is regarded as being transferred over time:

— When the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

— When the Group's performances creates or enhances an asset that the customer controls as the asset is created or enhanced;

— When the Group's performance does not create an asset with an alternative use to the entity and the Group has an enforceable right to payment for performance completed to date.

If the contract terms and the Group's activities do not fall into any of these three situations, then under HKFRS 15 the Group recognises revenue for the sale of that good or service at a single point in time, being when control has passed to the customer. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

In accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard only to contracts that were not completed before 1st April 2018. Comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18.

The adoption of HKFRS 15 has no material impact on the Group.

3. OPERATING SEGMENT INFORMATION

The Group is primarily engaged in the manufacture and sale of jewellery products. Management has determined the operating segments based on the reports reviewed by the chief operating decision makers, who have been identified as the executive Directors of the Company. Information reported to the Group's chief operating decision makers, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole as the Group's resources are integrated. Accordingly, the Group has identified one reportable operating segment, i.e. manufacture and sale of jewellery products, and no further analysis thereof is presented.

Geographical information

Information about the Group's revenue by geographical locations is presented based on the area or country in which external customers are operated.

(a) Revenue from external customers

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Mainland China	**32,139**	69,435
Russia	**22,239**	67,200
Europe (other than Russia)	**8,044**	17,610
Americas	**7,865**	138,419
Other countries	**5,885**	14,738
	76,172	307,402

Information about the Group's non-current assets, excluding available-for-sale investment, is presented based on the locations of the assets.

(b) Non-current assets

	At 30 September 2018	At 31 March 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Hong Kong	**23,626**	23,030
Mainland China	**4,000**	5,024
	27,626	28,054

The Company is domiciled in the Cayman Islands while the Group operates its business in Hong Kong and Mainland China. During the Period, no revenue was generated from any customer in the Cayman Islands and no assets were located in the Cayman Islands.

4. REVENUE

Revenue represents the net amounts received and receivable arising from sale of jewellery products during the Period.

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Sale of jewellery products	**76,172**	307,402

5. FINANCE COSTS

An analysis of finance cost is as follows:

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest on bank and other borrowings	**–**	4,979
Interest on factoring of trade receivables	**422**	831
Interest on finance leases	**89**	144
	511	5,954

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Cost of inventories sold*	**57,164**	216,761
Depreciation	**3,056**	5,206
Amortisation of prepaid land lease payments	**–**	191
Foreign exchange differences, net#	**(1,401)**	(894)
Realisation of exchange fluctuation reserve upon disposal of subsidiaries	**–**	1,020
(Write-back)/Write-down of inventories to net realisable value*	**(640)**	1,040
Minimum lease payments under operating lease	**817**	766
Net gains/(losses) on disposal of subsidiary and items of property, plant and equipment#	**280**	(7,677)

* These items are included in "Cost of sales" on the face of the condensed consolidated statement of profit or loss and other comprehensive income.

These items are included in "Other gains, net" on the face of the condensed consolidated statement of profit or loss and other comprehensive income.

7. INCOME TAX EXPENSE

The statutory income tax rates for Hong Kong and Mainland China are 16.5% and 25.0%, respectively. A subsidiary of the Group enjoyed a lower profit tax rate during the Period as further explained below. The profit tax of the Group has been provided at the applicable tax rates on estimated assessable profits arising in Hong Kong and Mainland China during the Period.

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current — Hong Kong		
Charge for the period	**1,919**	492
Current — Mainland China		
Charge for the period	**–**	1,532
Deferred	**(1,463)**	345
Total tax charge for the period	**456**	2,369

In relation to the Departmental Interpretation and Practice Notes No. 21 (Revised) (apportionment under a 50:50 basis) of the Inland Revenue Department Hong Kong, a portion of profits from KTL Jewellery Trading Limited ("**KTL Trading**"), a wholly-owned subsidiary of the Company, is considered neither arisen in, nor derived from Hong Kong. Accordingly, that portion of KTL Trading's profit is not subject to Hong Kong Profits Tax. Further, in the opinion of the Directors that portion of KTL Trading's profit is not subject to taxation in any other jurisdiction in which KTL Trading operates during the Period.

8. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Period (six months ended 30 September 2017: nil).

9. LOSSES PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic losses per share amounts is based on the loss for the Period attributable to ordinary equity holders of the parent of approximately HK$23,803,000 (2017: losses of approximately HK$6,281,000), and the weighted average number of ordinary shares in issue of 172,600,000 (2017: 164,750,820 which has been adjusted for the Company's placing of the new shares on 16 May 2017). The Group has no potentially dilutive ordinary shares in issue during the periods ended 30 September 2018 and 2017.

	Six months ended 30 September	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Losses		
Losses attributable to ordinary equity holders of the parent used in the basic losses per share calculation	**(23,803)**	(6,281)

	Number of shares Six months ended 30 September	
	2018	2017
	(unaudited)	(unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic losses per share calculation	**172,600,000**	164,750,820

10. AVAILABLE-FOR-SALE INVESTMENT

	At 30 September 2018	At 31 March 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Life insurance policy, at fair value	**15,981**	15,674

During the Period, the gross loss in respect of the change in fair value of the Group's available-for-sale investment recognised in other comprehensive income amounted to approximately HK$307,000 (30 September 2017: gain HK$278,000). There was no reclassification from other comprehensive loss to profit or loss during the Period.

11. INVENTORIES

	At 30 September 2018	At 31 March 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Raw materials	**23,396**	25,323
Work in progress	**10,548**	6,307
Finished goods	**30,207**	18,029
	64,151	49,659

12. TRADE RECEIVABLES

	At 30 September 2018	At 31 March 2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Trade receivables	**51,389**	84,083
Less: Allowance for doubtful debts	**(16,149)**	(16,149)
	35,240	67,934

The Group's trading terms with its customers are mainly on credit, except for new customers. Before accepting any new customer, the Group will apply an internal credit assessment policy to assess the potential customer's credit quality and define credit limits by customer. The credit period is generally for a period of 60 to 120 days for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a treasury department to minimise the credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	At 30 September 2018 *HK$'000* **(unaudited)**	At 31 March 2018 *HK$'000* (audited)
Within 1 month	**6,702**	11,613
1 to 2 months	**7,283**	11,435
2 to 3 months	**8,029**	27,657
Over 3 months	**13,226**	17,229
	35,240	67,934

13. TRADE AND OTHER PAYABLES

	At 30 September 2018 *HK$'000* **(unaudited)**	At 31 March 2018 *HK$'000* (audited)
Trade payables	**20,356**	5,236
Other payables	**21,640**	22,798
	41,996	28,034

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	At 30 September 2018 *HK$'000* **(unaudited)**	At 31 March 2018 *HK$'000* (audited)
Within 1 month	**13,559**	3,624
1 to 2 months	**5,876**	112
2 to 3 months	**8**	53
Over 3 months	**913**	1,447
	20,356	5,236

The trade payables are non-interest-bearing and the credit period of purchases ranges from 30 to 180 days. Other payables are non-interest-bearing and have an average term of one to three months. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

14. INTEREST-BEARING BANK AND OTHER BORROWINGS

As at 30 September 2018, the Group had no borrowings.

The Group's bank borrowings as at the end of the reporting period are secured by:

	At September 2018 *HK$'000* **(unaudited)**	At March 2018 *HK$'000* (audited)
Non-current assets		
Buildings	–	2,253
Leasehold land	–	9,559
Available-for-sale investment	–	15,674
Total non-current assets pledged as security	–	27,486

Above pledges as at 31 March 2018 were released in May 2018.

15. SHARE CAPITAL

	At 30 September 2018 *HK$'000* **(unaudited)**	At 31 March 2018 *HK$'000* (audited)
Authorised:		
2,000,000,000 (31 March 2018: 2,000,000,000) ordinary shares of HK$0.005 each (31 March 2018: HK$0.005 each)	**10,000**	10,000
Issued and fully paid:		
172,600,000 (31 March 2018: 172,600,000) ordinary shares of HK$0.005 each (31 March 2018: HK$0.005 each)	**863**	863

On 16 May 2017, 12,600,000 ordinary shares of HK$0.005 each were allotted and issued at a price of HK$5.06 per share under the placing agreement for the net proceeds, after deducting the placing fee, stamp duty and other related expenses payable by the Company, of approximately HK$62,475,000.

16. OPERATING LEASE ARRANGEMENTS

As Lessee

The Group leases certain of its premises and office equipment under operating lease arrangements. The leases are negotiated for terms ranging from one to five years with fixed monthly rentals.

At 30 September 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	At 30 September 2018 *HK$'000* **(unaudited)**	At 31 March 2018 *HK$'000* (audited)
Within one year	**1,665**	2,277
In the second to fifth years, inclusive	**423**	5,361
	2,088	7,638

17. COMMITMENTS

At 30 September 2018, save as the operating lease commitments detailed in Note 16, the Group had no capital commitments as at the end of the reporting period.

18. EVENT AFTER THE REPORTING PERIOD

Please refer to disposal of properties under paragraph named "Event after the reporting period" on page 16 of this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Being an integrated fine jewellery provider and an original design manufacturer with a well-established operating history in Hong Kong, the Group is primarily engaged in designing, manufacturing and exporting fine jewelleries to jewellery wholesalers and retailers mainly in the Americas, Russia, other European countries and increasingly so in the People's Republic of China (the "**PRC**") and the Middle East in recent years. The Group has been offering a wide range of fine jewellery products in karat gold encompassing rings, earrings, pendants, necklaces, bracelets, bangles, cufflinks, brooches and anklets that are generally targeted at the mass to middle segment, the lowest among the three tiers of the fine jewellery market segments in terms of retail prices. The Group's customers are mainly wholesalers and retailers of jewellery products.

In 2018, while the baseline growth forecast for the global economy is roughly unchanged, the performance and outlook for individual economies are a mix of good and bad based on differences in fundamentals and domestic factors. Rising oil prices, escalating trade tensions, geopolitical concerns, tighter financial conditions, sharp exchange rate movements as well as mounting political uncertainty are all factors possibly triggering higher market volatility and impacting on the growth prospects among countries.

Equally, challenging retail conditions in the markets in which the Group operates during the period under review added to the drivers of decline in our sales and financial performance, against the background of the changing consumer behaviour towards innovative, creatively designed products that emphasise personal uniqueness and individuality in the digital age.

For the six months ended 30 September 2018, revenue generated from sales to the PRC market registered a decrease of 53.7% to HK$32.1 million as compared with the same period last year. In the PRC, the trend of economic slowdown strengthened notwithstanding the government's initiatives to encourage domestic investment to prop up the economy amid the trade war with the U.S.. A gloomier economic outlook, coupled with a weaker yuan, weighed on the ability and willingness of the Chinese middle income groups to open their wallets, who scaled back their discretionary luxury purchases in the face of the likelihood of escalating and sustained global trade tensions. Traditional fine jewellery demand struggled further among the Chinese and millennial shoppers, who are making a shift in the consumer landscape and are increasingly drawn to branded yet personalised products over heritage and tradition.

In Russia, while the economy stays on the path of recovery after a steep recession on the back of surging oil prices, geopolitical uncertainty and protracted effects of the U.S. and EU sanctions continue to pose downside risks for the growth outlook. Faster price growth and an unsteady ruble increasingly eat into the purchasing power of Russian households. Consumers have turned more cautious and pragmatic, reshuffling their spending priorities by cutting back on goods they regard as non-essential while spending more on those that matter to their quality of life. At the same time, traditional fine jewellery players have sought to rebalance their geographical markets in response to the trade fight between the PRC and the U.S., leading to an even stiffer competition in the country. Against this backdrop, in the first six months of the financial year of 2018/2019, revenue generated from sales to the Russian market dropped by 66.9% to HK$22.2 million from a year ago. As Russian consumers reset their expectations in light of the new economic reality, we are also reassessing our approach to the said market.

Across the Pacific Ocean, the mood in the U.S. is relatively mixed. Benefited from a positive domestic economic environment, solid government spending, generous tax cuts and a tighter labour market have kept U.S. households optimistic about the state of the economy and their finances, bolstering consumer sentiment to a certain extent. Yet, on the other hand, worries about rising prices and interest rates also permeate amid tensions between the U.S. and its main trade partners. There has been growing concerns over a slower growth next year and beyond. Meanwhile, during the period under review, we discontinued our business relationship with a major customer in the U.S. due to a revision to product delivery terms and conditions. As a result, revenues generated from sales to the Americans market fell by 94.3% to HK$7.9 million as compared with the corresponding period the previous year.

The Group has engaged in processing services using the excess production capacities in order to enhance management resources and cost efficiency. Subcontracting income generated from such processing services accounted for approximately 0.5% of total sales. Sales from the subcontracting income did not have a material impact on the Group's overall gross profit margin over the reporting period.

To better adapt to an ever-changing market landscape, the Group has relentlessly applied stringent controls over capital expenditures. For the first six months of the financial year of 2018/2019, the Group's administrative expenses were down 36.9% year-on-year to HK$24.2 million, while selling expenses decreased by 40.9% year-on-year to HK$11.4 million.

Event after the Reporting Period

On 26 October 2018, the wholly-owned subsidiaries of the Company (the "**Vendors**") entered into the provisional sale and purchase agreements (the "**Provisional Agreements**") with an independent third party (the "**Purchaser**") in relation to disposal of properties (the "**Disposal**") located at Unit Nos. 5, 6 and 7 on 12th Floor, Fu Hang Industrial Building, No. 1 Hok Yuen Street East, Kowloon, Hong Kong at the consideration of HK$48.0 million in cash.

The formal sale and purchase agreements (the "**Formal Agreements**") were entered into between the Purchaser and the Vendors in relation to the Disposal on 16 November 2018. The completion of the Disposal in accordance with the terms of the Provisional Agreements and the Formal Agreements shall take place on 21 December 2018.

It is expected that the Group will record a book gain from the Disposal of approximately HK$35.6 million (before taxation), and the net proceeds from the Disposal is to be used by the Group for general working capital purposes.

Please refer to the announcement of the Company dated 26 October 2018 relating to the Disposal for further details.

Prospects

Looking ahead, there are certainly reasons to be worried. The global economy is slowing and interest rates are going up. Lingering threats of higher trade barriers and the associated rise in policy uncertainty could dent market sentiment, sending negative shocks to growth prospects at various horizons.

The Group will stay vigilant in containing changing conditions that affect the fine jewellery business and work harder to remain resilience for the tough time ahead. The Group is cautiously positive about the outlook for the markets it operates in and will actively take every measure to boost sales and rein in losses in further profit push.

In view of the foreseeable challenges ahead, opportunities still remain for the traditional fine jewellery sector. It is always the Group's business strategy to stay disciplined through prudent financial management and grow its presence in the jewellery trade across geographies. The Group will also hold on a proactively approach to explore opportunities in other sectors to bring out the best knowledge and expertise of its top management.

Business Strategies of the Group

With continued political, economic and market uncertainties, the existing business of the Group in manufacturing and sale of jewellery products has seen a decrease in both revenue and gross profit. In the light of the operations and financial position of the Group, the Group intends to explore other possible business opportunities both locally and abroad while staying on with its jewellery business.

The Group reckons that the food and beverage industry has proved more resistant to impacts of changes in the macroeconomic environment and offered good growth potential. Furthermore, the "One Belt, One Road" initiative as proposed by the Chinese government is expected to boost demand for an array of sectors in the region, which will also benefit the development of the food and beverage businesses at large. The Group therefore considers that possible business expansions to food and beverage industry can enable it to better utilise its resources, mitigate the risks involved in its existing business of manufacturing and sale of jewellery products, and maximise investment returns for its shareholders.

Moreover, the management team members of the Group have seasoned experience and involvement in the food and beverage industry with all of them holding senior positions in HNA Catering Holdings Co., Ltd. As such, the Group considers that it possesses essential know-how and expertise to enable its expansion into the food and beverage industry, which is expected to help driving revenue of the Group.

Concurrently, the Group remains committed to maintaining its status as a top fine jewellery manufacturer and exporter in Hong Kong by strengthening its sales and marketing force, solidifying its presence in existing markets and reinforcing market recognition of its brand name globally.

The Group continues to explore opportunities where it believes would benefit from the integrated services it is offering, providing a wider range of styles and designs tailored for individual markets and adjusting its production resources and capacity to better cater for the product lead time, consumer preferences and festive shopping practices. The Group will also draw on strength of its established corporate brand name and proven design capabilities to increase resources in a bid to further attract jewellery wholesalers or chain stores in the trade. The Group will focus its sales and marketing resources on promoting its brand and products, participating in selected trade exhibitions, and allocating sufficient design and product development resources to offer a wider range of designs that are favourable to consumers in different markets.

The Group believes its abilities to create new product designs and develop innovative production techniques in response to market trends and customers' preferences contribute to the success of its products. The Group has been offering customers with a diverse range of products with appealing designs at affordable prices, made with assorted kinds of precious metals, diamonds and gem stones with various specifications in a bid to cater for a broad bandwidth of market demand. The Group is also positive with the food and beverage industry vibe. Backed by the "One Belt, One Road" initiative, the Group is devoted to expanding into the new market that will provide the Group with strong momentum for future growth.

Financial Review

	Six months ended 30 September	
	2018	2017
	(unaudited)	(unaudited)
Revenue *(HK$'000)*	**76,172**	307,402
Gross profit *(HK$'000)*	**9,715**	51,852
Gross profit margin *(%)*	**12.8**	16.9
Loss attributable to the owners of the parent *(HK$'000)*	**(23,803)**	(6,281)

Revenue

The Group's revenue for the Period was approximately HK$76.2 million, representing a decrease of approximately HK$231.2 million or 75.2% over the corresponding period in 2017. The decrease in the Group's revenue was primarily due to (i) a significant decrease in sales in the Americas of approximately HK$130.6 million primarily due to tensions between the U.S. and its main trade partners, and the discontinuation of business relationship with a major customer in the U.S. due to a revision to product delivery terms and conditions; (ii) sales in Russia decreased by HK$45.0 million as customers reshuffled their spending priorities cutting back their purchases and fiercer market competition; (iii) sales in Mainland China decreased by HK$37.3 million, primarily due to a gloomier economic outlook and a shift in the consumer landscape in traditional fine jewellery and (iv) a decrease in sales in Europe (other than Russia) of approximately HK$9.6 million mainly attributable to the sluggish European economy during the period under review.

Gross Profit and Gross Profit Margin

The Group's gross profit for the Period was approximately HK$9.7 million, representing a decrease of approximately HK$42.1 million or 81.3% over the corresponding period in 2017. Gross profit margin decreased to approximately 12.8% from approximately 16.9%, which was mainly due to a higher proportion of sales of simple design with lower pricing to the Russian market.

Selling Expenses

The Group's selling expenses decreased by approximately HK$7.9 million or 40.9%, to approximately HK$11.4 million for the Period from approximately HK$19.3 million for the six months ended 30 September 2017. The decrease was primarily attributable to (i) a decrease in staff costs of approximately HK$6.4 million due to the result of the business operation and resources allocation process; (ii) the decrease in sales commissions of approximately HK$2.2 million mainly as a result of the decrease in sales for the Period; which was partially offset by (iii) the increase in export credit insurance expenses of approximately HK$1.2 million .

Administrative Expenses

The Group's administrative expenses decreased by approximately HK$14.1 million or 36.9%, to approximately HK$24.2 million for the Period from approximately HK$38.3 million for the six months ended 30 September 2017. The decrease was primarily due to the combined effects of (i) the decrease in staff costs by approximately HK$10.3 million as a result of the Group's continuous implementation of rigorous cost control by further streamlining operations and rationalising overheads; (ii) decrease in depreciation and amortisation by approximately HK$2.3 million mainly attributable to the stringent controls over capital expenditures during the Period; (iii) the decrease in professional service fees and other taxes of approximately HK$1.5 million was mainly attributed by strengthening cost controls in business operation; and it was partially offset by (iv) the increase in bank charges of approximately HK$2.1 million for the six months ended 30 September 2018.

Finance Costs

The Group's finance costs decreased by approximately HK$5.5 million or 91.4% from approximately HK$6.0 million for the six months ended 30 September 2017 to approximately HK$0.5 million for the Period. The decrease was primarily due to the decrease in average borrowing balance as compared with the corresponding period in 2017.

Loss Attributable to the Owners of the Parent

During the Period, the Group recorded a consolidated loss (the "**Loss**") attributable to the owners of the parent of approximately HK$23.8 million, compared with a consolidated loss of approximately HK$6.3 million for the corresponding period of 2017. The loss was mainly attributable to a decline in the Group's revenue by approximately 75.2% and gross profit by approximately 81.3% for the Period as compared to the corresponding period in 2017. The decline in revenue was primarily attributable to a significant slowdown of sales in the Americas, Russia and Mainland China markets, the decrease of which were approximately HK$130.6 million, HK$45.0 million and HK$37.3 million, respectively, for the six months ended 30 September 2018 as compared to the corresponding period in 2017. The decrease was primarily attributable to global economic uncertainty and weaker-than-expected demand in the Americas, Russia and Mainland China markets.

Liquidity and Financial Resources

As at 30 September 2018, the Group had current assets of approximately HK$338.5 million (31 March 2018: approximately HK$357.0 million) which comprised cash and bank balances of approximately HK$212.0 million (31 March 2018: approximately HK$230.5 million). As at 30 September 2018, the Group had non-current liabilities of approximately HK$0.5 million (31 March 2018: approximately HK$3.3 million), and its current liabilities amounted to approximately HK$42.0 million (31 March 2018: approximately HK$28.6 million), consisting mainly of payables arising in the normal course of operation. Accordingly, the current ratio, being the ratio of current assets to current liabilities, was approximately 8.1 at 30 September 2018 (31 March 2018: approximately 12.5).

Gearing Ratio

The gearing ratio of the Group as at 30 September 2018 was not applicable as cash and bank balances exceeded interest-bearing bank and other borrowings and obligations under finance lease.

Treasury Policies

The Group has adopted a prudent financial management approach towards its treasury policies and maintained a healthy liquidity position throughout the Period. The Group strives to reduce exposure to credit risk by buying credit insurance on certain customers' receivables, performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Foreign Exchange Exposure

For the Period, the Group had monetary assets and monetary liabilities denominated in foreign currencies, i.e. currency other than the functional currency of the respective group entities, which are mainly trade receivables, other receivables, available-for-sale investment, cash and bank balance, pledged bank deposits, trade and other payables and interest-bearing bank borrowings. Consequently, the Group has foreign exchange risk exposure from translation of amount denominated in foreign currencies as at 30 September 2018. Since HK$ is pegged to US$, the Group does not expect any significant movements in HK$/US$ exchange rate. We are exposed to foreign exchange risk primarily with respect to Renminbi ("**RMB**"). If HK$ as at 30 September 2018 had strengthened/weakened by 5% against RMB with all other variables held constant, the loss for the period attributable to the owners of the parent would have been increased/decreased by approximately HK$41,000 for the Period (30 September 2017: loss for the period attributable to the owners of the parent would have been increased/decreased by approximately HK$1.3 million).

The Group does not engage in any derivatives activities and does not commit to any financial instruments to hedge its exposure to foreign currency risk.

Capital structure

There was no change in the capital structure of the Group as at 30 September 2018 as compared with that as at 31 March 2018.

Capital Commitments

As at 30 September 2018, the Group had no capital commitments (31 March 2018: nil).

Interim dividend

The Board does not recommend the payment of an interim dividend for the Period.

Information on employees

As at 30 September 2018, the Group had 78 employees (31 March 2018: 81), including the executive Directors. Remuneration is determined with reference to market conditions and individual employees' performance, qualification and experience.

Apart from the provident fund scheme (operation in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or social insurance fund (including retirement pension insurance, medical insurance, unemployment insurance, injury insurance and maternity insurance for the PRC employees), discretionary bonuses and employee share options are also awarded to employees according to the Group's performance as well as assessment of individual performance. Since the adoption of the share option scheme on 10 February 2015 and up to 30 September 2018, no options had been granted by the Company.

The Directors believe that the salaries and benefits of the Group's employees are kept 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, which is reviewed annually.

Share option scheme

The Company has adopted the share option scheme on 10 February 2015 (the "**Scheme**") under which certain selected classes of participants (including, among others, Directors and full-time employees) may be granted options to subscribe for the shares. Unless otherwise cancelled or amended, the scheme will remain in force for 10 years from that date. No share option had ever been granted under the Scheme since its adoption.

Significant investment held

The Group did not hold any significant investments in equity interest in any other company during the Period.

Future Plans for Material Investments and Capital Assets

There was no definite future plan for material investments and acquisition of material capital assets as at 30 September 2018.

Material Acquisitions and Disposal of Subsidiaries and Affiliated Companies

During the Period, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

Charges of Assets

As at 30 September 2018, the Group had no bank borrowings. As as 31 March 2018, the Group's bank borrowings are secured by its assets as below:

(i) mortgages over the Group's leasehold land, which had a net carrying amount of nil and approximately HK$9.6 million, respectively, as at 30 September 2018 and 31 March 2018;

(ii) mortgages over the Group's buildings, which had a net carrying amount of approximately nil and approximately HK$2.3 million, respectively, as at 30 September 2018 and 31 March 2018; and

(iii) the pledge of the Group's available-for-sale investment amounting to nil as at 30 September 2018 (31 March 2018: approximately HK$15.7 million).

Contingent liabilities

The Group had no material contingent liabilities as at 30 September 2018 (31 March 2018: nil).

CORPORATE GOVERNANCE

Corporate Governance Practices

Adapting and adhering to recognised standards of corporate governance principles and practices has always been one of the top priorities of the Company. The Board believes that good corporate governance is one of the areas that lead to the success of the Company and in balancing the interests of shareholders, customers and employees, and the Board is devoted to ongoing enhancements of the efficiency and effectiveness of such principles and practices.

For the Period, the Company had complied with the code provisions ("**Code Provisions**") set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transaction by Directors of the Company. Having made specific enquiries to all the Directors, the Directors confirmed that they had complied with the required standard as set out in the Model Code during the Period.

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

Save as disclosed in this announcement, during the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Nang Qi (Chairman), Mr. Chen Peiliang and Mr. Xue Qiang and three independent non-executive Directors, namely Mr. Ting Tit Cheung, Mr. Chan Chi Kuen and Mr. Lo Chun Pong. During the Period, there was no change in the composition of the Board.

AUDIT COMMITTEE

The audit committee of the Company consists of three independent non-executive Directors of the Company, namely Mr. Chan Chi Kuen (Chairman of the Audit Committee), Mr. Ting Tit Cheung and Mr. Lo Chun Pong.

The audit committee of the Company has reviewed the Company's unaudited interim report (containing the unaudited condensed consolidated interim financial statements) for the Period, including the accounting principles and practices adopted by the Group, and discussed with management regarding internal control and financial reporting matters.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the website of the Stock Exchange at (www.hkexnews.hk) and the website of the Company at (www.ktl.com.hk). The interim report of the Company will be despatched to the shareholders and published on the above websites in due course.

By order of the Board
Hifood Group Holdings Co., Limited
Nang Qi
Chairman

Hong Kong, 27 November 2018

As at the date of this announcement, the executive Directors are Mr. Nang Qi, Mr. Chen Peiliang, and Mr. Xue Qiang; and the independent non-executive Directors are Mr. Ting Tit Cheung, Mr. Chan Chi Kuen and Mr. Lo Chun Pong.