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 2020

HIGHLIGHTS

- Revenue down 40.2% year-on-year.
- Underlying recurring (loss) profit, the performance indicator of the Group, down 102.5% year-on-year, mainly due to weak performance of Healthcare segment.
- Reported (loss) profit down 321.3% year-on-year, mainly due to unrealised fair value loss on investment properties in Hong Kong and the United Kingdom.
- Geopolitical issues and COVID-19 effects would inevitably affect the Group's business environment for the second half of 2020.

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 2020 together with comparative figures for the previous year:

RESULTS SUMMARY

		Six months ended 30 June		
		2020	2019	
	Notes	***HK$'000***	*HK$'000*	Change
Revenue	1	**44,694**	74,771	-40.2%
Reported (loss) profit	2	**(47,210)**	21,331	-321.3%
Underlying recurring (loss) profit	3	**(600)**	23,538	-102.5%
		HK cents	*HK cents*	
(Loss) Earnings per share:	4			
Reported (loss) profit		**(15.1)**	6.8	-322.1%
Underlying recurring (loss) profit		**(0.2)**	7.6	-102.6%
Total dividends per share	4	**2.6**	4.9	-46.9%
		At 30 June 2020	At 31 December 2019	
		HK$'000	*HK$'000*	
Shareholders' funds	5	**675,099**	760,117	-11.2%
		HK$	*HK$*	
Net asset value per share	6	**2.17**	2.44	-11.1%

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 (loss) profit ("Reported (Loss) Profit") is the loss or 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 (loss) profit ("Underlying Recurring (Loss) Profit") reflects the Group's performance of the three business segments and is arrived at by excluding from Reported (Loss) 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 (loss) earnings per share and the total dividends per share are calculated using the 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 2020

		Six months ended 30 June	
		2020	2019
		(unaudited)	(unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	2	**44,694**	74,771
Other revenue	3	**75**	149
Other net income	4	**942**	50
Changes in inventories of finished goods		**6,047**	1,168
Raw materials and consumables used		**(15,185)**	(13,438)
Staff costs		**(15,582)**	(16,025)
Depreciation expenses		**(3,998)**	(4,191)
Net exchange loss		**(1,315)**	(512)
Other operating expenses		**(14,213)**	(12,772)
Profit from operations before fair value changes of financial assets through profit or loss and of investment properties		**1,465**	29,200
Net (loss) gain on financial assets at fair value through profit or loss		**(2,129)**	1,368
Revaluation deficit in respect of investment properties		**(44,481)**	(3,575)
(Loss) Profit from operations		**(45,145)**	26,993
Finance costs	5	**(469)**	(525)
(Loss) Profit before taxation	5	**(45,614)**	26,468
Taxation	6	**(1,596)**	(5,137)
(Loss) Profit for the period, attributable to owners of the Company		**(47,210)**	21,331

	Notes	Six months ended 30 June **2020** **(unaudited)** ***HK$'000***	 2019 (unaudited) *HK$'000*
Other comprehensive (loss) income			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising from translation of financial statements of overseas subsidiaries		**(9,596)**	(690)
Exchange difference arising from translation of inter-company balances with overseas subsidiaries representing net investments		**2,465**	206
Item that will not be reclassified to profit or loss:			
Revaluation (deficit) surplus of leasehold land and buildings, net of tax effect of HK$3,721,000 *(2019: HK$2,959,000)*		**(18,835)**	14,975
Other comprehensive (loss) income for the period, net of tax, attributable to owners of the Company		**(25,966)**	14,491
Total comprehensive (loss) income for the period, attributable to owners of the Company		**(73,176)**	35,822
(Loss) Earnings per share			
Basic and diluted	8	**(15.15) cents**	6.84 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Notes	**At 30 June 2020 (unaudited)** *HK$'000*	At 31 December 2019 (audited) *HK$'000*
Non-current assets			
Investment properties		**292,543**	346,432
Property, plant and equipment		**342,578**	368,511
Intangible assets		**2,450**	2,450
Financial assets at fair value through profit or loss		**5,761**	5,789
		643,332	723,182
Current assets			
Inventories		**25,928**	17,929
Trade and other receivables	9	**18,179**	13,776
Financial assets at fair value through profit or loss		**14,600**	16,489
Tax recoverable		**28**	2,505
Bank balances and cash		**116,722**	137,969
		175,457	188,668
Current liabilities			
Bank borrowings, secured		**16,843**	19,492
Current portion of deferred income		**226**	242
Trade and other payables	10	**21,546**	26,992
Tax payables		**4,275**	3,024
Dividends payable		**12,577**	7,302
		55,467	57,052
Net current assets		**119,990**	131,616
Total assets less current liabilities		**763,322**	854,798

	Notes	At **30 June 2020** **(unaudited)** ***HK$'000***	At 31 December 2019 (audited) *HK$'000*
Non-current liabilities			
Long-term portion of consideration payable for acquisition of trademarks		**2,073**	2,073
Long-term portion of deferred income		**31,601**	33,899
Provision for directors' retirement benefits		**4,903**	4,689
Deferred taxation		**49,646**	54,020
		88,223	94,681
NET ASSETS		**675,099**	760,117
Capital and reserves			
Share capital	11	**15,582**	15,582
Share premium and reserves		**659,517**	744,535
TOTAL EQUITY		**675,099**	760,117

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 2019 Annual Report, 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 2020 as described below:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

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, office staff salaries, legal and professional fees 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 tax recoverable and 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 2020			
	Healthcare (unaudited) ***HK$'000***	**Property investments (unaudited)** ***HK$'000***	**Treasury investments (unaudited)** ***HK$'000***	**Consolidated (unaudited)** ***HK$'000***
Revenue from external customers	**40,674**	**3,795**	**225**	**44,694**
Segment results	**5,626**	**(41,329)**	**(2,074)**	**(37,777)**
Unallocated corporate expenses				**(7,368)**
Loss from operations				**(45,145)**
Finance costs				**(469)**
Loss before taxation				**(45,614)**
Taxation				**(1,596)**
Loss for the period				**(47,210)**

	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

Segment assets and liabilities

The following table presents segment assets and liabilities of the Group's business segments as at 30 June 2020 and 31 December 2019:

	At 30 June 2020			
		Property	**Treasury**	
	Healthcare	**investments**	**investments**	**Consolidated**
	(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Assets				
Segment assets	**440,140**	**293,116**	**84,970**	**818,226**
Unallocated corporate assets				**563**
Consolidated total assets				**818,789**
Liabilities				
Segment liabilities	**22,007**	**50,389**	**–**	**72,396**
Unallocated corporate liabilities				**71,294**
Consolidated total liabilities				**143,690**

	At 31 December 2019			
		Property	Treasury	
	Healthcare	investments	investments	Consolidated
	(audited)	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Segment assets	475,207	347,298	86,360	908,865
Unallocated corporate assets				2,985
Consolidated total assets				911,850
Liabilities				
Segment liabilities	27,196	54,567	–	81,763
Unallocated corporate liabilities				69,970
Consolidated total liabilities				151,733

Geographical information

	Revenue from external customers		Results from operations	
	Six months ended 30 June		**Six months ended 30 June**	
	2020	2019	**2020**	2019
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**9,879**	55,969	**(23,471)**	30,486
Macau	**3,431**	5,191	**2,282**	3,229
PRC	**16,063**	33	**(270)**	(1,855)
Southeast Asia	**10,873**	10,005	**4,754**	4,030
North America	**1,590**	–	**87**	5
United Kingdom	**2,030**	3,120	**(21,529)**	(4,228)
Europe (excluding United Kingdom)	**–**	–	**(619)**	1,152
Other regions	**828**	453	**475**	357
Unallocated corporate expenses	**–**	–	**(6,854)**	(6,183)
	44,694	74,771	**(45,145)**	26,993

3. OTHER REVENUE

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Listed investments:		
Dividend income from financial assets at fair value through profit or loss	**78**	146
(Loss) Gain on disposal of financial assets at fair value through profit or loss	**(3)**	3
	75	149

4. OTHER NET INCOME

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Commission received	**13**	11
Loss on disposal of property, plant and equipment	**–**	(1)
Sundry income	**929**	40
	942	50

5. (LOSS) PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
This is stated after charging:	***HK$'000***	*HK$'000*
(a) Finance costs		
Interest on bank borrowings	**189**	245
Interest on consideration payable for acquisition of trademarks	**280**	280
	469	525
(b) Other items		
Cost of inventories	**19,049**	21,429

6. TAXATION

The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime was signed into law and gazetted in March 2018. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying group entity are taxed at 8.25% and profits above HK$2 million are taxed at 16.5%. The profits of other group entities in Hong Kong not qualifying for the two-tiered profits tax rates continue to be taxed at a flat rate of 16.5%.

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	
	2020	2019
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current tax		
Hong Kong Profits Tax		
– Current period	**560**	4,572
– Underprovision in prior year	**1,280**	–
Overseas tax	**409**	609
	2,249	5,181
Deferred taxation		
Origination and reversal of temporary differences	**(653)**	(44)
	1,596	5,137

7. DIVIDENDS

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

At the board meeting held on 26 March 2020, the directors proposed a final dividend of HK3.8 cents per share totalling HK$11,842,000 for the year ended 31 December 2019 *(year ended 31 December 2018: HK3.8 cents per share totalling HK$11,842,000)*. Upon the approval by shareholders on 30 June 2020, the appropriation was transferred to dividends payable.

Dividends attributable to the period

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interim dividend of HK2.6 cents per share *(2019: first and second interim dividends of HK2.8 and HK2.1 cents)*	**8,103**	15,270

On 27 August 2020, the directors declared an interim dividend of HK2.6 cents per share totalling HK$8,103,000 *(2019: first interim dividend of HK2.8 cents per share totalling HK$8,726,000 and second interim dividend of HK2.1 cents per share totalling HK$6,544,000 declared on 18 June 2019 and 22 August 2019 respectively)*, which is payable to the shareholders on the register of members of the Company on 9 October 2020.

8. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted loss *(2019: earnings)* per share is based on the loss attributable to owners of the Company for the period of HK$47,210,000 *(2019: earnings of HK$21,331,000)* and 311,640,000 *(2019: 311,640,000)* ordinary shares in issue during the period.

Diluted (loss) earnings per share equals to basic (loss) earnings per share as there were no potential dilutive ordinary shares outstanding during the two periods ended 30 June 2019 and 2020.

9. TRADE AND OTHER RECEIVABLES

	At 30 June 2020 (unaudited) *HK$'000*	At 31 December 2019 (audited) *HK$'000*
Trade receivables	**461**	9,835
Bills receivable	**15,066**	658
Other receivables		
Deposits, prepayments and other debtors	**2,652**	3,283
	18,179	13,776

The Group allows credit period ranging from 30 days to 120 days *(2019: 30 days to 120 days)* to its customers. The ageing analysis of trade receivables by invoice date is as follows:

	At 30 June 2020 (unaudited) *HK$'000*	At 31 December 2019 (audited) *HK$'000*
Within 30 days	**461**	9,835

10. TRADE AND OTHER PAYABLES

	At 30 June 2020 (unaudited) *HK$'000*	At 31 December 2019 (audited) *HK$'000*
Trade payables	**4,830**	5,120
Other payables		
Accrued charges and other creditors	**2,534**	3,775
Accrued advertising and promotion expenses	**9,858**	9,899
Accrued rebate and discounts	**4,324**	8,198
	16,716	21,872
	21,546	26,992

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

	At 30 June 2020 (unaudited) *HK$'000*	At 31 December 2019 (audited) *HK$'000*
Within 30 days	**4,813**	3,400
31 – 60 days	**–**	1,703
61 – 90 days	**–**	–
More than 90 days	**17**	17
	4,830	5,120

11. SHARE CAPITAL

	At 30 June 2020 (Unaudited)		At 31 December 2019 (Audited)	
	No. of shares	***HK$'000***	No. of shares	*HK$'000*
Authorised:				
At beginning and end of the reporting period				
Ordinary shares of HK$0.05 each	**600,000,000**	**30,000**	600,000,000	30,000
Issued and fully paid:				
At beginning and end of the reporting period	**311,640,000**	**15,582**	311,640,000	15,582

12. 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$91,377,000 *(31 December 2019: HK$93,325,000)*, of which HK$16,843,000 *(31 December 2019: HK$19,492,000)* were utilised at the end of the reporting period.

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

	At 30 June 2020 (unaudited)	At 31 December 2019 (audited)
	HK$'000	*HK$'000*
Leasehold land and buildings	**147,000**	167,000
Investment properties	**125,007**	157,896
	272,007	324,896

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Results Overview

During the first half of 2020, businesses across all industries were disrupted by the COVID-19 pandemic, causing adverse influence over global economy. The impact was particularly significant against certain sectors such as retail, tourism and property, with which the businesses of the Group were correlated. As such, the businesses of the Group were adversely affected and a significant drop in revenue was recorded as compared to the corresponding period in 2019.

In this challenging business environment, the Group recorded total revenue of HK$44,694,000 for the six months ended 30 June 2020, a decrease of 40.2% from HK$74,771,000 for the same corresponding period in 2019. Revenue of each business segment is as follows:

	Six months ended 30 June		
	2020	2019	Change
	HK$'000	*HK$'000*	%
Healthcare	**40,674**	69,459	-41.4
Property Investments	**3,795**	4,948	-23.3
Treasury Investments	**225**	364	-38.2
	44,694	74,771	-40.2

Underlying Recurring (Loss) Profit, which excludes from Reported (Loss) Profit the unrealised fair value changes of financial assets and of investment properties and the items that are non-recurring in nature, was a loss of HK$600,000, down 102.5% from a profit of HK$23,538,000 year-on-year. This mainly reflected weak performance of Healthcare segment. Loss per share of Underlying Recurring (Loss) Profit was HK0.2 cents, down 102.6% from earnings per share of HK7.6 cents for 2019.

Reported (Loss) Profit for the six months ended 30 June 2020 down 321.3% to a loss of HK$47,210,000 *(2019: profit of HK$21,331,000)*, primarily due to unrealised fair value losses on the Group's investment properties. Loss per share of Reported (Loss) Profit was HK15.1 cents, down 322.1% from earnings per share of HK6.8 cents for 2019.

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

	Six months ended 30 June		
	2020	2019	Change
	HK$'000	*HK$'000*	%
Underlying Recurring (Loss) Profit	**(600)**	23,538	-102.5
Unrealised fair value changes of:			
Financial assets	**(2,129)**	1,368	
Investment properties:			
United Kingdom	**(23,481)**	(7,275)	
Hong Kong and Singapore	**(21,000)**	3,700	
Reported (Loss) Profit	**(47,210)**	21,331	-321.3

The revaluation of other properties, which is accounted for as other comprehensive (loss) income, has resulted in a net revaluation loss for the period of HK$18,835,000 *(2019: gain of HK$14,975,000)*.

Total comprehensive loss attributable to owners for the six months ended 30 June 2020 was approximately HK$73,176,000 *(2019: income of HK$35,822,000)*.

OPERATIONS REVIEW

Healthcare

Revenue from Healthcare segment decreased by 41.4% to HK$40,674,000 *(2019: HK$69,459,000)*. Revenue of each geographical segment is as follows:

	Six months ended 30 June		
	2020	2019	Change
	HK$'000	*HK$'000*	%
Hong Kong	**8,015**	53,977	-85.2
Macau	**3,431**	5,191	-33.9
Mainland China	**16,063**	33	+48,575.8
Southeast Asia	**10,746**	9,805	+9.6
North America	**1,590**	–	N/A
Others	**829**	453	+83.0
Segment revenue	**40,674**	69,459	-41.4
Segment profit	**5,626**	31,292	-82.0

Sales contribution from Hong Kong decreased significantly by 85.2% year-on-year from HK$54.0 million to HK$8.0 million. Sales contribution from Macau also decreased by 33.9% year-on-year. These reflected a weakened retail market by various factors during the first half of 2020, such as reduced consumer confidence, border restrictions and plunge in visitor arrivals to Hong Kong and Macau as clouded by COVID-19 pandemic. The Group will continue to adopt proactive sales and marketing approaches in Hong Kong and Macau to explore opportunities for sustainable growth.

Sales performance in Mainland China on the other hand was stable for the first half of 2020. This is attributable to the use of brand building and above-the-line marketing strategies, as complemented by local customers using different digital purchasing platforms.

Sales contribution from Southeast Asia was overall positive in the first half of 2020 as compared to the same period in 2019 despite the COVID-19 pandemic that had been affecting global markets. The second half of 2020 may have strong headwinds as the ripple effects from citywide lockdowns in South East Asian countries may begin to show signs. Sales to the United States had normalised and had shown positive performance in the first half of 2020. A slowdown of new retail account openings within this market is expected as the COVID-19 ravages the country. Other markets have been weathering the pandemic storm and the overall outlook will remain cautious.

Property Investments

Revenue for this segment decreased by 23.3% to HK$3,795,000 *(2019: HK$4,948,000)*. This change mainly represents decreased rental income derived in the United Kingdom as a result of non-payment of rent since the effects of COVID-19 became apparent in the second quarter, as well as decreased average exchange rate of Pound Sterling in translating the rental income. Revenue of each geographical segment is as follows:

	Six months ended 30 June		
	2020	2019	Change
	HK$'000	*HK$'000*	*%*
Hong Kong – office and residential	**1,682**	1,755	-4.2
Singapore – industrial	**111**	110	+0.9
United Kingdom – retail/residential	**2,002**	3,083	-35.1
Segment revenue	**3,795**	4,948	-23.3
Segment result – (loss) profit	**(41,329)**	715	-5,880.3

For the six months ended 30 June 2020, segment revenue of about 44.3%, 2.9% and 52.8% *(2019: 35.5%, 2.2% and 62.3%)* were derived from investment properties in Hong Kong, Singapore and the United Kingdom respectively. Occupancy rate was 98.1% *(2019: 100%)* for the six months ended 30 June 2020.

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$3,152,000, down 26.5% from HK$4,290,000 in 2019. Property expenses ratio as a percentage of segment revenue increased to 16.9% *(2019: 13.3%)* for the period. Both Underlying Recurring Segment Result and the property expenses ratio for 2020 reflected higher proportional property expenses due to lower rental income.

Segment result for the six months ended 30 June 2020 down 5,880.3% to a loss of HK$41,329,000 *(2019: profit of HK$715,000)*, principally reflecting unrealised fair value loss of HK$44,481,000 *(2019: HK$3,575,000)* 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		
	2020	2019	Change
	HK$'000	*HK$'000*	%
Underlying Recurring Segment Result	**3,152**	4,290	-26.5
Unrealised fair value changes of investment properties:			
United Kingdom	**(23,481)**	(7,275)	
Hong Kong and Singapore	**(21,000)**	3,700	
Segment result – (loss) profit	**(41,329)**	715	-5,880.3

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 decreased by 38.2% to HK$225,000 *(2019: HK$364,000)*. Underlying Recurring Segment Result decreased to a profit of HK$55,000 *(2019: HK$264,000)*. Such decrease reflected decreased interest income as lower bank deposits balances and lower interest rate as well as weak performance on foreign currency transactions during the period.

The segment result decreased to a loss of HK$2,074,000 *(2019: profit of HK$1,632,000)*, 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		
	2020	2019	Change
	HK$'000	*HK$'000*	%
Underlying Recurring Segment Result	**55**	264	-79.2
Unrealised fair value changes of financial assets	**(2,129)**	1,368	
Segment result – (loss) profit	**(2,074)**	1,632	-227.1

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 2.8% from HK$16,025,000 to HK$15,582,000. This mainly reflected decreased provision for management bonus, partly offset by annual salary increment.

Other Operating Expenses

Other operating expenses increased by 11.3% to HK$14,213,000 *(2019: HK$12,772,000)*, mainly attributable to increase in sales and marketing expenses for brand building and above-the-line marketing. Other operating expenses ratio as a percentage of total revenue increased to 31.8% *(2019: 17.1%)* for the period. This reflected higher proportional expenses due to significant decrease in total revenue.

Finance Costs

Finance costs decreased by 10.7% to HK$469,000 *(2019: HK$525,000)*, mainly due to lower bank loan balance and 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) decreased to 3.1 *(2019: 55.6)* for the period. Such decrease reflected a weak financial performance in 2020.

Taxation

Decrease in taxation from HK$5,137,000 to HK$1,596,000 was principally due to decrease in taxable operating profits of subsidiaries in Hong Kong and the United Kingdom. The effect was partly offset by underprovision of taxation in Hong Kong for previous years.

Investment Properties

The Group's investment properties in Hong Kong and the United Kingdom were valued at 30 June 2020 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 2020 was HK$292,543,000, a decline of 15.6% from HK$346,432,000 as at 31 December 2019. Such decrease reflected an increasing market risk of retail sector in the United Kingdom and a weakened office and residential sectors in Hong Kong due to uncertainty over the future global impact of COVID-19. 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 2020		As at 31 December 2019		
	Original currency		Original currency		Change in HK$
	'000	***HK$'000***	*'000*	*HK$'000*	%
Hong Kong – office and residential	**HK$156,300**	**156,300**	HK$177,300	177,300	-11.8
Singapore – industrial	**S$1,950**	**11,236**	S$1,950	11,236	–
United Kingdom – retail/residential	**GBP13,100**	**125,007**	GBP15,480	157,896	-20.8
		292,543		346,432	-15.6

Unrealised fair value loss on investment properties of HK$44,481,000 *(2019: HK$3,575,000)* 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 2020 was 2.5% *(31 December 2019: 2.6%)*. Total bank borrowings of the Group amounted to HK$16,843,000 *(31 December 2019: HK$19,492,000)*, mainly denominated in Pound Sterling with floating interest rates.

Current ratio (current assets divided by current liabilities) was 3.2 times as at 30 June 2020 *(31 December 2019: 3.3 times)*. The Group holds sufficient cash and marketable securities on hand 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 2020, the Group's debt borrowing was mainly denominated in Pound Sterling. 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 2020 were approximately HK$43.0 million *(31 December 2019: HK$42.0 million)* in total, or about 5.3% *(31 December 2019: 4.6%)* 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$108.2 million *(31 December 2019: HK$139.1 million)* relating to carrying amount of the investment properties in the United Kingdom.

PLEDGE OF ASSETS

As at 30 June 2020, certain of the Group's leasehold land and buildings and investment properties with an aggregate carrying value of approximately HK$272.0 million *(31 December 2019: HK$324.9 million)* were pledged to secure banking facilities granted to the Group to the extent of approximately HK$91.4 million *(31 December 2019: HK$93.3 million)*, of which approximately HK$16.8 million *(31 December 2019: HK$19.5 million)* were utilised as at 30 June 2020.

CONTINGENT LIABILITIES

As at 30 June 2020, 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 2020, the Group had a total of 91 *(31 December 2019: 90)* 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

Global and Hong Kong economic outlooks for the second half of 2020 are still clouded by geopolitical issues and COVID-19 effects which would inevitably affect the Group's business environment. The situation may continue to deteriorate further as the latest wave of COVID-19 infections appears more worrying. Ongoing preventive and control measures, including border control and prohibition on group gathering, are expected to continue for a period of time and these would change many aspects of people lives and affect consumer confidence and spending. The Group will closely monitor and respond to the development and will continue to assess its impact on the Group's financial position and operating results.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period was the Company or any of its subsidiaries a party to any arrangements, to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

OTHER INFORMATION

INTERIM DIVIDEND

The directors resolved to declare an interim dividend of HK2.6 cents per share in respect of the six months ended 30 June 2020 *(30 June 2019: first interim dividend of HK2.8 cents per share and second interim dividend of HK2.1 cents per share)* payable to the shareholders on the register of members of the Company on 9 October 2020. The interim dividend will be dispatched to the shareholders on or about 11 December 2020.

CLOSING OF REGISTER OF MEMBERS

The register of members will be closed from Wednesday, 7 October 2020 to Friday, 9 October 2020, both days inclusive, during which no transfer of shares will be registered. In order to qualify for the 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, 6 October 2020.

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 2020 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 2020.

CHANGE OF DIRECTOR'S INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, change of directors' information of the Company since the date of the 2019 annual report is as follows:

Mr. LEUNG Man Chiu, Lawrence resigned as a non-executive director of World Super Holdings Limited (Stock code: 08612), a company listed on The Stock Exchange of Hong Kong Limited, on 21 July 2020.

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 2020 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, 27 August 2020

* *For identification purpose only*