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 2019

FINANCIAL HIGHLIGHTS

Revenue was approximately HK$98.0 million for the six months ended 30 September 2019 (the "**Period**"), representing an increase of approximately 28.7% as compared with the same for the six months ended 30 September 2018.

Gross profit was approximately HK$5.0 million for the six months ended 30 September 2019, representing a decrease of approximately 48.7% as compared with the same for the six months ended 30 September 2018.

Gross profit margin decreased to approximately 5.1% for the six months ended 30 September 2019, as compared with approximately 12.8% for the six months ended 30 September 2018.

For the six months ended 30 September 2019, 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$37.8 million, compared with consolidated losses of approximately HK$23.8 million for the corresponding period of 2018.

Basic and diluted losses per share amounted to approximately HK$0.22 for the six months ended 30 September 2019, compared with the basic and diluted losses per share of approximately HK$0.14 for the six months ended 30 September 2018.

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 2019.

INTERIM RESULTS

The Board announces the unaudited condensed consolidated interim financial results of the Group for the six months ended 30 September 2019 together with the comparative figures for the corresponding period in 2018. 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 2019

	Notes	Six months ended 30 September **2019** *HK$'000* **(unaudited)**	2018 *HK$'000* (unaudited)
Revenue	*4*	**98,001**	76,172
Cost of sales		**(93,021)**	(66,457)
Gross profit		**4,980**	9,715
Other income		**233**	1,946
Selling expenses		**(2,301)**	(11,387)
Administrative expenses		**(14,715)**	(24,212)
Operating loss		**(11,803)**	(23,938)
Other (losses)/gains, net	*5*	**(25,417)**	1,120
Finance costs	*6*	**(499)**	(511)
Share of loss of a joint venture		**(5)**	(18)
Loss before tax	*7*	**(37,724)**	(23,347)
Income tax expense	*8*	**(43)**	(456)
Loss for the Period attributable to the owners of the parent		**(37,767)**	(23,803)
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
Exchange differences on translation of foreign operations		**(1,139)**	(5,643)
Other comprehensive loss for the period, net of tax		**(1,139)**	(5,336)
Total comprehensive loss for the period attributable to the owners of the parent		**(38,906)**	(29,139)
Losses per share attributable to ordinary equity holders of the parent:			
Basic and diluted	*10*	**HK$(0.22)**	HK$(0.14)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2019

	Notes	At 30 September 2019 HK$'000 (unaudited)	At 31 March 2019 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**5,590**	4,372
Right-of-use assets		**1,161**	–
Investment in a joint venture		**108**	113
Financial asset at fair value through profit or loss	*11*	**16,376**	16,189
Total non-current assets		**23,235**	20,674
Current assets			
Inventories	*12*	**21,447**	31,088
Trade receivables	*13*	**80,409**	51,569
Prepayments, deposits and other receivables	*14*	**19,873**	3,730
Financial asset at fair value through profit or loss	*11*	**173,334**	–
Cash and bank balances		**35,593**	270,808
Total current assets		**330,656**	357,195
Total assets		**353,891**	377,869
Current liabilities			
Trade and other payables	*15*	**30,948**	28,515
Lease liabilities		**242**	–
Contract liabilities	*4*	**2,340**	1,598
Other interest-bearing borrowings	*16*	**10,710**	–
Tax payable		**92**	245
Total current liabilities		**44,332**	30,358
Non-current liabilities			
Lease liabilities		**954**	–
Total non-current liabilities		**954**	–
Total liabilities		**45,286**	30,358
Equity			
Equity attributable to owners of parent			
Share capital	*17*	**863**	863
Reserves		**307,742**	346,648
Total equity		**308,605**	347,511
Total equity and liabilities		**353,891**	377,869

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP 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.

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

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 financial asset at fair value through profit or loss, 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 2019.

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 2019.

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 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 16 disclosed in note 2.2(b), 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) *Adoption of HKFRS 16*

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

(i) Key changes in accounting policies resulting from application of HKFRS 16

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

Definition of a lease

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

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

As a lessee

Allocation of consideration to components of a contract

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

Short-term lease and lease of low-value assets

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

Right-of-use assets

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

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;

- any lease payments made at or before the commencement date, less any lease incentives received;

- any initial direct costs incurred by the Group; and

- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

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

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Lease liabilities

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

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;

- variable lease payments that depend on an index or a rate;

- amounts expected to be paid under residual value guarantees;

- the exercise price of a purchase option reasonably certain to be exercised by the Group; and

- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

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

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

The Group remeasures lease liabilities whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

<u>Lease modification</u>

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

<u>Taxation</u>

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

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

(ii) Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

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

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

As a lessee

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

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

(i) relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

(ii) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

(iii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

(iv) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain lease of properties in Hong Kong was determined on a portfolio basis; and

(v) use hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has applied recognition exemption to lease terms end within 12 months upon initial application of HKFRS 16. No lease liabilities and right-of-use assets were recognised at 1 April 2019.

3. OPERATING SEGMENT INFORMATION

The Group is primarily engaged in the manufacture and sale of jewellery products, and trading of watches. 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 trading of watches, 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	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Hong Kong	**82,997**	5,258
Mainland China	**9,698**	32,139
Americas	**3,991**	7,865
Europe (including Russia)	**985**	30,283
Other countries	**330**	627
	98,001	76,172

Information about the Group's non-current assets, excluding financial asset at fair value through profit or loss, is presented based on the locations of the assets.

(b) Non-current assets

	At 30 September 2019	At 31 March 2019
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Hong Kong	**4,820**	3,239
Mainland China	**2,039**	1,246
	6,859	4,485

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 sales of jewellery products, and trading of watches during the Period.

	Six months ended 30 September 2019 HK$'000 (unaudited)	Six months ended 30 September 2018 HK$'000 (unaudited)
Revenue recognised at a point in time		
— Sales of jewellery products*	**92,319**	76,172
— Trading of watches	**5,682**	–
	98,001	76,172

* Among the sales of jewellery products, approximately HK$710,000 (2018: HK$305,000) are sold to a related party.

The Group has recognised the following liabilities related to contracts with customers:

	At 30 September 2019 HK$'000 (unaudited)	At 31 March 2019 HK$'000 (audited)
Contract liabilities	**2,340**	1,598

(i) Significant changes in contract liabilities

Contract liabilities for sales of jewellery products have increased by HK$742,000, mainly due to the increase in sales in Hong Kong market.

(ii) Revenue recognised in relation to contract liabilities

No revenue was recognised in the current reporting period that was included in the contract liabilities at the beginning of the period.

5. OTHER (LOSSES)/GAINS, NET

An analysis of other (losses)/gains, net, is as follows:

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net gains/(losses) on disposal of subsidiary and items of property, plant and equipment, net	**210**	(280)
Foreign exchange differences, net	**(439)**	1,400
Fair value losses on financial assets at fair value through profit or loss	**(25,243)**	–
Gains on disposal of raw materials, net	**55**	–
	(25,417)	1,120

6. FINANCE COSTS

An analysis of finance cost is as follows:

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest on other borrowings	**369**	–
Interest on factoring of trade receivables	**101**	422
Interest on finance leases	**–**	89
Interest on lease liabilities	**29**	–
	499	511

7. LOSS BEFORE TAX

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

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Cost of inventories sold*	**90,116**	57,164
Depreciation	**1,376**	3,056
Write-back of inventories to net realisable value*	**(88)**	(640)
Minimum lease payments under operating lease	**392**	817

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

8. 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	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current — Hong Kong		
Charge for the period	**–**	1,919
Current — Mainland China		
Charge for the period	**43**	–
Deferred	**–**	(1,463)
Total tax charge for the period	**43**	456

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.

9. INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the Period (six months ended 30 September 2018: nil).

10. 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$37,767,000 (2018: losses of approximately HK$23,803,000), and the weighted average number of ordinary shares in issue of 172,600,000 (2018: 172,600,000). The Group has no potentially dilutive ordinary shares in issue during the periods ended 30 September 2019 and 2018.

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Losses		
Losses attributable to ordinary equity holders of the parent used in the basic losses per share calculation	**(37,767)**	(23,803)

	Number of shares Six months ended 30 September **2019**	
	2019	2018
	(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**	172,600,000

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30 September 2019	At 31 March 2019
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Listed equity securities in Hong Kong, at fair value	**173,334**	–
Life insurance policy, at fair value	**16,376**	16,189

At the end of the reporting period, financial assets at fair value through profit or loss are stated at fair value.

The fair values of listed equity securities are determined based on the quoted market closing prices available on the stock exchange at the end of the reporting period.

During the Period, the loss on changes in fair value on the listed equity securities of approximately HK$25,056,000 has been recognised in profit or loss.

At the end of reporting period, the fair value of life insurance policy with the amount of approximately HK$16,376,000 was reference to the surrender value of the life insurance policy provided by the insurance company.

During the Period, the gain on changes in fair value on the life insurance policy of approximately HK$187,000 has been recognised in profit or loss.

12. INVENTORIES

	At 30 September 2019	At 31 March 2019
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Raw materials	**8,726**	27,886
Work in progress	**4,079**	59
Finished goods	**8,642**	3,143
	21,447	31,088

13. TRADE RECEIVABLES

	At 30 September 2019 *HK$'000* (unaudited)	At 31 March 2019 *HK$'000* (audited)
Trade receivables	**96,558**	67,718
Less: Allowance for doubtful debts	**(16,149)**	(16,149)
	80,409	51,569

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 2019 *HK$'000* (unaudited)	At 31 March 2019 *HK$'000* (audited)
Within 1 month	**26,338**	4,592
1 to 2 months	**8,287**	7,602
2 to 3 months	**21,649**	22,033
Over 3 months	**24,135**	17,342
	80,409	51,569

14. PREPAYMENT, DEPOSIT AND OTHER RECEIVABLES

	At 30 September 2019 *HK$'000* (unaudited)	At 31 March 2019 *HK$'000* (audited)
Prepayment	**2,131**	901
Deposits	**15,387**	138
Other receivables	**2,355**	2,691
	19,873	3,730

15. TRADE AND OTHER PAYABLES

	At 30 September 2019 HK$'000 (unaudited)	At 31 March 2019 HK$'000 (audited)
Trade payables	**16,481**	9,324
Other payables	**14,467**	19,191
	30,948	28,515

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 2019 HK$'000 (unaudited)	At 31 March 2019 HK$'000 (audited)
Within 1 month	**15,129**	2,020
1 to 2 months	**160**	1,666
2 to 3 months	**2**	1,740
Over 3 months	**1,190**	3,898
	16,481	9,324

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.

16. INTEREST-BEARING OTHER BORROWINGS

	At 30 September 2019		At 31 March 2019	
	Effective contractual interest rate (%) (unaudited)	**Amount HK$'000 (unaudited)**	Effective contractual interest rate (%) (audited)	Amount HK$'000 (audited)
Current:				
Other borrowings	**7.89**	**10,710**	–	–
Maturity profile:				
On demand		**10,710**		–

HK Interpretation 5 "Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause" requires that a loan which includes a clause that gives the lender the unconditional right to call the loan at any time ("**repayment on demand clause**") shall be classified in total by the borrower as current in the statement of financial position. As at 30 September 2019 approximately HK$10,710,000 (as 31 March 2019: nil) included a repayment on demand clause under the relevant loan agreements.

The Group's other borrowings as at the end of the reporting period are secured by the pledge of the Group's trade receivables at the end of the reporting period amounting to approximately HK$10,710,000 (at 31 March 2019: nil).

17. SHARE CAPITAL

	At 30 September 2019 *HK$'000* **(unaudited)**	At 31 March 2019 *HK$'000* (audited)
Authorised:		
2,000,000,000 (31 March 2019: 2,000,000,000) ordinary shares of HK$0.005 each (31 March 2019: HK$0.005 each)	**10,000**	10,000
Issued and fully paid:		
172,600,000 (31 March 2019: 172,600,000) ordinary shares of HK$0.005 each (31 March 2019: HK$0.005 each)	**863**	863

18. COMMITMENTS

At 30 September 2019, the Group had no capital commitments.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

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 Hong Kong, Mainland China, the Americas and Europe (including Russia). 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. At the same time, in order to enrich the product range, the Group also provides gold products and watches. The Group's customers are mainly wholesalers and retailers of jewellery products.

During the Period, global economic growth remains sluggish. Market volatility brought about by the escalated trade conflicts between the PRC and the U.S., Britain's planned exit for the E.U. as well as rising political and social tensions in different geographies all weighted on the risk sentiment and marked the arrival of an unstable era for the world order. Against this backdrop, practitioners in the jewellery trade continued to experience a challenging operating environment. Time was not easy for consumers as well, as reflected in the depressing effect of eroding confidence and purchasing power in the light of overall slow wage growth.

The trade war between the PRC and the U.S. was dampening the business sentiment, which sapped consumer confidence and spending to a considerable extent. 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. For the six months ended 30 September 2019, revenue generated from sales to the PRC market registered a decrease of approximately 69.8% to approximately HK$9.7 million as compared with the same period last year. Coupled with the negative performance, consumer expectations change in a significant way in the market. The strong aspiration for exclusivity and individuality among new, more modern Chinese consumers continued to put traditional fine jewellery under much pressure. While the revenue generated from Hong Kong market increased by approximately 1,478.5% to approximately HK$83.0 million. The increase of sales in Hong Kong market was mainly due to the commencement of trading of watches, and increase in sales of gold products during the Period.

In the U.S., consumers were also concerned about the ongoing trade battle with the PRC in the context of a slowing global economy. Prices at retail rose as fueled by increasing tariffs on Chinese imports, hitting consumers in their pocketbooks. Conscious spending overshadowed the pick-up in economic activity and put a chill on businesses' confidence. Additionally, a fundamental shift in purchase habits among the Americans could be seen when it comes to luxury, with fine jewelleries losing their share of spending. In this connection, revenue arising from sales to the Americas market lowered to approximately HK$4.0 million for the six months ended 30 September 2019, representing a drop of approximately 49.3%.

In Europe (including Russia), the jewellery industry confronted the challenges of a weak economy, with overall retail sales figures trending downward. Notwithstanding the Europe (including Russia) economy tended to be stable during the Period, the present trend troubling the traditional fine jewellery industry is not likely to get fully reversed unless confidence among European countries (including Russia) improves dramatically as a whole and middle class incomes rise. Against this backdrop, in the first six months of the financial year of 2019/2020, revenue generated from sales to the Europe (including Russia) market dropped by approximately 96.7% to approximately HK$1.0 million. As European (including Russian) consumers reset their expectations in light of the new economic reality, we are also reassessing our approach to the said market.

To better adapt to an ever-changing market landscape, the Group has relentlessly applied stringent controls over capital expenditures. For the six months ended 30 September 2019, the Group's administrative expenses were approximately 39.2% below that of the corresponding period of last year to approximately HK$14.7 million, while selling expenses decreased by approximately 79.8% to approximately HK$2.3 million.

Prospects

Looking ahead, in tune with the broader economic concerns, the trade war between the U.S. and the PRC and resultant retaliatory tariff measures, as well as uncertainty over Britain's departure from the E.U. are all negatively affecting the global economy, threatening higher risks of a recession and would weigh on businesses' long-term commitments and capital investment.

Likewise, to prepare themselves if and when the economy turns, it is also expected that average consumers are going to be very cautious and careful about spending. These rising headwinds, together with an intense online competition pushing jewellers to make investments in new technologies to augment both their physical and digital channels, suggest a perfect storm could be brewing for the traditional fine jewellery market which would see further consolidation.

In view of these, we will continue to enhance our management resources and cost efficiency to optimise our production capacity. We will leverage our established corporate brand name and proven design capabilities to enrich our range of jewellery products. We are constantly committed to strengthening our partnerships with our customers and adjusting our production resources, capacity and cycle to better cater to varied product lead time, consumer preferences and festive shopping practices in different markets.

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 the integrated services it is offering, i.e. providing a wider range of styles and designs tailored for individual markets and adjusting its production resources and capacity to better cater for the varied 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 spend its sales and marketing resources on promoting its brand and products, participating in selected trade exhibitions, and allocate 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. Support 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	
	2019	2018
	(unaudited)	(unaudited)
Revenue *(HK$'000)*	**98,001**	76,172
Gross profit *(HK$'000)*	**4,980**	9,715
Gross profit margin *(%)*	**5.1**	12.8
Loss attributable to the owners of the parent *(HK$'000)*	**(37,767)**	(23,803)

Revenue

The Group's revenue for the Period were approximately HK$98.0 million, representing an increase of approximately HK$21.8 million or 28.7% over the corresponding period in 2018. The group's revenue growth is mainly due to a substantial increase of about HK$77.7 million in sales in the Hong Kong market. The impressive increase in the Hong Kong market was because the sales of gold products and watches in the market were increased during the Period, which was the strategy of the Group to expand the Hong Kong market. In addition to the Hong Kong market, the revenue in other markets declined to varying degrees. The sales in the Mainland China decreased by approximately HK$22.4 million, which was negatively affected by the trade war between China and the U.S. With the increase of price and the risk of the decline of people's consumption level, the consumption expenditure of non-necessity, including jewellery products, will be reduced accordingly. A cliff drop of approximately HK$29.3 million in the Europe (including Russia) was caused by stagnant economic performance in Russia and Europe. In the context of rapid changes in the Russian economic crisis, the purchasing capabilities of residents have declined. Lighter and cheaper jewelleries are more popular, interests of customers for gold products have been declined and silver products have been increased, resulting in a decrease of average price. Economic growth in the Eurozone is weak due to sluggish international trade and a decline in manufacturing activity. Under the influence of U.S. tariffs, the American market has further shrunk and sales decreased by approximately HK$4.0 million.

Gross Profit and Gross Profit Margin

The Group's gross profit for the Period was approximately HK$5.0 million, representing a decrease of approximately HK$4.7 million or 48.7% over the corresponding period in 2018. Gross profit margin decreased to approximately 5.1% from approximately 12.8%, which was mainly due to the decrease in sales of jewellery business with higher gross profit.

Selling Expenses

The Group's selling expenses decreased by approximately HK$9.1 million or 79.8%, to approximately HK$2.3 million for the Period from approximately HK$11.4 million for the six months ended 30 September 2018. The decrease was primarily attributable to (i) a decrease of about HK$5.1 million in staff costs due to the adjustment of business operation and optimisation of staffing; (ii) a corresponding decrease of approximately HK$2.1 million in export credit insurance expenses due to a decrease in export volume; and (iii) a reduction of approximately HK$3.1 million in advertising, exhibition and travel arrangements based on the current market situation; and it was partially offset by (iv) the increase in consultancy fee of approximately HK$1.5 million for the six months ended 30 September 2019.

Administrative Expenses

The Group's administrative expenses decreased by approximately HK$9.5 million or 39.2%, to approximately HK$14.7 million for the Period from approximately HK$24.2 million for the six months ended 30 September 2018. The decrease was primarily due to the combined effects of (i) the adjustment of business operation and the streamlining of the personnel allocation resulted in a decrease of staff costs of about HK$3.6 million; (ii) the reasonable arrangement of self production and subcontracting, and the control of capital investment resulted in a decrease of approximately HK$1.6 million in depreciation and amortisation; (iii) the maturity of loan contracts resulted in a decrease in the related bank charges. Under the influence of this main factor, the total bank charges in the Period decreased by about HK$2.4 million; and (iv) reasonable allocation of resources, promotion of energy conservation and environmental protection, and continuous implementation of cost control measures to reduce office, water and electricity costs by about HK$1.1 million during the Period.

Finance Costs

The Group's financial cost for the Period was approximately HK$0.5 million, basically equal to approximately HK$0.5 million for the six months ended 30 September 2018.

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$37.8 million, compared with a consolidated loss of approximately HK$23.8 million for the corresponding period of 2018. Although the Group's revenue increased by approximately HK$21.8 million in the Period, the main reason for the increase in the Loss is that the sales in European and American markets with high gross profit continued to decline, while the gross profit of the newly added watch business in the Period was very low, making the overall gross profit decreased significantly. The group's gross profit for the Period decreased by about 48.7% compared with the same period in 2018.

Liquidity and Financial Resources

As at 30 September 2019, the Group had current assets of approximately HK$330.7 million (31 March 2019: approximately HK$357.2 million) which comprised cash and bank balances of approximately HK$35.6 million (31 March 2019: approximately HK$270.8 million). As at 30 September 2019, the Group had non-current liabilities of approximately HK$1.0 million (31 March 2019: nil), and its current liabilities amounted to approximately HK$44.3 million (31 March 2019: approximately HK$30.4 million), consisting mainly of payables arising in the normal course of operation and short-term loan. Accordingly, the current ratio, being the ratio of current assets to current liabilities, was approximately 7.5 at 30 September 2019 (31 March 2019: approximately 11.8).

Gearing Ratio

The gearing ratio of the Group as at 30 September 2019 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, cash and bank balance, trade and other payables. Consequently, the Group had foreign exchange risk exposure from translation of amount denominated in foreign currencies as at 30 September 2019. 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 2019 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$6,000 for the Period (30 September 2018: loss for the period attributable to the owners of the parent would have been increased/decreased by approximately HK$41,000).

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 2019 as compared with that as at 31 March 2019.

Capital Commitments

As at 30 September 2019, the Group had no capital commitments (31 March 2019: nil).

Interim Dividend

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

Information on Employees

As at 30 September 2019, the Group had 35 employees (31 March 2019: 40), 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 2019, 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

During the Period, the Group held the following significant investments in equity interest of other companies:

Name	Place of incorporation	HK stock code	Date of acquisitions	Acquired shares as at 30 September 2019	Proportion of acquired shares in the total issued share capital of investee as at 30 September 2019	Cost HK$ (exclusive of transaction costs)	Principal activities
China Automobile New Retail (Holdings) Limited (the former name is "Lisi Group (Holdings) Limited")	Bermuda	0526	11 and 16 July 2019	86,672,000	Approximately 1.08%	Approximately 68,789,000	Manufacturing and trading of household products, the operation of department stores and supermarkets, the wholesale of wine and beverages and electrical appliances, the trading and sales of imported cars, and investments holding
China U-Ton Holdings Limited	Cayman Islands	6168	11 July and 14 August 2019	200,540,000	Approximately 9.51%	Approximately 69,658,000	Provision of underground optical fiber deployment, low-voltage equipment integration, provision of application services and pipeline maintenance services, as well as the research and development of technologies for installing optical fiber in pipelines
Xiezhong International Holdings Limited	Cayman Islands	3663	11 July and 14 August 2019	19,296,000	Approximately 2.41%	Approximately 36,390,000	(i) the design, production and sale of automotive heating, ventilation and cooling systems and a range of automotive HVAC components and rendering of services; and (ii) 4S dealership business

For further information, please refer to (i) the announcement dated 17 July 2019 in relation to acquisitions of Lisi Group Shares; (ii) the announcements dated 16 August and 19 August 2019 in relation to acquisitions of China U-Ton Shares and Xiezhong International Shares; and (iii) the circular dated 19 September 2019 in relation to acquisitions of China U-Ton Shares.

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 2019.

Material Acquisitions and Disposal of Subsidiaries and Affiliated Companies

Save as disclosed in the paragraph headed "Significant Investment Held" in this announcement, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies during the Period.

Charges of Assets

As at 30 September 2019, the Group's other borrowings were secured by its trade receivables of approximately HK$10.7 million (31 March 2019: nil).

Contingent Liabilities

The Group had no material contingent liabilities as at 30 September 2019 (31 March 2019: 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.

Disclosure of Directors' Information Pursuant to Rules 13.51(2) and 13.51B of the Listing Rules

For the six months ended 30 September 2019, Mr. Nang Qi has resigned as the chairman of the Board (the "**Chairman**") and an executive Director, and no longer served as the chairman of the nomination committee of the Company (the "**Nomination Committee**") and a member of the remuneration committee of the Company (the "**Remuneration Committee**") with effect from 28 June 2019.

For the six months ended 30 September 2019, Mr. Chen Peiliang has resigned as an executive Director and the chief executive officer of the Company (the "**Chief Executive Officer**"), and no longer served as a member of the Nomination Committee and the Remuneration Committee and an authorised representative with effect from 28 June 2019.

For the six months ended 30 September 2019, Mr. Xue Qiang has resigned as an executive Director with effect from 28 June 2019.

For the six months ended 30 September 2019, Mr. Li Neng has been appointed as the Chairman and an executive Director, the chairman of the Nomination Committee and a member of the Remuneration Committee with effect from 28 June 2019.

For the six months ended 30 September 2019, Mr. Zhao Minhao has been appointed as an executive Director and the Chief Executive Officer, a member of the Nomination Committee and Remuneration Committee and an authorised representative with effect from 28 June 2019.

For the six months ended 30 September 2019, Mr. Zhao Yeyong has been appointed as an executive Director with effect from 28 June 2019.

Details of the above changes of directors and their resumes have been disclosed in the announcement dated 28 June 2019.

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. Li Neng (Chairman), Mr. Zhao Minhao and Mr. Zhao Yeyong and three independent non-executive Directors, namely Mr. Ting Tit Cheung, Mr. Chan Chi Kuen and Mr. Lo Chun Pong. During the Period, change in the composition of the Board was disclosed in the Corporate Governance section.

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
Chau Chi Lai
Company Secretary

Hong Kong, 21 November 2019

As at the date of this announcement, the executive Directors are Mr. Li Neng, Mr. Zhao Minhao and Mr. Zhao Yeyong; and the independent non-executive Directors are Mr. Ting Tit Cheung, Mr. Chan Chi Kuen and Mr. Lo Chun Pong.