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HONG KONG FOOD INVESTMENT HOLDINGS LIMITED

香港食品投資控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code : 60)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

INTERIM RESULTS

The Board of Directors (the “Board”) of Hong Kong Food Investment Holdings Limited (the “Company”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 September 2014, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended 30 September	
		2014	2013
	Notes	Unaudited HK\$'000	Unaudited HK\$'000
REVENUE	3	106,566	133,003
Cost of sales		<u>(94,798)</u>	<u>(121,325)</u>
Gross profit		11,768	11,678
Other income and gains	3	5,983	700
Selling and distribution expenses		(11,169)	(12,045)
Administrative expenses		(10,017)	(12,001)
Finance costs	4	(1,595)	(2,118)
Share of profits and losses of associates		21,781	21,125
Fair value gains on financial assets at fair value through profit or loss		<u>—</u>	<u>4</u>
PROFIT BEFORE TAX	5	16,751	7,343
Income tax	6	<u>—</u>	<u>—</u>
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		<u>16,751</u>	<u>7,343</u>
		<i>HK cents</i>	<i>HK cents</i>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY – Basic and diluted	7	<u>6.45</u>	<u>2.83</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 September	
	2014	2013
	Unaudited	Unaudited
	HK\$'000	HK\$'000
PROFIT FOR THE PERIOD	<u>16,751</u>	<u>7,343</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Share of other comprehensive income/(loss) of associates, net of tax	(2,252)	2,094
Exchange differences on translation of foreign operations	<u>456</u>	<u>323</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	<u>(1,796)</u>	<u>2,417</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	<u><u>14,955</u></u>	<u><u>9,760</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 September 2014 Unaudited Notes	31 March 2014 Audited
	HK\$'000	HK\$'000
NON-CURRENT ASSETS		
Property, plant and equipment	81,366	86,894
Investments in associates	419,882	407,267
Prepayments and deposits	2,095	2,232
Other non-current asset	540	540
Total non-current assets	503,883	496,933
CURRENT ASSETS		
Inventories	40,840	44,784
Trade receivables	8 21,575	14,442
Prepayments, deposits and other receivables	1,898	3,484
Cash and cash equivalents	59,084	42,332
Total current assets	123,397	105,042
CURRENT LIABILITIES		
Due to associates	454	254
Trade and bills payables	9 17,049	13,797
Other payables and accruals	9,061	8,623
Interest-bearing bank borrowings	154,087	147,841
Total current liabilities	180,651	170,515
NET CURRENT LIABILITIES	(57,254)	(65,473)
TOTAL ASSETS LESS CURRENT LIABILITIES	446,629	431,460
NON-CURRENT LIABILITIES		
Accruals	2,621	2,407
Deferred tax liabilities	1,567	1,567
Total non-current liabilities	4,188	3,974
Net assets	442,441	427,486
EQUITY		
Issued capital	117,095	117,095
Reserves	325,346	310,391
Total equity	442,441	427,486

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

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

The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those adopted in the preparation of the annual financial statements for the year ended 31 March 2014.

Despite the Group’s net current liabilities of HK\$57,254,000 as at 30 September 2014, the unaudited condensed consolidated interim financial statements have been prepared on a going concern basis on the basis of the contention of the Company’s directors that the Group has sufficient cash flows in the foreseeable future to enable it to continue its operations and meet its liabilities as and when they fall due.

In the current period, the Group has adopted, for the first time, a number of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), amendments and interpretations issued by the HKICPA, which are effective for accounting periods beginning on or after 1 April 2014.

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i>
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC)-Int 21	<i>Levies</i>

The adoption of the new and revised HKFRSs and interpretations has had no significant impact on these unaudited condensed consolidated interim financial statements.

The HKICPA has issued a number of new or revised standards, interpretations and amendments to standards which are not effective for accounting period beginning on 1 April 2014. The Group has not early adopted these new and revised HKFRSs.

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments for the period ended 30 September 2014 as follows:

- (i) the trading segment is engaged in the trading of frozen meats, seafood and vegetables in Hong Kong; and
- (ii) the retailing segment is engaged in the retailing of consumer goods in Mainland China.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income, dividend income from financial assets at fair value through profit or loss, fair value gains on financial assets at fair value through profit or loss, finance costs, share of profits and losses of associates and corporate and other unallocated expenses are excluded from such measurement.

Segment assets exclude investments in associates, certain items of property, plant and equipment and other corporate unallocated assets as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities and other corporate unallocated liabilities as these liabilities are managed on a group basis.

	Trading		Retailing		Total	
	Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September	
	2014	2013	2014	2013	2014	2013
Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment revenue:						
Sales to external customers	87,471	110,678	19,095	22,325	106,566	133,003
Segment results	2,171	(4,711)	(3,929)	(5,244)	(1,758)	(9,955)
<i>Reconciliation:</i>						
Interest income					13	17
Dividend income from financial assets at fair value through profit or loss					—	6
Fair value gains on financial assets at fair value through profit or loss					—	4
Finance costs					(1,595)	(2,118)
Share of profits and losses of associates					21,781	21,125
Corporate and other unallocated expenses					(1,690)	(1,736)
Profit before tax					16,751	7,343

2. OPERATING SEGMENT INFORMATION (continued)

	Trading		Retailing		Total	
	30 September 2014 Unaudited HK\$'000	31 March 2014 Audited HK\$'000	30 September 2014 Unaudited HK\$'000	31 March 2014 Audited HK\$'000	30 September 2014 Unaudited HK\$'000	31 March 2014 Audited HK\$'000
Segment assets	173,011	157,268	39,410	41,098	212,421	198,366
<i>Reconciliation:</i>						
Elimination of intersegment receivables					(61,304)	(60,304)
Investments in associates					419,882	407,267
Corporate and other unallocated assets					56,281	56,646
Total assets					627,280	601,975
Segment liabilities	174,615	164,879	66,635	64,872	241,250	229,751
<i>Reconciliation:</i>						
Elimination of intersegment payables					(61,304)	(60,304)
Corporate and other unallocated liabilities					4,893	5,042
Total liabilities					184,839	174,489

3. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of revenue, other income and gains is as follows:

	Six months ended 30 September	
	2014 Unaudited HK\$'000	2013 Unaudited HK\$'000
Revenue	<u>106,566</u>	<u>133,003</u>
Other income		
Bank interest income	13	17
Claims received	2	37
Dividend income from financial assets at fair value through profit or loss	–	6
Gross rental income	360	326
Sundry income	<u>2</u>	<u>1</u>
	<u>377</u>	<u>387</u>
Gains		
Foreign exchange differences, net	230	193
Gain on disposal of items of property, plant and equipment	<u>5,376</u>	<u>120</u>
	<u>5,606</u>	<u>313</u>
	<u>5,983</u>	<u>700</u>

4. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 September	
	2014 Unaudited HK\$'000	2013 Unaudited HK\$'000
Interest on bank and trust receipt loans wholly repayable within one year	<u>1,595</u>	<u>2,118</u>

5. PROFIT BEFORE TAX

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

	Six months ended	
	30 September	
	2014	2013
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Cost of inventories sold	94,798	124,293
Depreciation	3,386	3,162
Rental expenses under operating leases in respect of land and buildings:		
Minimum lease payments	4,946	5,523
Contingent rents	1,120	1,249
	6,066	6,772
Reversal of impairment of trade receivables	(846)	–
Reversal of write-down of inventories to net realisable value, included in cost of sales	–	(2,968)
	–	(2,968)

6. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profit arising in Hong Kong during the period (2013: Nil). No provision for Mainland China corporate income tax has been made as the Group had no assessable profit in Mainland China during the period (2013: Nil).

The share of tax attributable to associates amounting to HK\$7,535,000 (2013: HK\$5,192,000) is included in "Share of profits and losses of associates" in the unaudited condensed consolidated statement of profit or loss.

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$16,751,000 (2013: HK\$7,343,000), and on the 259,586,000 (2013: 259,586,000) ordinary shares in issue during the period.

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 September 2014 and 30 September 2013 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these periods.

8. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one to three months.

An aged analysis of the trade receivables as at 30 September 2014 and 31 March 2014, based on the invoice date and net of impairment provisions, is as follows:

	30 September 2014 Unaudited HK\$'000	31 March 2014 Audited HK\$'000
Within 1 month	9,300	5,841
1 to 2 months	10,621	6,895
Over 2 months	<u>1,654</u>	<u>1,706</u>
	<u>21,575</u>	<u>14,442</u>

9. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at 30 September 2014 and 31 March 2014, based on the invoice date, is as follows:

	30 September 2014 Unaudited HK\$'000	31 March 2014 Audited HK\$'000
Within 1 month	13,886	12,856
1 to 2 months	<u>3,163</u>	<u>941</u>
	<u>17,049</u>	<u>13,797</u>

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 60 days.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2014 (2013: Nil).

BUSINESS REVIEW AND PROSPECTS

BUSINESS REVIEW

For the six months ended 30 September 2014, the Group's turnover was HK\$106,566,000 (2013: HK\$133,003,000). The profit attributable to equity holders of the Company was HK\$16,751,000 (2013: HK\$7,343,000). The increase in profit was mainly attributable to the completion of the disposal of a property during the period, resulting in a gain on disposal of HK\$5,376,000 and the control in the operating costs.

Frozen Meats Trading

During the period under review, the economy in Mainland China slowed down which in turn affected the economic environment of Hong Kong. The spending sentiment and selling prices of frozen meats in Hong Kong market were weak. Competing with a relatively stronger demand for frozen meats in overseas countries which could accept higher purchase prices, the overseas exporters stood firm in their supply prices to Hong Kong market, persistently at high level. To mitigate market risks, the Group adopted prudent purchasing and selling strategies and stringently controlled the operating costs. Sales for the first half year were HK\$87,471,000 while the level of inventory at the end of the period stood at a prudent level of HK\$30,051,000.

Retail Chain of Mini Department Stores

The business of mini department stores in Mainland China maintained a stable development, with a total of 6 stores operating in Guangzhou City and Foshan City. During the period under review, the Group continued to adjust its product portfolio along with the market trend to provide various kinds of items to customers, including living essentials, trendy souvenirs and ornaments, and snack foods. Sales for the period were HK\$19,095,000. Benefited from weak Japanese Yen, the cost of Yen-based imported products was lowered and thus improved the gross profit margin.

Food Business Investment

The Group has strategically held equity interest in Four Seas Mercantile Holdings Limited ("FSMHL") as investment. During the period, all segment businesses of FSMHL, including food distribution, manufacturing, retailing and catering, performed satisfactorily. Capitalising on its strong brand equity, extensive distribution network and stringent quality and costs control, FSMHL maintained a stable growth in its profit during the period. As at 30 September 2014, the Group held equity interest of approximately 29.98% in FSMHL and shared a profit after tax of HK\$21,781,000.

BUSINESS REVIEW AND PROSPECTS (continued)

PROSPECTS

Looking forward, the Group will maintain its prudent policy on frozen meats trading business according to the conditions of the domestic consumer market and the overseas supply. In addition, the Group will closely monitor the economic development in Mainland China to develop its mini department stores business and to seek for suitable new store locations. Besides, FSMHL will continue to proactively expand its market share and retail network in Hong Kong. Also, with FSMHL's focusing on exploring the 1.3 billion population Mainland China market through Guangdong province as a base for its Four Seas brand and other distributed products to penetrate into different mainland cities, this will gradually increase its market shares there to generate better results and thus will bring along considerable contributions to the Group.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and facilities granted by its principal bankers. As at 30 September 2014, the Group had banking facilities of HK\$371,000,000 of which 42% had been utilised. The Group had a gearing ratio of 35% as at 30 September 2014. This is expressed as the total bank borrowings to equity attributable to equity holders of the Company. Bank borrowings of the Group, denominated in Hong Kong dollars, are mainly short term loans and trust receipt loans (the "Interest-Bearing Bank Borrowings") at prevailing market interest rates. The Interest-Bearing Bank Borrowings which are classified as current liabilities are repayable within one year. As at 30 September 2014, the Group held cash and cash equivalents of HK\$59,084,000. There were no significant changes in the Group's contingent liabilities and no charges on the Group's assets during the period under review.

STAFF EMPLOYMENT

The total number of employees of the Group as at 30 September 2014 was 147. Remuneration packages are generally structured by reference to market terms and individual qualifications. Salaries and wages are normally reviewed annually based on performance appraisals and other relevant factors.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE

The Group strives to maintain high standards of corporate governance to enhance shareholders value and safeguard shareholders interests. The Company's directors are of the view that the Company has met the code provisions listed in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules for the six months ended 30 September 2014, except for the following deviations:

Code Provision A.4.1

Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election.

Currently, all independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association of the Company. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

Code Provision A.4.2

Under the code provision A.4.2, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with the Articles of Association of the Company, any director appointed to fill a casual vacancy shall hold office only until the next following annual general meeting and shall then be eligible for re-election. The Board considers that such a deviation is not material as a casual vacancy seldom appears and the interval between the appointment made to fill a casual vacancy and the immediate following annual general meeting is short.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

The Company has also established the Code for Securities Transactions by the Relevant Employees (the "Employees Code") on no less exacting terms than the Model Code for securities transactions by the employees who are likely to be in possession of inside information of the Company. No incident of non-compliance of the Employees Code by the employees was noted by the Company throughout the six months ended 30 September 2014.

UPDATE OF DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

The details of change in the Company's directorship since the date of the 2014 Annual Report are set out below:

- (1) Mr. Lai Yuk Chuen retired as an executive director of the Company on 28 August 2014. Mr. Lai has been appointed as an adviser of the Company's subsidiary on the frozen meats trading business.
- (2) Mr. Yip Wai Keung retired as an executive director of the Company on 28 August 2014.

AUDIT COMMITTEE

The Audit Committee of the Company comprises all the three independent non-executive directors, namely Mr. Chan Kay Cheung (Chairman of the Audit Committee), Mr. Lan Yee Fong, Steve John and Mr. Lui Shing Ming, Brian. The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2014 and discussed with the management on the accounting principles and practices adopted by the Group, internal controls and financial reporting matters.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The Company's 2014 interim results announcement is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company's website at www.hongkongfoodinvestment.com.hk.

The interim report of the Company for the six months ended 30 September 2014 containing information required by Appendix 16 of the Listing Rules will be despatched to the shareholders of the Company and published on the above websites in due course.

APPRECIATION

The Board of Directors of the Company would like to express its sincere appreciation to the shareholders, business partners and staff for their continued support to the Group.

On behalf of the Board
Hong Kong Food Investment Holdings Limited
TAI Tak Fung, Stephen, GBS, SBS, JP
Chairman

Hong Kong, 28 November 2014

As at the date of this announcement, the directors of the Company are Mr. TAI Tak Fung, Stephen, Mr. MAN Wing Cheung, Ellis, Mr. TAI Chun Kit and Mr. TSE Siu Wan as executive directors, Mr. CHAN Kay Cheung, Mr. LAN Yee Fong, Steve John and Mr. LUI Shing Ming, Brian as independent non-executive directors.