恒安國際集團有限公司*

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1044)

Websites: http://www.hengan.com
http://www.irasia.com/listco/hk/hengan

"Growing with You for a Better Life"

2008 ANNUAL RESULTS ANNOUNCEMENT
FINANCIAL SUMMARY

	2008 *HK$'000*	2007 *HK$'000* Restated	Change
Revenue	**8,001,545**	5,686,972	40.7%
Profit attributable to shareholders	**1,340,914**	1,008,157	33.0%
Gross profit margin (%)	**40.0**	40.0	
Earnings per share			
– Basic	**HK$1.172**	HK$0.924	26.8%
– Diluted	**HK$1.152**	HK$0.924	24.7%
Dividends			
– Interim (paid)	**HK$0.32**	HK$0.28	
– Final (proposed)	**HK$0.40**	HK$0.32	
Finished goods turnover (days)	**61**	64	
Accounts receivable turnover (days)	**31**	32	
Current ratio (times)	**2.7**	3.4	
Gross gearing ratio (%)	**27.9**	35.5	
Net gearing ratio (%)	**2.8**	–	

RESULTS

The Board of Directors of Hengan International Group Company Limited (the "Company" or "Hengan International") is pleased to announce that the consolidated accounts comprising the consolidated profit and loss account and consolidated balance sheet of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008, together with the comparative figures for the previous year, are as follows:

Consolidated profit and loss account

		Year ended 31 December	
		2008	2007
	Note	***HK$'000***	*HK$'000*
			Restated
Revenue	*2*	**8,001,545**	5,686,972
Cost of goods sold		**(4,798,999)**	(3,410,728)
Gross profit		**3,202,546**	2,276,244
Other gains – net		**92,993**	103,618
Distribution costs		**(1,451,005)**	(902,467)
Administrative expenses		**(313,462)**	(219,396)
Operating profit	*3*	**1,531,072**	1,257,999
Finance income		**46,494**	21,707
Finance costs		**(66,878)**	(95,016)
Profit before income tax		**1,510,688**	1,184,690
Income tax expense	*4*	**(166,032)**	(175,555)
Profit for the year		**1,344,656**	1,009,135
Attributable to:			
Shareholders of the Company		**1,340,914**	1,008,157
Minority interests		**3,742**	978
		1,344,656	1,009,135
Transfer to statutory reserves	*5*	**99,580**	72,057
Dividends	*6*	**825,884**	668,387
Earnings per share for profit attributable to shareholders of the Company	*7*		
– Basic		**HK$1.172**	HK$0.924
– Diluted		**HK$1.152**	HK$0.924

Consolidated balance sheet

		As at 31 December	
		2008	2007
	Note	***HK$'000***	*HK$'000*
			Restated
ASSETS			
Non-current assets			
Property, plant and equipment		**3,080,750**	2,342,837
Construction-in-progress		**813,329**	455,664
Leasehold land and land use rights		**239,408**	143,172
Intangible assets		**626,296**	454,663
Deferred income tax assets		**68,269**	45,216
Non-current finance lease receivables		**9,692**	–
Prepayment for non-current assets		**466,679**	322,219
		5,304,423	3,763,771
Current assets			
Inventories		**2,128,030**	1,329,120
Trade receivables	*8*	**779,902**	594,455
Other receivables, prepayments and deposits		**195,393**	381,593
Current finance leases receivables		**13,672**	–
Restricted bank deposits		**17,040**	144,889
Cash and cash equivalents		**1,610,552**	2,160,031
		4,744,589	4,610,088
Total assets		**10,049,012**	8,373,859
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		**115,007**	114,162
Other reserves		**4,499,296**	3,870,069
Retained earnings			
– Proposed dividend		**460,026**	365,714
– Unappropriated retained earnings		**1,409,728**	994,278
		6,484,057	5,344,223
Minority interests		**231,844**	21,413
Total equity		**6,715,901**	5,365,636

		As at 31 December	
		2008	2007
	Note	***HK$'000***	*HK$'000*
			Restated
LIABILITIES			
Non-current liabilities			
Long-term bank loans – unsecured		**45,840**	85,227
Convertible bonds		**1,465,247**	1,562,833
Deferred income tax liabilities		**56,892**	–
Deferred income on government grants		**7,555**	11,211
		1,575,534	1,659,271
Current liabilities			
Trade and bills payables	*9*	**898,159**	672,830
Other payables and accrued charges		**480,659**	370,850
Deferred income on government grants		**1,783**	1,981
Taxation payable		**80,152**	56,481
Trust receipt bank loans		**1,688**	3,602
Current portion of long-term bank loans – unsecured		**95,136**	114,465
Short-term bank loans – unsecured		**200,000**	10,000
Short-term bank loans – secured		**–**	118,743
		1,757,577	1,348,952
Total liabilities		**3,333,111**	3,008,223
Total equity and liabilities		**10,049,012**	8,373,859
Net current assets		**2,987,012**	3,261,136
Total assets less current liabilities		**8,291,435**	7,024,907

1. Basis of preparation and principal accounting policies

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and prepared under the historical cost convention.

(a) Prior year adjustment – change of accounting policy

In the previous years, the buildings, which comprise mainly factories, retail outlets and offices, are included in property, plant and equipment of the Group and stated at fair value, based on periodic but at least triennial, valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amounts of buildings and the net amounts were restated to the revalued amount of the assets, while all the other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

In 2008, the Company's directors decided to apply the same accounting policy across all property, plant and equipment of the Group. Accordingly, buildings are restated at historical cost less accumulated deprecation and impairment losses, if any. The Company's directors are of the view that applying the new accounting policy on buildings can provide more comparable and relevant information to the users of the accounts because this accounting policy is commonly used in manufacturing industry to reflect the actual usage of the buildings which are held for long term operation use. The change in accounting policy has been accounted for retrospectively and the consolidated accounts for the year ended 31 December 2007 have been restated in order to comply with HKAS 8 "Accounting policies, changes in accounting estimates and errors".

The effect of the change of accounting policy is as follows:

	Year ended 31 December	
	2008	2007
	HK$'000	*HK$'000*
At 31 December:		
Decrease in property, plant and equipment	**(212,429)**	(209,641)
Decrease/(increase) in equity		
– Retained earnings	**(739)**	(292)
– Other reserves	**172,354**	170,780
– Minority interests	**2,645**	1,182
Decrease in deferred income tax liabilities	**38,169**	37,971
For the year ended:		
Increase in profit for the year	**10,691**	2,194

As the effect of the change of accounting policy on the consolidated accounts for the year ended 31 December 2007 and 31 December 2008 is not significant, there is no material effect on the corresponding basic and diluted earnings per share.

(b) Amendments and interpretations effective in 2008

Relevant to the Group's operations:

- HK(IFRIC) – Int 11, "HKFRS 2 – Group and treasury share transactions", provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's consolidated accounts, but will be applied to the separate accounts of the subsidiaries where relevant.

Not relevant to the Group's operations:

- HKAS 39, "Financial instruments: recognition and measurement".
- HK(IFRIC) – Int 12, "Service concession arrangements".
- HK(IFRIC) – Int 14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction".

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 July 2008 or later periods, and the Group has not early adopted them:

Relevant to the Group's operations:

- HKAS 1 (Revised), "Presentation of financial statements" (effective from 1 January 2009).
- HKAS 23 (Revised), "Borrowing costs" (effective from 1 January 2009).
- HKAS 27 (Revised), "Consolidated and separate financial statements" (effective from 1 July 2009).
- HKFRS 2 (Amendment), "Share-based payment" (effective from 1 January 2009).
- HKFRS 3 (Revised), "Business combinations" (effective from 1 July 2009).
- HKFRS 8, "Operating segments" (effective from 1 January 2009).
- HK(IFRIC) – Int 16, "Hedges of a net investment in a foreign operation" (effective from 1 October 2008).
- HKICPA's improvements to HKFRS published in October 2008:
    - HKAS 1 (Amendment), "Presentation of financial statements" (effective from 1 January 2009).
    - HKAS 16 (Amendment), "Property, plant and equipment" (and consequential amendment to HKAS 7, "Statement of cash flows") (effective from 1 January 2009).
    - HKAS 19 (Amendment), "Employee benefits" (effective from 1 January 2009).
    - HKAS 20 (Amendment), "Accounting for government grants and disclosure of government assistance" (effective from 1 January 2009).
    - HKAS 23 (Amendment), "Borrowing costs" (effective from 1 January 2009).
    - HKAS 27 (Amendment), "Consolidated and separate financial statements" (effective from 1 January 2009).
    - HKAS 36 (Amendment), "Impairment of assets" (effective from 1 January 2009).
    - HKAS 38 (Amendment), "Intangible assets" (effective from January 2009).

- HKAS 39 (Amendment), "Financial instruments: Recognition and measurement" (effective from 1 January 2009).

- There are a number of minor amendments to HKFRS 7, "Financial instruments: Disclosures", HKAS 8, "Accounting policies, changes in accounting estimates and errors", HKAS 10, "Events after the balance sheet date", HKAS 18, "Revenue" and HKAS 34, "Interim financial reporting".

Not relevant to the Group's operations:

- HKAS 32 (Amendment), "Financial instruments: presentation", and HKAS 1 (Amendment), "Presentation of financial statements" – "Puttable financial instruments and obligations arising on liquidation" (effective from 1 January 2009).

- HKAS 39 (Amendment) "Financial instruments: recognition and measurement" – "Eligible hedged items" (effective from 1 July 2009).

- HKFRS 1 (Amendment), "First time adoption of HKFRS" and HKAS 27 "Consolidated and separate financial statements" (effective from 1 July 2009).

- HK(IFRIC) – Int 13, "Customer loyalty programmes" (effective from 1 July 2008).

- HK(IFRIC) – Int 15, "Agreements for construction of real estates" (effective from 1 January 2009).

- HK(IFRIC) – Int 17, "Distributions of non-cash assets to owners" (effective from 1 July 2009).

- HK(IFRIC) – Int 18, "Transfer of assets from customers" (effective from 1 July 2009).

- HKICPA's improvements to HKFRS published in October 2008:

  - HKAS 28 (Amendment), "Investments in associates" (and consequential amendments to HKAS 32, "Financial instruments: presentation" and HKFRS 7, "Financial instruments: disclosures") (effective from 1 January 2009).

  - HKAS 29 (Amendment), "Financial reporting in hyperinflationary economies" (effective from 1 January 2009).

  - HKAS 31 (Amendment), "Interests in joint ventures" (and consequential amendments to HKAS 32 and HKFRS 7) (effective from 1 January 2009).

  - HKAS 40 (Amendment), "Investment property" (and consequential amendments to HKAS 16) (effective from 1 January 2009).

  - HKAS 41 (Amendment), "Agriculture" (effective from 1 January 2009).

  - HKFRS 5 (Amendment), "Non-current assets held for sale and discontinued operations" (and consequential amendment to HKFRS 1, "First-time adoption of HKFRS") (effective from 1 July 2009).

2. Revenue and segment information

(a) An analysis of the Group's revenue and contribution to the operating profit by business segments is as follows:

	2008					2007 Restated				
	Sanitary napkins	**Disposable diapers**	**Tissue paper products**	**Skin care, food and snacks product and others**	**Group**	Sanitary napkins	Disposable diapers	Tissue paper products	Skin care and others	Group
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue	**2,076,116**	**1,882,835**	**3,996,467**	**534,230**	**8,489,648**	1,648,455	1,368,406	2,636,245	342,652	5,995,758
Inter-segment sales	**(60,536)**	**(9,309)**	**(121,543)**	**(296,715)**	**(488,103)**	(109,566)	(7,493)	(51,140)	(140,587)	(308,786)
Revenue of the Group	**2,015,580**	**1,873,526**	**3,874,924**	**237,515**	**8,001,545**	1,538,889	1,360,913	2,585,105	202,065	5,686,972
Segment results	**682,471**	**297,827**	**404,354**	**83,756**	**1,468,408**	559,121	244,370	301,546	78,243	1,183,280
Unallocated costs					**(30,329)**					(28,899)
Other gains – net					**92,993**					103,618
Operating profit					**1,531,072**					1,257,999
Finance income					**46,494**					21,707
Finance costs					**(66,878)**					(95,016)
Profit before income tax					**1,510,688**					1,184,690
Income tax expense					**(166,032)**					(175,555)
Profit for the year					**1,344,656**					1,009,135
Minority interests					**(3,742)**					(978)
Profit attributable to shareholders of the Company					**1,340,914**					1,008,157
Segment assets	**1,315,167**	**2,041,084**	**5,159,309**	**1,197,150**	**9,712,710**	1,317,464	1,182,776	4,242,645	560,538	7,303,423
Deferred income tax assets					**68,269**					45,216
Unallocated assets					**268,033**					1,025,220
Total assets					**10,049,012**					8,373,859
Segment liabilities	**187,334**	**234,071**	**480,989**	**232,348**	**1,134,742**	196,500	254,807	821,658	37,262	1,310,227
Deferred income tax liabilities					**56,892**					–
Taxation payable					**80,152**					56,481
Unallocated liabilities					**2,061,325**					1,641,515
Total liabilities					**3,333,111**					3,008,223
Capital expenditure	**125,379**	**273,362**	**618,529**	**472,983**	**1,490,253**	87,324	78,213	746,169	6,462	918,168
Deprecation	**61,291**	**32,225**	**169,755**	**15,312**	**278,583**	56,477	20,820	116,555	6,101	199,953
Amortisation charge	**2,328**	**208**	**3,340**	**1,155**	**7,031**	2,505	90	2,158	628	5,381

On 28 November 2008, the Group completed the acquisition of 51% equity interests in QinQin Foodstuff Group Company Limited ("QinQin"). QinQin contributed revenue and net profit of HK$63,084,000 and HK$2,241,000 to the Group for the period from 28 November 2008 to 31 December 2008, and segment assets and segment liabilities of HK$682,379,000 and HK$204,621,000 as at 31 December 2008. QinQin's operations are included under skin care, food and snacks products and others business segment.

(b) No geographical analysis is provided as less than 10% of the Group's revenue and consolidated results are attributable to markets outside the People's Republic of China (the "PRC" or "mainland China").

3. Operating profit

Operating profit is stated after crediting and charging the following:

	2008	2007
	HK$'000	*HK$'000*
		Restated
Crediting		
Net exchange gains	**53,920**	591
Government grants *(Note)*	**101,947**	100,089
Amortisation of deferred income on government grants	**4,629**	1,436
Charging		
Depreciation	**278,583**	199,953
Amortisation of leasehold land and land use rights, recognised in administrative expenses	**6,466**	4,909
Amortisation of intangible assets, recognised in administrative expenses	**565**	472
Loss on disposal/write-off of property, plant and equipment	**4,512**	1,594
Staff costs, including director's emoluments	**516,626**	343,752
Operating leases rental in respect of factory premises and sales liaison offices	**35,802**	22,420
Repairs and maintenance expenses	**55,659**	31,742
Provision for impairment of trade receivables	**11,266**	2,235
Provision for impairment of/written off inventories	**26,155**	6,382

Note: These mainly represented government subsidies from certain PRC municipal governments as an encouragement of the Group's investments.

4. Income tax expense

The amount of income tax expense charged to the consolidated profit and loss account represents:

	2008	2007
	HK$'000	*HK$'000*
Hong Kong profits tax *(note a)*	**9,396**	2,319
PRC income tax *(note b)*	**169,816**	154,973
Deferred income tax *(note c)*	**(13,180)**	18,263
Income tax expense	**166,032**	175,555

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits for the year.

(b) PRC income tax represents tax charges on the assessable profits of the PRC subsidiaries of the Group at the prevailing tax rates ranging from 0% to 25% (2007: 0% to 33%) applicable to the PRC subsidiaries. Effective from 1 January 2008, the subsidiaries of the Group incorporated in the PRC are subject to corporate income tax at the rate of 25% in accordance with the Corporate Income Tax Law of the PRC (the "New EIT Law") as approved by the National People's Congress on 16 March 2007. The EIT rate applicable to subsidiaries of the Group established in the PRC is reduced to 25% for those with original applicable EIT rates higher than 25%, or gradually increased to 25% over a 5-year period from 2008 to 2012 for those with original applicable EIT rates lower than 25%, where appropriate.

(c) Deferred income tax is calculated in full on temporary differences under the liability method using the prevailing tax rates applicable to the PRC subsidiaries of the Group.

(d) According to the New EIT Law, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors incorporated in Hong Kong, or at rate of 10% for other foreign investors. The Group determined that no deferred withholding tax liabilities shall be recognised in respect of the profits of the PRC subsidiaries for the year ended 31 December 2008 since the Group plans to reinvest such profits to set up new companies in the PRC and has no plan to distribute such profits in the foreseeable future.

5. Transfer to statutory reserves

These represent transfers to statutory reserves which comprise statutory surplus reserve and statutory public welfare fund of the PRC subsidiaries of the Group in accordance with the relevant laws and regulations in the PRC. The reserves form part of the shareholders' fund.

6. Dividends

	2008	2007
	HK$'000	*HK$'000*
Interim, paid, HK$0.32 (2007: HK$0.28) per ordinary share	**365,858**	302,673
Final, proposed, HK$0.40 (2007: HK$0.32) per ordinary share	**460,026**	365,714
	825,884	668,387

At a meeting held on 18 March 2009, the Directors proposed a final dividend of HK$0.40 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2009.

7. Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK$1,340,914,000 (2007: HK$1,008,157,000) and the weighted average number of 1,143,923,795 (2007: 1,090,492,475) ordinary shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, there is no dilutive effect on the earnings per share.

	2008
	HK$'000
Earnings	
Profit attributable to equity holders of the Company	**1,340,914**
Interest expense on convertible bonds	**63,534**
Profit used to determine diluted earnings per share	**1,404,448**
Weighted average number of ordinary shares in issue *(thousands)*	**1,143,924**
Adjustments for assumed conversion of convertible bonds *(thousands)*	**75,416**
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	**1,219,340**
Diluted earnings per share	**HK$1.152**

Diluted earnings per share for 2007 was not presented as the convertible bonds and share options issued did not have any dilutive effect on the earnings per share.

8. Trade receivables

The majority of the Group's sales is on open accounts with credit terms ranging from 30 days to 90 days. At 31 December 2008, the ageing analysis of the trade receivables was as follows:

	2008	2007
	HK$'000	*HK$'000*
1 – 30 days	**400,543**	235,076
31 – 180 days	**356,465**	332,785
181 – 365 days	**8,191**	14,816
Over 365 days	**14,703**	11,778
	779,902	594,455

9. Trade and bills payables

At 31 December 2008, the ageing analysis of the trade and bills payables was as follows:

	2008	2007
	HK$'000	*HK$'000*
1 – 30 days	**389,415**	418,946
31 – 180 days	**470,948**	202,519
181 – 365 days	**10,834**	17,710
Over 365 days	**7,616**	7,426
	878,813	646,601
Bills payables – maturity periods of 1 to 180 days	**19,346**	26,229
	898,159	672,830

GENERAL PERFORMANCE

The global financial tsunami brought abrupt and dramatic changes to the world economy in the year 2008, resulting in rapid economic slowdown across countries with some facing the threat of recession. Nonetheless, thanks to the collective efforts of the Chinese government and its citizens, mainland China managed to maintain steady economic growth. According to preliminary information published by the National Bureau of Statistics of China, Gross Domestic Products of mainland China amounted to approximately RMB30,067 billion, up about 9.0% from the previous year. Disposable income per capita for urban and rural citizens maintained steady growth and increased by about 14.5% to RMB15,781 and almost 15% to approximately RMB4,761 respectively when comparing with last year. Domestic demand in mainland China remained strong and the sales of consumption products for the year 2008 was approximately RMB10,848.8 billion, representing an increase of approximately 21.6% from the previous year.

Living standard of Chinese people improved rapidly as a result of the thriving economy. In addition, sales of hygiene products as daily necessities were relatively less affected by the global financial crisis. Therefore, demand for quality hygiene products continued to grow during the year, leading to expansion of the business of the Group. Thanks to its sound business foundation and strong brand awareness, the Group maintained a leading position in the personal and household hygiene product industry in mainland China. During the year, the Group was the only tissue producer in mainland China to have been named “A Cooperative Partner of China Space” (中國航天事業合作夥伴) by China Space Foundation. “Hearttex” tissue products and “ElderJoy” adult diapers were also designated as “Designated Product for China Aerospace” (中國航天專用產品) and “Designated Product for China’s Shenzhou Spacecraft” (中國神舟專用產品). In addition, Hearttex was named one of the eight “Most Trusted Brands” by international consulting firm Alix Partners in a Chinese consumer survey. These accolades served as the foundation for the persistent growth in the revenue and profit of the Group. In 2008, the revenue of the Group amounted to approximately HK$8,001,545,000 (2007: HK$5,686,972,000), representing a 40.7% increase year-on-year approximately. Profit attributable to shareholders amounted to about HK$1,340,914,000 (2007: HK$1,008,157,000), up about 33.0%.

Continued increase in the costs of major raw materials, wood pulp and petrochemicals, from the first to the third quarters last year had added pressure to the production and transportation costs of the Group. However, the prices of major raw materials began to fall in the fourth quarter, thus alleviating the cost pressure. The Group also adopted various measures, including raising the selling price of tissue products, optimizing its product portfolio, implementing effective purchasing strategy, shortening workflow and reducing raw material wastage rate, to enhance production efficiency to further negate the impact of rising prices. As a result, the gross profit margin of the Group remained stable at about 40.0% (2007: 40.0%).

During the year, distribution costs and administrative expenses accounted for about 22.1% of the revenue (2007: 19.7%). This was mainly attributable to the Group’s strategic effort to increase expenses in marketing, advertising and promotion and also due to rising labour cost and the increase in transportation expenses resulting from the surge in the average oil price.

BUSINESS REVIEW

Tissue Paper

Despite the global economic downturn in 2008, per capita income of the mainland population continued to show steady increase, driving up demand for quality tissue products. Compared with developed countries in Europe and the United States, the consumption of tissue paper in China is still relatively low which implies huge growth potential of the market. Meanwhile, the strict enforcement of the environment laws and regulations by the Chinese government has accelerated market consolidation, bringing new opportunities to the Group.

During the year, revenue from the Group's tissue paper business rose by about 49.9% to approximately HK$3,874,924,000 (2007: HK$2,585,105,000), accounting for about 48.4% of the total revenue (2007: 45.5%). Thanks to the diversified products development strategy of the Group, the Group's variety of products could cater to the needs of different consumers under different circumstances and helped maintain the growth momentum of the business. During the year, the Group continued to focus on manufacturing products with higher gross profit margins, including box tissue papers, pocket handkerchiefs and wet tissues. Sales from these products accounted for approximately 68.7% of total tissue papers sales of the Group (2007: 71.4%).

The gross profit margin for tissue products of about 31.6% (2007: 31.5%) was comparable with last year. This was mainly because the Group had benefited from the increase in selling prices of tissue paper products by 5% to 10% since March 2008 and the price decline of raw materials since the fourth quarter of last year, which offset the impact of raw materials price surge during the first to third quarters of the year.

During the year, the Group continued to increase its production capacity in order to satisfy growing demand. Fujian production base phase II and the Hunan production base phase II commenced production in April and December 2008 respectively. By the end of 2008, the Group's annual production capacity had reached 360,000 tons.

Sanitary Napkins

Rising living standard and growing awareness in health and hygiene among mainland consumers translated into continuous growth in the demand for sanitary napkins. Meanwhile, continuous rise in the prices of raw materials between the first and third quarters of 2008 had generated great pressure on small and medium enterprises. Some of them were forced to close down or suspend production. The development led to further market consolidation and benefited large manufacturers.

As a leading manufacturer of personal hygiene products in the mainland, the Group delivered encouraging results for its sanitary nakpin business. Revenue reached approximately HK$2,015,580,000 (2007: HK$1,538,889,000), representing a 31.0% increase year-on-year and accounting for 25.2% of the Group's total revenue (2007: 27.1%) approximately. The Group continued to focus on producing mid-to-high end products. The "Space 7" series remained widely popular, accounted for approximately 50.0% of the Group's revenue in sanitary napkin business (2007: 40.9%).

During the first to third quarters of 2008, the price of petrochemical products and flupp wood pulp, the key raw materials for producing sanitary napkins, remained at a high level. However, the Group has successfully pushed up the annual gross profit margin to 57.9% (2007: 56.9%) by tightening cost controls, increasing the proportion of products with a high gross profit margin, and also taking advantage of the fall in price of raw materials in the fourth quarter of the year.

Disposable Diapers

Rapid economic growth of mainland China and the general improvement in the living standard of the Chinese population have led to growing popularity of baby disposable diapers. Despite the impact of the global economic downturn and that consumers have become more cautious about spending, there is huge growth potential for the disposable diaper market in mainland China given the penetration rate was still relatively low when compared with that of other developed countries. Therefore, sales figures of the Group's diapers products were set to rise persistently. During the year, the diapers business raked in revenue of about HK$1,873,526,000 (2007: HK$1,360,913,000), up about 37.7% and accounting for about 23.4% of the total revenue (2007: 23.9%).

Benefiting from the fall in price of petrochemical products and wood pulp in the fourth quarter, the key materials for producing diapers products, and as a result of the Group's continuous efforts on strengthening internal controls and improving its product mix, gross profit margin of disposable diapers rose to about 35.3% in 2008 (2007: 33.3%).

Skincare and Cleansing Products

Competition of skincare product market was keen in mainland China. Sales of "MissMay" products amounted to approximately HK$15,540,000 (2007: HK$31,869,000. This business contributed approximately 0.2% of the Group's total revenue (2007: 0.5%). It has only negligible impact to the overall business of the Group.

First aid Products

Sales of the Group's first aid products under the brand names of "Banitore", "Bandi" and "Comfitore" continued to record a satisfactory business growth. Sales increased by about 22.6% to around HK$32,007,000 (2007: HK$26,105,000). This business only accounted for approximately 0.4% of the Group's total revenue (2007: 0.5%), hence it did not affect the Group's overall business performance significantly.

Acquisition of QinQin Foodstuffs Group

China's buoyant economy offers great development potential for the snack food industry. As such, the Group acquired 51% equity interest in QinQin Foodstuffs Group Company Limited ("QinQin"), one of the leading confectionery manufacturers in mainland China on 28 November 2008, at a total consideration of approximately HK$260,000,000. The move marked the Group's first step to establish a presence in the snack food industry.

During the year, QinQin recorded revenue and profit attributable to shareholders of approximately HK$843,635,000 and HK$53,307,000 respectively. However, as only about one month of QinQin's results was consolidated into the accounts of the Group since the acquisition date, contribution from QinQin to the Group's results for the year was not significant.

QinQin is one of the leading confectionery manufacturers in the PRC and is principally engaged in the manufacture and distribution of snack food including fruit jelly, prawn crackers and chips and potato chips. Its key products are sold under the brand names of "亲亲" ("QinQin") and "香格里" ("Xianggeli"). QinQin has an extensive nationwide sales network of approximately 30,000 sales outlets in 28 provinces.

The flagship products of prawn chips, potato chips and fruit jelly under the brand name of "QinQin" and the seasoning products under the brand name of "Xianggeli" are recognised by China National Food Industry Association as Famous Chinese Food. The fruit jelly under the brand name of "QinQin" is designated as a China Top Brand Product by General Administration of Quality Supervision, Inspection and Quarantine of the PRC.

DISTRIBUTION AND MARKETING STRATEGIES

To grasp the business opportunities arising from the rapid market growth, the Group has stepped up marketing, advertising and sales promotion efforts strategically during the first half of 2008. By capitalising on its nationwide distribution network, it extended product coverage to include the second-tier and third-tier cities, towns, villages and agricultural areas. However, China's economy was dragged down by the slumping global economy in the second half of 2008. Therefore, the Group continued to adopt proactive sales strategies that involved strengthening its marketing and promotion efforts, boosting its brand awareness and customer loyalty, in a bid to capture the market to enlarge market share and further strengthen its leading market position.

In view of above factors, distribution costs as a percentage of the Group's total revenue increased to approximately 18.1% (2007: 15.9%).

RESEARCH AND DEVELOPMENT OF PRODUCTS

The Group was devoted to improve quality of products and hence continued to allocate more resources on research and development in order to enhance the quality of products, provide new personal hygiene products to customers and capture expanding business opportunities in the market. During the year, the Research and Development Department of the Group was awarded the "Enterprise Technological Centre with State Accreditation" by five PRC national departments, namely the National Development and Reform Commission, the National Bureau of Science and Technology, the Ministry of Finance, the China Customs and the State Administration of Taxation of the People's Republic of China. The Group is the first and the only enterprise in the household tissue products industry to be honoured for this accreditation by Chinese government. The accreditation was in recognition of our technological innovation and research and development standard. We will continue to adhere to our consumer-oriented philosophy, strengthen our product research and development capabilities and enhance our product technology and product quality in order to improve overall competitiveness and further strengthen our leading position in the personal hygiene product industry.

APPOINTMENT OF BOOZ & COMPANY

In view of progressive growth in personal hygiene products market in mainland China and competitive market landscape, together with the rapid development in the Group's business and operation scale for years, the Group appointed Booz & Company, a leading management consulting firm, as independent management consultant in December 2008 in order to cope with challenges arising from the business expansion. The consultant will help the Group to further improve the Group's strategic planning, supply chain management and performance assessment mechanism, and make improvement on the operation and budgeting fronts.

The appointment of Booz & Company as the Group's independent management consultant was yet another move to strengthen our competitiveness following the Group's internal transformation by launching various time management tools in 2001. Booz & Company specializes in the provision of consulting services for both the public and private sectors around the world. With Booz & Company's expertise and new management tools and concept, we believe that our operational efficiency, competitiveness, productivity and profitability will be enhanced, and in turn consolidate our leading market position.

HUMAN RESOURCES MANAGEMENT

As at 31 December 2008, the Group employed approximately 21,500 full-time and temporary staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employee and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and continued professional opportunities according to their needs.

LIQUIDITY, FINANCIAL RESOURCES AND BANK LOANS

The Group maintained a solid financial position. As at 31 December 2008, the Group's cash and cash equivalents and restricted bank deposits amounted to approximately HK$1,627,592,000 (2007: HK$2,304,920,000), convertible bonds liability portion was approximately HK$1,465,247,000 (2007: HK$1,562,833,000) and short-term and long-term bank loans amounted to approximately HK$342,664,000 (2007: HK$332,037,000). During the year, the Group's capital expenditure on the acquisition and installation of production facilities amounted to approximately HK$1,490,253,000.

The convertible bonds were subject to a fixed interest rate of 4.7% semi-annually while the bank borrowings were subject to floating annual interest rates ranging from 0.94% to 5.62% (2007: from 2.04% to 4.63%). As at 31 December 2008, apart from the bank deposits of approximately HK$17,040,000 (2007: HK$144,889,000) deposited in banks as collaterals, there were no other charges on the Group's assets for its bank loans. As at 31 December 2008, the Group's gross gearing ratio was approximately 27.9% (2007: 35.5%), which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including minority interests). The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and cash equivalents and restricted bank deposits as a percentage of the shareholders' equity (not including minority interests), was 2.8% (2007: nil). The decline in the cash and cash equivalents was mainly due to the payment of large amount of capital expenditure as mentioned above and purchase of approximately 125,000 tons of wood pulp near the year end at a consideration of approximately HK$467,942,000.

As at 31 December 2008, the Group had no material contingent liabilities.

FOREIGN CURRENCY RISKS

A large portion of the Group's income is denominated in Renminbi while most of the raw materials purchases are required to be settled in US dollar. The Group has never had any difficulties in getting sufficient foreign currencies for settlement of the purchases or repatriation of profits declared by the subsidiaries in mainland China to the overseas holding companies. As at 31 December 2008, the Group had not issued any financial instruments or entered into any contracts for foreign currency hedging purposes.

FUTURE PROSPECTS

The slowdown of the global economy has brought forth many uncertainties over the operating environment of different industries. Nevertheless, in light of the rising living standard, stronger awareness of health and hygiene of Chinese people together with the increasing progress of urbanisation and marketisation, the Group maintains a prudent yet optimistic attitude about the prospect of personal care and hygiene product market. Larger players will benefit from market consolidation as a result of the changing market and environment. By capitalizing on our existing solid foundation and our competitiveness in this industry, the Group is confident of its ability to continue leading the development of the personal hygiene product market in mainland China.

With regard to the tissue paper business, the Group continued to develop and introduce more quality tissue paper products in order to cope with the market demand. We will also further enrich our product portfolio to cater to different market needs. In order to fulfill market demand, the Group plans to further expand production capacity to 420,000 tons and 540,000 tons before the end of 2009 and 2010 respectively.

As for the sanitary napkin business, our mid-to-high end products such as "Anerle" and "Space 7" products continued to be well received by the market. The Group will proactively produce more mid-to-high end products with higher gross profit margins and strengthen brand promotion activities in order to increase our market share.

Regarding the disposable diapers business, the Group will seize the opportunities arising from the fast-growing diapers market, improve its product portfolio and launch more competitive products. In order to strengthen our productivity, we will upgrade our existing production technology and add new production lines.

For the snack food business, the Group will focus on consolidating QinQin business so as to create synergy effect resulting from the integration of supply chain, distribution channel and brand management with the Group's existing business. In view of the outstanding track record and promising outlook of QinQin, the Group believes that the acquisition will push forward the overall performance of the Group and consolidate its earning base. The Group aims at developing the food business into one of its four major business segments in the future.

In 2009, the global market and operating environment will become more volatile and full of both challenges and opportunities. In order to strengthen our leading market position, the Group will continue to bring in new technology and improve our product quality. Meanwhile, the Group will actively expand its sales network, step up marketing and promotion efforts, strengthen our brand equity and enlarge our market share. The Group is committed to elevating our management standard, increasing operational efficiency and strengthening our competitiveness through appointment of an independent management consultant. The Group is poised to capture market opportunities in the future and expand the development scale with a view to ensuring a steady growth in business and creating greater value for shareholders.

FINAL DIVIDEND

The directors have resolved to recommend the payment of a final dividend of HK$0.40 (2007: HK$0.32) per share for the year ended 31 December 2008 at the forthcoming Annual General Meeting to be held on 20 May 2009. The final dividend amounting to approximately HK$460,026,000, if approved by shareholders, is expected to be paid on or about 25 May 2009 to those shareholders whose names appear on the Register of Members on 20 May 2009.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 13 May 2009 to 20 May 2009, both days inclusive, during which period no transfer of shares can be registered. To qualify for the final dividend (which will be payable on or about 25 May 2009) to be approved at the forthcoming Annual General meeting, shareholders must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, no later than 4:00 p.m. on 12 May 2009.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company did not redeem any of the Company's shares during the year. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the year.

CORPORATE GOVERNANCE

The Board is committed to maintaining high standards of corporate governance. It believes that high standards of corporate governance provide a framework and solid foundation for the Group to manage business risks, enhance transparency, maintain high standards of accountability and protect shareholders' interests in general. The Company has complied with the Code on Corporate Governance Practices throughout the year ended 31 December 2008.

REVIEW OF ACCOUNTS

The Audit Committee, which is chaired by an independent non-executive director and currently has a membership comprising another two independent non-executive directors, has discussed with management and reviewed the consolidated accounts for the year ended 31 December 2008. The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2008 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated accounts for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

ACKNOWLEDGEMENT

The directors would like to take this opportunity to express our sincere thanks to our shareholders for their support and to our staff for their commitment and diligence during the year.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises Mr. Sze Man Bok, Mr. Hui Lin Chit, Mr. Yeung Wing Chun, Mr. Hung Ching Shan, Mr. Xu Da Zuo, Mr. Xu Chun Man and Mr. Loo Hong Shing Vincent as executive directors, and Mr. Chan Henry, Mr. Chu Cheng Chung and Ms. Ada Ying Kay Wong as independent non-executive directors.

By order of the Board
Sze Man Bok
Chairman

Hong Kong, 18 March 2009

* *For identification purpose only*