WHITE FLOWER®

PAK FAH YEOW INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code:239

2018 ANNUAL REPORT

This Annual Report is printed on environmentally friendly paper

CONTENTS

Corporate Information

DIRECTORS

Executive Directors	Gan Wee Sean *(Chairman and Chief Executive Officer) (R)* Gan Fock Wai, Stephen *(R)* Gan Cheng Hooi, Gavin
Non-executive Director	Gan Fook Yin, Anita
Independent Non-executive Directors	Leung Man Chiu, Lawrence *(chairing A, chairing R and chairing N)* Wong Ying Kay, Ada *(A, R, N)* Ip Tin Chee, Arnold *(A, R, N)*
COMPANY SECRETARY	Lo Tai On
REGISTERED OFFICE	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG	11th Floor, 200 Gloucester Road Wan Chai Hong Kong
AUDITOR	Mazars CPA Limited 42nd Floor, Central Plaza 18 Harbour Road, Wanchai Hong Kong
SOLICITOR	Woo, Kwan, Lee & Lo 26th Floor, Jardine House 1 Connaught Place, Central Hong Kong
PRINCIPAL SHARE REGISTRAR	Conyers Corporate Services (Bermuda) Limited Clarendon House, 2 Church Street Hamilton HM 11, Bermuda
HONG KONG SHARE REGISTRAR	Tricor Standard Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
STOCK CODE	239
HOME PAGE	www.pakfahyeow.com
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(A) *Audit Committee member*
(R) *Remuneration Committee member*
(N) *Nomination Committee member*

About Us

We are principally engaged in the manufacture, marketing and distribution of healthcare products using our brand "Hoe Hin". One of our Hoe Hin products has been well-known as Hoe Hin White Flower Embrocation or Hoe Hin Pak Fah Yeow, a renowned medicated oil, which has been manufactured for over 90 years and is available in Hong Kong, Macau, Mainland China, Southeast Asia and western countries. Our other Hoe Hin products include Hoe Hin Strain Relief, Hoe Hin White Flower Ointment and Fúzăi 239 (floral-scented White Flower Embrocation). The quality management system of our manufacturing facilities (that is, Hoe Hin Pak Fah Yeow Manufactory Limited) is established in accordance with PIC/S (Pharmaceutical Inspection Convention/Pharmaceutical Inspection Co-operation Scheme) Guide to Good Manufacturing Practice for Medicinal Products. The facilities are GMP certified with certificates issued by Therapeutic Goods Administration, Australia and Chinese Medicine Council of Hong Kong. In addition, the said quality management system is ISO9001:2015 certified.

We are also principally engaged in property and treasury investments. We have property investments in the United Kingdom, Hong Kong and Singapore which were acquired a long time ago and intended to be held for long term to generate steady income.

HOE HIN BRAND AND PRODUCTS

"Being recognised in most of the markets as premium products amongst other brands, which reflect recognition of our brand as Using Top Quality Ingredients, Top Quality Management and Hong Kong-Made Production."

VISION

"To be the premier provider of top quality medicated products that are superior to other choices in the markets for all walks of life."

MISSION

"To deliver sustainable value to our stakeholders through responsible business based on core values that include quality excellence, integrity, nurturing and financial strength."

CORE VALUES

Values	**Elements**
H – Honesty	Integrity, Ethic, Conduct
O – Obedience	Accountability, Health and safety, Regulatory compliance
E – Excellence	Quality, Assurance, Financial strength, Sustainability
H – Human	People, Respect, Encouragement, Networking
I – Innovation	Continuous improvement, Marketing initiative
N – Nurturing	Equal opportunities, Environment, Humanity, Return to community

STRATEGIES

Healthcare

Short to Medium Term: "Expanding existing markets for our existing products while seeking opportunities to explore and develop new markets."

Long Term: "Extending our markets to mainstream channels and chains to cover local communities in overseas markets."

Property Investments

"Intended for long term to generate steady income and enable us to create cushion irrespective of uncertain economic conditions, while recognised as important to realise premium capital gain for maximising the return as and when considered appropriate."

Treasury Investments

"Making use of our surplus cash for low to medium-risk investments for better return as opposed to earning historic-low interest from bank deposits."

Highlights

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

RESULTS SUMMARY

		Year ended 31 December		
		2018	2017	
	Notes	***HK$'000***	*HK$'000*	Change
Revenue	*1*	**141,043**	178,269	–20.9%
Reported profit	*2*	**37,280**	102,589	–63.7%
Underlying recurring profit	*3*	**26,670**	63,469	–58.0%
		HK cents	*HK cents*	
Earnings per share:				
Reported profit	*4*	**12.0**	32.9	–63.5%
Underlying recurring profit		**8.6**	20.4	–57.8%
Total dividends per share	*4*	**10.35**	14.85	–30.3%
		At 31 December		
		2018	2017	
		HK$'000	*HK$'000*	
Shareholders' funds	*5*	**756,702**	748,508	+1.1%
		HK$	*HK$*	
Net asset value per share	*6*	**2.43**	2.40	+1.3%

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

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

DIVIDENDS

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

BUSINESS

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

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

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

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

NON-FINANCIAL PERFORMANCE

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

Chairman's Statement

OUTLOOK

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

APPRECIATION

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

GAN Wee Sean
Chairman

Hong Kong, 26 March 2019

Management Discussion and Analysis

RESULTS OVERVIEW

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

	2018	2017	**Change**
	HK$'000	*HK$'000*	*%*
Healthcare	**130,962**	167,819	–22.0
Property investments	**9,562**	10,002	–4.4
Treasury investments	**519**	448	+15.8
	141,043	178,269	–20.9

Underlying Recurring Profit, which excludes from Reported Profit the unrealised fair value changes of financial assets and of investment properties and the items that are non-recurring in nature, was HK$26,670,000, down 58.0% from HK$63,469,000 year-on-year. This mainly reflected weak performance of Healthcare segment, particularly Hong Kong and Mainland China markets. Earnings per share of Underlying Recurring Profit was HK8.6 cents, down 57.8% from HK20.4 cents in 2017.

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

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

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

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

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

Management Discussion and Analysis

OPERATIONS REVIEW

Healthcare

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

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

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

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

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

Underlying Recurring Segment Result, which excludes from the segment result the unrealised fair value changes of financial assets and of investment properties and the items that are non-recurring in nature, was a profit of HK$40,911,000, down 47.7% from HK$78,188,000 in 2017. This reflected weak performance in Hong Kong and Mainland China markets. The overall profit margin for 2018 was also lower as compared to 2017 due to product mix sold and increased raw materials and production costs.

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

Management Discussion and Analysis

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

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

Property Investments

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

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

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

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

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

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

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

Management Discussion and Analysis

Treasury Investments

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

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

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

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

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

FINANCIAL REVIEW

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

Staff Costs

Staff costs are categorised into production (production-related payroll costs) and administration (other payroll costs, including management and head office staff), which slightly decreased by 1.1% from HK$33,838,000 to HK$33,479,000. This mainly reflected decreased provision for management bonus of executive directors, partly offset by annual salary increment.

Other Operating Expenses

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

Finance Costs

Finance costs increased by 4.6% to HK$820,000 (2017: HK$784,000), mainly due to higher interest rate and higher average foreign exchange rate of Pound Sterling, partly offset by lower average bank loan balances during the year after repayment of part of the mortgage loans in Hong Kong and the United Kingdom. Interest coverage ratio (profit from operations before interest and taxes and before unrealised fair value changes of financial assets and of investment properties divided by finance costs) decreased to 48.5 times in 2018 (2017: 96.2 times).

Taxation

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

Management Discussion and Analysis

Investment Properties

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

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

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

FINANCIAL RESOURCES AND TREASURY POLICIES

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

Current ratio (current assets divided by current liabilities) was 2.81 times as at 31 December 2018 (2017: 2.98 times). The Group holds sufficient cash, marketable securities on hand and available banking facilities to meet its short-term liabilities, commitments and working capital demand.

EXCHANGE RATE EXPOSURES

Most of the Group's business transactions were conducted in Hong Kong Dollars and United States Dollars. Certain rental income is derived in the United Kingdom and denominated in Pound Sterling. As at 31 December 2018, the Group's debt borrowings were mainly denominated in Pound Sterling and Hong Kong Dollars. The Group also had equity and debt securities and dual currency investments denominated in foreign currencies.

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

PLEDGE OF ASSETS

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

Management Discussion and Analysis

CONTINGENT LIABILITIES

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

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

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

EMPLOYEES AND REMUNERATION POLICIES

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

Board of Directors and Senior Management

Executive Directors

Mr. GAN Wee Sean, aged 72, is the Chairman of the board, the Chief Executive Officer, an executive director of the Company and a member of the remuneration committee of the Company. He has been actively involved in the management of the Group since 1971. He was appointed as an executive director of the Company on 8 October 1991 and acting Chief Executive Officer on 21 April 2008 and the Chief Executive Officer on 1 September 2011. He is also a director in a number of subsidiaries of the Company. He attended North Western Polytechnic, London, England where he majored in business administration and marketing. He is a Fellow of the Institute of Chartered Secretaries and Administrators and Fellow of the Chartered Institute of Marketing. From 1981 to 1986, and from 1987 to 1990, he held the position of vice-chairman and chairman respectively of Chung Sing Benevolent Society. He was chairman of the Malaysian Association in Hong Kong from 1987 to 1989, and was a founder member of the Institute of Marketing in Hong Kong. He is also Command President HKIC of the St. John's Ambulance Brigade Island Command Hong Kong and Exco Member of Malaysia Chamber of Commerce Hong Kong and Macau. He is the eldest grandson of the founder, Mr. Gan Geok Eng and the father of Mr. Gan Cheng Hooi, Gavin, an executive director of the Company and the Sales and Marketing Director (Regions other than Greater China) of a subsidiary of the Company. Mr. Gan Fock Wai, Stephen, executive director of the Company and Ms. Gan Fook Yin, Anita, non-executive director of the Company, are respectively the son and daughter of the founder, Mr. Gan Geok Eng. He is a director and shareholder of Hexagan Enterprises Limited, a substantial shareholder of the Company.

Mr. GAN Fock Wai, Stephen, aged 57, is an executive director of the Company and is a member of the remuneration committee of the Company. He was the Chief Executive Officer until 21 April 2008. He is also a director in a number of subsidiaries of the Company. He possessed an honorary bachelor degree in food process engineering from Loughborough University of Technology in England. He has been actively involved in the management of the Group since 1986. He is a son of the founder, Mr. Gan Geok Eng. Mr. Gan Wee Sean, Chairman of the Company, is the grandson of the founder. Mr. Gan Cheng Hooi, Gavin, executive director of the Company is a son of Mr. Gan Wee Sean. Ms. Gan Fook Yin, Anita, non-executive director of the Company, is a sister of Mr. Gan Fock Wai, Stephen. In 2001, he was awarded one of the "2001 Youth Industrial Awards of Hong Kong" by the Federation of Hong Kong Industries. He was also a committee member (Practitioners Board) of the Chinese Medicine Council of Hong Kong from 1999 to 2005. He is a director and shareholder of Gan's Enterprises Limited, a substantial shareholder of the Company.

Mr. GAN Cheng Hooi, Gavin, aged 38, was appointed as an executive director of the Company on 23 September 2015. He joined Hoe Hin Pak Fah Yeow Manufactory, Limited ("HHPFY"), a wholly-owned subsidiary of the Company, in October 2007 and is now the Sales and Marketing Director (Regions other than Greater China) of HHPFY. Prior to joining HHPFY, he worked in different industries including market research, information technology and management consultancy. He obtained a bachelor degree in management from Royal Holloway University of London. He is a son of Mr. Gan Wee Sean, who is the Chairman, the Chief Executive Officer, an executive director and a substantial shareholder of the Company and the eldest grandson of the founder, Mr. Gan Geok Eng. Mr. Gan Fock Wai, Stephen, executive director of the Company and Ms. Gan Fook Yin, Anita, non-executive director of the Company, are respectively the son and daughter of the founder, Mr. Gan Geok Eng.

Non-executive Director

Ms. GAN Fook Yin, Anita, aged 50, was appointed as a non-executive director of the Company on 23 September 2015. She joined Rena Creative Products Ltd. ("RENA") since 1999 and is now the chief executive officer of RENA. Prior to joining RENA, she served as chairman of Chancy Company Ltd. Now she also serves as an executive director of Rena Creative Services Ltd.. She has leadership and extensive managerial experience in financial, strategic, capital allocation and human resources. She obtained a bachelor degree in mathematics and management from King's College, University of London. She is a daughter of the founder, Mr. Gan Geok Eng and a sister of Mr. Gan Fock Wai, Stephen, who is an executive director and a substantial shareholder of the Company. Mr. Gan Wee Sean, Chairman of the Company, is a grandson of the founder. Mr. Gan Cheng Hooi, Gavin, executive director of the Company, is a son of Mr. Gan Wee Sean.

Board of Directors and Senior Management

Independent Non-executive Directors

Mr. LEUNG Man Chiu, Lawrence, aged 70, was appointed as an independent non-executive director of the Company in July 2006 and is the chairman of the audit committee, remuneration committee and nomination committee of the Company. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He graduated in 1969 from the Hong Kong Technical College (now known as the Hong Kong Polytechnic University) with a diploma in accountancy and qualified himself as a certified public accountant in 1972. Mr. Leung is a practising certified public accountant and has been in public practice for over 45 years. He has extensive experience in accounting and auditing and served in listing and auditing projects for a number of Hong Kong publicly listed companies. He is now practising as a partner in Tang and Fok. Mr. Leung is also a director of World Super Limited and an independent non-executive director of Safety Godown Company, Limited and PFC Device Inc., companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Ms. WONG Ying Kay, Ada, aged 59, has been appointed as an independent non-executive director of the Company since September 2004 and is a member of the audit committee, remuneration committee and nomination committee of the Company. She is a practicing solicitor and China-Appointed Attesting Officer. She is also an independent non-executive director of Hengan International Group Company Limited, a company listed on the Stock Exchange. She is a member of Museum Advisory Committee. She is also a member of Art Sub-Committee, Museum Advisory Committee and an advisor of Our Hong Kong Foundation.

Mr. IP Tin Chee, Arnold, aged 56, has been appointed as an independent non-executive director of the Company since September 2004 and is a member of the audit committee, remuneration committee and nomination committee of the Company. He is a graduate of Trinity College, Cambridge University, and qualified as a chartered accountant in 1988. Between 1989 and March 1997, he worked for Standard Chartered Asia Limited and was a director of Yuanta Securities (Hong Kong) Limited thereafter until January 2001, specialising in a range of corporate finance and advisory activities for companies based in Hong Kong and China. He is an executive director of Altus Capital Limited where he is involved in the supervision and management of corporate finance and advisory work for companies in Hong Kong and in advising on private equity and property investments in Asia. Mr. Ip's work focuses on fund raising for listed and unlisted companies, and management of real estate investment funds. He is the chairman of the management company which acts as manager of Saizen REIT, a real estate investment trust listed on the Singapore Stock Exchange. He is also an independent non- executive director of Pioneer Global Group Limited and Sam Woo Construction Group Limited and Icicle Group Holdings Limited and the chairman and executive director of Altus Holdings Limited, companies listed on the Stock Exchange.

Senior Management

Mr. TSANG Hung Kei, aged 48, is the Chief Financial Officer of the Group responsible for the overall financial management and control and corporate governance. He is also an executive director of major subsidiaries of the Company. Mr. Tsang is a Fellow of the Association of Chartered Certified Accountants, a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Institute of Chartered Accountants in England and Wales. Prior to joining the Group in May 2005, he worked for an international accounting firm for 8 years and was the group financial controller of a listed company in Hong Kong thereafter until April 2005. He holds a bachelor degree in computer science and accounting at the University of Manchester, United Kingdom.

Ms. YAU Lai Ching, aged 54, is an executive director and the Chief Operating Officer of HHPFY responsible for the overall management of operation. She has been with HHPFY since 1992. Prior to joining HHPFY, she worked for tourism board for 3 years. She possessed a Professional Diploma in Marketing from the Hong Kong Polytechnic (presently known as Hong Kong Polytechnic University).

Mr. TANG Ho Kwong, Anthony, aged 57, is an executive director and the Sales and Marketing Director (Greater China) of HHPFY responsible for the overall sales and customer management and the formulation and implementation of marketing strategies for the Hoe Hin products. He joined HHPFY in November 2004 as Business Development Manager. He is a renowned athlete and was a member of Hong Kong swimming team participating in Asian Games and Olympic Games. Prior to joining HHPFY, he was an artist in the movie and television broadcasting businesses for over 20 years.

Corporate Governance Report

The Group is dedicated to maintaining a good credible framework of corporate governance with a view to being transparent, open and accountable to our shareholders, and continues to review and reinforce our corporate governance practice.

The Company adopted all the code provisions in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code on corporate governance practices.

The Company has complied with code provisions as set out in the CG Code during the year ended 31 December 2018 except for the following deviation:

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Mr. Gan Wee Sean, the Chairman of the board, was appointed as the acting Chief Executive Officer on 21 April 2008 and the Chief Executive Officer on 1 September 2011. Although these two roles are performed by the same individual, certain responsibilities have been shared with the 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 has also three independent non-executive directors ("INED(s)") 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.

THE BOARD

Composition

The board consists of three executive directors, one non-executive director and three INEDs who have professional qualification, experience and expertise in accounting, finance or legal field. The names and biographical details of each director are disclosed on pages 13 and 14 of this annual report.

The directors have given sufficient time and attention to the Group's affairs. The directors have disclosed to the Company annually the number and the nature of offices held in public companies or organisations and other significant commitments. The board believes that the balance between executive directors, non-executive director and INEDs is reasonable and adequate to provide sufficient balances that protect the interests of the shareholders and the Group.

Each INED has, pursuant to Rule 3.13 of the Listing Rules, confirmed that he/she is independent of the Company and the Company also considers that they are independent. The term of office of each INED is for a term of two years until 30 September 2020 subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the bye-laws of the Company. Save as disclosed in the biographical details of each director, there is no other relationship (including financial, business, family or other material/relevant relationship) amongst members of the board.

Role of the Board

The board is responsible both for how the Company is managed and the Company's direction. Approval of the board is required for the strategy of the Group, major acquisition and disposal, major capital investment, dividend policy and payment, appointment and retirement of directors, remuneration policy and other major operational and financial matters. Day-to-day operations of the Group are taken up by the Company's management currently comprising the three executive directors and senior executives.

The board has established schedule of matters specifically reserved to the board for its decision and those reserved for the management. The board reviews this schedule on a periodic basis to ensure that it remains appropriate to the needs of the Company.

Corporate Governance Report

Corporate Governance Functions

The board is responsible for performing the corporate governance duties as set out below:

1. develop and review the Company's policies and practices on corporate governance and make recommendations;

2. review and monitor the training and continuous professional development of directors and senior management;

3. review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

5. review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report under Appendix 14 to the Listing Rules.

The board had performed above duties during 2018.

Directors' Training

Based on the training records provided to the Company by the directors, the directors have participated in the following training during 2018:

Directors	**Type of trainings**
Executive Directors	
Gan Wee Sean	A, B
Gan Fock Wai, Stephen	A, B
Gan Cheng Hooi, Gavin	A, B
Non-executive Director	
Gan Fook Yin, Anita	A, B
Independent Non-Executive Directors	
Leung Man Chiu, Lawrence	A, B
Wong Ying Kay, Ada	A, B
Ip Tin Chee, Arnold	A, B

A: attending seminars and/or conferences and/or forums

B: reading information, newspapers, journals and materials relating to the responsibilities of directors, economy, fiscal, financial, investments and business of the Company

Emoluments of Directors and Senior Management

The emoluments of the members of the senior management by band for the year ended 31 December 2018 is set out below:

Emoluments bands	**Number of persons**
Nil to HK$1,000,000	1
HK$1,000,001 to HK$2,000,000	2

Corporate Governance Report

Particulars regarding directors' emoluments and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 7 and 8 to the consolidated financial statements, respectively.

The board held four regular board meetings at approximately quarterly intervals during the year 2018. Additional board meetings were held when necessary. Due notice and board papers were given to all directors prior to the meeting in accordance with the Listing Rules and the CG Code. Details of individual attendance of directors are set out in the table below:

Attendance of individual Directors at Board Meetings in 2018	
Number of meetings:	4
Executive Directors	
Gan Wee Sean *(Chairman and Chief Executive Officer)*	4
Gan Fock Wai, Stephen	4
Gan Cheng Hooi, Gavin	4
Non-exectuive Director	
Gan Fook Yin, Anita	4
INEDs	
Leung Man Chiu, Lawrence	4
Wong Ying Kay, Ada	4
Ip Tin Chee, Arnold	3

The board has established written procedures to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense.

Chairman and Chief Executive Officer

The role of the Chairman should be separated from that of the Chief Executive Officer. Such division of responsibilities allows a balance of power between the board and the management of the Group, and ensures their independence and accountability.

The Chairman is the leader of the board and he oversees the board so that it acts in the best interests of the Group. The Chairman is responsible for deciding the agenda of each board meeting, taking into account, where appropriate, matters proposed by other directors for inclusion in the agenda. The Chairman has overall responsibility for providing leadership, vision and direction in the development of the business of the Company.

The Chief Executive Officer, assisted by other executive directors and senior executives, is responsible for the day-to-day management of the business of the Group, attends to formulation and successful implementation of policies, and assumes full accountability to the board for all operations of the Group. He ensures smooth operations and development of the Group and maintains continuing dialogue with the Chairman and all directors to keep them fully informed of all major business developments and issues. He is also responsible for building and maintaining an effective executive team to support him in his role.

Mr. Gan Wee Sean is the Chairman of the board. He was appointed as the acting Chief Executive Officer on 21 April 2008 and the Chief Executive Officer on 1 September 2011.

Corporate Governance Report

BOARD COMMITTEES

To strengthen the functions of the board and to enhance its expertise, there are three board committees namely, the audit committee, remuneration committee and nomination committee formed under the board, with specific written terms of reference which deal clearly with committee's authority and duties.

Audit Committee

The audit committee comprises three INEDs.

The role and function of the audit committee include:

- to serve as a focal point for communication between other directors and the auditor in respect of the duties relating to financial and other reporting, internal controls, audits, and such other matters as the board may determine from time to time;
- to assist the board in fulfilling its responsibility by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the risk management and internal control systems of the Group and the adequacy of the audits;
- to review the appointment of auditor on an annual basis including the review of the audit scope and approval of the audit fees;
- to review the annual and interim financial statements prior to their approval by the board, and recommend application of accounting policies and changes to the financial reporting requirements; and
- to ensure continuing auditor objectivity and to safeguard independence of the Company's auditor.

Set out below is the summary of work done of the audit committee in year 2018:

- considered and approved the 2018 audit fees and audit plan;
- reviewed the auditor's report to the audit committee and the letters of representation;
- reviewed the consolidated financial statements for the year ended 31 December 2017 and for the six months ended 30 June 2018;
- considered and approved the scope of internal audit for the year 2018 and reviewed the findings and recommendations thereof; and
- reviewed the arrangement (including investigation and follow-up action) that employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters through the whistle blower policy adopted by the Company.

The audit committee held three meetings during the year. Details of individual attendance of its members are set out in the table below:

Attendance of individual members at audit committee meetings in 2018	
Number of meetings:	3
INEDs	
Leung Man Chiu, Lawrence *(Chairman)*	3
Wong Ying Kay, Ada	3
Ip Tin Chee, Arnold	2

Corporate Governance Report

Remuneration Committee

The board has established a remuneration committee, currently comprising three INEDs and two executive directors, Mr. Gan Wee Sean and Mr. Gan Fock Wai, Stephen. The role and function of the remuneration committee include formulation of the remuneration policy, review and recommending to the board the annual remuneration policy, and recommendation of the remuneration of the directors and senior management. No director or any of his/her associate was involved in deciding his/her own remuneration.

Set out below is the summary of work of the Remuneration Committee done in the year 2018:

– reviewed and made recommendations to the board on the remuneration packages of individual executive directors, non-executive director, the INEDs and senior management; and

– reviewed the bonus to senior management.

The remuneration committee held one meeting during the year. Details of individual attendance of its members are set out in the table below:

Attendance of individual members at remuneration committee meeting in 2018	
Number of meeting:	1
Executive Directors	
Gan Wee Sean	1
Gan Fock Wai, Stephen	1
INEDs	
Leung Man Chiu, Lawrence *(Chairman)*	1
Wong Ying Kay, Ada	1
Ip Tin Chee, Arnold	1

Nomination Committee

The board has established a nomination committee, comprising three INEDs. The role and function of the nomination committee include making recommendations to the board on appointment of directors regarding the qualification and competency of the candidates, so as to ensure that all nominations are fair and transparent.

Set out below is the summary of work of the nomination committee done in the year 2018:

– reviewed the structure, size and composition of the board;

– assessed the independence of independent non-executive directors;

– recommendations on the directors subject to retirement by rotation under the bye-laws at the 2019 annual general meeting; and

– reviewed the board diversity policy and matters relating thereto.

Corporate Governance Report

The nomination committee held one meeting during the year. Details of individual attendance of its members are set out in the table below:

Attendance of individual members at nomination committee meeting in 2018	
Number of meeting:	1
INEDs	
Leung Man Chiu, Lawrence *(Chairman)*	1
Wong Ying Kay, Ada	1
Ip Tin Chee, Arnold	1

Board Diversity Policy

The Company has formulated and adopted a board diversity policy in August 2013 aiming at setting out the approach on diversity of the board.

The board recognises the importance of having a diverse board in enhancing the board effectiveness and corporate governance. A diverse board will include and make good use of differences in the skills, industry knowledge and experience, education, background and other qualities of directors of the Company and does not discriminate on the ground of race, age, gender or religious belief. These differences will be taken into account in determining the optimum composition of the board and when possible should be balanced appropriately.

The nomination committee of the Company has responsibility for identifying and nominating for approval by the board, candidates for appointment to the board. It takes responsibility in assessing the appropriate mix of experience, expertise, skills and diversity required on the board and assessing the extent to which the required skills are represented on the board and overseeing the board succession. It is also responsible for reviewing and reporting to the board in relation to board diversity.

Board appointments will be based on merit and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the board. Selection of candidates to join the board will be, in part, dependent on the pool of candidates with the necessary knowledge, experience, skills, educational background and other qualities. The final decision will be based on merit and contribution the chosen candidate will bring to the board.

There was no change in directorship during the year under review. At present, the nomination committee has not set any measurable objectives to implement the board diversity policy. However, it will consider and review the board diversity policy and setting of any measurable objects from time to time.

Nomination Policy

The Company has also adopted a nomination policy (the "Nomination Policy") which sets out the selection criteria and procedure of appointing and re-appointing a Director. The selection criteria used in assessing the suitability of a candidate include, inter alia, such candidate's academic background and professional qualifications, relevant experience in the industry, character and integrity etc. The procedure of appointing and re-appointing a Director is summarised as follows:

1. The Nomination Committee reviews the structure, size and composition (including the skills, knowledge and experience) of the Board periodically and make recommendation on any proposed changes to the Board to complement the Company's corporate strategy;

2. When it is necessary to fill a casual vacancy or appoint an additional director, the Nomination Committee identifies or selects candidates as recommended to the Committee, with or without assistance from external agencies or the Company, pursuant to the criteria set out in the Nomination Policy;

3. If the process yields one or more desirable candidates, the Nomination Committee shall rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable);

4. The Nomination Committee makes recommendation to the Board including the terms and conditions of the appointment;

Corporate Governance Report

5. The Board deliberates and decides on the appointment based upon the recommendation of the Nomination Committee;

6. In accordance with the Company's articles of association, every director shall be subject to retirement by rotation at least once every three years and shall be eligible for re-election at each annual general meeting;

7. The Nomination Committee shall review the overall contribution and service to the Company of the retiring director. The Nomination Committee shall also review the expertise and professional qualifications of the retiring director, who offered himself/herself for re-election at the annual general meeting, to determine whether such director continues to meet the criteria as set out in the Nomination Policy;

8. Based on the review made by Nomination Committee, the Board shall make recommendations to shareholders on candidates standing for re-election at the annual general meeting of the Company, and provide the available biographical information of the retiring director in accordance with the Listing Rules to enable shareholders to make the informed decision on the re-election of such candidates at annual general meeting of the Company; and

9. The shareholders of the Company may propose a person for election as a director in accordance with the Bye-laws of the Company and applicable law.

Dividend Policy

The Company has adopted a dividend policy (the "Dividend Policy"). Declaration and recommendation of payment of dividends of the Company is subject to the approval of the Directors of the Company, depending on results of operations, working capital, financial position, future prospects, and capital requirements, as well as any other factors which the Directors of the Company may consider relevant from time to time. Any future declaration, recommendation and payment of dividends of the Company may or may not reflect the historical declarations and payments of dividends and will be at the absolute discretion of the Directors of the Company. The Company does not have any predetermined dividend payout ratio.

The Company has had a consistent dividend payment that balances the objective of appropriately rewarding shareholders through dividends and to support the future growth. Dividends will generally be declared four times a year at approximately quarterly intervals. In years of exceptional gains or other events, a special dividend may be declared.

The Board will review the Dividend Policy, as appropriate, to ensure the effectiveness of the Dividend Policy. The audit committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding director's securities transactions. Having made specific enquiry of all the directors, the directors have confirmed compliance with the required standard set out in the Model Code during the year ended 31 December 2018.

The Company has also established written guidelines regarding securities transactions on no less exacting terms of the Model Code for senior management and specific individuals who may have access to price sensitive information in relation to the securities of the Company.

COMPANY SECRETARY

The Company has engaged and appointed Mr. Lo Tai On, a representative from an external secretarial services provider as the company secretary of the Company. The primary contact person with the company secretary of the Company is the Chief Financial Officer of the Company. Mr. Lo has duly complied with the relevant training requirement under Rule 3.29 of the Listing Rules.

Corporate Governance Report

CONSTITUTIONAL DOCUMENTS

During the year under review, there was no change in the Company's constitutional documents.

AUDITOR'S REMUNERATION

The fees payable to the Company's auditor, Mazars CPA Limited in respect of audit, review and taxation services for the year ended 31 December 2018 amounted to HK$432,000, HK$68,000 and HK$36,000 respectively.

DIRECTORS' RESPONSIBILITY FOR PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

The directors acknowledge that it is their responsibilities in preparing the consolidated financial statements. The finance department of the Company is taken charge by the Chief Financial Officer of the Company. With the assistance of the finance department, the directors ensure that the consolidated financial statements of the Group have been properly prepared in accordance with relevant regulations and applicable accounting principles. The statement of the auditor about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 32 to 34.

RISK MANAGEMENT AND INTERNAL CONTROLS

Group Risk Management

The board has overall responsibilities for maintaining a sound and effective risk management and internal control systems of the Group. The audit committee assisted the board to fulfill its responsibility. The board recognises that risk taking is unavoidable as part of the Group's business. By appropriate risk management and continuous risk monitoring, risk taking can bring value to the Company. The board believes that risks are acceptable after prudent assessment of their impact and likelihood. The Company can protect its assets and shareholders' interests and create value simultaneously through appropriate risks management and control measures. The system includes a defined management structure with limits of authority, safeguards its assets against unauthorised use or disposition, ensures the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensures compliance with relevant laws and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or errors and to manage the risks of failure in the Group's operational systems and in the achievement of the Group's objectives.

Risk assessment approach and risk identification

The board has the oversight responsibility for evaluating and determining the nature and extent of the risks facing the Group and reviewing and monitoring the Group's approach to addressing these risks at least annually. In addition, the board oversees management in the design, implementation and monitoring of the risk management and internal control systems.

A risk management program was carried out during the year to ensure all material risks to which the Group exposed were properly identified, assessed, managed, monitored ad reported to the audit committee and the board. Risks identification was based on questionnaire with senior management from different departments. Risks were preliminary identified by senior management from the risk universe which was a collection of risks built on environmental analysis and external benchmarking that could impact the Group at the entity or specific business process level. The risk universe covered both internal and external risks in four major areas, namely strategic risks, operational risks, financial risks and legal and compliance risks. Key risk factors were then identified by integrating the results of the questionnaire.

Risk evaluation and risk prioritisation

Risk evaluation was the second step to assess the relative impact and likelihood of the identified key risk factors. These identified key risk factors were further assessed by a scale rating process by the senior management to evaluate their impact and likelihood. The scale rating process was further supported by face-to-face or phone interview with the senior management to assess the rationales of these identified key risk factors behind.

Risk prioritisation is a mapping exercise. A risk map was used to prioritise the identified key risk factors according to their impact and likelihood.

Corporate Governance Report

Risk reporting, managing and monitoring

Risk reporting and risk monitoring are essential and integral parts of risk management. A risk assessment report was submitted to the audit committee and the board. The risk assessment report was compiled to cover: (i) the top risks of the Group; and (ii) associated action plans and controls designed to mitigate the top risks, where applicable, at appropriate levels. The Company would perform the ongoing assessment to update the entity-level risk factors and report to the board on a regular basis.

Handling and dissemination of inside information

The Group is committed to a consistent practice of time, accurate and sufficiently detailed disclosure of material information and has adopted a policy on disclosure of inside information of the Group.

The handling and dissemination of inside information of the Group is strictly controlled and remains confidential including but not limited by the following ways:

1. Restrict access to inside information to a limited number of employees on a need-to-know basis;

2. Reminder to employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality;

3. Ensure appropriate confidentiality agreements are in place when the Group enters into significant negotiations or dealings with third party;

4. Inside information is handled and communicated by designated persons to outside third party; and

5. The board and the senior management review the safety measures regularly to ensure inside information is properly handled and disseminated.

Internal Audit Function

A professional firm was also appointed as the Group's outsourced internal audit function (the "IA Function") to assist the board in conducting a review of certain key parts of the internal control systems of the Group. Based on the risk assessment results, the IA Function recommended a three-year internal audit plan to the management and endorsed by the board and audit committee. The scope of the internal audit review carried out during the year includes: a) Scoping and planning audit locations as agreed with the audit committee and the board; b) Review of the design of internal control structure by identifying the key controls in place and determining significant gaps within the design of the controls; c) Testing of the key controls; and d) Reporting to and making recommendations to the audit committee on the major design weakness in order to enhance the internal control of operation procedures, systems and controls. The report and recommendations were submitted to the board and follow-up action was taken based on recommendations, which would be monitored by the board.

The board also reviewed adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The board's confirmation on risk management

Based on the risk management mechanism and internal audit review activities mentioned in the aforesaid paragraphs, the board was of the opinion that the Company had maintained an effective risk management mechanism and internal control system during the financial year ended 31 December 2018.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATION

The board recognises the importance of good communication with the shareholders. Information in relation to the Group is disseminated to the shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars of the Company.

The general meetings of the Company are valuable forum for the board to communicate directly with the shareholders. The shareholders are encouraged to attend the general meetings of the Company.

Corporate Governance Report

An annual general meeting of the Company was held on 20 June 2018 (the "2018 AGM"). A notice convening the 2018 AGM contained in the circular dated 20 April 2018 was despatched to the shareholders together with the 2017 annual report. The executive directors Mr. Gan Wee Sean, Mr. Gan Fock Wai, Stephen and Mr. Gan Cheng Hooi, Gavin, the non-executive director Ms. Gan Fook Yin, Anita and the Chairman of the committees of the board Mr. Leung Man Chiu, Lawrence and the other INEDs, Mr. Ip Tin Chee, Arnold and Ms. Wong Ying Kay, Ada attended the 2018 AGM to answer the questions from the shareholders. The Chairman of the meeting explained detailed procedures for conducting a poll. All the resolutions proposed at the 2018 AGM were passed separately by the shareholders by way of poll. The results of the poll were published on the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company on 20 June 2018. No other general meeting was held during 2018.

The forthcoming annual general meeting of the Company will be held on 18 June 2019 (the "2019 AGM"). A notice convening 2019 AGM will be published on the websites of the Stock Exchange and the Company and despatched together with the 2018 annual report to the shareholders as soon as practicable in accordance with the bye-laws and the CG Code.

The Company is committed to enhancing communications and relationships with its investors. Designated senior management maintains an open dialogue with institutional investors and analysts to keep them abreast of the Company's developments.

The Company also maintains a website at www.pakfahyeow.com, where updates on the Company's business developments and operations, financial information and news can always be found.

Shareholders may at any time send their enquiries and concerns to the board in writing through the Company Secretary whose contact details are as follows:

Address: 11th Floor, 200 Gloucester Road, Wan Chai, Hong Kong
Fax: (852) 2577 2895
Email: pfy@pfy.com.hk

SHAREHOLDERS' RIGHTS

Shareholders are entitled to requisition a special general meeting and put forward proposals at general meetings. The procedures are as follows:

(a) Procedures for requisitioning a special general meeting

Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right to vote at general meetings of the Company may, by written requisition to the board or the Company Secretary signed and deposited in accordance with the bye-laws of the Company, Bermuda Companies Act 1981, require the directors to call a special general meeting for the transaction of business specified in the requisition.

(b) Procedures for putting forward proposals at general meetings

Shareholder(s) holding not less than one-twentieth of the paid-up capital of the Company carrying the right to vote at general meetings of the Company or not less than 100 shareholders may, at their expense, provide a written request to the attention of the Company Secretary signed and deposited in accordance with the Bermuda Companies Act 1981.

The procedures for the shareholders to propose a person for election as a director at a general meeting is available for viewing at the Company's website at www.pakfahyeow.com.

The above procedures are subject to the bye-laws of the Company and applicable legislation and regulation from time to time.

Besides, the updated memorandum of association and bye-laws of the Company has been posted on the website of the Company at www.pakfahyeow.com and the designated website of the Stock Exchange at www.hkexnews.hk.

Directors' Report

The directors have pleasure in submitting their report and audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 37(a) to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of comprehensive income on pages 35 and 36.

Interim dividends (as set out in note 10 to the consolidated financial statements) amounting to HK6.55 cents per share were paid to the shareholders during the year. The directors recommend the payment of a final dividend of HK3.8 cents per share, amounting to a total dividends for the year of HK10.35 cents per share, to the shareholders of the Company whose names appear on the register of members on 12 July 2019.

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

CLOSING OF REGISTER OF MEMBERS

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

The register of members of the Company will also be closed from Wednesday, 10 July 2019 to Friday, 12 July 2019, both days inclusive, during which no transfer of shares will be effected. To rank for the proposed final dividend 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 no later than 4:30 p.m. on Tuesday, 9 July 2019.

DONATIONS

During the year, the Group made charitable donations amounting to HK$79,000. Other than the charitable donations made by the Group, our employees also took part in the Chinese New Year Fair 2018 which raised over HK$170,000 for a charitable organisation.

BUSINESS REVIEW

A review of the business of the Group during the year, a discussion on the Group's future business development and description of possible risks and uncertainties that the Group may be facing are provided in the Chairman's Statement and Management Discussion and Analysis sections on pages 5 to 12 of this annual report. Also, the financial risk management objectives and policies of the Group can be found in note 32 to the consolidated financial statements. Particulars of important events affecting the Group that have occurred since the end of the financial year ended 31 December 2018 are provided in note 36 to the consolidated financial statements. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Management Discussion and Analysis section on pages 7 to 12 of this annual report. In addition, discussion on the Group's environmental policies and performance, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are set out below.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Environmental issues are becoming evidently more important to business, bringing along risks and opportunities in the economic, social and environmental spaces of engagement. Investors have started incorporating companies' environmental performance into their valuations and investment strategies, while customers are becoming are conscious of the environmental impacts of their consumption decisions.

Directors' Report

To integrate environmental consideration into our business strategy, the Environmental, Social and Governance ("ESG") Committee, chaired by an Executive Director, has been set forth to oversee the Group's environmental policies, initiatives and performance. The Group has also in place a set of policies and procedures which serve to provide guidelines for employees to minimise emissions and ensure efficient use of resources.

Raw Material Management

An effective raw material management is vital not only for the Group to minimise the risk of increased costs due to scarcity of raw materials, but it also helps protecting endangered plants. Guidelines on handling and storage of raw materials are provided to employees to ensure efficient use of resources through source reduction, reuse and recycling. The Group's commitment in achieving natural resource conservation is also stated in the Policy on Environment and the Responsible Use of Natural Resources.

Waste Management

The Group produces both hazardous and non-hazardous wastes during manufacturing process of healthcare products and office activities. To ensure employees handle waste correctly according to relevant laws and regulations and minimise negative impacts on the environment, the Group has in place step-by-step instructions to handle different types of wastes. For healthcare product manufacturing, waste oil generated from the factory and chemical waste generated from the laboratory are collected and handled periodically by EPD-approved collectors for further treatment. For office, both domestic waste and paper waste are collected and handled by the property management service provider.

Carbon Management

The Group commissioned an independent consultant to conduct a carbon assessment of its healthcare business in Hong Kong for the reporting year. Various energy-saving initiatives, such as replacement of conventional lamps with LED lights in office and factory, has been implemented, as electricity consumption was the largest contributor to the Group's carbon emissions. While there is a decline in total carbon emissions, the increase in intensity level provided insight for us to continue to access and improve production dependent emissions and consumption. As a starting point in reducing the impacts on the environment due to our business travel, the Group has offset 100% of our carbon emissions by business travel in the reporting year.

During the reporting period, there was no incidence of non-compliance with the relevant environmental laws and regulations that have a significant impact on the Group's business operations and financial performance, including but not limited to Air Pollution Control Ordinance and Waste Disposal Ordinance. For further details on the Group's environmental measures and performance, please refer to the Group's ESG report to be published in due course.

RELATIONSHIPS WITH MAJOR STAKEHOLDERS

The Group is committed to communicating with key internal and external stakeholders through various channels. The Group's major stakeholders are employees, customers and suppliers.

Employees

The Group employs a total of 91 employees. To provide a quality workplace for employees, the Group:

– implemented a set of employment policies to ensure employees are remunerated equitably and competitively. The employee turnover rate reduced from 13.0% in 2017 to 9.9% in 2018.

– provides a safe and healthy working environment for employees. The safety management system is confirmed in the result of annual safety review conducted by a third party. There was no cases of work-related fatality and injury during the reporting year.

– increased number of training provided for employees from 287 hours in 2017 to 467 hours in 2018.

Directors' Report

Customers

The Group's major customers are end users and distributors.

– For major distributors, their years of business relationship with the Group have been more than 15 years and the credit terms granted to the major distributors ranged from 30 to 120 days. More than 70% of the Group's total revenue during the year was generated from its five largest distributors.

– The concentration of the Group's customers exposes it to risks, and the performance of its major customers may in turn lead to fluctuation or decline in its revenue. To mitigate such risks, the Group is investing more resources on its advertising and in organising marketing activities to expand the customer base/expanding its product portfolio/segments. The Group also evaluates the performance of potential or existing distributors and communicate with them on a regular basis to ensure they could meet the requirements as set forth by the Group.

– Review customer satisfaction regularly to understand their view on quality regarding our products and services.

Suppliers

The relationship with our suppliers is critical to our long-term business success and the Group takes a collaborative approach in regularly engaging with our partners across its operations.

– The Group's key suppliers are raw and packaging materials suppliers based in Hong Kong, Australia, Taiwan and the United State. Their years of business relationship with the Group have been more than 15 years. The credit period granted from the major suppliers is 30 to 60 days. During the reporting period, the combined value of the Group's purchases from its five largest suppliers was approximately 75% of the total value of supplies purchased.

– The Group has implemented guidelines for selecting and introducing new suppliers and/or new products to our offering.

PERMITTED INDEMNITY

The Company's bye-laws provides that the directors shall be entitled to be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses incurred or sustained by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty except they shall incur or sustain through their own wilful neglect or default, fraud and dishonesty respectively. In addition, liability insurance for directors and senior management of the Company is maintained by the Company with appropriate coverage for certain legal actions against the directors.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in notes 27 and 37(b) to the consolidated financial statements.

GROUP FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 99.

INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT

All the properties of the Group are carried at their revalued amounts.

Movements in the investment properties and property, plant and equipment of the Group during the year are set out in notes 12 and 13 to the consolidated financial statements respectively.

PROPERTIES

Particulars of the property interests of the Group are set out on page 100.

Directors' Report

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

In 2012, the Group completed the acquisition of the trademarks relating to the White Flower Embrocation and White Flower Ointment for Hoe Hin products registered in Malaysia and Singapore from Mr. Gan Wee Sean, an executive director and a major shareholder of the Company, at a total consideration of HK$19,600,000. The consideration is payable by 70 equal annual installments of HK$280,000 each. The acquisition of trademarks constituted a connected transaction as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Details was set out in the announcement of the Company dated 8 September 2009.

During the year, there was no connected transaction nor continuing connected transaction which need to be disclosed pursuant to Chapter 14A of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the related party transactions are set out in notes 14 and 31 to the consolidated financial statements. Those related party transactions did not constitute connected transactions which is required to be disclosed under the Listing Rules.

PURCHASE, SALE AND 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.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would obligate the Company to offer new shares on a pro-rata basis to existing shareholders.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements was entered into during the year and subsisted at the end of the year.

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Executive Directors

Mr. Gan Wee Sean *(Chairman and Chief Executive Officer)*
Mr. Gan Fock Wai, Stephen
Mr. Gan Cheng Hooi, Gavin

Non-executive Director

Ms. Gan Fook Yin, Anita

Independent Non-executive Directors ("INED(s)")

Mr. Leung Man Chiu, Lawrence
Ms. Wong Ying Kay, Ada
Mr. Ip Tin Chee, Arnold

In accordance with the bye-laws of the Company, Mr. Gan Cheng Hooi, Gavin, Ms. Gan Fook Yin, Anita and Mr. Leung Man Chiu, Lawrence will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The term of services of the INEDs, namely Mr. Leung Man Chiu, Lawrence, Ms. Wong Ying Kay, Ada and Mr. Ip Tin Chee, Arnold is of two years from 1 October 2018 to 30 September 2020.

The Company has received written confirmation from each of the INEDs as regards their independence to the Company and considers that each of the INEDs is independent to the Company.

Directors' Report

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2018, the interests and short positions of the directors and chief executive in the shares of the Company and associated corporations, as defined in Part XV of the SFO and as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in shares of the Company

Name of director	Number of shares held Personal interests	Family interests	Corporate interests	Total	Percentage of issued shares of the Company
Mr. Gan Wee Sean	27,208,322	2,380,560 *(Note 1)*	65,323,440 *(Note 2)*	94,912,322 *(Note 2)*	30.46%
Mr. Gan Fock Wai, Stephen	10,446,879	–	62,527,920 *(Note 3)*	72,974,799 *(Note 3)*	23.42%
Ms. Gan Fook Yin, Anita	1,190,280	–	–	1,190,280	0.38%

Long positions in non-voting deferred shares of associated corporations

Name of director	Number of shares held Personal interests	Family interests	Corporate interests	Total	Percentage of issued non-voting deferred shares of the respective corporations
(a) Hoe Hin Pak Fah Yeow Manufactory, Limited (non-voting deferred shares of HK$1,000 each)					
Mr. Gan Wee Sean	8,600	800 *(Note 1)*	–	9,400	42.7%
Mr. Gan Fock Wai, Stephen	2,800	–	–	2,800	12.7%
(b) Pak Fah Yeow Investment (Hong Kong) Company, Limited (non-voting deferred shares of HK$1 each)					
Mr. Gan Wee Sean	8,244,445	711,111 *(Note 1)*	–	8,955,556	42.2%
Mr. Gan Fock Wai, Stephen	2,800,000	–	–	2,800,000	13.2%

Notes:

1. Madam Khoo Phaik Gim, wife of Mr. Gan Wee Sean, beneficially owned 2,380,560 shares of the Company, 800 non-voting deferred shares of Hoe Hin Pak Fah Yeow Manufactory, Limited and 711,111 non-voting deferred shares of Pak Fah Yeow Investment (Hong Kong) Company, Limited.

2. These 65,323,440 shares were beneficially owned by Hexagan Enterprises Limited, a company wholly-owned by Mr. Gan Wee Sean and his wife, Madam Khoo Phaik Gim. The total number of 94,912,322 shares in aggregate represented approximately 30.46 percent of the issued shares of the Company.

3. These 62,527,920 shares were beneficially owned by Gan's Enterprises Limited, a company in which Mr. Gan Fock Wai, Stephen has an interest of approximately 32 percent. The total number of 72,974,799 shares in aggregate represented approximately 23.42 percent of the issued shares of the Company.

Directors' Report

Other than as disclosed above, none of the directors or chief executives, nor their associates, had any interests and short positions in shares, underlying shares and debentures of the Company or any of its associated corporations as defined in Part XV of the SFO and none of the directors or chief executives, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights at any time during the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Other than as disclosed in notes 14 and 24 to the accompanying consolidated financial statements, no other transactions, arrangements or contracts of significance in relation to the Company's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

Mr. Gan Wee Sean and Mr. Gan Fock Wai, Stephen respectively entered into a service agreement with the Company on 28 November 1991 for a term of two years and one month commencing from 1 December 1991. The appointment shall continue thereafter subject to termination by either party giving not less than 6-month notice in writing to the other party pursuant to the terms of the service agreement. Accordingly, the appointment continued upon completion of the initial term on 31 December 1993.

On 12 December 2014, a supplemental agreement to service agreement was entered into between the Company and Mr. Gan Wee Sean, an executive director, pursuant to which the contracting parties had agreed to revise the maximum amount of long service payment payable to Mr. Gan Wee Sean from HK$8,000,000 to HK$12,000,000 when he reached the age of 70.

In August 2016, Mr. Gan Wee Sean received his first long service payment of HK$10,347,000 as he reached the age of 70, according to the supplemental agreement dated 12 December 2014. Pursuant to the supplemental agreement dated 26 October 2016, the appointment of Mr. Gan Wee Sean has been extended for three years and the aggregate amount of the first and extended long service payments shall not exceed HK$12,000,000.

The service agreement dated 23 September 2015 entered into between the Company and Mr. Gan Cheng Hooi, Gavin, an executive director, was renewed for a term of three years commencing from 23 September 2018 unless terminated pursuant to the termination clause in the service agreement which, amongst others, entitle either party to terminate the appointment by giving not less than 3-month notice in writing to the other party.

Save as disclosed above, none of the directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the interests or short positions of every person, other than the directors and their respective associates as disclosed in "DIRECTORS' INTERESTS IN SECURITIES" above, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

Long positions in the shares and underlying shares of the Company

Name of shareholder	Nature of interest	Number of shares held	Percentage of issued shares of the Company
Brooke Capital Limited	Beneficial owner and investment manager	34,283,500 *(Note)*	11.00%

Note: As reported by Brooke Capital Limited, these 34,283,500 shares comprised 13,525,000 shares held by itself and 18,698,500 shares and 2,060,000 shares held jointly with East of Suez Fund and Brooke Capital Asia Fund respectively.

Directors' Report

Save as disclosed above, as at 31 December 2018, the Company had not been notified of any other interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group accounted for 70.7% of the total revenue of the Group in 2018 with the largest customer accounting for 18.2%.

The five largest suppliers of the Group accounted for 74.9% of the total purchases of the Group in 2018 with the largest supplier accounting for 26.1%.

To the best of the directors' knowledge, no director of the Company or any of its subsidiaries, their close associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in the five largest customers or suppliers referred to above.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company or any of its subsidiaries were entered into or subsisted during the year.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules except for the following deviation:

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. Mr. Gan Wee Sean, the Chairman of the board of directors, was appointed as the acting Chief Executive Officer on 21 April 2008 and the Chief Executive Officer on 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 INEDs 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.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

AUDITOR

The consolidated financial statements for the year ended 31 December 2018 have been audited by Mazars CPA Limited, Certified Public Accountants. A resolution will be submitted to the forthcoming annual general meeting to re-appoint Mazars CPA Limited as auditor of the Company.

On behalf of the Board
Pak Fah Yeow International Limited

GAN Wee Sean
Chairman

Hong Kong, 26 March 2019

Independent Auditor's Report

MAZARS

Mazars CPA Limited
中審眾環(香港)會計師事務所有限公司
42nd Floor, Central Plaza,
18 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道 18 號中環廣場 42 樓

To the shareholders of
Pak Fah Yeow International Limited
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Pak Fah Yeow International Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 35 to 98, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS" section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
Valuation of investment properties and leasehold land and buildings *Refer to notes 12, 13 and 34(b) to the consolidated financial statements*	
As at 31 December 2018, investment properties and leasehold land and buildings held by the Group were stated at fair value of HK$343,731,000 and HK$375,600,000 respectively. Significant estimation and judgement are required by management to determine the fair value of the investment properties and the leasehold land and buildings, including the determination of valuation techniques and the selection of different inputs in the models. Management has engaged independent professional valuers in the United Kingdom, Singapore and Hong Kong (the "Valuers") whose work has been relied on in the estimation of the fair value of the investment properties and leasehold land and buildings.	Our key audit procedures over valuation of properties included: - Evaluating the competence, capabilities and objectivity of the Valuers. - Assessing the appropriateness of the work of the Valuers by making enquiries on the bases of valuation and obtaining corroborative evidence on the input data. - Considering the relevance and reasonableness of key assumptions and methods used, and the relevance and accuracy of the source data used.

Independent Auditor's Report

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in this annual report but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Independent Auditor's Report

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Mazars CPA Limited
Certified Public Accountants
Hong Kong, 26 March 2019

The engagement director on the audit resulting in this independent auditor's report is:

Eunice Y M Kwok

Practising Certificate number: P04604

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	4	**141,043**	178,269
Other revenue	4	**555**	618
Other net income	5	**109**	2,190
Changes in inventories of finished goods		**1,481**	(60)
Raw materials and consumables used		**(32,283)**	(35,087)
Staff costs		**(33,479)**	(33,838)
Depreciation expenses		**(7,893)**	(2,081)
Net exchange (loss) gain		**(1,344)**	1,579
Other operating expenses		**(34,256)**	(36,141)
Profit from operations before fair value changes of financial assets through profit or loss and of investment properties		**33,933**	75,449
Net (loss) gain on financial assets at fair value through profit or loss		**(890)**	2,816
Revaluation surplus in respect of investment properties	12	**11,500**	35,422
Profit from operations		**44,543**	113,687
Finance costs	6	**(820)**	(784)
Profit before taxation	6	**43,723**	112,903
Taxation	9	**(6,443)**	(10,314)
Profit for the year, attributable to owners of the Company		**37,280**	102,589

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation surplus of leasehold land and buildings, net of tax effect of HK$4,377,000 *(2017: HK$8,384,000)*		**22,146**	42,425
Items that are reclassified or may be reclassified subsequently to profit or loss:			
Reclassification adjustment relating to disposal of available-for-sale financial assets		**–**	(1,260)
Changes in fair value of available-for-sale financial assets		**–**	539
Exchange difference arising from translation of financial statements of overseas subsidiaries		**(8,650)**	13,836
Exchange difference arising from translation of inter-company balances with overseas subsidiaries representing net investments		**2,138**	(3,710)
		(6,512)	9,405
Other comprehensive income for the year, net of tax, attributable to owners of the Company		**15,634**	51,830
Total comprehensive income for the year, attributable to owners of the Company		**52,914**	154,419
Earnings per share			
Basic and diluted	*11*	**12.0 cents**	32.9 cents

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Investment properties	12	**343,731**	340,961
Property, plant and equipment	13	**378,988**	359,133
Intangible assets	14	**2,450**	2,450
Financial assets at fair value through profit or loss	15	**5,960**	–
Available-for-sale financial assets	15	**–**	6,241
		731,129	708,785
Current assets			
Inventories	16	**13,976**	14,635
Trade and other receivables	17	**24,651**	34,829
Financial assets at fair value through profit or loss	15	**14,994**	18,465
Tax recoverable		**3,976**	1,340
Bank balances and cash	18	**126,115**	120,722
		183,712	189,991
Current liabilities			
Bank borrowings, secured	19	**21,893**	26,660
Current portion of deferred income	22	**221**	215
Trade and other payables	20	**35,847**	29,584
Dividends payable		**7,343**	7,249
		65,304	63,708
Net current assets		**118,408**	126,283
Total assets less current liabilities		**849,537**	835,068
Non-current liabilities			
Long-term portion of consideration payable for acquisition of trademarks	21	**2,073**	2,073
Long-term portion of deferred income	22	**32,076**	30,578
Provision for directors' retirement benefits	24	**4,204**	3,715
Deferred taxation	25	**54,482**	50,194
		92,835	86,560
NET ASSETS		**756,702**	748,508
Capital and reserves			
Share capital	26	**15,582**	15,582
Share premium and reserves	27	**741,120**	732,926
TOTAL EQUITY		**756,702**	748,508

Approved and authorised for issue by the Board of Directors on 26 March 2019 and signed on its behalf by

GAN Wee Sean
Director

GAN Fock Wai, Stephen
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to owners of the Company							
	Share capital *HK$'000*	Share premium *HK$'000*	Properties revaluation reserve *HK$'000*	Investment revaluation reserve (recycling) *HK$'000*	Exchange reserve *HK$'000*	Proposed dividends *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2017	15,582	21,997	213,435	6,573	(40,520)	17,452	398,993	633,512
Profit for the year	–	–	–	–	–	–	102,589	102,589
Other comprehensive income for the year	–	–	42,425	(721)	10,126	–	–	51,830
Total comprehensive income attributable to owners of the Company	–	–	42,425	(721)	10,126	–	102,589	154,419
Transactions with owners:								
Distributions to owners								
Interim dividends declared *(Note 10)*	–	–	–	–	–	–	(21,971)	(21,971)
Final dividend and special dividend proposed *(Note 10)*	–	–	–	–	–	24,308	(24,308)	–
Final dividend in respect of previous years approved	–	–	–	–	–	(17,452)	–	(17,452)
At 31 December 2017	15,582	21,997	255,860	5,852	(30,394)	24,308	455,303	748,508
At 1 January 2018, as previously reported	**15,582**	**21,997**	**255,860**	**5,852**	**(30,394)**	**24,308**	**455,303**	**748,508**
Adjustment on initial application of HKFRS 9 *(Note 2)*	–	–	–	**(5,852)**	–	–	**5,852**	–
At 1 January 2018, as restated	**15,582**	**21,997**	**255,860**	–	**(30,394)**	**24,308**	**461,155**	**748,508**
Profit for the year	–	–	–	–	–	–	**37,280**	**37,280**
Other comprehensive income for the year	–	–	**22,146**	–	**(6,512)**	–	–	**15,634**
Total comprehensive income attributable to owners of the Company	–	–	**22,146**	–	**(6,512)**	–	**37,280**	**52,914**
Transfer	–	–	**(4,855)**	–	–	–	**4,855**	–
Transactions with owners:								
Distributions to owners								
Interim dividends declared *(Note 10)*	–	–	–	–	–	–	**(20,412)**	**(20,412)**
Final dividend and special dividend proposed *(Note 10)*	–	–	–	–	–	**11,842**	**(11,842)**	–
Final dividend in respect of previous years approved	–	–	–	–	–	**(24,308)**	–	**(24,308)**
At 31 December 2018	**15,582**	**21,997**	**273,151**	–	**(36,906)**	**11,842**	**471,036**	**756,702**

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES			
Cash generated from operations	*28(a)*	**64,787**	111,198
Interest received		**519**	448
Interest paid		**(540)**	(505)
Income taxes paid		**(9,108)**	(12,325)
Net cash generated from operating activities		**55,658**	98,816
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(1,292)**	(1,478)
Proceeds from disposal of property, plant and equipment		**79**	320
Proceeds from disposal of available-for-sale financial assets		**–**	2,273
Net cash (used in) generated from investing activities		**(1,213)**	1,115
FINANCING ACTIVITIES	*28(b)*		
Consideration paid for acquisition of trademarks		**(280)**	(280)
Repayment of bank borrowings		**(242,366)**	(259,099)
New bank borrowings		**238,776**	256,252
Dividends paid		**(44,626)**	(39,361)
Net cash used in financing activities		**(48,496)**	(42,488)
Net increase in cash and cash equivalents		**5,949**	57,443
Cash and cash equivalents at beginning of the reporting period		**120,722**	63,083
Effect of foreign exchange rate changes		**(556)**	196
Cash and cash equivalents at end of the reporting period	*18*	**126,115**	120,722

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

1. GENERAL

Pak Fah Yeow International Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and principal place of business is 11th Floor, 200 Gloucester Road, Wan Chai, Hong Kong. The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacture and sale of healthcare products, treasury and property investments. The Company and its subsidiaries are herein collectively referred to as the "Group".

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable HKFRS, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and in compliance with the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

These consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2017 consolidated financial statements except for the adoption of the following new/revised HKFRSs that are relevant to the Group and effective from the current year. A summary of the principal accounting policies adopted by the Group is set out below.

Adoption of new/revised HKFRSs

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

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

Amendments to HKAS 40: Transfers of Investment Property

The amendments clarify that, to transfer to or from, investment properties, there must be a change in use. A change in use would involve (a) an assessment of whether a property meets, or has ceased to meet, the definition of investment property; and (b) supporting evidence that a change in use has occurred.

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

HK(IFRIC)-Int 22: Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to be used on the initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognised the non-monetary asset or non-monetary liability arising from the advance consideration.

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

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Adoption of new/revised HKFRSs (Continued)

HKFRS 9: Financial Instruments

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

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

(a) The following assessments are made on the basis of facts and circumstances that existed at the date of initial application:

(i) the determination of the business model within which a financial asset is held;

(ii) the designation of financial assets or financial liabilities at fair value through profit or loss ("FVPL"); and

(iii) the de-designation of financial assets or financial liabilities at FVPL.

The above resulting classification shall be applied retrospectively.

(b) If, at the date of initial application, determining whether there has been a significant increase in credit risk since initial recognition would require undue cost or effort, a loss allowance is recognised at an amount equal to lifetime expected credit losses at each reporting date until the financial instrument is derecognised unless that financial instrument has low credit risk at a reporting date.

(c) For investments in equity instruments that were measured at cost under HKAS 39, the instruments are measured at fair value at the date of initial application.

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

	Investment revaluation reserve (recycling) *HK$'000*	**Retained profits** *HK$'000*	**Total** *HK$'000*
At 1 January 2018			
Reclassification	(5,852)	5,852	–
(Decrease) Increase	(5,852)	5,852	–

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Adoption of new/revised HKFRSs (Continued)

HKFRS 9: Financial Instruments (Continued)

Classification and measurement of financial assets and financial liabilities

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

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

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

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

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

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Adoption of new/revised HKFRSs (Continued)

HKFRS 15: Revenue from Contracts with Customers

HKFRS 15 replaces, among others, HKAS 18 and HKAS 11 which specified the revenue recognition arising from sale of goods and rendering of services and the accounting for construction contracts respectively. The Standard establishes a comprehensive framework for revenue recognition and certain costs from contracts with customers. It also introduces a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The Group has elected to apply the cumulative effect transition method and recognised the cumulative effect of initial adoption (if any) as an adjustment to the opening balance of components of equity at 1 January 2018 (i.e. the date of initial application). Therefore, the comparative information has not been restated for the effect of HKFRS 15.

In addition, the Group has applied HKFRS 15 retrospectively only to contracts that were not completed at 1 January 2018 in accordance with the transition provision therein.

Before the adoption of HKFRS 15, the Group recognised revenue arising from the sales of goods on transfer of risks and rewards of ownership, which generally coincided with the time when the goods were delivered to customers and the title was passed. Under HKFRS 15, revenue from sales of goods is recognised at a point in time at which the customer obtains the control of the promised asset, which generally coincides with the time when the goods are delivered to customers and the title is passed.

The adoption of HKFRS 15 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 as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Investment properties

Investment properties are land and/or building that are held by owner or lessee under finance lease to earn rental income and/or for capital appreciation. These include properties held for a currently undetermined future use and properties that are held under operating lease, which satisfy the definition of investment property and carry at fair value.

Investment properties are stated at fair value at the end of the reporting period. Any gain or loss arising from a change in fair value is recognised in the profit or loss. The fair value of investment property is based on a valuation by an independent valuer who holds a recognised professional qualification and has recent experience in the location and category of property being valued.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment, other than leasehold land and buildings held for own use, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance expenses are charged to profit or loss during the year in which they are incurred.

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Where the Group acquires the leasehold land under a finance lease, the prepaid cost representing the fair value of the leasehold land is included in leasehold land and buildings held for own use under property, plant and equipment.

Leasehold land and buildings held for own use are stated at revalued amount, being the fair value at the date of valuation less accumulated depreciation and accumulated impairment losses. Fair value is determined by independent valuations which are performed periodically by independent valuers who hold recognised professional qualifications and have recent experience in the location and category of property being valued. Increases in valuation are credited to the properties revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same asset and are thereafter charged to profit or loss. Any subsequent increases are credited to profit or loss up to the amount previously charged and thereafter to properties revaluation reserve. At the end of each reporting period, the amount of the revaluation surplus (calculated as the difference between depreciation based on the revalued carrying amount of the leasehold land and buildings and depreciation based on their original cost) is transferred from properties revaluation reserve to retained profits. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost or valuation less accumulated impairment losses of property, plant and equipment over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis and depreciated separately.

Leasehold land	Over the relevant lease term
Buildings situated on leasehold land	50 years or over the relevant lease term, whichever is shorter
Plant and machinery	10 – 15 years
Furniture, fixtures and equipment	5 – 15 years
Motor vehicles	5 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year in which the item is derecognised.

Intangible assets

Acquired intangible assets are measured on initial recognition at cost. The cost of intangible assets acquired represents their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed as indefinite.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Intangible assets (Continued)

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Subsidiaries

A subsidiary is an entity that is controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Company's statement of financial position which is presented within these notes, the investments in subsidiaries are stated at cost less impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Financial instruments

Financial assets

Recognition and derecognition

Financial assets are recognised when and only when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Group's contractual rights to future cash flows from the financial asset expire or (ii) the Group transfers the financial asset and either (a) it transfers substantially all the risks and rewards of ownership of the financial asset, or (b) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises the financial asset to the extent of its continuing involvement and an associated liability for amounts it may have to pay.

Classification and measurement – applicable from 1 January 2018

Financial assets (except for trade receivables without a significant financing component) are initially recognised at their fair value plus, in the case of financial assets not carried at FVPL, transaction costs that are directly attributable to the acquisition of the financial assets. Such trade receivables are initially measured at their transaction price.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Classification and measurement – applicable from 1 January 2018 (Continued)

On initial recognition, a financial asset is classified as (i) measured at amortised cost; or (ii) measured at FVPL.

The classification of financial assets at initial recognition depends on the Group's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing them, in which case all affected financial assets are reclassified on the first day of the first interim reporting period following the change in the business model.

1) Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

(i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses arising from impairment, derecognition or through the amortisation process are recognised in profit or loss.

The Group's financial assets at amortised cost include trade and other receivables and bank balances and cash.

2) Financial assets at FVPL

These investments include financial assets held for trading. They are carried at fair value, with any resultant gain and loss recognised in profit or loss, which includes any dividend or interest earned on the financial assets. Dividend or interest income is presented separately from fair value gain or loss.

A financial asset is classified as held for trading if it is:

(i) acquired principally for the purpose of selling it in the near term;

(ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking on initial recognition; or

(iii) a derivative that is not a financial guarantee contract or not a designated and effective hedging instrument.

Financial assets are designated at initial recognition as at FVPL only if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Classification and measurement – applicable from 1 January 2018 (Continued)

2) Financial assets at FVPL (Continued)

The Group's financial assets mandatorily measured at FVPL include equity securities, debt securities, private equity fund, mutual funds and non-current debt securities.

Classification and measurement – applicable before 1 January 2018

Financial assets are initially recognised at their fair value plus, in the case of financial assets not carried at FVPL, transaction costs that are directly attributable to the acquisition of the financial assets.

1) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. They are carried at fair value, with any resultant gain and loss recognised in profit or loss, which includes any dividend or interest earned on the financial assets.

Financial assets are classified as held for trading if they are (i) acquired or incurred principally for the purpose of selling or repurchasing in the near future; (ii) part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or (iii) derivatives that are not financial guarantee contracts or not designated as effective hedging instruments.

Financial assets are designated at initial recognition as at fair value through profit or loss only if (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or (ii) they are part of a group of financial assets and/or financial liabilities that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) they contain embedded derivatives that would need to be separately recorded.

The Group's short-term dual currency deposits are in the nature of hybrid financial instruments under HKAS 39. Since they are measured at fair value with changes in fair value recognised in profit or loss, the embedded derivatives are not separately accounted for.

2) Loans and receivables

Loans and receivables including trade and other receivables and bank balances and cash are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are carried at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition over the year to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated at this category or not classified in any of the other categories of financial assets. They are measured at fair value with changes in value recognised as a separate component of equity until the assets are sold, collected or otherwise disposed of, or until the assets are determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income shall be reclassified to profit or loss as a reclassification adjustment.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities

Recognition and derecognition

Financial liabilities are recognised when and only when the Group becomes a party to the contractual provisions of the instruments.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and measurement

Financial liabilities are initially recognised at their fair value plus, in the case of financial liabilities not carried at FVPL, transaction costs that are direct attributable to the issue of the financial liabilities.

The Group's financial liabilities include trade and other payables, consideration payable for acquisition of trademarks and bank borrowings. All financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract is initially recognised as deferred income within trade and other payable at fair value (being the transaction price, unless the fair value can otherwise be reliably estimated).

Subsequently, the financial guarantee is measured at the higher of (i) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with HKFRS 15 and (ii) the amount of the loss allowance determined in accordance with the expected credit losses ("ECL") model under HKFRS 9, unless the financial guarantee is measured at FVPL or arises from a transfer of a financial asset.

Before the adoption of HKFRS 9, the financial guarantee is subsequently measured at the higher of (i) the amount initially recognised less, when appropriate, the cumulative amortisation recognised in accordance with HKAS 18, and (ii) the amount of the provision determined in accordance with HKAS 37, unless the financial guarantee is measured at FVPL or arises from a transfer of a financial asset.

Impairment of financial assets and other items under HKFRS 9

Applicable from 1 January 2018

The Group recognises loss allowances for ECL on financial assets that are measured at amortised cost. Except for the specific treatments as detailed below, at each reporting date, the Group measures a loss allowance for a financial asset at an amount equal to the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to 12-month ECL.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument.

For financial assets, a credit loss is the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive. For lease receivable, the cash flows used for determining the ECL should be consistent with the cash flow used in measuring the lease receivable in accordance with HKAS 17.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets and other items under HKFRS 9 (Continued)

Applicable from 1 January 2018 (Continued)

Measurement of ECL (Continued)

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument while 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Where ECL is measured on a collective basis, the financial instruments are grouped based on certain shared credit risk characteristics, such as past due information, nature of instrument, geographical location of debtors and external risk ratings.

Loss allowance is remeasured at each reporting date to reflect changes in the financial instrument's credit risk and loss since initial recognition. The resulting changes in the loss allowance are recognised as an impairment gain or loss in profit or loss with a corresponding adjustment to the carrying amount of the financial instrument.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that the Group may not receive the outstanding contractual amounts in full if the financial instrument meets any of the following criteria:

(i) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group); or

(ii) there is a breach of financial covenants by the counterparty.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Assessment of significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. In particular, the following information is taken into account:

- the debtor's failure to make payments of principal or interest on the due dates;
- an actual or expected significant deterioration in the financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- actual or expected changes in the technological, market, economic or legal environment that have or may have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets and other items under HKFRS 9 (Continued)

Applicable from 1 January 2018 (Continued)

Assessment of significant increase in credit risk (Continued)

Notwithstanding the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

Low credit risk

A financial instrument is determined to have low credit risk if:

(i) it has a low risk of default;

(ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and

(iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Simplified approach of ECL

For trade receivables, the Group applies a simplified approach in calculating ECL. The Group recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Credit-impaired financial asset

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower.

(b) a breach of contract, such as a default or past due event.

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider.

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of financial assets and other items under HKFRS 9 (Continued)

Applicable from 1 January 2018 (Continued)

Write-off

The Group writes off a financial asset when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities under the Group's procedures for recovery of amounts due, taking into account legal advice if appropriate. Any subsequent recovery is recognised in profit or loss.

Applicable before 1 January 2018

At the end of each reporting period, the Group assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired.

1) Loans and receivables

An allowance for impairment loss of a financial asset is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the financial asset.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the financial asset is impaired.

The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss.

When a receivable is uncollectible, it is written off against the relevant allowance account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

2) Available-for-sale financial assets

For available-for-sale financial assets, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

When an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and current fair value, less any previously recognised impairment loss, is transferred from equity to profit or loss. Reversal of impairment loss of available-for-sale equity instrument is recognised in equity. Reversal of impairment loss of available-for-sale debt instrument is reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Cash equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts. For classification in the consolidated statement of financial position, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Revenue recognition

Rental income under operating leases is recognised when the properties are let out and on the straight-line basis over the lease term. Contingent rents are recognised as income in the period in which they are earned.

Dividend income from financial assets is recognised when the Group's rights to receive dividend is established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Realised gain or loss on financial assets at FVPL is recognised on a trade date basis whilst unrealised gain or loss on financial assets at FVPL is recognised to restate to their fair value at the end of the reporting period.

Applicable from 1 January 2018

Revenue from contracts with customers within HKFRS 15

Nature of goods

The nature of the goods provided by the Group is manufacturing and sale of Hoe Hin products.

Identification of performance obligations

At contract inception, the Group assesses the goods promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either:

(a) a good (or a bundle of goods) that is distinct; or

(b) a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer.

A good that is promised to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the good either on its own or together with other resources that are readily available to the customer (i.e. the good is capable of being distinct); and

(b) the Group's promise to transfer the good to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good is distinct within the context of the contract).

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Applicable from 1 January 2018 (Continued)

Revenue from contracts with customers within HKFRS 15 (Continued)

Timing of revenue recognition

Revenue is recognised when (or as) the Group satisfies a performance obligation by transferring a promised good (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Group transfers control of a good over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

(b) the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

(c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, the Group satisfies the performance obligation at a point in time when the customer obtains control of the promised asset. In determining when the transfer of control occurs, the Group considers the concept of control and such indicators as legal title, physical possession, right to payment, significant risks and rewards of ownership of the asset, and customer acceptance.

Sale of Hoe Hin products is recognised at a point in time at which the customer obtains the control of the promised asset, which generally coincides with the time when the goods are delivered to customers and the title is passed. Revenue is after deduction of any trade discounts.

Variable consideration

If the consideration promised in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods to a customer. The variable consideration is estimated by using either the expected-value or the most-likely-amount method whichever is better to predict the entitled amount. The estimated variable consideration is then included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised of the contract will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Variable consideration: purchase rebates and chain-store discounts

The Group gives rebates to selected customers and discounts to selected chain-stores. The Group estimates the purchase rebates and discounts using the most-likely-amount method and assesses whether the estimated variable consideration is constrained with reference to the agreed percentages of rebates and annual purchases. Any significant estimation variances will be analysed and taken into consideration in the current estimation and assessment. Typically, the estimated consideration is constrained.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Applicable from 1 January 2018 (Continued)

Interest income

Interest income from financial assets is recognised using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the assets while it is applied to the amortised cost (i.e. the gross carrying amount net of loss allowance) in case of credit-impaired financial assets.

Applicable before 1 January 2018

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

Sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title is passed.

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses resulting from the retranslation of non-monetary items carried at fair value are recognised in profit or loss except for those arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the gains or losses are also recognised directly in equity.

The results and financial position of all the group entities that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented and, where applicable, goodwill and fair value adjustments on the carrying amounts of assets and liabilities arising on an acquisition of a foreign operation which are to be treated as assets and liabilities of that foreign operation, are translated at the closing rate at the end of the reporting period;

- Income and expenses for each statement of comprehensive income are translated at average exchange rate;

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation (Continued)

- All resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity.

- On the disposal of a foreign operation, which includes a disposal of the Group's entire interest in a foreign operation, a disposal involving the loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest is no longer equity-accounted for, the cumulative amount of the exchange differences relating to the foreign operation that is recognised in other comprehensive income and accumulated in the separate component of equity is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

- On the partial disposal of the Group's interest in a subsidiary that includes a foreign operation which does not result in the Group losing control over the subsidiary, the proportionate share of the cumulative amount of the exchange differences recognised in the separate component of equity is re-attributed to the non-controlling interests in that foreign operation and are not reclassified to profit or loss.

Impairment of non-financial assets

At the end of each reporting period, the Group reviews internal and external sources of information to assess whether there is any indication that its intangible assets and property, plant and equipment may be impaired or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs of disposal and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. the cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense in profit and loss immediately, except where the relevant asset is carried at revalued amount in which case the impairment loss is treated as a revaluation decrease in accordance with the accounting policy relevant to that asset.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income in profit or loss immediately, except where the relevant asset is carried at revalued amount, in which case the reversal of impairment loss is treated as a revaluation increase in accordance with the accounting policy relevant to that asset.

Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34: *Interim financial reporting* in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Leases

Leases which do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases. Rentals payable and receivable under operating leases are charged or credited to profit or loss on a straight-line basis over the term of the relevant lease.

Employee benefits

Short-term employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plan and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

Defined contribution plan

The Group operates a Mandatory Provident Fund ("MPF") scheme for all employees in Hong Kong. The MPF scheme is registered with the Mandatory Provident Fund Scheme Authority under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The assets of the MPF scheme are held separately from those of the Group in funds under the control of independent trustees. Under the rules of the MPF scheme, each of the employer and its employees are required to make contributions to the scheme at the rate specified in the rules. The obligations for contributions to defined contribution retirement scheme are recognised as an expense in profit or loss.

Long service payments

The Group's net obligations in respect of long service payment under the Employment Ordinance and directors' retirement scheme benefits are the amounts of future benefit that employees and directors have earned in return for their services in the current and prior periods. The obligations are calculated using the projected unit credit method and discounted to their present value and after deducting the fair value of any related assets, including retirement scheme benefits.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

Share capital

Ordinary shares are classified as equity. Where any group entity purchases the Company's equity shares (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's owners until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, any deferred tax arising from initial recognition of goodwill; or other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

The deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxable authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Related parties

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if that person:

   (i) has control or joint control over the Group;

   (ii) has significant influence over the Group; or

   (iii) is a member of the key management personnel of the Group or of the parent of the Group.

(b) An entity is related to the Group if any of the following conditions applies:

   (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

   (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

   (iii) Both entities are joint ventures of the same third party.

   (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

   (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

   (vi) The entity is controlled or jointly controlled by a person identified in (a).

   (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

   (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Related parties (Continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker, namely, the executive directors, for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products or services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Critical accounting estimates and judgements

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the future periods are discussed below.

Key sources of estimation uncertainty

(i) Valuation of investment properties and leasehold land and buildings

Investment properties and leasehold land and buildings held by the Group are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have made reference to recent market transactions prices of similar properties and adjusted to the condition of the Group's investment properties and leasehold land and buildings. In relying on the valuation report, management of the Group has exercised its judgement and is satisfied that the techniques and assumptions applied by the valuers are appropriate. Changes to these assumptions would result in changes in the fair value of the Group's investment properties and leasehold land and buildings which would be recognised in the profit or loss or properties revaluation reserve.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Critical accounting estimates and judgements (Continued)

Key sources of estimation uncertainty (Continued)

(ii) Revenue from contracts with customers within HKFRS 15

Estimation and constraint of variable consideration

The sale of Hoe Hin products includes purchase rebates and chain-store discounts that give rise to variable consideration. In estimating the variable consideration, the Group applies the most-likely-amount method to predict the entitled amount.

The Group determines that the most-likely-amount method is appropriate to estimate the variable consideration arising from purchase rebates and chain-store discounts because there is a usually a single volume threshold.

Before including any estimated amount of variable consideration in the transaction price, the Group considers whether it is constrained based on the historical experience, business forecast and the current economic conditions.

(iii) Loss allowance for ECL

The Group's management estimates the loss allowance for financial assets by using various inputs and assumptions including risk of a default and expected loss rate. The estimation involves high degree of uncertainty which is based on the Group's historical information, existing market conditions as well as forward-looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of financial assets. Details of the key assumption and inputs used in estimating ECL are set out in note 32(a) to these consolidated financial statements.

(iv) Allowance for inventories

The Group's management reviews the condition of inventories at the end of each reporting period, and makes allowance for obsolete and slow-moving items that are identified as no longer recoverable or suitable for use in production. Management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions.

Future changes in HKFRSs

At the date of authorisation of these consolidated financial statements, the HKICPA has issued a number of new/revised HKFRSs that are relevant to the Group but not yet effective for the current year, which the Group has not early adopted.

Annual Improvements to HKFRSs	2015-2017 Cycle[1]
HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKASs 1 and 8	Definition of Material[2]
Amendments to HKFRS 3	Definition of a Business[3]

[1] Effective for annual periods beginning on or after 1 January 2019

[2] Effective for annual periods beginning on or after 1 January 2020

[3] Effective for acquisitions that occur on or after the beginning of the first annual period beginning on or after 1 January 2020

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Future changes in HKFRSs (Continued)

The Group is in the process of making a detailed assessment of the possible impact on the future adoption of the new/revised HKFRSs. So far, the management is of the opinion that except for HKFRS 16 which is explained below, the adoption of the new/reviewed HKFRSs will not have any significant impact on the consolidated financial statements.

HKFRS 16 Leases

HKFRS 16, which will be effective for annual periods beginning on or after 1 January 2019, 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 these two types of leases differently. HKFRS 16 also requires enhanced disclosures to be provided by lessors.

The directors of the Company do not anticipate that the application of HKFRS 16 will have a material impact in the future reporting period as there is no change in the classification on the leases as lessor and the current operating leases on advertising spaces are short-term leases.

3. 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.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Business segments

	Year ended 31 December 2018			
	Healthcare *HK$'000*	Property investments *HK$'000*	Treasury investments *HK$'000*	Consolidated *HK$'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	26,523	–	–	26,523
Net loss on financial assets at fair value through profit or loss	–	–	(890)	(890)

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Business segments (Continued)

	Year ended 31 December 2017			
	Healthcare *HK$'000*	Property investments *HK$'000*	Treasury investments *HK$'000*	Consolidated *HK$'000*
Revenue from external customers	167,819	10,002	448	178,269
Segment results	79,070	43,660	5,292	128,022
Unallocated corporate expenses				(14,335)
Profit from operations				113,687
Finance costs				(784)
Profit before taxation				112,903
Taxation				(10,314)
Profit for the year				102,589
Assets				
Segment assets	482,184	342,083	72,763	897,030
Unallocated corporate assets				1,746
Consolidated total assets				898,776
Liabilities				
Segment liabilities	27,749	54,221	–	81,970
Unallocated corporate liabilities				68,298
Consolidated total liabilities				150,268
Other information				
Additions to non-current assets *(note)*	1,475	3	–	1,478
Depreciation expenses	1,996	85	–	2,081
Revaluation surplus in respect of investment properties	–	35,422	–	35,422
Revaluation surplus of leasehold land and buildings	50,809	–	–	50,809
Net gain on financial assets at fair value through profit or loss	–	–	2,816	2,816

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

3. OPERATION SEGMENT INFORMATION (CONTINUED)

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	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**69,781**	98,926	**36,179**	87,729
Macau	**14,573**	14,928	**9,454**	10,366
PRC	**20,686**	26,741	**(4,451)**	3,805
Southeast Asia	**24,159**	22,890	**8,802**	11,374
North America	**3,445**	4,286	**1,981**	1,845
United Kingdom	**6,717**	7,392	**5,728**	9,686
Other regions	**1,682**	3,106	**(394)**	2,282
Unallocated corporate expenses	**–**	–	**(12,756)**	(13,400)
	141,043	178,269	**44,543**	113,687

	Non-current assets *(Note)*	
	2018	2017
	HK$'000	*HK$'000*
Hong Kong	**559,388**	527,242
Macau	**–**	–
PRC	**–**	–
Southeast Asia	**13,626**	13,840
North America	**–**	–
United Kingdom	**152,155**	161,462
Other regions	**–**	–
	725,169	702,544

Note: Non-current assets exclude financial instruments.

Information about major customers

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

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

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Year ended 31 December 2018

4. REVENUE AND OTHER REVENUE

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

5. OTHER NET INCOME

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

6. PROFIT BEFORE TAXATION

This is stated after charging (crediting):

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

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

7. BENEFITS AND INTERESTS OF DIRECTORS

(a) Director's emoluments

The aggregate amounts of emoluments received and receivable by the Company's directors are as follows:

	2018						
	Directors' fees *HK$'000*	Salaries and other benefits *HK$'000*	Management bonus *HK$'000*	Retirement benefits *HK$'000* *(Note 24)*	Housing and other allowances *HK$'000*	Contributions to defined contribution plan *HK$'000*	Total *HK$'000*
Executive directors							
Gan Wee Sean	41	4,372	431	250	1,484	–	6,578
Gan Fock Wai, Stephen	41	3,054	431	239	814	18	4,597
Gan Cheng Hooi, Gavin	135	625	149	–	–	18	927
Non-executive director							
Gan Fook Yin, Anita	128	–	–	–	–	–	128
Independent non-executive directors							
Wong Ying Kay, Ada	128	–	–	–	–	–	128
Ip Tin Chee, Arnold	128	–	–	–	–	–	128
Leung Man Chiu, Lawrence	128	–	–	–	–	–	128
	729	8,051	1,011	489	2,298	36	12,614

	2017						
	Directors' fees *HK$'000*	Salaries and other benefits *HK$'000*	Management bonus *HK$'000*	Retirement benefits *HK$'000* *(Note 24)*	Housing and other allowances *HK$'000*	Contributions to defined contribution plan *HK$'000*	Total *HK$'000*
Executive directors							
Gan Wee Sean	40	4,244	1,026	238	1,440	–	6,988
Gan Fock Wai, Stephen	40	2,964	1,026	457	789	18	5,294
Gan Cheng Hooi, Gavin	124	568	265	–	–	18	975
Non-executive director							
Gan Fook Yin, Anita	124	–	–	–	–	–	124
Independent non-executive directors							
Wong Ying Kay, Ada	124	–	–	–	–	–	124
Ip Tin Chee, Arnold	124	–	–	–	–	–	124
Leung Man Chiu, Lawrence	124	–	–	–	–	–	124
	700	7,776	2,317	695	2,229	36	13,753

Management bonus is calculated at 1% *(2017: 1%)* of the consolidated net profit after taxation or 0.4% *(2017: 0.4%)* of the net profit after taxation and certain adjustments of a subsidiary according to the terms specified in the executive directors' service agreements.

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Year ended 31 December 2018

7. BENEFITS AND INTERESTS OF DIRECTORS (CONTINUED)

(b) Loans, quasi-loans and other dealings in favour of directors

There were no loans, quasi-loans or other dealings in favour of the directors of the Company that were entered into or subsisted during the years ended 31 December 2018 and 2017.

(c) Directors' material interest in transactions, arrangements or contracts

Except for the instalments payable for the acquisition of trademarks and the retirement benefits arrangement as detailed in notes 14 and 24 to the consolidated financial statements, no transactions, arrangements and contracts of significance in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the years or at any time during the years ended 31 December 2018 and 2017.

8. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, three *(2017: three)* are directors whose emoluments are included in the amounts disclosed in note 7 above. The aggregate of the emoluments of the other two *(2017: two)* individuals are as follows:

	2018	2017
	HK$'000	*HK$'000*
Salaries and other benefits	**2,028**	1,974
Bonus	**288**	490
Contributions to defined contribution plan	**36**	36
	2,352	2,500

The emoluments of the two *(2017: two)* individuals with the highest emoluments fall within the following bands:

	2018	2017
	Number of individuals	Number of individuals
HK$Nil – HK$1,000,000	**–**	–
HK$1,000,001 – HK$1,500,000	**2**	2

During the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to the five highest paid individuals and other directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the years ended 31 December 2018 and 2017, no directors waived any of their emoluments.

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9. TAXATION

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

For the year ended 31 December 2018, Hong Kong Profits Tax of the Group's Hong Kong operations is calculated at a flat rate of 16.5% *(2017: 16.5%)* on the estimated assessable profits.

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

	2018	2017
	HK$'000	*HK$'000*
The charge comprises:		
Current tax		
Hong Kong Profits Tax	**5,490**	9,204
Overseas tax	**1,042**	1,197
	6,532	10,401
Deferred taxation *(Note 25)*		
Origination and reversal of temporary differences	**(89)**	(87)
	6,443	10,314

Reconciliation of effective tax rate

	2018	2017
	%	%
Applicable tax rate in Hong Kong	**16.5**	16.5
Non-deductible expenses and losses	**1.4**	(0.4)
Non-taxable revenue and gains	**(3.0)**	(5.7)
Utilisation of previously unrecognised tax losses	**–**	(1.5)
Others	**(0.2)**	0.2
Effective tax rate for the year	**14.7**	9.1

Notes to the Consolidated Financial Statements

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10. DIVIDENDS

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

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

11. EARNINGS PER SHARE

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

	2018 *HK$'000*	2017 *HK$'000*
Profit attributable to owners of the Company	**37,280**	102,589

	2018 Number of shares *'000*	2017 Number of shares *'000*
Weighted average number of ordinary shares for basic earnings per share	**311,640**	311,640
Earnings per share		
Basic and diluted	**12.0 cents**	32.9 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 2018 and 2017.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

12. INVESTMENT PROPERTIES

	Investment properties in Hong Kong under long leases	Freehold investment properties in United Kingdom and Singapore	Total
	HK$'000	*HK$'000*	*HK$'000*
Valuation			
At 1 January 2017	136,350	154,643	290,993
Exchange realignment	–	14,546	14,546
Revaluation surplus	31,760	3,662	35,422
At 31 December 2017	168,110	172,851	340,961
At 1 January 2018	168,110	172,851	340,961
Exchange realignment	–	(8,730)	(8,730)
Revaluation surplus (deficit), net	12,290	(790)	11,500
At 31 December 2018	**180,400**	**163,331**	**343,731**

Investment properties in Hong Kong and Singapore were valued on a market value basis using the direct comparison approach by Memfus Wong Surveyors Limited and Hilco Appraisal Singapore Pte Limited, independent professional valuers respectively.

Investment properties in the United Kingdom were valued by Savills (UK) Limited, an independent professional valuer. The commercial units were valued by a traditional investment method of valuation with reference to rental value. The residential units were valued by capitalisation of receipts from granting lease extensions to occupational leaseholders of the residential units pursuant to a leaseholder's statutory right under the provisions of the Leasehold Reform, Housing & Urban Development Act 1993, as amended by the Commonhold and Leasehold Reform Act 2002.

At the end of the reporting period, all of the investment properties of the Group were rented out under operating leases.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings in Hong Kong *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Reconciliation of carrying amount – year ended 31 December 2017					
At beginning of the reporting period	306,500	1,246	935	388	309,069
Additions	–	236	121	1,121	1,478
Revaluation	50,809	–	–	–	50,809
Disposals	–	–	–	(142)	(142)
Depreciation	(1,209)	(272)	(311)	(289)	(2,081)
At end of the reporting period	356,100	1,210	745	1,078	359,133
Reconciliation of carrying amount – year ended 31 December 2018					
At beginning of the reporting period	356,100	1,210	745	1,078	359,133
Additions	–	404	300	588	1,292
Revaluation	26,523	–	–	–	26,523
Disposals	–	–	(12)	(55)	(67)
Depreciation	(7,023)	(285)	(272)	(313)	(7,893)
At end of the reporting period	**375,600**	**1,329**	**761**	**1,298**	**378,988**
At 31 December 2017					
Cost	–	15,584	18,377	1,421	35,382
Valuation	356,100	–	–	–	356,100
Accumulated depreciation	–	(14,374)	(17,632)	(343)	(32,349)
	356,100	1,210	745	1,078	359,133
At 31 December 2018					
Cost	–	15,820	17,587	1,709	35,116
Valuation	375,600	–	–	–	375,600
Accumulated depreciation	–	(14,491)	(16,826)	(411)	(31,728)
	375,600	**1,329**	**761**	**1,298**	**378,988**

The leasehold land and buildings held for own use were valued on a market value basis on 31 December 2018 by Memfus Wong Surveyors Limited, an independent professional valuer.

The carrying amount of the leasehold land and buildings held for own use as at 31 December 2018 would have been HK$55,911,000 *(2017: HK$57,120,000)* had they been carried at cost less accumulated depreciation and accumulated impairment losses.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

14. INTANGIBLE ASSETS

	Trademarks *HK$'000*
Reconciliation of carrying amount – years ended 31 December 2018 and 2017	
At beginning and **end of the reporting period**	2,450

In 2012, the Group completed the acquisition of the trademarks relating to the White Flower Embrocation and Write Flower Ointment for Hoe Hin Brand of products registered in Malaysia and Singapore (the "Trademarks") from Mr. Gan Wee Sean, an executive director and a major shareholder of the Company, at a total consideration of HK$19,600,000. The consideration is payable by 70 equal annual instalments of HK$280,000 each. The trademarks registered in Singapore was initially recognised at the fair value at the date of acquisition which was calculated based on the present value of the total consideration of HK$19,600,000 at discount rate of 13.5%. The fair value of the trademark registered in Malaysia at the date of acquisition was assessed to be insignificant to the Group.

The useful lives of the Trademarks are assessed as indefinite because the Trademarks are expected to contribute to net cash inflow indefinitely and can be renewed for every ten years by the Group without significant cost.

Estimates used to measure recoverable amount of cash-generating units containing the trademarks:

The trademarks registered in Singapore have been allocated to the cash-generating unit of healthcare in Singapore for impairment test.

The recoverable amount of the trademarks registered in Singapore has been determined by a value in use calculation. Cash flow projections are based on profit forecast covering a period of five years. The discount rate applied to the cash flow projections is 13.5% *(2017: 13.5%)* and the annual sales growth rate applied in preparing the cash flow projections is 0.2% *(2017: 3.5%)* and the long-term average growth rate for this cash generating unit is 2% *(2017: 2%)*.

Management determined the budgeted gross profit margin based on past performance and its expectation for market development. The weighted average growth rates used are consistent with external sources of information. Values assigned to key assumptions reflect past experience. The discount rate used is pre-tax and reflect specific risks relating to the relevant segments.

Management is of the opinion that any reasonably possible change in the key assumptions would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

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15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Available-for-sale financial assets		Financial assets at fair value through profit or loss		Total	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Equity securities:						
Listed						
Hong Kong	–	–	**5,496**	6,256	**5,496**	6,256
Overseas	–	–	**4,279**	4,326	**4,279**	4,326
Unlisted	–	1,418	**6,356**	5,057	**6,356**	6,475
	–	1,418	**16,131**	15,639	**16,131**	17,057
Debt securities, unlisted	–	4,823	**4,823**	–	**4,823**	4,823
Dual currency deposit	–	–	–	2,826	–	2,826
	–	6,241	**20,954**	18,465	**20,954**	24,706
Carrying amount included in:						
Current assets	–	–	**14,994**	18,465	**14,994**	18,465
Non-current assets	–	6,241	**5,960**	–	**5,960**	6,241
	–	6,241	**20,954**	18,465	**20,954**	24,706

At 31 December 2018, HK$20,954,000 *(2017: HK$18,465,000)* are mandatorily measured at FVPL.

16. INVENTORIES

	2018	2017
	HK$'000	*HK$'000*
Finished goods	**4,233**	2,752
Raw materials	**7,451**	8,605
Bottles, caps and packing materials	**2,292**	3,278
	13,976	14,635

Notes to the Consolidated Financial Statements

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17. TRADE AND OTHER RECEIVABLES

	Note	2018 HK$'000	2017 HK$'000
Trade receivables	*17(a)*	**17,153**	31,859
Bills receivable		**4,018**	331
Other receivables			
Deposits, prepayments and other debtors		**3,480**	2,639
		24,651	34,829

(a) Trade receivables

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

	2018 HK$'000	2017 HK$'000
Within 30 days	**11,983**	30,813
31 – 60 days	**5,170**	1,044
61 – 90 days	**–**	2
	17,153	31,859

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.

Information about the Group's exposure to credit risks is included in note 32(a) to these consolidated financial statements.

18. CASH AND CASH EQUIVALENTS

	2018 HK$'000	2017 HK$'000
Bank balances and cash		
Cash at bank and in hand	**71,771**	113,765
Time deposits	**54,344**	6,957
	126,115	120,722

Cash at bank earns interest at floating rates based on bank deposit rates. Short-term time deposits are made between one month and three months depending on the immediate cash requirement of the Group, and earn interest at the prevailing short-term deposit rates.

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Year ended 31 December 2018

19. BANK BORROWINGS, SECURED

The analysis of the carrying amount of bank borrowings is as follows:

	2018	2017
	HK$'000	*HK$'000*
Bank borrowings due for repayment within one year	**19,026**	21,693
Term loan from a bank which contains a repayment on demand clause	**2,867**	4,967
	21,893	26,660

A term loan of HK$2,867,000 *(2017: HK$4,967,000)*, with a clause in its terms that gives the lender an overriding right to demand repayment without notice or with notice period of less than 12 months at its sole discretion, is classified as current liabilities even though the directors do not expect that the lender would exercise its rights to demand repayment. Out of the term loan of HK$2,867,000 *(2017: HK$4,967,000)*, HK$2,143,000 *(2017: HK$2,100,000)* is due for repayment within one year.

The amounts due based on the scheduled repayment dates set out in the loan agreements ignoring the effect of any repayment on demand clause are as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 1 year	**21,169**	23,793
After 1 year but within 2 years	**724**	2,143
After 2 years but within 5 years	**–**	724
	724	2,867
	21,893	26,660

The bank borrowings are denominated in the following currencies:

	2018	2017
	HK$'000	*HK$'000*
British Pound Sterling *(note (i))*	**19,026**	21,693
Hong Kong dollars *(note (ii))*	**2,867**	4,967
	21,893	26,660

(i) The revolving loan of HK$19,026,000 *(2017: HK$21,693,000)* bears interest at the bank's cost of fund plus 1.5% per annum and is repayable one month after drawdown. The loan is secured by pledging the Group's investment properties with an aggregate carrying value of HK$152,155,000 *(2017: HK$161,462,000)* together with the assignment of rental monies derived from the investment properties.

(ii) The term loan bears interest at the Hong Kong prime rate minus 3% per annum and is repayable in monthly instalment up to 28 April 2020. It is secured by a first legal charge over the Group's leasehold land and buildings held for own use with a carrying value of HK$166,000,000 *(2017: HK$156,000,000)*.

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20. TRADE AND OTHER PAYABLES

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

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

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

21. CONSIDERATION PAYABLE FOR ACQUISITION OF TRADEMARKS

The amount represents amortised cost of the consideration payable for acquisition of the Trademarks as disclosed in note 14, calculated using the effective interest method at the rate of 13.5% per annum.

22. DEFERRED INCOME

The amount represents lease premiums received in advance in respect of certain of the Group's investment properties in the United Kingdom, which is recognised as income on a straight-line basis over the lease term ranging from 143 to 153 years *(2017: 144 to 153 years)*.

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23. PROVISION FOR LONG SERVICE PAYMENTS

	2018 HK$'000	2017 HK$'000
At beginning of the reporting period	–	659
Amount utilised	–	(143)
Amount refunded from MPF administrator	–	143
Amount reversed	–	(659)
At end of the reporting period	–	–

24. PROVISION FOR DIRECTORS' RETIREMENT BENEFITS

	2018 HK$'000	2017 HK$'000
At beginning of the reporting period	3,715	3,020
Additional provision *(Note 7)*	489	695
At end of the reporting period	4,204	3,715

Mr. Gan Wee Sean and Mr. Gan Fock Wai, Stephen respectively entered into a service agreement with the Company on 28 November 1991 for a term of two years and one month commencing from 1 December 1991. The appointment shall continue thereafter subject to termination by either party giving not less than 6-month notice in writing to the other party. Accordingly, the appointment continued upon the completion of the initial term on 31 December 1993 and is still in force currently. Pursuant to the terms of the service agreements (supplemented with the board minutes dated 25 September 2006, and the supplemental agreements dated 12 December 2014 and 26 October 2016), the Company shall pay Mr. Gan Wee Sean and Mr. Gan Fock Wai, Stephen a long service payment of not exceeding HK$12,000,000 and HK$8,000,000 respectively when the events as stipulated in the agreements take place.

In August 2016, Mr. Gan Wee Sean received his first long service payment of HK$10,347,000 when he reached the age of 70, according to the supplemental agreement dated 12 December 2014.

Pursuant to the supplemental agreement dated 26 October 2016, the appointment of Mr. Gan Wee Sean has been extended for three years and the aggregate amount of the first and extended long service payments shall not exceed HK$12,000,000.

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25. DEFERRED TAXATION

Recognised deferred tax liabilities:

	Accelerated depreciation allowances *HK$'000*	Revaluation of leasehold land and buildings *HK$'000*	Total *HK$'000*
At 1 January 2017	907	40,990	41,897
Recognised in profit or loss *(Note 9)*	(87)	–	(87)
Recognised in equity *(Note 27)*	–	8,384	8,384
At 31 December 2017	820	49,374	50,194
At 1 January 2018	820	49,374	50,194
Recognised in profit or loss *(Note 9)*	(89)	–	(89)
Recognised in equity *(Note 27)*	–	4,377	4,377
At 31 December 2018	**731**	**53,751**	**54,482**

Unrecognised deferred tax assets arising from:

	2018 ***HK$'000***	2017 *HK$'000*
Deductible temporary differences	**3,692**	2,404
Tax losses	**1,197**	1,169
At end of the reporting period	**4,889**	3,573

Both the tax losses and the deductible temporary differences have no expiry date under current tax legislation. The related deferred tax assets of HK$807,000 *(2017: HK$590,000)* have not been recognised due to uncertainty of their recoverability.

26. SHARE CAPITAL

	2018		2017	
	No. of shares	***HK$'000***	No. of shares	*HK$'000*
Authorised:				
Ordinary shares of HK$0.05 each *(2017: HK$0.05 each)*	**600,000,000**	**30,000**	600,000,000	30,000
Issued and fully paid:				
At beginning and **end of the reporting period**	**311,640,000**	**15,582**	311,640,000	15,582

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27. SHARE PREMIUM AND RESERVES

	Share premium HK$'000	Properties revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Exchange reserve HK$'000	Proposed dividends HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2018, as previously reported	21,997	255,860	5,852	(30,394)	24,308	455,303	732,926
Adjustment on initial application of HKFRS 9 *(Note 2)*	–	–	(5,852)	–	–	5,852	–
At 1 January 2018, as restated	21,997	255,860	–	(30,394)	24,308	461,155	732,926
Profit for the year	–	–	–	–	–	37,280	37,280
Exchange difference arising from translation of financial statements of overseas subsidiaries	–	–	–	(8,650)	–	–	(8,650)
Exchange difference arising from translation of inter-company balances with overseas subsidiaries representing net investments	–	–	–	2,138	–	–	2,138
Revaluation surplus of leasehold land and buildings	–	26,523	–	–	–	–	26,523
Deferred tax *(Note 25)*	–	(4,377)	–	–	–	–	(4,377)
Other comprehensive income, net of tax, attributable to owners of the Company	–	22,146	–	(6,512)	–	–	15,634
Transfer	–	(4,855)	–	–	–	4,855	–
Transaction with owners:							
Distributions to owners							
Interim dividends declared	–	–	–	–	–	(20,412)	(20,412)
Final dividend proposed	–	–	–	–	11,842	(11,842)	–
2017 final dividend and special dividend transferred to dividends payable	–	–	–	–	(24,308)	–	(24,308)
At 31 December 2018	21,997	273,151	–	(36,906)	11,842	471,036	741,120

Notes to the Consolidated Financial Statements

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27. SHARE PREMIUM AND RESERVES (CONTINUED)

	Share premium HK$'000	Properties revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Exchange reserve HK$'000	Proposed dividends HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2017	21,997	213,435	6,573	(40,520)	17,452	398,993	617,930
Profit for the year	–	–	–	–	–	102,589	102,589
Exchange difference arising from translation of financial statements of overseas subsidiaries	–	–	–	13,836	–	–	13,836
Exchange difference arising from translation of inter-company balances with overseas subsidiaries representing net investments	–	–	–	(3,710)	–	–	(3,710)
Revaluation surplus of leasehold land and buildings	–	50,809	–	–	–	–	50,809
Deferred tax *(Note 25)*	–	(8,384)	–	–	–	–	(8,384)
Reclassification adjustment relating to disposal of available-for-sale financial assets	–	–	(1,260)	–	–	–	(1,260)
Changes in fair value of available-for-sale financial assets	–	–	539	–	–	–	539
Other comprehensive income, net of tax, attributable to owners of the Company	–	42,425	(721)	10,126	–	–	51,830
Transaction with owners:							
Distributions to owners							
Interim dividends declared	–	–	–	–	–	(21,971)	(21,971)
Final dividend and special dividend proposed	–	–	–	–	24,308	(24,308)	–
2016 final dividend transferred to dividends payable	–	–	–	–	(17,452)	–	(17,452)
At 31 December 2017	21,997	255,860	5,852	(30,394)	24,308	455,303	732,926

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27. SHARE PREMIUM AND RESERVES (CONTINUED)

Share premium

The share premium represents the excess of the net proceeds from issuance of shares of the Company over its par value.

Properties revaluation reserve

The properties revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for revaluation of land and buildings held for own use, net of deferred tax.

Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale financial assets and is dealt with in accordance with the accounting policies adopted.

Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Group's foreign operations and is dealt with in accordance with the accounting policies adopted.

28. OTHER CASH FLOW INFORMATION

(a) Cash generated from operations

	2018	2017
	HK$'000	*HK$'000*
Profit before taxation	**43,723**	112,903
Interest income	**(519)**	(448)
Interest expenses	**820**	784
Dividend income from financial assets at fair value through profit or loss	**(333)**	(363)
Revaluation surplus in respect of investment properties	**(11,500)**	(35,422)
Gain on disposal of property, plant and equipment	**(12)**	(178)
Gain on disposal of available-for-sale financial assets	**–**	(854)
Reversal of provision for long service payments	**–**	(659)
Provision for directors' retirement benefits	**489**	695
Exchange differences	**(87)**	(41)
Depreciation expenses	**7,893**	2,081
Changes in working capital:		
Financial assets at fair value through profit or loss	**4,085**	5,692
Inventories	**659**	(1,989)
Trade and other receivables	**10,129**	18,628
Trade and other payables	**7,936**	4,217
Deferred income	**1,504**	6,152
Cash generated from operations	**64,787**	111,198

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28. OTHER CASH FLOW INFORMATION (CONTINUED)

(b) Changes in liabilities arising from financing activities

Details of the changes in the Group's liabilities from financing activities are as follows:

2018	**Bank borrowings, secured** *HK$'000*	**Consideration payable for acquisition of trademarks** *HK$'000*	**Dividends payable** *HK$'000*	**Total** *HK$'000*
At beginning of the reporting period	**26,660**	**2,073**	**7,249**	**35,982**
Repayment	**(242,366)**	**(280)**	**–**	**(242,646)**
New bank borrowings	**238,776**	**–**	**–**	**238,776**
Dividends paid	**–**	**–**	**(44,626)**	**(44,626)**
Net cash flow	**(3,590)**	**(280)**	**(44,626)**	**(44,496)**
Imputed interest	**–**	**280**	**–**	**280**
Changes in exchange rates	**(1,177)**	**–**	**–**	**(1,177)**
Declaration of dividends	**–**	**–**	**44,720**	**44,720**
	(1,177)	**280**	**44,720**	**43,823**
At end of the reporting period	**21,893**	**2,073**	**7,343**	**31,309**

2017	Bank borrowings, secured *HK$'000*	Consideration payable for acquisition of trademarks *HK$'000*	Dividends payable *HK$'000*	Total *HK$'000*
At beginning of the reporting period	27,463	2,074	7,187	36,724
Repayment	(259,099)	(280)	–	(259,379)
New bank borrowings	256,252	–	–	256,252
Dividends paid	–	–	(39,361)	(39,361)
Net cash flow	(2,847)	(280)	(39,361)	(42,488)
Imputed interest	–	279	–	279
Changes in exchange rates	2,044	–	–	2,044
Declaration of dividends	–	–	39,423	39,423
	2,044	279	39,423	41,746
At end of the reporting period	26,660	2,073	7,249	35,982

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29. PLEDGE OF ASSETS

Certain of the Group's leasehold land and buildings and investment properties were pledged to secure banking facilities, including bank borrowings, granted to the Group to the extent of HK$94,318,000 *(2017: HK$97,048,000)*, of which HK$21,893,000 *(2017: HK$26,660,000)* were utilised at the end of the reporting period.

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

	2018	2017
	HK$'000	*HK$'000*
Leasehold land and buildings	**166,000**	156,000
Investment properties	**152,155**	161,462
	318,155	317,462

30. OPERATING LEASE COMMITMENTS

The Group as lessor

At the end of the reporting period, the Group leased out its investment properties under operating leases. Most of the investment properties have committed tenants with average lease term of 1 year to 20 years. The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**14,037**	6,391
In the second to fifth years inclusive	**21,031**	15,832
Over five years	**7,948**	10,728
	43,016	32,951

31. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these consolidated financial statements, during the year, the Group had the following transactions with related parties.

	2018	2017
	HK$'000	*HK$'000*
Compensation paid to key management personnel, excluding directors:		
– Salaries and other benefits	**3,151**	3,413
– Contributions to defined contribution plan	**54**	54

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include bank balances and cash, trade and other receivables, financial assets at fair value through profit or loss, bank borrowings, consideration payable for acquisition of trademarks and trade and other payables. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The executive directors manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) Credit risk

The carrying amount of financial assets recognised on the statement of financial position, which is net of impairment losses, represents the Group's exposure to credit risk without taking into account the value of any collateral held or other credit enhancements.

Bank balances and financial assets at FVPL

Management considers the Group has limited credit risk with its financial institutions which have established credit ratings and assessed as having low credit risk. The Group has not incurred significant loss from non-performance by these financial institutions in the past and management does not expect so in the future.

Trade and bills receivables

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group limits its exposure to credit risk from trade and bills receivables by establishing a maximum payment period of 120 days.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which the customers operate also has an influence on credit risk but to a lesser extent. Credit quality of a customer is assessed based on an extensive credit rating and individual credit limit assessment which is mainly based on the Group's own records.

At the end of the reporting period, the Group had a concentration of credit risk from trade and bills receivables as 42.41% *(2017: 73.11%)* and 94.64% *(2017: 99.68%)* of the total trade and bills receivables was made up by the Group's largest outstanding balance and the four *(2017: four)* largest outstanding balances respectively.

The Group's customer base consists of a number of clients and the trade and bills receivables are categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade and bills receivables. Based on historical experience, majority of the trade and bills receivables were settled within credit term, hence the expected loss rate of current trade and bills receivables are assessed to be negligible. Therefore, no loss allowance provision for these balances was provided at the end of the reporting period.

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

a) Credit risk (Continued)

Trade and bills receivables (Continued)

The information about the exposure to credit risk and ECL for trade and bills receivables using a provision matrix as at 31 December 2018 is summarised below.

As at 31 December 2018	Gross carrying amount *HK$'000*	Loss allowance *HK$'000*	Credit-impaired
Not yet due	21,171	–	No

The carrying amount as at 31 December 2017 represented receivables that were neither past due nor impaired as at 31 December 2017. They were related to customers for whom there was no history of default.

The Group did not hold any collateral over trade and bills receivables as at 31 December 2018 and 2017.

Other receivables

The Group considers that the other receivables have low credit risk based on the counterparties' strong capacity to meet its contractual cash flow obligations in the near term and low risk of default. Impairment on other receivables is measured on 12-month ECL and reflects the short maturities of the exposures.

In estimating the ECL, the Group has taken into account the historical actual credit loss experience over the past 3 years and the financial position of the counterparties by reference to, among others, their management or audited accounts and available press information, adjusted for forward-looking factors that are specific to the debtors and general economic conditions of the industry in which the counterparties operate, in estimating the probability of default of these financial assets, as well as the loss upon default in each case. The management of the Group considers the ECL of these financial assets to be insignificant after taking into account the financial position and credit quality of the counterparties.

b) Liquidity risk

The Group closely monitors its liquidity requirements and the sufficiency of cash and available banking facilities so as to ensure that the payment obligations are met.

The following tables detail the remaining contractual maturity of the Group for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group is required to pay. For cash flows denominated in currency other than Hong Kong dollars, the prevailing foreign exchange rates at the end of the reporting period are used to convert the cash flows into Hong Kong dollars.

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

b) Liquidity risk (Continued)

Specifically, for the term loan which contains a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group would be required to pay, that is, if the bank was to invoke its unconditional rights to call the loan with immediate effect.

	On demand	**Less than 1 year**	**More than 1 year**	**Total contractual undiscounted cash flow**	**Carrying amount**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2018					
Bank borrowings	**2,867**	**19,026**	**–**	**21,893**	**21,893**
Trade and other payables	**30,652**	**4,452**	**–**	**35,104**	**35,104**
Consideration payable for acquisition of trademarks	**–**	**280**	**17,360**	**17,640**	**2,073**
Dividends payable	**7,343**	**–**	**–**	**7,343**	**7,343**
	40,862	**23,758**	**17,360**	**81,980**	**66,413**

	On demand	Less than 1 year	More than 1 year	Total contractual undiscounted cash flow	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2017					
Bank borrowings	4,967	21,693	–	26,660	26,660
Trade and other payables	26,462	3,022	–	29,484	29,484
Consideration payable for acquisition of trademarks	–	280	17,640	17,920	2,073
Dividends payable	7,249	–	–	7,249	7,249
	38,678	24,995	17,640	81,313	65,466

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

b) Liquidity risk (Continued)

The following table summarises the maturity analysis of a term loan with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreement. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis contained in the above table. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loan will be repaid in accordance with the scheduled repayment dates set out in the loan agreement.

	On demand	Less than 1 year	1-2 years	2-5 years	Over 5 years	Total contractual undiscounted cash flow	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2018	**–**	**2,181**	**726**	**–**	**–**	**2,907**	**2,867**
At 31 December 2017	–	2,181	2,181	726	–	5,088	4,967

c) Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's bank balances and bank borrowings. Details of interest rates of the Group's bank borrowings at the end of the reporting period are set out in note 19. The Group closely monitors interest rate level and outlook as well as potential impact on the Group's results and financial position arising from volatility.

The sensitivity analysis below has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to both derivative and non-derivative financial instruments that would have affected the profit or loss and equity. A change of 50 basis points ("bps") *(2017: 50 bps)* was applied to the yield curves at the end of the respective reporting period, representing management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The analysis is performed on the same basis for 2017.

	2018		2017	
	50 bps increase	**50 bps decrease**	50 bps increase	50 bps Decrease
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Increase (Decrease) in profit	**521**	**(521)**	295	(295)

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

d) Currency risk

Most of the Group's business transactions are conducted in Hong Kong dollars and United States dollars. Certain rental income is derived in the United Kingdom and denominated in British Pounds Sterling. The Group also has equity and debt securities denominated in foreign currencies.

At 31 December 2018, the carrying amounts of the Group's financial assets and financial liabilities denominated in a currency other than the functional currency of the group entities are as follows:

	Assets		**Liabilities**	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Australian dollars	**7,453**	10,002	**606**	643
British Pounds Sterling	**1,238**	885	**–**	–
United States dollars	**17,814**	24,551	**2,893**	1,638
Euro dollars	**14,143**	14,398	**–**	–
Japanese Yen	**3,014**	2,937	**–**	–
Malaysian Ringgit	**1,604**	557	**–**	–
New Zealand dollars	**1,940**	2,020	**–**	–
Norwegian Kroner	**735**	773	**–**	–
Singapore dollars	**3,318**	40	**–**	–
Swiss Franc	**1,290**	1,294	**–**	–
Others	**716**	378	**721**	–
	53,265	57,835	**4,220**	2,281

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.

The sensitivity analysis below has been determined assuming that a change in exchange rate had occurred at the end of the reporting period and had been applied to both derivative and non-derivative financial instruments (excluding items which are denominated in United States dollar) that would have affected the profit or loss. A change of 5% *(2017: 5%)* was applied at the end of the respective reporting period.

	2018		2017	
	5% increase	**5% decrease**	5% increase	5% decrease
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Increase (Decrease) in profit	**1,706**	**(1,706)**	1,632	(1,632)

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

e) Equity/Debt price risk

The Group's equity and debt securities are measured at fair value at the end of each reporting period with reference to the market price. Therefore, the Group is exposed to equity or debt price risks and management monitors the price movements and takes appropriate actions when required.

The sensitivity analysis below has been determined assuming that a change in the corresponding equity or debt prices had occurred at the end of the reporting period and had been applied to the equity and debt securities that would have affected the profit or loss and equity. A change of 10% *(2017: 25%)* in stock price and debt price was applied at the end of the respective reporting period.

		2018		2017	
		Effect on profit or loss ***HK$'000***	**Effect on other component of equity** ***HK$'000***	Effect on profit or loss *HK$'000*	Effect on other component of equity *HK$'000*
Change in the relevant equity/ debt price risk variable:					
Increase	10% *(2017: 25%)*	**2,095**	–	3,910	1,560
Decrease	10% *(2017: 25%)*	**(2,095)**	–	(3,910)	(1,560)

33. CAPITAL MANAGEMENT

The objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to provide returns for shareholders. The Group manages its capital structure and makes adjustments, including payment of dividend to shareholders, return of capital to shareholders, repurchase of shares or issue of new shares or sale of assets to reduce debts. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 2017.

The Group monitors capital on the basis of its net debt-to-equity ratio, which is net debts divided by total equity at the end of the reporting period, as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Bank borrowings, secured	**21,893**	26,660
Trade and other payables	**35,847**	29,584
Dividends payable	**7,343**	7,249
Less: Bank balances and cash	**(126,115)**	(120,722)
Net cash	**(61,032)**	(57,229)
Total equity	**756,702**	748,508
Net debt-to-equity ratio	**(8.1%)**	(7.7%)

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34. FAIR VALUE MEASUREMENTS

The following presents the assets measured at fair value or required to disclose their fair value in these consolidated financial statements on a recurring basis at 31 December 2018 across the three levels of the fair value hierarchy defined in HKFRS 13, Fair Value Measurement, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 (lowest level): unobservable inputs for the asset or liability.

(a) Financial assets measured at fair value

	31 December 2018 *HK$'000*	**Level 1** *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*
Financial assets at fair value through profit or loss				
Equity securities, listed in Hong Kong	**5,496**	**5,496**	–	–
Equity securities, listed overseas	**4,279**	**4,279**	–	–
Mutual funds, unlisted	**5,219**	–	**5,219**	–
Private equity fund, unlisted	**1,137**	–	–	**1,137**
Debt securities, unlisted	**4,823**	**4,823**	–	–
	20,954	**14,598**	**5,219**	**1,137**

	31 December 2017 *HK$'000*	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*
Financial assets at fair value through profit or loss				
Equity securities, listed in Hong Kong	6,256	6,256	–	–
Equity securities, listed overseas	4,326	4,326	–	–
Mutual funds, unlisted	5,057	–	5,057	–
Dual currency deposit	2,826	2,826	–	–
Available-for-sale financial assets				
Private equity fund, unlisted	1,418	–	–	1,418
Debt securities, unlisted	4,823	4,823	–	–
	24,706	18,231	5,057	1,418

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34. FAIR VALUE MEASUREMENTS (CONTINUED)

(a) Financial assets measured at fair value (Continued)

During the years ended 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. The Group's policy is to recognise transfers between levels as at the end of the reporting period.

Movements in Level 3 fair value measurements

Description	**Unlisted private equity fund**	
	2018	2017
	HK$'000	*HK$'000*
At beginning of the reporting period	**1,418**	2,108
Gains recognised in:		
– profit or loss	**195**	–
– other comprehensive income	**–**	542
Disposals	**(476)**	(1,232)
At end of the reporting period	**1,137**	1,418

The above gains for the year ended 31 December 2017 were reported as "changes in fair value of available-for-sale financial assets" within other comprehensive income.

Description of the valuation techniques and inputs used in Level 2 fair value measurement

The unlisted mutual funds are valued based on quoted market prices from dealers or by reference to quoted market prices for similar instruments.

Description of the valuation techniques and inputs used in Level 3 fair value measurement

The unlisted private equity fund's assets mainly comprise investment in unlisted companies in various industries (the "Investment") and the fair value of the Investment is estimated by the external fund manager by reference to a number of factors including the operating cash flows and financial performance of the Investment, trends within sectors and/or regions, underlying business models, expected exit timing and strategy and any specific rights or terms associated with the Investment.

Valuation processes of the Group

The Group reviews estimation of fair value of the unlisted private equity fund which is categorised into Level 3 of the fair value hierarchy. Reports with estimation of fair value are prepared by the external fund manager on a quarterly basis. Discussion of the valuation process and results with the Audit Committee is held twice a year, to coincide with the reporting dates.

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34. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Investment properties and leasehold land and buildings measured at fair value

	31 December 2018 *HK$'000*	**Level 1** *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*
Investment properties				
Commercial – Hong Kong	**162,300**	–	–	**162,300**
Industrial – Singapore	**11,176**	–	–	**11,176**
Residential – Hong Kong	**18,100**	–	–	**18,100**
Commercial/residential – United Kingdom	**152,155**	–	–	**152,155**
	343,731	–	–	**343,731**
Leasehold land and buildings				
Commercial – Hong Kong	**179,000**	–	–	**179,000**
Industrial – Hong Kong	**193,000**	–	–	**193,000**
Carpark – Hong Kong	**3,600**	–	–	**3,600**
	375,600	–	–	**375,600**

	31 December 2017 *HK$'000*	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*
Investment properties				
Commercial – Hong Kong	149,800	–	–	149,800
Industrial – Singapore	11,389	–	–	11,389
Residential – Hong Kong	18,310	–	–	18,310
Commercial/residential – United Kingdom	161,462	–	–	161,462
	340,961	–	–	340,961
Leasehold land and buildings				
Commercial – Hong Kong	169,000	–	–	169,000
Industrial – Hong Kong	184,000	–	–	184,000
Carpark – Hong Kong	3,100	–	–	3,100
	356,100	–	–	356,100

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34. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Investment properties and leasehold land and buildings measured at fair value (Continued)

During the year ended 31 December 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. At 31 December 2017, investment properties and leasehold land and buildings with total carrying amounts of HK$221,488,000 were transferred from Level 2 to Level 3. The Group's policy is to recognise transfers between levels as at the end of the reporting period.

Movement in Level 3 fair value measurements

	2018 Investment properties			2017 Investment properties		
Description	**Commercial/ residential units in Hong Kong** *HK$'000*	**Industrial units in Singapore** *HK$'000*	**Commercial/ residential units in the United Kingdom** *HK$'000*	Commercial/ residential units in Hong Kong *HK$'000*	Industrial units in Singapore *HK$'000*	Commercial/ residential units in the United Kingdom *HK$'000*
At beginning of the reporting period	**168,110**	**11,389**	**161,462**	54,800	–	144,205
Transfer to Level 3	–	–	–	81,550	10,438	–
Revaluation surplus (deficit)	**12,290**	–	**(577)**	31,760	–	2,711
Exchange realignment	–	**(213)**	**(8,730)**	–	951	14,546
At end of the reporting period	**180,400**	**11,176**	**152,155**	168,110	11,389	161,462

Revaluation surplus and exchange realignment are reported as changes of "revaluation surplus in respect of investment properties" in profit or loss and "exchange difference arising from translation of financial statements of overseas subsidiaries" in other comprehensive income respectively.

	2018 Leasehold land and buildings		2017 Leasehold land and buildings	
Description	**Commercial units in Hong Kong** *HK$'000*	**Industrial/Carpark units in Hong Kong** *HK$'000*	Commercial units in Hong Kong *HK$'000*	Industrial/Carpark units in Hong Kong *HK$'000*
At beginning of the reporting period	**169,000**	**187,100**	12,000	165,000
Transfer to Level 3	–	–	127,000	2,500
Revaluation surplus	**10,447**	**10,622**	30,447	20,362
Depreciation charge	**(447)**	**(762)**	(447)	(762)
At end of the reporting period	**179,000**	**196,960**	169,000	187,100

Revaluation surplus is reported as "revaluation surplus of leasehold land and buildings" in other comprehensive income.

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34. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Investment properties and leasehold land and buildings measured at fair value (Continued)

Movement in Level 3 fair value measurements (Continued)

Quantitative information of the significant unobservable inputs and description of valuation techniques used in Level 3 fair value measurement, including the description of the sensitivity to changes in unobservable inputs for recurring level 3 fair value measurements, are as follows:

Investment properties	Valuation technique(s)	Significant unobservable input(s)	Sensitivity
Commercial units located in Hong Kong	Market value basis – Direct comparison approach	Market unit rate is at about HK$33,800/sq.ft. *(2017: HK$32,100/sq.ft.)* saleable area with adjustment for location and floor of positive 9% *(2017: negative 6%)*	A significant downward negative adjustment for market unit rate would result in a significant decrease in fair value, and vice versa.
Commercial units located in Hong Kong	Market value basis – Direct comparison approach	Market unit rate is at about HK$29,900/sq.ft. *(2017: HK$27,200/sq.ft.)* saleable area with adjustment for location and design/condition of positive 8% *(2017: location of negative 15% and design/condition of positive 15%)*	A significant upward positive adjustment for design/condition would result in a significant increase in fair value, and vice versa.
Roof of a commercial building located in Hong Kong	Market value basis – Direct comparison approach	Market unit rate is at about HK$210,000/sq.ft. for the side with exposure/visibility with adjustment for location of negative 20% *(2017: same)*	A significant downward negative adjustment for location would result in a significant decrease in fair value, and vice versa.
Commercial units located in Hong Kong	Market value basis – Direct comparison approach	Market unit rate is at about HK$29,800/sq.ft. *(2017: HK$27,600/sq.ft.)* saleable area with adjustment for location and floor of positive 8% *(2017: 5%)*	A significant upward positive adjustment for market unit rate would result in a significant increase in fair value, and vice versa.
Residential units located in Hong Kong	Market value basis – Direct comparison approach	Market unit rate is at about HK$12,600/sq.ft. *(2017: HK$12,500/sq.ft.)* saleable area with adjustment for location and floor of positive 5% *(2017: 3%)*	A significant upward positive adjustment for market unit rate would result in a significant increase in fair value, and vice versa.
Residential units located in Hong Kong	Market value basis – Direct comparison approach	Market unit rate is at about HK$10,100/sq.ft. *(2017: HK$10,500/sq.ft.)* saleable area with adjustment for location and floor of positive 5% *(2017: 7%)*	A significant upward positive adjustment for market unit rate would result in a significant increase in fair value, and vice versa.
Industrial units located in Hong Kong	Market value basis – Direct comparison approach	Market unit rate is at about HK$6,500/sq.ft. *(2017: HK$6,200/sq.ft.)* saleable area with adjustment for location and floor of positive 6% and size of negative 1% for every 1,500 sq.ft. difference in the size *(2017: same)*	A significant downward negative adjustment for size would result in a significant decrease in fair value, and vice versa.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

34. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Investment properties and leasehold land and buildings measured at fair value (Continued)

Movement in Level 3 fair value measurements (Continued)

Quantitative information of the significant unobservable inputs and description of valuation techniques used in Level 3 fair value measurement, including the description of the sensitivity to changes in unobservable inputs for recurring level 3 fair value measurements, are as follows: (Continued)

Investment properties	Valuation technique(s)	Significant unobservable input(s)	Sensitivity
Carpark units located in Hong Kong	Market value basis – Direct comparison approach	Market unit rate is at about HK$1,800,000/car park *(2017: HK$1,550,000/car park)* with adjustment for location and floor of negative 5% *(2017: same)*	A significant downward negative adjustment for market unit rate would result in a significant decrease in fair value, and vice versa.
Industrial units located in Singapore	Market value basis – Direct comparison approach	Market unit rate is at about SGD560/sq.ft. after adjustment for direct comparable transaction *(2017: same)*	A significant downward negative adjustment for market unit rate would result in a significant decrease in fair value, and vice versa.
Investment properties – Commercial units located in the United Kingdom	Traditional investment method of valuation	Market rent at a weighted average of £185, equivalent to approximately HK$1,944 per sq.ft. *(2017: £185, equivalent to approximately HK$1,962 per sq.ft.)*	A significant increase in the market rent would result in a significant increase in fair value, and vice versa.
		Equivalent yield at a weighted average of 4.5% *(2017: 4.5%)*	A significant increase in the equivalent yield would result in a significant decrease in fair value, and vice versa.
Investment properties – Residential units located in the United Kingdom	Capitalisation of receipts from granting lease extensions to occupational leaseholders of the residential units	Capital value at a weighted average of £1,000, equivalent to approximately HK$10,510 per sq.ft. *(2017: £1,000 equivalent to approximately HK$10,607 per sq.ft.)*	A significant increase in the capital value would result in a significant increase in fair value, and vice versa.

Valuation processes of the Group

The Group reviews the estimation of fair value of the investment properties and leasehold land and buildings. Valuations of investment properties and leasehold land and buildings are performed by independent professional qualified valuers at each interim and annual reporting date. Discussion of the valuation process and results with the Audit Committee is held twice a year, to coincide with the reporting dates.

35. CAPITAL COMMITMENT

In 2007, the Group entered into a master agreement with a bank to invest in a private equity fund with maximum capital injection of US$1.0 million *(equivalent to approximately HK$7.8 million)*. In 2017, the maximum capital injection had been revised to US$817,000 (equivalent to approximately HK$6,373,000). As at 31 December 2018, US$787,000 (equivalent to approximately HK$6,137,000) *(2017: US$786,000 (equivalent to approximately HK$6,129,000))* was called and paid up. Since the commitment period ended on 31 December 2011, the remaining US$30,000 (equivalent to approximately HK$236,000) *(2017: US$31,000 (equivalent to approximately HK$243,000))* would only be payable in limited situations stipulated in the master agreement.

36. EVENTS AFTER THE REPORTING PERIOD

There are no important events affecting the Group that have occurred since 31 December 2018.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Investments in subsidiaries	37(a)	**84,340**	84,340
Current assets			
Deposits, prepayments and other debtors		**300**	210
Amounts due from subsidiaries		**157,807**	156,094
Tax receivable		**1,782**	–
Bank balances and cash		**1,093**	1,047
		160,982	157,351
Current liabilities			
Accrued charges and other creditors		**1,301**	2,617
Amounts due to subsidiaries		**102,901**	98,146
Dividends payable		**7,343**	7,249
		111,545	108,012
Net current assets		**49,437**	49,339
Total assets less current liabilities		**133,777**	133,679
Non-current liabilities			
Provision for directors' retirement benefits		**4,204**	3,715
NET ASSETS		**129,573**	129,964
Capital and reserves			
Share capital	26	**15,582**	15,582
Share premium and reserves	37(b)	**113,991**	114,382
TOTAL EQUITY		**129,573**	129,964

Approved and authorised for issue by the Board of Directors on 26 March 2019 and signed on its behalf by

GAN Wee Sean
Director

GAN Fock Wai, Stephen
Director

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

(a) Investments in subsidiaries

Particulars of the Company's subsidiaries, all of which are private limited liability companies, are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of nominal value of issued ordinary share capital held by the Company		Principal activities
			Directly	*Indirectly*	
Biotech Marketing Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US$1	–	100	Advertising agency
Hoe Hin Pak Fah Yeow (B. V. I.) Limited	British Virgin Islands/ Hong Kong	20,000 ordinary shares of US$1 each	100	–	Investment holding
Hoe Hin Pak Fah Yeow Manufactory, Limited	Hong Kong	22,000 non-voting deferred shares* and 2 ordinary shares	–	100	Manufacturing and sale of healthcare products and property investment
Pak Fah Yeow Advertising Company Limited	Hong Kong	2 ordinary shares	–	100	Inactive
Pak Fah Yeow Investment (Hong Kong) Company, Limited	Hong Kong	21,200,000 non-voting deferred shares* and 2 ordinary shares	–	100	Property and treasury investment
Princely Profits Limited	British Virgin Islands/ United Kingdom	1 ordinary share of US$1	–	100	Inactive
Princesland International Limited	British Virgin Islands/ United Kingdom	1 ordinary share of US$1	–	100	Property investment

* The non-voting deferred shares carry no right to receive notice of or attend or vote at any general meeting of these subsidiaries. They also carry very limited rights in respect of dividends and share of surplus assets upon winding up.

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

(b) Share premium and reserves

	Share premium HK$'000	Contributed surplus HK$'000	Proposed dividends HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2017	21,997	67,708	17,452	(9,397)	97,760
Profit for the year	–	–	–	56,045	56,045
Transaction with owners:					
Distributions to owners					
Interim dividends declared	–	–	–	(21,971)	(21,971)
Final dividend and special dividend proposed	–	–	24,308	(24,308)	–
2016 final dividend transferred to dividends payable	–	–	(17,452)	–	(17,452)
At 31 December 2017	21,997	67,708	24,308	369	114,382
At 1 January 2018	**21,997**	**67,708**	**24,308**	**369**	**114,382**
Profit for the year	–	–	–	**44,329**	**44,329**
Transaction with owners:					
Distributions to owners					
Interim dividends declared	–	–	–	**(20,412)**	**(20,412)**
Final dividends proposed	–	–	**11,842**	**(11,842)**	–
2017 final dividend and special dividend transferred to dividends payable	–	–	**(24,308)**	–	**(24,308)**
At 31 December 2018	**21,997**	**67,708**	**11,842**	**12,444**	**113,991**

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares allotted on 28 November 1991 and the consolidated net assets of the subsidiaries then acquired.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if there are reasonable grounds for believing that:

(i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

At the end of the reporting period, the Company's reserves available for distribution to owners of the Company are as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Contributed surplus	**67,708**	67,708
Retained profits	**24,286**	24,677
	91,994	92,385

Notes to the Consolidated Financial Statements

Year ended 31 December 2018

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

(c) Financial guarantees

At the end of the reporting period, the Company had issued corporate guarantees to banks for bank loans utilised by its subsidiaries amounting to HK$21,893,000 (2017: HK$26,660,000). The Company has not recognised any deferred income for the financial guarantees as their fair value cannot be reliably measured and the transaction price was nil. The directors consider that the above financial guarantees are unlikely to materialise. No provision has therefore been made in this respect in the financial statements of the Company for any possible reimbursement to banks as a result of subsidiaries failing to repay.

Five-Year Financial Summary

Year ended 31 December 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December				
	2014	2015	2016	2017	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Turnover	186,343	181,872	182,604	178,269	**141,043**
Profit before taxation	158,342	73,673	73,903	112,903	**43,723**
Taxation	(11,877)	(12,659)	(12,704)	(10,314)	**(6,443)**
Profit after taxation	146,465	61,014	61,199	102,589	**37,280**
Dividends	55,836	38,955	38,955	46,279	**32,254**
Earnings per share	56.4 cents	19.6 cents	19.6 cents	32.9 cents	**12.0 cents**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	At 31 December				
	2014	2015	2016	2017	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Non-current assets	643,810	635,985	610,893	708,785	**731,129**
Net current assets	47,046	68,719	94,739	126,283	**118,408**
Non-current liabilities	(68,224)	(80,314)	(72,120)	(86,560)	**(92,835)**
	622,632	624,390	633,512	748,508	**756,702**
Share capital	12,985	15,582	15,582	15,582	**15,582**
Share premium and reserves	609,647	608,808	617,930	732,926	**741,120**
	622,632	624,390	633,512	748,508	**756,702**

Property Portfolio

Year ended 31 December 2018

INVESTMENT PROPERTIES

	Location	Tenure	Approximate floor area	Type	Group's interest (%)
1.	12th Floor Grand Building, Nos. 15-18, Connaught Road Central, Hong Kong	Two leases for 999 years respectively from 6 December 1899 and 24 December 1898	2,905 sq.ft.	Commercial	100
2.	7th Floor Lippo Leighton Tower, No. 103 Leighton Road, Causeway Bay, Hong Kong	Lease for 982 years from 25 June 1860	3,880 sq.ft.	Commercial	100
3.	13th Floor in Block B, North Point Mansion (Part), Nos. 692-702 King's Road and Nos. 27-29 Healthy Street East, Hong Kong	Lease for 75 years from 20 March 1933, renewable for another 75 years	905 sq.ft.	Residential	100
4.	Flat A on 4th Floor Hennessy Apartments, No. 48 Percival Street, Hong Kong	Lease for 982 years from 25 June 1860	715 sq.ft.	Residential	100
5.	No. 30 Kallang Pudding Road, No. 03-07 Valiant Industrial Building, Singapore, 349312	Freehold	323 sq.m.	Industrial	100
6.	Princess Court, 47-63 Queensway, London, W2, United Kingdom	Freehold	7,241 sq.ft.	Commercial	100

LEASEHOLD LAND AND BUILDINGS

	Location	Tenure	Approximate floor area	Type	Group's interest (%)
1.	Roof of No. 84, Hing Fat Street, Hong Kong	Lease for 75 years from 15 May 1916, renewable for another 75 years	3,080 sq.ft.	Commercial	100
2.	11th Floor, 200 Gloucester Road, Wan Chai, Hong Kong	Lease for 99 years from 26 December 1928, renewable for another 99 years	7,388 sq.ft.	Commercial	100
3.	Units 1 to 13 on 2nd Floor, Paramount Building, No. 12 Ka Yip Street, Chai Wan, Hong Kong	Lease from 29 May 1987 to 30 June 2047	31,444 sq.ft.	Industrial	100
4.	Car parking Space, Nos. 13 and 14 on 1st Floor, Paramount Building, No. 12 Ka Yip Street, Chai Wan, Hong Kong	Lease from 29 May 1987 to 30 June 2047	133 sq.ft.	Carpark	100