

HONG FOK CORPORATION LIMITED

(Co. Reg. No. 196700468N)

Second Quarter Financial Statement Announcement for the Period Ended 30 June 2018

PART I INFORMATION REQUIRED FOR QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR ANNOUNCEMENTS

1(a) A statement of comprehensive income, for the group, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Second quarter financial statement on consolidated results for the period ended 30 June 2018.
These figures have not been audited.

	The Group		
	\$'000		%
	2nd Quarter 2018	2nd Quarter 2017	Increase/ (Decrease)
Revenue (Note 1)	30,873	14,668	110
Other income	30	74	(59)
	30,903	14,742	110
Cost of sales of development properties	(9,561)	-	NM
Depreciation of property, plant and equipment	(256)	(126)	103
Exchange gain, net	536	124	332
Gain on disposal of subsidiaries	-	8,982	NM
Changes in fair value of other investments at fair value through profit or loss	(38)	23	NM
Impairment loss on trade and other receivables and bad debts written off, net	(117)	(107)	9
Impairment loss written back/(Impairment loss) on other assets	2	(12)	NM
Other expenses	(10,580)	(11,065)	(4)
	10,889	12,561	(13)
Finance income	638	139	359
Finance expense	(6,625)	(5,949)	11
Net finance expense	(5,987)	(5,810)	3
Profit before tax (Note 2)	4,902	6,751	(27)
Tax expense	(1,527)	(407)	275
Profit for the period	3,375	6,344	(47)
Profit/(Loss) attributable to:			
Owners of the Company	4,081	2,190	86
Non-controlling interests	(706)	4,154	NM
Profit for the period	3,375	6,344	(47)
Other comprehensive income, net of tax			
Items that are or may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign subsidiaries	16,146	(8,053)	NM
Exchange differences on monetary items forming part of net investments in foreign subsidiaries	1,059	(550)	NM
Other comprehensive income for the period, net of tax	17,205	(8,603)	NM
Total comprehensive income for the period	20,580	(2,259)	NM
Total comprehensive income attributable to:			
Owners of the Company	10,525	(987)	NM
Non-controlling interests	10,055	(1,272)	NM
Total comprehensive income for the period	20,580	(2,259)	NM

Notes:

- (1) Included in Revenue is investment income of approximately \$3,000 (2017 : \$Nil).
- (2) Included in Profit before tax is net profit on sale of development properties of approximately \$3,423,000 (2017 : \$Nil).
- (3) NM – Not Meaningful.
- (4) NA – Not Applicable.

1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

	The Group		The Company	
	\$'000		\$'000	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Non-current Assets				
Property, plant and equipment	2,795	2,188	-	-
Subsidiaries	-	-	853,817	853,107
Associate and joint venture	#	#	-	-
Investment properties	2,835,779	2,823,134	-	-
Other assets	912	175	-	-
Pledged bank deposits	8,826	7,550	-	-
Deferred tax assets	876	645	-	-
	2,849,188	2,833,692	853,817	853,107
Current Assets				
Other investments	15,523	1,781	-	-
Current tax assets	215	133	-	-
Development properties	227,485	236,482	-	-
Trade and other receivables	5,456	9,220	66	29
Amounts due from subsidiaries	-	-	379,054	491,605
Cash and cash equivalents	49,082	50,636	884	747
	297,761	298,252	380,004	492,381
Total Assets	3,146,949	3,131,944	1,233,821	1,345,488
Equity Attributable to Owners of the Company				
Share capital	186,688	186,688	186,688	186,688
Treasury shares	(101,050)	(101,050)	-	-
Reserves	1,626,020	1,624,755	669,715	678,654
	1,711,658	1,710,393	856,403	865,342
Non-controlling interests	542,127	539,373	-	-
Total Equity	2,253,785	2,249,766	856,403	865,342
Non-current Liabilities				
Loans and borrowings	698,716	620,586	-	119,805
Trade and other payables	11,603	11,685	-	-
Deferred tax liabilities	354	389	-	-
	710,673	632,660	-	119,805
Current Liabilities				
Loans and borrowings	124,304	178,177	119,885	99,979
Trade and other payables	50,920	65,393	2,618	4,747
Amounts due to subsidiaries	-	-	254,915	255,615
Current tax liabilities	7,267	5,948	-	-
	182,491	249,518	377,418	360,341
Total Liabilities	893,164	882,178	377,418	480,146
Total Equity and Liabilities	3,146,949	3,131,944	1,233,821	1,345,488

Amount less than \$1,000

1(b)(ii) Aggregate amount of the group's borrowings and debt securities.

Amount repayable in one year or less, or on demand

As at 30.06.2018		As at 31.12.2017	
Secured	Unsecured	Secured	Unsecured
\$4,414,000	\$119,890,000	\$78,160,000	\$100,017,000

Amount repayable after one year

As at 30.06.2018		As at 31.12.2017	
Secured	Unsecured	Secured	Unsecured
\$656,330,000	\$42,386,000	\$459,435,000	\$161,151,000

Details of any collaterals

The borrowings by the subsidiaries are generally secured by the Group's certain investment properties and certain development properties and are guaranteed by the Company and/or its subsidiaries.

1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	The Group	
	\$'000	
	2nd Quarter 2018	2nd Quarter 2017
Cash Flows from Operating Activities		
Profit before tax	4,902	6,751
Adjustments for:		
Depreciation of property, plant and equipment	256	126
Changes in fair value of other investments at fair value through profit or loss	38	(23)
Gain on disposal of subsidiaries	-	(8,982)
(Impairment loss written back)/Impairment loss on other assets	(2)	12
Impairment loss on trade and other receivables and bad debts written off, net	117	107
Finance income	(638)	(139)
Finance expense	6,625	5,949
	11,298	3,801
Changes in working capital:		
Development properties	8,996	-
Trade and other receivables	(1,694)	(869)
Trade and other payables	(3,343)	(47)
Cash generated from operations	15,257	2,885
Tax paid	(1,413)	(1,379)
Net Cash from Operating Activities	13,844	1,506
Cash Flows from Investing Activities		
Capital expenditure on investment properties	(1,802)	(21,668)
Increase in restricted cash	(50)	-
Purchase of property, plant and equipment	(212)	(262)
Purchase of other investments	(22,745)	(15)
Proceeds from disposal of property, plant and equipment	6	-
Proceeds from disposal of other investments	7,350	-
Interest received	524	113
Disposal of subsidiaries, net of cash	-	(18)
Net Cash used in Investing Activities	(16,929)	(21,850)
Cash Flows from Financing Activities		
Increase in pledged bank deposits	(843)	(522)
Interest paid	(4,145)	(2,602)
Dividend paid	(6,930)	(6,930)
Payment of finance lease liabilities	(5)	(5)
Repayments of loans and borrowings	(5,848)	(21,836)
Proceeds from loans and borrowings	8,200	48,140
Net Cash (used in)/from Financing Activities	(9,571)	16,245
Net Decrease in Cash and Cash Equivalents	(12,656)	(4,099)
Cash and cash equivalents at 1 April	59,875	69,027
Effect of exchange rate fluctuations on cash and cash equivalents held	1,728	(1,282)
Cash and Cash Equivalents at 30 June	48,947	63,646
Cash and Cash Equivalents at 30 June is represented by:		
Cash at banks and in hand	7,405	4,653
Deposits	50,503	65,749
Cash and cash equivalents	57,908	70,402
Less: Pledged bank deposits (non-current)	(8,826)	(6,756)
Cash and cash equivalents (current)	49,082	63,646
Less: Restricted cash	(135)	-
	48,947	63,646

Effect of Disposal of Subsidiaries

	The Group
	\$'000
	2nd Quarter 2017
Amount due from a fellow subsidiary	221
Cash and cash equivalents	18
Trade and other payables	(9,000)
Net liabilities disposed of	(8,761)
Gain on disposal of subsidiaries	8,982
Assignment of amount due from a fellow subsidiary	(221)
Sale consideration	#
Cash and cash equivalents disposed of	(18)
Disposal of subsidiaries, net of cash	(18)

Amount less than \$1,000

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

	\$'000							
	Attributable to Owners of the Company						Non-Controlling Interests	Total Equity
	Share Capital	Capital and Other Reserves	Treasury Shares	Translation Reserves	Retained Profit	Total		
The Group								
At 1 April 2017, as previously reported	186,688	2,468	(101,050)	(32,854)	1,490,765	1,546,017	506,526	2,052,543
Effect of adopting SFRS(I) 1	-	-	-	26,774	(26,774)	-	-	-
At 1 April 2017, as restated	186,688	2,468	(101,050)	(6,080)	1,463,991	1,546,017	506,526	2,052,543
Total comprehensive income for the period								
Profit for the period	-	-	-	-	2,190	2,190	4,154	6,344
Other comprehensive income								
Exchange differences on translation of financial statements of foreign subsidiaries	-	(3)	-	(2,624)	-	(2,627)	(5,426)	(8,053)
Exchange differences on monetary items forming part of net investments in foreign subsidiaries	-	-	-	(550)	-	(550)	-	(550)
Total other comprehensive income, net of tax	-	(3)	-	(3,174)	-	(3,177)	(5,426)	(8,603)
Total comprehensive income for the period	-	(3)	-	(3,174)	2,190	(987)	(1,272)	(2,259)
Transactions with Owners, recorded directly in Equity								
Distributions to Owners								
Dividend paid	-	-	-	-	(6,930)	(6,930)	-	(6,930)
Total transactions with Owners	-	-	-	-	(6,930)	(6,930)	-	(6,930)
At 30 June 2017, as restated	186,688	2,465	(101,050)	(9,254)	1,459,251	1,538,100	505,254	2,043,354
At 1 April 2018	186,688	2,466	(101,050)	(18,248)	1,638,207	1,708,063	532,072	2,240,135
Total comprehensive income for the period								
Profit/(loss) for the period	-	-	-	-	4,081	4,081	(706)	3,375
Other comprehensive income								
Exchange differences on translation of financial statements of foreign subsidiaries	-	5	-	5,380	-	5,385	10,761	16,146
Exchange differences on monetary items forming part of net investments in foreign subsidiaries	-	-	-	1,059	-	1,059	-	1,059
Total other comprehensive income, net of tax	-	5	-	6,439	-	6,444	10,761	17,205
Total comprehensive income for the period	-	5	-	6,439	4,081	10,525	10,055	20,580
Transactions with Owners, recorded directly in Equity								
Distributions to Owners								
Dividend paid	-	-	-	-	(6,930)	(6,930)	-	(6,930)
Total transactions with Owners	-	-	-	-	(6,930)	(6,930)	-	(6,930)
At 30 June 2018	186,688	2,471	(101,050)	(11,809)	1,635,358	1,711,658	542,127	2,253,785
The Company								
At 1 April 2017	186,688	-	-	-	690,453	877,141	-	877,141
Loss and total comprehensive income for the period	-	-	-	-	(1,144)	(1,144)	-	(1,144)
Transactions with Owners, recorded directly in Equity								
Distributions to Owners								
Dividend paid	-	-	-	-	(8,706)	(8,706)	-	(8,706)
Total transactions with Owners	-	-	-	-	(8,706)	(8,706)	-	(8,706)
At 30 June 2017	186,688	-	-	-	680,603	867,291	-	867,291
At 1 April 2018	186,688	-	-	-	677,768	864,456	-	864,456
Profit and total comprehensive income for the period	-	-	-	-	653	653	-	653
Transactions with Owners, recorded directly in Equity								
Distributions to Owners								
Dividend paid	-	-	-	-	(8,706)	(8,706)	-	(8,706)
Total transactions with Owners	-	-	-	-	(8,706)	(8,706)	-	(8,706)
At 30 June 2018	186,688	-	-	-	669,715	856,403	-	856,403

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State the number of shares that may be issued on conversion of all the outstanding convertibles, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at the end of the current financial period reported on and as at the end of the corresponding period of the immediate preceding financial year.

Nil.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

The Company	
30.06.2018	31.12.2017
870,612,140	870,612,140

Total number of issued shares excluding treasury shares

1(d)(iv) A statement showing all sales, transfers, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

NA.

1(d)(v) A statement showing all sales, transfers, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.

NA.

2. Whether the figures have been audited or reviewed, and in accordance with which auditing standard or practice.

The figures have not been audited nor reviewed by the Company's auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

NA.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

Except as disclosed in paragraph 5, the Group and the Company have applied the same accounting policies and methods of computation in the financial statements for the current reporting period compared with the Group's and the Company's audited financial statements for the year ended 31 December 2017.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

In December 2017, the Accounting Standards Council ("ASC") issued the Singapore Financial Reporting Standards (International) ("SFRS(I)s"), which comprises standards and interpretations that are equivalent to International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Group's financial statements for the financial year ending 31 December 2018 will be prepared in accordance with SFRS(I).

The Group has applied the same accounting policies and methods of computation in the financial statements for the current reporting period as that of the audited financial statements for the year ended 31 December 2017, except for the adoption of the SFRS(I) framework as described above and the new/revised SFRS(I) applicable for the financial period beginning 1 January 2018 as follows:

- SFRS(I) 1 *First-time Adoption of Singapore Financial Reporting Standards (International)*;
- SFRS(I) 15 *Revenue from Contracts with Customers*; and
- SFRS(I) 9 *Financial Instruments*.

The application of the above standards did not have any significant impact on the Company's and the Group's financial statements except as below.

SFRS(I) 1 First-time Adoption of Singapore Financial Reporting Standards (International)

In adopting the new framework, the Group is required to apply the specific transition requirements in SFRS(I). The Group has applied SFRS(I) with 1 January 2017 as the date of transition for the Group and the Company, on a retrospective basis, as if such accounting policies had always been applied. SFRS(I) 1 provides mandatory exemptions and optional exemptions from retrospective application. The Group has elected various optional exemptions in SFRS(I) 1, including resetting the foreign currency translation reserve ("FCTR") to zero.

As a result, the cumulative FCTR has increased by approximately \$26,774,000 and retained profit has decreased by the same amount as at 1 January 2017. FCTR and retained profit are included in "reserves" in the consolidated statement of financial position.

6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

Earnings per ordinary share of the Group after deducting any provision for preference dividends:

- (a) Based on the weighted average number of ordinary shares on issue; and
- (b) On a fully diluted basis (detailing any adjustments made to the earnings)

The Group	
2nd Quarter 2018	2nd Quarter 2017
0.59 cts	0.32 cts
0.59 cts	0.32 cts

The basic and diluted earnings per ordinary share of the Group were calculated based on the consolidated profit attributable to ordinary shareholders for the period of approximately \$4,081,000 (2017 : \$2,190,000) and the weighted average number of ordinary shares outstanding of 693,022,508 (2017 : 693,022,508) which excludes ordinary shares held by an investee.

There are no potential dilutive ordinary shares in existence as at 30 June 2018 and 30 June 2017.

7. Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:

- (a) current financial period reported on; and
- (b) immediately preceding financial year.

Net asset value per ordinary share based on the total number of issued shares excluding treasury shares and excluding ordinary shares held by an investee

The Group		The Company	
30.06.2018	31.12.2017	30.06.2018	31.12.2017
247 cts	247 cts	98 cts	99 cts

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:

- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
- (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

The Group posted a revenue of approximately \$30.9 million for this period as compared to \$14.7 million in the previous corresponding period. The increase was mainly due to the recognition of revenue from the sales of its development properties in Singapore and income from its hotel, YOTEL Singapore Orchard Road ("YOTEL"). YOTEL had commenced operations only in the last quarter of 2017.

The decrease in the Group's other income of approximately \$0.04 million was mainly due to lower government grants/schemes and licence fees from its investment properties.

With the recognition of sales revenue from its development properties in Singapore, the Group recorded the corresponding amount of cost of sales for these units.

The depreciation expense in this period was higher than the previous corresponding period mainly due to office equipment purchased in this period.

The increase in net exchange gain was mainly due to the weakening of the Singapore dollar for investments in securities and cash balances denominated in United States dollars and Hong Kong dollars.

The Group recorded a once-off gain from disposal of subsidiaries of approximately \$9.0 million in the second quarter of 2017 but there was no gain in this period. That gain was mainly from the recognition of the deferred consideration received in advance in relation to the estimated tax exposure on the gain from the disposal of a subsidiary in 2014.

The increase in finance income was contributed mainly by its investment income.

The increase in finance expense for the current period as compared to the previous corresponding period was mainly due to the non-capitalisation of interest expense and increases in loans and borrowings.

Hence, the Group posted a profit of approximately \$3.4 million in this period as compared to \$6.3 million in the previous corresponding period.

The Group's profit attributable to Owners of the Company was approximately \$4.1 million in this period as compared to \$2.2 million in the previous corresponding period.

The increase in the Group's property, plant and equipment was mainly due to the purchase of furniture and fittings for the residential units of its investment property in Hong Kong that was recently renovated.

The increase in the Group's other assets was mainly due to its investment in unquoted equity securities.

The increase in the Group's pledged bank deposits was mainly due to the monies collected from the rental of its investment properties in Hong Kong.

The increase in the Group's other investments was mainly due to the purchase of equity and equity-linked securities.

The Group's decrease in trade and other receivables was mainly due to the reclassification of transaction costs paid in December 2017, which was previously classified as prepayments, to loans and borrowings when the loan was drawn down in January 2018.

The Group has reclassified certain secured loans from current to non-current as these loans were refinanced in January 2018. There was a net decrease in unsecured borrowings due to the repayment of its \$100 million fixed rate notes in the first quarter of 2018. In addition, the Group has reclassified its \$120 million unsecured fixed rate notes due in the first quarter of 2019 from non-current in 2017 to current. The Group is confident that these notes can be refinanced or repaid from its available undrawn facilities by its due date. There was also an increase in its loans to pay for accrued expenses and other investments.

The decrease in trade and other payables was mainly due to the payments of staff costs, accrued development costs and interest expense accrued as at 31 December 2017.

The increase in current tax liabilities was mainly due to the net effect in provision of tax for the first half of 2018 and the payment of prior year tax in this period.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

NA.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

The Group is expected to continue to recognise more profit from the sales of the residential units of Concourse Skyline in the next two quarters of 2018. The existing series of cooling measures on the property market will nevertheless have an impact on the pace of our sales. However, the Group will continue to actively market the sales and leases of these residential units.

The Group has also ventured into providing co-working spaces at International Building commencing from June 2018.

11. **If a decision regarding dividend has been made:**
- (a) **Whether an interim (final) ordinary dividend has been declared (recommended); and**
None.
- (b)(i) **Amount per share cents**
NA.
- (ii) **Previous corresponding period cents**
NA.
- (c) **Whether the dividend is before tax, net of tax or tax exempt. If before tax or net of tax, state the tax rate and the country where the dividend is derived. (If the dividend is not taxable in the hands of shareholders, this must be stated).**
NA.
- (d) **The date the dividend is payable.**
NA.
- (e) **The date on which Registrable Transfers received by the Company (up to 5.00 pm) will be registered before entitlements to the dividend are determined.**
NA.
12. **If no dividend has been declared (recommended), a statement to that effect.**
No dividend has been declared/recommended for the second quarter ended 30 June 2018.
13. **If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.**
The Company does not have a general mandate from shareholders for interested person transactions.
14. **Negative confirmation pursuant to Rule 705(5). (Not required for announcement on full year results).**
The Directors confirm that, to the best of their knowledge, nothing has come to the attention of the Board of Directors which may render the Second Quarter Financial Statement on the unaudited results of the Company and of the Group for the period ended 30 June 2018 to be false or misleading in any material aspect.
15. **Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set in Appendix 7.7) under Rule 720(1).**
The Company has procured the undertakings from all its directors and executive officers.

BY ORDER OF THE BOARD

Lo Swee Oi
Koh Chay Tiang
Company Secretaries
14 August 2018