



## PAK FAH YEOW INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 239)

### ANNOUNCEMENT OF ANNUAL RESULTS 2007

The board of directors (the “Board”) of Pak Fah Yeow International Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2007, together with comparative figures for the previous year as follows:

#### CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December	
		2007 HK\$'000	2006 HK\$'000
<b>Turnover</b>	2	<b>101,456</b>	100,090
Other revenue	3	<b>883</b>	656
Other net income		<b>287</b>	1,329
Changes in inventories of finished goods		<b>1,167</b>	(593)
Raw materials and consumables used		<b>(20,104)</b>	(17,471)
Staff costs		<b>(20,331)</b>	(22,019)
Depreciation and amortisation expenses		<b>(3,552)</b>	(3,544)
Revaluation surplus in respect of investment properties		<b>9,670</b>	15,694
Reversal of revaluation deficit in respect of properties other than investment properties		<b>5,905</b>	737
Revaluation deficit in respect of properties other than investment properties		<b>(134)</b>	(62)
Net exchange gain		<b>1,374</b>	1,992
Net (loss) gain on financial assets at fair value through profit or loss		<b>(193)</b>	957
Other operating expenses		<b>(27,332)</b>	(25,728)
<b>Profit from operations</b>		<b>49,096</b>	52,038
Finance costs	4	<b>(5,387)</b>	(4,538)
<b>Profit before taxation</b>	4	<b>43,709</b>	47,500
Taxation	5	<b>(7,703)</b>	(5,403)
<b>Profit for the year, attributable to equity holders of the Company</b>		<b>36,006</b>	42,097
<b>Dividends</b>	6	<b>37,700</b>	49,920
<b>Earnings per share</b>	7		
Basic		<b>13.8 cents</b>	16.2 cents

## CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2007	2006
	Notes	HK\$'000	HK\$'000
<b>Non-current assets</b>			
Investment properties		196,072	185,278
Property, plant and equipment		30,897	27,994
Prepaid lease payments for leasehold land		39,585	40,072
Available-for-sale financial assets		6,111	2,928
		<u>272,665</u>	<u>256,272</u>
<b>Current assets</b>			
Inventories		13,720	13,021
Trade receivables	8	18,787	15,042
Bills receivable		8,925	14,376
Deposits, prepayments and other debtors		5,774	3,537
Financial assets at fair value through profit or loss		28,221	26,963
Pledged bank deposits		33,569	40,711
Cash and cash equivalents		17,815	26,512
		<u>126,811</u>	<u>140,162</u>
<b>Current liabilities</b>			
Short-term bank loans, secured		65,386	60,960
Current portion of long-term bank loan, secured		1,521	1,386
Trade payables	9	3,574	1,502
Accrued charges and other creditors		6,607	6,552
Tax payable		874	3,545
Unclaimed dividends		6,766	7,249
		<u>84,728</u>	<u>81,194</u>
<b>Net current assets</b>		<u>42,083</u>	<u>58,968</u>
<b>Total assets less current liabilities</b>		<u>314,748</u>	<u>315,240</u>
<b>Non-current liabilities</b>			
Provision for long service payments		1,400	2,496
Provision for directors' retirement benefits		8,267	8,020
Long-term bank loan, secured		22,246	23,777
Deferred taxation		9,004	5,384
		<u>40,917</u>	<u>39,677</u>
<b>NET ASSETS</b>		<u><u>273,831</u></u>	<u><u>275,563</u></u>
<b>CAPITAL AND RESERVES</b>			
Share capital		13,000	13,000
Reserves		260,831	262,563
		<u><u>273,831</u></u>	<u><u>275,563</u></u>

Notes:

**1. Adoption of new/revised HKFRS**

The financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2006 financial statements except for the adoption of HKAS 1 (Amendment): Capital disclosures and HKFRS 7: Financial instruments: Disclosures that are effective from the current year.

**2. Segment information**

The Group is currently organised into three operating divisions – manufacturing and sale of Hoe Hin Brand of products, property investment and treasury investment.

The Group's operations are located in The Hong Kong Special Administrative Region ("Hong Kong") of the People's Republic of China (the "PRC"), other regions in the PRC, Southeast Asia, North America, United Kingdom and Europe (excluding United Kingdom). The Group's manufacturing division is located in Hong Kong. Property investment and treasury investment divisions are in various locations.

**Geographical segments**

The geographical locations of customers are the basis on which the Group reports its primary segment information.

	Year ended 31 December 2007							
	Hong Kong	Other	Southeast	North	United	Europe	Others	Consolidated
	HK\$'000	regions in the PRC	Asia	America	Kingdom	(excluding United Kingdom)	HK\$'000	HK\$'000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	<u>50,478</u>	<u>22,355</u>	<u>13,344</u>	<u>6,305</u>	<u>8,223</u>	<u>289</u>	<u>462</u>	<u>101,456</u>
Segment results	<u>43,537</u>	<u>3,139</u>	<u>7,232</u>	<u>3,471</u>	<u>1,171</u>	<u>1,870</u>	<u>(1,218)</u>	<u>59,202</u>
Unallocated corporate expenses								<u>(10,106)</u>
<b>Profit from operations</b>								<b>49,096</b>
Finance costs								<u>(5,387)</u>
<b>Profit before taxation</b>								<b>43,709</b>
Taxation								<u>(7,703)</u>
<b>Profit for the year</b>								<b><u>36,006</u></b>

Year ended 31 December 2006

	Hong Kong <i>HK\$'000</i>	Other regions in the PRC <i>HK\$'000</i>	Southeast Asia <i>HK\$'000</i>	North America <i>HK\$'000</i>	United Kingdom <i>HK\$'000</i>	Europe (excluding United Kingdom) <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Segment revenue</b>	<u>46,376</u>	<u>24,694</u>	<u>11,798</u>	<u>9,023</u>	<u>7,787</u>	<u>243</u>	<u>169</u>	<u>100,090</u>
<b>Segment results</b>	<u>24,742</u>	<u>7,091</u>	<u>8,271</u>	<u>5,990</u>	<u>18,981</u>	<u>779</u>	<u>(232)</u>	<u>65,622</u>
Unallocated corporate expenses								<u>(13,584)</u>
<b>Profit from operations</b>								<u>52,038</u>
Finance costs								<u>(4,538)</u>
<b>Profit before taxation</b>								<u>47,500</u>
Taxation								<u>(5,403)</u>
<b>Profit for the year</b>								<u><u>42,097</u></u>

**Business segments**

The following table provides an analysis of the Group's revenue and results from operations by business segment:

	<b>Segment revenue</b>		<b>Segment results</b>	
	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Manufacturing and sale of Hoe Hin				
Brand of products	<b>88,281</b>	87,532	<b>30,869</b>	36,067
Property investment – Rental income	<b>10,095</b>	9,129	<b>24,296</b>	23,757
Treasury investment – Interest income	<b>3,072</b>	3,428	<b>5,049</b>	6,826
Others	<b>8</b>	1	<b>(8)</b>	(58)
Unallocated corporate expenses	–	–	<b>(11,110)</b>	(14,554)
	<u><b>101,456</b></u>	<u>100,090</u>	<u><b>49,096</b></u>	<u>52,038</u>

**3. Other revenue**

	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$'000</i>
Listed investments:		
Dividend income from financial assets at fair value through profit or loss	<b>477</b>	499
Others	<b>406</b>	157
	<u><b>883</b></u>	<u>656</u>

#### 4. Profit before taxation

This is stated after charging (crediting):

##### (a) Finance costs

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	4,247	3,239
Interest on bank loan wholly repayable more than five years	1,140	1,299
	<u>5,387</u>	<u>4,538</u>

##### (b) Other items

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Cost of inventories	30,812	31,485
Provision for directors' retirement benefits	247	4,823
Gross rental income from investment properties less outgoings of HK\$324,000 (2006: HK\$452,000)	(9,747)	(8,677)
Gain on disposal of property, plant and equipment	(26)	(783)
Gain on disposal of an investment property	(878)	–
Depreciation and amortisation expenses:		
– Depreciation of property, plant and equipment	3,065	3,057
– Amortisation of prepaid lease payments for leasehold land	487	487
	<u>3,552</u>	<u>3,544</u>

## 5. Taxation

Hong Kong Profits Tax has been provided at the rate of 17.5% (2006: 17.5%) of the estimated assessable profits for the year. Overseas taxation has been provided on the estimated assessable profits for the year at the rates of taxation prevailing in the relevant jurisdictions.

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
The charge comprises:		
<b>Current tax</b>		
Hong Kong Profits Tax		
Current year	3,400	4,487
Over provision in prior years	–	(187)
	<u>3,400</u>	<u>4,300</u>
Overseas tax		
Current year	683	674
Over provision in prior years	–	(10)
	<u>683</u>	<u>664</u>
<b>Deferred taxation</b>	<u>3,620</u>	439
	<u><b>7,703</b></u>	<u><b>5,403</b></u>

## 6. Dividends

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Interim dividends of HK9.0 cents per share (2006: HK10.2 cents)	23,400	26,520
Special interim dividend of nil per share (2006: HK2.5 cents)	–	6,500
Final dividend of HK5.5 cents per share (2006: HK3 cents)	14,300	7,800
Special final dividend of nil per share (2006: HK3.5 cents)	–	9,100
	<u>37,700</u>	<u>49,920</u>

## 7. Earnings per share

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company for the year of HK\$36,006,000 (2006: HK\$42,097,000) and the 260,000,000 (2006: 260,000,000) ordinary shares in issue during the year.

Diluted earnings per share has not been presented as there were no dilutive events during the two years ended 31 December 2006 and 2007.

## 8. Trade receivables

The Group allows credit period ranging from 30 days to 240 days to its customers. The aged analysis of trade receivables is as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Within 30 days	16,740	8,508
31 – 60 days	287	5,620
61 – 90 days	1,760	896
More than 90 days	–	18
	<u>18,787</u>	<u>15,042</u>

## 9. Trade payables

The aged analysis of trade payables is as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Within 30 days	3,026	1,104
31 – 60 days	537	–
61 – 90 days	11	248
More than 90 days	–	150
	<u>3,574</u>	<u>1,502</u>

## 10. Pledge of assets

Certain of the Group's buildings situated on leasehold land, leasehold land interests, investment properties and securities were pledged to secure banking facilities, including bank loans, granted to the Group to the extent of HK\$136,478,000 (2006: HK\$88,360,000) of which HK\$89,153,000 (2006: HK\$86,123,000) were utilised at the balance sheet date.

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Buildings situated on leasehold land	7,520	7,840
Prepaid lease payments for leasehold land	30,743	31,004
Investment properties	130,503	134,112
Financial assets at fair value through profit or loss	2,745	–
	<u>171,511</u>	<u>172,956</u>

In addition, certain bank deposits and financial assets at fair value through profit or loss of HK\$33,569,000 (2006: HK\$40,711,000) and HK\$17,522,000 (2006: HK\$17,696,000) respectively were pledged to secure standby banking facilities granted to the Group to the extent of HK\$62,400,000 (2006: HK\$62,400,000).

## **CHAIRMAN'S STATEMENT**

### **Overview**

The Group's total turnover for the year ended 31 December 2007 reached HK\$101.5 million, representing an increase of 1.4% over the previous year. Profit attributable to shareholders was HK\$36.0 million, a decrease of 14.5%.

The Board proposes a final dividend of HK5.5 cents per share (2006: HK3 cents per share) subject to approval by shareholders at the forthcoming Annual General Meeting. These together with the interim dividends of HK9.0 cents per share already declared, will make a total dividend of HK14.5 cents per share for 2007 (2006: HK19.2 cents per share).

Despite the volatile financial markets that existed, the operating environment in most of our key markets basically remained static. Last year, we saw moderate sales growth in Hong Kong, and improvement in Singapore following new sole distributorship that commenced in September 2006. Mainland China, Philippines, Macau and United States remained to be our key markets which we input additional marketing resources in 2007. The expenditure spent is expected to strengthen market sentiment of our brand. We repositioned our product, Hoe Hin Strain Relief, and increased its promotional effort, which has achieved satisfactory brand awareness. We also commenced exporting the same to Singapore as promotional items preliminarily for testing market response.

Hong Kong property price experienced overall increase in 2007. However, the property price in United Kingdom fell as a result of commercial property yields moving out which had happened across the market. In addition, to streamline our investment portfolio we disposed of a non-core property in Mainland China in the second half of 2007.

### **Outlook**

While the Group follows strategy in market penetration for our existing products, strengthening our brand's market presence and developing new markets are crucial for future growth.

The introduction of our new Fúzǎi 239, which was firstly launched in charity booth for Chinese New Year, was well received by customers. Our previous floral-scented Pak Fah Yeow has been repacked to and replaced by a new product line for Fúzǎi 239 to be available for sales in major chain stores and drugstores in Hong Kong. To fortify the success of school touring last year, we are planning to organise a new school touring drama to aim at promoting the message "Harmfulness of being an Addict" to induce students to spend less time on computer games and online activities. We expect the above would rejuvenate our brand image to younger generations.



We are planning to resume the Indonesian market and had authorised a new potential distributor to apply for relevant licenses. Hopefully, sale to Indonesia can recommence in the second half of this year. The production work will be subcontracted to our distributor in Philippines for lower production costs in order to cope with competitive prices in Indonesia. We are also looking for a new distributor to take over our Canadian market and we hope that this change would help to broaden our sales channels to cover the Canadian mainstream market. Meanwhile, we are exploring opportunities to develop new markets in Vietnam, Myanmar and India.

### **Appreciation**

I would like to take this opportunity to thank all directors and staff members for their dedication and hard work and to the investors and business partners for their continuous support.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Summary**

For the year ended 31 December 2007, the Group's turnover slightly increased by 1.4% to HK\$101,456,000 (2006: HK\$100,090,000) as a result of increased contributions from sales of Hoe Hin brand of products and rental income, slightly offset by the decrease in income derived from treasury investment.

Revaluation surplus of the Group's investment properties was HK\$9,670,000 (2006: HK\$15,694,000), including a deficit of HK\$6,642,000 (2006: a surplus of HK\$11,384,000) which related to the Group's investment properties in the United Kingdom.

The revaluation of other properties has resulted in a net revaluation gain in this year of HK\$5,771,000 (2006: HK\$675,000).

Profit for the year ended 31 December 2007 was approximately HK\$36,006,000 (2006: HK\$42,097,000).

### **Manufacturing and sales of Hoe Hin Brand of products**

Revenue from sales of Hoe Hin brand of products continued to be the major source of revenue for the Group. The segment revenue slightly increased by 0.9% to HK\$88,281,000 (2006: HK\$87,532,000).

Hong Kong remained the major market of our Hoe Hin brand of products which accounts for about 56.4% of the segment revenue. Mainland China accounts for about 24.2%. Sales in Hong Kong had slightly increased by 2.2%. Other than Philippines, Thailand, Singapore and Malaysia markets, which have in total contributed approximately 12.3% of the segment revenue, growth in other foreign countries has either slowed down or is insignificant. Sales to Singapore had improved, following commencement of a new sole distributorship in Singapore in September 2006.

Segment profit decreased by 14.4% to HK\$30,869,000 (2006: HK\$36,067,000), mainly due to increased marketing expenses, partly offset by less year-end bonus to staff. Certain promotional and advertising activities planned for the year 2006 were rescheduled and held in 2007 for celebrating our 80th anniversary.

### **Property investment**

Revenue for this segment increased by 10.6% to HK\$10,095,000 (2006: HK\$9,129,000). This change mainly represents increased rental income in Hong Kong and the United Kingdom and the increase in average exchange rate in translating foreign rental income.

Segment profit was positively affected by the increase in rental income as mentioned above and the gain on disposal of an investment property in the PRC of HK\$878,000. However, the effect was partially offset by the decrease in revaluation surplus arising from investment properties and a net change of revaluation gain from other properties.

As a result, the segment profit increased by 2.3% to HK\$24,296,000 (2006: HK\$23,757,000).

The Group owns several investment properties in United Kingdom, Singapore and Hong Kong. Rental income from these properties continue to provide a steady stream of turnover and profit for the Group.

### **Treasury investment**

The Group continues the prudent management of its fund and continues to maintain a strong liquidity with sufficient cash.

Revenue derived from this segment decreased by 10.4% to HK\$3,072,000 (2006: HK\$3,428,000), primarily due to less fund being invested for foreign exchange transactions and bank balances. The segment results decreased to a profit of HK\$5,049,000 (2006: HK\$6,826,000), mainly attributable to less contribution from segment revenue and decreased net fair value changes on listed investments as a result of decline in market prices.

### **Finance costs**

The increase of HK\$849,000 (18.7%) to HK\$5,387,000 was mainly due to higher market interest rate comparing to the same period in previous year.

### **Taxation**

There was an increase in tax provision from HK\$5,403,000 to HK\$7,703,000 for the year, principally due to an increase in deferred tax provision relating to valuation gains on investment properties, partly offset by decrease in taxable operating profit of subsidiaries in Hong Kong.

### **Financial Resources and Treasury Policies**

The Group continues to adhere to prudent treasury policies. Gearing ratio (interest-bearing borrowings divided by total shareholders funds) as at 31 December 2007 was 32.6% (2006: 31.3%). Total bank borrowings of the Group amounted to HK\$89,153,000 (2006: HK\$86,123,000), mainly denominated in British pound sterling and Hong Kong dollars with floating interest rates. The increase in borrowings was mainly due to the short-term borrowings and overdrafts to finance certain equity investments and foreign exchange translation difference.

Current ratio (current assets divided by current liabilities) was 1.5 as at 31 December 2007 (2006: 1.7). The Group holds sufficient cash and marketable securities on hand to meet its 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 United Kingdom and denominated in British pound sterling. As at 31 December 2007, the Group's debt borrowings were mainly denominated in Hong Kong dollars and British pound sterling. The Group also had equity and debt securities denominated in other 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. The currency risk for debt borrowings is minimal as they are either denominated in Hong Kong dollars or the currency of the underlying pledged assets. Other than United States dollars whose exchange rate 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 2007 were approximately HK\$43.4 million in total, or about 10.9% of the Group's total assets.

The Group may use suitable financial instruments to protect the downside risks associated with the price movement due to the timing of anticipated expenditure.

### **Employees and Remuneration Policies**

As at 31 December 2007, the Group had a total of 101 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. The Company also has a share option scheme for the benefit of its directors and eligible employees of the Group. No option has been granted under the scheme since its adoption.

## **OTHER SUPPLEMENTARY INFORMATION**

### **Audit Committee Review**

The Audit Committee has 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 2007.

### **Scope of work of Mazars CPA Limited**

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2007 have been agreed by the Group's auditors, 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 HK5.5 cents (2006: HK3 cents) per share for the year ended 31 December 2007 (subject to approval by the shareholders in the forthcoming annual general meeting) payable to shareholders on the register of members of the Company on 26 June 2008. Dividend warrants will be dispatched to the shareholders on or about 4 July 2008.

### **Closing of register of members**

The register of members will be closed from Monday, 23 June 2008 to Thursday, 26 June 2008, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrars, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 20 June 2008.

### **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.

### **Code on Corporate Governance Practices**

The Company adopted all the code provisions in the Code on Corporate Governance Practices ("the Code") contained in Appendix 14 of 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 Code during the year ended 31 December 2007 except the code provision B.1.3. The term of reference of the remuneration committee provides the discharge of certain specific duties by the remuneration committee. No remuneration committee meeting was held during the year. The remuneration committee held its meeting on 17 March 2008 to discuss and approve, inter alia, the remuneration of executive directors and senior management, and director's fee of all members of the board.

### **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 2007.

### **Board of Directors**

As at the date of this announcement, (i) the executive directors of the Company are Messrs. Gan Wee Sean and Gan Fock Wai, Stephen; and (ii) 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  
**Gan Wee Sean**  
*Chairman*

Hong Kong, 23 April 2008