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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 2017**

HIGHLIGHTS

- Revenue up 4.3% year-on-year.
- Underlying recurring profit, the performance indicator of the Group, up 13.4% year-on-year.
- Reported profit up 860.9% mainly attributable to unrealised fair value gain on the Group's investment properties in Hong Kong.
- Extension of sales coverage in both new developing markets and existing markets continue to be the focus for the rest of the year.

The board of directors (the “Board”) of Pak Fah Yeow International Limited (the “Company”) is pleased to announce the interim results of the Company and its subsidiaries (collectively referred as the “Group”) for the six months ended 30 June 2017 together with comparative figures for the previous year:

RESULTS SUMMARY

	<i>Notes</i>	Six months ended 30 June		Change
		2017	2016	
		<i>HK\$’000</i>	<i>HK\$’000</i>	
Revenue	1	78,563	75,308	+4.3%
Reported profit	2	50,200	5,224	+860.9%
Underlying recurring profit	3	26,036	22,959	+13.4%
		<i>HK cents</i>	<i>HK cents</i>	
Earnings per share:	4			
Reported profit		16.1	1.7	+847.1%
Underlying recurring profit		8.4	7.4	+13.5%
Total dividends per share	4	4.95	4.8	+3.1%
		At	At	
		30 June	31 December	
		2017	2016	
		<i>HK\$’000</i>	<i>HK\$’000</i>	
Shareholders’ funds	5	694,113	633,512	+9.6%
		<i>HK\$</i>	<i>HK\$</i>	
Net asset value per share	6	2.23	2.03	+9.9%

- Notes:*
1. Revenue represents revenue derived from the three business segments, namely healthcare (“Healthcare”), property investments (“Property Investments”) and treasury investments (“Treasury Investments”).
 2. Reported profit (“Reported Profit”) is the profit attributable to owners of the Company, which is prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.
 3. Underlying recurring profit (“Underlying Recurring Profit”) reflects the Group’s performance of the three business segments and is arrived at by excluding from Reported Profit the unrealised fair value changes of financial assets at fair value through profit or loss and of investment properties, and the items that are non-recurring in nature.
 4. The basic and diluted earnings per share and the total dividends per share are calculated using the weighted average number of ordinary shares in issue during the period.
 5. Shareholders’ funds are the equity attributable to owners of the Company, which is equivalent to the total equity as presented in the Company’s consolidated statement of financial position.
 6. Net asset value per share represents shareholders’ funds divided by the number of ordinary shares of the Company in issue as at the balance sheet date.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
		(unaudited)	(unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	2	78,563	75,308
Other revenue	3	269	340
Other net income	4	97	55
Changes in inventories of finished goods		2,012	3,282
Raw materials and consumables used		(15,635)	(14,719)
Staff costs		(17,505)	(16,065)
Depreciation expenses		(1,053)	(1,181)
Net exchange gain (loss)		1,268	(993)
Other operating expenses		(16,212)	(17,495)
		<hr/>	<hr/>
Profit from operations before fair value changes of financial assets through profit or loss and of investment properties		31,804	28,532
Net gain on financial assets at fair value through profit or loss		1,864	166
Revaluation surplus (deficit) in respect of investment properties		22,300	(17,901)
		<hr/>	<hr/>
Profit from operations		55,968	10,797
Finance costs	5	(525)	(563)
		<hr/>	<hr/>
Profit before taxation	5	55,443	10,234
Taxation	6	(5,243)	(5,010)
		<hr/>	<hr/>
Profit for the period, attributable to owners of the Company		50,200	5,224
		<hr/>	<hr/>

		Six months ended 30 June	
		2017	2016
		(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>		
	Change in fair value of available-for-sale financial assets	268	2
	Exchange difference arising from translation of financial statements of overseas subsidiaries	8,622	(13,732)
	Exchange difference arising from translation of inter-company balances with overseas subsidiaries representing net investments	(2,269)	3,751
	<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\$5,858,000 (2016: HK\$857,000)	<u>29,646</u>	<u>(4,338)</u>
	Other comprehensive income (loss) for the period, net of tax, attributable to owners of the Company	<u>36,267</u>	<u>(14,317)</u>
	Total comprehensive income (loss) for the period, attributable to owners of the Company	<u><u>86,467</u></u>	<u><u>(9,093)</u></u>
	Earnings per share		
	Basic and diluted	8 <u><u>16.11 cents</u></u>	<u><u>1.68 cents</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

		At 30 June 2017 (unaudited) HK\$'000	At 31 December 2016 (audited) HK\$'000
<i>Notes</i>			
Non-current assets			
Investment properties		322,428	290,993
Property, plant and equipment		344,222	309,069
Intangible assets		2,450	2,450
Available-for-sale financial assets		8,140	8,381
		677,240	610,893
Current assets			
Inventories		16,410	12,646
Trade and other receivables	9	46,254	53,450
Financial assets at fair value through profit or loss		18,439	23,794
Bank balances and cash		100,906	63,083
		182,009	152,973
Current liabilities			
Bank borrowings, secured		27,734	27,463
Current portion of deferred income		182	171
Trade and other payables	10	22,038	22,898
Tax payable		5,466	515
Dividends payable		26,488	7,187
		81,908	58,234
Net current assets		100,101	94,739
Total assets less current liabilities		777,341	705,632

	At 30 June 2017 (unaudited) <i>HK\$'000</i>	At 31 December 2016 (audited) <i>HK\$'000</i>
<i>Notes</i>		
Non-current liabilities		
Long-term portion of consideration payable for acquisition of trademarks	2,073	2,074
Long-term portion of deferred income	28,422	24,470
Provision for long service payments	1,408	659
Provision for directors' retirement benefits	3,614	3,020
Deferred taxation	47,711	41,897
	<u>83,228</u>	<u>72,120</u>
NET ASSETS	<u>694,113</u>	<u>633,512</u>
Capital and reserves		
Share capital	15,582	15,582
Share premium and reserves	678,531	617,930
TOTAL EQUITY	<u>694,113</u>	<u>633,512</u>

Notes:

1. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements (the “Interim Financial Statements”) have been prepared under the historical cost convention except for investment properties, leasehold land and buildings, available-for-sale financial assets and financial assets at fair value through profit or loss, which are measured at fair value.

Except as described below, the accounting policies and basis of preparation adopted in these Interim Financial Statements are consistent with those used in the preparation of the 2016 Annual Accounts.

The HKICPA has issued a number of amendments to the Hong Kong Financial Reporting Standards (“HKFRSs”) that are mandatorily effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Various HKFRSs	Annual Improvements Project – 2014-2016 Cycle

The adoption of these new/revised HKFRSs and interpretation has had no material effect on the amounts and/or disclosures reported in these Interim Financial Statements.

2. OPERATING SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker – the executive directors for making strategic decisions and resources allocation. The Group’s operating segments are structured and managed separately according to the nature of their businesses. The Group is currently organised into three operating businesses as follows:

- (a) Healthcare – manufacturing and sale of Hoe Hin products
- (b) Property Investments
- (c) Treasury Investments

Each of the Group’s operating segments represents a strategic business unit subject to risks and returns that are different from those of the other operating segments.

For the purposes of assessing the performance of the operating segments between segments, the executive directors assess segment profit or loss before income tax without allocation of finance costs, directors’ emoluments, and central administrative costs and the basis of preparing such information is consistent with that of the consolidated financial statements. All assets are allocated to reportable segments other than corporate assets. All liabilities are allocated to reportable segments other than deferred taxation, provision for directors’ retirement benefits, tax payable, dividends payable and other corporate liabilities.

Business segments

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

	Six months ended 30 June 2016			Consolidated (unaudited) HK\$'000
	Healthcare (unaudited) HK\$'000	Property	Treasury	
		Investments (unaudited) HK\$'000	Investments (unaudited) HK\$'000	
Revenue from external customers	<u>69,969</u>	<u>5,130</u>	<u>209</u>	<u>75,308</u>
Segment results	<u>31,421</u>	<u>(13,371)</u>	<u>774</u>	<u>18,824</u>
Unallocated corporate expenses				<u>(8,027)</u>
Profit from operations				10,797
Finance costs				<u>(563)</u>
Profit before taxation				10,234
Taxation				<u>(5,010)</u>
Profit for the period				<u>5,224</u>

Segment assets and liabilities

The following table presents segment assets and liabilities of the Group's business segments as at 30 June 2017 and 31 December 2016:

	At 30 June 2017			Consolidated (unaudited) HK\$'000
	Healthcare	Property	Treasury	
	(unaudited) HK\$'000	Investments (unaudited) HK\$'000	Investments (unaudited) HK\$'000	
Assets				
Segment assets	467,722	322,729	68,603	859,054
Unallocated corporate assets				<u>195</u>
Consolidated total assets				<u><u>859,249</u></u>
Liabilities				
Segment liabilities	29,614	51,739	–	81,353
Unallocated corporate liabilities				<u>83,783</u>
Consolidated total liabilities				<u><u>165,136</u></u>
	At 31 December 2016			Consolidated (audited) HK\$'000
	Healthcare	Property	Treasury	
	(audited) HK\$'000	Investments (audited) HK\$'000	Investments (audited) HK\$'000	
Assets				
Segment assets	411,542	291,336	60,460	763,338
Unallocated corporate assets				<u>528</u>
Consolidated total assets				<u><u>763,866</u></u>
Liabilities				
Segment liabilities	23,126	46,383	–	69,509
Unallocated corporate liabilities				<u>60,845</u>
Consolidated total liabilities				<u><u>130,354</u></u>

Geographical information

	Revenue from external customers		Results from operations	
	Six months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	47,637	47,130	48,985	16,329
Macau	3,741	6,051	2,423	3,846
PRC	11,552	8,570	629	201
Southeast Asia	9,263	7,823	5,392	3,410
North America	2,021	2,004	990	929
United Kingdom	2,698	3,062	2,603	(6,917)
Europe (excluding United Kingdom)	–	–	946	82
Other regions	1,651	668	971	485
Unallocated corporate expenses	–	–	(6,971)	(7,568)
	<u>78,563</u>	<u>75,308</u>	<u>55,968</u>	<u>10,797</u>

3. OTHER REVENUE

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed investments:		
Dividend income from financial assets at fair value through profit or loss	151	273
Gain on disposal of financial assets at fair value through profit or loss	118	67
	<u>269</u>	<u>340</u>

4. OTHER NET INCOME

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Commission received	14	12
Gain on disposal of property, plant and equipment	54	15
Sundry income	29	28
	<u>97</u>	<u>55</u>

5. PROFIT BEFORE TAXATION

Six months ended 30 June
2017 2016
(unaudited) (unaudited)
HK\$'000 *HK\$'000*

This is stated after charging:

(a) Finance costs

Interest on bank borrowings	246	284
Interest on consideration payable for acquisition of trademarks	279	279
	525	563
	525	563

(b) Other items

Cost of inventories	22,720	19,974
	22,720	19,974

6. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (2016: 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
2017 2016
(unaudited) (unaudited)
HK\$'000 *HK\$'000*

Current tax

Hong Kong Profits Tax	4,808	4,395
Overseas tax	479	599
	5,287	4,994

Deferred taxation

Origination and reversal of temporary differences	(44)	16
	(44)	16
	5,243	5,010

7. DIVIDENDS

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

At the board meeting held on 27 March 2017, the directors proposed a final dividend of HK5.6 cents per share totalling HK\$17,452,000 for the year ended 31 December 2016 (year ended 31 December 2015: HK5.6 cents per share totalling HK\$17,452,000) which had been reflected as an appropriation of retained profits. Upon the approval by shareholders on 8 June 2017, the appropriation was transferred to dividends payable.

Dividends attributable to the period

	Six months ended 30 June	
	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
First interim dividend	8,414	8,414
Second interim dividend	7,012	6,544
	<u>15,426</u>	<u>14,958</u>

On 8 June 2017, the directors declared the first interim dividend of HK2.7 cents per share totalling HK\$8,414,000 (2016: HK2.7 cents per share totalling HK\$8,414,000 declared on 15 June 2016), which was payable to the shareholders on the register of members of the Company on 4 August 2017.

On 24 August 2017, the directors declared the second interim dividend of HK2.25 cents per share totalling HK\$7,012,000 (2016: HK2.1 cents per share totalling HK\$6,544,000 declared on 23 August 2016), which will be payable to the shareholders on the register of members of the Company on 13 October 2017.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the profit attributable to owners of the Company for the period of HK\$50,200,000 (2016: HK\$5,224,000) and the weighted average number of 311,640,000 (2016: 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 2016 and 2017.

9. TRADE AND OTHER RECEIVABLES

	At 30 June 2017 (unaudited) <i>HK\$'000</i>	At 31 December 2016 (audited) <i>HK\$'000</i>
Trade receivables	39,133	42,480
Bills receivable	5,921	8,510
Other receivables		
Deposits, prepayments and other debtors	<u>1,200</u>	<u>2,460</u>
	<u>46,254</u>	<u>53,450</u>

The Group allows credit period ranging from 30 days to 120 days (2016: 30 days to 120 days) to its customers. The ageing analysis of trade receivables by invoice date is as follows:

	At 30 June 2017 (unaudited) <i>HK\$'000</i>	At 31 December 2016 (audited) <i>HK\$'000</i>
Within 30 days	19,824	15,425
31 – 60 days	10,320	18,259
61 – 90 days	8,989	8,788
Over 90 days	<u>–</u>	<u>8</u>
	<u>39,133</u>	<u>42,480</u>

10. TRADE AND OTHER PAYABLES

	At 30 June 2017 (unaudited) <i>HK\$'000</i>	At 31 December 2016 (audited) <i>HK\$'000</i>
Trade payables	<u>825</u>	<u>1,940</u>
Other payables		
Accrued charges and other creditors	21,113	20,858
Customers' deposits	<u>100</u>	<u>100</u>
	<u>21,213</u>	<u>20,958</u>
	<u>22,038</u>	<u>22,898</u>

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

	At 30 June 2017 (unaudited) <i>HK\$'000</i>	At 31 December 2016 (audited) <i>HK\$'000</i>
Within 30 days	702	1,291
31 – 60 days	87	492
61 – 90 days	–	–
More than 90 days	36	157
	825	1,940

11. PLEDGE OF ASSETS

Certain of the Group's leasehold land and buildings and investment properties were pledged to secure banking facilities, including bank borrowings, granted to the Group to the extent of HK\$97,049,000 (31 December 2016: HK\$96,404,000), of which HK\$27,734,000 (31 December 2016: HK\$27,463,000) were utilised at the end of the reporting period.

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

	At 30 June 2017 (unaudited) <i>HK\$'000</i>	At 31 December 2016 (audited) <i>HK\$'000</i>
Leasehold land and buildings	146,000	127,000
Investment properties	153,340	144,205
	299,340	271,205

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Results Overview

Global economic environment improved modestly during the first half of 2017, despite uncertainty over geopolitical tensions in various regions. Hong Kong economy also improved, benefitting from favourable job and income conditions as well as the recent revival in visitor arrivals. The property market in Hong Kong remained buoyant and, to a certain extent, added more positive sentiment to local consumption. United States Dollars comparably weakened during the period despite the interest rate normalisation in the United States, leading to relative improvement of other major currencies since the beginning of 2017.

From this background, the Group recorded total revenue of HK\$78,563,000 for the six months ended 30 June 2017, an increase of 4.3% from HK\$75,308,000 for the same corresponding period in 2016. Revenue of each business segment is as follows:

	Six months ended 30 June		Change %
	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	
Healthcare	74,368	69,969	+6.3
Property Investments	4,025	5,130	-21.5
Treasury Investments	170	209	-18.7
	<u>78,563</u>	<u>75,308</u>	+4.3

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\$26,036,000, up 13.4% from HK\$22,959,000 year-on-year. This mainly reflected improved performance in Healthcare for the first six months in 2017, partly offset by decreased rental income. Earnings per share of Underlying Recurring Profit was HK8.4 cents, up 13.5% from HK7.4 cents for 2016.

Reported Profit for the six months ended 30 June 2017 up by 860.9% to HK\$50,200,000 (2016: HK\$5,224,000), primarily due to unrealised fair value gain on the Group's investment properties in Hong Kong.

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

	Six months ended 30 June		Change %
	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	
Underlying Recurring Profit	26,036	22,959	+13.4
Unrealised fair value changes of:			
Financial assets	1,864	166	
Investment properties:			
United Kingdom	–	(10,081)	
Hong Kong and Singapore	22,300	(7,820)	
	<u> </u>	<u> </u>	
Reported Profit	50,200	5,224	+860.9
	<u> </u>	<u> </u>	

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\$29,646,000 (2016: loss of HK\$4,338,000).

Total comprehensive income attributable to owners for the six months ended 30 June 2017 was approximately HK\$86,467,000 (2016: loss of HK\$9,093,000).

OPERATIONS REVIEW

Healthcare

Revenue from Healthcare segment increased by 6.3% to HK\$74,368,000 (2016: HK\$69,969,000). Revenue of each geographical segment is as follows:

	Six months ended 30 June		Change %
	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	
Hong Kong	46,452	45,202	+2.8
Macau	3,741	6,051	–38.2
Mainland China	11,513	8,540	+34.8
Southeast Asia	8,990	7,526	+19.5
North America	2,021	2,004	+0.9
Others	1,651	646	+155.6
	<u> </u>	<u> </u>	
Segment revenue	74,368	69,969	+6.3
	<u> </u>	<u> </u>	
Segment profit	34,253	31,421	+9.0
	<u> </u>	<u> </u>	

Despite visitor arrivals resuming growth gradually, weak spending power of Mainland visitors continued to affect spending pattern at retail level. Sales in Hong Kong improved slightly comparing to the same period of last year. Sales contribution from Macau, on the other hand, decreased by 38.2% for the first half but is expected to get back on track in the second half of the year. Growth path in Mainland China continued to pick up modestly and market penetration expanded with successful product listing to new drugstore chains in the first six months of 2017.

Philippines, Singapore and Malaysia markets maintained a better performance in sales comparing to the same period of last year, despite unfavourable exchange rate continued to affect sales growth in Southeast Asia. South Korea market achieved an encouraging growth during the period which contributed to the increase in sales of other markets. The Group's products, Hoe Hin Pak Fah Yeow and Fuzai 239, were newly listed in 800 stores of Olive Young, one of the biggest chain stores in South Korea, and the satisfactory sales performance indicated preliminary acceptance by local customers.

Property Investments

Revenue for this segment declined by 21.5% to HK\$4,025,000 (2016: HK\$5,130,000). This change mainly represents the decreased rental income in Hong Kong as a result of early termination of a tenancy and the decreased average exchange rate in translating rental income derived in the United Kingdom. Revenue of each geographical segment is as follows:

	Six months ended 30 June		Change %
	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	
Hong Kong – office and residential	1,219	1,958	-37.7
Singapore – industrial	109	111	-1.8
United Kingdom – retail/residential	2,697	3,061	-11.9
	<u>4,025</u>	<u>5,130</u>	-21.5
Segment revenue	<u>4,025</u>	<u>5,130</u>	-21.5
Segment result – profit (loss)	<u>25,537</u>	<u>(13,371)</u>	+291.0

For the six months ended 30 June 2017, segment revenue of about 30.3%, 2.7% and 67.0% (2016: 38.2%, 2.1% and 59.7%) were derived from investment properties in Hong Kong, Singapore and the United Kingdom respectively. Occupancy rate was 92.3% (2016: 100.0%) let for the six months ended 30 June 2017.

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\$3,237,000, down by 28.5% from HK\$4,530,000 in 2016. Property expenses ratio as a percentage of segment revenue increased to 19.6% (2016: 11.7%) for the period. Both Underlying Recurring Segment Result and the property expenses ratio for 2017 reflected a lower level of rental income.

Segment result for the six months ended 30 June 2017 up 291.0% to a profit of HK\$25,537,000 (2016: loss of HK\$13,371,000), mainly attributable to unrealised revaluation gain of HK\$22,300,000 (2016: loss of HK\$17,901,000) for the period was recognised for the Group's investment properties in Hong Kong. Improved property market sentiment in Hong Kong led to a significant upward adjustment based on the assessment of property valuation.

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

	Six months ended 30 June		Change %
	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	
Underlying Recurring Segment Result	3,237	4,530	-28.5
Unrealised fair value changes of investment properties:			
United Kingdom	-	(10,081)	
Hong Kong and Singapore	22,300	(7,820)	
	<u>22,300</u>	<u>(7,820)</u>	
Segment result – profit (loss)	<u>25,537</u>	<u>(13,371)</u>	+291.0

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 18.7% to HK\$170,000 (2016: HK\$209,000), primarily due to holding less debt securities during the period. Underlying Recurring Segment Result improved to a profit of HK\$1,687,000 (2016: HK\$608,000). This improvement reflected improved performance on foreign currency transactions, partly offset by the decreased interest income as aforesaid.

The segment result improved to a profit of HK\$3,551,000 (2016: HK\$774,000), mainly attributable to, amongst others as mentioned above, improved unrealised fair value changes on listed investments.

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

	Six months ended 30 June		Change %
	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	
Underlying Recurring Segment Result	1,687	608	+177.5
Unrealised fair value changes of financial assets	1,864	166	
Segment result	<u>3,551</u>	<u>774</u>	+358.8

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 9.0% from HK\$16,065,000 to HK\$17,505,000. This mainly reflected annual salary increment and increased provision for management bonus.

Other Operating Expenses

Other operating expenses declined by 7.3% to HK\$16,212,000 (2016: HK\$17,495,000), mainly attributable to less sales and marketing expenses incurred for the period. Other operating expenses ratio as a percentage of total revenue decreased to 20.6% (2016: 23.2%) for the period.

Finance Costs

Finance costs decreased by 6.8% to HK\$525,000 (2016: HK\$563,000), mainly due to lower average bank loan balances during the period after repayment of part of the mortgage loans in Hong Kong and the United Kingdom. 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 60.6 (2016: 50.7) for the period.

Taxation

Increase in taxation from HK\$5,010,000 to HK\$5,243,000 was principally due to an increase in taxable operating profits of subsidiaries in Hong Kong.

Investment Properties

The Group's investment properties in Hong Kong and the United Kingdom were valued at 30 June 2017 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 2017 was HK\$322,428,000, an increase of 10.8% from HK\$290,993,000 as at 31 December 2016. Such increase reflected an improved prospect of property markets 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 2017		As at 31 December 2016		Change in HK\$ %
	Original currency '000	HK\$'000	Original currency '000	HK\$'000	
Hong Kong – office and residential	HK\$158,650	158,650	HK\$136,350	136,350	+16.4
Singapore – industrial	S\$1,950	10,438	S\$1,950	10,438	–
United Kingdom – retail/residential	GBP15,100	153,340	GBP15,100	144,205	+6.3
		<u>322,428</u>		<u>290,993</u>	+10.8

Unrealised fair value gain on investment properties of HK\$22,300,000 (2016: HK\$17,901,000) 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 2017 was 4.0% (31 December 2016: 4.3%). Total bank borrowings of the Group amounted to HK\$27,734,000 (31 December 2016: HK\$27,463,000), mainly denominated in Pound Sterling and Hong Kong Dollars with floating interest rates.

Current ratio (current assets divided by current liabilities) was 2.22 as at 30 June 2017 (31 December 2016: 2.63). 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 2017, 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 2017 were approximately HK\$30.3 million (31 December 2016: HK\$27.7 million) in total, or about 3.5% (31 December 2016: 3.6%) of the Group's total assets. The Group was also exposed to foreign exchange rate changes (net of the underlying debt borrowings) of approximately HK\$131.6 million (31 December 2016: HK\$123.8 million) relating to carrying amount of the investment properties in the United Kingdom.

PLEDGE OF ASSETS

As at 30 June 2017, certain of the Group's leasehold land and buildings and investment properties with an aggregate carrying value of approximately HK\$299.3 million (31 December 2016: HK\$271.2 million) were pledged to secure banking facilities granted to the Group to the extent of approximately HK\$97.1 million (31 December 2016: HK\$96.4 million), of which approximately HK\$27.7 million (31 December 2016: HK\$27.5 million) were utilised as at 30 June 2017.

CONTINGENT LIABILITIES

As at 30 June 2017, 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 2017, the Group had a total of 92 (31 December 2016: 93) 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 Group continues to work closely with distributors of all markets and business associates to set out plans and strategies to extend sales coverage in both new developing markets and existing markets, particularly in Mainland China, and to encounter the challenges that the Group may face for the rest of the year. In view of limited market demand of local customers, the Group confirms to allocate more resources for e-marketing in Hong Kong and Mainland China as well as all other overseas markets to enhance brand and products awareness, hence to create new sales demand in medium to long run.

SECOND INTERIM DIVIDEND

The directors resolved to declare a second interim dividend of HK2.25 cents per share in respect of the year ending 31 December 2017 (31 December 2016: HK2.1 cents per share) payable to the shareholders on the register of members of the Company on 13 October 2017. The second interim dividend will be dispatched to the shareholders on or about 8 December 2017.

CLOSING OF REGISTER OF MEMBERS

The register of members will be closed from Wednesday, 11 October 2017 to Friday, 13 October 2017, 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, 10 October 2017.

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 2017 except the following deviation:

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separated 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 2017.

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 2017 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, 24 August 2017

* *For identification purpose only*