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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 2019

HIGHLIGHTS

- Revenue up 4.8% year-on-year, attributable to increased sales contribution from Healthcare business.
- Underlying Recurring Profit, the performance indicator of the Group, up 33.4% year-on-year, reflecting improved performance of Healthcare business, particularly Hong Kong and Macau markets.
- Reported Profit down 3.3%, mainly attributable to fair value losses on investment properties.
- Investments in brand building and market presence remain our long-term growth strategy despite unfavourable outlook for 2020.

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 2019, together with comparative figures for the previous year:

RESULTS SUMMARY

		Year ended 31 December		
		2019	2018	
	Notes	***HK$'000***	*HK$'000*	Change
Revenue	*1*	**147,761**	141,043	+4.8%
Reported profit	*2*	**36,046**	37,280	-3.3%
Underlying recurring profit	*3*	**35,566**	26,670	+33.4%
		HK cents	*HK cents*	
Earnings per share:				
Reported profit	*4*	**11.6**	12.0	-3.3%
Underlying recurring profit		**11.4**	8.6	+32.6%
Total dividends per share	*4*	**10.80**	10.35	+4.3%

		At 31 December		
		2019	2018	
		HK$'000	*HK$'000*	
Shareholders' funds	*5*	**760,117**	756,702	+0.5%
		HK$	*HK$*	
Net asset value per share	*6*	**2.44**	2.43	+0.4%

Notes:

1. Revenue represents revenue derived from the three business segments, namely healthcare ("Healthcare"), property investments ("Property Investments") and treasury investments ("Treasury Investments").

2. Reported profit ("Reported Profit") is the profit attributable to owners of the Company, which is prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

3. Underlying recurring profit ("Underlying Recurring Profit") reflects the Group's performance of the three business segments and is arrived at by excluding from Reported Profit the unrealised fair value changes of financial assets at fair value through profit or loss and of investment properties, and the items that are non-recurring in nature.

4. The basic and diluted earnings per share and the total dividends per share are calculated using the weighted average number of ordinary shares in issue during the year.

5. Shareholders' funds are the equity attributable to owners of the Company, which is equivalent to the total equity as presented in the Company's consolidated statement of financial position.

6. Net asset value per share represents shareholders' funds divided by the number of ordinary shares of the Company in issue as at the year end date.

CHAIRMAN'S STATEMENT

Dear fellow shareholders,

OVERVIEW

The Group's total revenue for the year 2019 was HK$147.8 million, representing a year-on-year increase of 4.8%. Underlying Recurring Profit, the performance indicator of the Group, was up 33.4% to HK$35.6 million (2018: HK$26.7 million). Such increases were mainly attributable to improved performance of Healthcare business, particularly Hong Kong and Macau markets, despite decreased sales contribution from Mainland China.

Reported Profit for 2019 was down 3.3% to HK$36.0 million (2018: HK$37.3 million), primarily due to unrealised fair value losses on the Group's investment properties recorded in 2019 as compared to unrealised fair value gains in 2018, despite increased revenue as mentioned above.

DIVIDENDS

The Board proposes a final dividend of HK3.8 cents (2018: HK3.8 cents) per share for the year ended 31 December 2019, subject to approval by shareholders at the forthcoming annual general meeting of the Company. This together with the interim dividends of HK7 cents (2018: HK6.55 cents) per share already declared, will make total dividends of HK10.80 cents (2018: HK10.35 cents) per share.

BUSINESS

Global economy grew more slowly than expected in the first half of 2019 and the same extended to the second half of 2019. Factors such as trade tension between US and China throughout the year and domestic social unrest during the second half of the year created negative impact on and uncertainty over economy and business environment. Dramatic fall in numbers of visitors and significant drop in local consumption unfavourably affected retail sector in Hong Kong, particularly during the second half of 2019. Labour market remained tight and unemployment rate stayed low though it became progressively worse near the end of the year. Inflationary pressure for labour, supplies and production costs remained moderate throughout the year.

Sales contribution from Hong Kong market grew moderately after the structural change in distributorship in July 2018 and our improved pricing and incentive strategies. Such growth was affected to a certain extent in the second half of 2019 after the emerging tension of local social incidents. As an alternative destination near Hong Kong, we saw a better sales performance in Macau as benefited from increased consumers demand in the second half of 2019. In Mainland China, revenue was influenced by slower execution of our sales and marketing plan due to change in sole distributorship in July 2019, while price stability was the major concern during the transition. Southeast Asia performed slightly less well in 2019 despite major markets such as the Philippines and Singapore maintained steady sales. On the other hand, the United States market had regained its market position after appointment of a new distributor in the second half of 2018.

Our rental income increased by 6.1% in 2019, largely attributable to more rental income in Hong Kong due to improved occupancy, partly offset by the depreciation of Pound Sterling which lowered UK rental income when reporting in Hong Kong dollar. The fair value assessment of our investment properties as at year-end 2019 resulted in a net unrealised fair value loss of HK$1.4 million (2018: gain of HK$11.5 million). A combination of a general negative outlook for Hong Kong offices and a favourable prospect of retail investments in London contributed to such net loss.

NON-FINANCIAL PERFORMANCE

Our strategy for sustainability is not only in terms of financial results but also in terms of environmental and social impacts. Our 2019 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 how we combined our commitments to responsible operations with business strategy as well as the actions we took, providing stakeholders an overview of the Group's progress towards sustainability.

OUTLOOK

Uncertainty over the global trade tension and domestic developments, including the coronavirus outbreak, will adversely influence our business environment. Hong Kong visitor arrivals are expected to plunge, while quite a number of retail shops including drugstores and restaurants are facing difficulties in sustaining their businesses. Sales growth in Macau, Mainland China and other major markets are also clouded by the outbreak of coronavirus. The situation may continue or even deteriorate further, leading to an unfavourable outlook for 2020.

While we are working closely with our major distributors/wholesalers to explore new opportunities within our core regional areas, inflationary pressure on raw materials and production overhead remain a factor affecting profit margin. We will continue to take measures to neutralise such effects through production and operational efficiencies. We aim to sustain growth while continuing our investments in brand building and market presence as our long-term growth strategy.

Office and home leasing market in Hong Kong has been worsening after the coronavirus outbreak and the same situation has extended to London retail sector. Some of the leases of our Hong Kong and UK investment properties are due for rent review and pressing requests for rental reduction or concession are expected. We will continue to maintain a constructive dialogue with our tenants in the process of the review and a value oriented approach in working with them during this adversity.

APPRECIATION

In closing, I would like to thank our board members, the management team and staff for their hard work, dedication and contribution during the year, as well as our shareholders, customers, business partners and suppliers for their support over the years.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

The Group's revenue was HK$147,761,000 in 2019, an increase of 4.8% from HK$141,043,000 in 2018 mainly attributable to increased sales contributions from Healthcare segment. Revenue of each business segment is as follows:

	2019	2018	**Change**
	HK$'000	*HK$'000*	*%*
Healthcare	**136,611**	130,962	+4.3
Property investments	**10,148**	9,562	+6.1
Treasury investments	**1,002**	519	+93.1
	147,761	141,043	+4.8

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$35,566,000, up 33.4% from HK$26,670,000 year-on-year. This mainly reflected improved performance of Healthcare segment, particularly Hong Kong and Macau markets, despite decreased sales contribution from Mainland China. Earnings per share of Underlying Recurring Profit was HK11.4 cents, up 32.6% from HK8.6 cents in 2018.

Reported Profit for 2019 down 3.3% to HK$36,046,000 (2018: HK$37,280,000), primarily due to unrealised fair value losses on the Group's investment properties, partly compensated by increased sales contribution from Healthcare segment as mentioned above and improved performance of treasury investments. Earnings per share of Reported Profit was HK11.6 cents, down 3.3% from HK12.0 cents in 2018.

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

	2019	2018	**Change**
	HK$'000	*HK$'000*	*%*
Underlying Recurring Profit	**35,566**	26,670	+33.4
Unrealised fair value changes of:			
Financial assets	**1,872**	(890)	
Investment properties:			
United Kingdom	**1,648**	(577)	
Others	**(3,040)**	12,077	
Reported Profit	**36,046**	37,280	-3.3

The revaluation of other properties, which is accounted for as other comprehensive income, has resulted in a net revaluation deficit in 2019 of HK$2,114,000 (2018: surplus of HK$22,146,000).

Total comprehensive income attributable to owners of the Company for 2019 was approximately HK$37,072,000 (2018: HK$52,914,000).

OPERATIONS REVIEW

Healthcare

Revenue from Healthcare segment increased by 4.3% to HK$136,611,000 (2018: HK$130,962,000). Revenue of each geographical segment is as follows:

	2019	2018	**Change**
	HK$'000	*HK$'000*	*%*
Hong Kong	**79,968**	66,965	+19.4
Macau	**16,642**	14,573	+14.2
Mainland China	**11,393**	20,628	-44.8
Southeast Asia	**22,861**	23,669	-3.4
North America	**4,749**	3,445	+37.9
Others	**998**	1,682	-40.7
Segment revenue	**136,611**	130,962	+4.3
Segment profit	**48,431**	40,911	+18.4

Sales contribution from Hong Kong increased by 19.4% year-on-year from HK$67.0 million to HK$80.0 million. In 2018, sales revenue of Hoe Hin products was affected and declined as a result of the restructuring of local distributorship in mid-2018. Sales in 2019 resumed steadily as the wholesalers had resumed confidence on price stability in the market, but the momentum of sales movement was affected by local social incidents commencing in the second half of the year, leading to a slump in tourist arrivals to Hong Kong which affected sales performance.

Sales performance in Macau improved in 2019 as favourably affected by increased consumers demand in the second half of the year as an alternative destination near Hong Kong.

For Mainland China market, sales contribution in the first half of 2019 was stagnant due to anticipated change in new distributorship which the then distributor was reluctant to make new orders with uncertainty over price stability. Since the appointment of a new distributor in July 2019, the immediate objective was to rebuild price stability so as to strengthen the major sales contribution in main points of sales such as the Guangdong Province.

Markets in South East Asia faced challenging headwinds in 2019 due to political and economic instability which affected sales turnover in the region. However, markets such as the Philippines and Singapore managed to continue to maintain sales level that are comparable to the previous year.

The US market had regained its traction and performed much better than the preceding year as the newly appointed US distributor established itself in this market and continued to push the brand and products into new retail accounts.

Due to changes in the labelling regulations in Australia, partial orders for the year had to be deferred to 2020 in order to comply with the new regulations. Meanwhile, sales in South Korea had stabilised.

Property Investments

Revenue for this segment increased 6.1% to HK$10,148,000 (2018: HK$9,562,000). This change mainly represents increased rental income derived in Hong Kong as a result of full occupancy in 2019, partly offset by decreased rental income in the United Kingdom due to lower average exchange rate in translating Pound Sterling to Hong Kong Dollar, the reporting currency. Revenue analysed by location is as follows:

	2019	2018	**Change**
	HK$'000	*HK$'000*	*%*
Hong Kong – office and residential	**3,553**	2,668	+33.2
Singapore – industrial	**221**	221	–
United Kingdom – retail/residential	**6,374**	6,673	–4.5
Segment revenue	**10,148**	9,562	+6.1
Segment result – profit	**7,583**	19,337	-60.8

For the year 2019, segment revenue of about 35.0%, 2.2% and 62.8% (2018: 27.9%, 2.3% and 69.8%) were derived from investment properties in Hong Kong, Singapore and the United Kingdom respectively. Overall occupancy rate was 100.0% (2018: 95.8%) in 2019.

Underlying Recurring Segment Result was a profit of HK$8,975,000, up 14.5% from HK$7,837,000 in 2018. Property expenses ratio as a percentage of segment revenue decreased to 11.6% in 2019 (2018: 18.0%). Both Underlying Recurring Segment Result and the property expenses ratio for 2019 reflected lower proportional property expenses due to higher occupancy rate and there were some costs incurred in 2018 for building management during the period of vacancy and recruitment of new tenants.

Segment result for 2019 decreased by 60.8% to HK$7,583,000 (2018: HK$19,337,000), mainly reflecting unrealised fair value losses of HK$1,392,000 (2018: gain of HK$11,500,000) being recognised for the Group's investment properties.

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

	2019	2018	**Change**
	HK$'000	*HK$'000*	*%*
Underlying Recurring Segment Result	**8,975**	7,837	+14.5
Unrealised fair value changes of investment properties:			
United Kingdom	**1,648**	(577)	
Hong Kong and Singapore	**(3,040)**	12,077	
Segment result – profit	**7,583**	19,337	–60.8

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 93.1% to HK$1,002,000 (2018: HK$519,000). Underlying Recurring Segment Result increased to a profit of HK$1,171,000 (2018: HK$122,000). Such increase reflected increased interest income as the Group had placed more bank deposits in fixed term and improved performance on foreign currency transactions during the year.

The segment result increased to a profit of HK$3,043,000 (2018: loss of HK$768,000), mainly attributable to, amongst others as mentioned above, unrealised fair value gains on listed investments.

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

	2019	2018	**Change**
	HK$'000	*HK$'000*	*%*
Underlying Recurring Segment Result	**1,171**	122	+859.8
Unrealised fair value changes of financial assets	**1,872**	(890)	
Segment result – profit (loss)	**3,043**	(768)	–496.2

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 increased by 0.6% from HK$33,479,000 to HK$33,692,000. 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 4.2% to HK$32,807,000 (2018: HK$34,256,000) mainly attributable to decreased advertising and event expenses and production overhead, and there were some costs incurred in 2018 for building management during the period of vacancy and recruitment of new tenants. Other operating expenses ratio as a percentage of total revenue decreased to 22.2% in 2019 (2018: 24.3%).

Finance Costs

Finance costs decreased by 7.8% to HK$756,000 (2018: HK$820,000), mainly due to 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 and taxes and before unrealised fair value changes of financial assets and of investment properties divided by finance costs) increased to 58.9 times in 2019 (2018: 41.4 times).

Taxation

Increase in taxation from HK$6,443,000 to HK$8,216,000 was principally due to increase in taxable operating profit of subsidiaries in Hong Kong.

Investment Properties

The Group's investment properties were valued at 31 December 2019 by independent professional valuers on a fair value basis. The valuation as at year-end 2019 was HK$346,432,000, a slight increase of 0.8% from HK$343,731,000 as at year-end 2018. Such increase mainly reflected the market for retail investments in London remaining relatively strong, partly offset by a general negative outlook of property market in Hong Kong. The valuation of properties in each geographical segment as at the year-end date is as follows.

	2019		2018		
	Original currency '000	***HK$'000***	*Original currency '000*	*HK$'000*	**Change in HK$** %
Hong Kong – office and residential	**HK$177,300**	**177,300**	HK$180,400	180,400	–1.7
Singapore – industrial	**S$1,950**	**11,236**	S$1,950	11,176	+0.5
United Kingdom – retail/residential	**GBP15,480**	**157,896**	GBP15,315	152,155	+3.8
		346,432		343,731	+0.8

Unrealised fair value loss on investment properties of HK$1,392,000 (2018: gain of HK$11,500,000) was recognised for 2019.

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 2019 was 2.6% (2018: 2.9%). Total bank borrowings of the Group amounted to HK$19,492,000 (2018: HK$21,893,000), mainly denominated in Pound Sterling and Hong Kong Dollars with floating interest rates.

Current ratio (current assets divided by current liabilities) was 3.31 times as at 31 December 2019 (2018: 2.81 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 2019, 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 2019 were approximately HK$42.0 million (2018: HK$35.5 million) in total, or about 4.6% (2018: 3.9%) 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$139.1 million (2018: HK$133.1 million) relating to carrying amount of the properties investments in the United Kingdom.

PLEDGE OF ASSETS

As at 31 December 2019, certain of the Group's leasehold land and buildings and investment properties with an aggregate carrying value of approximately HK$324.9 million (2018: HK$318.2 million) were pledged to secure banking facilities granted to the Group to the extent of approximately HK$93.3 million (2018: HK$94.3 million), of which approximately HK$19.5 million (2018: HK$21.9 million) were utilised as at 31 December 2019.

CONTINGENT LIABILITIES

As at 31 December 2019, 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 2019, the Group had a total of 90 (2018: 91) 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

	Notes	**2019** **HK$'000**	2018 HK$'000
Revenue	*3*	**147,761**	141,043
Other revenue	*3*	**340**	555
Other net income	*4*	**211**	109
Changes in inventories of finished goods		**(782)**	1,481
Raw materials and consumables used		**(27,654)**	(32,283)
Staff costs		**(33,692)**	(33,479)
Depreciation expenses		**(8,382)**	(7,893)
Net exchange loss		**(457)**	(1,344)
Other operating expenses	*5*	**(32,807)**	(34,256)
Profit from operations before fair value changes of financial assets through profit or loss and of investment properties		**44,538**	33,933
Net gain (loss) on financial assets at fair value through profit or loss		**1,872**	(890)
Revaluation (deficit) surplus in respect of investment properties		**(1,392)**	11,500
Profit from operations		**45,018**	44,543
Finance costs	*5*	**(756)**	(820)
Profit before taxation	*5*	**44,262**	43,723
Taxation	*6*	**(8,216)**	(6,443)
Profit for the year, attributable to owners of the Company		**36,046**	37,280

	Notes	**2019** *HK$'000*	2018 *HK$'000*
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
Revaluation (deficit) surplus of leasehold land and buildings, net of tax effect of HK$418,000 *(2018: HK$4,377,000)*		**(2,114)**	22,146
Items that are reclassified or may be reclassified subsequently to profit or loss:			
Exchange difference arising from translation of financial statements of overseas subsidiaries		**4,134**	(8,650)
Exchange difference arising from translation of inter-company balances with overseas subsidiaries representing net investments		**(994)**	2,138
		3,140	(6,512)
Other comprehensive income for the year, net of tax, attributable to owners of the Company		**1,026**	15,634
Total comprehensive income for the year, attributable to owners of the Company		**37,072**	52,914
Earnings per share			
Basic and diluted	*8*	**HK11.6 cents**	HK12.0 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**2019** **_HK$'000_**	2018 *HK$'000*
Non-current assets			
Investment properties		**346,432**	343,731
Property, plant and equipment		**368,511**	378,988
Intangible assets		**2,450**	2,450
Financial assets at fair value through profit or loss		**5,789**	5,960
		723,182	731,129
Current assets			
Inventories		**17,929**	13,976
Trade and other receivables	*9*	**13,776**	24,651
Financial assets at fair value through profit or loss		**16,489**	14,994
Tax recoverable		**2,505**	3,976
Bank balances and cash		**137,969**	126,115
		188,668	183,712
Current liabilities			
Bank borrowings, secured		**19,492**	21,893
Current portion of deferred income		**242**	221
Trade and other payables	*10*	**26,992**	35,847
Tax payable		**3,024**	–
Dividends payable		**7,302**	7,343
		57,052	65,304
Net current assets		**131,616**	118,408
Total assets less current liabilities		**854,798**	849,537
Non-current liabilities			
Long-term portion of consideration payable for acquisition of trademarks		**2,073**	2,073
Long-term portion of deferred income		**33,899**	32,076
Provision for directors' retirement benefits		**4,689**	4,204
Deferred taxation		**54,020**	54,482
		94,681	92,835
NET ASSETS		**760,117**	756,702
Capital and reserves			
Share capital		**15,582**	15,582
Share premium and reserves		**744,535**	741,120
TOTAL EQUITY		**760,117**	756,702

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 2018 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.

Annual Improvements Project – 2015-2017 Cycle

HKAS 12: Income tax consequences of payments on financial instruments classified as equity
The amendments clarify that (a) the income tax consequences of dividends are recognised in profit or loss, other comprehensive income or equity according to where the past transactions or events that generated the distributable profits were originally recognised and (b) these requirements apply to all income tax consequences of dividends as defined in HKFRS 9.

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

HK(IFRIC)-Int 23: Uncertainty over Income Tax Treatments

The Interpretation supports the requirements in HKAS 12: *Income Taxes* by specifying how to reflect the effects of uncertainty in accounting for income taxes.

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

Amendments to HKAS 19: Employee Benefits

The amendments require the use of updated assumptions to determine current service cost and net interest for the remainder of the reporting period after a change is made to a plan.

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

HKFRS 16: Leases

HKFRS 16 replaces HKAS 17: *Leases* and related Interpretations for annual periods beginning on or after 1 January 2019. It significantly changes, among others, the lessee accounting by replacing the dual-model under HKAS 17 with a single model which requires a lessee to recognise right-of-use assets and lease liabilities for the rights and obligations created by all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. HKFRS 16 also requires enhanced disclosures to be provided by lessees and lessors.

The Group has elected to use the transition practical expedient not to reassess whether a contract was, or contained, a lease at the date of initial application ("DIA") and the Group applied HKFRS 16 only to contracts that were previously identified as leases applying HKAS 17 and to contracts entered into or changed on or after the DIA that are identified as leases applying HKFRS 16.

As lessee

Before the adoption of HKFRS 16, lease contracts were classified as operating or finance lease in accordance with the Group's accounting policies applicable prior to the DIA.

Upon adoption of HKFRS 16, the Group accounted for the leases in accordance with the transition provisions of HKFRS 16 and the Group's accounting policies applicable from the DIA.

As lessee – leases previously classified as operating leases

The Group has recognised right-of-use assets and lease liabilities for leases previously classified as operating leases at the DIA, except for leases for which the underlying asset is of low value, and the Group has applied the practical expedients, not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the DIA, on a lease-by-lease basis.

At the DIA, except for those that were previously or will be accounted for as investment property using the fair value model, right-of-use assets were, on a lease-by-lease basis, measured at either,

(a) their carrying amount as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the DIA; or

(b) an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised immediately before the DIA.

As lessee – leases previously classified as finance leases

The Group measures the carrying amount of the right-of-use assets and lease liabilities at the DIA at the carrying amount of the lease assets and lease liabilities immediately before that date measured applying HKAS 17. The Group accounts for those leases applying HKFRS 16 from the DIA.

The leases classified as finance leases under HKAS 17 are the leasehold land and buildings of the Group that are held for rental or capital appreciation purpose. Such leases continue to be accounted for under HKAS 40: *Investment Property* and carried at fair value. Also, the leasehold land and buildings which are held for own use were classified as finance lease under HKAS 17 and continue to be accounted for under the revaluation model of HKAS 16: *Property, plant and equipment*. The adoption of HKFRS 16 therefore does not have any significant impact on these right-of-use assets and lease liabilities.

As lessor

The Group is not required to make any adjustments on transition for leases in which it is a lessor and those leases are accounted for by applying HKFRS 16 from the DIA.

The adoption of HKFRS 16 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 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 – 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 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 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 2019			
	Healthcare	**Property investments**	**Treasury investments**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
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 *(Note)*	**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**

	Year ended 31 December 2018			
	Healthcare	Property investments	Treasury investments	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	130,962	9,562	519	141,043
Segment results	40,911	19,337	(768)	59,480
Unallocated corporate expenses				(14,937)
Profit from operations				44,543
Finance costs				(820)
Profit before taxation				43,723
Taxation				(6,443)
Profit for the year				37,280
Assets				
Segment assets	486,896	345,359	78,114	910,369
Unallocated corporate assets				4,472
Consolidated total assets				914,841
Liabilities				
Segment liabilities	36,350	53,569	–	89,919
Unallocated corporate liabilities				68,220
Consolidated total liabilities				158,139
Other information				
Additions to non-current assets *(Note)*	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 (in other comprehensive income)	22,146	–	–	22,146
Net loss on financial assets at fair value through profit or loss	–	–	(890)	(890)

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 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**	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**84,134**	69,781	**31,350**	36,179
Macau	**16,642**	14,573	**10,407**	9,454
PRC	**11,450**	20,686	**(3,961)**	(4,451)
Southeast Asia	**23,335**	24,159	**8,481**	8,802
North America	**4,749**	3,445	**1,155**	1,981
United Kingdom	**6,453**	6,717	**7,914**	5,728
Other regions	**998**	1,682	**1,924**	(394)
Unallocated corporate expenses	**–**	–	**(12,252)**	(12,756)
	147,761	141,043	**45,018**	44,543

	Non-current assets *(Note)*	
	2019	2018
	HK$'000	*HK$'000*
Hong Kong	**545,811**	559,388
Southeast Asia	**13,686**	13,626
United Kingdom	**157,896**	152,155
	717,393	725,169

Note: Non-current assets exclude financial instruments.

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:

	2019	2018
	HK$'000	*HK$'000*
Customer A	**28,217**	25,650
Customer B	**21,751**	19,393
Customer C	**14,966**	14,982
Customer D	**16,940**	19,030
Customer E	**16,642**	14,646
Customer F	*	20,628
	98,516	114,329

* This customer individually contributed less than 10% of the total revenue from the Group's healthcare products segment.

3. REVENUE AND OTHER REVENUE

	2019	2018
	HK$'000	*HK$'000*
Revenue from contracts with customers within HKFRS 15		
Sale of Hoe Hin products		
– Fixed price	**56,643**	63,997
– Variable price	**79,968**	66,965
	136,611	130,962
Revenue from other sources		
Lease income under operating leases with fixed lease payments	**10,148**	9,562
Interest revenue calculated using the effective interest method from bank deposits	**1,002**	519
Revenue	**147,761**	141,043
Listed investments		
Dividend income from financial assets at FVPL	**333**	333
Gain on disposal of financial assets at FVPL	**7**	222
Other revenue	**340**	555
Total revenue	**148,101**	141,598

4. OTHER NET INCOME

	2019	2018
	HK$'000	*HK$'000*
Commission income	**25**	30
(Loss) Gain on disposal of property, plant and equipment	**(2)**	12
Sundry income	**188**	67
	211	109

5. PROFIT BEFORE TAXATION

This is stated after charging (crediting):

		2019	2018
		HK$'000	*HK$'000*
(a)	**Other operating expenses**		
	Advertising, promotion and event expenses*	**19,645**	20,527
	Auditor's remuneration	**490**	500
	Legal and professional fees	**1,446**	1,874
	Office and administrative expenses	**3,569**	2,939
	Production overhead	**2,671**	3,161
	Travelling and transportation	**1,545**	1,590
	Others	**3,441**	3,665
		32,807	34,256

* Included lease charges – short-term lease of advertising spaces of HK$2,186,000 *(2018: operating lease charges on advertising spaces of HK$6,080,000)*

		2019	2018
(b)	**Finance costs**		
	Interest on bank borrowings	**476**	540
	Interest on consideration payable for acquisition of trademarks	**280**	280
		756	820
(c)	**Other items**		
	Cost of inventories	**45,524**	46,963
	Contributions to defined contribution plan (included in staff costs)	**838**	829
	Gross rental income from investment properties less direct operating expenses of HK$212,000 *(2018: HK$860,000)*	**(9,936)**	(8,702)

6. TAXATION

The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime was signed into law and gazetted in March 2018. Under the two-tiered profits tax rates regime, 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.

	2019	2018
The charge comprises:	***HK$'000***	*HK$'000*
Current tax		
Hong Kong Profits Tax	**7,212**	5,490
Overseas tax	**1,048**	1,042
	8,260	6,532
Deferred taxation		
Origination and reversal of temporary differences	**(44)**	(89)
	8,216	6,443

Reconciliation of effective tax rate

	2019	2018
	%	*%*
Applicable tax rate in Hong Kong	**16.5**	16.5
Non-deductible expenses and losses	**2.2**	1.4
Non-taxable revenue and gains	**(1.5)**	(3.0)
Others	**1.4**	(0.2)
Effective tax rate for the year	**18.6**	14.7

7. DIVIDENDS

	2019	2018
	HK$'000	*HK$'000*
Attributable to the current year:		
Interim dividends of HK7.00 cents per share *(2018: HK6.55 cents)*	**21,815**	20,412
Final dividend of HK3.80 cents per share *(2018: HK3.80 cents)*	**11,842**	11,842
	33,657	32,254
Attributable to previous years, approved and paid during the year:		
Final dividend of HK3.80 cents per share *(2018: HK5.60 cents)*	**11,842**	17,452
Special dividend of nil cents per share *(2018: HK2.20 cents)*	**–**	6,856
	11,842	24,308

The final dividend for 2019 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. 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:

	2019	2018
	HK$'000	*HK$'000*
Profit attributable to owners of the Company	**36,046**	37,280

	2019	2018
Weighted average number of ordinary shares for basic earnings per share *('000)*	**311,640**	311,640
Earnings per share		
Basic and diluted	**HK11.6 cents**	HK12.0 cents

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 2019 and 2018.

9. TRADE AND OTHER RECEIVABLES

	Note	2019 HK$'000	2018 HK$'000
Trade receivables	*9(a)*	**9,835**	17,153
Bills receivables		**658**	4,018
Other receivables			
Deposits, prepayments and other debtors		**3,283**	3,480
		13,776	24,651

(a) Trade receivables

The Group allows credit period ranging from 30 days to 120 days *(2018: 30 days to 120 days)* to its customers. The ageing analysis of trade receivables by invoice date is as follows:

	2019 HK$'000	2018 HK$'000
Within 30 days	**9,835**	11,983
31 – 60 days	**–**	5,170
	9,835	17,153

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

	Note	**2019**	2018
		HK$'000	*HK$'000*
Trade payables		**5,120**	4,492
Other payables			
Accrued charges and other creditors		**3,775**	4,654
Accrued advertising and promotion expenses		**9,899**	7,908
Accrued rebates and discounts	*10(a)*	**8,198**	18,793
		21,872	31,355
		26,992	35,847

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

	2019	2018
	HK$'000	*HK$'000*
Within 30 days	**3,400**	4,453
31 – 60 days	**1,703**	1
61 – 90 days	**–**	–
More than 90 days	**17**	38
	5,120	4,492

(a) Accrued rebates and discounts

For the year ended 31 December 2019, there was a decrease in sales to chain-stores, through the direct customers of the Group thereby decreasing the estimated rebates and discounts to be payable; while for the year ended 31 December 2018, the increase was due to increase in sales to the selected customers entitled to purchase rebates.

At 31 December 2019 and 2018, no contract liabilities arising from rebate 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$93,325,000 *(2018: HK$94,318,000)*, of which HK$19,492,000 *(2018: HK$21,893,000)* were utilised at the end of the reporting period.

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

	2019	2018
	HK$'000	*HK$'000*
Leasehold land and buildings	**167,000**	166,000
Investment properties	**157,896**	152,155
	324,896	318,155

12. EVENTS AFTER THE REPORTING PERIOD

Domestic social unrest in the second half of 2019 had adversely affected tourist industry and the number of visitors reduced tremendously. With the outbreak of coronavirus at the end of 2019 which has now spread over 180 countries causing governments to take extreme preventive measures such as closure of borders and airports, stoppage of educational, social and commercial activities, closure of manufacturing facilities and compulsory quarantine etc., supply chain for various commodities, consumer goods and production materials is broken down to certain extent on a worldwide level affecting all industries.

Locally, the retail industry is struggling for survival and GDP is expected to plunge in the first quarter of 2020. The situation may continue or further worsen if the coronavirus outbreak is not controlled in the near future.

The Group is closely monitoring its inventory levels and is actively working with its suppliers for the continued supply of materials required to maintain its manufacturing activities. The inventories of raw materials and packing materials currently on hand are sufficient to support the Group's production for over three months at full capacity. Management is yet to assess the impact on the results and financial position subsequent to the reporting date if there is any disruption to the Group's supply chain.

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 2019.

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 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, Mazars CPA Limited, to the amounts set out in the Group's draft 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 (2018: HK3.8 cents per share) for the year ended 31 December 2019 payable to shareholders on the register of members of the Company on 10 July 2020.

Subject to approval of the proposed final dividend by the shareholders at the forthcoming annual general meeting of the Company to be held on 16 June 2020, the final dividend will be dispatched to the shareholders of the Company on or about 14 August 2020.

Closing of register of members

The register of members of the Company will be closed from Thursday, 11 June 2020 to Tuesday, 16 June 2020, 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 Wednesday, 10 June 2020.

The register of members of the Company will also be closed from Wednesday, 8 July 2020 to Friday, 10 July 2020, 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, 7 July 2020.

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 2019 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 2019.

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 2020

* *For identification purpose only*