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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 2020

HIGHLIGHTS

- Revenue and Underlying Recurring Profit were down 26.0% and 26.5% respectively on a year-on-year basis.
- Reported Loss was recorded in 2020, mainly attributable to fair value losses on investment properties in Hong Kong and the United Kingdom.
- Though the continuing challenges will remain for a period of time, our financial strength provide a strong cushion for long term growth.

The board of directors (the “Board”) of Pak Fah Yeow International Limited (the “Company”) announces the consolidated audited results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2020, together with comparative figures for the previous year:

RESULTS SUMMARY

	Notes	Year ended 31 December		Change
		2020 HK\$'000	2019 HK\$'000	
Revenue	1	109,343	147,761	-26.0%
Reported (loss) profit	2	(38,356)	36,046	-206.4%
Underlying recurring profit	3	26,134	35,566	-26.5%
		<i>HK cents</i>	<i>HK cents</i>	
(Loss) Earnings per share:	4			
Reported (loss) profit		(12.3)	11.6	-206.0%
Underlying recurring profit		8.4	11.4	-26.3%
Total dividends per share	4	6.4	10.8	-40.7%
		At 31 December		
		2020	2019	
		HK\$'000	HK\$'000	
Shareholders' funds	5	673,192	760,117	-11.4%
		<i>HK\$</i>	<i>HK\$</i>	
Net asset value per share	6	2.16	2.44	-11.5%

- Notes:*
- Revenue represents revenue derived from the three business segments, namely healthcare (“Healthcare”), property investments (“Property Investments”) and treasury investments (“Treasury Investments”).
 - Reported (loss) profit (“Reported (Loss) Profit”) is the (loss) 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 (Loss) Profit the unrealised fair value changes of financial assets at fair value through profit or loss and of investment properties.
 - The basic and diluted (loss) 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

2020 was a remarkably difficult year. The impact of COVID-19 affected all businesses across the world. People all over the world were forced to contend with a new normal: travel bans, mask rules, lockdowns and economic crises. We are no different from others and had encountered considerable disruptions.

Our total revenue for the year 2020 was HK\$109.3 million, representing a year-on-year decrease of 26.0% from HK\$147.8 million. Underlying Recurring Profit, the performance indicator of the Group, was down 26.5% to HK\$26.1 million from HK\$35.6 million in 2019. Such decreases were mainly attributable to weak performance of Healthcare business, particularly Hong Kong and Macau markets despite increased sales contribution from Mainland China, and decreased rental income.

Reported loss for 2020 was HK\$38.4 million, down 206.4% year-on-year from a profit of HK\$36.0 million, primarily due to unrealised fair value changes of our investment properties between two years.

DIVIDENDS

We propose a final dividend of HK3.8 cents (2019: HK3.8 cents) per share for the year ended 31 December 2020, subject to approval by shareholders at our forthcoming annual general meeting. These together with the interim dividends of HK2.6 cents (2019: HK7.0 cents) per share already declared, will make total dividends of HK6.4 cents (2019: HK10.8 cents) per share.

BUSINESS

Global economy experienced an extremely difficult year in 2020 as the COVID-19 pandemic dealt a severe blow to global and local economic activities. The impact was particularly significant against certain sectors such as retail, tourism and property, with which our businesses were correlated. Dramatic fall in visitor arrivals and drop in local consumption persisted throughout the year, which affected retail sector in Hong Kong and the United Kingdom. Trade tension between the US and China further added on uncertainty over economy and business environment. Job and income conditions worsened and labour market deteriorated sharply in 2020, facing immense pressure during most of the year. Price inflation receded visibly in 2020 as price pressures on most goods and services eased amid austere global and local economic conditions.

Against this backdrop, sales contribution from Hong Kong and Macau markets declined remarkably due to significant drop in visitor arrivals into the cities following restrictive measures imposed. In Mainland China, we saw a dramatic improvement in sales performance as we combined our continued sales and marketing strategies with focus on brand building and above-the-line marketing. Despite pandemic disruptions across Southeast Asia, the overall sales only saw a slight decline, attributable to increased sales contribution from the Philippines market. On the other hand, the US market showed continued improvement year-on-year since the appointment of new distributor.

Our rental income decreased by 33.6% in 2020, largely attributable to rent concessions made and default in rental payment where business operations of our retail tenants were under significant pressure from various restrictions discouraging international travelers and office workers alike. The fair value assessment of our investment properties as at year-end 2020 resulted in a net unrealised fair value loss of HK\$64.8 million as compared to HK\$1.4 million in 2019. Such loss reflected uncertainty over the global impact of COVID-19.

NON-FINANCIAL PERFORMANCE

Other than financial performance, environmental and social impacts are also important for our strategy for sustainability. Our 2020 Environmental, Social and Governance Report will be released in due course in the websites of The Stock Exchange of Hong Kong Limited and the Company to describe our various non-financial KPIs, providing stakeholders an overview of our progress towards sustainability.

OUTLOOK

After a year like no other, global and Hong Kong economic outlooks for 2021 are still clouded by geopolitical issues and COVID-19 pandemic which are far from clear as to the extent it would affect our business environment. The continuing challenges will remain for a period of time. While in short term this condition will pose significant temporary disruptions, our financial strength and low-gearing asset base provide a strong cushion for long-term growth and sustainability.

Going forward, with the recent kick-off of mass COVID-19 vaccination programme by the governments worldwide, we hope that business outlook will gradually improve as we expect tourism to resume again by the second half of the year. Sales turnover in major markets other than Hong Kong and Macau had been stable or even improved in 2020. In order to maintain the sales momentum for these markets, our strategies for 2021 will continuously focus on brand building in Mainland China and the Philippines markets by using above-the-line advertising as well as online digital platforms to extend market coverage. Below-the-line advertising and promotion activities will also be our execution plan for the Philippines market. For the US market, our focus will be on extending our coverage within different Asian communities as well as continuous advertising efforts using online platforms.

The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Some of our UK retail shop tenants were unable to trade profitably and went into administration or terminated on dissolution. These retail shops have been either renegotiated for a new lease or vacant, and would affect our rental income in short term. With the vaccination commenced in the UK in December 2020, it would appear we are moving out of lockdown and that by mid-June 2021, all premises should be open and able to trade.

Building on our strong foundation and proven track record experience, we remain confident of our capability to navigate current disruptions and move forward. Our aim is to sustain growth while continuing our investments in brand building and market presence as our long-term growth strategy.

Times continue to be difficult with the current travel bans and restrictive measures, but we will get through this.

APPRECIATION

Once again, I sincerely thank our board members, the management team and staff for their hard work, dedication and contribution during this difficult year, as well as our shareholders, customers, business partners and suppliers for their continued support.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

The Group's revenue was HK\$109,343,000 in 2020, a decline of 26.0% from HK\$147,761,000 in 2019 mainly attributable to decreased sales contributions from Healthcare segment and decreased rental income. Revenue of each business segment is as follows:

	2020	2019	Change
	HK\$'000	HK\$'000	%
Healthcare	102,323	136,611	-25.1
Property Investments	6,737	10,148	-33.6
Treasury Investments	283	1,002	-71.8
	109,343	147,761	-26.0

Underlying Recurring Profit, which excludes from Reported (Loss) Profit the unrealised fair value changes of financial assets and of investment properties, was HK\$26,134,000, down 26.5% from HK\$35,566,000 year-on-year. This mainly reflected weak performance of Healthcare segment (particularly Hong Kong and Macau markets) and of Property Investments segment (particularly in the United Kingdom). Earnings per share of Underlying Recurring Profit was HK8.4 cents, down 26.3% from HK11.4 cents in 2019.

Reported (Loss) Profit for 2020 down 206.4% to a loss of HK\$38,356,000 (2019: profit of HK\$36,046,000), primarily due to unrealised fair value losses on the Group's investment properties. Loss per share of Reported Loss was HK12.3 cents, down 206.0% from earnings per share of Reported Profit of HK11.6 cents in 2019.

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

	2020	2019	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>
Underlying Recurring Profit	26,134	35,566	-26.5
Unrealised fair value changes of:			
Financial assets	267	1,872	
Investment properties:			
United Kingdom	(36,647)	1,648	
Others	(28,110)	(3,040)	
	<u>(38,356)</u>	<u>36,046</u>	-206.4
Reported (Loss) Profit	(38,356)	36,046	-206.4

The revaluation of other properties, which is accounted for as other comprehensive income, has resulted in a net revaluation deficit in 2020 of HK\$31,741,000 (2019: HK\$2,114,000).

Total comprehensive loss attributable to owners of the Company for 2020 was approximately HK\$66,980,000 (2019: comprehensive income of HK\$37,072,000).

OPERATIONS REVIEW

Healthcare

2020 was faced with a difficult year for much of the world as COVID-19 ravaged daily life for the majority of people around the world and disrupted economic activities and challenged consumer sentiment.

Revenue from Healthcare segment decreased by 25.1% to HK\$102,323,000 (2019: HK\$136,611,000). Revenue of each geographical segment is as follows:

	2020	2019	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Hong Kong	29,139	79,968	-63.6
Macau	6,245	16,642	-62.5
Mainland China	37,812	11,393	+231.9
Southeast Asia	22,695	22,861	-0.7
North America	5,210	4,749	+9.7
Others	1,222	998	+22.4
	<u>102,323</u>	<u>136,611</u>	-25.1
Segment revenue	102,323	136,611	-25.1
	<u>41,403</u>	<u>48,431</u>	-14.5
Segment profit	41,403	48,431	-14.5

Sales contribution from Hong Kong and Macau decreased by 63.6% and 62.5% respectively year-on-year in 2020 was due to the significant reduction of tourist arrivals into the cities and a highly unfavourable retail environment as a result of COVID-19 restrictive measures. With the recent mass COVID-19 vaccination programme commenced globally, business outlook is expected to gradually improve throughout 2021.

Sales turnover in Mainland China on the other hand was dramatically improved as there had been a change in marketing strategy since the fourth quarter of 2019, with a greater concentration on building brand awareness through above-the-line advertising using various media platforms, resulted in higher local sales in Guangdong province, particularly in cities such as Shenzhen and Guangzhou. The Group's effective online advertising also resulted in an increase in sales on e-commerce platforms across Mainland China. Furthermore, due to COVID-19 restrictive travel to Hong Kong, Mainland China consumers purchased more Pak Fah Yeow in China. In order to maintain this positive momentum, the Group's strategy is to continuously build brand awareness by concentrating on above-the-line advertising, including online platforms to further extend the coverage to more provinces beyond Guangdong province.

Despite the COVID-19 pandemic that caused city-wide lockdowns and government social distancing measures such as closure of non-essential shops and inter-city travel bans throughout South East Asia in countries such as Singapore, Malaysia, Indonesia and the Philippines etc., the overall sales turnover for much of this region had only been seen with a slight decrease from the preceding year. This is contributed by the continued efforts from various distributors. Increase in sales was even recorded in the Philippines though this is resulted more from a precautionary measure to ensure sufficient stock in all major retail accounts throughout the territory in case of disruption to logistics during nationwide lockdown. To maintain the sales momentum and to drive the sales through to the end consumers in 2021, a range of both above-the-line and below-the-line advertising and promotion activities including TV, radio, out of home, online and in-store promotions are planned and will be executed throughout the year.

The US market showed continued improvement year-on-year despite the challenging environment as the US distributor continued to push the sales through new retail channels and accounts, particularly in untapped market segments such as the Vietnamese communities, and also concentrated on building the brand presence on e-commerce platforms taking advantage of the higher consumer purchase behaviour through this channel. US sales through online platforms grew from under 5% of total US turnover to approximately 18.5% in 2020. Moving forward for 2021, as the pandemic begins to subside, the distributor will continue the momentum to strengthen the sales channel and drive sales into new retail accounts within different Asian communities as well as continue their advertising efforts through the online platforms such as Amazon, whilst Canada is set to begin putting more concentrated efforts into this platform as well.

Property Investments

Revenue for this segment decreased 33.6% to HK\$6,737,000 (2019: HK\$10,148,000). This change mainly represents decreased rental income derived in the United Kingdom as a result of rent concessions made and default in rental payment since the effects of COVID-19 became apparent in the second quarter of 2020. Revenue analysed by location is as follows:

	2020	2019	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Hong Kong – office and residential	3,484	3,553	-1.9
Singapore – industrial	224	221	+1.4
United Kingdom – retail/residential	3,029	6,374	-52.5
	<hr/>	<hr/>	
Segment revenue	6,737	10,148	-33.6
	<hr/> <hr/>	<hr/> <hr/>	
Segment (loss) profit	(59,492)	7,583	-884.5
	<hr/> <hr/>	<hr/> <hr/>	

For the year 2020, segment revenue of about 51.7%, 3.3% and 45.0% (2019: 35.0%, 2.2% and 62.8%) were derived from investment properties in Hong Kong, Singapore and the United Kingdom respectively. Overall occupancy rate was 88.7% (2019: 100.0%) in 2020.

Underlying Recurring Segment Result was a profit of HK\$5,265,000, down 41.3% from HK\$8,975,000 in 2019. Property expenses ratio as a percentage of segment revenue increased to 21.8% in 2020 (2019: 11.6%). Both Underlying Recurring Segment Result and the property expenses ratio for 2020 reflected higher proportional property expenses due to low occupancy rate and lower rental income.

Segment result for 2020 decreased by 884.5% to a loss of HK\$59,492,000 (2019: profit of HK\$7,583,000), mainly reflecting unrealised fair value losses of HK\$64,757,000 (2019: HK\$1,392,000) being recognised for the Group's investment properties.

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	Change %
Underlying Recurring Segment Result	5,265	8,975	-41.3
Unrealised fair value changes of investment properties:			
United Kingdom	(36,647)	1,648	
Hong Kong and Singapore	(28,110)	(3,040)	
Segment (loss) profit	<u>(59,492)</u>	<u>7,583</u>	-884.5

Treasury Investments

Other than placing deposits in renowned banks, the Group also invested in equity and debt securities, mutual funds and dual currency investments for higher yields.

Revenue (mainly interest income) derived from this segment decreased by 71.8% to HK\$283,000 (2019: HK\$1,002,000). Underlying Recurring Segment Result increased to a profit of HK\$1,806,000 (2019: HK\$1,171,000). Such increase reflected improved performance on foreign currency transactions during the year, partly offset by decreased interest income as lower bank deposits balance and lower interest rate.

The segment result decreased to a profit of HK\$2,073,000 (2019: HK\$3,043,000), mainly attributable to, amongst others as mentioned above, less unrealised fair value gains on listed investments.

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	Change %
Underlying Recurring Segment Result	1,806	1,171	+54.2
Unrealised fair value changes of financial assets	<u>267</u>	<u>1,872</u>	
Segment profit	<u>2,073</u>	<u>3,043</u>	-31.9

FINANCIAL REVIEW

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

Staff Costs

Staff costs are categorised into production (production-related payroll costs) and administration (other payroll costs, including management and head office staff), which increased by 2.7% from HK\$33,692,000 to HK\$34,593,000. This mainly reflected annual salary increment, partly offset by decreased provision for management bonus of executive directors.

Other Operating Expenses

Other operating expenses decreased by 54.5% to HK\$14,930,000 (2019: HK\$32,807,000) mainly attributable to overall decrease in sales and marketing expenses for the year due to the then market condition and overprovision of the same for previous years. Other operating expenses ratio as a percentage of total revenue decreased to 13.7% in 2020 (2019: 22.2%). This reflected costs control over sales and marketing activities during the COVID-19 pandemic.

Finance Costs

Finance costs decreased by 18.8% to HK\$614,000 (2019: HK\$756,000), mainly due to lower bank loan balances during the year after mortgage loans being fully repaid in Hong Kong and partly repaid in the United Kingdom. Interest coverage ratio (profit from operations before interest and taxes and before unrealised fair value changes of financial assets and of investment properties divided by finance costs) decreased to 50.9 times in 2020 (2019: 58.9 times). Such decrease reflected a weak financial performance in 2020.

Taxation

Decrease in taxation from HK\$8,216,000 to HK\$4,495,000 was principally due to decrease in taxable operating profit of subsidiaries in Hong Kong and the United Kingdom. The effect was partly offset by underprovision of taxation in Hong Kong for previous years and deferred tax asset recognised for deductible temporary difference of long service payment.

Investment Properties

The Group's investment properties were valued at 31 December 2020 by independent professional valuers on a fair value basis. The valuation as at year-end 2020 was HK\$285,123,000, a decrease of 17.7% from HK\$346,432,000 as at year-end 2019. Such decrease reflected an increasing market risk of retail sector in the United Kingdom and a weakened office and residential sectors in Hong Kong due to global impact of COVID-19. The valuation of properties in each geographical segment as at the year-end date is as follows.

	2020		2019		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\$149,000	149,000	HK\$177,300	177,300	-16.0
Singapore – industrial	S\$1,950	11,427	S\$1,950	11,236	+1.7
United Kingdom – retail/residential	GBP11,800	124,696	GBP15,480	157,896	-21.0
		285,123		346,432	-17.7

Unrealised fair value loss on investment properties of HK\$64,757,000 (2019: HK\$1,392,000) was recognised for 2020.

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 2020 was 2.7% (2019: 2.6%). Total bank borrowings of the Group amounted to HK\$17,859,000 (2019: HK\$19,492,000), mainly denominated in Pound Sterling with floating interest rates.

Current ratio (current assets divided by current liabilities) was 5.8 times as at 31 December 2020 (2019: 3.3 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 2020, the Group's debt borrowings were mainly denominated in Pound Sterling. The Group also had equity and debt securities 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 2020 were approximately HK\$39.0 million (2019: HK\$42.0 million) in total, or about 4.9% (2019: 4.6%) of the Group's total assets. The Group was also exposed to foreign exchange rate changes (net of the underlying debt borrowings) of approximately HK\$107.1 million (2019: HK\$139.1 million) relating to carrying amount of the properties investments in the United Kingdom.

PLEDGE OF ASSETS

As at 31 December 2020, certain of the Group's leasehold land and buildings and investment properties with an aggregate carrying value of approximately HK\$124.7 million (2019: HK\$324.9 million) were pledged to secure banking facilities granted to the Group to the extent of approximately HK\$92.4 million (2019: HK\$93.3 million), of which approximately HK\$17.9 million (2019: HK\$19.5 million) were utilised as at 31 December 2020.

CONTINGENT LIABILITIES

As at 31 December 2020, 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 2020, the Group had a total of 92 (2019: 90) 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

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue	3	109,343	147,761
Other revenue	3	163	340
Other net income	4	4,162	211
Changes in inventories of finished goods		5,449	(782)
Raw materials and consumables used		(30,698)	(27,654)
Staff costs		(34,593)	(33,692)
Depreciation expenses		(8,024)	(8,382)
Net exchange gain (loss)		371	(457)
Other operating expenses	5	(14,930)	(32,807)
Profit from operations before fair value changes of financial assets through profit or loss and of investment properties		31,243	44,538
Net gain on financial assets at fair value through profit or loss		267	1,872
Revaluation deficit in respect of investment properties		(64,757)	(1,392)
(Loss) Profit from operations		(33,247)	45,018
Finance costs	5	(614)	(756)
(Loss) Profit before taxation	5	(33,861)	44,262
Taxation	6	(4,495)	(8,216)
(Loss) Profit for the year, attributable to owners of the Company		(38,356)	36,046

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
Other comprehensive (loss) income			
<i>Item that will not be reclassified to profit or loss:</i>			
Revaluation deficit of leasehold land and buildings, net of tax effect of HK\$6,272,000 (2019: HK\$418,000)		<u>(31,741)</u>	<u>(2,114)</u>
<i>Items that are reclassified or may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising from translation of financial statements of overseas subsidiaries		3,610	4,134
Exchange difference arising from translation of inter-company balances with overseas subsidiaries representing net investments		<u>(493)</u>	<u>(994)</u>
		<u>3,117</u>	<u>3,140</u>
Other comprehensive (loss) income for the year, net of tax, attributable to owners of the Company		<u>(28,624)</u>	<u>1,026</u>
Total comprehensive (loss) income for the year, attributable to owners of the Company		<u>(66,980)</u>	<u>37,072</u>
		HK	HK
(Loss) Earnings per share			
Basic and diluted	8	<u>(12.3 cents)</u>	<u>11.6 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current assets			
Investment properties		285,123	346,432
Property, plant and equipment		323,111	368,511
Intangible assets		2,450	2,450
Financial assets at fair value through profit or loss		5,588	5,789
Deferred tax assets		1,021	–
		617,293	723,182
Current assets			
Inventories		18,417	17,929
Trade and other receivables	9	25,515	13,776
Financial assets at fair value through profit or loss		14,177	16,489
Tax recoverable		2,691	2,505
Bank balances and cash		117,303	137,969
		178,103	188,668
Current liabilities			
Bank borrowings, secured		17,859	19,492
Current portion of deferred income		258	242
Trade and other payables	10	10,637	26,992
Tax payable		1,220	3,024
Dividends payable		761	7,302
		30,735	57,052
Net current assets		147,368	131,616
Total assets less current liabilities		764,661	854,798
Non-current liabilities			
Long-term portion of consideration payable for acquisition of trademarks		2,073	2,073
Long-term portion of deferred income		35,892	33,899
Provision for directors' retirement benefits		6,188	4,689
Deferred tax liabilities		47,316	54,020
		91,469	94,681
NET ASSETS		673,192	760,117
Capital and reserves			
Share capital		15,582	15,582
Share premium and reserves		657,610	744,535
TOTAL EQUITY		673,192	760,117

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 2019 consolidated financial statements except for the adoption of the following new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) that are relevant to the Group and effective from the current year.

The Group has applied, for the first time, the following new/revised HKFRSs that are relevant to the Group:

Amendments to HKASs 1 and 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business

Amendments to HKASs 1 and 8: Definition of Material

The amendments clarify the definition of material and align the definition used across HKFRSs.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

Amendments to HKFRS 3: Definition of a Business

The amendments, among others, revise the definition of a business and include new guidance to evaluate whether an acquired process is substantive.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

Basis of measurement

The measurement basis used in the preparation of these consolidated financial statements is historical cost, except for investment properties, leasehold land and buildings and financial assets at fair value through profit or loss (“FVPL”), which are measured at fair value.

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 – manufacture and sale of Hoe Hin products
- b) Property investments
- c) Treasury investments

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

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

Business segments

	Year ended 31 December 2020			
	Healthcare	Property	Treasury	Consolidated
	HK\$'000	investments	investments	HK\$'000
		HK\$'000	HK\$'000	
Revenue from external customers	<u>102,323</u>	<u>6,737</u>	<u>283</u>	<u>109,343</u>
Segment results	<u>41,403</u>	<u>(59,492)</u>	<u>2,073</u>	<u>(16,016)</u>
Unallocated corporate expenses				<u>(17,231)</u>
Loss from operations				<u>(33,247)</u>
Finance costs				<u>(614)</u>
Loss before taxation				<u>(33,861)</u>
Taxation				<u>(4,495)</u>
Loss for the year				<u><u>(38,356)</u></u>
Assets				
Segment assets	435,144	285,777	70,279	791,200
Unallocated corporate assets				<u>4,196</u>
Consolidated total assets				<u><u>795,396</u></u>
Liabilities				
Segment liabilities	11,172	55,428	–	66,600
Unallocated corporate liabilities				<u>55,604</u>
Consolidated total liabilities				<u><u>122,204</u></u>
Other information				
Additions to non-current assets	(637)	–	–	(637)
Depreciation expenses	(7,932)	(92)	–	(8,024)
Revaluation deficit in respect of investment properties	–	(64,757)	–	(64,757)
Revaluation deficit of leasehold land and buildings (in other comprehensive income)	(31,741)	–	–	(31,741)
Net gain on financial assets at fair value through profit or loss	<u>–</u>	<u>–</u>	<u>267</u>	<u>267</u>

Year ended 31 December 2019

	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	136,611	10,148	1,002	147,761
Segment results	48,431	7,583	3,043	59,057
Unallocated corporate expenses				(14,039)
Profit from operations				45,018
Finance costs				(756)
Profit before taxation				44,262
Taxation				(8,216)
Profit for the year				36,046
Assets				
Segment assets	475,207	347,298	86,360	908,865
Unallocated corporate assets				2,985
Consolidated total assets				911,850
Liabilities				
Segment liabilities	27,196	54,567	–	81,763
Unallocated corporate liabilities				69,970
Consolidated total liabilities				151,733
Other information				
Additions to non-current assets	(433)	(6)	–	(439)
Depreciation expenses	(8,291)	(91)	–	(8,382)
Revaluation deficit in respect of investment properties	–	(1,392)	–	(1,392)
Revaluation deficit of leasehold land and buildings (in other comprehensive income)	(2,114)	–	–	(2,114)
Net gain on financial assets at fair value through profit or loss	–	–	1,872	1,872

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 following tables provide 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	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Hong Kong	32,791	84,134	(18,938)	31,350
Macau	6,245	16,642	4,766	10,407
PRC	37,875	11,450	10,451	(3,961)
Southeast Asia	22,941	23,335	15,557	8,481
North America	5,210	4,749	2,800	1,155
United Kingdom	3,058	6,453	(34,063)	7,914
Other regions	1,223	998	1,492	1,924
Unallocated corporate expenses	–	–	(15,312)	(12,252)
	109,343	147,761	(33,247)	45,018
			Non-current assets (Note)	
			2020	2019
			HK\$'000	HK\$'000
Hong Kong			472,111	545,811
Southeast Asia			13,877	13,686
United Kingdom			124,696	157,896
			610,684	717,393

Note: Non-current assets exclude financial instruments and deferred tax assets.

Information about major customers

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Customer A	23,474	–
Customer B	16,490	14,966
Customer C	15,879	16,940
Customer D	*	28,217
Customer E	*	21,751
Customer F	*	16,642
	<u>55,843</u>	<u>98,516</u>

* These customers individually contributed less than 10% of the total revenue from the Group's healthcare products segment during the year ended 31 December 2020.

3. REVENUE AND OTHER REVENUE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue from contracts with customers within HKFRS 15		
Sale of Hoe Hin products		
– Fixed price	73,184	56,643
– Variable price	29,139	79,968
	<u>102,323</u>	136,611
Revenue from other sources		
Lease income under operating leases with fixed lease payments	6,737	10,148
Interest revenue calculated using the effective interest method from bank deposits	283	1,002
	<u>109,343</u>	147,761
Listed investments		
Dividend income from financial assets at FVPL	176	333
(Loss) Gain on disposal of financial assets at FVPL	(13)	7
	<u>163</u>	340
Other revenue	<u>163</u>	340
Total revenue	<u>109,506</u>	<u>148,101</u>

4. OTHER NET INCOME

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Commission income	28	25
Loss on disposal of property, plant and equipment	–	(2)
Sundry income	256	188
Government subsidies (<i>Note</i>)	3,878	–
	<u>4,162</u>	<u>211</u>

Note: The government subsidies represented grant received from the Employment Support Scheme under the Anti-epidemic Fund of the Government of the Hong Kong Special Administration Region which aims to retain employment under the COVID-19 environment.

5. (LOSS) PROFIT BEFORE TAXATION

This is stated after charging (crediting):

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
(a) Other operating expenses		
Advertising, promotion and event expenses (<i>Note</i>)	4,188	19,645
Auditor's remuneration	448	490
Legal and professional fees	1,361	1,446
Office and administrative expenses	2,647	3,569
Production overhead	2,281	2,671
Travelling and transportation	1,037	1,545
Others	2,968	3,441
	<u>14,930</u>	<u>32,807</u>
<i>Note:</i> Included lease charges on short-term leases of advertising spaces of HK\$1,097,000 (2019: HK\$2,186,000)		
(b) Finance costs		
Interest on bank borrowings	334	476
Interest on consideration payable for acquisition of trademarks	280	280
	<u>614</u>	<u>756</u>
(c) Other items		
Cost of inventories	41,341	45,524
Contributions to defined contribution plan (included in staff costs)	822	838
Gross rental income from investment properties less direct operating expenses of HK\$247,000 (2019: HK\$212,000)	(6,490)	(9,936)
	<u>(6,490)</u>	<u>(9,936)</u>

6. TAXATION

Under the two-tiered profits tax rates regime introduced in 2018, the first HK\$2 million of profits of qualifying group entity are taxed at 8.25% and profits above HK\$2 million are taxed at 16.5%. The profits of other group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime continue to be taxed at a flat rate of 16.5%.

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.

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
Current tax		
Hong Kong Profits Tax	5,546	7,212
Overseas tax	<u>402</u>	<u>1,048</u>
	5,948	8,260
Deferred taxation		
Origination and reversal of temporary differences	<u>(1,453)</u>	<u>(44)</u>
	<u><u>4,495</u></u>	<u><u>8,216</u></u>
Reconciliation of effective tax rate		
	2020	2019
	%	%
Applicable tax rate in Hong Kong	16.5	16.5
Non-deductible expenses and losses	(35.9)	2.2
Non-taxable revenue and gains	2.3	(1.5)
Effect of two-tiered profits tax rates	0.5	(0.4)
Others	<u>3.3</u>	<u>1.8</u>
Effective tax rate for the year	<u><u>(13.3)</u></u>	<u><u>18.6</u></u>

7. DIVIDENDS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Attributable to the current year:		
Interim dividends of HK2.60 cents per share (2019: HK7.00 cents per share)	8,103	21,815
Final dividend of HK3.80 cents per share (2019: HK3.80 cents per share)	<u>11,842</u>	<u>11,842</u>
	<u>19,945</u>	<u>33,657</u>
Attributable to previous years, approved and paid during the year:		
Final dividend of HK3.80 cents per share (2019: HK3.80 cents per share)	<u>11,842</u>	<u>11,842</u>

The final dividend for 2020 proposed after the end of the reporting period is subject to shareholders' approval at the forthcoming annual general meeting. This dividend has not been recognised as liabilities at the end of the reporting period.

8. (LOSS) 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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
(Loss) Profit attributable to owners of the Company	<u>(38,356)</u>	<u>36,046</u>
	2020	2019
Weighted average number of ordinary shares for basic (loss) earnings per share ('000)	<u>311,640</u>	<u>311,640</u>
	<i>HK</i>	<i>HK</i>
(Loss) Earnings per share		
Basic and diluted	<u>(12.3 cents)</u>	<u>11.6 cents</u>

Diluted (loss) earnings per share equals to basic (loss) earnings per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2020 and 2019.

9. TRADE AND OTHER RECEIVABLES

	<i>Note</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	9(a)	1,327	9,835
Bills receivables		20,658	658
Other receivables			
Deposits, prepayments and other debtors		<u>3,530</u>	<u>3,283</u>
		<u>25,515</u>	<u>13,776</u>

(a) Trade receivables

The Group allows credit period ranging from 30 days to 120 days (2019: 30 days to 120 days) to its customers. The ageing analysis of trade receivables by invoice date is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 30 days	10	9,835
31 – 60 days	<u>1,317</u>	<u>–</u>
	<u>1,327</u>	<u>9,835</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

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables	<i>10(a)</i>	<u>1,821</u>	<u>5,120</u>
Other payables			
Accrued charges and other creditors		2,920	3,775
Accrued advertising and promotion expenses		3,842	9,899
Accrued rebates and discounts	<i>10(b)</i>	<u>2,054</u>	<u>8,198</u>
		<u>8,816</u>	<u>21,872</u>
		<u>10,637</u>	<u>26,992</u>

(a) Trade payables

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 30 days	1,717	3,400
31 – 60 days	87	1,703
61 – 90 days	–	–
More than 90 days	<u>17</u>	<u>17</u>
	<u>1,821</u>	<u>5,120</u>

(b) Accrued rebates and discounts

The drop in accrued rebates and discounts at 31 December 2020 was due to the drop of chain-store sales, through direct customers of the Group, resulted from the impact on global economies of the COVID-19 pandemic. At 31 December 2019, there was a decrease in sales to chain-store, thereby decreasing the estimated rebates and discounts to be payable.

At 31 December 2020 and 2019, there were no contract liabilities arising from rebates and discounts that were expected to be settled after more than 12 months.

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\$92,429,000 (2019: HK\$93,325,000), of which HK\$17,859,000 (2019: HK\$19,492,000) were utilised at the end of the reporting period.

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Leasehold land and buildings	–	167,000
Investment properties	<u>124,697</u>	<u>157,896</u>
	<u><u>124,697</u></u>	<u><u>324,896</u></u>

12. EVENT AFTER THE REPORTING PERIOD

As at the end of the reporting period and up to the date of approval of these consolidated financial statements, the COVID-19 pandemic is still significantly affecting normal life and business environment on a world-wide scale adversely. Global economies have not shown any signs of recovery yet. It is anticipated that the pandemic will persist for a period until effective vaccines are available to contain its further spreading. As such, the directors estimate that the present levels of demand of the Group's products could only persist, if not worsening. The impact of the pandemic on the future financial performance of the Group could not be estimated as at the date of these financial statements. Meanwhile, the directors will continue to closely monitor the development of COVID-19 and will react proactively.

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 2020.

Scope of work of Mazars CPA Limited

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income, and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Group's auditor, Mazars CPA Limited. 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 (2019: HK3.8 cents per share) for the year ended 31 December 2020 payable to shareholders on the register of members of the Company on 9 July 2021.

Subject to approval of the proposed final dividend by the shareholders at the forthcoming annual general meeting of the Company to be held on 11 June 2021, the final dividend will be dispatched to the shareholders of the Company on or about 13 August 2021.

Closing of register of members

The register of members of the Company will be closed from Tuesday, 8 June 2021 to Friday, 11 June 2021, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong but no later than 4:30 p.m. on Monday, 7 June 2021.

The register of members of the Company will also be closed from Wednesday, 7 July 2021 to Friday, 9 July 2021, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong but no later than 4:30 p.m. on Tuesday, 6 July 2021.

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 2020 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 2020.

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, 30 March 2021

* *For identification purpose only*