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LAM SOON (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 411)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

The Board of Directors (the “Board”) of Lam Soon (Hong Kong) Limited (the “Company”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 31 December 2018.

OVERVIEW

Despite uncertainty in the global macroeconomic environment and in our major markets, the Group continued to deliver revenue and volume growth in the first half of FY18/19 against the corresponding period last year (the “last year”). While China’s 2018 GDP growth slowed to 6.6%, it remains the envy of most developed economies with a projected GDP growth rate of over 6% in 2019.

Both our Food and Home Care* segments strengthened market positions of their core brands in China with increased distribution and new products in the period under review. Riding on the back of successful execution of our major strategic initiatives, the Group has steadily grown our core brands and improved its product mix across both segments to deliver sustainable profitable growth. This growth enables the Group to achieve higher margins and reduce the vulnerability to volatile commodity prices and increasing operating costs.

Core brands’ growth is vital to the commodity-based business that the Group operates in as it significantly differentiates our products, give value to our customers while contributing to the Group’s overall profitability. As such, growing our core brands at a faster pace will remain the Group’s key focus. To this end, our new Yixing flour factory in Jiangsu Province will be commissioned by the end of this financial year to support the continued market thrust of our core brands. This will enable the Group to capitalize on the growing consumers’ and customers’ demand for higher quality, healthier, and safer products.

* The former Detergent Segment has been renamed Home Care Segment to more accurately reflect the Group’s long-term aspiration as a diverse industry player.

SUMMARY OF FINANCIAL RESULTS

The Group's interim net profit attributable to shareholders increased from HK\$186 million last year to HK\$201 million this year, representing an 8.2% increase. This was driven by revenue growth of both the Food and Home Care segments, recording a 1.7% year-on-year uplift (from HK\$2,808 million to HK\$2,857 million) and a 4.6% volume improvement. Volume growth outpaced revenue increase because of a weaker Renminbi. If excluding the currency impact, revenue grew by 4.7%. In spite of rising wheat cost, packaging and labor costs, gross profit margin increased from 21.6% to 22.2%. Coupled with our improved efforts in financial and operational management, the Group delivered a higher net profit margin of 7% (0.4 percentage point better than last year). The Group's cash balance of HK\$1.29 billion as at 31 December 2018 represented an increase of HK\$129 million or 11% from six months ago.

With this strong cash position, the Group has the capacity for further capital investments to keep pace with our geographic expansion and business growth in the coming years.

DIVIDENDS

The Board has declared an interim dividend of HK\$0.14 per share totaling approximately HK\$34 million for the six months ended 31 December 2018 (six months ended 31 December 2017: HK\$0.13 per share totaling approximately HK\$32 million), which will be payable on Wednesday, 27 March 2019 to the shareholders whose names appear in the register of members of the Company on Tuesday, 19 March 2019.

BUSINESS REVIEW

Food Segment

Compared to last year, this segment recorded 1% growth in revenue (if excluding the currency impact, it grew by 3.9%) to HK\$2,486 million and 8.7% growth in operating profit to HK\$244 million.

The Group's edible oil business, while benefiting from a favourable oil cost trend in the past year, faced fierce price competition from major rivals in China. However, our continued investment in the Knife brand had enabled us to maintain our overall market position in Guangdong. We will continue to invest to grow our e-commerce business as it gradually gained traction nationwide in China. Moving forward, we will place more emphasis on research and development in order to offer consumers more differentiating products.

Our flour core brands continued their growth track beyond the first and second-tier cities into the third and fourth-tier cities in China. Despite their premium pricing, our core brands Golden Statue and American Roses' popularity continued to rise in the business-to-business centric bakery industry. Their stable revenue and volume growth over the past several years helped the Group mitigate rising wheat and material costs. In the long term, we aim to expand our e-commerce consumer business through increased investment. We will strengthen our research and development team to transform ourselves from being an ingredient supplier to a solution provider / partner to our industrial customers. We will also increase efforts to extend our business into adjacent baking ingredients such as specialty fats (e.g., margarine, butter oil substitute, etc.) in order to benefit from the synergies of our existing sales infrastructure and customer base.

BUSINESS REVIEW *(continued)*

Food Segment *(continued)*

As part of an ongoing effort to contain costs without compromising quality, product optimization and stringent procurement discipline remain integral to this business. In addition, the new Yixing flour factory will be important to our future success, particularly in the areas of new and premium / upgraded product development.

Home Care Segment

This segment posted 7% revenue growth (if excluding the currency impact, it grew by 10%) to HK\$371 million and 5% volume growth versus last year. However, persisting headwinds in raw material costs eroded the operating profit margin by 1.4 percentage points (6.4% versus 7.8% last year). Our increased investment in the online channels in the past several years has led to fast-track growth of the e-commerce business which gradually elevates AXE into the national scene. Moving forward, increased efforts in marketing, new product development, and diversification of our product portfolio beyond our core dish wash products will remain key to our transformation.

OUTLOOK

Notwithstanding the global economic uncertainties and their ripple effect across major markets, we remain cautiously upbeat about our growth prospects in Hong Kong and Mainland China. Given the strong foundations laid in the past several years, we are determined to catapult our Knife and AXE brands from our regional stronghold of South China onto the national stage with the help of e-commerce channels. In the process, allocation of resources and promotional spending between the traditional retail channel and e-commerce channel will be recalibrated so as to strike the right balance between business / market share growth and profitability.

In order to cope with such challenging and extraordinary times, the Group will seek to strengthen our human capital and improve our systems. Through the continued execution and refinements of our strategic initiatives, the Group will remain well positioned to deliver long-term sustainable profitable growth.

FINANCIAL REVIEW

Liquidity and Financial Resources

At 31 December 2018, the Group had a cash balance of HK\$1,291 million (30 June 2018: HK\$1,162 million). This was mainly attributable to the net cash generated from operating activities. About 68% of the balance was denominated in Renminbi (“RMB”), 28% in Hong Kong dollars (“HK\$”) and 4% in United States dollars.

Banking facilities available to Group companies and not yet drawn as at 31 December 2018 amounted to HK\$721 million (30 June 2018: HK\$728 million).

The Group centralises all the financing and treasury activities at the corporate level. There are internal controls over the application of financial and hedging instruments which can only be employed to manage and mitigate the commodities price risk and currency risk for trade purposes.

As at 31 December 2018, the inventory turnover days was 57 days which was the same as last financial year end. The trade receivable turnover days remained at a stable level of 23 days (30 June 2018: 22 days).

In view of the strong liquidity and financial position, management believes the Group will have sufficient resources to fund its daily operations and capital expenditure commitments.

Foreign Currency Exposure

The Group has operations in Mainland China, Hong Kong and Macau. Local costs and revenue are primarily denominated in RMB, HK\$, and Macau Pataca.

The Group is exposed to currency risk primarily through sales and purchases, which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The Group monitors its exposure by considering factors including, but not limited to, exchange rate movement of the relevant foreign currencies as well as the Group’s cash flow requirements to ensure that its foreign exchange exposure is kept at an acceptable level.

Capital Expenditure

During the period, the Group invested a total sum of HK\$73 million (2017: HK\$35 million) on construction of new plant and new production lines in PRC and acquisition of other plant equipment.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 31 December 2018 (Unaudited)

	Note	<u>2018</u> HK\$'000	<u>2017</u> HK\$'000
Revenue	3	2,856,886	2,808,108
Cost of sales		(2,222,116)	(2,201,651)
Gross profit		634,770	606,457
Other income		17,154	16,797
Selling and distribution expenses		(317,025)	(305,885)
Administrative expenses		(95,625)	(87,293)
Profit before taxation	4	239,274	230,076
Taxation	5	(37,867)	(43,891)
Profit for the period		201,407	186,185
Attributable to:			
Equity shareholders of the Company		201,407	186,185
Non-controlling interests		-	-
Profit for the period		201,407	186,185
Earnings per share			
Basic	7(a)	HK\$0.85	HK\$0.79
Diluted	7(b)	HK\$0.85	HK\$0.78

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 July 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2018 (Unaudited)

	<u>2018</u> <i>HK\$'000</i>	<u>2017</u> <i>HK\$'000</i>
Profit for the period	201,407	186,185
Other comprehensive income for the period (after tax and reclassification adjustments)		
Items that may be reclassified subsequently to profit or loss:		
Changes in fair value of available-for-sale financial assets	-	1
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	(58,553)	58,262
Other comprehensive income for the period, net of tax	(58,553)	58,263
Total comprehensive income for the period	142,854	244,448
Attributable to:		
Equity shareholders of the Company	142,854	244,448
Non-controlling interests	-	-
Total comprehensive income for the period	142,854	244,448

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 July 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	<i>Note</i>	At 31 December 2018 (Unaudited) <i>HK\$'000</i>	At 30 June 2018 (Audited) <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		615,207	586,051
Leasehold land		71,230	75,004
Intangible assets and goodwill		11,897	14,196
Deferred tax assets		31	6
Available-for-sales financial assets		-	177
Other non-current assets		9,176	6,268
		<u>707,541</u>	<u>681,702</u>
Current assets			
Inventories		683,976	640,109
Trade and other receivables	8	426,400	387,455
Cash and cash equivalents		1,290,646	1,162,146
		<u>2,401,022</u>	<u>2,189,710</u>
Current liabilities			
Trade and other payables	9	830,254	680,930
Tax payables		19,642	14,886
Obligations under finance leases		263	312
		<u>850,159</u>	<u>696,128</u>
Net current assets		<u>1,550,863</u>	<u>1,493,582</u>
Total assets less current liabilities		<u>2,258,404</u>	<u>2,175,284</u>
Non-current liabilities			
Deferred tax liabilities		14,507	4,742
Obligations under finance leases		424	357
		<u>14,931</u>	<u>5,099</u>
NET ASSETS		<u>2,243,473</u>	<u>2,170,185</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2018

	At 31 December 2018 (Unaudited) <u>HK\$'000</u>	At 30 June 2018 (Audited) <u>HK\$'000</u>
Capital and reserves		
Share capital	672,777	672,777
Reserves	1,559,983	1,486,695
Total equity attributable to equity shareholders of the Company	2,232,760	2,159,472
Non-controlling interests	10,713	10,713
TOTAL EQUITY	2,243,473	2,170,185

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 July 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

Notes:

1. Basis of preparation

The preliminary announcement of the Company's interim results has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated financial statements included in this announcement has been prepared in accordance with the same accounting policies adopted in the 2017/18 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018/19 annual financial statements. Details of any changes in accounting policies are set out in note 2.

This announcement contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017/18 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information in this announcement is unaudited. The financial information relating to the financial year ended 30 June 2018 that is included in this preliminary announcement of the interim results as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 30 June 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

Notes:

2. Changes in accounting policies

(a) Overview

The HKICPA has issued a number of new HKFRSs, amendments to HKFRSs and interpretation that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*

The Group has not applied any new standard, amendments or interpretation that is not yet effective for the current accounting period.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses. Details of the changes in accounting policies are discussed in note 2(b) for HKFRS 9 and note 2(c) for HKFRS 15.

(b) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 July 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 July 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on revenue reserve at 1 July 2018.

	<i>HK\$'000</i>
Revenue reserve	
Recognition of fair value gains of available-for-sale financial asset now measured at fair value through profit or loss ("FVPL")	890
Net increase in revenue reserve at 1 July 2018	890

Notes:

2. Changes in accounting policies (*continued*)

(b) HKFRS 9, Financial instruments (*continued*)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (“FVOCI”) and at FVPL. These supersede HKAS 39’s categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;
- FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or
- FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

The following table shows the original measurement categories for each class of the Group’s financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

Notes:

2. Changes in accounting policies (continued)

(b) HKFRS 9, Financial instruments (continued)

(i) Classification of financial assets and financial liabilities (continued)

	HKAS 39 carrying amount at 30 June 2018 <i>HK\$'000</i>	Reclassification <i>HK\$'000</i>	Remeasurement <i>HK\$'000</i>	HKFRS 9 carrying amount at 1 July 2018 <i>HK\$'000</i>
Financial assets carried at FVPL				
Club membership (note (i))	-	177	890	1,067
Derivative financial instruments - Foreign exchange forward contracts (note (ii))	877	-	-	877
	<u>877</u>	<u>177</u>	<u>890</u>	<u>1,944</u>
Financial assets classified as available-for-sale under HKAS 39 (note (i))				
	<u>177</u>	<u>(177)</u>	<u>-</u>	<u>-</u>

Notes:

- (i) Under HKAS 39, club membership was classified as an available-for-sale financial asset measured at cost less impairment losses. It is classified as at FVPL within “Other non-current assets” under HKFRS 9.
- (ii) Derivative financial instruments were classified as financial assets at FVPL under HKAS 39. These assets continue to be measured at FVPL under HKFRS 9.

The measurement categories for all financial assets carried at amortised cost and financial liabilities remain the same.

The carrying amounts for all financial assets carried at amortised cost and financial liabilities at 1 July 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 July 2018.

Notes:

2. Changes in accounting policies (*continued*)

(b) HKFRS 9, *Financial instruments* (*continued*)

(ii) Credit losses

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the expected credit losses (“ECL”) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the “incurred loss” accounting model in HKAS 39.

The Group applies the ECL model to financial assets measured at amortised cost (including other non-current assets, trade receivables, other receivables, deposits and prepayments and cash and cash equivalents). Financial assets measured at fair value, including club membership and derivative financial instruments are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The adoption of the ECL model has no significant financial impact to the financial assets of the Group.

(c) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

Timing of revenue recognition

Previously, revenue arising from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Notes:

2. Changes in accounting policies *(continued)*

(c) HKFRS 15, Revenue from contracts with customers *(continued)*

Timing of revenue recognition *(continued)*

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

- A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
- C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

Revenue from sale of goods will continue to be recognised at a point in time and the adoption of HKFRS 15 does not have a significant impact on the Group's financial position and results of operations based on the current business model.

3. Revenue and segment reporting

In a manner consistent with the way in which information is reported internally to the Group's most senior executive management, the Group has two reportable segments, as described below. Businesses in each reporting segment have similar operating and currency risks, class of customer for products, distribution channels and safety regulation. The following summary describes the operations in each segment:

Food: the manufacture and sale of a broad range of food products including flour and edible oil.

Home Care: the manufacture and sale of household and institutional cleaning products.

Notes:

3. Revenue and segment reporting (*continued*)

(a) Information about profit or loss, assets and liabilities

The Group's most senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

The measure used for reporting segment profit is "profit from operations". To arrive at "profit from operations", the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as head office or corporate administration costs.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management is set out below.

	Six months ended 31 December					
	2018 (Unaudited)			2017 (Unaudited)		
	Food	Home	Segment	Food	Home	Segment
	HK\$'000	Care	Total	HK\$'000	Care	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	<u>2,486,157</u>	<u>370,548</u>	<u>2,856,705</u>	<u>2,460,603</u>	<u>346,897</u>	<u>2,807,500</u>
Reportable segment profit from operations	<u>244,017</u>	<u>23,816</u>	<u>267,833</u>	<u>224,513</u>	<u>27,159</u>	<u>251,672</u>
	At 31 December 2018 (Unaudited)			At 30 June 2018 (Audited)		
	Food	Home	Segment	Food	Home	Segment
	HK\$'000	Care	Total	HK\$'000	Care	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment assets	<u>2,449,507</u>	<u>245,979</u>	<u>2,695,486</u>	<u>2,185,280</u>	<u>201,359</u>	<u>2,386,639</u>
Reportable segment liabilities	<u>759,770</u>	<u>148,942</u>	<u>908,712</u>	<u>626,585</u>	<u>120,344</u>	<u>746,929</u>

Notes:

3. Revenue and segment reporting (continued)

(b) Reconciliations of reportable segment revenue and profit or loss

	Six months ended 31 December	
	2018	2017
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue		
Reportable segment revenue	2,856,705	2,807,500
Service and rental income	181	608
	<u>2,856,886</u>	<u>2,808,108</u>
Profit		
Reportable segment profit from operations	267,833	251,672
Unallocated exchange gains	146	856
Unallocated head office and corporate expenses	(28,705)	(22,452)
	<u>239,274</u>	<u>230,076</u>

(c) Geographical information

Disaggregation of revenue from contracts with customers by geographical location of customers is as follows:

	Six months ended 31 December					
	2018 (Unaudited)			2017 (Unaudited)		
	Hong Kong and Macau	Mainland China	Total	Hong Kong and Macau	Mainland China	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from external customers	<u>384,131</u>	<u>2,472,574</u>	<u>2,856,705</u>	<u>373,342</u>	<u>2,434,158</u>	<u>2,807,500</u>

Notes:

4. Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 31 December	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Staff costs		
Salaries, wages and other benefits	177,913	166,938
Share-based payment expenses/(forfeiture), net	181	(5,944)
Contribution to defined contribution retirement plans	14,262	13,322
	192,356	174,316
Other items		
Interest income	(12,892)	(11,376)
Depreciation and amortisation	30,901	30,710
Net exchange (gains)/losses	(1,840)	951
Impairment losses recognised for property, plant and equipment	-	1,606
Net gains on disposal of property, plant and equipment	(592)	(228)
Write-down of inventories	1,431	1,778
Net unrealised loss on a financial asset measured at fair value through profit or loss	50	-
Net realised and unrealised losses on derivative financial instruments (<i>Note</i>)	3,417	582

Note: The Group entered into various foreign exchange forward contracts to manage its foreign currency risk exposures during the period. There were no outstanding derivative contracts as at 31 December 2018.

5. Taxation

Taxation in the consolidated statement of profit or loss represents:

	Six months ended 31 December	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax – Hong Kong Profits Tax	1,936	3,392
Current tax – Outside Hong Kong	26,192	30,015
Deferred taxation	9,739	10,484
	37,867	43,891

Notes:

5. Taxation (continued)

The provision for Hong Kong Profits Tax is calculated by applying the estimated effective tax rate of 16.5% (2017: 16.5%) to the respective estimated assessable profits of companies within the Group operating in Hong Kong for the six months ended 31 December 2018. Taxation for subsidiaries operating in Mainland China and Macau is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the respective regions.

All entities engaged in the primary processing of agricultural products in Mainland China are exempted from PRC corporate income tax ("CIT"). As a result, the profits from flour mill operations are exempted from CIT for the six months ended 31 December 2018 and 2017.

Other subsidiaries operating in Mainland China are subject to CIT tax rates of 25% (2017: 25%).

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on any dividends distributable by its subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

6. Dividends

(a) Dividends payable to equity shareholders of the Company (excluding the amount paid to shares held by the Group under the ESOP reserve) attributable to the interim period

	Six months ended 31 December	
	2018	2017
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend declared and paid after the interim period of HK\$0.14 (2017: HK\$0.13) per ordinary share	<u>33,085</u>	<u>30,678</u>

The interim dividend has not been recognised as a liability at the end of the reporting period.

Notes:

6. Dividends *(continued)*

- (b) **Dividends payable to equity shareholders of the Company (excluding the amount paid to shares held by the Group under the ESOP reserve) attributable to the previous financial year, approved and paid during the interim period**

	Six months ended 31 December	
	2018	2017
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK\$0.27 (2017: HK\$0.23) per ordinary share	63,731	54,149

7. Earnings per share

- (a) **Basic earnings per share**

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$201,407,000 (2017: HK\$186,185,000) and the weighted average number of 236,370,000 (2017: 235,854,000) ordinary shares in issue during the interim period.

	Six months ended 31 December	
	2018	2017
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
	<i>'000</i>	<i>'000</i>
Issued ordinary shares at beginning of period	243,354	243,354
Effect of shares purchased in prior years	(8,849)	(7,164)
Effect of shares purchased in current period	(290)	(435)
	(9,139)	(7,599)
Effect of shares options exercised in prior years	2,070	-
Effect of share options exercised in current period	85	99
	2,155	99
Weighted average number of ordinary shares at end of period	236,370	235,854

Notes:

7. Earnings per share (continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$201,407,000 (2017: HK\$186,185,000) and the weighted average number of ordinary shares of 238,047,000 (2017: 238,174,000) after adjusting the effect of deemed issue of shares under the Company's share option scheme, calculated as follows:

	Six months ended 31 December	
	2018	2017
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
	'000	'000
Weighted average number of ordinary shares at end of period	236,370	235,854
Effect of deemed issue of shares under the Company's share option scheme	1,677	2,320
	<hr/>	<hr/>
Weighted average number of ordinary shares (diluted) at end of period	<u>238,047</u>	<u>238,174</u>

8. Trade and other receivables

As of the end of the reporting period, the aging analysis of trade receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	At	At
	31 December	30 June
	2018	2018
	<u>(Unaudited)</u>	<u>(Audited)</u>
	HK\$'000	HK\$'000
Within 3 months	375,596	342,085
3 to 6 months	4,182	3,375
Over 6 months	1,018	1,063
	<hr/>	<hr/>
Total trade receivables	380,796	346,523
Other receivables, deposits and prepayments	43,375	37,701
Current portion of leasehold land	2,229	2,354
Derivative financial instruments:		
- Foreign exchange forward contracts	-	877
	<hr/>	<hr/>
	<u>426,400</u>	<u>387,455</u>

Notes:

8. Trade and other receivables *(continued)*

Credits are offered to customers following financial assessments and established payment records where applicable. Credit limits are set for all customers and these are exceeded only with the approval of senior company officers. Customers considered to be with credit risk are traded on a cash basis. General credit terms are payment within 30 to 60 days following the sales took place. Regular review and follow up actions are carried out on overdue amounts to minimise the Group's exposure to credit risk. Collaterals over properties are obtained from certain customers.

9. Trade and other payables

As of the end of the reporting period, the aging analysis of trade payables (which are included in trade and other payables), based on the invoice date, is as follows:

	At 31 December 2018 (Unaudited) <i>HK\$'000</i>	At 30 June 2018 (Audited) <i>HK\$'000</i>
Within 3 months	456,521	334,927
3 to 6 months	7,353	3,831
Total trade payables	463,874	338,758
Deposits received	45,339	37,715
Other payables and accruals	298,235	280,567
Deferred income	22,806	23,836
Derivative financial instruments:		
- Foreign exchange forward contracts	-	54
	830,254	680,930

REVIEW BY BOARD AUDIT AND RISK MANAGEMENT COMMITTEE

The unaudited interim results for the six months ended 31 December 2018 have been reviewed by the Board Audit and Risk Management Committee of the Company. The information in these interim results does not constitute statutory accounts.

CORPORATE GOVERNANCE

Corporate Governance Code

The Board has adopted a Code of Corporate Governance Practices (the “CGP Code”), which is based on the Corporate Governance Code set out in Appendix 14 (the “HKEx Code”) to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

During the period, the Company has complied with the HKEx Code, save that non-executive directors are not appointed for a specific term. However, they are subject to retirement by rotation and re-election at the annual general meetings of the Company pursuant to the articles of association of the Company and the CGP Code. As such, the Company considers that such provisions are sufficient to meet the intent of the relevant provisions of the HKEx Code.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SHARES

During the period, a wholly-owned subsidiary of the Company, as the trustee for a trust set up for the purpose of acquiring shares of the Company to satisfy the exercise of options which may be granted pursuant to the Executive Share Option Scheme adopted on 23 April 2013, purchased 685,000 shares of the Company on The Stock Exchange of Hong Kong Limited at a total consideration of HK\$8,902,000.

Save as disclosed above, during the period, the Company did not redeem any of its listed shares. Neither did the Company nor any of its subsidiaries purchase or sell any of the Company’s listed shares.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 18 March 2019 to Tuesday, 19 March 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all share transfer documents accompanied by the relevant share certificates, must be lodged with the Company’s Share Registrars and Transfer Office — Hongkong Managers and Secretaries Limited at Units 1607-8, 16th Floor, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong, for registration not later than 4:30 p.m. on Friday, 15 March 2019.

By Order of the Board
CHENG Man Ying
Company Secretary

Hong Kong, 21 February 2019

As at the date of this announcement, the Board of the Company comprises:

Chairman:

Mr. KWEK Leng Hai

Group Managing Director:

Mr. Joseph LEUNG

Non-Executive Directors:

Mr. TANG Hong Cheong

Dr. WHANG Sun Tze

Mr. TAN Lim Heng

Independent Non-Executive Directors:

Mr. LO Kai Yiu, Anthony

Mr. AU Chee Ming

Mr. HUANG Lester Garson, SBS, J.P.