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PAK FAH YEOW INTERNATIONAL LIMITED

白花油國際有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 239)

**INTERIM RESULTS ANNOUNCEMENT FOR
THE SIX MONTHS ENDED 30 JUNE 2021**

HIGHLIGHTS

- Revenue up 26.7% year-on-year.
- Underlying recurring profit, the performance indicator of the Group, was recorded in 2021 as compared to a loss in 2020.
- Reported profit, arising from a reduction of unrealised fair value loss on investment properties as compared to prior year, was recorded in 2021.
- Recent signs of recovery improve business outlook and overall sentiment for the second half of the year.

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 2021 together with comparative figures for the previous year:

RESULTS SUMMARY

	<i>Notes</i>	Six months ended 30 June		Change
		2021	2020	
		<i>HK\$'000</i>	<i>HK\$'000</i>	
Revenue	1	56,606	44,694	+26.7%
Reported profit (loss)	2	10,282	(47,210)	n/m
Underlying recurring profit (loss)	3	12,496	(600)	n/m
		<i>HK cents</i>	<i>HK cents</i>	
Earnings (Loss) per share:	4			
Reported profit (loss)		3.3	(15.1)	n/m
Underlying recurring profit (loss)		4.0	(0.2)	n/m
Total dividends per share	4	2.8	2.6	+7.7%
		At	At	
		30 June	31 December	
		2021	2020	
		<i>HK\$'000</i>	<i>HK\$'000</i>	
Shareholders' funds	5	687,629	673,192	+2.1%
		<i>HK\$</i>	<i>HK\$</i>	
Net asset value per share	6	2.2	2.2	0%

n/m: not meaningful

- 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 (loss) (“Reported Profit (Loss)”) is the profit or loss 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 (loss) (“Underlying Recurring Profit (Loss)”) reflects the Group’s performance of the three business segments and is arrived at by excluding from Reported Profit (Loss) the unrealised fair value changes of financial assets at fair value through profit or loss and of investment properties.
 4. The basic and diluted earnings (loss) 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 2021

		Six months ended 30 June	
		2021	2020
		(unaudited)	(unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	2	56,606	44,694
Other revenue	3	166	75
Other net income	4	175	942
Changes in inventories of finished goods		3,024	6,047
Raw materials and consumables used		(13,698)	(15,185)
Staff costs		(17,013)	(15,582)
Depreciation expenses		(3,617)	(3,998)
Net exchange loss		(378)	(1,315)
Other operating expenses		(8,762)	(14,213)
		<hr/>	<hr/>
Profit from operations before fair value changes of financial assets through profit or loss and of investment properties		16,503	1,465
Net gain (loss) on changes in fair value of financial assets at fair value through profit or loss		1,244	(2,129)
Revaluation deficit in respect of investment properties		(3,458)	(44,481)
		<hr/>	<hr/>
Profit (Loss) from operations		14,289	(45,145)
Finance costs	5	(424)	(469)
		<hr/>	<hr/>
Profit (Loss) before taxation	5	13,865	(45,614)
Taxation	6	(3,583)	(1,596)
		<hr/>	<hr/>
Profit (Loss) for the period, attributable to owners of the Company		10,282	(47,210)
		<hr/>	<hr/>

		Six months ended 30 June	
		2021	2020
		(unaudited)	(unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Other comprehensive income (loss)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising from translation of financial statements of overseas subsidiaries		1,364	(9,596)
Exchange difference arising from translation of inter-company balances with overseas subsidiaries representing net investments		(99)	2,465
<i>Item that will not be reclassified to profit or loss:</i>			
Revaluation surplus (deficit) of leasehold land and buildings, net of tax effect of HK\$2,911,000 (2020: HK\$3,721,000)		14,732	(18,835)
Other comprehensive income (loss) for the period, net of tax, attributable to owners of the Company		15,997	(25,966)
Total comprehensive income (loss) for the period, attributable to owners of the Company		26,279	(73,176)
Earnings (Loss) per share			
Basic and diluted	8	3.3 cents	(15.1) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

		At 30 June 2021 (unaudited) HK\$'000	At 31 December 2020 (audited) HK\$'000
Non-current assets			
Investment properties		283,827	285,123
Property, plant and equipment		337,767	323,111
Intangible assets		2,450	2,450
Financial assets at fair value through profit or loss		5,543	5,588
Deferred tax assets		1,057	1,021
		630,644	617,293
Current assets			
Inventories		24,202	18,417
Trade and other receivables	9	10,963	25,515
Financial assets at fair value through profit or loss		14,164	14,177
Tax recoverable		401	2,691
Bank balances and cash		153,321	117,303
		203,051	178,103
Current liabilities			
Bank borrowings, secured		17,361	17,859
Current portion of deferred income		263	258
Trade and other payables	10	15,515	10,637
Tax payables		2,021	1,220
Dividends payable		12,585	761
		47,745	30,735
Net current assets		155,306	147,368
Total assets less current liabilities		785,950	764,661

		At 30 June 2021 (unaudited) HK\$'000	At 31 December 2020 (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		39,114	35,892
Provision for directors' retirement benefits		6,407	6,188
Deferred tax liabilities		<u>50,727</u>	<u>47,316</u>
		<u>98,321</u>	<u>91,469</u>
NET ASSETS		<u>687,629</u>	<u>673,192</u>
Capital and reserves			
Share capital	11	15,582	15,582
Share premium and reserves		<u>672,047</u>	<u>657,610</u>
TOTAL EQUITY		<u>687,629</u>	<u>673,192</u>

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 2020 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 2021 as described below:

Amendments to HKFRS 16	Covid-19-Related Rent Concessions Beyond 30 June 2021
Amendments to HKAS 39, HKFRSs 4, 7, 9 and 16	Interest Rate Benchmark Reform – Phase 2

The adoption of these amendments to HKFRSs does not have any significant impacts on the condensed consolidated interim financial statements of the Group.

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 deferred tax assets, tax recoverable and other corporate assets. All liabilities are allocated to reportable segments other than deferred tax liabilities, provision for directors' retirement benefits, tax payable, dividends payable and other corporate liabilities.

Business segments

	Six months ended 30 June 2021			Consolidated (unaudited) HK\$'000
	Healthcare (unaudited) HK\$'000	Property investments (unaudited) HK\$'000	Treasury investments (unaudited) HK\$'000	
Revenue from external customers	<u>53,399</u>	<u>3,180</u>	<u>27</u>	<u>56,606</u>
Segment results	<u>21,276</u>	<u>(1,005)</u>	<u>859</u>	<u>21,130</u>
Unallocated corporate expenses				<u>(6,841)</u>
Profit from operations				14,289
Finance costs				<u>(424)</u>
Profit before taxation				13,865
Taxation				<u>(3,583)</u>
Profit for the period				<u>10,282</u>
	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	<u>40,674</u>	<u>3,795</u>	<u>225</u>	<u>44,694</u>
Segment results	<u>5,626</u>	<u>(41,329)</u>	<u>(2,074)</u>	<u>(37,777)</u>
Unallocated corporate expenses				<u>(7,368)</u>
Loss from operations				(45,145)
Finance costs				<u>(469)</u>
Loss before taxation				(45,614)
Taxation				<u>(1,596)</u>
Loss for the period				<u>(47,210)</u>

Segment assets and liabilities

The following table presents segment assets and liabilities of the Group's business segments as at 30 June 2021 and 31 December 2020:

	At 30 June 2021			Consolidated (unaudited) HK\$'000
	Healthcare (unaudited) HK\$'000	Property investments (unaudited) HK\$'000	Treasury investments (unaudited) HK\$'000	
Assets				
Segment assets	471,912	285,341	74,194	831,447
Unallocated corporate assets				2,248
Consolidated total assets				<u>833,695</u>
Liabilities				
Segment liabilities	15,811	57,781	–	73,592
Unallocated corporate liabilities				72,474
Consolidated total liabilities				<u>146,066</u>
		At 31 December 2020		
	Healthcare (audited) HK\$'000	Property investments (audited) HK\$'000	Treasury investments (audited) HK\$'000	Consolidated (audited) HK\$'000
Assets				
Segment assets	435,144	285,777	70,279	791,200
Unallocated corporate assets				4,196
Consolidated total assets				<u>795,396</u>
Liabilities				
Segment liabilities	11,172	55,428	–	66,600
Unallocated corporate liabilities				55,604
Consolidated total liabilities				<u>122,204</u>

Geographical information

	Revenue from external customers		Results from operations	
	Six months ended 30 June		Six months ended 30 June	
	2021	2020	2021	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	20,282	9,879	15,355	(23,471)
Macau	7,091	3,431	4,812	2,282
PRC	12,941	16,063	1,791	(270)
Southeast Asia	12,334	10,873	6,379	4,754
North America	2,324	1,590	1,009	87
United Kingdom	1,330	2,030	(9,649)	(21,529)
Europe (excluding United Kingdom)	–	–	1,193	(619)
Other regions	304	828	240	475
Unallocated corporate expenses	–	–	(6,841)	(6,854)
	56,606	44,694	14,289	(45,145)

3. OTHER REVENUE

	Six months ended 30 June	
	2021	2020
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed investments:		
Dividend income from financial assets at fair value through profit or loss	101	78
Gain (Loss) on disposal of financial assets at fair value through profit or loss	65	(3)
	166	75

4. OTHER NET INCOME

	Six months ended 30 June	
	2021	2020
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Commission received	16	13
Gain on disposal of property, plant and equipment	105	–
Sundry income	54	929
	<u>175</u>	<u>942</u>

5. PROFIT (LOSS) BEFORE TAXATION

	Six months ended 30 June	
	2021	2020
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
This is stated after charging:		
(a) Finance costs		
Interest on bank borrowings	144	189
Interest on consideration payable for acquisition of trademarks	280	280
	<u>424</u>	<u>469</u>
(b) Other items		
Cost of inventories	<u>21,298</u>	<u>19,049</u>

6. TAXATION

Under the two-tiered profits tax rates regime introduced in 2018, the first HK\$2 million of profits of the 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 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	
	2021	2020
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Current tax		
Hong Kong Profits Tax		
– Current period	2,890	560
– Underprovision in prior year	–	1,280
Overseas tax	229	409
	3,119	2,249
Deferred taxation		
Origination and reversal of temporary differences	464	(653)
	3,583	1,596

7. DIVIDENDS

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

At the board meeting held on 30 March 2021, the directors proposed a final dividend of HK3.8 cents per share totalling HK\$11,842,000 for the year ended 31 December 2020 (*year ended 31 December 2019: HK3.8 cents per share totalling HK\$11,842,000*). Upon the approval by shareholders on 11 June 2021, the appropriation was transferred to dividends payable.

Dividends attributable to the period

	Six months ended 30 June	
	2021	2020
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interim dividend of HK2.8 cents per share (2020: <i>Interim dividend of HK2.6 cents</i>)	<u>8,726</u>	<u>8,103</u>

On 26 August 2021, the directors declared an interim dividend of HK2.8 cents per share totalling HK\$8,726,000 (*2020: HK2.6 cents per share totalling HK\$8,103,000 declared on 27 August 2020*), which will be payable to the shareholders on the register of members of the Company on 8 October 2021.

8. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (*2020: loss*) per share is based on the earnings attributable to owners of the Company for the period of HK\$10,282,000 (*2020: loss of HK\$47,210,000*) and the weighted average number of 311,640,000 (*2020: 311,640,000*) ordinary shares in issue during the period.

Diluted earnings (loss) per share equals to basic earnings (loss) per share as there were no potential dilutive ordinary shares outstanding during the two periods ended 30 June 2020 and 2021.

9. TRADE AND OTHER RECEIVABLES

	At 30 June 2021 (unaudited) HK\$'000	At 31 December 2020 (audited) HK\$'000
Trade receivables	262	1,327
Bills receivable	7,299	20,658
Other receivables		
Deposits, prepayments and other debtors	<u>3,402</u>	<u>3,530</u>
	<u>10,963</u>	<u>25,515</u>

The Group allows credit period ranging from 30 days to 120 days (2020: 30 days to 120 days) to its customers. The ageing analysis of trade receivables by invoice date is as follows:

	At 30 June 2021 (unaudited) HK\$'000	At 31 December 2020 (audited) HK\$'000
Within 30 days	262	10
31 – 60 days	<u>–</u>	<u>1,317</u>
	<u>262</u>	<u>1,327</u>

10. TRADE AND OTHER PAYABLES

	At 30 June 2021 (unaudited) HK\$'000	At 31 December 2020 (audited) HK\$'000
Trade payables	<u>6,254</u>	<u>1,821</u>
Other payables		
Accrued charges and other creditors	2,928	2,920
Accrued advertising and promotion expenses	4,218	3,842
Accrued rebates and discounts	<u>2,115</u>	<u>2,054</u>
	<u>9,261</u>	<u>8,816</u>
	<u><u>15,515</u></u>	<u><u>10,637</u></u>

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

	At 30 June 2021 (unaudited) HK\$'000	At 31 December 2020 (audited) HK\$'000
Within 30 days	4,493	1,717
31 – 60 days	1,577	87
61 – 90 days	167	–
More than 90 days	<u>17</u>	<u>17</u>
	<u><u>6,254</u></u>	<u><u>1,821</u></u>

11. SHARE CAPITAL

	At 30 June 2021 (Unaudited)		At 31 December 2020 (Audited)	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Authorised:				
At beginning and end of the reporting period				
Ordinary share of HK\$0.05 each	<u>600,000,000</u>	<u>30,000</u>	<u>600,000,000</u>	<u>30,000</u>
Issued and fully paid:				
At beginning and end of the reporting period	<u>311,640,000</u>	<u>15,582</u>	<u>311,640,000</u>	<u>15,582</u>

12. PLEDGE OF ASSETS

The Group's investment properties with an aggregate carrying value of HK\$116,100,000 (*31 December 2020: HK\$124,697,000*) were pledged to secure banking facilities, including bank borrowings, granted to the Group to the extent of HK\$64,538,000 (*31 December 2020: HK\$65,029,000*), of which HK\$17,361,000 (*31 December 2020: HK\$17,859,000*) were utilised at the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Results Overview

During the first half of 2021, global economy was still clouded by uncertainty due to extended impact of COVID-19 pandemic despite recent improvement in economic indicators. Hong Kong economy saw a modest recovery in retail sector as well as improved data in consumption and investment. The Group remained focused on core business development. Timely and prudent cost management of production, advertising and promotion improved profit margin further during this period of uncertainty.

The Group recorded total revenue of HK\$56,606,000 for the six months ended 30 June 2021, an increase of 26.7% from HK\$44,694,000 for the same corresponding period in 2020. Revenue of each business segment is as follows:

	Six months ended 30 June		
	2021 HK\$'000	2020 HK\$'000	Change %
Healthcare	53,399	40,674	+31.3
Property Investments	3,180	3,795	-16.2
Treasury Investments	27	225	-88.0
	<u>56,606</u>	<u>44,694</u>	+26.7

Underlying Recurring Profit (Loss), which excludes from Reported Profit (Loss) the unrealised fair value changes of financial assets and of investment properties, was a profit of HK\$12,496,000 as compared to a loss of HK\$600,000 in the same period last year. This mainly reflected improved performance of Healthcare segment. Earnings per share of Underlying Recurring Profit (Loss) was HK4.0 cents as compared to loss per share of HK0.2 cent for 2020.

Reported Profit (Loss) for the six months ended 30 June 2021 improved to a profit of HK\$10,282,000 (2020: loss of HK\$47,210,000), primarily due to a reduction of unrealised fair value loss on the Group's investment properties. Earnings per share of Reported Profit (Loss) was HK3.3 cents as compared to loss per share of HK15.1 cents for 2020.

Below is the reconciliation between Underlying Recurring Profit (Loss) and Reported Profit (Loss):

	Six months ended 30 June		Change %
	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	
Underlying Recurring Profit (Loss)	12,496	(600)	n/m
Unrealised fair value changes of:			
Financial assets	1,244	(2,129)	
Investment properties:			
United Kingdom	(10,758)	(23,481)	
Hong Kong and Singapore	7,300	(21,000)	
Reported Profit (Loss)	10,282	(47,210)	n/m

n/m: not meaningful

The revaluation of other properties, which is accounted for as other comprehensive income (loss), has resulted in a net revaluation gain for the period of HK\$14,732,000 (2020: loss of HK\$18,835,000).

Total comprehensive income attributable to owners for the six months ended 30 June 2021 was approximately HK\$26,279,000 (2020: loss of HK\$73,176,000).

OPERATIONS REVIEW

Healthcare

Revenue from Healthcare segment increased by 31.3% to HK\$53,399,000 (2020: HK\$40,674,000). Revenue of each geographical segment is as follows:

	Six months ended 30 June		Change %
	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	
Hong Kong	18,517	8,015	+131.0
Macau	7,091	3,431	+106.7
Mainland China	12,941	16,063	-19.4
Southeast Asia	12,222	10,746	+13.7
North America	2,325	1,590	+46.2
Others	303	829	-63.4
Segment revenue	53,399	40,674	+31.3
Segment profit	21,276	5,626	+278.2

Hong Kong and Macau markets continued to stabilise in the first half of 2021 and sales grew significantly by 123.7% after a turbulent year caused by low consumer confidence, border closures and uncertainty brought on by the COVID-19 pandemic.

Sales performance in Mainland China on the other hand decreased by 19.4% year-on-year. The Mainland China distributor had maintained a healthy but not excessive stock level for the second half of 2021.

Overall sales turnover in South East Asia continued to see improvement with year-on-year sales increase mainly attributable to the sales growth in the Philippines driven by the use of brand building and above-the-line marketing strategies as well as in-store sampling and activation activities. However, the Group continued to face strong headwinds due to worsening pandemic situation and nationwide lockdowns in Thailand, Indonesia and Malaysia.

The US market showed continued improvement year-on-year despite the challenging environment. The US distributor continued the momentum to strengthen the sales channel and drive sales into new retail accounts within different Asian communities as well as continued their advertising and sales efforts through online platforms.

Property Investments

Revenue for this segment decreased by 16.2% to HK\$3,180,000 (2020: HK\$3,795,000). This change mainly represents decreased rental income derived in the United Kingdom as a result of renegotiation of new lease or vacant of some retail shop tenants who were unable to trade profitably and went into administrations or terminated on dissolution. Revenue of each geographical segment is as follows:

	Six months ended 30 June		
	2021 HK\$'000	2020 HK\$'000	Change %
Hong Kong – office and residential	1,737	1,682	+3.3
Singapore – industrial	113	111	+1.8
United Kingdom – retail/residential	1,330	2,002	-33.6
Segment revenue	3,180	3,795	-16.2
Segment result – loss	(1,005)	(41,329)	-97.6

For the six months ended 30 June 2021, segment revenue of about 54.6%, 3.6% and 41.8% (2020: 44.3%, 2.9% and 52.8%) were derived from investment properties in Hong Kong, Singapore and the United Kingdom respectively, and their occupancy rates were 100%, 100% and 68.8% (2020: 94.5%, 100% and 100%) respectively.

Underlying Recurring Segment Result, which excludes from the segment result the unrealised fair value changes of financial assets and of investment properties, was a profit of HK\$2,453,000, down 22.2% from HK\$3,152,000 in 2020. Property expenses ratio as a percentage of segment revenue increased to 22.9% (2020: 16.9%) for the period. Both Underlying Recurring Segment Result and the property expenses ratio for 2021 reflected higher proportional property expenses due to low occupancy rate and lower rental income.

Segment result for the six months ended 30 June 2021 improved to a loss of HK\$1,005,000 (2020: loss of HK\$41,329,000), principally reflecting a reduction of unrealised fair value loss of investment properties as compared to the same period last year.

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

	Six months ended 30 June		
	2021	2020	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Underlying Recurring Segment Result	2,453	3,152	-22.2
Unrealised fair value changes of investment properties:			
United Kingdom	(10,758)	(23,481)	
Hong Kong and Singapore	7,300	(21,000)	
	<u> </u>	<u> </u>	
Segment result – loss	<u>(1,005)</u>	<u>(41,329)</u>	-97.6

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 88.0% to HK\$27,000 (2020: HK\$225,000). Underlying Recurring Segment Result decreased to a loss of HK\$385,000 (2020: profit of HK\$55,000). Such decrease reflected decreased interest income as lower bank deposit balances and lower interest rate as well as weak performance on foreign currency transactions during the period.

The segment result improved to a profit of HK\$859,000 (2020: loss of HK\$2,074,000), mainly attributable to, amongst others as mentioned above, unrealised fair value gain on listed investments.

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

	Six months ended 30 June		Change %
	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	
Underlying Recurring Segment Result	(385)	55	n/m
Unrealised fair value changes of financial assets	<u>1,244</u>	<u>(2,129)</u>	
Segment result – profit (loss)	<u>859</u>	<u>(2,074)</u>	n/m

n/m: not meaningful

FINANCIAL REVIEW

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

Staff Costs

Staff costs are categorised into production (production-related payroll costs) and administration (other payroll costs, including management and head office staff), which increased by 9.2% from HK\$15,582,000 to HK\$17,013,000. This mainly reflected long service payments made to some staff upon retirement, and increased provision for management bonus as a result of improved financial performance as compared to the same period last year.

Other Operating Expenses

Other operating expenses decreased by 38.4% to HK\$8,762,000 (2020: HK\$14,213,000), mainly attributable to overall decrease in sales and marketing expenses for the period due to the then market condition. Other operating expenses ratio as a percentage of total revenue decreased to 15.5% (2020: 31.8%) for the period. This reflected lower proportional expenses due to improvement in total revenue as well as cost control over sales and marketing activities during the period.

Finance Costs

Finance costs decreased by 9.6% to HK\$424,000 (2020: HK\$469,000), mainly due to lower bank loan balance after mortgage loan being partly repaid for the United Kingdom investment properties. Interest coverage ratio (profit from operations before interest and taxes and before unrealised fair value changes of financial assets and of investment properties divided by finance costs) increased to 38.9 (2020: 3.1) for the period. Such increase reflected an improved financial performance in 2021.

Taxation

Increase in taxation from HK\$1,596,000 to HK\$3,583,000 was principally due to increase in taxable operating profits of subsidiaries in Hong Kong and underprovision of deferred tax liability in previous years for the temporary difference of tax allowance.

Investment Properties

The Group's investment properties in Hong Kong and the United Kingdom were valued at 30 June 2021 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 2021 was HK\$283,827,000, a decline of 0.5% from HK\$285,123,000 as at 31 December 2020. Such decrease reflected uncertainty remained over retail sector in the United Kingdom amid the COVID-19 spread and an improved market sentiment of office and residential sectors in Hong Kong since the beginning of the year. 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 2021		As at 31 December 2020		Change in HK\$ %
	Original currency '000	HK\$'000	Original currency '000	HK\$'000	
Hong Kong – office and residential	HK\$156,300	156,300	HK\$149,000	149,000	+4.9
Singapore – industrial	S\$1,950	11,427	S\$1,950	11,427	–
United Kingdom – retail/residential	GBP10,800	116,100	GBP11,800	124,696	-6.9
		<u>283,827</u>		<u>285,123</u>	-0.5

Unrealised fair value loss on investment properties of HK\$3,458,000 (2020: HK\$44,481,000) 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 2021 was 2.5% (31 December 2020: 2.7%). Total bank borrowings of the Group amounted to HK\$17,361,000 (31 December 2020: HK\$17,859,000), mainly denominated in Pound Sterling with floating interest rates.

Current ratio (current assets divided by current liabilities) was 4.3 times as at 30 June 2021 (31 December 2020: 5.8 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 2021, 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 2021 were approximately HK\$43.3 million (31 December 2020: HK\$39.0 million) in total, or about 5.20% (31 December 2020: 4.9%) of the Group's total assets. The Group was also exposed to foreign exchange rate changes (net of the underlying debt borrowings) of approximately HK\$98.8 million (31 December 2020: HK\$107.1 million) relating to carrying amount of the investment properties in the United Kingdom.

PLEDGE OF ASSETS

As at 30 June 2021, The Group's investment properties with an aggregate carrying value of approximately HK\$116.1 million (31 December 2020: HK\$124.7 million) were pledged to secure banking facilities granted to the Group to the extent of approximately HK\$64.5 million (31 December 2020: HK\$65.0 million), of which approximately HK\$17.4 million (31 December 2020: HK\$17.9 million) were utilised as at 30 June 2021.

CONTINGENT LIABILITIES

As at 30 June 2021, 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 2021, the Group had a total of 94 (*31 December 2020: 92*) employees. Remuneration packages of employees and directors are reviewed annually and determined by reference to market pay and individual performance. In addition to salary payments, the Group also provides other employment benefits including medical allowance and educational subsidies to eligible employees.

OUTLOOK

The development and effect of COVID-19 continues to be uncertain, but mass vaccination programme for majority of communities, together with precautionary measures taken by governments, would gradually improve business outlook. Major economies in the world have shown recovery and should further improve the overall sentiment. The Group remains confident of its capability to navigate any challenges ahead.

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 HK2.8 cents per share in respect of the six months ended 30 June 2021 (*30 June 2020: HK2.6 cents per share*) payable to the shareholders on the register of members of the Company on 8 October 2021. The interim dividend will be dispatched to the shareholders on or about 10 December 2021.

CLOSING OF REGISTER OF MEMBERS

The register of members will be closed from Wednesday, 6 October 2021 to Friday, 8 October 2021, 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, 5 October 2021.

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 2021 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 2021.

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 2021 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, 26 August 2021

* *For identification purpose only*