WHITE FLOWER®

# PAK FAH YEOW INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)
Stock Code:239

# 2018 Interim Report

This Interim Report is printed on environmentally friendly paper

# CONTENTS

# CORPORATE INFORMATION

## DIRECTORS

Executive Directors

Gan Wee Sean *(Chairman and Chief Executive Officer) (R)*
Gan Fock Wai, Stephen *(R)*
Gan Cheng Hooi, Gavin

Non-executive Director

Gan Fook Yin, Anita

Independent Non-executive Directors

Leung Man Chiu, Lawrence *(chairing A, chairing R and chairing N)*
Wong Ying Kay, Ada *(A, R and N)*
Ip Tin Chee, Arnold *(A, R and N)*

## COMPANY SECRETARY

Lo Tai On

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

11th Floor, 200 Gloucester Road
Wanchai
Hong Kong

## AUDITOR

Mazars CPA Limited
42nd Floor, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

## SOLICITOR

Woo, Kwan, Lee & Lo
26th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

## PRINCIPAL SHARE REGISTRAR

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## HONG KONG SHARE REGISTRAR

Tricor Standard Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

## STOCK CODE

239

## HOME PAGE

http://www.pakfahyeow.com

## EMAIL

pfy@pfy.com.hk

## TELEPHONE

(852) 2881 7713

*(A) Audit Committee member*
*(R) Remuneration Committee member*
*(N) Nomination Committee member*

# 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.

## 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.

# 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** *'000* | ***HK$'000*** | Original currency *'000* | *HK$'000* | Change in HK$ % |
| 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.

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

Hong Kong, 28 August 2018

# REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

MAZARS CPA LIMITED
中審眾環(香港)會計師事務所有限公司
42nd Floor, Central Plaza,
18 Harbour Road, Wan Chai, Hong Kong
香港灣仔港灣道18號中環廣場42樓

To the board of directors
**Pak Fah Yeow International Limited**
*(incorporated in Bermuda with limited liability)*

**Introduction**

We have reviewed the condensed interim financial information of Pak Fah Yeow International Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 16 to 37, which comprises the condensed consolidated statement of financial position as at 30 June 2018 and the related condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of this condensed interim financial information in accordance with HKAS 34.

Our responsibility is to express a conclusion on this condensed interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Scope of review**

We conducted our review 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. A review of condensed interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial information as at 30 June 2018 is not prepared, in all material respects, in accordance with HKAS 34.

**Mazars CPA Limited**
*Certified Public Accountants*
Hong Kong, 28 August 2018

## 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** | *3* | **45,150** | 78,563 |
| Other revenue | *4* | **370** | 269 |
| Other net income | *5* | **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 | *6* | **(555)** | (525) |
| **Profit before taxation** | *6* | **14,736** | 55,443 |
| Taxation | *7* | **(787)** | (5,243) |
| **Profit for the period, attributable to owners of the Company** | | **13,949** | 50,200 |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

Six months ended 30 June 2018

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| | | **(unaudited)** | (unaudited) |
| | *Notes* | ***HK$'000*** | *HK$'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 | 9 | **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 | 10 | **352,117** | 340,961 |
| Property, plant and equipment | 10 | **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 | 11 | **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 | 12 | **24,549** | 26,660 |
| Bank overdrafts | | **392** | – |
| Current portion of deferred income | | **212** | 215 |
| Trade and other payables | 13 | **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 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2018

| | Notes | 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 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2018

| | Share capital *HK$'000* | Share premium *HK$'000* | Properties revaluation reserve *HK$'000* | Investment revaluation reserve *HK$'000* | Exchange reserve *HK$'000* | Proposed dividends *HK$'000* | Retained profits *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2018, as previously reported | 15,582 | 21,997 | 255,860 | 5,852 | (30,394) | 24,308 | 455,303 | 748,508 |
| Adjustment on initial application of HKFRS 9 *(note 2)* | – | – | – | (5,852) | – | – | 5,852 | – |
| As adjusted | 15,582 | 21,997 | 255,860 | – | (30,394) | 24,308 | 461,155 | 748,508 |
| Profit for the period | – | – | – | – | – | – | 13,949 | 13,949 |
| Other comprehensive income | – | – | 17,622 | – | (1,699) | – | – | 15,923 |
| Total comprehensive income attributable to owners of the Company | – | – | 17,622 | – | (1,699) | – | 13,949 | 29,872 |
| Transactions with equity owners | | | | | | | | |
| Interim dividends declared *(note 8)* | – | – | – | – | – | 5,454 | (13,868) | (8,414) |
| 2017 final dividends transferred to dividends payable *(note 8)* | – | – | – | – | – | (24,308) | – | (24,308) |
| **At 30 June 2018 (unaudited)** | **15,582** | **21,997** | **273,482** | **–** | **(32,093)** | **5,454** | **461,236** | **745,658** |
| At 1 January 2017 | 15,582 | 21,997 | 213,435 | 6,573 | (40,520) | 17,452 | 398,993 | 633,512 |
| Profit for the period | – | – | – | – | – | – | 50,200 | 50,200 |
| Other comprehensive income | – | – | 29,646 | 268 | 6,353 | – | – | 36,267 |
| Total comprehensive income attributable to owners of the Company | – | – | 29,646 | 268 | 6,353 | – | 50,200 | 86,467 |
| Transactions with equity owners | | | | | | | | |
| Interim dividends declared *(note 8)* | – | – | – | – | – | 7,012 | (15,426) | (8,414) |
| 2016 final dividends transferred to dividends payable (note 8) | – | – | – | – | – | (17,452) | – | (17,452) |
| At 30 June 2017 (unaudited) | 15,582 | 21,997 | 243,081 | 6,841 | (34,167) | 7,012 | 433,767 | 694,113 |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2018

| | Six months ended 30 June | |
|---|---|---|
| | **2018 (unaudited)** | 2017 (unaudited) |
| | ***HK$'000*** | *HK$'000* |
| **OPERATING ACTIVITIES** | | |
| Cash generated from operations | **10,965** | 46,161 |
| Interest received | **172** | 170 |
| Interest paid | **(555)** | (525) |
| Income taxes paid | **(441)** | (379) |
| **Net cash generated from operating activities** | **10,141** | 45,427 |
| **INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment | **(989)** | (807) |
| Proceeds from disposal of property, plant and equipment | **79** | 160 |
| Proceeds from disposal of available-for-sale financial assets | **–** | 509 |
| **Net cash used in from investing activities** | **(910)** | (138) |
| **FINANCING ACTIVITIES** | | |
| Consideration payable for acquisition of trademark | **–** | (1) |
| Net movement in bank borrowings, secured | **(1,822)** | (1,024) |
| Dividends paid | **(6,560)** | (6,565) |
| **Net cash used in financing activities** | **(8,382)** | (7,590) |
| **Net increase in cash and cash equivalents** | **849** | 37,699 |
| **Cash and cash equivalents at beginning of period** | **120,722** | 63,083 |
| Effect of foreign exchange rate changes | **(137)** | 124 |
| **Cash and cash equivalents at end of period** | **121,434** | 100,906 |
| **Analysis of the balances of cash and cash equivalents** | | |
| Cash at bank and in hand | **103,717** | 95,383 |
| Time deposits | **18,109** | 5,523 |
| | **121,826** | 100,906 |
| **Bank overdrafts** | **(392)** | – |
| | **121,434** | 100,906 |

# NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

Six months ended 30 June 2018

## 1. BASIS OF PREPARATION

The unaudited condensed interim financial information of Pak Fah Yeow International Limited (the "Company") and its subsidiaries (together the "Group") for the six months ended 30 June 2018 (the "Interim Financial Information") has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Interim Financial Information does not include all the information and disclosures required in the annual financial statements and should be read, where relevant, in conjunction with the Group's annual financial statements for the year ended 31 December 2017 ("2017 Annual Accounts").

The Interim Financial Information is unaudited, but has been reviewed by the Company's Audit Committee.

## 2. 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. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

**Changes in accounting policies**

***HKFRS 9 Financial Instruments***

HKFRS 9 replaces the provisions of HKAS 39 "Financial Instruments: Recognition and Measurement" in relation to (i) recognition, classification and measurement of financial assets and financial liabilities, (ii) derecognition of financial instruments, (iii) impairment of financial assets, and (iv) hedge accounting. HKFRS 9 also amends other standards dealing with financial instruments such as HKFRS 7 "Financial Instruments: Disclosure".

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods and the fair value changes are recognised in profit or loss. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading or contingent condition in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Changes in accounting policies (Continued)

***HKFRS 9 Financial Instruments (Continued)***

On 1 January 2018, the directors of the Company has assessed which business models apply to the financial assets held by the Group at the date of initial application of HKFRS 9 and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

| | | Measurement category | | Carrying amount | |
|---|---|---|---|---|---|
| | | Original (HKAS 39) | New (HKFRS 9) | Original *HK$'000* | New *HK$'000* |
| **Financial assets** | | | | | |
| Equity securities | | Financial assets at FVPL | Financial assets at FVPL | 15,639 | 15,639 |
| Debt securities | (a) | Available-for-sale, at fair value | Financial assets at FVPL | 4,823 | 4,823 |
| Dual currency deposit | (b) | Financial assets at FVPL | Financial assets at FVPL | 2,826 | 2,826 |
| Unlisted private equity fund | (a) | Available-for-sale, at fair value | Financial assets at fair value through profit or loss ("FVPL") | 1,418 | 1,418 |
| Trade and other receivables | (b) | Amortised cost | Amortised cost | 34,829 | 34,829 |
| Bank balances and cash | (b) | Amortised cost | Amortised cost | 120,722 | 120,722 |

*Note (a):* The accumulated investment revaluation reserve of HK$5,852,000 at 1 January 2018 relevant to these investments have been reclassified to retained profits.

*Note (b):* Impairment based on expected credit loss model on these financial assets has no significant financial impacts.

## 3. 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:

## 3. OPERATING SEGMENT INFORMATION (CONTINUED)

(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 |

## 3. OPERATING SEGMENT INFORMATION (CONTINUED)

**Business segments (Continued)**

| | 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 |

## 3. OPERATING SEGMENT INFORMATION (CONTINUED)

**Segment assets and liabilities (Continued)**

| | 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 Six months ended 30 June** | | **Results from operations Six months ended 30 June** | |
|---|---|---|---|---|
| | **2018 (unaudited) *HK$'000*** | 2017 (unaudited) *HK$'000* | **2018 (unaudited) *HK$'000*** | 2017 (unaudited) *HK$'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 |

## 4. 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 |

## 5. 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 |

## 6. PROFIT BEFORE TAXATION

| This is stated after charging: | Six months ended 30 June<br>**2018 (unaudited) *HK$'000*** | <br>2017 (unaudited) *HK$'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 |

## 7. 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<br>**2018 (unaudited) *HK$'000*** | <br>2017 (unaudited) *HK$'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 |

## 8. 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.

## 9. 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.

## 10. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The Group's investment properties situated in Hong Kong and leasehold land and buildings situated in Hong Kong were stated at fair value as at 30 June 2018 as estimated by the directors with reference to the valuation provided by an independent professional valuer. The Group recorded a net surplus on revaluation of the investment properties situated in Hong Kong of HK$11,960,000 *(2017: HK$22,300,000)* during the period, which was recognised in profit or loss. In addition, the Group recorded a surplus on revaluation of the leasehold land and buildings situated in Hong Kong of HK$21,104,000 *(2017: HK$35,504,000)* during the period, which was recognised in the properties revaluation reserve.

In addition, the Group's investment properties situated in London, the United Kingdom were also stated at fair value as at 30 June 2018 as estimated by the directors with reference to the valuation provided by an independent professional valuer. The Group recorded a net surplus on revaluation of the investment properties situated in United Kingdom of HK$1,403,000 during the period *(2017: no surplus or deficit on revaluation)*, which was recognised in profit or loss. During the period, the Group also recorded a deficit on exchange realignment of HK$2,207,000 *(2017: surplus of HK$9,136,000)* on the investment properties situated in the United Kingdom which was recognised as part of the exchange difference arising from translation of financial statements of overseas subsidiaries in the exchange reserve.

In the opinion of the directors, the change in fair value of the Group's investment properties situated in Singapore for the period was not material to the results of the Group.

## 11. 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 |

## 11. TRADE AND OTHER RECEIVABLES (CONTINUED)

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 |

## 12. BANK BORROWINGS, SECURED

The analysis of the carrying amount of bank borrowings is as follows:

| | **At 30 June 2018 (unaudited)** ***HK$'000*** | At 31 December 2017 (audited) *HK$'000* |
|---|---|---|
| Bank borrowings due for repayment within one year *(note (i))* | **20,627** | 21,693 |
| Term loan from a bank which contains a repayment on demand clause *(note (ii))* | **3,922** | 4,967 |
| | **24,549** | 26,660 |

(i) The revolving loan of HK$20,627,000 *(31 December 2017: HK$21,693,000)* bears interest at the bank's cost of fund plus 1.5% per annum and is repayable one month after drawdown. The loan is secured by pledging the Group's investment properties with an aggregate carrying value of HK$160,658,000 *(31 December 2017: HK$161,462,000)* together with the assignment of rental monies derived from the investment properties.

(ii) The term loan bears interest at the Hong Kong prime rate minus 3% per annum and is repayable in monthly installment up to 28 April 2020. It is secured by a first legal charge over the Group's leasehold land and buildings held for own use with a carrying value of HK$164,000,000 *(31 December 2017: HK$156,000,000)*.

## 13. 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 |

## 14. 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)** | At 31 December 2017 (audited) |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Leasehold land and buildings | **164,000** | 156,000 |
| Investment properties | **160,658** | 161,462 |
| | **324,658** | 317,462 |

## 15. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these condensed consolidated financial statements, during the period, the Group had the following transactions with related parties.

| | **Six months ended 30 June** | |
|---|---|---|
| | **2018 (unaudited)** | 2017 (unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Compensation paid to key management personnel, including directors: | | |
| – Salaries and other benefits | **7,163** | 8,301 |
| – Contributions to defined contribution plan | **45** | 45 |

## 16. CAPITAL COMMITMENT

In 2007, the Group entered into a master agreement with a bank to invest in a private equity fund with maximum capital injection of US$1 million *(equivalent to approximately HK$7.8 million)*. In 2017, the maximum capital injection had been revised to US$817,000 *(equivalent to HK$6,373,000)*. As at 30 June 2018, US$787,000 *(equivalent to approximately HK$6,136,000) (31 December 2017: US$786,000 (equivalent to approximately HK$6,129,000))* was called and paid up. Since the commitment period ended on 31 December 2011, the remaining US$30,000 *(equivalent to approximately HK$237,000) (31 December 2017: US$31,000 (equivalent to approximately HK$243,000))* would only be payable in limited situations stipulated in the master agreement.

## 17. FAIR VALUE DISCLOSURES

The following presents the assets measured at fair value or required to disclose their fair value in this Interim Financial Information on a recurring basis at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 13, Fair Value Measurement, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 (lowest level): unobservable inputs for the asset or liability.

**Financial assets measured at fair value**

| | **30 June 2018 (unaudited)** *HK$'000* | **Level 1 (unaudited)** *HK$'000* | **Level 2 (unaudited)** *HK$'000* | **Level 3 (unaudited)** *HK$'000* |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | | | | |
| Equity securities, listed in Hong Kong | 5,806 | 5,806 | – | – |
| Equity securities, listed overseas | 4,373 | 4,373 | – | – |
| Mutual funds, unlisted | 5,228 | – | 5,228 | – |
| Debt securities, unlisted | 12,611 | 12,611 | – | – |
| Dual currency deposits | 1,566 | 1,566 | – | – |
| Unlisted private equity fund | 1,228 | – | – | 1,228 |
| | 30,812 | 24,356 | 5,228 | 1,228 |

## 17. FAIR VALUE DISCLOSURES (CONTINUED)

**Financial assets measured at fair value (Continued)**

| | 31 December 2017 (audited) *HK$'000* | Level 1 (audited) *HK$'000* | Level 2 (audited) *HK$'000* | Level 3 (audited) *HK$'000* |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | | | | |
| Equity securities, listed in Hong Kong | 6,256 | 6,256 | – | – |
| Equity securities, listed overseas | 4,326 | 4,326 | – | – |
| Mutual funds, unlisted | 5,057 | – | 5,057 | – |
| Dual currency deposits | 2,826 | 2,826 | – | – |
| Available-for-sale financial assets | | | | |
| Unlisted private equity fund | 1,418 | – | – | 1,418 |
| Debt securities, unlisted | 4,823 | 4,823 | – | – |
| | 24,706 | 18,231 | 5,057 | 1,418 |

During the period ended 30 June 2018 and year ended 31 December 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. The Group's policy is to recognise transfers between levels as at the end of the reporting period.

***Movements in level 3 fair value measurements***

Fair value measurement at the end of the reporting period:

| Description | Unlisted private equity fund | |
|---|---|---|
| | **At 30 June 2018 (unaudited) *HK$'000*** | At 31 December 2017 (audited) *HK$'000* |
| At beginning of the reporting period | **1,418** | 2,108 |
| Gains or losses recognised in: | | |
| – profit or loss | **134** | – |
| – other comprehensive income | **–** | 542 |
| Disposals | **(324)** | (1,232) |
| **At end of the reporting period** | **1,228** | 1,418 |

## 17. FAIR VALUE DISCLOSURES (CONTINUED)

The above gains or losses are reported as “Net (loss) gain on financial assets at fair value through profit or loss” within profit or loss. During the year ended 31 December 2017, they were reported as “changes in fair value of available-for-sale financial assets” within other comprehensive income.

**Description of the valuation techniques and inputs used in Level 2 fair value measurement**

The unlisted mutual funds are valued based on quoted market prices from dealers or by reference to quoted market prices for similar instruments.

**Description of the valuation techniques and inputs used in Level 3 fair value measurement**

The unlisted private equity fund’s assets mainly comprise investment in unlisted companies in various industries (the “Investment”) and the fair value of the Investment is estimated by the external fund manager by reference to a number of factors including the operating cash flows and financial performance of the Investment, trends within sectors and/or regions, underlying business models, expected exit timing and strategy and any specific rights or terms associated with the Investment.

**Valuation processes of the Group**

The Group reviews estimation of fair value of the unlisted private equity fund which is categorised into Level 3 of the fair value hierarchy. Reports with estimation of fair value are prepared by the external fund manager on a quarterly basis. Discussion of the valuation process and results with the Audit Committee is held twice a year, to coincide with the reporting dates.

# DISCLOSURE OF INTERESTS AND OTHER INFORMATION

## DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2018, the interests and short positions of the directors and chief executive in the shares of the Company and associated corporations, as defined in Part XV of Securities and Futures Ordinance (the "SFO") and as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, were as follows:

### (a) Long positions in shares of the Company

| | Number of shares held | | | | Percentage of issued shares of the Company |
|---|---|---|---|---|---|
| Name of director | Personal interests | Family interests | Corporate interests | Total | |
| Mr. Gan Wee Sean | 27,208,322 | 2,380,560 *(Note 1)* | 65,323,440 *(Note 2)* | 94,912,322 *(Note 2)* | 30.46% |
| Mr. Gan Fock Wai, Stephen | 10,446,879 | – | 62,527,920 *(Note 3)* | 72,974,799 *(Note 3)* | 23.42% |
| Ms. Gan Fook Yin, Anita | 1,190,280 | – | – | 1,190,280 | 0.38% |

### (b) Long positions in non-voting deferred shares of associated corporations

*(i) Hoe Hin Pak Fah Yeow Manufactory, Limited ("HHPFY")*

| | Number of non-voting deferred shares of HK$1,000 each held | | | | Percentage of issued non-voting deferred shares of the respective corporations |
|---|---|---|---|---|---|
| Name of director | Personal interests | Family interests | Corporate interests | Total | |
| Mr. Gan Wee Sean | 8,600 | 800 *(Note 1)* | – | 9,400 | 42.7% |
| Mr. Gan Fock Wai, Stephen | 2,800 | – | – | 2,800 | 12.7% |

# DISCLOSURE OF INTERESTS AND OTHER INFORMATION (CONTINUED)

## DIRECTORS' INTERESTS IN SECURITIES (CONTINUED)

### (b) Long positions in non-voting deferred shares of associated corporations (Continued)

*(ii) Pak Fah Yeow Investment (Hong Kong) Company, Limited ("PFYI")*

| Name of director | Number of non-voting deferred shares of HK$1 each held | | | | Percentage of issued non-voting deferred shares of the respective corporations |
|---|---|---|---|---|---|
| | Personal interests | Family interests | Corporate interests | Total | |
| Mr. Gan Wee Sean | 8,244,445 | 711,111 *(Note 1)* | – | 8,955,556 | 42.2% |
| Mr. Gan Fock Wai, Stephen | 2,800,000 | – | – | 2,800,000 | 13.2% |

*Notes:*

1. Madam Khoo Phaik Gim, wife of Mr. Gan Wee Sean, beneficially owned 2,380,560 shares of the Company, 800 non-voting deferred shares of HHPFY and 711,111 non-voting deferred shares of PFYI.

2. These 65,323,440 shares were beneficially owned by Hexagan Enterprises Limited, a company wholly-owned by Mr. Gan Wee Sean and his wife, Madam Khoo Phaik Gim. The total number of 94,912,322 shares in aggregate represented approximately 30.46% of the issued shares of the Company.

3. These 62,527,920 shares were beneficially owned by Gan's Enterprises Limited, a company in which Mr. Gan Fock Wai, Stephen has an interest of approximately 32%. The total number of 72,974,799 shares in aggregate represented approximately 23.42% of the issued shares of the Company.

# DISCLOSURE OF INTERESTS AND OTHER INFORMATION (CONTINUED)

## DIRECTORS' INTERESTS IN SECURITIES (CONTINUED)

Other than as disclosed above, as at 30 June 2018, none of the directors or chief executives, nor their associates, had any interests and short positions in shares, underlying shares and debentures of the Company or any of its associated corporations as defined in Part XV of the SFO and none of the directors or chief executives, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights at any time during the period.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, the interests or short positions of every person, other than the directors and their respective associates as disclosed in "DIRECTORS' INTEREST IN SECURITIES" above, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

**Long position in the shares and underlying shares of the Company**

| Name of shareholder | Nature of interest | Number of shares held | Percentage of issued shares of the Company |
|---|---|---|---|
| Brooke Capital Limited | Beneficial owner and Investment manager | 34,283,500 *(Note)* | 11.00% |

*Note:* As reported by Brooke Capital Limited, these 34,283,500 shares comprised 13,525,000 shares held by itself and 18,698,500 shares and 2,060,000 shares held jointly with East of Suez Fund and Brooke Capital Asia Limited respectively.

## 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

### 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 THE 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 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 is adequate balance of power and safeguards in place. The board would review and monitor the situation on a regular basis and would ensure that the present structure would not impair the balance of power in the Company.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted 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 information 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 set out on page 16 to page 37 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.