WHITE FLOWER®

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 2018

HIGHLIGHTS

- Revenue down 42.5% year-on-year.
- Underlying recurring profit, the performance indicator of the Group, down 96.9% year-on-year.
- Reported profit down 72.2% year-on-year, mainly attributable to weak performance in Hong Kong market of Healthcare segment and fair value changes on investment properties.
- Change of distributorship model in Hong Kong would inevitably create uncertainty over sales and distribution of Hoe Hin Products in short term.

The board of directors (the "Board") of Pak Fah Yeow International Limited (the "Company") announces the interim results of the Company and its subsidiaries (collectively referred as the "Group") for the six months ended 30 June 2018 together with comparative figures for the previous year:

RESULTS SUMMARY

		Six months ended 30 June		
		2018	2017	
	Notes	***HK$'000***	*HK$'000*	Change
Revenue	1	**45,150**	78,563	-42.5%
Reported profit	2	**13,949**	50,200	-72.2%
Underlying recurring profit	3	**808**	26,036	-96.9%
		HK cents	*HK cents*	
Earnings per share:	4			
Reported profit		**4.5**	16.1	-72.0%
Underlying recurring profit		**0.3**	8.4	-96.4%
Total dividends per share	4	**4.45**	4.95	-10.1%
		At 30 June 2018	At 31 December 2017	
		HK$'000	*HK$'000*	
Shareholders' funds	5	**745,658**	748,508	-0.4%
		HK$	*HK$*	
Net asset value per share	6	**2.39**	2.40	-0.4%

Notes:

1. Revenue represents revenue derived from the three business segments, namely healthcare ("Healthcare"), property investments ("Property Investments") and treasury investments ("Treasury Investments").

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.

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 2018

		Six months ended 30 June	
		2018	2017
		(unaudited)	(unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	2	**45,150**	78,563
Other revenue	3	**370**	269
Other net income	4	**70**	97
Changes in inventories of finished goods		**7,217**	2,012
Raw materials and consumables used		**(15,206)**	(15,635)
Staff costs		**(15,713)**	(17,505)
Depreciation expenses		**(1,023)**	(1,053)
Net exchange (loss) gain		**(617)**	1,268
Other operating expenses		**(18,098)**	(16,212)
Profit from operations before fair value changes of financial assets through profit or loss and of investment properties		**2,150**	31,804
Net (loss) gain on financial assets at fair value through profit or loss		**(222)**	1,864
Revaluation surplus in respect of investment properties		**13,363**	22,300
Profit from operations		**15,291**	55,968
Finance costs	5	**(555)**	(525)
Profit before taxation	5	**14,736**	55,443
Taxation	6	**(787)**	(5,243)
Profit for the period, attributable to owners of the Company		**13,949**	50,200

	Notes	Six months ended 30 June **2018** **(unaudited)** ***HK$'000***	 2017 (unaudited) *HK$'000*
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Change in fair value of available-for-sale financial assets		**–**	268
Exchange difference arising from translation of financial statements of overseas subsidiaries		**(2,224)**	8,622
Exchange difference arising from translation of inter-company balances with overseas subsidiaries representing net investments		**525**	(2,269)
Item that will not be reclassified to profit or loss:			
Revaluation surplus of leasehold land and buildings, net of tax effect of HK$3,482,000 *(2017: HK$5,858,000)*		**17,622**	29,646
Other comprehensive income for the period, net of tax, attributable to owners of the Company		**15,923**	36,267
Total comprehensive income for the period, attributable to owners of the Company		**29,872**	86,467
Earnings per share			
Basic and diluted	8	**HK4.48 Cents**	HK16.11 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	At 30 June 2018 (unaudited) *HK$'000*	At 31 December 2017 (audited) *HK$'000*
Non-current assets			
Investment properties		**352,117**	340,961
Property, plant and equipment		**380,148**	359,133
Intangible assets		**2,450**	2,450
Financial assets at fair value through profit or loss		**6,052**	–
Available-for-sale financial assets		**–**	6,241
		740,767	708,785
Current assets			
Inventories		**23,030**	14,635
Trade and other receivables	9	**11,566**	34,829
Financial assets at fair value through profit or loss		**24,760**	18,465
Tax recoverable		**969**	1,340
Bank balances and cash		**121,826**	120,722
		182,151	189,991
Current liabilities			
Bank borrowings, secured		**24,549**	26,660
Bank overdrafts		**392**	–
Current portion of deferred income		**212**	215
Trade and other payables	10	**27,679**	29,584
Dividends payable		**33,411**	7,249
		86,243	63,708
Net current assets		**95,908**	126,283
Total assets less current liabilities		**836,675**	835,068

	At **30 June** **2018** **(unaudited)** ***HK$'000***	At 31 December 2017 (audited) *HK$'000*
Non-current liabilities		
Long-term portion of consideration payable for acquisition of trademarks	**2,073**	2,073
Long-term portion of deferred income	**31,270**	30,578
Provision for directors' retirement benefits	**4,042**	3,715
Deferred taxation	**53,632**	50,194
	91,017	86,560
NET ASSETS	**745,658**	748,508
Capital and reserves		
Share capital	**15,582**	15,582
Share premium and reserves	**730,076**	732,926
TOTAL EQUITY	**745,658**	748,508

Notes:

1. PRINCIPAL ACCOUNTING POLICIES

The Interim Financial Information has been prepared under the historical cost convention except for investment properties, leasehold land and buildings and financial assets at fair value through profit or loss, which are measured at fair value.

The accounting policies and basis of preparation adopted in this Interim Financial Information is consistent with those used in the preparation of the 2017 Annual Accounts, except for the adoption of the new/revised Hong Kong Financial Reporting Standards ("HKFRSs") that are relevant to the Group and effective for the Group's financial year beginning on 1 January 2018 as described below:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration

The adoption of these amendments to HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current period and prior years except for HKFRS 9.

2. OPERATING SEGMENT INFORMATION

(a) Healthcare – manufacturing and sale of Hoe Hin products

(b) Property investments

(c) Treasury investments

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 administrative 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 2018			
	Healthcare (unaudited) *HK$'000*	**Property investments (unaudited)** *HK$'000*	**Treasury investments (unaudited)** *HK$'000*	**Consolidated (unaudited)** *HK$'000*
Revenue from external customers	**40,598**	**4,380**	**172**	**45,150**
Segment results	**5,479**	**16,751**	**(156)**	**22,074**
Unallocated corporate expenses				**(6,783)**
Profit from operations				**15,291**
Finance costs				**(555)**
Profit before taxation				**14,736**
Taxation				**(787)**
Profit for the period				**13,949**

	Six months ended 30 June 2017			
	Healthcare (unaudited) *HK$'000*	Property investments (unaudited) *HK$'000*	Treasury investments (unaudited) *HK$'000*	Consolidated (unaudited) *HK$'000*
Revenue from external customers	74,368	4,025	170	78,563
Segment results	34,253	25,537	3,551	63,341
Unallocated corporate expenses				(7,373)
Profit from operations				55,968
Finance costs				(525)
Profit before taxation				55,443
Taxation				(5,243)
Profit for the period				50,200

Segment assets and liabilities

The following table presents segment assets and liabilities of the Group's business segments as at 30 June 2018 and 31 December 2017:

	At 30 June 2018			
	Healthcare (unaudited) *HK$'000*	**Property investments (unaudited)** *HK$'000*	**Treasury investments (unaudited)** *HK$'000*	**Consolidated (unaudited)** *HK$'000*
Assets				
Segment assets	**492,147**	**352,481**	**77,124**	**921,752**
Unallocated corporate assets				**1,166**
Consolidated total assets				**922,918**
Liabilities				
Segment liabilities	**28,297**	**54,325**	**392**	**83,014**
Unallocated corporate liabilities				**94,246**
Consolidated total liabilities				**177,260**

	At 31 December 2017			
	Healthcare (audited) *HK$'000*	Property investments (audited) *HK$'000*	Treasury investments (audited) *HK$'000*	Consolidated (audited) *HK$'000*
Assets				
Segment assets	482,184	342,083	72,763	897,030
Unallocated corporate assets				1,746
Consolidated total assets				898,776
Liabilities				
Segment liabilities	27,749	54,221	–	81,970
Unallocated corporate liabilities				68,298
Consolidated total liabilities				150,268

Geographical information

	Revenue from external customers		Results from operations	
	Six months ended 30 June		**Six months ended 30 June**	
	2018	2017	**2018**	2017
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**13,091**	47,637	**14,773**	48,985
Macau	**7,314**	3,741	**4,417**	2,423
PRC	**11,092**	11,552	**(4,762)**	629
Southeast Asia	**9,583**	9,263	**2,585**	5,392
North America	**–**	2,021	**159**	990
United Kingdom	**3,282**	2,698	**4,437**	2,603
Europe (excluding United Kingdom)	**–**	–	**(128)**	946
Other regions	**788**	1,651	**91**	971
Unallocated corporate expenses	**–**	–	**(6,281)**	(6,971)
	45,150	78,563	**15,291**	55,968

3. OTHER REVENUE

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Listed investments:		
Dividend income from financial assets at fair value through profit or loss	**150**	151
Gain on disposal of financial assets at fair value through profit or loss	**220**	118
	370	269

4. OTHER NET INCOME

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Commission received	**17**	14
Gain on disposal of property, plant and equipment	**24**	54
Sundry income	**29**	29
	70	97

5. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
This is stated after charging:	***HK$'000***	*HK$'000*
(a) Finance costs		
Interest on bank borrowings	**275**	246
Interest on consideration payable for acquisition of trademarks	**280**	279
	555	525
(b) Other items		
Cost of inventories	**16,878**	22,720

6. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% *(2017: 16.5%)* on the estimated assessable profits of the Group for the period. Overseas taxation has been provided on the estimated assessable profits for the period, in respect of the Group's overseas operations, at the rates of taxation prevailing in the relevant jurisdictions.

The charge comprises:

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current tax		
Hong Kong Profits Tax	**270**	4,808
Overseas tax	**561**	479
	831	5,287
Deferred taxation		
Origination and reversal of temporary differences	**(44)**	(44)
	787	5,243

7. DIVIDENDS

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

At the board meeting held on 27 March 2018, the directors proposed a final dividend of HK5.6 cents per share totalling HK$17,452,000 for the year ended 31 December 2017 *(year ended 31 December 2016: HK5.6 cents per share totalling HK$17,452,000)* and a special dividend of HK2.2 cents per share totaling HK$6,856,000 for the year ended 31 December 2017 *(year ended 31 December 2016: Nil)* which had been reflected as an appropriation of retained profits. Upon the approval by shareholders on 20 June 2018, the appropriation was transferred to dividends payable.

Dividends attributable to the period

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
First interim dividend	**8,414**	8,414
Second interim dividend	**5,454**	7,012
	13,868	15,426

On 20 June 2018, the directors declared the first interim dividend of HK2.7 cents per share totalling HK$8,414,000 *(2017: HK2.7 cents per share totalling HK$8,414,000 declared on 8 June 2017)*, which was payable to the shareholders on the register of members of the Company on 3 August 2018.

On 28 August 2018, the directors declared the second interim dividend of HK1.75 cents per share totalling HK$5,454,000 *(2017: HK2.25 cents per share totalling HK$7,012,000 declared on 24 August 2017)*, which will be payable to the shareholders on the register of members of the Company on 12 October 2018.

8. 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$13,949,000 *(2017: HK$50,200,000)* and the weighted average number of 311,640,000 *(2017: 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 2017 and 2018.

9. TRADE AND OTHER RECEIVABLES

	At 30 June 2018 (unaudited) *HK$'000*	At 31 December 2017 (audited) *HK$'000*
Trade receivables	**9,912**	31,859
Bills receivable	**–**	331
Other receivables		
Deposits, prepayments and other debtors	**1,654**	2,639
	11,566	34,829

The Group allows credit period ranging from 30 days to 120 days *(2017: 30 days to 120 days)* to its customers. The ageing analysis of trade receivables by invoice date is as follows:

	At 30 June 2018 (unaudited) *HK$'000*	At 31 December 2017 (audited) *HK$'000*
Within 30 days	**8,526**	30,813
31 – 60 days	**1,386**	1,044
61 – 90 days	**–**	2
	9,912	31,859

10. TRADE AND OTHER PAYABLES

	At 30 June 2018 (unaudited) *HK$'000*	At 31 December 2017 (audited) *HK$'000*
Trade payables	**5,597**	3,250
Other payables		
Accrued charges and other creditors	**21,979**	26,234
Customers' deposits	**103**	100
	22,082	26,334
	27,679	29,584

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

	At 30 June 2018 (unaudited) *HK$'000*	At 31 December 2017 (audited) *HK$'000*
Within 30 days	**5,363**	3,010
31 – 60 days	**68**	207
61 – 90 days	**–**	6
More than 90 days	**166**	27
	5,597	3,250

11. PLEDGE OF ASSETS

Certain of the Group's leasehold land and buildings and investment properties were pledged to secure banking facilities, including bank borrowings and bank overdrafts granted to the Group to the extent of HK$95,967,000 *(31 December 2017: HK$97,048,000)*, of which HK$24,941,000 *(31 December 2017: HK$26,660,000)* were utilised at the end of the reporting period.

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

	At 30 June 2018 (unaudited) *HK$'000*	At 31 December 2017 (audited) *HK$'000*
Leasehold land and buildings	**164,000**	156,000
Investment properties	**160,658**	161,462
	324,658	317,462

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Results Overview

Following modest improvement in 2017, global economic growth remained steady during the first half of 2018 notwithstanding increased trade tensions and geopolitical protectionism. Hong Kong economy experienced modest growth, supported by favourable labour market conditions and positive consumer sentiment on the back of stronger income and asset market conditions. Recovery in inbound tourism further added positive contribution. Cost pressure remained moderate, though mild increase in labour costs and inflation in some of the major import sources.

Despite general improvement of global and Hong Kong economic environments, the Group experienced a structural change of its distributorship model in Hong Kong which immediately affected its results performance during the period. The Group recorded total revenue of HK$45,150,000 for the six months ended 30 June 2018, a decrease of 42.5% from HK$78,563,000 for the same corresponding period in 2017. Revenue of each business segment is as follows:

	Six months ended 30 June		
	2018	2017	Change
	HK$'000	*HK$'000*	%
Healthcare	**40,598**	74,368	-45.4
Property Investments	**4,380**	4,025	+8.8
Treasury Investments	**172**	170	+1.2
	45,150	78,563	-42.5

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$808,000, down 96.9% from HK$26,036,000 year-on-year. This mainly reflected weak performance of Healthcare segment, particularly Hong Kong market. Earnings per share of Underlying Recurring Profit was HK0.3 cents, down 96.4% from HK8.4 cents for 2017.

Reported Profit for the six months ended 30 June 2018 down by 72.2% to HK$13,949,000 *(2017: HK$50,200,000)*, primarily due to weak performance of Healthcare segment and fair value changes on the Group's investment properties. Earnings per share of Reported Profit was HK4.5 cents, down 72.0% from HK16.1 cents for 2017.

Below is the reconciliation between Underlying Recurring Profit and Reported Profit:

	Six months ended 30 June		
	2018	2017	Change
	HK$'000	*HK$'000*	*%*
Underlying Recurring Profit	**808**	26,036	-96.9
Unrealised fair value changes of:			
Financial assets	**(222)**	1,864	
Investment properties:			
United Kingdom	**1,403**	–	
Hong Kong and Singapore	**11,960**	22,300	
Reported Profit	**13,949**	50,200	-72.2

The revaluation of other properties, which is accounted for as other comprehensive income, has resulted in a net revaluation gain for the period of HK$17,622,000 *(2017: HK$29,646,000)*.

Total comprehensive income attributable to owners for the six months ended 30 June 2018 was approximately HK$29,872,000 *(2017: HK$86,467,000)*.

OPERATIONS REVIEW

Healthcare

Revenue from Healthcare segment decreased by 45.4% to HK$40,598,000 *(2017: HK$74,368,000)*. Revenue of each geographical segment is as follows:

	Six months ended 30 June		
	2018	2017	Change
	HK$'000	*HK$'000*	*%*
Hong Kong	**12,095**	46,452	-74.0
Macau	**7,314**	3,741	+95.5
Mainland China	**11,092**	11,513	-3.7
Southeast Asia	**9,308**	8,990	+3.5
North America	**–**	2,021	-100.0
Others	**789**	1,651	-52.2
Segment revenue	**40,598**	74,368	-45.4
Segment profit	**5,479**	34,253	-84.0

Sales contribution from Hong Kong decreased significantly by 74% year-on-year from HK$46.5 million to HK$12.0 million. As disclosed in the announcement of the Group dated 18 July 2018, effective from 1 July 2018 the Group has extended its distribution for Hong Kong market to a number of wholesalers in Hong Kong. Such structural change in distributorship, where sole distributor was replaced by collective wholesalers, created uncertainty over the future terms and pricing of Hoe Hin products as well as the then inventory level in the market, leading to the wholesalers placing purchase orders more cautiously and taking a wait-and-see attitude during the transitional period before and after the effective date. Consequently, sales revenue of Hoe Hin products in Hong Kong was affected and declined. Sales contribution from Macau, on the other hand, increased by 95.5% for the first half of 2018, but steady sales performance is expected for the year 2018 as compared to 2017. In Mainland China, the Group continued to keep pace with steady sales and marketing strategy, but sales to this market slowed down in both wholesale and retail levels during the period.

Year-on-year sales contribution from Southeast Asia performed better in the first half of 2018 mainly attributed to the resumption of sales to Indonesia, while steady sales results were seen in other territories in Southeast Asia. For United States market, the Group had decided not to renew its distributorship with the then sole distributor and accordingly no sales were recorded in this region during the period. However, a new distributor has been identified and appointed. Sales to this territory are expected to resume towards the fourth quarter of 2018. After an upbeat performance in South Korea in 2017, sales to this region had slowed during the period. New retail outlets including Duty Free and online outlets have been established to further bolster turnover in this territory while varying marketing campaigns have been utilised to increase the brand awareness to the local customers there.

Property Investments

Revenue for this segment increased by 8.8% to HK$4,380,000 *(2017: HK$4,025,000)*. This change mainly represents increased rental income derived in United Kingdom as a result of rent reviews as well as increased average exchange rate of Pound Sterling in translating the rental income, partly offset by decreased rental income derived in Hong Kong due to lower occupancy. Revenue of each geographical segment is as follows:

	Six months ended 30 June		
	2018	2017	Change
	HK$'000	*HK$'000*	*%*
Hong Kong – office and residential	**989**	1,219	-18.9
Singapore – industrial	**111**	109	+1.8
United Kingdom – retail/residential	**3,280**	2,697	+21.6
Segment revenue	**4,380**	4,025	+8.8
Segment result – profit	**16,751**	25,537	-34.4

For the six months ended 30 June 2018, segment revenue of about 22.6%, 2.5% and 74.9% *(2017: 30.3%, 2.7% and 67.0%)* were derived from investment properties in Hong Kong, Singapore and the United Kingdom respectively. Occupancy rate was 90.1% *(2017: 92.3%)* let for the six months ended 30 June 2018.

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$3,388,000, up 4.7% from HK$3,237,000 in 2017. Property expenses ratio as a percentage of segment revenue increased to 22.6% *(2017: 19.6%)* for the period. Both Underlying Recurring Segment Result and the property expenses ratio for 2018 reflected higher proportional property expenses due to lower occupancy rate.

Segment result for the six months ended 30 June 2018 down 34.4% to a profit of HK$16,751,000 *(2017: HK$25,537,000)*, principally reflecting a smaller value gain of HK$13,363,000 *(2017: HK$22,300,000)* on the Group's investment properties' valuation recorded this period.

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

	Six months ended 30 June		
	2018	2017	Change
	HK$'000	*HK$'000*	*%*
Underlying Recurring Segment Result	**3,388**	3,237	+4.7
Unrealised fair value changes of investment properties:			
United Kingdom	**1,403**	–	
Hong Kong and Singapore	**11,960**	22,300	
Segment result – profit	**16,751**	25,537	-34.4

Treasury Investments

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 slightly increased by 1.2% to HK$172,000 *(2017: HK$170,000)*. Underlying Recurring Segment Result decreased to a profit of HK$66,000 *(2017: HK$1,687,000)*. Such loss reflected weak performance on foreign currency transactions.

The segment result incurred a loss of HK$156,000 *(2017: gain of HK$3,551,000)*, mainly attributable to, amongst others as mentioned above, unrealised fair value losses on listed investments.

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

	Six months ended 30 June		
	2018	2017	Change
	HK$'000	*HK$'000*	%
Underlying Recurring Segment Result	**66**	1,687	-96.1
Unrealised fair value changes of financial assets	**(222)**	1,864	
Segment result – (loss) profit	**(156)**	3,551	-104.4

FINANCIAL REVIEW

The results overview and operations review 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 decreased by 10.2% from HK$17,505,000 to HK$15,713,000. This mainly reflected decreased provision for management bonus.

Other Operating Expenses

Other operating expenses increased by 11.6% to HK$18,098,000 *(2017: HK$16,212,000)*, mainly attributable to gradual increase in sales and marketing expenses in support of Mainland China market and additional advertising expenses incurred during World Cup. Other operating expenses ratio as a percentage of total revenue increased to 40.1% *(2017: 20.6%)* for the period.

Finance Costs

Finance costs increased by 5.7% to HK$555,000 *(2017: HK$525,000)*, mainly due to higher average exchange rate in translating interest expenses of the loan denominated in Pound Sterling. 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) decreased to 3.9 *(2017: 60.6)* for the period.

Taxation

Decrease in taxation from HK$5,243,000 to HK$787,000 was principally due to decrease in taxable operating profits of subsidiaries in Hong Kong.

Investment Properties

The Group's investment properties in Hong Kong and the United Kingdom were valued at 30 June 2018 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 2018 was HK$352,117,000, an increase of 3.3% from HK$340,961,000 as at 31 December 2017. Such increase reflected a positive outlook of property market in Hong Kong. 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 2018		As at 31 December 2017		
	Original currency		Original currency		Change in HK$
	'000	***HK$'000***	*'000*	*HK$'000*	%
Hong Kong – office and residential	**HK$180,069**	**180,069**	HK$168,109	168,109	+7.1
Singapore – industrial	**S$1,950**	**11,390**	S$1,950	11,390	–
United Kingdom – retail/residential	**GBP15,500**	**160,658**	GBP15,370	161,462	-0.5
		352,117		340,961	+3.3

Unrealised fair value gain on investment properties of HK$13,363,000 *(2017: HK$22,300,000)* was recognised for the period.

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 2018 was 3.3% *(31 December 2017: 3.6%)*. Total bank borrowings of the Group amounted to HK$24,941,000 *(31 December 2017: HK$26,660,000)*, mainly denominated in Pound Sterling and Hong Kong Dollars with floating interest rates.

Current ratio (current assets divided by current liabilities) was 2.11 as at 30 June 2018 *(31 December 2017: 2.98)*. 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 2018, 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 2018 were approximately HK$33.0 million *(31 December 2017: HK$33.3 million)* in total, or about 3.6% *(31 December 2017: 3.7%)* 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$140.0 million *(31 December 2017: HK$139.8 million)* relating to carrying amount of the investment properties in the United Kingdom.

PLEDGE OF ASSETS

As at 30 June 2018, certain of the Group's leasehold land and buildings and investment properties with an aggregate carrying value of approximately HK$324.7 million *(31 December 2017: HK$317.5 million)* were pledged to secure banking facilities granted to the Group to the extent of approximately HK$96.0 million *(31 December 2017: HK$97.0 million)*, of which approximately HK$24.9 million *(31 December 2017: HK$26.7 million)* were utilised as at 30 June 2018.

CONTINGENT LIABILITIES

As at 30 June 2018, 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 2018, the Group had a total of 96 *(31 December 2017: 95)* 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

The structural change of distributorship model in Hong Kong would inevitably create uncertainty over sales and distribution of Hoe Hin Products in short term as the wholesalers have to take time to adopt new terms and pricing as well as monitor inventory level in the market. However, as more wholesalers will be directly involved in distribution of Hoe Hin products, the Group considers that such change in long run would improve sales performance, increase profitability and higher levels of customer satisfaction of Hoe Hin products, and achieve healthy inventory level in the market. The Group will continue working closely with the wholesalers in Hong Kong to provide assistance for the smooth running of business in both wholesale and retail levels.

SECOND INTERIM DIVIDEND

The directors resolved to declare a second interim dividend of HK1.75 cents per share in respect of the year ending 31 December 2018 *(31 December 2017: HK2.25 cents per share)* payable to the shareholders on the register of members of the Company on 12 October 2018. The second interim dividend will be dispatched to the shareholders on or about 7 December 2018.

CLOSING OF REGISTER OF MEMBERS

The register of members will be closed from Wednesday, 10 October 2018 to Friday, 12 October 2018, 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, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 9 October 2018.

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 2018 except the following deviation:

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate 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 are 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.

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 2018.

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 2018 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. Wong Ying Kay, Ada, Mr. Ip Tin Chee, Arnold and Mr. Leung Man Chiu, Lawrence.

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

Hong Kong, 28 August 2018

* *For identification purpose only*