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"

2009 ANNUAL RESULTS ANNOUNCEMENT
FINANCIAL SUMMARY

	2009	2008	Change
	HK$'000	*HK$'000*	
Revenue	**10,833,839**	8,001,545	35.4%
Profit attributable to shareholders	**2,117,509**	1,340,914	57.9%
Gross profit margin (%)	**46.0**	40.0	
Earnings per share			
– Basic	**HK$1.770**	HK$1.172	51.0%
– Diluted	**HK$1.765**	HK$1.152	53.2%
Dividends per share			
– Interim (paid)	**HK$0.50**	HK$0.32	
– Final (proposed)	**HK$0.60**	HK$0.40	
Finished goods turnover (days)	**58**	61	
Accounts receivable turnover (days)	**28**	31	
Current ratio (times)	**1.9**	2.7	
Gross gearing ratio (%)	**30.3**	27.9	
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 the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2009, together with the comparative figures for the previous year, as follows:

Consolidated profit and loss account

		Year ended 31 December	
		2009	2008
	Note	***HK$'000***	*HK$'000*
Revenue	*2*	**10,833,839**	8,001,545
Cost of goods sold		**(5,853,348)**	(4,798,999)
Gross profit		**4,980,491**	3,202,546
Other gains – net		**106,803**	92,993
Distribution costs		**(1,951,460)**	(1,451,005)
Administrative expenses		**(535,283)**	(313,462)
Operating profit	*3*	**2,600,551**	1,531,072
Finance income		**45,128**	46,494
Finance costs		**(62,950)**	(66,878)
Profit before income tax		**2,582,729**	1,510,688
Income tax expense	*4*	**(415,706)**	(166,032)
Profit for the year		**2,167,023**	1,344,656
Profit attributable to:			
Shareholders of the Company		**2,117,509**	1,340,914
Minority interests		**49,514**	3,742
		2,167,023	1,344,656
Earnings per share for profit attributable to shareholders of the Company	*5*		
– Basic		**HK$1.770**	HK$1.172
– Diluted		**HK$1.765**	HK$1.152
Dividends	*6*	**1,341,245**	825,884

Consolidated statement of comprehensive income

	Year ended 31 December	
	2009	2008
	HK$'000	*HK$'000*
Profit for the year	**2,167,023**	1,344,656
Other comprehensive income:		
– Translation of subsidiaries' accounts	**6,798**	347,521
Total comprehensive income for the year	**2,173,821**	1,692,177
Attributable to:		
Shareholders of the Company	**2,124,188**	1,687,588
Minority interests	**49,633**	4,589
	2,173,821	1,692,177

Consolidated balance sheet

		As at 31 December	
		2009	2008
	Note	***HK$'000***	*HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**3,535,811**	3,080,750
Construction-in-progress		**808,410**	813,329
Leasehold land and land use rights		**397,541**	239,408
Intangible assets		**616,384**	626,296
Prepayment for non-current assets		**428,913**	466,679
Deferred income tax assets		**89,395**	68,269
Non-current finance lease receivables		**–**	9,692
Long-term bank deposits		**468,597**	–
		6,345,051	5,304,423
Current assets			
Inventories		**2,174,505**	2,128,030
Trade and bills receivables	*7*	**882,841**	779,902
Other receivables, prepayments and deposits		**260,522**	195,393
Current finance lease receivables		**10,044**	13,672
Derivative financial instruments		**13,938**	–
Restricted bank deposits		**11,364**	17,040
Cash and bank balances		**4,449,674**	1,610,552
		7,802,888	4,744,589
Total assets		**14,147,939**	10,049,012
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		**121,931**	115,007
Other reserves		**4,936,821**	4,499,296
Retained earnings			
– Proposed final dividend		**731,588**	460,026
– Unappropriated retained earnings		**3,226,666**	1,409,728
		9,017,006	6,484,057
Minority interests		**279,977**	231,844
Total equity		**9,296,983**	6,715,901

		As at 31 December	
		2009	2008
	Note	***HK$'000***	*HK$'000*
LIABILITIES			
Non-current liabilities			
Bank borrowings		**555,031**	45,840
Convertible bonds		**–**	1,465,247
Deferred income tax liabilities		**115,476**	56,892
Deferred income on government grants		**5,104**	7,555
		675,611	1,575,534
Current liabilities			
Trade payables	*8*	**875,608**	898,159
Bills payables	*9*	**397,501**	–
Other payables and accrued charges		**565,255**	480,659
Deferred income on government grants		**1,598**	1,783
Current income tax liabilities		**160,214**	80,152
Bank borrowings		**2,175,169**	296,824
		4,175,345	1,757,577
Total liabilities		**4,850,956**	3,333,111
Total equity and liabilities		**14,147,939**	10,049,012
Net current assets		**3,627,543**	2,987,012
Total assets less current liabilities		**9,972,594**	8,291,435

1. **Basis of preparation and principal accounting policies**

The consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated results have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments at fair value through profit or loss.

Changes in accounting policy and disclosures

(a) **New standards, revised standards and amendments to existing standards adopted by the Group**

The Group has adopted the following new and amended HKFRS since 1 January 2009:

- HKFRS 2 (amendment) 'Share-based payment'. The amendment deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment does not have a material impact on the Group's consolidated accounts.

- HKFRS 7 'Financial Instruments – Disclosures' (amendment). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- HKFRS 8, 'Operating segments'. HKFRS 8 replaces HKAS 14 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. There is no change in the operating segments for the Group.

  Operating segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-marker has been identified as the Executive Directors that makes strategic decisions.

  Goodwill is allocated by management to groups of cash-generating units on a segment level. Goodwill relating to previous acquisitions of tissue products and food and snack products segments remains in these segments.

- HKAS 1 (revised) 'Presentation of financial statements'. The revised standard required 'non-owner changes in equity' to be presented separately from owner changes in equity. As a result the Group presents all owner changes in equity in the consolidated statement of changes in equity, whereas all 'non-owner changes in equity' are presented in a performance statement.

  Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the profit and loss account and statement of comprehensive income). The Group has elected to present two statements: profit and loss account and a statement of comprehensive income. The consolidated financial statements have been prepared under the revised disclosure requirements.

- HKAS 23 (amendment) 'Borrowing costs'. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. This amendment does not have a material impact on the Group's consolidated accounts as the Group has already chosen the allowed alternative treatment to capitalise borrowing cost attributable to qualifying assets and under the original HKAS 23.

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

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

HKFRS (amendments)	Improvements to HKFRS 2009
HKFRS 1 (revised)	First-time adoption of HKFRS
HKFRS 1 (amendment)	Additional exemptions for first-time adopters
HKFRS 2 (amendments)	Group cash-settled share-based payment transaction
HKFRS 3 (revised)	Business combinations
HKFRS 9	Financial instruments
HKAS 24 (amendment)	Related party disclosures
HKAS 27 (revised)	Consolidated and separate financial statements
HKAS 32 (amendment)	Classification of right issues
HKAS 39 (amendment)	Eligible hedged items
HK(IFRIC) 14 (amendments)	Prepayment of a minimum funding requirement
HK(IFRIC) 17	Distributions of non-cash assets to owners
HK(IFRIC) 18	Transfers of assets from customers
HK(IFRIC) 19	Extinguishing financial liabilities with equity instruments

2. Revenue and segment information

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

	2009						2008					
	Sanitary napkins products	**Disposable diapers products**	**Tissue paper products**	**Food and snack products**	**Skin care and others**	**Group**	Sanitary napkins products	Disposable diapers products	Tissue paper products	Food and snack 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*	*HK$'000*	*HK$'000*
Profit and loss accounts for the year ended 31 December												
Segment revenue	**2,613,459**	**2,214,994**	**4,655,920**	**863,283**	**1,197,240**	**11,544,896**	2,076,116	1,882,835	3,996,467	63,084	471,146	8,489,648
Inter-segment sales	**(67,090)**	**(54,743)**	**(200,079)**	**–**	**(389,145)**	**(711,057)**	(60,536)	(9,309)	(121,543)	–	(296,715)	(488,103)
Revenue of the Group	**2,546,369**	**2,160,251**	**4,455,841**	**863,283**	**808,095**	**10,833,839**	2,015,580	1,873,526	3,874,924	63,084	174,431	8,001,545
Segment profit	**921,415**	**420,767**	**951,350**	**111,937**	**192,287**	**2,597,756**	682,471	297,827	404,354	2,342	81,414	1,468,408
Unallocated costs						**(104,008)**						(30,329)
Other gains – net						**106,803**						92,993
Operating profit						**2,600,551**						1,531,072
Finance income						**45,128**						46,494
Finance costs						**(62,950)**						(66,878)
Profit before income tax						**2,582,729**						1,510,688
Income tax expense						**(415,706)**						(166,032)
Profit for the year						**2,167,023**						1,344,656
Minority interests						**(49,514)**						(3,742)
Profit attributable to shareholders of the Company						**2,117,509**						1,340,914
Balance sheet as at 31 December												
Segment assets	**2,412,106**	**4,115,277**	**5,725,451**	**754,538**	**750,782**	**13,758,154**	1,315,167	2,041,084	5,159,309	725,649	471,501	9,712,710
Deferred income tax assets						**89,395**						68,269
Unallocated assets						**300,390**						268,033
Total assets						**14,147,939**						10,049,012
Segment liabilities	**516,031**	**857,583**	**1,080,890**	**147,292**	**90,190**	**2,691,986**	187,334	234,071	480,989	204,621	27,727	1,134,742
Deferred income tax liabilities						**115,476**						56,892
Current income tax liabilities						**160,214**						80,152
Unallocated liabilities						**1,883,280**						2,061,325
Total liabilities						**4,850,956**						3,333,111
Other items for the year ended 31 December												
Capital expenditure	**129,683**	**178,633**	**689,053**	**12,724**	**224,326**	**1,234,419**	239,406	323,891	692,477	453,661	51,953	1,761,388
Deprecation	**52,979**	**35,667**	**200,340**	**19,940**	**12,095**	**321,021**	61,291	32,225	169,755	–	15,312	278,583
Amortisation charge	**2,376**	**742**	**3,782**	**11,107**	**3,452**	**21,459**	2,328	208	3,340	–	1,155	7,031
Income tax expenses	**95,848**	**86,843**	**178,141**	**25,981**	**28,893**	**415,706**	110,620	10,995	37,836	7,712	(1,131)	166,032

(b) Unallocated costs represent corporate expenses.

Unallocated assets comprise corporate assets including certain cash and bank balances and derivative financial instruments.

Unallocated liabilities comprise corporate borrowings.

3. Operating profit

Operating profit is stated after crediting and charging the following:

	2009	2008
	HK$'000	*HK$'000*
Crediting		
Net exchange gains	**–**	53,920
Government grants income *(Note)*	**80,671**	101,947
Amortisation of deferred income on government grants	**2,649**	4,629
Unrealised fair value gain on derivative financial instruments	**13,938**	–
Charging		
Net exchange losses	**7,551**	–
Depreciation of property, plant and equipment	**321,021**	278,583
Amortisation of leasehold land and land use rights	**11,543**	6,466
Amortisation of intangible assets	**9,916**	565
Loss on disposal/write-off of property, plant and equipment	**6,028**	4,512
Staff costs, including directors' emoluments	**763,876**	516,626
Operating lease rentals in respect of factory premises and sales liaison offices	**47,926**	35,802
Repairs and maintenance expenses	**73,232**	55,659
Provision for impairment of trade receivables	**14**	11,266
Provision for impairment/written off of inventories	**7,153**	26,155

Note: These mainly represented government grants received from certain municipal governments of the People's Republic of China (the "PRC") 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:

	2009	2008
	HK$'000	*HK$'000*
Current income tax		
– Hong Kong profits tax *(note a)*	**14,498**	9,396
– PRC income tax *(note b)*	**363,345**	169,816
Deferred income tax *(note c)*	**37,863**	(13,180)
Income tax expense	**415,706**	166,032

(a) Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits for the year.

(b) Effective from 1 January 2008, the Company's subsidiaries incorporated in the PRC are subject to Corporate Income Tax ("CIT") at the rate of 25% in accordance with the Corporate Income Tax Law of the PRC (the "New CIT Law") as approved by the National People's Congress on 16 March 2007 and the Detailed Implementations Regulations of the New CIT Law (the "DIR") as approved by the State Council on 6 December 2007. Enterprises which were established before the publication of the New CIT Law and were entitled to preferential treatments of reduced CIT rates granted by the relevant tax authorities, the new CIT rates will be gradually increased from the preferential rates to 25% within 5 years from 1 January 2008. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

According to the New CIT 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 a rate of 10% for other foreign investors. Deferred income tax liabilities have been provided for in this regard based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

(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.

5. Earnings per share

	2009	2008
Basic		
Profit attributable to shareholders of the Company *(HK$'000)*	**2,117,509**	1,340,914
Weighted average number of ordinary shares in issue *(thousands)*	**1,196,348**	1,143,924
Basic earnings per share	**HK$1.770**	HK$1.172
Diluted		
Profit attributable to shareholders of the Company *(HK$'000)*	**2,117,509**	1,340,914
Adjusted for:		
– Interest expense on convertible bonds	**–**	63,534
Profit used to determine diluted earnings per share	**2,117,509**	1,404,448
Weighted average number of ordinary shares in issue *(thousands)*	**1,196,348**	1,143,924
Adjusted for:		
– Assumed conversion of convertible bonds *(thousands)*	**–**	75,416
– Share options *(thousands)*	**3,628**	–
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	**1,199,976**	1,219,340
Diluted earnings per share	**HK$1.765**	HK$1.152

(a) *Basic*

Basic earnings per share is calculated by dividing the Group's profit attributable to shareholders of HK$2,117,509,000 (2008: HK$1,340,914,000) by the weighted average number of 1,196,348,252 (2008: 1,143,923,795) ordinary shares in issue during the year.

(b) *Diluted*

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's share options are regarded as dilutive potential ordinary shares as at 31 December 2009. Calculations are done to determine the number of shares that could have been acquired at fair value (determined by using average market share price of the Company's shares for the year ended 31 December 2009) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

6. Dividends

	2009	2008
	HK$'000	*HK$'000*
Interim, paid, HK$0.50 (2008: HK$0.32) per ordinary share	**609,657**	365,858
Final, proposed, HK$0.60 (2008: HK$0.40) per ordinary share	**731,588**	460,026
	1,341,245	825,884

At a meeting held on 25 March 2010, the Directors proposed a final dividend of HK$0.6 per ordinary share of the Company, totaling HK$731,588,000. Such dividend is to be approved by the shareholders at the Annual General Meeting on 24 May 2010. The financial information does not reflect this dividend payable.

7. Trade and bills 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 2009, the ageing analysis of the trade and bills receivables was as follows:

	2009	2008
	HK$'000	*HK$'000*
Within 30 days	**485,286**	400,543
31 – 180 days	**385,762**	356,465
181 – 365 days	**5,435**	8,191
Over 365 days	**6,358**	14,703
	882,841	779,902

8. Trade payables

At 31 December 2009, the ageing analysis of the trade payables was as follows:

	2009	2008
	HK$'000	*HK$'000*
Within 30 days	**553,524**	389,415
31 – 180 days	**306,432**	490,294
181 – 365 days	**10,585**	10,834
Over 365 days	**5,067**	7,616
	875,608	898,159

9. Bills payables

During the year, the Group discounted certain bills to banks with recourse in exchange for cash. The bills discounted to banks and remained outstanding as at 31 December 2009 amounted to HK$397,501,000 (2008: Nil).

The carrying amounts of the bills payables approximated their fair value as at the balance sheet date due to short-term maturity.

BUSINESS OVERVIEW

In 2009, the impact of the global financial tsunami on the worldwide economic activities gradually emerged. In face of uncertain market conditions, the Chinese government implemented a series of stimulating measures, including adoption of a proactive fiscal policy and moderately loose monetary policy, so as to reverse swiftly the slowdown in economic growth and maintained relatively fast development. According to the preliminary figures from the National Bureau of Statistics of China, China's GDP amounted to approximately RMB33,535.3 billion, rising by about 8.7% as compared with that of the previous year. Disposable income per capita for urban and rural citizens grew by 9.8% and 8.5% respectively, to approximately RMB17,175 and approximately RMB5,153, reflecting a continuous and steady growth in the income of Chinese urban and rural citizens.

The sustainable development of the Chinese economy promoted the growth in retail consumption. In 2009, the total sales of consumer goods rose by approximately 15.1% to approximately RMB12,534.3 billion, with an approximately 15.6% growth recorded for daily commodities. Benefited from the improvement in overall living standard and growing awareness in hygiene, demand for high quality personal hygiene products among consumers in China continued to grow, leading to a fast growth in the Group's tissue papers, sanitary napkins and disposable diapers businesses.

For the year ended 31 December 2009, the Group's revenue amounted to approximately HK$10,833,839,000, representing an approximately 35.4% increase from that of the previous year. Profit attributable to shareholders grew by about 57.9% to approximately HK$2,117,509,000 with growth reported across the tissue papers, sanitary napkins and disposable diapers businesses. Overall gross profit margin for the Group increased to around 46.0% (2008: 40.0%), mainly reflecting the decrease in production costs resulted from the decline in raw material prices since the third quarter of 2008. Meanwhile, the Group continued to optimise its product portfolio, increase production capacity progressively to enhance economies of scale; streamline workflow and increase efficiency to further enhance operational efficiency.

During the year under review, distribution costs and administrative expenses accounted for about 23.0% of the revenue (2008: 22.1%), which remained fairly stable as compared with the previous year.

BUSINESS REVIEW

Tissue papers

While the consumption of tissue paper in China continued to grow rapidly in recent years, the tissue paper consumption per capita per annum of Chinese citizens is still lower than that of the developed countries in Europe and the United States, reflecting huge growth potential of the market. Meanwhile, the demand for higher quality products increased as continuous increase in mainland per capita income raised consumers' attention to product quality. During the year, the Group launched its "Hearttex" tissue paper products in Hong Kong, successfully expanding its tissue paper distribution network to this global financial centre.

In 2009, revenue from the Group's tissue paper business rose by about 15.0% to approximately HK$4,455,841,000, representing about 41.1% of the total revenue (2008: 48.4%). During the year, the Group continued to focus on manufacturing and selling products with higher gross profit margins, including box tissue papers, pocket handkerchiefs and wet tissues. Revenue from these products accounted for approximately 66.1% of total tissue revenue of the Group (2008: 68.7%). Benefited from the price decline of tissue wood pulp, a major raw material, the production costs of tissue paper business dropped, leading to a surge of gross profit margin to about 42.1% (2008: 31.6%). In addition, the Group increased its inventory of tissue wood pulp during the fourth quarter of 2008 and the first half of 2009 at a relatively low cost, in an attempt to alleviate the impact of price fluctuations in the second half of 2009 and first half of 2010. As at 31 December 2009, the Group had over 200,000 tons of tissue wood pulp in hand and in transit purchased at below-current-market price, which are sufficient for production until around June 2010.

In order to cater to the Group's development, the third phase of the Hunan plant commenced production at the end of 2009, bringing the Group's annualised production capacity to approximately 420,000 tons.

Sanitary Napkins

Benefited from the rising living standard and increasing awareness of personal hygiene, consumers are more willing to purchase quality sanitary napkin products with higher selling prices, driving the continuous growth in the demand for quality products. During the year, the Group's sanitary napkin business recorded satisfactory growth, with revenue increased by about 26.3% to approximately HK$2,546,369,000, accounting for almost 23.5% of total revenue (2008: 25.2%). As a result of the decline in prices of major raw materials, such as petrochemical products and fluff pulp, as compared with those of the previous year, and the higher sales contribution of mid-to-high end products, gross profit margin of the Group's sanitary napkin business rose to about 61.1% (2008: 57.9%).

Disposable Diapers

As a result of the sluggish global economy, consumers became more cautious in spending, thus affecting the growth of disposable diaper business of the Group in the first half of 2009. However, the improved economic situation in the second half of the year drove the demand for disposable diapers. In addition, the "Super Absorbent" series, which was officially launched for sale nationwide in July 2009, received positive market response and generated satisfactory revenue for the Group.

During the year, revenue from the Group's disposable diapers business grew by about 15.3% to approximately HK$2,160,251,000, accounting for about 19.9% of the total revenue (2008: 23.4%). Thanks to the decline in prices of major raw materials, petrochemical products and fluff pulp, and as a result of the Group's continuous efforts on strengthening cost controls and optimising product mix, gross profit margin of disposable diapers business rose to about 41.1% (2008: 35.3%).

Food and Snacks Products

The Group acquired mainland confectionary manufacturer QinQin Foodstuffs Group Company Limited ("QinQin Foodstuffs") in November 2008, marking the Group's first step to establish a presence in the food and snacks industry. During the year, revenue from food and snacks business amounted to approximately HK$863,283,000 (2008: HK$63,084,000), representing 8.0% (2008: 0.8%) of the total revenue. The Group dedicated to integrating QinQin Foodstuff's logistics and transportation management in an attempt to realise gradually the synergy effect on QinQin Foodstuff's business. Such improvement, together with the decline in raw material prices, drove gross profit margin of the Group's food and snacks business to approximately 36.5% (2008: 30.1%).

First Aid Products

Revenue from the Group's first aid product business under the brand names of "Banitore" and "Bandi" reached approximately HK$33,893,000 in the 2009 (2008: HK$32,007,000). This business only accounted for approximately 0.3% (2008: 0.4%) of the Group's total turnover and did not have significant impact on the Group's overall results.

Skincare and Cleansing Products

Revenue of the Group's skincare and cleansing product business amounted to approximately HK$26,329,000 (2008: HK$15,540,000). This business only accounted for approximately 0.2% (2008: 0.2%) of the Group's total revenue, hence it had only negligible impact on the Group's overall results.

Revenue – others

The large increase in revenue – others was mainly due to the significant growth of export business for raw papers during the year.

Distribution and Marketing Strategy

During the year, the Group continued to strategically increase the number of sales staff, sales offices and distributors to further expand and strengthen the Group's sales network in third and fourth tier cities, villages, towns and agricultural areas, so as to enhance the Group's penetration into these markets. On the other hand, the Group also continued to improve its product quality to boost its sales in first tier cities and large supermarkets. Meanwhile, the Group maintained its efforts on advertising and promotion activities to further promote product popularity and consolidate the Group's market leadership and brand position.

During the year, the Group's distribution costs accounted for about 18.0% of revenue (2008: 18.1%), similar to that of last year.

Research and Development of Products

The Group strives for the excellence of its products. As the first and so far the only enterprise in the mainland's tissue paper industry to have been awarded the Enterprise Technological Centre with State Accreditation, the Group continued to put more resources on the research and development front, in a bid to further enhance its product quality, offer new and high quality hygiene products to consumers, and consolidate the Group's leading position in the personal hygiene product market.

Liquidity, Financial Resources and Bank Loans

The Group maintained a solid financial position. As at 31 December 2009, the Group's cash and cash equivalents, time deposits and restricted bank deposits amounted to approximately HK$4,929,635,000 (2008: HK$1,627,592,000); and the Group's total borrowings amounted to approximately HK$2,730,200,000 (2008: HK$1,807,911,000). During the year, all convertible bonds have been converted into Company's shares or redeemed by cash by the Group.

The convertible bonds before conversion were subject to a fixed interest rate of 4.7% semi-annually while bank borrowings were subject to floating annual interest rates ranging from approximately 0.7% to 3.0% (2008: 0.9% to 5.6%). As at 31 December 2009, apart from the bank deposits of HK$11,364,000 (2008: HK$17,040,000) deposited in banks as collaterals, there were no other charges on the Group's assets for its bank loans. As at 31 December 2009, the Group's gross gearing ratio was approximately 30.3% (2008: 27.9%), 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, time deposits and restricted bank deposits as a percentage of the shareholders' equity (not including minority interests), was nil (2008: 2.8%) as the Group was at a net cash position.

During the year, the Group's capital expenditure (excluding prepayment) for the acquisition and construction of new production facilities amounted to approximately HK$950,786,000.

As at 31 December 2009, the Group had no material contingent liabilities.

Management Consulting Company – Booz & Company

In 2009, Booz & Company completed its consultancy project for the Group and made recommendations on strategic planning, management hierarchy, performance assessment mechanism and operation and budgeting management. Booz & Company also assisted the Group in formulating a new five-year plan, outlining the Group's future development blueprint.

Human Resources and Management

As at 31 December 2009, the Group employed approximately 23,700 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.

Foreign Currency Risks

Most of the Group's income is denominated in Renminbi while a large portion 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 2009, apart from certain non-deliverable forward foreign exchange contracts to sell Renminbi for United States dollar entered into with certain listed commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

Outlook

The global economy shows signs of recovery and the Chinese economy continues with its steady development with strong domestic consumption. The improving overall living standard in China and increasing personal hygiene awareness of the mainland population continue to facilitate the development of personal hygiene products industry in China. Rising consumer demand for quality personal hygiene products is favourable for the development of enterprises which manufacture quality products. Leveraging on the Group's strong foundation and its core competitiveness in the industry, the Group is confident to maintain its leadership in the continuous development of the personal hygiene products market in China.

In order to cater to the market demand for quality hygiene products, the Group will continue to develop and launch quality high-end products. The Group will also expand its production capacity in response to market demand to strengthen its market leadership.

With regard to the tissue paper business, the Group will further increase its annual production capacity to cope with market demand. It is expected that the annual production capacity will reach 540,000 tons by the end of 2010. As for sanitary napkin business, the Group will actively produce more mid–to-high end products, and strengthen brand promotion in order to increase market share. For disposable diaper business, apart from the "Super Absorbent" products fully launched in 2009 as mentioned above, the Group is also arranging a test sale of another new product in mid-2010 to support the expansion of disposable diaper business.

Regarding the food and snacks business, the Group will continue to focus on integrating QinQin Foodstuffs business in order to achieve greater synergy with the existing personal hygiene product business in respect of logistics, supply chain, distribution network and brand management, and consolidate its profit foundation. Furthermore, the Group also plans to develop more varieties of snacks products, in the hope of achieving better development of the food and snacks business.

Overall speaking, the Group will carry on with its efforts to optimise product portfolio, improve existing production technologies and enhance management efficiency to support business development.

Looking ahead, the Group will continue to uphold its belief that quality takes precedence and will enhance technologies, improve product quality and refine product portfolio. Meanwhile, the Group will actively expand sales network, increase its efforts on advertising and promotion, reinforce the Group's brand equity and further boost market share. With the strong foundation and brand equity, the Group is confident to consolidate its leading position in personal hygiene product industry, maintain steady business growth and create greater values for shareholders.

FINAL DIVIDEND

The directors have resolved to recommend the payment of a final dividend of HK$0.60 (2008: HK$0.40) per share for the year ended 31 December 2009 at the forthcoming Annual General Meeting to be held on 24 May 2010. The final dividend amounting to approximately HK$731,588,000, if approved by shareholders, is expected to be paid on or about 26 May 2010 to those shareholders whose names appear on the Register of Members on 24 May 2010.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 17 May 2010 to 24 May 2010, 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 26 May 2010) 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 14 May 2010.

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. The Company has complied with the Code on Corporate Governance Practices throughout the year ended 31 December 2009.

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 2009. The figures contained in the financial information set out in page 2 to 12 of this announcement of the Group's results for the year ended 31 December 2009 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated accounts for the year as approved by the Board. 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. 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. Wang Ming Fu and Ms. Ada Ying Kay Wong as independent non-executive directors.

By order of the Board
Sze Man Bok
Chairman

Hong Kong, 25 March 2010

* *For identification purpose only*