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PAK FAH YEOW INTERNATIONAL LIMITED

白花油國際有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 239)

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

HIGHLIGHTS

- Revenue down 14.5% year-on-year.
- Reported profit declined 83.7% mainly attributable to unrealised fair value losses on the Group's investment properties in Hong Kong and the United Kingdom.
- The business in Healthcare in the first half of 2016 has been challenging. Underlying recurring profit, the performance indicator of the Group, down 32.1% year- on-year.
- Promotional strategies to all markets aiming at achieving comparable results for 2016 and extension of market coverage in the Mainland China will be the focus for the rest of the year.

The board of directors (the “Board”) of Pak Fah Yeow International Limited (the “Company”) is pleased to announce the interim results of the Company and its subsidiaries (collectively referred as the “Group”) for the six months ended 30 June 2016 together with comparative figures for the previous year:

RESULTS SUMMARY

	<i>Notes</i>	Six months ended 30 June		<i>Change</i>
		2016	2015	
		<i>HK\$'000</i>	<i>HK\$'000</i>	
Revenue	1	75,308	88,058	-14.5%
Reported profit	2	5,224	32,039	-83.7%
Underlying recurring profit	3	22,959	33,819	-32.1%
		<i>HK cents</i>	<i>HK cents</i>	
Earnings per share:	4			
Reported profit		1.7	10.3	-83.5%
Underlying recurring profit		7.4	10.9	-32.1%
Total dividends per share	4	4.8	4.8	—
		At	At	
		30 June	31 December	
		2016	2015	
		<i>HK\$'000</i>	<i>HK\$'000</i>	
Shareholders' funds	5	589,431	624,390	-5.6%
		<i>HK\$</i>	<i>HK\$</i>	
Net asset value per share	6	1.89	2.00	-5.5%

- Notes:*
1. Revenue represents revenue derived from the three business segments, namely healthcare, property investment and treasury investment.
 2. Reported profit (“Reported Profit”) is the profit attributable to owners of the Company, which is prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.
 3. Underlying recurring profit (“Underlying Recurring Profit”) reflects the Group’s performance of the three business segments and is arrived at by excluding from Reported Profit the unrealised fair value changes of financial assets at fair value through profit or loss and of investment properties, and the items that are non-recurring in nature.
 4. The basic and diluted earnings per share and the total dividends per share are calculated using the weighted average number of ordinary shares in issue during the period, as adjusted to reflect the bonus issue approved in June 2015, of 311,640,000 ordinary shares as denominator.
 5. Shareholders’ funds are the equity attributable to owners of the Company, which is equivalent to the total equity as presented in the Company’s consolidated statement of financial position.
 6. Net asset value per share represents shareholders’ funds divided by the number of ordinary shares of the Company in issue as at the balance sheet date.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
		(unaudited)	(unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	2	75,308	88,058
Other revenue and other net income	3	395	434
Changes in inventories of finished goods		3,282	4,173
Raw materials and consumables used		(14,719)	(17,652)
Staff costs		(16,065)	(16,801)
Depreciation expenses		(1,181)	(1,210)
Net exchange (loss) gain		(993)	268
Other operating expenses		(17,495)	(16,039)
Profit from operations before fair value changes of financial assets through profit or loss and of investment properties		28,532	41,231
Net gain (loss) on financial assets at fair value through profit or loss		166	(190)
Revaluation surplus in respect of investment properties		–	2,370
Revaluation deficit in respect of investment properties		(17,901)	(3,960)
Profit from operations		10,797	39,451
Finance costs	4	(563)	(617)
Profit before taxation	4	10,234	38,834
Taxation	5	(5,010)	(6,795)
Profit for the period, attributable to owners of the Company		5,224	32,039

		Six months ended 30 June	
		2016	2015
		(unaudited)	(unaudited)
<i>Note</i>		HK\$'000	HK\$'000
Other comprehensive (loss) income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
	Change in fair value of available-for-sale financial assets	2	174
	Exchange difference arising from translation of financial statements of overseas subsidiaries	(13,732)	1,234
	Exchange difference arising from translation of inter-company balances with overseas subsidiaries representing net investments	3,751	(501)
<i>Item that will not be reclassified to profit or loss:</i>			
	Revaluation (deficit) surplus of leasehold land and buildings, net of tax effect of HK\$857,000 (2015: HK\$611,000)	(4,338)	3,093
Other comprehensive (loss) income for the period, net of tax, attributable to owners of the Company		(14,317)	4,000
Total comprehensive (loss) income for the period, attributable to owners of the Company		(9,093)	36,039
Earnings per share			
	Basic and diluted	7 1.68 cents	10.3 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

		At 30 June 2016 (unaudited) HK\$'000	At 31 December 2015 (audited) HK\$'000
	Notes		
Non-current assets			
Investment properties		288,306	321,013
Property, plant and equipment		297,276	303,831
Intangible assets		2,450	2,450
Available-for-sale financial assets		8,518	8,691
		<u>596,550</u>	<u>635,985</u>
Current assets			
Inventories		21,338	17,419
Trade and other receivables	8	43,586	58,698
Financial assets at fair value through profit or loss		22,537	19,954
Pledged bank deposits		20,907	23,505
Bank balances and cash		49,227	16,726
		<u>157,595</u>	<u>136,302</u>
Current liabilities			
Bank borrowings, secured		30,360	35,141
Current portion of deferred income		176	159
Current portion of provision for directors' retirement benefits		10,187	—
Trade and other payables	9	18,495	23,850
Tax payable		5,670	1,295
Dividends payable		26,450	7,138
		<u>91,338</u>	<u>67,583</u>
Net current assets		<u>66,257</u>	<u>68,719</u>
Total assets less current liabilities		<u>662,807</u>	<u>704,704</u>

	At 30 June 2016 (unaudited) <i>HK\$'000</i>	At 31 December 2015 (audited) <i>HK\$'000</i>
<i>Notes</i>		
Non-current liabilities		
Long-term portion of consideration payable for acquisition of trademarks	2,074	2,074
Long-term portion of deferred income	25,303	22,862
Provision for long service payments	1,590	841
Long-term portion of provision for directors' retirement benefits	4,623	13,911
Deferred taxation	39,786	40,626
	73,376	80,314
NET ASSETS	589,431 	624,390
Capital and reserves		
Share capital	15,582	15,582
Share premium and reserves	573,849	608,808
TOTAL EQUITY	589,431 	624,390

Notes:

1. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements (the “Interim Financial Statements”) have been prepared under the historical cost convention except for investment properties, leasehold land and buildings, available-for-sale financial assets and financial assets at fair value through profit or loss, which are measured at fair value.

Except as described below, the accounting policies and basis of preparation adopted in these Interim Financial Statements are consistent with those used in the preparation of the 2015 Annual Accounts.

The HKICPA has issued a number of amendments to the Hong Kong Financial Reporting Standards (“HKFRSs”) that are mandatorily effective for the current accounting period of the Group. Of these, the following amendment is relevant to the Group:

Amendments to HKAS 34	Disclosure of Information “Elsewhere in the Interim Financial Report”
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The adoption of this new/revised HKFRS has had no material effect on the amounts and/or disclosures reported in these Interim Financial Statements.

2. OPERATING SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker – the executive directors for making strategic decisions and resources allocation. The Group’s operating segments are structured and managed separately according to the nature of their businesses. The Group is currently organised into three operating businesses as follows:

- (a) Healthcare – manufacturing and sale of Hoe Hin products
- (b) Property investment
- (c) Treasury investment

Each of the Group’s operating segments represents a strategic business unit subject to risks and returns that are different from those of the other operating segments.

For the purposes of assessing the performance of the operating segments between segments, the executive directors assess segment profit or loss before income tax without allocation of finance costs, directors’ emoluments, and central administration costs and the basis of preparing such information is consistent with that of the consolidated financial statements. All assets are allocated to reportable segments other than corporate assets. All liabilities are allocated to reportable segments other than deferred taxation, provision for directors’ retirement benefits, tax payable, dividends payable and other corporate liabilities.

Business segments

	Six months ended 30 June 2016			
	Healthcare (unaudited) <i>HK\$'000</i>	Property investment (unaudited) <i>HK\$'000</i>	Treasury investment (unaudited) <i>HK\$'000</i>	Consolidated (unaudited) <i>HK\$'000</i>
Revenue from external customers	<u>69,969</u>	<u>5,130</u>	<u>209</u>	<u>75,308</u>
Segment results	<u>31,421</u>	<u>(13,371)</u>	<u>774</u>	<u>18,824</u>
Unallocated corporate expenses				<u>(8,027)</u>
Profit from operations				<u>10,797</u>
Finance costs				<u>(563)</u>
Profit before taxation				<u>10,234</u>
Taxation				<u>(5,010)</u>
Profit for the period				<u>5,224</u>

	Six months ended 30 June 2015			
	Healthcare (unaudited) <i>HK\$'000</i>	Property investment (unaudited) <i>HK\$'000</i>	Treasury investment (unaudited) <i>HK\$'000</i>	Consolidated (unaudited) <i>HK\$'000</i>
Revenue from external customers	<u>82,282</u>	<u>5,223</u>	<u>553</u>	<u>88,058</u>
Segment results	<u>43,477</u>	<u>2,779</u>	<u>332</u>	<u>46,588</u>
Unallocated corporate expenses				<u>(7,137)</u>
Profit from operations				<u>39,451</u>
Finance costs				<u>(617)</u>
Profit before taxation				<u>38,834</u>
Taxation				<u>(6,795)</u>
Profit for the period				<u>32,039</u>

Segment assets and liabilities

The following table presents segment assets and liabilities of the Group's business segments as at 30 June 2016 and 31 December 2015:

	At 30 June 2016			Consolidated (unaudited) HK\$'000
	Healthcare (unaudited) HK\$'000	Property investment (unaudited) HK\$'000	Treasury investment (unaudited) HK\$'000	
Assets				
Segment assets	396,371	289,003	68,404	753,778
Unallocated corporate assets				367
Consolidated total assets				<u>754,145</u>
Liabilities				
Segment liabilities	28,701	49,753	–	78,454
Unallocated corporate liabilities				86,260
Consolidated total liabilities				<u>164,714</u>
	At 31 December 2015			Consolidated (audited) HK\$'000
	Healthcare (audited) HK\$'000	Property investment (audited) HK\$'000	Treasury investment (audited) HK\$'000	
Assets				
Segment assets	387,743	321,330	62,588	771,661
Unallocated corporate assets				626
Consolidated total assets				<u>772,287</u>
Liabilities				
Segment liabilities	32,438	50,273	780	83,491
Unallocated corporate liabilities				64,406
Consolidated total liabilities				<u>147,897</u>

Geographical information

	Revenue from external customers		Results from operations	
	Six months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	47,130	59,366	16,329	34,689
Macau	6,051	6,994	3,846	4,921
PRC	8,570	3,163	201	(423)
Southeast Asia	7,823	11,656	3,410	5,317
North America	2,004	2,652	929	1,096
United Kingdom	3,062	3,226	(6,917)	813
Europe (excluding United Kingdom)	–	135	82	(183)
Other regions	668	866	485	(43)
Unallocated corporate expenses	–	–	(7,568)	(6,736)
	<u>75,308</u>	<u>88,058</u>	<u>10,797</u>	<u>39,451</u>

3. OTHER REVENUE AND OTHER NET INCOME

	Six months ended 30 June	
	2016	2015
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Listed investments:		
Dividend income from financial assets at fair value through profit or loss	273	254
Gain on disposal of financial assets at fair value through profit or loss	67	125
Commission received	12	18
Gain on disposal of property, plant and equipment	15	–
Sundry income	28	37
	<u>395</u>	<u>434</u>

4. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2016	2015
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
This is stated after charging:		
(a) Finance costs		
Interest on bank borrowings	284	338
Interest on consideration payable for acquisition of trademarks	279	279
	<u>563</u>	<u>617</u>
(b) Other items		
Cost of inventories	<u>19,974</u>	<u>22,869</u>

5. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (2015: 16.5%) of the estimated assessable profits for the period. Overseas taxation has been provided on the estimated assessable profits for the period at the rates of taxation prevailing in the relevant jurisdictions.

The charge comprises:

	Six months ended 30 June	
	2016	2015
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Current tax		
Hong Kong Profits Tax	4,395	6,173
Overseas tax	599	606
	<u>4,994</u>	<u>6,779</u>
Deferred tax		
Origination of temporary differences	<u>16</u>	<u>16</u>
	<u>5,010</u>	<u>6,795</u>

6. DIVIDENDS

Dividends attributable to the previous financial year, approved and paid during the period

At the board meeting held on 30 March 2016, the directors proposed a final dividend of HK5.6 cents per share totalling HK\$17,452,000 for the year ended 31 December 2015 (year ended 31 December 2014: HK6.5 cents per share totalling HK\$16,881,000) which had been reflected as an appropriation of retained profits. Upon the approval by shareholders on 15 June 2016, the appropriation was transferred to dividends payable.

Dividends attributable to the period

	Six months ended 30 June	
	2016	2015
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
First interim dividend	8,414	8,414
Second interim dividend	6,544	6,544
	14,958	14,958

On 15 June 2016, the directors declared the first interim dividend of HK2.7 cents per share totalling HK\$8,414,000 (2015: HK2.7 cents per share totalling HK\$8,414,000 declared on 11 June 2015), which was payable to the shareholders on the register of members of the Company on 5 August 2016.

On 23 August 2016, the directors declared the second interim dividend of HK2.1 cents per share totalling HK\$6,544,000 (2015: HK2.1 cents per share totalling HK\$6,544,000 declared on 26 August 2015), which was payable to the shareholders on the register of members of the Company on 7 October 2016.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the profit attributable to owners of the Company for the period of HK\$5,224,000 (2015: HK\$32,039,000) and the weighted average number of 311,640,000 (2015: 311,640,000) ordinary shares in issue during the period.

Diluted earnings per share equals to basic earnings per share as there were no potential dilutive ordinary shares outstanding during the two periods ended 30 June 2015 and 2016.

8. TRADE AND OTHER RECEIVABLES

	At 30 June 2016 (unaudited) HK\$'000	At 31 December 2015 (audited) HK\$'000
Trade receivables	36,909	38,282
Bills receivables	4,935	17,719
Other receivables		
Deposits, prepayments and other debtors	1,742	2,697
	<u>43,586</u>	<u>58,698</u>

The Group allows credit period ranging from 30 days to 120 days to its customers. The ageing analysis of trade receivables by invoice date is as follows:

	At 30 June 2016 (unaudited) HK\$'000	At 31 December 2015 (audited) HK\$'000
Within 30 days	15,487	4,082
31 – 60 days	9,161	23,305
61 – 90 days	12,045	9,927
Over 90 days	216	968
	<u>36,909</u>	<u>38,282</u>

9. TRADE AND OTHER PAYABLES

	At 30 June 2016 (unaudited) HK\$'000	At 31 December 2015 (audited) HK\$'000
Trade payables	3,772	2,910
Other payables		
Accrued charges and other creditors	14,623	20,840
Customers' deposits	100	100
	<u>14,723</u>	<u>20,940</u>
	<u>18,495</u>	<u>23,850</u>

The ageing analysis of trade payables by invoice date is as follows:

	At 30 June 2016 (unaudited) <i>HK\$'000</i>	At 31 December 2015 (audited) <i>HK\$'000</i>
Within 30 days	3,692	1,969
31 – 60 days	–	269
61 – 90 days	–	621
More than 90 days	80	51
	3,772	2,910

10. PLEDGE OF ASSETS

Certain of the Group's leasehold land and buildings, investment properties, bank deposits and financial assets at fair value through profit or loss were pledged to secure banking facilities, including bank borrowings, granted to the Group to the extent of HK\$99,232,000 (31 December 2015: HK\$102,489,000), of which HK\$30,360,000 (31 December 2015: HK\$35,141,000) were utilised at the end of the reporting period.

The carrying amounts of the Group's pledged assets are as follows:

	At 30 June 2016 (unaudited) <i>HK\$'000</i>	At 31 December 2015 (audited) <i>HK\$'000</i>
Leasehold land and buildings	120,000	127,000
Investment properties	152,278	177,165
Financial assets at fair value through profit or loss	21,838	19,516
Bank deposits	20,907	23,505
	315,023	347,186

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Results Overview

Following an interest rate rise near the end of 2015 in the United States and an exchange rate adjustment of the Renminbi, global financial markets remained volatile during the first half of 2016. Concerns over the economy slowdown in the Mainland and decline in the number of inbound visitors that affected retail spending had a negative impact on the economic growth in Hong Kong. Strong United States Dollars against other currencies had made export sales in certain overseas markets less competitive. The result of referendum in the United Kingdom that voted for “Brexit” from the European Union had further created global economic uncertainties, leading to an immediate exchange rate adjustment of Pound Sterling in June 2016.

From this background, the Group recorded total revenue of HK\$75,308,000 for the six months ended 30 June 2016, a decline of 14.5% from HK\$88,058,000 for the same corresponding period in 2015. Revenue of each business segment is as follows:

	Six months ended 30 June		
	2016	2015	Change
	HK\$'000	HK\$'000	%
Healthcare	69,969	82,282	–15.0
Property investment	5,130	5,223	–1.8
Treasury investment	209	553	–62.2
	<u>75,308</u>	<u>88,058</u>	–14.5

Underlying Recurring Profit, which excludes from Reported Profit the unrealised fair value changes of financial assets and of investment properties and the items that are non-recurring in nature, was HK\$22,959,000, down 32.1% from HK\$33,819,000 year-on-year. This mainly reflected weak retail performance in most of the markets (other than Mainland China) for the first six months in 2016. Earnings per share of Underlying Recurring Profit was HK7.4 cents, down 32.1% from HK10.9 cents for 2015.

Reported Profit for the six months ended 30 June 2016 down by 83.7% to HK\$5,224,000 (2015: HK\$32,039,000), primarily due to unrealised fair value losses on the Group's investment properties in the United Kingdom (the “UK Properties”) and Hong Kong (the “Hong Kong Properties”).

Below is reconciliation between Underlying Recurring Profit and Reported Profit:

	Six months ended 30 June		
	2016	2015	Change
	HK\$'000	HK\$'000	%
Underlying Recurring Profit	22,959	33,819	–32.1
Unrealised fair value changes of:			
Financial assets	166	(190)	
Investment properties:			
United Kingdom	(10,081)	(2,360)	
Others	(7,820)	770	
Reported Profit	5,224	32,039	–83.7

The revaluation of other properties, which is accounted for as other comprehensive income, has resulted in a net revaluation loss for the period of HK\$4,338,000 (2015: gain of HK\$3,093,000).

Total comprehensive loss attributable to owners for the six months ended 30 June 2016 was approximately HK\$9,093,000 (2015: income of HK\$36,039,000).

OPERATIONS REVIEW

Healthcare

Revenue from Healthcare segment declined by 15.0% to HK\$69,969,000 (2015: HK\$82,282,000). Revenue of each geographical segment is as follows:

	Six months ended 30 June		
	2016	2015	Change
	HK\$'000	HK\$'000	%
Hong Kong	45,202	57,440	–21.3
Macau	6,051	6,993	–13.5
Mainland China	8,540	3,162	+170.1
Southeast Asia	7,526	11,264	–33.2
North America	2,004	2,630	–23.8
Others	646	793	–18.5
Segment revenue	69,969	82,282	–15.0
Segment profit	31,421	43,477	–27.7

Weak retail spending and less inbound visitors in Hong Kong persisted in the first half of 2016, leading to a 21.3% drop in sales contribution from this market. This also extended to sales contribution in Macau which also decreased by 13.5%. Performance in Mainland China, however, was encouraging after the focus on new sales strategy to extend coverage of the Group's products to existing and new geographical areas.

Poor economic growth and unfavorable exchange rate continued to affect sales growth in Southeast Asia, particularly for imported goods such as the Group's products. Philippines remained the major market in Southeast Asia. Due to the national election in the second quarter of 2016, marketing promotions during the period were intentionally reduced to correspond with the spending habits of consumers, leading to a drop in sales in this market. Marketing promotions have now been resumed and sales to Philippines are expected to be back on track for the second half of 2016. In the United States, sales growth was slower during the period as a result of measures taken to maintain a healthy stock level of the distributor.

Property Investment

Revenue for this segment declined by 1.8% to HK\$5,130,000 (2015: HK\$5,223,000). This change mainly represents decreased average exchange rate in translating rental income derived from the UK Properties, partly offset by mild increase in rental income as a result of rent review in April 2016 for certain of the Hong Kong Properties. Revenue of each geographical segment is as follows:

	Six months ended 30 June		
	2016	2015	Change
	HK\$'000	HK\$'000	%
Hong Kong – office and residential	1,958	1,884	+3.9
Singapore – industrial	111	113	–1.8
United Kingdom – retail/residential	3,061	3,226	–5.1
Segment revenue	5,130	5,223	–1.8
Segment result – (loss) profit	(13,371)	2,779	–581.1

For the six months ended 30 June 2016, segment revenue of about 38.2%, 2.1% and 59.7% (2015: 36.1%, 2.1% and 61.8%) were derived from investment properties in Hong Kong, Singapore and United Kingdom respectively. Occupancy rate was 100% (2015: 100%) let for the six months ended 30 June 2016.

Underlying Recurring Segment Result, which excludes from the segment result the unrealised fair value changes of financial assets and of investment properties and the items that are non-recurring in nature, was a profit of HK\$4,530,000, up by 3.7% from HK\$4,369,000 for 2015. Property expenses ratio as a percentage of segment revenue decreased to 11.7% (2015: 16.4%) for the period.

Segment result for the six months ended 30 June 2016 down by 581.1% to a loss of HK\$13,371,000 (2015: profit of HK\$2,779,000), mainly attributable to unrealised revaluation losses of HK\$17,901,000 (2015: HK\$1,590,000) for the period was recognised for the Group's investment properties. Weakened sentiment of Hong Kong property market and the Brexit vote that hit confidence in London property market led to a significant downward adjustment based on the assessment of property valuation.

Below is reconciliation between Underlying Recurring Segment Result and the segment result:

	Six months ended 30 June		
	2016	2015	Change
	HK\$'000	HK\$'000	%
Underlying Recurring Segment Result	4,530	4,369	+3.7
Unrealised fair value changes of investment properties:			
United Kingdom	(10,081)	(2,360)	
Others	(7,820)	770	
Segment result – (loss) profit	(13,371)	2,779	–581.1

Treasury Investment

Other than placing deposits in renowned banks, the Group also invested in equity and debt securities, mutual funds and dual currency investments for higher yields.

Revenue (mainly interest income) derived from this segment decreased by 62.2% to HK\$209,000 (2015: HK\$553,000), primarily due to holding less debt securities during the period. Underlying Recurring Segment Result improved to a profit of HK\$608,000 (2015: HK\$522,000). This improvement reflected improved performance on foreign currency transactions, partly offset by the decreased interest income as aforesaid.

The segment results improved to a profit of HK\$774,000 (2015: HK\$332,000), mainly attributable to, amongst others as mentioned above, improved unrealised fair value changes on listed investments.

Below is reconciliation between Underlying Recurring Segment Result and the segment result:

	Six months ended 30 June		
	2016	2015	Change
	HK\$'000	HK\$'000	%
Underlying Recurring Segment Result	608	522	+16.5
Unrealised fair value changes of financial assets	166	(190)	
Segment result	774	332	+133.1

FINANCIAL REVIEW

The results overview and operations reviews in preceding sections also cover financial review of the Group's three business segments. This section discusses other significant financial items.

Staff Costs

Staff costs are categorised into production (production-related payroll costs) and administration (other payroll costs including management and head office staff), which reduced by 4.4% from HK\$16,801,000 to HK\$16,065,000. This mainly reflected decreased provision for executive directors' management bonus.

Other Operating Expenses

Other operating expenses increased by 9.1% to HK\$17,495,000 (2015: HK\$16,039,000), mainly attributable to more sales and marketing expenses incurred for the period. Other operating expenses ratio as a percentage of total revenue increased to 23.2% (2015: 18.2%) for the period.

Finance Costs

Finance costs decreased by 8.8% to HK\$563,000 (2015: HK\$617,000), mainly due to lower average bank loan balances during the year after repayment of part of the mortgage loans in Hong Kong and the United Kingdom. Interest coverage ratio (profit from operations before interest and taxes and before unrealised fair value changes of financial assets and of investment properties divided by finance costs) declined to 50.7 (2015: 66.8) for the period.

Taxation

Decrease in taxation from HK\$6,795,000 to HK\$5,010,000 was principally due to a decline in taxable operating profits of subsidiaries in Hong Kong.

Investment Properties

The Hong Kong Properties and the UK Properties were valued at 30 June 2016 by an independent professional valuer on a fair value basis. No revaluation was made for the Group's investment properties in Singapore as its fair value change was considered insignificant for the period. The valuation as at 30 June 2016 was HK\$288,306,000, a decline of 10.2% from HK\$321,013,000 as at 31 December 2015. Such decline reflected a weakening prospect of property markets in Hong Kong and the United Kingdom, and in particular the immediate impact on speculation after Brexit vote with immediate adjustment of the Pound Sterling. The valuation of the Group's investment properties in each geographical segment as at the balance sheet date is as follows.

	As at 30 June 2016		As at 31 December 2015		Change in HK\$ %
	Original currency	HK\$'000	Original currency	HK\$'000	
	'000		'000		
Hong Kong – office and residential	HK\$124,550	124,550	HK\$132,370	132,370	–5.9
Singapore – industrial	S\$2,100	11,478	S\$2,100	11,478	–
United Kingdom – retail/residential	GBP14,600	152,278	GBP15,500	177,165	–14.0
		288,306		321,013	–10.2

Unrealised fair value losses on investment properties of HK\$17,901,000 (2015: HK\$1,590,000) was recognised for the year.

FINANCIAL RESOURCES AND TREASURY POLICIES

The Group continues to adhere to prudent treasury policies. Gearing ratio (interest-bearing borrowings divided by total shareholders' funds) as at 30 June 2016 was 5.2% (31 December 2015: 5.6%). Total bank borrowings of the Group amounted to HK\$30,360,000 (31 December 2015: HK\$35,141,000), mainly denominated in Pound Sterling and Hong Kong Dollars with floating interest rates.

Current ratio (current assets divided by current liabilities) was 1.73 as at 30 June 2016 (31 December 2015: 2.02). The Group holds sufficient cash, marketable securities on hand and available banking facilities to meet its short-term liabilities, commitments and working capital demand.

EXCHANGE RATE EXPOSURES

Most of the Group's business transactions were conducted in Hong Kong Dollars and United States Dollars. Certain rental income is derived in the United Kingdom and denominated in Pound Sterling. As at 30 June 2016, the Group's debt borrowings were mainly denominated in Pound Sterling and Hong Kong Dollars. The Group also had equity and debt securities and dual currency investments denominated in foreign currencies.

The Group considers there is no significant exposure to foreign exchange fluctuations for United States Dollars as long as the Hong Kong-United States dollar exchange rate remains pegged. Other than United States Dollars whose exchange rate with Hong Kong Dollars remained relatively stable during the period, the Group's foreign exchange exposure relating to investments in overseas securities and bank balances as at 30 June 2016 were approximately HK\$43.6 million (31 December 2015: HK\$33.7 million) in total, or about 5.8% (31 December 2015: 4.4%) of the Group's total assets. The Group was also exposed to foreign exchange rate changes (net of the underlying debt borrowings) of approximately HK\$174.6 million (31 December 2015: HK\$151.8 million) relating to carrying amount of the properties investments in the United Kingdom.

PLEDGE OF ASSETS

As at 30 June 2016, certain of the Group's leasehold land and buildings, investment properties, bank deposits and securities with an aggregate carrying value of approximately HK\$315.0 million (31 December 2015: HK\$347.2 million) were pledged to secure banking facilities granted to the Group to the extent of approximately HK\$99.2 million (31 December 2015: HK\$102.5 million), of which approximately HK\$30.4 million (31 December 2015: HK\$35.1 million) were utilised as at 30 June 2016.

CONTINGENT LIABILITIES

As at 30 June 2016, no legal proceedings were initiated by any third parties against the Group as defendant, nor were there any outstanding claims which may result in significant financial losses to the Group.

PLAN FOR SIGNIFICANT INVESTMENT OR ACQUISITION OF CAPITAL ASSETS IN THE FUTURE

The Group has no plan for significant investment or acquisition of material capital assets.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2016, the Group had a total of 90 (31 December 2015: 92) employees. Remuneration packages of employees and directors are reviewed annually and determined by reference to market pay and individual performance. In addition to salary payments, the Group also provides other employment benefits including medical allowance and educational subsidies to eligible employees.

OUTLOOK

Concerns over global economy due to political and economic instability would unfavorably affect consumer sentiment in investments and spending. Given the uncertain economic environment which would inevitably impact the Group's business in Healthcare, the Group has been working closely with distributors of all markets to set out promotional strategies aiming at achieving comparable results for 2016. In addition, focus on extending market coverage of the Group's products will be continued in the Mainland China. Such focus had proved to be encouraging with new markets extended to, amongst others, Hunan, Hubei, Jiangsu and Hainan during the interim period. This may become a growth driver in the foreseeable future.

Weak sentiment of Hong Kong property market is expected to persist and London property market is likely to see a weakening in demand due to the Brexit vote. Given a less attractive prospect of the Group's investment properties in terms of market valuation, the Group's operating cash flow will not be affected and the Group's rental income is expected to stay steady.

SECOND INTERIM DIVIDEND

The directors resolved to declare a second interim dividend of HK2.1 cents per share in respect of the year ending 31 December 2016 (31 December 2015: HK2.1 cents per share) payable to the shareholders on the register of members of the Company on 7 October 2016. The second interim dividend will be dispatched to the shareholders on or about 9 December 2016.

CLOSING OF REGISTER OF MEMBERS

The register of members will be closed from Wednesday, 5 October 2016 to Friday, 7 October 2016, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the second interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 4 October 2016.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the period, there were no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed shares.

CORPORATE GOVERNANCE

The Company has adopted the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code on corporate governance practices.

The Company has complied with code provisions as set out in the CG Code for the six months ended 30 June 2016 except the following deviation:

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. Mr. Gan Wee Sean, the Chairman of the board of directors, was appointed as the acting Chief Executive Officer on 21 April 2008 and the Chief Executive Officer on 1 September 2011. Although these two roles are performed by the same individual, certain responsibilities have been shared with the other executive directors to balance the power and authority. In addition, all major decisions have been made in consultation with members of the board as well as senior management. The board has one non-executive director and also three independent non-executive directors who offer different independent perspectives. Therefore, the board is of the view that there is adequate balance of power and safeguards in place. The board would review and monitor the situation on a regular basis and would ensure that the present structure would not impair the balance of power in the Company.

The Chairman of the Board was unable to attend the annual general meeting of the Company held on 15 June 2016 due to other business engagements. This constitutes a deviation from code provision E.1.2 of the CG Code which requires the Chairman of the Board to attend the annual general meeting.

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”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors’ securities transactions. Having made specific enquiry of all directors, the directors have confirmed compliance with the required standard set out in the Model Code during the six months ended 30 June 2016.

AUDIT COMMITTEE

The audit committee of the Company comprises the three independent non-executive directors of the Company, and meets at least twice each year. The interim financial report of the Company for the six months ended 30 June 2016 has been reviewed by the audit committee. At the request of the directors, the interim financial information has also been reviewed by the Company’s auditor, Mazars CPA Limited, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA and an unmodified review report has been issued, which will be included in the interim report.

BOARD OF DIRECTORS

As at the date of this announcement, the Board of the Company comprises: (i) three executive directors, namely Mr. Gan Wee Sean, Mr. Gan Fock Wai, Stephen and Mr. Gan Cheng Hooi, Gavin; (ii) one non-executive director, namely Ms. Gan Fook Yin, Anita; and (iii) three independent non-executive directors, namely Ms. Ada Wong Ying Kay, Mr. Arnold Ip Tin Chee and Mr. Lawrence Leung Man Chiu.

By Order of the Board
Pak Fah Yeow International Limited
Gan Wee Sean
Chairman

Hong Kong, 23 August 2016

* *For identification purpose only*