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"

2010 ANNUAL RESULTS ANNOUNCEMENT
FINANCIAL SUMMARY

	2010	2009	Change
	HK$'000	*HK$'000*	
Revenue	**13,431,688**	10,833,839	24.0%
Profit attributable to shareholders	**2,438,328**	2,117,509	15.2%
Gross profit margin (%)	**44.3**	46.0	
Earnings per share			
— Basic	**HK$1.996**	HK$1.770	12.8%
— Diluted	**HK$1.988**	HK$1.765	12.6%
Dividends			
— Interim (paid)	**HK$0.60**	HK$0.50	
— Final (proposed)	**HK$0.70**	HK$0.60	
Finished goods turnover (days)	**54**	58	
Accounts receivable turnover (days)	**31**	28	
Current ratio (times)	**1.8**	1.9	
Gross gearing ratio (%)	**50.6**	30.3	
Net gearing ratio (%)	**—**	—	

RESULTS

The Board of Directors of Hengan International Group Company Limited (the "Company" or "Hengan International") is pleased to announce the consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010, together with the comparative figures for the previous year, as follows:

Consolidated income statement

		Year ended 31 December	
		2010	2009
	Note	***HK$'000***	*HK$'000*
Revenue	2	**13,431,688**	10,833,839
Cost of goods sold		**(7,486,900)**	(5,853,348)
Gross profit		**5,944,788**	4,980,491
Other gains — net		**248,811**	106,803
Distribution costs		**(2,591,384)**	(1,951,460)
Administrative expenses		**(602,515)**	(535,283)
Operating profit	3	**2,999,700**	2,600,551
Finance income		**110,460**	45,128
Finance costs		**(71,793)**	(62,950)
Finance income/(costs) — net		**38,667**	(17,822)
Profit before income tax		**3,038,367**	2,582,729
Income tax expense	4	**(551,950)**	(415,706)
Profit for the year		**2,486,417**	2,167,023
Profit attributable to:			
Shareholders of the Company		**2,438,328**	2,117,509
Non-controlling interests		**48,089**	49,514
		2,486,417	2,167,023
Earnings per share for profit attributable to shareholders of the Company			
— Basic	5	**HK$1.996**	HK$1.770
— Diluted	5	**HK$1.988**	HK$1.765
Dividends	6	**1,591,484**	1,341,245

Consolidated statement of comprehensive income

	Year ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Profit for the year	**2,486,417**	2,167,023
Other comprehensive income		
— Currency translation differences	**370,631**	6,798
Total comprehensive income for the year	**2,857,048**	2,173,821
Attributable to:		
Shareholders of the Company	**2,804,658**	2,124,188
Non-controlling interests	**52,390**	49,633
	2,857,048	2,173,821

Consolidated balance sheet

	Note	As at 31 December 2010 *HK$'000*	As at 31 December 2009 *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**4,519,090**	3,535,811
Construction-in-progress		**665,130**	808,410
Leasehold land and land use rights		**613,982**	397,541
Intangible assets		**606,508**	616,384
Prepayments for non-current assets		**537,714**	428,913
Deferred income tax assets		**98,213**	89,395
Long-term bank deposits		**786,274**	468,597
		7,826,911	6,345,051
Current assets			
Inventories		**2,760,090**	2,174,505
Trade and bills receivables	7	**1,395,837**	882,841
Other receivables, prepayments and deposits		**532,479**	260,522
Current finance lease receivables		**—**	10,044
Derivative financial instruments		**13,802**	13,938
Restricted bank deposits		**59,237**	11,364
Cash and cash equivalents		**5,989,024**	4,449,674
		10,750,469	7,802,888
Total assets		**18,577,380**	14,147,939
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		**122,422**	121,931
Other reserves		**3,630,385**	4,936,821
Retained earnings			
— Proposed final dividend		**856,953**	731,588
— Unappropriated retained earnings		**5,893,427**	3,226,666
		10,503,187	9,017,006
Non-controlling interests		**322,345**	279,977
Total equity		**10,825,532**	9,296,983

	Note	As at 31 December 2010 HK$'000	As at 31 December 2009 HK$'000
LIABILITIES			
Non-current liabilities			
Bank borrowings		**1,497,050**	555,031
Deferred income tax liabilities		**172,637**	115,476
Deferred income on government grants		**5,281**	5,104
		1,674,968	675,611
Current liabilities			
Trade payables	8	**1,318,908**	875,608
Bills payable		**—**	397,501
Other payables and accrued charges		**659,696**	565,255
Deferred income on government grants		**—**	1,598
Current income tax liabilities		**283,085**	160,214
Bank borrowings		**3,815,191**	2,175,169
		6,076,880	4,175,345
Total liabilities		**7,751,848**	4,850,956
Total equity and liabilities		**18,577,380**	14,147,939
Net current assets		**4,673,589**	3,627,543
Total assets less current liabilities		**12,500,500**	9,972,594

1. Basis of preparation and principal accounting policies

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

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. The revised standard has no impact on the current period, as there is no business combination.

- HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The revised standard has no significant impact on the current period.

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating leases using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Leasehold land and land use rights", and amortised over the lease term. HKAS 17 (amendment) has been applied retrospectively for annual periods beginning 1 January 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 January 2010 on the basis of information existing at the inception of those leases. As a result of the reassessment, the adoption of this amendment has no material impact on the Group's financial statements.

- HKAS 38 (amendment), 'Intangible assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

- HKAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of HKFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

- In November 2010 the HKICPA issued Hong Kong Interpretation 5 Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause. The Interpretation is effective immediately and is a clarification of an existing standard of HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause. The Group has applied this new accounting policy, and there is no material impact to the Group's financial statements.

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

- HK(IFRIC) 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

- HK(IFRIC) 9, 'Reassessment of embedded derivatives and HKAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to HK(IFRIC) 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified as at fair value through profit or loss in its entirety.

- HK(IFRIC) 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of HKAS 39 that relate to a net investment hedge are satisfied. In particular, the Group should clearly document its hedging strategy because of the possibility of different designations at different levels of the group.

- HKAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

- HKFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective from 1 January 2010. In addition to incorporating HK(IFRIC) 8, 'Scope of HKFRS 2', and HK(IFRIC) 11, HKFRS 2 – 'Group and treasury share transactions', the amendments expand on the guidance in HK(IFRIC) 11 to address the classification of group arrangements that were not covered by that interpretation.

- HKFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations', effective 1 January 2010. The amendment clarifies that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1.

(c) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted

- HKFRS 9, 'Financial instruments', effective 1 January 2013.

- HKAS 24 (revised), 'Related party disclosures', effective 1 January 2011.

- 'Classification of rights issues' (amendment to HKAS 32), effective 1 February 2010.

- HK(IFRIC) 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010.

- 'Prepayments of a minimum funding requirement' (amendments to HK(IFRIC) 14), effective 1 January 2011.

The Group has decided not to adopt the new standards, amendments and interpretations which have been issued but not effective for the financial year began on 1 January 2010. It is not expected to have a material impact on the Group's financial statements.

2. Segment information

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

	2010					
	Sanitary napkins products *HK$'000*	Disposable diapers products *HK$'000*	Tissue paper products *HK$'000*	Food and snacks products *HK$'000*	Skin care products and others *HK$'000*	Group *HK$'000*
Consolidated income statement for the year ended 31 December 2010						
Segment revenue	**3,274,838**	**2,495,982**	**6,403,214**	**1,202,726**	**925,033**	**14,301,793**
Inter-segment sales	**(105,294)**	**(49,081)**	**(288,835)**	**—**	**(426,895)**	**(870,105)**
Revenue of the Group	**3,169,544**	**2,446,901**	**6,114,379**	**1,202,726**	**498,138**	**13,431,688**
Segment profit	**1,138,211**	**503,486**	**962,896**	**98,549**	**92,932**	**2,796,074**
Unallocated costs						**(45,185)**
Other gains — net						**248,811**
Operating profit						**2,999,700**
Finance income						**110,460**
Finance costs						**(71,793)**
Profit before income tax						**3,038,367**
Income tax expense						**(551,950)**
Profit for the year						**2,486,417**
Non-controlling interests						**(48,089)**
Profit attributable to shareholders of the Company						**2,438,328**

	2010					
	Sanitary napkins products *HK$'000*	**Disposable diapers products** *HK$'000*	**Tissue paper products** *HK$'000*	**Food and snacks products** *HK$'000*	**Skin care products and others** *HK$'000*	**Group** *HK$'000*
Consolidated balance sheet as at 31 December 2010						
Segment assets	**3,239,417**	**3,502,243**	**8,741,452**	**961,307**	**1,809,052**	**18,253,471**
Deferred income tax assets						**98,213**
Unallocated assets						**225,696**
Total assets						**18,577,380**
Segment liabilities	**455,888**	**592,198**	**2,130,624**	**219,840**	**42,219**	**3,440,769**
Deferred income tax liabilities						**172,637**
Current income tax liabilities						**283,085**
Unallocated liabilities						**3,855,357**
Total liabilities						**7,751,848**
Other items for the year ended 31 December 2010						
Additions to non-current assets	**122,291**	**281,218**	**1,001,519**	**55,417**	**153,555**	**1,614,000**
Depreciation charge	**57,517**	**45,286**	**221,895**	**22,922**	**9,002**	**356,622**
Amortisation charge	**3,603**	**2,592**	**10,294**	**11,160**	**232**	**27,881**

	2009					
	Sanitary napkins products *HK$'000*	Disposable diapers products *HK$'000*	Tissue paper products *HK$'000*	Food and snacks products *HK$'000*	Skin care products and others *HK$'000*	Group *HK$'000*
Consolidated income statement for the year ended 31 December 2009						
Segment revenue	2,613,459	2,214,994	4,655,920	863,283	1,197,240	11,544,896
Inter-segment sales	(67,090)	(54,743)	(200,079)	—	(389,145)	(711,057)
Revenue of the Group	2,546,369	2,160,251	4,455,841	863,283	808,095	10,833,839
Segment profit	921,415	420,767	951,350	111,937	192,287	2,597,756
Unallocated costs						(104,008)
Other gains-net						106,803
Operating profit						2,600,551
Finance income						45,128
Finance costs						(62,950)
Profit before income tax						2,582,729
Income tax expense						(415,706)
Profit for the year						2,167,023
Non-controlling interests						(49,514)
Profit attributable to shareholders of the Company						2,117,509
Consolidated balance sheet as at 31 December 2009						
Segment assets	2,412,106	4,115,277	5,725,451	754,538	750,782	13,758,154
Deferred income tax assets						89,395
Unallocated assets						300,390
Total assets						14,147,939
Segment liabilities	516,031	857,583	1,080,890	147,292	90,190	2,691,986
Deferred income tax liabilities						115,476
Current income tax liabilities						160,214
Unallocated liabilities						1,883,280
Total liabilities						4,850,956

	2009					
	Sanitary napkins products *HK$'000*	Disposable diapers products *HK$'000*	Tissue paper products *HK$'000*	Food and snacks products *HK$'000*	Skin care products and others *HK$'000*	Group *HK$'000*
Other items for the year ended 31 December 2009						
Additions to non-current assets	129,683	178,633	689,053	12,724	224,326	1,234,419
Depreciation charge	52,979	35,667	200,340	19,940	12,095	321,021
Amortisation charge	2,376	742	3,782	11,107	3,452	21,459

(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:

	2010 *HK$'000*	2009 *HK$'000*
Crediting		
Operating exchange gain	**67,921**	—
Government grants income *(Note)*	**165,067**	80,671
Amortisation of deferred income on government grants	**1,616**	2,649
Realised fair value gains on derivative financial instruments	**7,202**	—
Unrealised fair value gains on derivative financial instruments	**—**	13,938
Reversal of impairment of trade receivables	**1,865**	—
Reversal of impairment of inventories	**297**	—
Charging		
Net exchange losses	**—**	7,551
Depreciation of property, plant and equipment	**356,622**	321,021
Amortisation of leasehold land and land use rights	**17,958**	11,543
Amortisation of intangible assets	**9,923**	9,916
Losses on disposal/write-off of property, plant and equipment	**4,802**	6,028
Employee benefit expense, including directors' emoluments	**958,354**	763,876
Operating lease rentals in respect of factory premises and sales liaison offices	**59,466**	47,926
Repairs and maintenance expenses	**99,345**	73,232
Provision for impairment of trade receivables	**—**	14
Provision for impairment of inventories	**—**	7,153
Unrealised fair value losses on derivative financial instruments	**136**	—

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 income statement represents:

	2010	2009
	HK$'000	*HK$'000*
Current income tax		
— Hong Kong profits tax	**49,241**	14,498
— PRC income tax	**454,672**	363,345
Deferred income tax	**48,037**	37,863
Income tax expense	**551,950**	415,706

(a) Hong Kong profits tax has been provided for at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits for the year. Taxation on PRC income has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC in which the Group operates.

(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 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 after 1 January 2008. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed terms may continue to enjoy such treatment until the fixed terms expire.

(c) Enterprises incorporated in Hong Kong and other places are subject to income tax at the prevailing rates of 16.5% and 0% respectively.

(d) 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.

5. Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the Group's profit attributable to shareholders of HK$2,438,328,000 (2009: HK$2,117,509,000) by the weighted average number of 1,221,449,809 (2009: 1,196,348,252) ordinary shares in issue during the year.

	2010	2009
	HK$'000	*HK$'000*
Basic		
Profit attributable to shareholders of the Company (HK$'000)	**2,438,328**	2,117,509
Weighted average number of ordinary shares in issue (thousands)	**1,221,450**	1,196,348
Basic earnings per share	**HK$1.996**	HK$1.770

(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 2010. 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 2010) 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.

	2010	2009
	HK$'000	*HK$'000*
Diluted		
Profit attributable to shareholders of the Company (HK$'000)	**2,438,328**	2,117,509
Weighted average number of ordinary shares in issue (thousands)	**1,221,450**	1,196,348
— Share options (thousands)	**5,189**	3,628
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,226,639**	1,199,976
Diluted earnings per share	**HK$1.988**	HK$1.765

6. Dividends

	2010	2009
	HK$'000	*HK$'000*
Interim, paid, HK$0.60 (2009: HK$0.50) per ordinary share	**734,531**	609,657
Final, proposed, HK$0.70 (2009: HK$0.60) per ordinary share	**856,953**	731,588
	1,591,484	1,341,245

The dividend paid in 2010 were HK$1,466,119,000 (2010 Interim: HK$0.60 per share, 2009 Final: HK$0.60 per share). The dividend paid in 2009 were HK$1,069,683,000 (2009 Interim: HK$0.50 per share, 2008 Final: HK$0.40 per share) respectively. A dividend in respect of the year ended 31 December 2010 of HK$0.70 per share, amounting to a total dividend of HK$856,953,000, is to be proposed at the annual general meeting on 26 May 2011. These financial statements do 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 2010, the ageing analysis of the trade and bills receivables based on invoice date was as follows:

	2010	2009
	HK$'000	*HK$'000*
Within 30 days	**691,307**	485,286
31–180 days	**667,640**	385,762
181–365 days	**31,726**	5,435
Over 365 days	**5,164**	6,358
	1,395,837	882,841

8. Trade payables

At 31 December 2010, the ageing analysis of the trade payables was as follows:

	2010	2009
	HK$'000	*HK$'000*
Within 30 days	**707,931**	553,524
31–180 days	**589,328**	306,432
181–365 days	**14,119**	10,585
Over 365 days	**7,530**	5,067
	1,318,908	875,608

BUSINESS OVERVIEW

In 2010, although the global economy was gradually recovering from the financial tsunami, the European sovereign debt crisis brought uncertainty to the global financial market. Nevertheless, China still achieved robust economic growth during the year under review with the strong foundation of the China economy and a series of domestic demand stimulating measures launched by the Central Government. According to the preliminary figures from the National Bureau of Statistics of China, China's GDP increased by approximately 10.3% to approximately RMB39,798.3 billion, as compared with that of the previous year. Disposable income per capita for urban and rural citizens grew by 7.8% and 10.9% to approximately RMB19,109 and approximately RMB5,919 respectively, reflecting a continuous and steady growth in the income of Chinese urban and rural citizens.

During the year under review, the ongoing urbanization process and the rising overall living standards promoted people's awareness in health and hygiene as well as their demand for personal hygiene products. Although the soaring price of raw materials suppressed the gross profit margin of manufacturing industries, the Group, a leader in the domestic personal and family hygiene product industry, still benefited from market expansion and maintained steady growth capitalizing on its brand reputation and economies of scale.

For the year ended 31 December 2010, the Group's revenue amounted to approximately HK$13,431,688,000, representing approximately 24.0% increase from that of the previous year. Profit attributable to shareholders grew by approximately 15.2% to about HK$2,438,328,000. Overall gross profit margin for the Group dropped by about 1.7% to approximately 44.3% (2009: 46.0%), mainly due to the increase in production cost resulted from surge of raw material prices. Meanwhile, the Group continued to optimize its product mix, increase production capacity gradually to enhance economies of scale and implement strict cost control initiatives, thus successfully reducing the pressure of increasing raw material prices on the Group's gross profit margin.

During the year, distribution costs and administrative expenses accounted for approximately 23.8% of the revenue (2009: 23.0%), similar to that in last year.

BUSINESS REVIEW

Tissue papers

The continuous increase in mainland per capita income and improving living standards raised consumers' attention to the quality of tissue papers. As a result, the demand for quality tissue papers in China continued to grow rapidly in recent years. Moreover, the annual tissue paper consumption per capita of Chinese citizens is still lower than that of other developed countries, which implies huge growth potential of the market.

In 2010, revenue from the Group's tissue paper business grew by about 37.2% to approximately HK$6,114,379,000, accounting for approximately 45.5% of the total revenue (2009: 41.1%). During the year, the Group continued to manufacture and sell products with higher gross profit margins, namely, box tissue papers, pocket handkerchiefs and wet tissues, while the sales of toilet roll products with relatively lower gross profit margin accounted for approximately 33.4% of revenue of tissue paper products (2009: 33.9%).

The production costs of tissue paper business increased sharply as the price of the major raw material, tissue wood pulp, rebounded significantly from the trough in 2009. As a result, gross profit margin of the Group's tissue paper business decreased by 4.8% to approximately 37.3% (2009: 42.1%).

As at 31 December 2010, the Group's annualized production capacity for tissue papers amounted to 540,000 tons. In order to cater to the Group's development and grasp the opportunities brought by the Central Government's policy in developing western China, the Group has determined to build a new tissue paper production base in Chongqing, which will commence operation in the fourth quarter of 2011 with an annualized production capacity of 60,000 tons. Thus, the Group's annualized production capacity will reach 600,000 tons by the end of 2011. Besides, the Group also focuses on the market development in Eastern China, and plans to add a new tissue paper production base in Wuhu. In 2012, the Group will increase 60,000 tons, 120,000 tons and 120,000 tons of production capacity in Chongqing, Wuhu and Jinjiang. Subsequent to the expansion, the Group's total annualized production capacity is expected to reach 900,000 tons by the end of 2012.

Sanitary Napkins

As the rising living standards and consumption power continue to improve, mainland consumers have become more aware of the importance of personal hygiene, driving the continuous growth in the market penetration of sanitary napkins products. During the year, the Group continued to exert its brand advantage and its sanitary napkin business recorded satisfactory growth. As a result, the revenue of sanitary napkin business increased by about 24.5% to approximately HK$3,169,544,000, accounting for almost 23.6% of total revenue (2009: 23.5%).

During the year, the significant increase in the prices of major raw materials, petrochemical products and fluff pulp, caused pressure on the Group's production costs. However, through strengthening cost controls and increasing sales of mid-to-high-end products, the Group was able to offset the negative influence brought by the increasing prices of raw materials. Hence, the overall gross profit margin of sanitary napkins business increased slightly to approximately 62.5% (2009: 61.1%).

In 2011, the Group will continue to optimize its product portfolio to produce more mid-to-high-end products. Currently, in order to cater to the market's need for high quality products, the Group is planning to launch new "Space Seven" series of sanitary napkins in the second half of 2011, the average selling price and gross profit margin of which are expected to be higher than those of the existing products.

Disposable Diapers

Alongside the increase in family income and urbanization, the demand for disposable diapers in China continues to grow, which brought both opportunities and competitions for the industry players. In 2010, revenue from disposable diapers business grew by about 13.3% to approximately HK$2,446,901,000, accounting for about 18.2% of the total revenue (2009: 19.9%). The moderate growth of the Group's disposable diapers business during the year reflected keen market competition. It was because the revenue of the Group's low-end diapers was impacted by the lower-priced products launched by new small and medium enterprises which entered into the low-end diapers market due to the low entry barrier.

Although the prices of major raw materials, petrochemical products and fluff pulp, surged significantly, the gross profit margin of the Group's disposable diapers business still recorded slight increase to approximately 42.4% (2009: 41.1%), due to the continuous effort in cost controls and product mix optimization.

The "Super Absorbent" series launched by the Group in the second half of 2009 were well accepted by the market. The Group has planned to launch higher-end products including "Day and Night" series in mid of 2011 and "Pull Up" series in the second half of 2011 in order to meet consumers' demand for high-end products. It is expected that the average selling price and gross profit margin of these new series will be higher than those of the current product lines.

Food and Snacks Products

During the year, the Group actively optimized the distribution network of food and snack business by applying the distribution network operation mode of personal hygiene products business to the food and snacks business in order to further improve the operation of this business. In 2010, revenue of food and snacks business increased by 39.3% to approximately HK$1,202,726,000, accounting for about 9.0% of the Group total revenue (2009: 8.0%). Through continuous cost controls effort and product mix optimization, the Group effectively offset the influence brought by the increase of raw materials prices, which enabled gross profit margin to remain fairly stable at approximately 36.2% (2009: 36.5%).

In 2011, the Group will continue to integrate distribution network and launch new high-end products to consolidate its profit base.

First Aid Products

Revenue from the Group's first aid product business in 2010 under the brandnames of "Banitore" and "Bandi" amounted to approximately HK$35,719,000 (2009: HK$33,893,000). As this business only accounted for approximately 0.3% of the Group's total revenue (2009: 0.3%), it has insignificant impact on the Group's overall results.

Skincare and Cleansing Products

Revenue of the Group's skincare and cleansing product business reached approximately HK$30,708,000 (2009: HK$26,329,000). As this business only accounted for approximately 0.2% of the Group's total revenue (2009: 0.2%), it has only negligible impact on the Group's overall results.

Distribution and Marketing Strategy

In 2010, the Group celebrated its 25th anniversary and stepped up its investment in brand equity by launching more advertisements and various promotion activities. During the year, the Group launched a massive TV advertising campaign in China Central Television ("CCTV"), China's largest TV station, as well as other advertisement and promotion activities, in order to raise awareness of the Group and its brands. As a result, the Group's advertising and promotion expenses and supermarket expenses increased in 2010, accounting for about 11.1% of revenue (2009: 9.8%).

As advertising and promotion expenses increased during the year, the sales and distribution costs to revenue ratio increased to approximately 19.3% accordingly (2009: 18%).

Research and Development of Products

The Group always strives for excellence of its products. As the first and so far the only enterprise in the mainland's tissue paper industry being awarded the Enterprise Technological Centre with State Accreditation, the Group continued to allocate 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.

National Recognition and Awards

During the year, a major subsidiary of the Company, Fujian Hengan Holding Co., Ltd., was one of the first batch of companies in mainland China and the only company in Fujian province awarded by "State Administration for Industry and Commerce of the People's Republic of China" as "Model Enterprise for National Implementation of Trademark Strategy". In addition, the Company was also awarded the "Outstanding China Enterprise Awards in Personal Hygiene" in Hong Kong. These are recognitions of the Group's outstanding performance and market leadership in China's personal hygiene product market.

On the products front, following the "Heartex tissue paper" and "Anerle sanitary napkin", "Anerle baby diaper" was also rewarded by Trademark Office of The State Administration For Industry and Commerce of the PRC as "China Renowned Brand" during the year, showing its popularity in the market.

Liquidity, Financial Resources and Bank Loans

The Group has maintained a solid financial position. As at 31 December 2010, the Group's cash and cash equivalents, long-term bank deposits and restricted bank deposits totally amounted to approximately HK$6,834,535,000 (31 December 2009: HK$4,929,635,000); and the Group's total borrowings amounted to approximately HK$5,312,241,00 (31 December 2009: HK$2,730,200,000). The bank borrowings were subject to floating annual interest rates ranging from approximately 0.8% to 3.4% (2009: 0.7% to 3.0%). As at 31 December 2010, apart from the bank deposits of HK$59,237,000 (31 December 2009: HK$11,364,000) deposited in banks as collaterals for issuing letters of credit/guarantee for customs duty, there were no other charges on the Group's assets for its bank loans. As at 31 December 2010, the Group's gross gearing ratio was approximately 50.6% (31 December 2009: 30.3%), 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, long-term bank deposits and restricted bank deposits as a percentage of the shareholders' equity (not including minority interests) was nil (31 December 2009: nil), as the Group was in a net cash position.

During the year, the Group's capital expenditure (excluding prepayment) amounted to approximately HK$1,261,167,000.

As at 31 December 2010, the Group had no material contingent liabilities.

APPOINTMENT OF NEW BOARD MEMBERS

On 1 June 2010, the Board of Directors of the Group announced that Mr. Xu Shui Shen, Mr. Sze Wong Kim and Mr. Hui Ching Chi had been appointed as executive directors of the Company. The appointment will contribute to the long-term growth and expansion of the Group.

Management Consulting Company

In 2010, the Group appointed Shenzhen Holographic Management Consulting & Training Limited as the Group's consultancy firm, which will help to improve the operational flows of the Group's supply chain management and optimize human resources management.

Human Resources and Management

As at 31 December 2010, the Group employed approximately 30,921 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 part 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 2010, apart from certain non-deliverable foreign exchange forward contracts to sell Renminbi for United States dollar entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

Outlook

Looking forward, the country's rapid economic growth and the increasing domestic demand will continue to drive the demand for various daily products and hygiene products. Furthermore, consumers' increasing awareness of personal hygiene will also promote growth in consumption of high quality hygiene products. Capitalizing on its brand reputation and scale advantage, as well as its improving distribution network, the Group is confident that it will continue to lead the sustainable development of domestic personal hygiene product market.

In addition, the Group will continue to uphold its belief that quality takes precedence, improve product quality through unceasingly enhancing technology and refine product portfolio. Meanwhile, the Group will continue to enhance management efficiency to increase competitiveness, and also reinforce its brand influence as well as further expand market share by actively expanding sales network and increasing its efforts on advertising and promotion activities.

Leveraging on its solid foundation and brand equity, the Group is confident in maintaining its leading position in the personal hygiene product market and creating greater value for shareholders by delivering steady growth of business.

FINAL DIVIDEND

The directors have resolved to recommend the payment of a final dividend of HK$0.70 (2009: HK$0.60) per share for the year ended 31 December 2010 at the forthcoming Annual General Meeting to be held on 26 May 2011. The final dividend amounting to approximately HK$856,953,000, if approved by shareholders, is expected to be paid on or about 31 May 2011 to those shareholders whose names appear on the Register of Members on 26 May 2011.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 23 May 2011 to 26 May 2011, 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 31 May 2011) 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 20 May 2011.

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 appendix 14 of the Code on Corporate Governance Practices throughout the year ended 31 December 2010.

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 financial statements for the year ended 31 December 2010. The figures contained in the financial information set out in page 2 to 15 of this announcement of the Group's results for the year ended 31 December 2010 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements 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 Shui Shen, Mr. Xu Da Zuo, Mr. Xu Chun Man, Mr. Sze Wong Kim, Mr. Hui Ching Chi 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, 29 March 2011

* *For identification purpose only*