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 2019

HIGHLIGHTS

- Revenue up 65.6% year-on-year.

- Underlying recurring profit, the performance indicator of the Group, up 2,813.1% year-on-year.

- Reported profit up 52.9% year-on-year, mainly due to improved performance of Healthcare segment, particularly Hong Kong market, partly offset by fair value changes on investment properties.

- More focus will be on local demands and consumptions as decline in tourist arrivals in Hong Kong is expected.

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 2019 together with comparative figures for the previous year:

RESULTS SUMMARY

		Six months ended 30 June		
		2019	2018	
	Notes	***HK$'000***	*HK$'000*	Change
Revenue	1	**74,771**	45,150	+65.6%
Reported profit	2	**21,331**	13,949	+52.9%
Underlying recurring profit	3	**23,538**	808	+2,813.1%
		HK cents	*HK cents*	
Earnings per share:	4			
Reported profit		**6.8**	4.5	+51.1%
Underlying recurring profit		**7.6**	0.3	+2,433.3%
Total dividends per share	4	**4.90**	4.45	+10.1%
		At 30 June 2019	At 31 December 2018	
		HK$'000	*HK$'000*	
Shareholders' funds	5	**771,956**	756,702	+2.0%
		HK$	*HK$*	
Net asset value per share	6	**2.48**	2.43	+2.1%

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 2019

		Six months ended 30 June	
		2019	2018
		(unaudited)	(unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	2	**74,771**	45,150
Other revenue	3	**149**	370
Other net income	4	**50**	70
Changes in inventories of finished goods		**1,168**	7,217
Raw materials and consumables used		**(13,438)**	(15,206)
Staff costs		**(16,025)**	(15,713)
Depreciation expenses		**(4,191)**	(1,023)
Net exchange loss		**(512)**	(617)
Other operating expenses		**(12,772)**	(18,098)
Profit from operations before fair value changes of financial assets through profit or loss and of investment properties		**29,200**	2,150
Net gain (loss) on financial assets at fair value through profit or loss		**1,368**	(222)
Revaluation (deficit) surplus in respect of investment properties		**(3,575)**	13,363
Profit from operations		**26,993**	15,291
Finance costs	5	**(525)**	(555)
Profit before taxation	5	**26,468**	14,736
Taxation	6	**(5,137)**	(787)
Profit for the period, attributable to owners of the Company		**21,331**	13,949

	Notes	Six months ended 30 June **2019** **(unaudited)** ***HK$'000***	 2018 (unaudited) *HK$'000*
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising from translation of financial statements of overseas subsidiaries		**(690)**	(2,224)
Exchange difference arising from translation of inter-company balances with overseas subsidiaries representing net investments		**206**	525
Item that will not be reclassified to profit or loss:			
Revaluation surplus of leasehold land and buildings, net of tax effect of HK$2,959,000 *(2018: HK$3,482,000)*		**14,975**	17,622
Other comprehensive income for the period, net of tax, attributable to owners of the Company		**14,491**	15,923
Total comprehensive income for the period, attributable to owners of the Company		**35,822**	29,872
Earnings per share			
Basic and diluted	8	**6.84 cents**	4.48 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	At 30 June 2019 (unaudited) HK$'000	At 31 December 2018 (audited) HK$'000
Non-current assets			
Investment properties		**339,524**	343,731
Property, plant and equipment		**392,880**	378,988
Intangible assets		**2,450**	2,450
Financial assets at fair value through profit or loss		**5,850**	5,960
		740,704	731,129
Current assets			
Inventories		**19,666**	13,976
Trade and other receivables	9	**14,264**	24,651
Financial assets at fair value through profit or loss		**16,353**	14,994
Tax recoverable		**–**	3,976
Bank balances and cash		**150,740**	126,115
		201,023	183,712
Current liabilities			
Bank borrowings, secured		**20,721**	21,893
Current portion of deferred income		**220**	221
Trade and other payables	10	**30,385**	35,847
Tax payables		**309**	–
Dividends payable		**21,265**	7,343
		72,900	65,304
Net current assets		**128,123**	118,408
Total assets less current liabilities		**868,827**	849,537

	At 30 June 2019 (unaudited) *HK$'000*	At 31 December 2018 (audited) *HK$'000*
Non-current liabilities		
Long-term portion of consideration payable for acquisition of trademarks	**2,073**	2,073
Long-term portion of deferred income	**32,977**	32,076
Provision for directors' retirement benefits	**4,424**	4,204
Deferred taxation	**57,397**	54,482
	96,871	92,835
NET ASSETS	**771,956**	756,702
Capital and reserves		
Share capital	**15,582**	15,582
Share premium and reserves	**756,374**	741,120
TOTAL EQUITY	**771,956**	756,702

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 2018 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 2019 as described below:

Annual Improvements to HKFRSs	2015-2017 Cycle
HKFRS 16	Leases
HK(IFRIC)-Inc 23	Uncertainly over Income Tax Treatments
Amendments to HKAS 19	Employee benefits

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.

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 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 2019			
	Healthcare (unaudited) *HK$'000*	**Property investments (unaudited)** *HK$'000*	**Treasury investments (unaudited)** *HK$'000*	**Consolidated (unaudited)** *HK$'000*
Revenue from external customers	**69,459**	**4,948**	**364**	**74,771**
Segment results	**31,292**	**715**	**1,632**	**33,639**
Unallocated corporate expenses				**(6,646)**
Profit from operations				**26,993**
Finance costs				**(525)**
Profit before taxation				**26,468**
Taxation				**(5,137)**
Profit for the period				**21,331**

	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

Segment assets and liabilities

The following table presents segment assets and liabilities of the Group's business segments as at 30 June 2019 and 31 December 2018:

		At 30 June 2019		
		Property	**Treasury**	
	Healthcare	**investments**	**investments**	**Consolidated**
	(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Assets				
Segment assets	**517,857**	**340,660**	**82,716**	**941,233**
Unallocated corporate assets				**494**
Consolidated total assets				**941,727**
Liabilities				
Segment liabilities	**30,656**	**54,071**	**–**	**84,727**
Unallocated corporate liabilities				**85,044**
Consolidated total liabilities				**169,771**

		At 31 December 2018		
		Property	Treasury	
	Healthcare	investments	investments	Consolidated
	(audited)	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Segment assets	486,896	345,359	78,114	910,369
Unallocated corporate assets				4,472
Consolidated total assets				914,841
Liabilities				
Segment liabilities	36,350	53,569	–	89,919
Unallocated corporate liabilities				68,220
Consolidated total liabilities				158,139

Geographical information

	Revenue from external customers Six months ended 30 June		Results from operations Six months ended 30 June	
	2019	2018	**2019**	2018
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**55,969**	13,091	**30,486**	14,773
Macau	**5,191**	7,314	**3,229**	4,417
PRC	**33**	11,092	**(1,855)**	(4,762)
Southeast Asia	**10,005**	9,583	**4,030**	2,585
North America	**–**	–	**5**	159
United Kingdom	**3,120**	3,282	**(4,228)**	4,437
Europe (excluding United Kingdom)	**–**	–	**1,152**	(128)
Other regions	**453**	788	**357**	91
Unallocated corporate expenses	**–**	–	**(6,183)**	(6,281)
	74,771	45,150	**26,993**	15,291

3. OTHER REVENUE

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Listed investments:		
Dividend income from financial assets at fair value through profit or loss	**146**	150
Gain on disposal of financial assets at fair value through profit or loss	**3**	220
	149	370

4. OTHER NET INCOME

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Commission received	**11**	17
(Loss) Gain on disposal of property, plant and equipment	**(1)**	24
Sundry income	**40**	29
	50	70

5. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
This is stated after charging:	***HK$'000***	*HK$'000*
(a) Finance costs		
Interest on bank borrowings	**245**	275
Interest on consideration payable for acquisition of trademarks	**280**	280
	525	555
(b) Other items		
Cost of inventories	**21,429**	16,878

6. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (2018: 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	
	2019	2018
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current tax		
Hong Kong Profits Tax	**4,572**	270
Overseas tax	**609**	561
	5,181	831
Deferred taxation		
Origination and reversal of temporary differences	**(44)**	(44)
	5,137	787

7. DIVIDENDS

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

At the board meeting held on 26 March 2019, the directors proposed a final dividend of HK3.8 cents per share totalling HK$11,842,000 for the year ended 31 December 2018 *(year ended 31 December 2017: HK5.6 cents per share totalling HK$17,452,000)* and no special dividend declared for the year ended 31 December 2018 *(year ended 31 December 2017: HK2.2 cents per share totaling HK$6,856,000 approved by shareholders on 20 June 2018)*. Upon the approval by shareholders on 18 June 2019, the appropriation was transferred to dividends payable.

Dividends attributable to the period

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
First interim dividend	**8,726**	8,414
Second interim dividend	**6,544**	5,454
	15,270	13,868

On 18 June 2019, the directors declared the first interim dividend of HK2.8 cents per share totalling HK$8,726,000 *(2018: HK2.7 cents per share totalling HK$8,414,000 declared on 20 June 2018)*, which was payable to the shareholders on the register of members of the Company on 2 August 2019.

On 22 August 2019, the directors declared the second interim dividend of HK2.1 cents per share totalling HK$6,544,000 *(2018: HK1.75 cents per share totalling HK$5,454,000 declared on 28 August 2018)*, which was payable to the shareholders on the register of members of the Company on 11 October 2019.

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$21,331,000 *(2018: HK$13,949,000)* and the weighted average number of 311,640,000 *(2018: 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 2018 and 2019.

9. TRADE AND OTHER RECEIVABLES

	At 30 June 2019 (unaudited) *HK$'000*	At 31 December 2018 (audited) *HK$'000*
Trade receivables	**8,514**	17,153
Bills receivable	**3,352**	4,018
Other receivables		
Deposits, prepayments and other debtors	**2,398**	3,480
	14,264	24,651

The Group allows credit period ranging from 30 days to 120 days *(2018: 30 days to 120 days)* to its customers. The ageing analysis of trade receivables by invoice date is as follows:

	At 30 June 2019 (unaudited) *HK$'000*	At 31 December 2018 (audited) *HK$'000*
Within 30 days	**6,310**	11,983
31 – 60 days	**398**	5,170
61 – 90 days	**1,806**	–
	8,514	17,153

10. TRADE AND OTHER PAYABLES

	At 30 June 2019 (unaudited) *HK$'000*	At 31 December 2018 (audited) *HK$'000*
Trade payables	**3,678**	4,492
Other payables		
Accrued charges and other creditors	**13,324**	12,462
Accrued rebates and discounts	**13,283**	18,793
Customers' deposits	**100**	100
	26,707	31,355
	30,385	35,847

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

	At 30 June 2019 (unaudited) *HK$'000*	At 31 December 2018 (audited) *HK$'000*
Within 30 days	**3,267**	4,453
31 – 60 days	**395**	1
61 – 90 days	**–**	–
More than 90 days	**16**	38
	3,678	4,492

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, granted to the Group to the extent of HK$93,466,000 *(31 December 2018: HK$94,318,000)*, of which HK$20,721,000 *(31 December 2018: HK$21,893,000)* were utilised at the end of the reporting period.

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

	At 30 June 2019 (unaudited) ***HK$'000***	At 31 December 2018 (audited) *HK$'000*
Leasehold land and buildings	**171,000**	166,000
Investment properties	**144,248**	152,155
	315,248	318,155

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Results Overview

Global economy grew more slowly than expected during the first half of 2019. The outcome of macro issues including accelerated trade tensions between China and the US and possible no-deal Brexit remained uncertain. Hong Kong economy expanded modestly during the first half of 2019, backed by positive growth on domestic income. Labour market remained tight and unemployment rate stayed low. Inflationary pressure for labour, supplies and production costs remained moderate.

With this backdrop, the Group recorded total revenue of HK$74,771,000 for the six months ended 30 June 2019, an increase of 65.6% from HK$45,150,000 for the same corresponding period in 2018. Revenue of each business segment is as follows:

	Six months ended 30 June		
	2019	2018	Change
	HK$'000	*HK$'000*	*%*
Healthcare	**69,459**	40,598	+71.1
Property Investments	**4,948**	4,380	+13.0
Treasury Investments	**364**	172	+111.6
	74,771	45,150	+65.6

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$23,538,000, up 2,813.1% from HK$808,000 year-on-year. This mainly reflected improved performance of Healthcare segment, particularly Hong Kong market. Earnings per share of Underlying Recurring Profit was HK7.6 cents, up 2,433.3% from HK0.3 cents for 2018.

Reported Profit for the six months ended 30 June 2019 up 52.9% to HK$21,331,000 *(2018: HK$13,949,000)*, primarily due to improved performance of Healthcare segment, partly offset by fair value changes on the Group's investment properties. Earnings per share of Reported Profit was HK6.8 cents, up 51.1% from HK4.5 cents for 2018.

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

	Six months ended 30 June		
	2019	2018	Change
	HK$'000	*HK$'000*	%
Underlying Recurring Profit	**23,538**	808	+2,813.1
Unrealised fair value changes of:			
Financial assets	**1,368**	(222)	
Investment properties:			
United Kingdom	**(7,275)**	1,403	
Hong Kong and Singapore	**3,700**	11,960	
Reported Profit	**21,331**	13,949	+52.9

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$14,975,000 *(2018: HK$17,622,000)*.

Total comprehensive income attributable to owners for the six months ended 30 June 2019 was approximately HK$35,822,000 *(2018: HK$29,872,000)*.

OPERATIONS REVIEW

Healthcare

Revenue from Healthcare segment increased by 71.1% to HK$69,459,000 *(2018: HK$40,598,000)*. Revenue of each geographical segment is as follows:

	Six months ended 30 June		
	2019	2018	Change
	HK$'000	*HK$'000*	%
Hong Kong	**53,977**	12,095	+346.3
Macau	**5,191**	7,314	-29.0
Mainland China	**33**	11,092	-99.7
Southeast Asia	**9,805**	9,308	+5.3
North America	**–**	–	–
Others	**453**	789	-42.6
Segment revenue	**69,459**	40,598	+71.1
Segment profit	**31,292**	5,479	+471.1

Sales contribution from Hong Kong increased significantly by 346.3% year-on-year from HK$12.1 million to HK$54.0 million. During the first half of 2018, sales revenue of Hoe Hin products in Hong Kong was affected and declined significantly at that time as a result of the structural change in distributorship, where sole distributor was replaced by collective wholesalers. Despite market disorder was arisen after such structural change, sales in Hong Kong has been picking up in the second quarter of 2019. Sales contribution from Macau for the first half of 2019, on the other hand, decreased by 29.0% year-on-year, but steady pace of sales and marketing strategy has been adopted with an aim to accomplish sales target for 2019. Sales performance in Mainland China was not in line with expectation since mid-2018. Change of distributor was considered and discussed in early 2019 and hence all purchase orders were pending since then.

Overall sales in Southeast Asia showed a steady growth in the first half of 2019 and are expected to continue through the year. Sales to North America is expected to normalise in the second half of the year as the newly appointed US distributor lays the foundation and continues to open new key accounts in this territory while the inventory left from the previous distributor begins to dwindle. In South Korea, the distributor began lowering their inventory to a healthier level in the first half of 2019 whilst tackling the challenge of boosting sales in this territory. Continual in-store promotions and advertising campaigns have been planned and launched to increase the brand awareness to the local consumers there.

Property Investments

Revenue for this segment increased by 13.0% to HK$4,948,000 *(2018: HK$4,380,000)*. This change mainly represents increased rental income derived in Hong Kong as a result of full occupancy in 2019, partly offset by decreased average exchange rate of Pound Sterling in translating the rental income in United Kingdom. Revenue of each geographical segment is as follows:

	Six months ended 30 June		
	2019	2018	Change
	HK$'000	*HK$'000*	%
Hong Kong – office and residential	**1,755**	989	+77.5
Singapore – industrial	**110**	111	-0.9
United Kingdom – retail/residential	**3,083**	3,280	-6.0
Segment revenue	**4,948**	4,380	+13.0
Segment result – profit	**715**	16,751	-95.7

For the six months ended 30 June 2019, segment revenue of about 35.5%, 2.2% and 62.3% *(2018: 22.6%, 2.5% and 74.9%)* were derived from investment properties in Hong Kong, Singapore and the United Kingdom respectively. Occupancy rate was 100% *(2018: 90.1%)* for the six months ended 30 June 2019.

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$4,290,000, up 26.6% from HK$3,388,000 in 2018. Property expenses ratio as a percentage of segment revenue decreased to 13.3% *(2018: 22.6%)* for the period. Both Underlying Recurring Segment Result and the property expenses ratio for 2019 reflected lower proportional property expenses due to higher occupancy rate.

Segment result for the six months ended 30 June 2019 down 95.7% to a profit of HK$715,000 *(2018: HK$16,751,000)*, principally reflecting fair value loss of HK$3,575,000 *(2018: gain of HK$13,363,000)* 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		
	2019	2018	Change
	HK$'000	*HK$'000*	*%*
Underlying Recurring Segment Result	**4,290**	3,388	+26.6
Unrealised fair value changes of investment properties:			
United Kingdom	**(7,275)**	1,403	
Hong Kong and Singapore	**3,700**	11,960	
Segment result – profit	**715**	16,751	-95.7

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 increased by 111.6% to HK$364,000 *(2018: HK$172,000)*, primarily due to placing more bank deposits in fixed term which earned higher interest income. As a result, Underlying Recurring Segment Result increased to a profit of HK$264,000 *(2018: HK$66,000)*.

The segment result increased to a profit of HK$1,632,000 *(2018: loss of HK$156,000)*, mainly attributable to, amongst others as mentioned above, unrealised fair value gains on listed investments.

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

	Six months ended 30 June		
	2019	2018	Change
	HK$'000	*HK$'000*	*%*
Underlying Recurring Segment Result	**264**	66	+300.0
Unrealised fair value changes of financial assets	**1,368**	(222)	
Segment result – profit (loss)	**1,632**	(156)	+1,146.2

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 increased by 2.0% from HK$15,713,000 to HK$16,025,000. This mainly reflected increased provision for management bonus.

Other Operating Expenses

Other operating expenses decreased by 29.4% to HK$12,772,000 *(2018: HK$18,098,000)*, mainly attributable to decline in sales and marketing expenses. Other operating expenses ratio as a percentage of total revenue decreased to 17.1% *(2018: 40.1%)* for the period. This reflected lower proportional expenses due to significant increase in total revenue.

Finance Costs

Finance costs decreased by 5.4% to HK$525,000 *(2018: HK$555,000)*, mainly due to lower 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) increased to 55.6 *(2018: 3.9)* for the period. This reflected better financial performance in 2019.

Taxation

Increase in taxation from HK$787,000 to HK$5,137,000 was principally due to increase 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 2019 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 2019 was HK$339,524,000, a decline of 1.2% from HK$343,731,000 as at 31 December 2018. Such decrease reflected uncertainty over property market in the United Kingdom due to possible no-deal Brexit arrangement, partly offset by general 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 2019		As at 31 December 2018		
	Original currency *'000*	***HK$'000***	Original currency *'000*	*HK$'000*	Change in HK$ *%*
Hong Kong – office and residential	**HK$184,100**	**184,100**	HK$180,400	180,400	+2.1
Singapore – industrial	**S$1,950**	**11,176**	S$1,950	11,176	–
United Kingdom – retail/residential	**GBP15,500**	**144,248**	GBP15,315	152,155	-5.2
		339,524		343,731	-1.2

Unrealised fair value loss on investment properties of HK$3,575,000 *(2018:* gain of *HK$13,363,000)* 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 2019 was 2.7% *(31 December 2018: 2.9%)*. Total bank borrowings of the Group amounted to HK$20,721,000 *(31 December 2018: HK$21,893,000)*, mainly denominated in Pound Sterling and Hong Kong Dollars with floating interest rates.

Current ratio (current assets divided by current liabilities) was 2.76 times as at 30 June 2019 *(31 December 2018: 2.81 times)*. 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 2019, 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 2019 were approximately HK$32.5 million *(31 December 2018: HK$35.5 million)* in total, or about 3.5% *(31 December 2018: 3.9%)* 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$125.3 million *(31 December 2018: HK$133.1 million)* relating to carrying amount of the investment properties in the United Kingdom.

PLEDGE OF ASSETS

As at 30 June 2019, certain of the Group's leasehold land and buildings and investment properties with an aggregate carrying value of approximately HK$315.2 million *(31 December 2018: HK$318.2 million)* were pledged to secure banking facilities granted to the Group to the extent of approximately HK$93.5 million *(31 December 2018: HK$94.3 million)*, of which approximately HK$20.7 million *(31 December 2018: HK$21.9 million)* were utilised as at 30 June 2019.

CONTINGENT LIABILITIES

As at 30 June 2019, 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 2019, the Group had a total of 91 *(31 December 2018: 91)* 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

After one year following the structural change in distributorship in Hong Kong, the wholesalers have generally resumed confidence in the market. However, the momentum of sales movement has recently affected by the Hong Kong political chaos, resulting in anticipated decline in tourist arrivals which would impact on the sales performance. In view of the potential risk of declining tourist arrivals, the Group's marketing strategy will be switched to focus more on local demands and consumptions.

Early termination of distributorship in Mainland China was confirmed near the end of May 2019 and a new distributor was appointed on 1 July 2019. In collaboration with the new distributor, marketing strategy and price structure have been rectified and hopefully such change would enhance the brand and product awareness as well as maximise profit margin.

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 2019 *(31 December 2018: HK1.75 cents per share)* payable to the shareholders on the register of members of the Company on 11 October 2019. The second interim dividend will be dispatched to the shareholders on or about 6 December 2019.

CLOSING OF REGISTER OF MEMBERS

The register of members will be closed from Wednesday, 9 October 2019 to Friday, 11 October 2019, 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 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 8 October 2019.

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 2019 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 2019.

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 2019 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, 22 August 2019

* *For identification purpose only*