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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 2017

HIGHLIGHTS

- Revenue down 2.4% year-on-year, attributable to decreased sales contribution from Healthcare business.
- Underlying Recurring Profit, the performance indicator of the Group, up 2.8% year-on-year, reflecting improved performance on foreign currency transactions.
- Reported Profit up 67.6%, mainly attributable to fair value changes on investment properties.
- Our financial position remains strong and we are well positioned to meet any challenges ahead, while maintaining focus on our business strategies.

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 2017, together with comparative figures for the previous year:

RESULTS SUMMARY

	<i>Notes</i>	Year ended 31 December		Change
		2017	2016	
		HK\$'000	<i>HK\$'000</i>	
Revenue	1	178,269	182,604	-2.4%
Reported profit	2	102,589	61,199	+67.6%
Underlying recurring profit	3	63,469	61,753	+2.8%
		HK cents	<i>HK cents</i>	
Earnings per share:				
Reported profit	4	32.9	19.6	+67.9%
Underlying recurring profit		20.4	19.8	+3.0%
Total dividends per share	4	14.85	12.5	+18.8%
		At 31 December		
		2017	2016	
		HK\$'000	<i>HK\$'000</i>	
Shareholders' funds	5	748,508	633,512	+18.2%
		HK\$	<i>HK\$</i>	
Net asset value per share	6	2.40	2.03	+18.2%

- Notes:*
- Revenue represents revenue derived from the three business segments, namely healthcare ("Healthcare"), property investments ("Property Investments") and treasury investments ("Treasury Investments").
 - Reported profit ("Reported Profit") is the profit attributable to owners of the Company, which is prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.
 - Underlying recurring profit ("Underlying Recurring Profit") reflects the Group's performance of the three business segments and is arrived at by excluding from Reported Profit the unrealised fair value changes of financial assets at fair value through profit or loss and of investment properties, and the items that are non-recurring in nature.
 - The basic and diluted earnings per share and the total dividends per share are calculated using the weighted average number of ordinary shares in issue during the year.
 - Shareholders' funds are the equity attributable to owners of the Company, which is equivalent to the total equity as presented in the Company's consolidated statement of financial position.
 - Net asset value per share represents shareholders' funds divided by the number of ordinary shares of the Company in issue as at the year end date.

CHAIRMAN'S STATEMENT

Dear fellow shareholders,

Overview

The Group's total revenue for the year 2017 was HK\$178.3 million, representing a year-on-year decline of 2.4%. We saw decreased sales contributions from Healthcare business, mainly attributable to stagnant performance in Hong Kong market. Underlying Recurring Profit, the performance indicator of the Group, was up 2.8% to HK\$63.5 million (2016: HK\$61.8 million). The improved performance on foreign currency transactions contributed to such increase.

Reported Profit for 2017 up 67.6% to HK\$102.6 million (2016: HK\$61.2 million), primarily due to, amongst others as mentioned above, net unrealised fair value gains of investment properties.

Dividends

The Board proposes a final dividend of HK5.6 cents per share (2016: HK5.6 cents per share) and a special dividend of HK2.2 cents per share (2016: Nil) for the year ended 31 December 2017, subject to approval by shareholders at the forthcoming annual general meeting of the Company. These together with the interim dividends of HK7.05 cents per share (2016: HK6.9 cents per share) already declared, will make total dividends of HK\$46.3 million for 2017 (2016: HK\$39.0 million).

Business

Global economy continued to improve modestly in 2017, despite uncertainty over geopolitical tensions and instability. Hong Kong economy also improved due to favourable job and income conditions as well as revival in visitor arrivals. High property and stock prices further added positive sentiment to local consumption. Inflationary pressure was moderate amid sustained economic growth and imported inflation. United States Dollars continued to weaken despite the interest rate normalisation, leading to relative improvement of other major currencies in 2017. Pound Sterling was thus stronger, giving positive impact on the assets and income denominated in Pound Sterling.

Despite improvement in domestic spending and revival in visitor arrivals in Hong Kong, weak spending power at healthcare sector of Mainland visitors continued to affect spending pattern at retail level, leading to lower-than-expected result in Hong Kong market. On the other hand, the steady growth of mainland travellers in Macau contributed a sales enhancement for the market in 2017. In addition, our focus on market penetration in Mainland China continued to contribute to the sales growth. It is expected such trends would remain stable in the coming year.

Southeast Asian markets had shown steady results in 2017, except that we saw a decrease in orders from Indonesia due to new regulations in place to restrict overseas products. South Korea remained the largest contributor to the sales growth in other markets. As mentioned in our Interim Report 2017, our products, Hoe Hin Pak Fah Yeow and Fuzai 239, were newly listed in 800 stores of Olive Young, one of the biggest chain stores in South Korea, and the satisfactory sales performance indicated preliminary acceptance by local customers.

Our rental income increased slightly in 2017. A number of outstanding rent reviews of our properties in the United Kingdom (the “UK Properties”) were finally agreed in 2017 which generated retrospective rental income in 2017. Coupled with increased average exchange rate in translating the rental income, rental income from the UK Properties increased 25.7% to HK\$7.4 million. However, such increase was almost offset by less rental income in Hong Kong due to less occupancy rate. The fair value assessment of our investment properties as at year-end 2017 resulted in a net unrealised fair value gain of HK\$35.4 million (2016: loss of HK\$1.3 million). A general positive office outlook in Hong Kong and an improving retail rental outlook in London contributed to such gain.

Outlook

Looking forward, 2018 will remain to be a challenging year with increases in pricing of raw materials and a weaker US currency may ultimately affect the overall profit margin. Weak spending power at healthcare sector of Mainland visitors may continue to affect sales performance in Hong Kong. To cope with these challenges, new marketing strategy will be adopted in 2018 to redirect our object of target customers from mainlanders to local customers and tourists in general. We will also establish a customer relationship program focusing on local drugstores to further improve our relationship with the local pharmaceutical business practitioners. For other markets, we will focus further concentration in markets such as South Korea and Mainland China to look for growth opportunities. We intend to centralise our resources in further developing the existing potential markets, mainly Guangdong, Zhejiang, Fuzhou, Jiangsu and Guangxi, to generate sales in the first place instead of expanding our distribution network with a hectic schedule. We will also introduce a new marketing strategy to establish our communication with local salespersons throughout the country by running a live Wechat program to conduct product trainings comprehensively.

With interest coverage of 96.3 times (2016: 91.3 times) and debt-to-equity ratio of 3.6% (2016: 4.3%), our financial position remains strong and we are well positioned to meet any challenges ahead, while maintaining focus on our business strategies.

Appreciation

I would like to thank our board members, the management team and our staff for their dedication and commitment as well as our shareholders, business partners, suppliers and customers for their continued support.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

The Group's revenue was HK\$178,269,000 in 2017, a decline of 2.4% from HK\$182,604,000 in 2016 mainly attributable to decreased sales contributions from Healthcare in Hong Kong market. Revenue of each business segment is as follows:

	2017	2016	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Healthcare	167,819	172,055	-2.5
Property investments	10,002	9,992	+0.1
Treasury investments	448	557	-19.6
	<u>178,269</u>	<u>182,604</u>	-2.4

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\$63,469,000, up 2.8% from HK\$61,753,000 year-on-year. This mainly reflected stagnant performance of Healthcare in Hong Kong market, but compensated by improved performance on foreign currency transactions. Earnings per share of Underlying Recurring Profit was HK20.4 cents, up 3.0% from HK19.8 cents in 2016.

Reported Profit for 2017 up 67.6% to HK\$102,589,000 (2016: HK\$61,199,000), primarily due to unrealised fair value gain on the Group's investment properties in Hong Kong and the United Kingdom. Earnings per share of Reported Profit was HK32.9 cents, up 67.9% from HK19.6 cents in 2016.

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	Change %
Underlying Recurring Profit	63,469	61,753	+2.8
Unrealised fair value changes of:			
Financial assets	2,816	749	
Investment properties:			
United Kingdom	2,710	(4,243)	
Others	32,712	2,940	
Items that are non-recurring in nature:			
Compensation income	882	–	
Reported Profit	102,589	61,199	+67.6

The revaluation of other properties, which is accounted for as other comprehensive income, has resulted in a net revaluation surplus in 2017 of HK\$42,425,000 (2016: HK\$6,270,000).

Total comprehensive income attributable to owners for 2017 was approximately HK\$154,419,000 (2016: HK\$48,077,000).

OPERATIONS REVIEW

Healthcare

Revenue from Healthcare segment declined by 2.5% to HK\$167,819,000 (2016: HK\$172,055,000). Revenue of each geographical segment is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	Change %
Hong Kong	96,342	106,230	-9.3
Macau	14,928	13,898	+7.4
Mainland China	26,703	23,507	+13.6
Southeast Asia	22,454	23,865	-5.9
North America	4,286	3,639	+17.8
Others	3,106	916	+239.1
Segment revenue	167,819	172,055	-2.5
Segment profit	79,070	81,456	-2.9

Despite visitor arrivals resuming growth gradually in 2017, weak spending power at healthcare sector of Mainland visitors continued to affect spending pattern at retail level. Sales contribution from Hong Kong decreased remarkably by 9.3% from HK\$106,230,000 to HK\$96,342,000, while Macau improved slightly comparing to the same period in 2016. Growth path in Mainland China continued to pick up modestly and market penetration expanded with successful product listing to new drugstore chains in 2017.

Sales in Southeast Asia saw a slight decline in 2017 compared to 2016 largely attributable to a decrease in orders from Indonesia due to a change in the customs and import regulations in the country that restricted the import of overseas products. The situation in this market is expected to return to normal in 2018. Other Southeast Asian markets had shown steady results throughout the year.

Results in South Korea had been encouraging with a satisfactory performance in this territory which contributed to the increase in revenue of other markets. Further focus and new strategies will be deployed to enhance the coverage of the Group's products to existing and new retail outlets and locations.

Underlying Recurring Segment Result, which excludes from the segment result the unrealised fair value changes of financial assets and of investment properties and the items that are non-recurring in nature, was a profit of HK\$78,188,000, down 4.0% from HK\$81,456,000 in 2016. This reflected stagnant performance in Hong Kong market. The overall profit margin for 2017 was also lower as compared to 2016 due to product mix sold and increased raw materials and production costs.

Segment result for 2017 declined by 2.9% to HK\$79,070,000 (2016: HK\$81,456,000). A non-recurring compensation was received from a distributor in 2017.

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	Change %
Underlying Recurring Segment Result	78,188	81,456	-4.0
Items that are non-recurring in nature:			
Compensation income	<u>882</u>	<u>–</u>	
Segment result – profit	<u>79,070</u>	<u>81,456</u>	-2.9

Property Investments

Revenue for this segment increased by 0.1% to HK\$10,002,000 (2016: HK\$9,992,000). This change mainly represents increased rental income derived in the United Kingdom as a result of recognition of rental income in respect of previous years for a series of outstanding rent reviews as well as increased average exchange rate in translating rental income, partly offset by less rental income in Hong Kong due to less occupancy rate. Revenue of each geographical segment is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	Change %
Hong Kong – office and residential	2,392	3,902	-38.7
Singapore – industrial	221	213	+3.8
United Kingdom – retail/residential	<u>7,389</u>	<u>5,877</u>	+25.7
Segment revenue	<u>10,002</u>	<u>9,992</u>	+0.1
Segment result – profit	<u>43,660</u>	<u>7,301</u>	+498.0

For the year 2017, segment revenue of about 23.9%, 2.2% and 73.9% (2016: 39.1%, 2.1% and 58.8%) were derived from investment properties in Hong Kong, Singapore and United Kingdom respectively. Occupancy rate was 92.3% (2016: 100%) let in 2017.

Underlying Recurring Segment Result was a profit of HK\$8,238,000 down 4.3% from HK\$8,604,000 in 2016. Property expenses ratio as a percentage of segment revenue increased to 17.6% in 2017 (2016: 13.9%). Both Underlying Recurring Segment Result and the property expenses ratio for 2017 reflected a higher proportional property expenses due to a lower occupancy rate.

Segment result for 2017 increased by 498% to HK\$43,660,000 (2016: HK\$7,301,000), mainly attributable to unrealised revaluation gain of HK\$35,422,000 (2016: loss of HK\$1,303,000) was recognised for the Group's investment properties. This reflected a general positive office outlook in Hong Kong and an improving retail rental outlook in London.

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	Change %
Underlying Recurring Segment Result	8,238	8,604	-4.3
Unrealised fair value changes of investment properties:			
United Kingdom	2,710	(4,243)	
Hong Kong and Singapore	32,712	2,940	
	<u>43,660</u>	<u>7,301</u>	+498.0
Segment result – profit	43,660	7,301	+498.0

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 19.6% to HK\$448,000 (2016: HK\$557,000), primarily due to holding less debt securities during the year. Underlying Recurring Segment Result improved to a profit of HK\$2,476,000 (2016: loss of HK\$318,000). Such improvement reflected improved performance on foreign currency transactions, partly offset by the decreased interest income as aforesaid.

The segment result improved to a profit of HK\$5,292,000 (2016: HK\$431,000), mainly attributable to, amongst others as mentioned above, improved unrealised fair value changes on listed investments.

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	Change %
Underlying Recurring Segment Result	2,476	(318)	+878.6
Unrealised fair value changes of financial assets	2,816	749	
Segment result – profit	<u>5,292</u>	<u>431</u>	+1127.8

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 10.4% from HK\$30,645,000 to HK\$33,838,000. This mainly reflected annual salary increment and increased provision for management bonus of executive directors.

Other Operating Expenses

Other operating expenses slightly decreased by 0.9% to HK\$36,141,000 (2016: HK\$36,480,000). Other operating expenses ratio as a percentage of total revenue slightly increased to 20.3% in 2017 (2016: 20.0%).

Finance Costs

Finance costs decreased by 4.6% to HK\$784,000 (2016: HK\$822,000), 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 96.2 in 2017 (2016: 91.6).

Taxation

Decrease in taxation from HK\$12,704,000 to HK\$10,314,000 was principally a net effect of: a decline in taxable operating profit of subsidiaries in Hong Kong; and an increase in taxable operating profit of an overseas subsidiary.

Investment Properties

The Group's investment properties were valued at 31 December 2017 by Memfus Wong Surveyors Limited (for Hong Kong), Hilco Appraisal Singapore Pte Limited (for Singapore) and Savills (UK) Limited (for United Kingdom), independent professional valuers, on a fair value basis. The valuation as at year-end 2017 was HK\$340,961,000, an increase of 17.2% from HK\$290,993,000 as at year-end 2016. Such increase mainly reflected an improved prospect of property markets in Hong Kong. For the Group's investment properties in the United Kingdom, there are two principal elements in the valuation – firstly the value of the retail units, and secondly the value attributable to the residential units which was sold on long leases. The value of the retail units had risen due to the rental review settlements that had taken place during the course of 2017 and a longer unexpired term on account of a new 10 year reversionary lease to an existing tenant. Conversely, the value of the residential units had reduced as a number of flats having had lease extensions over the course of 2017. The Group, as the freeholder, would have been compensated for these lease extensions and taking into account the two elements, the valuation gave a net fair value gain. The valuation of properties in each geographical segment as at the year-end date is as follows.

	2017		2016		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\$168,109	168,109	HK\$136,350	136,350	+23.3
Singapore – industrial	S\$1,950	11,390	S\$1,950	10,438	+9.1
United Kingdom – retail/residential	GBP15,370	161,462	GBP15,100	144,205	+12.0
		<u>340,961</u>		<u>290,993</u>	+17.2

Unrealised fair value gain on investment properties of HK\$35,422,000 (2016: loss of HK\$1,303,000) was recognised for 2017.

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 2017 was 3.6% (2016: 4.3%). Total bank borrowings of the Group amounted to HK\$26,660,000 (2016: HK\$27,463,000), mainly denominated in Pound Sterling and Hong Kong Dollars with floating interest rates.

Current ratio (current assets divided by current liabilities) was 2.98 as at 31 December 2017 (2016: 2.63). 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 2017, 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 2017 were approximately HK\$33.3 million (2016: HK\$27.7 million) in total, or about 3.7% (2016: 3.6%) 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\$139.8 million (2016: HK\$123.8 million) relating to carrying amount of the properties investments in the United Kingdom.

PLEDGE OF ASSETS

As at 31 December 2017, certain of the Group's leasehold land and buildings, and investment properties, with an aggregate carrying value of approximately HK\$317.5 million (2016: HK\$271.2 million) were pledged to secure banking facilities granted to the Group to the extent of approximately HK\$97.0 million (2016: HK\$96.4 million), of which approximately HK\$26.7 million (2016: HK\$27.5 million) were utilised as at 31 December 2017.

CONTINGENT LIABILITIES

As at 31 December 2017, 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 2017, the Group had a total of 95 (2016: 93) 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>	Year ended 31 December	
		2017	2016
		HK\$'000	HK\$'000
Revenue	3	178,269	182,604
Other revenue	3	618	555
Other net income	4	2,190	458
Changes in inventories of finished goods		(60)	(1,763)
Raw materials and consumables used		(35,087)	(34,255)
Staff costs		(33,838)	(30,645)
Depreciation expenses		(2,081)	(2,268)
Net exchange gain (loss)		1,579	(2,927)
Other operating expenses		(36,141)	(36,480)
		<hr/>	<hr/>
Profit from operations before fair value changes of financial assets through profit or loss and of investment properties		75,449	75,279
Net gain on financial assets at fair value through profit or loss		2,816	749
Revaluation surplus (deficit) in respect of investment properties		35,422	(1,303)
		<hr/>	<hr/>
Profit from operations		113,687	74,725
Finance costs		(784)	(822)
		<hr/>	<hr/>
Profit before taxation	5	112,903	73,903
Taxation	6	(10,314)	(12,704)
		<hr/>	<hr/>
Profit for the year, attributable to owners of the Company		102,589	61,199
		<hr/>	<hr/>

		Year ended 31 December	
		2017	2016
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Revaluation surplus of leasehold land and buildings, net of tax effect of HK\$8,384,000 (2016: HK\$1,239,000)		<u>42,425</u>	<u>6,270</u>
<i>Items that are reclassified or may be reclassified subsequently to profit or loss:</i>			
Reclassification adjustment relating to disposal of available-for-sale financial assets		(1,260)	–
Changes in fair value of available-for-sale financial assets		539	237
Exchange difference arising from translation of financial statements of overseas subsidiaries		13,836	(26,681)
Exchange difference arising from translation of inter-company balances with overseas subsidiaries representing net investments		<u>(3,710)</u>	<u>7,052</u>
		<u>9,405</u>	<u>(19,392)</u>
Other comprehensive income (loss) for the year, net of tax, attributable to owners of the Company		<u>51,830</u>	<u>(13,122)</u>
Total comprehensive income for the year, attributable to owners of the Company		<u>154,419</u>	<u>48,077</u>
Earnings per share			
Basic and diluted	8	<u>32.9 cents</u>	<u>19.6 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Non-current assets			
Investment properties		340,961	290,993
Property, plant and equipment		359,133	309,069
Intangible assets		2,450	2,450
Available-for-sale financial assets		6,241	8,381
		708,785	610,893
Current assets			
Inventories		14,635	12,646
Trade and other receivables	9	34,829	53,450
Financial assets at fair value through profit or loss		18,465	23,794
Tax recoverable		1,340	–
Bank balances and cash		120,722	63,083
		189,991	152,973
Current liabilities			
Bank borrowings, secured		26,660	27,463
Current portion of deferred income		215	171
Trade and other payables	10	29,584	22,898
Tax payable		–	515
Dividends payable		7,249	7,187
		63,708	58,234
Net current assets		126,283	94,739
Total assets less current liabilities		835,068	705,632
Non-current liabilities			
Long-term portion of consideration payable for acquisition of trademarks		2,073	2,074
Long-term portion of deferred income		30,578	24,470
Provision for long service payments		–	659
Provision for directors' retirement benefits		3,715	3,020
Deferred taxation		50,194	41,897
		86,560	72,120
NET ASSETS		748,508	633,512
Capital and reserves			
Share capital		15,582	15,582
Share premium and reserves		732,926	617,930
TOTAL EQUITY		748,508	633,512

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 2016 consolidated financial statements. The adoption of new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) that are relevant to the Group and effective from the current year had no significant effect on the results and financial position of the Group for the current and prior years.

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, 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 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 2017

	Healthcare <i>HK\$'000</i>	Property investments <i>HK\$'000</i>	Treasury investments <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue from external customers	<u>167,819</u>	<u>10,002</u>	<u>448</u>	<u>178,269</u>
Segment results	<u>79,070</u>	<u>43,660</u>	<u>5,292</u>	128,022
Unallocated corporate expenses				<u>(14,335)</u>
Profit from operations				113,687
Finance costs				<u>(784)</u>
Profit before taxation				112,903
Taxation				<u>(10,314)</u>
Profit for the year				<u>102,589</u>
Assets				
Segment assets	482,184	342,083	72,763	897,030
Unallocated corporate assets				<u>1,746</u>
Consolidated total assets				<u>898,776</u>
Liabilities				
Segment liabilities	27,749	54,221	–	81,970
Unallocated corporate liabilities				<u>68,298</u>
Consolidated total liabilities				<u>150,268</u>
Other information				
Additions to non-current assets (<i>note</i>)	1,476	3	–	1,479
Depreciation expenses	1,996	85	–	2,081
Revaluation surplus in respect of investment properties	–	35,422	–	35,422
Revaluation surplus of leasehold land and buildings	50,809	–	–	50,809
Net gain on financial assets at fair value through profit or loss	–	–	2,816	2,816

	Year ended 31 December 2016			
	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	172,055	9,992	557	182,604
Segment results	81,456	7,301	431	89,188
Unallocated corporate expenses				(14,463)
Profit from operations				74,725
Finance costs				(822)
Profit before taxation				73,903
Taxation				(12,704)
Profit for the year				61,199
Assets				
Segment assets	411,542	291,336	60,460	763,338
Unallocated corporate assets				528
Consolidated total assets				763,866
Liabilities				
Segment liabilities	23,126	46,383	–	69,509
Unallocated corporate liabilities				60,845
Consolidated total liabilities				130,354
Other information				
Additions to non-current assets (<i>note</i>)	100	263	–	363
Depreciation expenses	2,123	145	–	2,268
Revaluation deficit in respect of investment properties	–	1,303	–	1,303
Revaluation surplus of leasehold land and buildings	7,509	–	–	7,509
Net gain on financial assets at fair value through profit or loss	–	–	749	749

Geographical information

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

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

	Revenue from external customers		Results from operations	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Hong Kong	98,926	110,076	87,729	66,304
Macau	14,928	13,898	10,366	9,102
PRC	26,741	23,567	3,805	890
Southeast Asia	22,890	24,609	11,374	7,467
North America	4,286	3,639	1,845	1,863
United Kingdom	7,392	5,879	9,686	1,491
Other regions	3,106	936	2,282	515
Unallocated corporate expenses	–	–	(13,400)	(12,907)
	178,269	182,604	113,687	74,725

The following table is an analysis of non-current assets (*note*) by geographical locations:

	2017 HK\$'000	2016 HK\$'000
Hong Kong	527,242	445,419
Macau	–	–
PRC	–	–
Southeast Asia	13,840	12,888
North America	–	–
United Kingdom	161,462	144,205
Other regions	–	–
	702,544	602,512

Note: Non-current assets exclude financial instruments.

Information about major customers

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Customer A	96,466	106,163
Customer B	26,703	23,507
	<u>123,169</u>	<u>129,670</u>

3. REVENUE AND OTHER REVENUE

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Sale of Hoe Hin products	167,819	172,055
Rental income	10,002	9,992
Interest income from bank deposits	448	538
Interest income from debt securities	–	19
Revenue	<u>178,269</u>	<u>182,604</u>
Listed investments:		
Dividend income from financial assets at fair value through profit or loss	363	450
Gain on disposal of financial assets at fair value through profit or loss	255	105
Other revenue	<u>618</u>	<u>555</u>
Total revenue	<u>178,887</u>	<u>183,159</u>

4. OTHER NET INCOME

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Commission received	35	24
Forfeiture of rental deposit	1	330
Gain on disposal of property, plant and equipment	178	13
Gain on disposal of available-for-sale financial assets	854	–
Compensation income	882	–
Sundry income	240	91
	<u>2,190</u>	<u>458</u>

5. PROFIT BEFORE TAXATION

This is stated after charging (crediting):

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
(a) Finance costs		
Interest on bank borrowings	504	542
Interest on consideration payable for acquisition of trademarks	280	280
	<u>784</u>	<u>822</u>
	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
(b) Other items		
Auditor's remuneration	500	493
Cost of inventories	51,530	50,975
Contributions to defined contribution plan	819	792
Operating lease charges on advertising spaces	3,012	2,157
Gain on disposal of property, plant and equipment	(177)	(13)
Gross rental income from investment properties less direct operating expenses of HK\$892,000 (2016: HK\$424,000)	<u>(9,111)</u>	<u>(9,568)</u>

6. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits of the Group for the year. 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.

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
The charge comprises:		
Current tax		
Hong Kong Profits Tax	9,204	11,924
Overseas tax	1,197	748
	<u>10,401</u>	<u>12,672</u>
Deferred taxation		
Current year	(87)	32
	<u>10,314</u>	<u>12,704</u>
Reconciliation of effective tax rate		
	2017	2016
	%	%
Applicable tax rate in Hong Kong	16.5	16.5
Non-deductible expenses and losses	(0.4)	0.9
Non-taxable revenue and gains	(5.7)	(0.3)
Utilisation of deductible temporary differences previously not recognised	–	(2.3)
Utilisation of previously unrecognised tax losses	(1.5)	–
Unrecognised temporary differences	–	(0.1)
Unrecognised tax losses	–	2.3
Others	0.2	0.2
	<u>9.1</u>	<u>17.2</u>
Effective tax rate for the year	<u>9.1</u>	<u>17.2</u>

7. DIVIDENDS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Interim dividends of HK7.05 cents per share (2016: HK6.90 cents)	21,971	21,503
Final dividend of HK5.6 cents per share (2016: HK5.60 cents)	17,452	17,452
Special dividend of HK2.2 cents per share (2016: Nil)	<u>6,856</u>	<u>–</u>
	<u><u>46,279</u></u>	<u><u>38,955</u></u>

The final dividend and special dividend for 2017 proposed after the end of the reporting period is subject to shareholders' approval at the forthcoming annual general meeting. These dividends have not been recognised as a liability 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:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Profit attributable to owners of the Company	<u>102,589</u>	<u>61,199</u>
	2017 Number of shares '000	2016 Number of shares '000
Weighted average number of ordinary shares for basic earnings per share	<u>311,640</u>	<u>311,640</u>
Earnings per share Basic and diluted	<u>32.9 cents</u>	<u>19.6 cents</u>

Diluted earnings per share equals to basic earnings per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2017 and 2016.

9. TRADE AND OTHER RECEIVABLES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Trade receivables	31,859	42,480
Bills receivables	331	8,510
Other receivables		
Deposits, prepayments and other debtors	<u>2,639</u>	<u>2,460</u>
	<u>34,829</u>	<u>53,450</u>

The Group allows credit period ranging from 30 days to 120 days (*2016: 30 days to 120 days*) to its customers. The ageing analysis of trade receivables by invoice date is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within 30 days	30,813	15,425
31 – 60 days	1,044	18,259
61 – 90 days	2	8,788
Over 90 days	<u>–</u>	<u>8</u>
	<u>31,859</u>	<u>42,480</u>

Included in the Group's trade receivables balance as at 31 December 2016 was a debtor with carrying amount of HK\$8,000 which was past due over 180 days at the end of the reporting period but which the Group had not impaired as there had not been any significant changes in credit quality and the directors believed that the amount was fully recoverable. As of 31 December 2017, the balance of HK\$31,859,000 (*2016: HK\$42,472,000*) was neither past due nor impaired, which related to a number of customers for whom there was no history of default. The Group does not hold any collateral over these balances.

10. TRADE AND OTHER PAYABLES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Trade payables	<u>3,250</u>	<u>1,940</u>
Other payables		
Accrued charges and other creditors	26,234	20,858
Customers' deposits	<u>100</u>	<u>100</u>
	<u>26,334</u>	<u>20,958</u>
	<u><u>29,584</u></u>	<u><u>22,898</u></u>

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within 30 days	3,010	1,291
31 – 60 days	207	492
61 – 90 days	6	–
More than 90 days	<u>27</u>	<u>157</u>
	<u><u>3,250</u></u>	<u><u>1,940</u></u>

11. PLEDGE OF ASSETS

Certain of the Group's leasehold land and buildings and investment properties were pledged to secure banking facilities, including bank borrowings, granted to the Group to the extent of HK\$97,048,000 (2016: HK\$96,404,000), of which HK\$26,660,000 (2016: HK\$27,463,000) were utilised at the end of the reporting period.

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Leasehold land and buildings	156,000	127,000
Investment properties	<u>161,462</u>	<u>144,205</u>
	<u><u>317,462</u></u>	<u><u>271,205</u></u>

OTHER SUPPLEMENTARY INFORMATION

Audit Committee Review

The Audit Committee reviewed with the management of the Company the accounting principles and practices adopted by the Group and the financial results for the year ended 31 December 2017.

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 2017 have been agreed by the Group's auditor, Mazars CPA Limited, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Mazars CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Mazars CPA Limited on the preliminary announcement.

Final Dividend and Special Dividend

The Board has proposed a final dividend of HK5.6 cents per share (2016: HK5.6 cents per share) and a special dividend of HK2.2 cents per share (2016: Nil) for the year ended 31 December 2017 payable to shareholders on the register of members of the Company on 13 July 2018.

Subject to approval of the proposed final dividend and special dividend by the shareholders at the forthcoming annual general meeting of the Company to be held on 20 June 2018, the final dividend and special dividend will be dispatched to the shareholders of the Company on or about 17 August 2018.

Closing of register of members

The register of members of the Company will be closed from Thursday, 14 June 2018 to Wednesday, 20 June 2018, both days inclusive, during which no transfer of shares will be effected. In order to qualify for attendance of annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Share Registrar, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong but no later than 4:30 p.m. on Wednesday, 13 June 2018.

The register of members of the Company will also be closed from Wednesday, 11 July 2018 to Friday, 13 July 2018, both days inclusive, during which no transfer of shares will be effected. To rank for the proposed final dividend and special dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Share Registrar, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong but no later than 4:30 p.m. on Tuesday, 10 July 2018.

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 2017 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 2017.

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, 27 March 2018

* *For identification purpose only*