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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)

ANNOUNCEMENT OF ANNUAL RESULTS 2018

HIGHLIGHTS

- Revenue down 20.9% year-on-year, attributable to decreased sales contribution from Healthcare business.
- Underlying Recurring Profit, the performance indicator of the Group, down 58.0% year-on-year, reflecting weak performance of Healthcare business, particularly Hong Kong and Mainland China markets.
- Reported Profit down 63.7%, mainly attributable to lower fair value gains on investment properties.
- Our focus will be on sustainable growth and brand building to protect our long term position.

The board of directors (the “Board”) of Pak Fah Yeow International Limited (the “Company”) announces the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2018, together with comparative figures for the previous year:

RESULTS SUMMARY

	<i>Notes</i>	Year ended 31 December		Change
		2018	2017	
		<i>HK\$'000</i>	<i>HK\$'000</i>	
Revenue	1	141,043	178,269	-20.9%
Reported profit	2	37,280	102,589	-63.7%
Underlying recurring profit	3	26,670	63,469	-58.0%
		<i>HK cents</i>	<i>HK cents</i>	
Earnings per share:				
Reported profit	4	12.0	32.9	-63.5%
Underlying recurring profit		8.6	20.4	-57.8%
Total dividends per share	4	10.35	14.85	-30.3%
		<i>HK\$</i>	<i>HK\$</i>	
		2.43	2.40	+1.3%

- Notes:*
- Revenue represents revenue derived from the three business segments, namely healthcare (“Healthcare”), property investments (“Property Investments”) and treasury investments (“Treasury Investments”).
 - 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.
 - 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.
 - 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 year.
 - 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.
 - Net asset value per share represents shareholders’ funds divided by the number of ordinary shares of the Company in issue as at the year end date.

CHAIRMAN'S STATEMENT

Dear fellow shareholders,

Overview

The Group's total revenue for the year 2018 was HK\$141.0 million, representing a year-on-year decline of 20.9%. Underlying Recurring Profit, the performance indicator of the Group, was down 58.0% to HK\$26.7 million (2017: HK\$63.5 million). Such decreases were mainly attributable to weak performance of Healthcare business, particularly Hong Kong and Mainland China markets.

Reported Profit for 2018 was down 63.7% to HK\$37.3 million (2017: HK\$102.6 million), primarily due to, amongst others as mentioned above, a smaller net unrealised fair value gains of investment properties recorded in 2018.

Dividends

The Board proposes a final dividend of HK3.8 cents per share (2017: final dividend of HK5.6 cents per share and special dividend of HK2.2 cents per share) for the year ended 31 December 2018, subject to approval by shareholders at the forthcoming annual general meeting of the Company. These together with the interim dividends of HK6.55 cents per share (2017: HK7.05 cents per share) already declared, will make total dividends of HK10.35 cents per share (2017: HK14.85 cents per share).

Business

Global economic growth remained steady throughout 2018, despite accelerated trade tensions and geopolitical protectionism in the second half of the year. Hong Kong economy grew modestly during the year, supported by stronger consumer spending, with favourable labour market and income conditions on the back of stronger income and asset market. Inflationary pressure was moderate amid mild increase in labour costs and major import sources.

In July 2018, we made a structural change in distributorship of Hong Kong market, where sole distributor was replaced by collective wholesalers. Such change created uncertainty over price stability in the market, leading to the wholesalers taking a wait-and-see attitude in placing purchase orders during the transitional period. This impact also affected the second half of 2018 to a lesser extent, coupled with weak spending power at healthcare sector which continued to affect spending pattern at retail level, resulted in loss of sales in Hong Kong market. On the other hand, Macau market saw steady results in 2018. In Mainland China, we continued to keep pace with steady sales and marketing strategy, but sales to this market slowed down in both wholesale and retail levels during the year.

Southeast Asian markets achieved a steady growth in 2018 with full resumption of our sales to Indonesia after clearance of new import regulations for overseas products. Sales to United States also resumed after appointment of a new distributor in the second half of 2018.

Our rental income declined by 4.4% in 2018, largely attributable to a retrospective rental income recognised in 2017 for a number of outstanding rent reviews finalised and agreed in 2017, which was not reoccurred in 2018, partly compensated by more rental income in Hong Kong due to improved occupancy. The fair value assessment of our investment properties as at year-end 2018 resulted in a net unrealised fair value gain of HK\$11.5 million (2017: HK\$35.4 million). A general positive outlook for Hong Kong offices remained the contributor to such gain.

Non-Financial Performance

We publish various non-financial key performance indicators (“KPIs”) in the 2018 Environmental, Social and Governance Report, which will be released in due course. Our KPIs focus on two main areas, including environmental performance, such as GHG and air emission, waste and use of resources, and social performance.

Outlook

Year 2019 will be another challenging year. The wholesalers in Hong Kong have been adapting progressively our structural change in the distributorship model and we see improvement on their sales performance. Inflationary trend on raw materials and production overhead will increase pressure on margins, which we will continue to take measures to offset via economies of scale and production and operational efficiencies. While the markets become more competitive, we see increasing interest in high quality healthcare products and we are confident of our expertise in this industry and our competitive advantage developed over the years. We will continue our focus to grow sustainably and enhance our brand awareness and market position across all operating regions to protect our long term position.

Appreciation

I sincerely thank our board members, the management team and our staff for their commitment, professional work and contribution during the year, as well as our shareholders, business partners, suppliers and customers for their continued support.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

The Group's revenue was HK\$141,043,000 in 2018, a decline of 20.9% from HK\$178,269,000 in 2017 mainly attributable to decreased sales contributions from Healthcare segment. Revenue of each business segment is as follows:

	2018	2017	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>
Healthcare	130,962	167,819	-22.0
Property investments	9,562	10,002	-4.4
Treasury investments	519	448	+15.8
	<u>141,043</u>	<u>178,269</u>	-20.9

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\$26,670,000, down 58.0% from HK\$63,469,000 year-on-year. This mainly reflected weak performance of Healthcare segment, particularly Hong Kong and Mainland China markets. Earnings per share of Underlying Recurring Profit was HK8.6 cents, down 57.8% from HK20.4 cents in 2017.

Reported Profit for 2018 down 63.7% to HK\$37,280,000 (2017: HK\$102,589,000), primarily due to, amongst others as mentioned above, a lesser unrealised fair value gain on the Group's investment properties. Earnings per share of Reported Profit was HK12.0 cents, down 63.5% from HK32.9 cents in 2017.

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	Change %
Underlying Recurring Profit	26,670	63,469	-58.0
Unrealised fair value changes of:			
Financial assets	(890)	2,816	
Investment properties:			
United Kingdom	(577)	2,710	
Others	12,077	32,712	
Items that are non-recurring in nature:			
Compensation income	—	882	
Reported Profit	37,280	102,589	-63.7

The revaluation of other properties, which is accounted for as other comprehensive income, has resulted in a net revaluation surplus in 2018 of HK\$22,146,000 (2017: HK\$42,425,000).

Total comprehensive income attributable to owners of the Company for 2018 was approximately HK\$52,914,000 (2017: HK\$154,419,000).

OPERATIONS REVIEW

Healthcare

Revenue from Healthcare segment declined by 22.0% to HK\$130,962,000 (2017: HK\$167,819,000). Revenue of each geographical segment is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	Change %
Hong Kong	66,965	96,342	-30.5
Macau	14,573	14,928	-2.4
Mainland China	20,628	26,703	-22.8
Southeast Asia	23,669	22,454	+5.4
North America	3,445	4,286	-19.6
Others	1,682	3,106	-45.8
Segment revenue	130,962	167,819	-22.0
Segment profit	40,911	79,070	-48.3

Sales contribution from Hong Kong decreased significantly by 30.5% year-on-year from HK\$96.3 million to HK\$67.0 million. Restructuring of local distributorship in mid-year shattered the wholesalers' reliance on price stability in the market, together with weak spending power at healthcare sector which continued to affect spending pattern at retail level, resulted in loss of sales. Sales contribution from Macau, on the other hand, remained steady.

In Mainland China, the Group continued to keep pace with steady sales and marketing strategy, but price increment in 2018 slowed down the sales movement in both wholesale and retail levels as the market was particularly price sensitive. Financial difficulties of various leading wholesalers in the market held back purchase orders diminishing further business development. Coupled with parallel Hoe Hin products sold back from provincial areas resulted in instability of trade price greatly affected the sales in Guangdong which is our major point of sales.

Year-on-year sales contribution from Southeast Asia markets maintained a steady growth during the year. The Group had fully resumed its sales to Indonesia in 2018 after changes in the customs and import regulations effected in 2017 that restricted the import of overseas products. Markets such as Philippines and Malaysia continued to fare well with continued new retail store listing expansions, whilst employing several new marketing strategies to strengthen the brand. Other Southeast Asian markets had shown steady results throughout the year. For the United States market, a new sole distributor was appointed in the second half of 2018 and with their first order commencing in the fourth quarter of the year. We expect sales will continuously improve in North America markets in 2019.

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\$40,911,000, down 47.7% from HK\$78,188,000 in 2017. This reflected weak performance in Hong Kong and Mainland China markets. The overall profit margin for 2018 was also lower as compared to 2017 due to product mix sold and increased raw materials and production costs.

Segment result for 2018 declined 48.3% to HK\$40,911,000 (2017: HK\$79,070,000). A non-recurring compensation income of HK\$882,000 was received from a distributor in 2017.

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	Change %
Underlying Recurring Segment Result	40,911	78,188	-47.7
Items that are non-recurring in nature:			
Compensation income	<u> –</u>	<u> 882</u>	
Segment result – profit	<u>40,911</u>	<u>79,070</u>	-48.3

Property Investments

Revenue for this segment declined 4.4% to HK\$9,562,000 (2017: HK\$10,002,000). This change mainly represents decreased rental income derived in the United Kingdom as a retrospective rental income was recognised in 2017 for a series of outstanding rent reviews finalised and agreed in 2017, partly compensated by more rental income in Hong Kong due to improved occupancy. Revenue of each geographical segment is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	Change %
Hong Kong – office and residential	2,668	2,392	+11.5
Singapore – industrial	221	221	-
United Kingdom – retail/residential	<u>6,673</u>	<u>7,389</u>	-9.7
Segment revenue	<u>9,562</u>	<u>10,002</u>	-4.4
Segment result – profit	<u>19,337</u>	<u>43,660</u>	-55.7

For the year 2018, segment revenue of about 27.9%, 2.3% and 69.8% (2017: 23.9%, 2.2% and 73.9%) were derived from investment properties in Hong Kong, Singapore and United Kingdom respectively. Overall occupancy rate was 95.8% (2017: 92.3%) let in 2018.

Underlying Recurring Segment Result was a profit of HK\$7,837,000, down 4.9% from HK\$8,238,000 in 2017. Property expenses ratio as a percentage of segment revenue increased to 18.0% in 2018 (2017: 17.6%). Both Underlying Recurring Segment Result and the property expenses ratio for 2018 reflected a higher proportional property expenses due to lower rental income.

Segment result for 2018 decreased by 55.7% to HK\$19,337,000 (2017: HK\$43,660,000), mainly attributable to a lower unrealised revaluation gain of HK\$11,500,000 (2017: HK\$35,422,000) being recognised for the Group's investment properties.

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	Change %
Underlying Recurring Segment Result	7,837	8,238	-4.9
Unrealised fair value changes of investment properties:			
United Kingdom	(577)	2,710	
Hong Kong and Singapore	12,077	32,712	
	<u>19,337</u>	<u>43,660</u>	
Segment result – profit	19,337	43,660	-55.7

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 increased by 15.8% to HK\$519,000 (2017: HK\$448,000). Underlying Recurring Segment Result declined to a profit of HK\$122,000 (2017: HK\$2,476,000). Such decline reflected weak performance on foreign currency transactions.

The segment result decreased to a loss of HK\$768,000 (2017: profit of HK\$5,292,000), mainly attributable to, amongst others as mentioned above, unrealised fair value losses on listed investments.

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	Change %
Underlying Recurring Segment Result	122	2,476	-95.1
Unrealised fair value changes of financial assets	(890)	2,816	
	<u>(768)</u>	<u>5,292</u>	
Segment result – (loss) profit	(768)	5,292	-114.5

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 slightly decreased by 1.1% from HK\$33,838,000 to HK\$33,479,000. This mainly reflected decreased provision for management bonus of executive directors, partly offset by annual salary increment.

Other Operating Expenses

Other operating expenses decreased by 5.2% to HK\$34,256,000 (2017: HK\$36,141,000) mainly attributable to decrease in sales and marketing expenses. Other operating expenses ratio as a percentage of total revenue slightly increased to 24.3% in 2018 (2017: 20.3%).

Finance Costs

Finance costs increased by 4.6% to HK\$820,000 (2017: HK\$784,000), mainly due to higher interest rate and higher average foreign exchange rate of Pound Sterling, partly offset by lower average bank loan balances during the year after repayment of part of the mortgage loans in Hong Kong and the United Kingdom. Interest coverage ratio (profit from operations before interest expenses and taxes and before unrealised fair value changes of financial assets and of investment properties divided by finance costs) decreased to 41.4 times in 2018 (2017: 96.2 times).

Taxation

Decrease in taxation from HK\$10,314,000 to HK\$6,443,000 was principally due to decline in taxable operating profit of subsidiaries in Hong Kong and overseas.

Investment Properties

The Group's investment properties were valued at 31 December 2018 by Memfus Wong Surveyors Limited (for Hong Kong), Hilco Appraisal Singapore Pte Limited (for Singapore) and Savills (UK) Limited (for United Kingdom), independent professional valuers, on a fair value basis. The valuation as at year-end 2018 was HK\$343,731,000, a slightly increase of 0.8% from HK\$340,961,000 as at year-end 2017. Such increase mainly reflected a general positive outlook of property market in Hong Kong. The valuation of properties in each geographical segment as at the year-end date is as follows.

	2018		2017		Change in HK\$ %
	<i>Original currency '000</i>	<i>HK\$'000</i>	<i>Original currency '000</i>	<i>HK\$'000</i>	
Hong Kong – office and residential	HK\$180,400	180,400	HK\$168,109	168,109	+7.3
Singapore – industrial	S\$1,950	11,176	S\$1,950	11,390	-1.9
United Kingdom – retail/residential	GBP15,315	152,155	GBP15,370	161,462	-5.8
		343,731		340,961	+0.8

Unrealised fair value gain on investment properties of HK\$11,500,000 (2017: HK\$35,422,000) was recognised for 2018.

FINANCIAL RESOURCES AND TREASURY POLICIES

The Group continued to adhere to prudent treasury policies. Gearing ratio (interest-bearing borrowings divided by total shareholders' funds) as at 31 December 2018 was 2.9% (2017: 3.6%). Total bank borrowings of the Group amounted to HK\$21,893,000 (2017: HK\$26,660,000), mainly denominated in Pound Sterling and Hong Kong Dollars with floating interest rates.

Current ratio (current assets divided by current liabilities) was 2.81 times as at 31 December 2018 (2017: 2.98 times). 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 31 December 2018, the Group's debt borrowings were mainly denominated in Pound Sterling and Hong Kong Dollars. The Group also had equity and debt securities and dual currency investments denominated in foreign currencies.

The Group considers there is no significant exposure to foreign exchange fluctuations for United States Dollars as long as the Hong Kong-United States dollar exchange rate remains pegged. Other than United States Dollars whose exchange rate with Hong Kong Dollars remained relatively stable during the year, the Group's foreign exchange exposure relating to investments in overseas securities and bank balances as at 31 December 2018 were approximately HK\$35.5 million (2017: HK\$33.3 million) in total, or about 3.9% (2017: 3.7%) of the Group's total assets. The Group was also exposed to foreign exchange rate changes (net of the underlying debt borrowings) of approximately HK\$133.1 million (2017: HK\$139.8 million) relating to carrying amount of the properties investments in the United Kingdom.

PLEDGE OF ASSETS

As at 31 December 2018, certain of the Group's leasehold land and buildings and investment properties with an aggregate carrying value of approximately HK\$318.2 million (2017: HK\$317.5 million) were pledged to secure banking facilities granted to the Group to the extent of approximately HK\$94.3 million (2017: HK\$97.0 million), of which approximately HK\$21.9 million (2017: HK\$26.7 million) were utilised as at 31 December 2018.

CONTINGENT LIABILITIES

As at 31 December 2018, no legal proceedings were initiated by any third parties against the Group as defendant, nor were there any outstanding claims which may result in significant financial losses to the Group.

PLAN FOR SIGNIFICANT INVESTMENT OR ACQUISITION OF CAPITAL ASSETS IN THE FUTURE

The Group has no plan for significant investment or acquisition of material capital assets.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had a total of 91 (2017: 95) employees. Remuneration packages of employees and directors are reviewed annually and determined by reference to market pay and individual performance. In addition to salary payments, the Group also provides other employment benefits including medical allowance and educational subsidies to eligible employees.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended	
		31 December	
		2018	2017
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	141,043	178,269
Other revenue	3	555	618
Other net income	4	109	2,190
Changes in inventories of finished goods		1,481	(60)
Raw materials and consumables used		(32,283)	(35,087)
Staff costs		(33,479)	(33,838)
Depreciation expenses		(7,893)	(2,081)
Net exchange (loss) gain		(1,344)	1,579
Other operating expenses		(34,256)	(36,141)
		<hr/>	<hr/>
Profit from operations before fair value changes of financial assets through profit or loss and of investment properties		33,933	75,449
Net (loss) gain on financial assets at fair value through profit or loss		(890)	2,816
Revaluation surplus in respect of investment properties		11,500	35,422
		<hr/>	<hr/>
Profit from operations		44,543	113,687
Finance costs	5	(820)	(784)
		<hr/>	<hr/>
Profit before taxation	5	43,723	112,903
Taxation	6	(6,443)	(10,314)
		<hr/>	<hr/>
Profit for the year, attributable to owners of the Company		37,280	102,589
		<hr/>	<hr/>

	Year ended	
	31 December	
	2018	2017
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other comprehensive income		
<i>Items that will not be reclassified to profit or loss:</i>		
Revaluation surplus of leasehold land and buildings, net of tax effect of HK\$4,377,000 (2017: HK\$8,384,000)	<u>22,146</u>	<u>42,425</u>
<i>Items that are reclassified or may be reclassified subsequently to profit or loss:</i>		
Reclassification adjustment relating to disposal of available-for-sale financial assets	–	(1,260)
Changes in fair value of available-for-sale financial assets	–	539
Exchange difference arising from translation of financial statements of overseas subsidiaries	(8,650)	13,836
Exchange difference arising from translation of inter-company balances with overseas subsidiaries representing net investments	<u>2,138</u>	<u>(3,710)</u>
	<u>(6,512)</u>	<u>9,405</u>
Other comprehensive income for the year, net of tax, attributable to owners of the Company	<u>15,634</u>	<u>51,830</u>
Total comprehensive income for the year, attributable to owners of the Company	<u>52,914</u>	<u>154,419</u>
Earnings per share		
Basic and diluted	8	
	<u>12.0 cents</u>	<u>32.9 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 December 2018	31 December 2017
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Investment properties		343,731	340,961
Property, plant and equipment		378,988	359,133
Intangible assets		2,450	2,450
Financial assets at fair value through profit or loss		5,960	–
Available-for-sale financial assets		–	6,241
		731,129	708,785
Current assets			
Inventories		13,976	14,635
Trade and other receivables	9	24,651	34,829
Financial assets at fair value through profit or loss		14,994	18,465
Tax recoverable		3,976	1,340
Bank balances and cash		126,115	120,722
		183,712	189,991
Current liabilities			
Bank borrowings, secured		21,893	26,660
Current portion of deferred income		221	215
Trade and other payables	10	35,847	29,584
Dividends payable		7,343	7,249
		65,304	63,708
Net current assets		118,408	126,283
Total assets less current liabilities		849,537	835,068
Non-current liabilities			
Long-term portion of consideration payable for acquisition of trademarks		2,073	2,073
Long-term portion of deferred income		32,076	30,578
Provision for directors' retirement benefits		4,204	3,715
Deferred taxation		54,482	50,194
		92,835	86,560
NET ASSETS		756,702	748,508
Capital and reserves			
Share capital		15,582	15,582
Share premium and reserves		741,120	732,926
TOTAL EQUITY		756,702	748,508

Notes:

1. ADOPTION OF NEW/REVISED HKFRSs

The consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2017 consolidated financial statements except for the adoption of the following new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time that are relevant to the Group and effective from the current year .

Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers

Other than as explained below regarding the impact of HKFRS 9: Financial Instruments, the adoption of the above new revised HKFRSs does not have significant impact in the consolidated financial statements.

HKFRS 9: Financial Instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018. It introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment for financial assets and hedge accounting.

The Group has applied HKFRS 9 retrospectively to financial instruments that existed at 1 January 2018 (i.e. the date of initial application), except as described below:

- (a) The following assessments are made on the basis of facts and circumstances that existed at the date of initial application:
 - (i) the determination of the business model within which a financial asset is held;
 - (ii) the designation of financial assets or financial liabilities at fair value through profit or loss (“FVPL”); and
 - (iii) the de-designation of financial assets or financial liabilities at FVPL.

The above resulting classification shall be applied retrospectively.

- (b) If, at the date of initial application, determining whether there has been a significant increase in credit risk since initial recognition would require undue cost or effort, a loss allowance is recognised at an amount equal to lifetime expected credit losses at each reporting date until the financial instrument is derecognised unless that financial instrument has low credit risk at a reporting date.
- (c) For investments in equity instruments that were measured at cost under HKAS 39, the instruments are measured at fair value at the date of initial application.

Differences between the previous carrying amounts under HKAS 39 and the current carrying amounts upon adoption of HKFRS 9 are recognised directly in components of equity at 1 January 2018 as summarised below:

	Investment revaluation reserve (recycling) <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2018			
Reclassification	(5,852)	5,852	–
(Decrease) Increase	<u>(5,852)</u>	<u>5,852</u>	<u>–</u>

Classification and measurement of financial assets and financial liabilities

The adoption of HKFRS 9 has no significant effect on the classification and measurement of the Group's financial liabilities. The following table reconciles the original measurement categories and carrying amounts under HKAS 39 to the new measurement categories and carrying amounts under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018.

Measurement category under HKAS 39	Carrying amount under HKAS 39 HK\$'000	Measurement category and carrying amount under HKFRS 9	
		Amortised cost HK\$'000	FVPL HK\$'000
Available-for-sale financial assets (Note a)			
Unlisted debt securities	4,823	–	4,823
Unlisted equity securities	1,418	–	1,418
Loans and receivables (Note b)			
Bank balances and cash	120,722	120,722	–
Trade and other receivables	34,829	34,829	–
Financial assets at FVPL (Note c)			
Listed equity securities held for trading	10,582	–	10,582
Unlisted mutual funds held for trading	5,057	–	5,057
Dual currency deposit held for trading	2,826	–	2,826
	180,257	155,551	24,706
	180,257	155,551	24,706

Note (a): The debt and equity securities that were previously classified as available-for-sale financial assets amounted to HK\$6,241,000 are now classified as financial assets at FVPL since, at the date of initial application, the Group's business model is to hold these investments for sale. The accumulated investment revaluation reserve of HK\$5,852,000 at 1 January 2018 relevant to these investments has been reclassified to retained profits.

Note (b): These items continue to be measured at amortised cost because, at the date of initial application, the Group's business model is to hold these bank balances and cash and trade and other receivables to collect the contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount outstanding. Impairment based on expected credit loss model on these financial assets has no significant financial impacts.

Note (c): The equity securities, mutual funds and dual currency deposit that were previously classified as financial assets at FVPL amounted to HK\$18,465,000 continued to be classified as financial assets at FVPL because they are held for trading.

2. OPERATING SEGMENT INFORMATION

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

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

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

For the purposes of assessing the performance of the operating segments between segments, the executive directors assess segment profit or loss before income tax without allocation of finance costs, directors' emoluments, office staff salaries, legal and professional fee 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 tax recoverable and other 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

Year ended 31 December 2018

	Healthcare <i>HK\$'000</i>	Property investments <i>HK\$'000</i>	Treasury investments <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue from external customers	<u>130,962</u>	<u>9,562</u>	<u>519</u>	<u>141,043</u>
Segment results	<u>40,911</u>	<u>19,337</u>	<u>(768)</u>	<u>59,480</u>
Unallocated corporate expenses				<u>(14,937)</u>
Profit from operations				44,543
Finance costs				<u>(820)</u>
Profit before taxation				43,723
Taxation				<u>(6,443)</u>
Profit for the year				<u>37,280</u>
Assets				
Segment assets	486,896	345,359	78,114	910,369
Unallocated corporate assets				<u>4,472</u>
Consolidated total assets				<u>914,841</u>
Liabilities				
Segment liabilities	41,146	53,569	–	94,715
Unallocated corporate liabilities				<u>68,220</u>
Consolidated total liabilities				<u>162,935</u>
Other information				
Additions to non-current assets (<i>note</i>)	1,102	190	–	1,292
Depreciation expenses	7,822	71	–	7,893
Revaluation surplus in respect of investment properties	–	11,500	–	11,500
Revaluation surplus of leasehold land and buildings	26,523	–	–	26,523
Net loss on financial assets at fair value through profit or loss	<u>–</u>	<u>–</u>	<u>(890)</u>	<u>(890)</u>

Year ended 31 December 2017

	Healthcare <i>HK\$'000</i>	Property investments <i>HK\$'000</i>	Treasury investments <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue from external customers	167,819	10,002	448	178,269
Segment results	79,070	43,660	5,292	128,022
Unallocated corporate expenses				(14,335)
Profit from operations				113,687
Finance costs				(784)
Profit before taxation				112,903
Taxation				(10,314)
Profit for the year				102,589
Assets				
Segment assets	482,184	342,083	72,763	897,030
Unallocated corporate assets				1,746
Consolidated total assets				898,776
Liabilities				
Segment liabilities	27,749	54,221	–	81,970
Unallocated corporate liabilities				68,298
Consolidated total liabilities				150,268
Other information				
Additions to non-current assets (<i>note</i>)	1,475	3	–	1,478
Depreciation expenses	1,996	85	–	2,081
Revaluation surplus in respect of investment properties	–	35,422	–	35,422
Revaluation surplus of leasehold land and buildings	50,809	–	–	50,809
Net gain on financial assets at fair value through profit or loss	–	–	2,816	2,816

Geographical information

The Group's businesses cover Hong Kong, Macau, other regions in the People's Republic of China (the "PRC"), Southeast Asia, North America and the United Kingdom. The Group's operation of healthcare is located in Hong Kong. Property investment and treasury investment operations are in various locations.

The following table provides an analysis of the Group's revenue and results from operations by geographical location of customers for healthcare products and geographical location of the related assets for property investment and treasury investment operations:

	Revenue from external customers		Results from operations	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Hong Kong	69,781	98,926	36,179	87,729
Macau	14,573	14,928	9,454	10,366
PRC	20,686	26,741	(4,451)	3,805
Southeast Asia	24,159	22,890	8,802	11,374
North America	3,445	4,286	1,981	1,845
United Kingdom	6,717	7,392	5,728	9,686
Other regions	1,682	3,106	(394)	2,282
Unallocated corporate expenses	–	–	(12,756)	(13,400)
	141,043	178,269	44,543	113,687
			Non-current assets (note)	
			2018	2017
			HK\$'000	HK\$'000
Hong Kong			559,388	527,242
Macau			–	–
PRC			–	–
Southeast Asia			13,626	13,840
North America			–	–
United Kingdom			152,155	161,462
Other regions			–	–
			725,169	702,544

Note: Non-current assets exclude financial instruments.

Information about major customers

Revenues from external customers contributing over 10% of the total revenue from the Group's business segment of healthcare products are as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Customer A	25,650	96,466
Customer B	20,628	26,703
Customer C	14,982	–
Customer D	19,030	–
Customer E	19,393	–
	<u>99,683</u>	<u>123,169</u>

3. REVENUE AND OTHER REVENUE

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Revenue from contracts with customers within HKFRS 15		
Sale of Hoe Hin Products		
– Fixed price	63,997	71,477
– Variable price	66,965	96,342
	<u>130,962</u>	167,819
Revenue from other sources		
Rental income	9,562	10,002
Interest revenue calculated using the effective interest method from bank deposits	519	448
	<u>141,043</u>	178,269
Listed investments:		
Dividend income from financial assets at FVPL	333	363
Gain on disposal of financial assets at FVPL	222	255
	<u>555</u>	618
Other revenue	<u>555</u>	618
Total revenue	<u>141,598</u>	<u>178,887</u>

4. OTHER NET INCOME

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Commission received	30	35
Forfeiture of rental deposit	–	1
Gain on disposal of property, plant and equipment	12	178
Gain on disposal of available-for-sale financial assets	–	854
Compensation income	–	882
Sundry income	67	240
	<u>109</u>	<u>2,190</u>

5. PROFIT BEFORE TAXATION

This is stated after charging (crediting):

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
(a) Finance costs		
Interest on bank borrowings	540	504
Interest on consideration payable for acquisition of trademarks	280	280
	<u>820</u>	<u>784</u>
(b) Other items		
Auditor's remuneration	500	500
Cost of inventories	46,963	51,530
Contributions to defined contribution plan	829	819
Operating lease charges on advertising spaces	6,080	3,012
Gross rental income from investment properties less direct operating expenses of HK\$860,000 (2017: HK\$892,000)	(8,702)	(9,110)
	<u>(8,702)</u>	<u>(9,110)</u>

6. TAXATION

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporation will be taxed at 8.25% and profits above HK\$2 million will be taxed at 16.5%.

For the year ended 31 December 2018, Hong Kong Profits Tax of the Group’s Hong Kong operations is calculated at a flat rate of 16.5% on the estimated assessable profits.

Overseas taxation has been provided on the estimated assessable profits for the year, in respect of the Group’s overseas operations, at the rates of taxation prevailing in the relevant jurisdictions.

	2018 <i>HK\$’000</i>	2017 <i>HK\$’000</i>
The charge comprises:		
Current tax		
Hong Kong Profits Tax	5,490	9,204
Overseas tax	<u>1,042</u>	<u>1,197</u>
	6,532	10,401
Deferred taxation		
Origination and reversal of temporary differences	<u>(89)</u>	<u>(87)</u>
	<u>6,443</u>	<u>10,314</u>
Reconciliation of effective tax rate		
	2018	2017
	%	%
Applicable tax rate in Hong Kong	16.5	16.5
Tax effect of two-tiered profits tax rates regime	–	–
Non-deductible expenses and losses	1.4	(0.4)
Non-taxable revenue and gains	(3.0)	(5.7)
Utilisation of previously unrecognised tax losses	–	(1.5)
Others	<u>(0.2)</u>	<u>0.2</u>
Effective tax rate for the year	<u>14.7</u>	<u>9.1</u>

7. DIVIDENDS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interim dividends of HK6.55 cents per share (2017: HK7.05 cents)	20,412	21,971
Final dividend of HK3.80 cents per share (2017: HK5.60 cents)	11,842	17,452
Special dividend of nil per share (2017: HK2.20 cents)	–	6,856
	<u>32,254</u>	<u>46,279</u>

The final dividend for 2018 proposed after the end of the reporting period are subject to shareholders' approval at the forthcoming annual general meeting. These dividends have not been recognised as liabilities at the end of the reporting period.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit attributable to owners of the Company	<u>37,280</u>	<u>102,589</u>
	2018 Number of shares '000	2017 Number of shares '000
Weighted average number of ordinary shares for basic earnings per share	<u>311,640</u>	<u>311,640</u>
Earnings per share Basic and diluted	<u>12.0 cents</u>	<u>32.9 cents</u>

Diluted earnings per share equals to basic earnings per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2018 and 2017.

9. TRADE AND OTHER RECEIVABLES

	<i>Note</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade receivables	9(a)	17,153	31,859
Bills receivables		4,018	331
Other receivables			
Deposits, prepayments and other debtors		<u>3,480</u>	<u>2,639</u>
		<u>24,651</u>	<u>34,829</u>

(a) Trade receivables

The Group allows credit period ranging from 30 days to 120 days (2017: 30 days to 120 days) to its customers. The ageing analysis of trade receivables by invoice date is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 30 days	11,983	30,813
31 – 60 days	5,170	1,044
61 – 90 days	<u>–</u>	<u>2</u>
	<u>17,153</u>	<u>31,859</u>

All trade receivables are expected to be recovered within 12 months and no provision had been made for non-repayment of balances at the end of the reporting period.

10. TRADE AND OTHER PAYABLES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade payables	<u>4,492</u>	<u>3,250</u>
Other payables		
Accrued charges and other creditors	12,462	14,809
Accrued rebates and discounts	18,793	11,425
Customers' deposits	<u>100</u>	<u>100</u>
	<u>31,355</u>	<u>26,334</u>
	<u><u>35,847</u></u>	<u><u>29,584</u></u>

All trade payables are expected to be settled within one year. The ageing analysis of trade payables by invoice date is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 30 days	4,453	3,010
31 – 60 days	1	207
61 – 90 days	–	6
More than 90 days	<u>38</u>	<u>27</u>
	<u><u>4,492</u></u>	<u><u>3,250</u></u>

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\$94,318,000 (2017: HK\$97,048,000), of which HK\$21,893,000 (2017: HK\$26,660,000) were utilised at the end of the reporting period.

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Leasehold land and buildings	166,000	156,000
Investment properties	<u>152,155</u>	<u>161,462</u>
	<u><u>318,155</u></u>	<u><u>317,462</u></u>

OTHER SUPPLEMENTARY INFORMATION

Audit Committee Review

The Audit Committee reviewed with the management of the Company the accounting principles and practices adopted by the Group and the financial results for the year ended 31 December 2018.

Scope of work of Mazars CPA Limited

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Group's auditor, Mazars CPA Limited, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Mazars CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Mazars CPA Limited on the preliminary announcement.

Final Dividend

The Board has proposed a final dividend of HK3.8 cents per share (2017: final dividend of HK5.6 cents per share and special dividend of HK2.2 cents per share) for the year ended 31 December 2018 payable to shareholders on the register of members of the Company on 12 July 2019.

Subject to approval of the proposed final dividend by the shareholders at the forthcoming annual general meeting of the Company to be held on 18 June 2019, the final dividend will be dispatched to the shareholders of the Company on or about 16 August 2019.

Closing of register of members

The register of members of the Company will be closed from Thursday, 13 June 2019 to Tuesday, 18 June 2019, both days inclusive, during which no transfer of shares will be effected. In order to qualify for attendance of annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Share Registrar, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong but no later than 4:30 p.m. on Wednesday, 12 June 2019.

The register of members of the Company will also be closed from Wednesday, 10 July 2019 to Friday, 12 July 2019, both days inclusive, during which no transfer of shares will be effected. To rank for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Share Registrar, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong but no later than 4:30 p.m. on Tuesday, 9 July 2019.

Purchase, sale or redemption of the Company's listed shares

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

Corporate Governance Code

The Company adopted all the code provisions in the Corporate Governance Code (the "CG Code") contained 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 during the year ended 31 December 2018 except for the following deviation:

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Mr. Gan Wee Sean, the Chairman of the Board, was appointed as the acting Chief Executive Officer on 21 April 2008 until he becomes the Chief Executive Officer since 1 September 2011. Although these two roles are performed by the same individual, certain responsibilities have been shared with 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 ("Model Code") 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 year ended 31 December 2018.

Board of Directors

As at the date of this announcement, (i) the executive directors of the Company are Mr. Gan Wee Sean (Chairman and Chief Executive Officer), Mr. Gan Fock Wai, Stephen and Mr. Gan Cheng Hooi, Gavin; (ii) the non-executive director of the Company is Ms. Gan Fook Yin, Anita; and (iii) the independent non-executive directors of the Company are Mr. Leung Man Chiu, Lawrence, Ms. Wong Ying Kay, Ada and Mr. Ip Tin Chee, Arnold.

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

Hong Kong, 26 March 2019

* *For identification purpose only*