恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044

Annual Report 2009

CORPORATE MISSION

"Growing with you for a better life" has always been the mission of Hengan International. We will continue to adhere to our corporate spirit of "Integrity, Diligence, Innovation and Dedication". Our goal is "to build an effective corporate management and to develop a quality, ethical and enthusiastic staff team". By building an excellent corporate culture, reinforcing our brand image, and focusing on consumer and market need, Hengan International will become China's leading corporation in manufacturing and distribution of fast moving family consumer products.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Sze Man Bok *(Chairman)*
Hui Lin Chit *(Deputy Chairman and Chief Executive Officer)*
Yeung Wing Chun (resigned on 20 May 2009)
Hung Ching Shan
Xu Da Zuo
Xu Chun Man
Loo Hong Shing Vincent

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Henry
Wang Ming Fu (appointed on 1 January 2010)
Ada Ying Kay Wong
Chu Cheng Chung (resigned on 1 January 2010)

COMPANY SECRETARY

Loo Hong Shing Vincent *FCCA, AHKSA*

AUTHORISED REPRESENTATIVES

Hui Lin Chit
Loo Hong Shing Vincent

LEGAL ADVISERS

Hong Kong
Richards Butler

PRC
Global Law Office

Cayman Islands
Maples and Calder Asia

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

REGISTERED OFFICE

Ugland House
South Church Street
P.O. Box 309, George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE

Hengan Industrial City
Anhai Town
Jinjiang City
Fujian Province
PRC

PLACE OF BUSINESS IN HONG KONG

Unit 2101D, 21st Floor
Admiralty Centre, Tower 1
18 Harcourt Road
Hong Kong

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock Code: 1044

WEBSITES

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

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
Bank of China
Construction Bank of China
Bank of Communications
China Merchants Bank

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
George Town
Grand Cayman
Cayman Islands

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

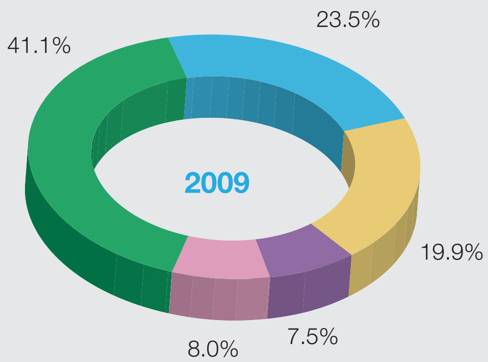
INVESTORS AND MEDIA RELATIONS

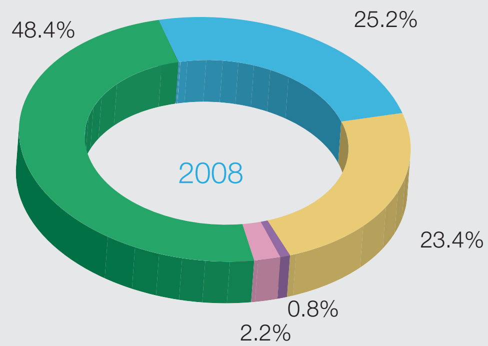
iPR Ogilvy Ltd.
Units 2008-12, 20/F, The Centre
99 Queen's Road
Central
Hong Kong

FINANCIAL HIGHLIGHTS

	2009	2008	2007	2006	2005
Net profit margin – based on profit attributable to shareholders of the Company (%)	**19.5**	16.8	17.7	16.9	14.9
Earnings per share (HK$)	**1.770**	1.172	0.924	0.645	0.419
Finished goods turnover (days)	**58**	61	64	71	73
Trade receivables turnover (days)	**28**	31	32	29	28
Current ratio (times)	**1.9**	2.7	3.4	2.5	1.3
Gross gearing ratio (%)	**30.3**	27.9	35.5	64.2	41.6
Net gearing ratio (%)	**–**	2.8	–	27.2	19.9

ANALYSIS OF REVENUE BY PRODUCT





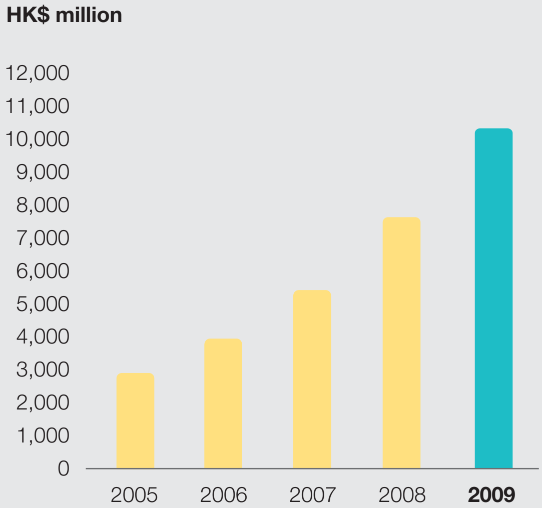
Tissue paper products | Sanitary napkins products | Disposable diapers products | Food and snacks products | Skin care products and others

FIVE-YEAR FINANCIAL SUMMARY

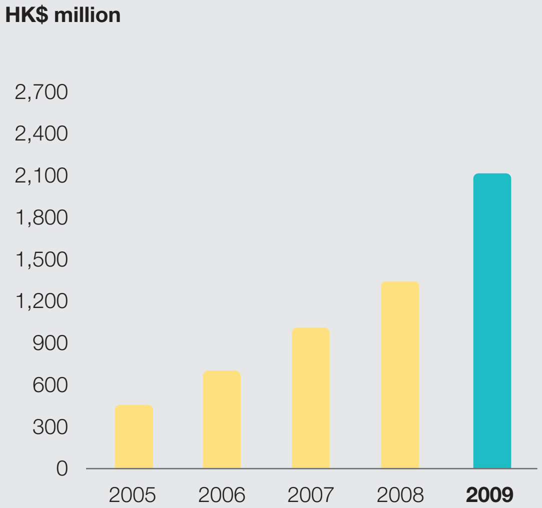
Consolidated Results – for the year ended 31 December

	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000
Revenue	**10,833,839**	8,001,545	5,686,972	4,114,943	3,030,122
Profit before income tax	**2,582,729**	1,510,688	1,184,690	870,756	544,567
Income tax expense	**(415,706)**	(166,032)	(175,555)	(171,773)	(91,591)
Profit for the year	**2,167,023**	1,344,656	1,009,135	698,983	452,976
Minority interests	**(49,514)**	(3,742)	(978)	(972)	(597)
Profit attributable to shareholders of the Company	**2,117,509**	1,340,914	1,008,157	698,011	452,379
Earnings per share (HK$)	**1.770**	1.172	0.924	0.645	0.419

REVENUE



PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

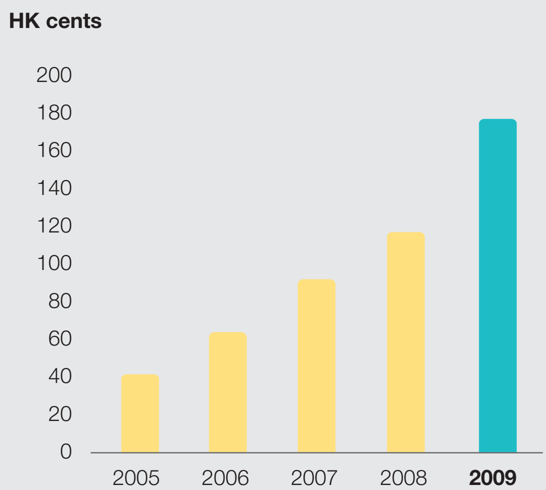


Five-Year Financial Summary

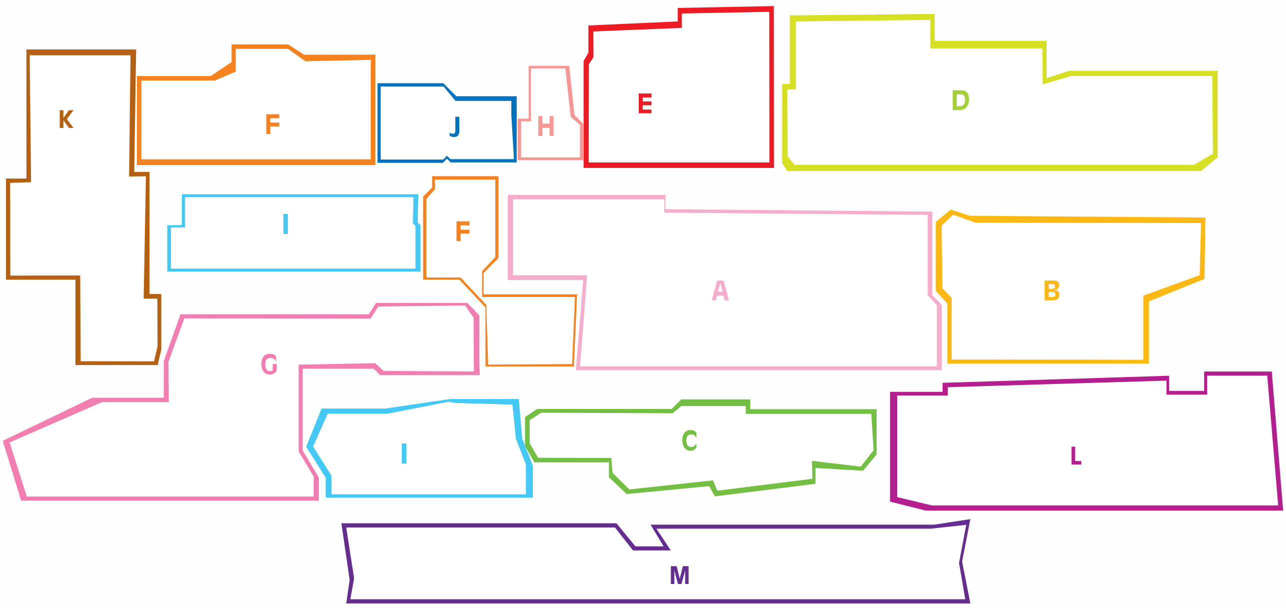
Consolidated Assets and Liabilities – as at 31 December

	2009 HK$'000	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000
Assets					
Property, plant and equipment	**3,535,811**	3,080,750	2,342,837	1,608,956	1,329,734
Construction-in-progress	**808,410**	813,329	455,664	387,560	246,659
Leasehold land and land use rights	**397,541**	239,408	143,172	63,529	47,554
Intangible assets	**616,384**	626,296	454,663	454,940	455,204
Prepayments for non-current assets	**428,913**	466,679	322,219	175,153	63,886
Deferred income tax assets	**89,395**	68,269	45,216	59,825	32,457
Non-current finance lease receivables	**–**	9,692	–	–	–
Assets classified as held-for-sale/investments	**–**	–	–	–	53,157
Cash and cash equivalents	**4,449,674**	1,610,552	2,160,031	1,014,894	499,937
Long-term bank deposits	**468,597**	–	–	–	–
Other current assets	**3,353,214**	3,134,037	2,450,057	1,670,379	1,133,634
Total assets	**14,147,939**	10,049,012	8,373,859	5,435,236	3,862,222
Liabilities					
Long-term bank loans – unsecured	**555,031**	45,840	85,227	69,837	188,571
Convertible bonds	**–**	1,465,247	1,562,833	1,497,313	–
Deferred income tax liabilities	**115,476**	56,892	–	–	7,979
Deferred income on government grants	**5,104**	7,555	11,211	10,166	11,386
Current liabilities	**4,175,345**	1,757,577	1,348,952	1,074,786	1,326,481
Total liabilities	**4,850,956**	3,333,111	3,008,223	2,652,102	1,534,417
Minority interests	**279,977**	231,844	21,413	23,411	23,656
Net assets attributable to shareholders of the Company	**9,017,006**	6,484,057	5,344,223	2,759,723	2,304,149

EARNINGS PER SHARE




Banitore
PINO
PINO
PINO
厨房纸巾
优选
Banitore
Banitore
Bandi Enema
便利通灌肠器
优选


K
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A “Anerle” sanitary napkins
B “Anerle” pantiliners
C “Anle” sanitary napkins
D “Anerle” baby diapers
E “ElderJoy” adult diapers
F “Hearttex” box tissue papers
G “Hearttex” wet tissues
H “Hearttex” toilet rolls
I “Hearttex” pocket handkerchiefs
J “Hearttex” kitchen towels
K “Banitore” first-aid products and Bendi enema
L “MissMay” skin cleansing and care products
M “QinQin” snack food products

CHAIRMAN'S STATEMENT

On behalf of Hengan International Group Company Limited ("Hengan International" or the "Group"), I present the annual results of the Group for the year ended 31 December 2009. During the year, the global economies were affected to different extents by the financial tsunami. China, as one of the major economies in the world, was inevitably affected. Nonetheless, with the Chinese government's positive attitude and the implementation of proactive policies, China maintained steady economic growth during the year. Hygiene products, as daily necessities, also maintained rapid growth in demand. Coupled with strong brand awareness and leading position in the domestic personal and family hygiene product industry, the Group is well positioned to maintain its robust revenue and profit growth.

During the year under review, the Group recorded steady growth in both revenue and profit attributable to shareholders. For the year ended 31 December 2009, the Group's revenue was approximately HK$10,833,839,000 (2008: HK$8,001,545,000), representing an increase of approximately 35.4% from that of the previous year. Profit attributable to shareholders increased by approximately 57.9% to approximately HK$2,117,509,000 (2008: HK$1,340,914,000). Basic earnings per share amounted to approximately HK$1.770 (2008: HK$1.172) per share. The Board of Directors recommended the payment of a final dividend of HK$0.60 (2008: HK$0.40) per share. Taking the interim dividend of HK$0.50 (2008: HK$0.32) per share into account, the annual dividend amounted to HK$1.10 (2008: HK$0.72) per share.

Chairman's Statement

During the year, tissue paper business remained the major source of revenue of the Group, accounting for approximately 41.1% of the total revenue of the Group. The sanitary napkin and disposable diaper businesses also recorded satisfactory growth, accounting for approximately 23.5% and 19.9% of the total revenue of the Group respectively. QinQin Foodstuffs Group Company Limited ("QinQin Foodstuffs"), which was acquired by the Group in November 2008, became the fourth major business segment of the Group and accounted for approximately 8.0% of the Group's total revenue.

During the year under review, apart from pursuing profit growth and product quality enhancement, the Group also continued to enrich its product portfolio by developing more mid-to-high end products. In addition, while catering to different customer needs, the Group also put more effort on brand promotion to further enhance its market share capitalising on the trend that Chinese consumers pursue for quality products. During the year, the Group was once again awarded the "Credible Enterprise of China Accreditation", which fully affirmed the Group's brand reputation.

While actively expediting business growth, the Group also participates in social welfare activities within its ability in order to contribute to the community. In July 2009, Hengan was awarded "China's Outstanding Charity Contribution Award" by China Charity Federation, commending the Group's contributions to all walks of life throughout the years.

2010 is the 25th anniversary of Hengan International. The Group will strive to take its business to new heights through utilising its valuable experience and resources accumulated throughout the years, and leveraging its competitive edges in brand, distribution network, research and development as well as production capabilities.

In 2010, the Chinese Government is actively promoting the domestic economy. With its efforts to achieve stable economic growth, the Group believes that Chinese people's overall standard of living and awareness in health and hygiene will continue to improve, thus leading to huge growth potential for the hygiene product market in mainland China. As such, the Group is cautiously optimistic about our business prospects. With Hengan's brand equity, extensive distribution network and outstanding product quality, the Group is confident to further seize market opportunities, in order to consolidate its leading position in the market.

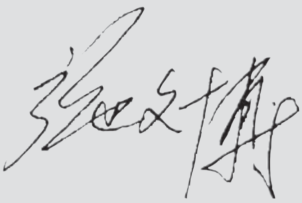
I would like to express my gratitude to every member of staff for their continuous effort that contributed to the steady growth of Hengan International. I would also like to thank shareholders for their enduring support and recognition of the development strategies and future goals of the Group. To thank for the trust our shareholders on us, Hengan International and our staff will continue to strive to create lucrative returns for our shareholders.

Chairman's Statement

REVENUE BY REGIONS IN MAINLAND CHINA

	2009	2008
NORTH-WESTERN		
Sales Value: (HK$ million)	**476**	391
Percentage of Total Sales:	**4.4%**	4.9%
NORTHERN		
Sales Value: (HK$ million)	**984**	856
Percentage of Total Sales:	**9.1%**	10.7%
NORTH-EASTERN		
Sales Value: (HK$ million)	**820**	478
Percentage of Total Sales:	**7.6%**	6.0%
SHANDONG		
Sales Value: (HK$ million)	**1,022**	750
Percentage of Total Sales:	**9.4%**	9.4%
EASTERN		
Sales Value: (HK$ million)	**1,646**	1,236
Percentage of Total Sales:	**15.2%**	15.4%

	2009	2008
CENTRAL		
Sales Value: (HK$ million)	**1,647**	1,201
Percentage of Total Sales:	**15.2%**	15.0%
FUJIAN AND GUANGDONG		
Sales Value: (HK$ million)	**2,114**	1,561
Percentage of Total Sales:	**19.5%**	19.5%
SOUTH-WESTERN		
Sales Value: (HK$ million)	**588**	472
Percentage of Total Sales:	**5.4%**	5.9%
SICHUAN		
Sales Value: (HK$ million)	**931**	745
Percentage of Total Sales:	**8.6%**	9.3%



Sze Man Bok
Chairman

Hong Kong, 25 March 2010

CHIEF EXECUTIVE OFFICER'S REPORT

Dear shareholders,

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

Chief Executive Officer's Report

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% (2008: 22.1%) of the revenue, 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

Chief Executive Officer's Report

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 bank balances, 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.

Chief Executive Officer's Report

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 bank balances, 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 United States 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.

Chief Executive Officer's Report

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.

Hui Lin Chit
Chief Executive Officer

Hong Kong, 25 March 2010

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mr. Sze Man Bok | Mr. Hui Lin Chit | Mr. Yeung Wing Chun | Mr. Hung Ching Shan | Mr. Xu Da Zuo | Mr. Xu Chun Man | Mr. Loo Hong Shing Vincent

DIRECTORS

Executive Directors

Mr. Sze Man Bok, aged 60, is the Chairman of the Group. He is responsible for the Group's overall corporate direction and business strategy. Mr. Sze is one of the founding shareholders of the Company.

Mr. Hui Lin Chit, aged 56, is the Deputy Chairman and Chief Executive Officer of the Group. He is responsible for strategic planning, human resources and the overall management of the Group. Mr. Hui is one of the founding shareholders of the Company. He is also a member of Remuneration Committee. Mr. Hui has the title of senior economist in the People's Republic of China ("PRC") and is a member of the National Committee of the Chinese People's Political Consultative Conference, a deputy chairman of All-China Federation of Industry and Commerce and also Political Consultative Conference in Quanzhou City. He is also the deputy chairman of Fujian Province Industry and Trade Association and the chairman of Quanzhou City Trade Association.

Mr. Yeung Wing Chun, aged 61, was responsible for the Group's overall corporate direction and business strategy. Mr. Yeung graduated from Fuzhou University and has the title of engineer in the PRC. He is one of the founding shareholders of Company. Mr. Yeung resigned on 20 May 2009.

Mr. Hung Ching Shan, aged 60, is responsible for supervising the Group's purchasing tender assignments. He has over 31 years of experience in raw materials procurement as well as in import and export trading. Mr. Hung is one of the founding shareholders of the Company.

Mr. Xu Da Zuo, aged 43, is the Group's Deputy Director of Finance and is responsible for overseeing and monitoring the accounting and finance functions of the Group. Joining the Group in 1985, Mr. Xu has over 25 years of experience in accounting and internal audit. He has the title of senior accountant in the PRC. Mr. Xu is the vice-chairman of the Youth Trade Association in Fujian province, China. He is a brother of Mr. Xu Lian Pi and Mr. Xu Shui Shen, senior management of the Group.

Mr. Xu Chun Man, aged 35, is the General Manager of Hengan (Shaanxi) Hygiene Products Co. Ltd and Hengan (Shannxi) Paper Products Co. Ltd., subsidiaries in Shaanxi Province. He is responsible for the overall management, business development and operations of the said subsidiaries. He joined the Group after graduating from Fujian Jinjiang Vocational Institute in 1991. Mr. Xu has over 17 years of experience in business development and customer service management.

Mr. Loo Hong Shing Vincent, aged 44, is the Chief Financial Officer, the Company Secretary and authorised representative of the Company. Before joining the Company in 2004, Mr. Loo worked in an international firm of accountants in Hong Kong. He has substantial experience in assurance and business advisory work, company listing and merger and acquisition work in both Hong Kong and the PRC. He graduated from the Hong Kong Polytechnic University and is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Directors and Senior Management Profiles

Independent Non-Executive Directors

Mr. Chan Henry, aged 44, is an Independent Non-Executive Director of the Company appointed in 1998. Mr. Chan is also a member of both the Audit Committee and the Remuneration Committee.

Mr. Chan has over 23 years of experience in the financial market and is the Managing Director of Sanfull Securities Limited. He was a Director of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Chan is currently a member of the Advisory Committee of the Securities and Futures Commission, the Permanent Honorary President of Hong Kong Stockbrokers Association Limited, a supervisory committee member of The Chinese Gold & Silver Exchange Society, an independent non-executive director of Luen Thai Holdings Limited, a company listed on the Main Board of the Stock Exchange which engages in the manufacturing and trading of garment and textile products. Mr. Chan is also a committee member of the Chinese People's Political Consultative Conference in Xiamen, Fujian Province, China. Mr. Chan holds a Master's degree in Business Administration.

Mr. Wang Ming Fu, aged 44, is an independent non-executive Director and a member of each of the Audit Committee and the Remuneration Committee appointed on 1 January 2010. Currently, he is the chairman of the HeJun Consulting Co., Ltd. He was a managing director of Security Research Institute and a general manager of merger and acquisition department of Junan Securities Co., Ltd. from 1993 to 1998, and was an executive director of Institute of Finance and Security, Renmin University of China from 1999 to 2003. He is a director of New Oriental Education Fund from 2007. In addition, he was an independent non-executive director of Shenzhen Airport Co., Ltd. and Hainan Minsheng Gas Corporation. He is also an independent non-executive director of Beijing UFSOFT Co., Ltd and Zhongrong Life Insurance Company Limited from 2005 and 2009 respectively. Subject to the review by the Shanghai Stock Exchange and the approval by the shareholders of Beiqi Foton Motor Co., Ltd. ("Beiqi") in its annual general meeting, Mr. Wang was appointed by the board of directors of Beiqi as an independent non-executive director of Beiqi on 7 April 2010.

He obtained a bachelor degree in political education from the East China Normal University, a master of law degree from the Nanjing University and a doctorate degree in economic from the Remin University of China. He was a senior visiting scholar of University of Illinois. Mr. Wang is a reputable strategist and investment banker in China providing long-term strategy, corporate culture, corporate governance, merger and acquisition professional consulting services for government, corporations, listed companies and institutional investors, and has over 16 years of working experience. His articles with original ideas and theories on various Chinese industries, corporate governance and capital markets amount to millions of words.

Ms. Ada Ying Kay Wong, JP, aged 50, is an Independent Non-executive Director of the Company appointed in 1998 and a member of the Audit Committee and Remuneration Committee.

Ms. Wong, a practicing solicitor, is a partner of Philip K. H. Wong, Kennedy Y. H. Wong & Co., Solicitors & Notaries. She is also a culture and creative education advocate. She is the supervisor of HKICC Lee Shau Kee School of Creativity and the council member of Hong Kong Shue Yan University. She was Chair of the Wanchai District Council (2004 – 2007), and is currently a member of the Consultation Panel of the West Kowloon Cultural District Authority, the Committee on Performing Arts, Steering Committee on Review of the Urban Renewal Strategy and Board of the Hong Kong Design Centre. Currently, she is an independent non-executive director of Pak Fah Yeow International Limited.

Mr. Chu Cheng Chung, aged 66, was an Independent Non-executive Director of the Company appointed in 2002 and a member of the Audit Committee and Remuneration Committee of the Company. He was a chief consultant for Wallstreet Management Consulting Co., Ltd.. He has over 33 years of experience working in US corporations and 10 years of which were with Coca Cola Company Group in the US and China. Mr. Chu joined Thomas Group as the general manager in 2001 and later as the chief operating officer for Media Partners International Holdings Inc., an outdoor media company in Shanghai. He was an independent non-executive director of China Paradise Electronics Retail Limited, which was previously a listed (main board) company. Mr. Chu obtained his Master of Science degree from Tuskegee Institute in Chemistry and MBA from Chicago Lake Forest Management Graduate School. During his time in Shanghai, he was twice awarded the Magnolia Award by the Shanghai Municipal Government.

Mr. Chu resigned on 1 January 2010.

Directors and Senior Management Profiles

Senior Management

Mr. Cheng Yong, aged 46, is the Chief Operating Officer and responsible for the Group's daily operation management. Before joining the Group in 2001, he worked in some well-known corporations in the PRC and has over 20 years of experience in operation management and specialise in production management and quality control. Mr. Cheng graduated with a bachelor degree in automation-control from the Harbin Engineering University and received a MBA from the Xiamen University. He has the title of electrical engineer in the PRC.

Mr. Xu Lian Pi, aged 49, is responsible for the Group's daily operation management. Mr. Xu joined the Group in 1985 and has over 24 years of experience in human resources management, administration, marketing and sales of fast moving consumer products. He has the title of senior economist in the PRC. He is an elder brother of Mr. Xu Da Zuo and Mr. Xu Shui Shen.

Mr. Li Chang Yao, aged 47, is the Chief Executive Officer of Qin Qin Incorporated Co. Ltd (Fujian), a non-wholly owned subsidiary of the Group. He is responsible for the overall management, business development and operation of the said subsidiary. Before transferring to that subsidiary, he was the Director of Diaper Products Development Department and Marketing Director of the Group. He was responsible for the overall management and business development of diaper products of the Group and the formulation of the Group's marketing and branding strategy, overall marketing logistics management. He joined the Group in 1999 and has over 22 years of experience in marketing and promotion. Mr. Li graduated from the Fudan University with a degree in world economy and the Xiamen University with a degree in business administration. He has the title of senior economist in the PRC.

Mr. Wang Xiang Yang, aged 41, is the Director of Supply Chain Management of the Group. He is responsible for the overall strategy relating to the Group's planning and purchasing of raw materials and logistic management. Prior to joining the Group in 1999, he was a manager of the international business department at Jinjiang branch of the Construction Bank of China. Mr. Wang graduated from HuaQiao University with a degree in science. He holds the title of senior economist in the PRC.

Mr. Xu Shui Shen, aged 41, is the Director of Business Development Department. He is responsible for the development and implementation of the Group's sales strategy and business management. He joined the Group in 1985 and has over 25 years of experience in quality control management and business development. He graduated from business administration department in HuaQiao University and holds the title of economist in the PRC. Mr. Hui is a younger brother of Mr. Xu Da Zuo and Mr. Xu Lian Pi.

Mr. Xu Wen Mo, aged 44, is the Director of Tissue Paper Products Development Department of the Group. He is responsible for the overall management and business development of paper products of the Group. Mr. Xu joined the Group in 1985 and has accumulated over 21 years of experience in management, marketing and sales of consumer products. He has the title of senior economist in the PRC.

Mr. Xu Zi Dan, aged 43, is the Director of Napkin Products Development Department of the Group and is responsible for the overall management and business development of napkin products of the Group. Mr. Xu joined the Group in 1985 and has accumulated over 24 years of experience in management, marketing and sales of consumer products. He obtained his MBA from University of North Virginia in US and has the title of financial economist in the PRC.

Mr. Xie Gang Yi, aged 44, is the Assistant to Chief Financial Officer of the Group. Prior to joining the Group in 2006, he was a supervisor of electronic banking department at Jinjiang branch of the Industrial and Commercial Bank of China. Mr. Xie has accumulated over 25 years of experience in finance and auditing. He graduated from Xiamen University with a degree in finance and has the titles of certified internal auditor, certified accountant, corporate legal consultant, senior economist and financial management economist in the PRC.

Ms. Liu Ying, aged 42, is the Vice-President of the Human Resources Department and is responsible for the Group's human resources management. Joining the Group in 1995, she has accumulated over 23 years of experiences in human resources management and administration. Ms. Liu is a graduate from Peking University with a degree in administration management. She has the title of senior economist in the PRC.

Directors and Senior Management Profiles

Mr. Liu Ching Wen, aged 43, is the Strategic Development Director of the Group and is responsible for corporate development. Before joining the Group in 2009, he worked as senior management in some listed companies. He has over 20 years of experience in marketing promotion, corporate management and internal controls. Mr. Liu graduated from Chung Yuan Christian University in Taiwan.

Mr. Zhu Jian Shui, aged 36, is the General Manager of Internal Audit Department. He joined the Group in 1998 and has over 14 years of experience in finance and auditing areas. He is a graduate from Tanjin University of Commerce with a degree in international accounting and also holds a bachelor degree in law from law school of Southwest University in China. He also has the title of China certified tax agent, senior economist and corporate legal consulate.

Mr. Paul S. Woon, aged 68, is the Chief Technology Officer of the Group. He joined the Group in 2008 and is responsible for research and development of products and materials of the Group. Mr. Woon is highly experienced in design, research and development of sanitary napkins, disposable diapers and hygienic materials. He was vice president in Asia region of Kimberly-Clark Group. Graduated from The Ohio State University in Polymer Chemistry with a doctoral degree, Mr. Woon was the patentee of fifteen disposable diapers, sanitary napkins and non-woven fabric design and application in the United States. He was also listed on "Marquis Who's Who in the World" in 1997 for his outstanding achievements.

Mr. Wang Gui Zhong, aged 36, is the Vice-President of Diaper Products Development Department of the Group. He is responsible for the overall management and business development of diaper products of the Group. Before taking up this position, he held the position of sales and marketing general manager of Tissue Paper Products Development Department of the Group, responsible for marketing and brand management of Tissue Paper Products Development Department of the Group. Mr. Wang joined the Group in 1999 and has over 11 years of experience in sales and marketing of consumer products. Mr. Wang graduated from HuaQiao University with a degree in electronic engineering and Liming Vocational University with a degree in corporate management.

Mr. Zhang San Hong, aged 38, is the Vice-President of Quality Control Department and is responsible for the overall quality control management and improvement. He joined the Group in 2009 and graduated in HuBei University of Technology with a degree. He worked for various international companies and has over 15 years of experience in products management and quality management.

CORPORATE GOVERNANCE REPORT

CODE OF BEST PRACTICE AND CODE ON CORPORATE GOVERNANCE PRACTICES

The board of Directors of the Company (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 (the "Code") throughout the year ended 31 December 2009.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities ("Listing Rules") as its own code of conduct regarding Directors' securities transactions. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

BOARD OF DIRECTORS

The Board comprises nine members, including Chairman, Deputy Chairman (who is also the Chief Executive Officer), four Executive Directors and three Independent Non-executive Directors. Biographical details of the Directors are set out in the section of Directors and Senior Management Profiles on pages 16 to 19.

The Board is responsible for approving and monitoring the Group's strategies and policies, approval of annual budgets and business plans, revaluating the performance of the Group and supervising the work of management. The management is responsible for the daily operations of the Group under the leadership of the Chief Executive Officer.

For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Group. The Board follows the requirements set out in the Listing Rules to determine the independence of Directors. The Company has received from each of its Independent Non-executive Directors an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and considers the Independent Non-executive Directors to be independent.

The roles of the Chairman and the Chief Executive Officer are segregated in order to reinforce their independence and accountability. Mr. Xu Da Zuo, an Executive Director, is a cousin of Mr. Hui Lin Chit, the Chief Executive Officer and a substantial shareholder. Save as disclosed above, the Directors are not otherwise related to each other.

REMUNERATION COMMITTEE

The Remuneration Committee consists of a majority of Independent Non-executive Directors and its members are:

Mr. Hui Lin Chit *(Chief Executive Officer)*
Mr. Chan Henry *(Independent Non-executive Director) – Chairman of the Committee*
Mr. Wang Ming Fu *(Independent Non-executive Director,* appointed on 1 January 2010*)*
Ms. Ada Ying Kay Wong *(Independent Non-executive Director)*
Mr. Chu Cheng Chung *(Independent Non-executive Director,* resigned on 1 January 2010*)*

The Remuneration Committee is charged with the responsibility of determining the specific remuneration packages of all Executive Directors and senior management, including benefits-in-kind, pension rights, and compensation payments, and to advise the Board on the remuneration of the Non-executive Directors. In developing remuneration policies and making recommendations as to the remuneration of the Directors and senior management, the Remuneration Committee takes into account the performance of the Group as well as individual Directors and key executives.

No Directors can determine their own remuneration package. The Committee will meet at least once a year to discharge its responsibilities in accordance with its terms of reference which are set out in accordance with the requirements of the Listing Rules.

Directors' emoluments comprise payments to Directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The amounts paid to each Director of the Company for 2009 are showed in Note 13 to the accounts.

During the year, the Remuneration Committee had performed the following:

– reviewed the Group's remuneration policy and made recommendations to the Board;

– reviewed and approved the proposed 2010 overall salary increment of the Group; and

– reviewed the proposal of granting share options according to the Company's share option scheme, and made recommendations to the Board.

AUDIT COMMITTEE

The Audit Committee was formed to review and supervise the financial reporting process and internal controls of the Company. The Audit Committee comprises three Independent Non-executive Directors and one of whom possesses the appropriate business and financial experience and skills to understand the accounts of the Group. The Committee is chaired by Ms. Ada Ying Kay Wong and other members are Mr. Chu Cheng Chung and Mr. Chan Henry. Mr. Chu resigned on 1 January 2010 and Mr. Wang Ming Fu was appointed to take up his position.

Under its terms of reference, which were prepared and adopted with reference to the Code and "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, the Audit Committee is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's interim and annual results, to review the scope, extent and effectiveness of internal controls of the Group, to review accounting policies and practices adopted by the Group, to engage independent legal or other advisers as it determines is necessary and to perform investigations.

During the year, the Audit Committee has performed the following:

– met with the external auditor to discuss the general scope and findings of their annual audit and interim review work;

– reviewed and recommended to the Board for approval of the external auditor's remuneration;

– made recommendations to the Board on the re-appointment of the external auditor;

– reviewed the external auditor's independence, objectivity and the effectiveness of the audit process;

– reviewed the annual and interim reports and annual and interim announcements of the Company;

– discussed on auditing, internal control, risk management and financial reporting matters before recommending them to the Board for approval; and

– reviewed the connected transactions entered into by the Group.

All issues raised by the external auditor and the Audit Committee have been addressed by the senior management. The work and findings of the Audit Committee have been reported to the Board. During the year, no issues brought to the attention of the senior management and the Board were of sufficient significance for disclosure in the annual report.

Directors' attendance at Board, Remuneration Committee and Audit Committee Meetings in 2009:

	Attendance/Number of Meetings Held		
Directors	**Full Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee Meeting**
Executive Directors			
Mr. Sze Man Bok *(Chairman)*	4/4	N/A	N/A
Mr. Hui Lin Chit *(Vice-chairman and Chief Executive Officer)*	4/4	N/A	1/1
Mr. Yeung Wing Chun (resigned on 20 May 2009)	1/4	N/A	N/A
Mr. Hung Ching Shan	4/4	N/A	N/A
Mr. Xu Da Zuo	4/4	N/A	N/A
Mr. Xu Chun Man	4/4	N/A	N/A
Mr. Loo Hong Shing Vincent	4/4	2/2*	1/1*
Independent Non-executive Directors			
Mr. Chan, Henry	4/4	2/2	1/1
Ms. Ada Ying Kay Wong	4/4	2/2	1/1
Mr. Chu Cheng Chung	4/4	2/2	1/1

* Being the secretary of the meetings.

NOMINATION OF DIRECTORS

The Board has established formal and transparent procedures for the appointments of new Directors and re-nomination and re-election of Directors at regular intervals. In accordance with Articles 99 and 116 of the Articles of Association of the Company. Mr. Sze Man Bok, Mr. Hung Ching Shan, Mr. Loo Hong Shing Vincent and Mr. Wang Ming Fu will retire office at the Company's annual general meeting, and being eligible, offer themselves for re-election.

AUDITOR'S REMUNERATION

The Group was charged approximately HK$5,219,000 and HK$650,000 by the Company's external auditor for auditing and non-auditing services respectively for the year ended 31 December 2009. Non-auditing services included professional services in accordance with the Hong Kong Standard on Related services 4400 "Engagement to Perform Agreed-Upon Procedures Regarding Financial Information" for continuing connected transaction on sample basis and preliminary announcements of results during the year. The Audit Committee is of the view that the auditors' independence is not affected by the services rendered.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the accounts of the Group. With the assistance of the accounting department, which is under the supervision of a qualified accountant of the Company, the Directors ensure that the accounts of the Group have been properly prepared in accordance with statutory requirements and applicable accounting standards. The Directors also ensure that the publication of the accounts of the Group is in a timely manner.

A report of the independent auditor on the Group's accounts is set out in this annual report.

INTERNAL CONTROLS

Management had implemented a system of internal controls to provide reasonable assurance that the Group's assets are safeguarded, proper accounting records are maintained, appropriate legislation and regulations are complied with, reliable financial information is provided for management and publication purposes, investment and business risks affecting the Group are identified and managed. The adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget are also considered.

The Group has an independent and subjective internal audit department which critically reviews and monitors all critical aspects of the Group's authorities and its internal controls. The head of internal audit reports to the Board and the Audit Committee on a quarterly basis.

In 2006, an independent international professional accounting firm was appointed by the Group to conduct a review on its systems of internal controls and to provide recommendations on areas of improvement. In 2007 to 2009, the internal audit department of the Group had performed a review to ensure that the recommendations made by the independent international accounting firm had been implemented accordingly and proper internal control policies, procedures and practices were in place.

In December 2008, the Group appointed Booz & Company, a leading management consulting firm, to further improve the Group's strategic planning, management in business operation and budgeting, supply chain management and performance assessment mechanism. The project was completed in 2009 and the recommendations made by Booz & Company had been implemented in 2009 or will be implemented in 2010.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company establishes different communication channels with shareholders and investors: (i) dispatching printed copies of corporate communication documents to shareholders; (ii) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board, (iii) latest and key information of the Group are available on the website of the Company, (iv) regular press conferences and briefing meetings with investors, shareholders and analysts are set up from time to time on updated information of the Group, and (v) the Company's Registrars serve the shareholders respecting all share registration matters.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting herewith their report together with the audited accounts of the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding and trading of personal hygienic products. The principal activities of its subsidiaries are the manufacturing, distribution and sale of personal hygiene products, food and snacks products and skin care products, mainly in the PRC.

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

	2009		2008	
	Revenue HK$'000	**Contribution to operating profit HK$'000**	Revenue HK$'000	Contribution to operating profit HK$'000
Personal hygiene products				
– Sanitary napkins products	**2,546,369**	**921,415**	2,015,580	682,471
– Disposable diapers products	**2,160,251**	**420,767**	1,873,526	297,827
– Tissue paper products	**4,455,841**	**951,350**	3,874,924	404,354
Food and snacks products	**863,283**	**111,937**	63,084	2,342
Skin care products and others	**808,095**	**192,287**	174,431	81,414
	10,833,839	**2,597,756**	8,001,545	1,468,408

(2) The geographical analysis of the Group's revenue is shown as follows:

	2009		2008	
	Revenue HK$ million	**Percentage of total revenue (%)**	Revenue HK$ million	Percentage of total revenue (%)
PRC				
Fujian and Guangdong	**2,114**	**19.5**	1,561	19.5
North-western	**476**	**4.4**	391	4.9
South-western	**588**	**5.4**	472	5.9
Sichuan	**931**	**8.6**	745	9.3
North-eastern	**820**	**7.6**	478	6.0
Northern	**984**	**9.1**	856	10.7
Shandong	**1,022**	**9.4**	750	9.4
Eastern	**1,646**	**15.2**	1,236	15.4
Central	**1,647**	**15.2**	1,201	15.0
Overseas	**606**	**5.6**	312	3.9
	10,834	**100**	8,002	100

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 33.

The Directors have declared an interim dividend of HK$0.50 (2008: HK$0.32) per ordinary share, totalling HK$609,657,000 (2008: HK$365,858,000), which was paid on 21 October 2009.

The Directors recommend the payment of a final dividend of HK$0.60 (2008: HK$0.40) per ordinary share, totalling HK$731,588,000 (2008: HK$460,026,000).

RESERVES

Details of the movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 39.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK$37,026,000 (2008: HK$16,727,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 14 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 27 to the accounts.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution comprise the share premium account and retained earnings. At 31 December 2009, the reserves of the Company available for distribution to shareholders amounted to HK$4,269,333,000 (2008: HK$3,917,474,000), subject to the restrictions stated in Note 29(a) to the accounts.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the consolidated results of the Group for the last five financial years and of its consolidated assets and liabilities as at the end of the last five financial years is set out on pages 4 and 5 respectively.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of the Company's shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors

Mr. Sze Man Bok
Mr. Hui Lin Chit
Mr. Yeung Wing Chun (resigned on 20 May 2009)
Mr. Hung Ching Shan
Mr. Xu Da Zuo
Mr. Xu Chun Man
Mr. Loo Hong Shing Vincent

Independent Non-Executive Directors

Mr. Chan Henry
Mr. Wang Ming Fu (appointed on 1 January 2010)
Ms. Ada Ying Kay Wong
Mr. Chu Cheng Chung (resigned on 1 January 2010)

In accordance with Articles 99 and 116 of the Company's Articles of Association, Mr. Sze Man Bok, Mr. Hung Ching Shan, Mr. Loo Hong Shing Vincent and Mr. Wang Ming Fu retire, and being eligible, offer themselves for re-election.

Report of the Directors

DIRECTORS' SERVICE CONTRACTS

Each Executive Director has entered into a service contract with the Company for an initial term of three years and continuing thereafter on an annual basis until terminated by not less than three months' notice in writing served by either party.

Independent Non-Executive Directors were appointed for a 3-year term. The service contract of Mr. Chan Henry and Ms. Ada Ying Kay Wong shall expire on 16 December 2011 while Mr. Wang Ming Fu shall expiry on 31 December 2012.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and senior management are set out on pages 16 to 19.

DIRECTORS' INTERESTS IN CONTRACTS

Saved as disclosed under the Continuing Connected Transactions below, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTINUING CONNECTED TRANSACTIONS

The following transactions are regarded as continuing connected transactions under The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), and are disclosed in accordance with Main Board Chapter 14A of the Listing Rules. These continuing connected transactions also constituted related party transactions of the Group as disclosed in note 40 to the accounts.

	2009 **HK$'000**	2008 HK$'000
Purchases from Weifang Power		
– electricity energy	**76,195**	75,627
– heat energy	**57,949**	31,438

Pursuant to agreements between a wholly-owned subsidiary of the Company and Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power"), the Group purchased electricity energy and heat energy from Weifang Power at prices lower than the prevailing market prices. Weifang Power is 95% beneficially owned by the sons of Mr. Sze Man Bok and Mr. Hui Lin Chit, the executive directors and substantial shareholders of the Company.

In accordance with paragraph 14A.38 of the Listing Rules, the Board of Directors engaged the auditor of the Company to perform certain factual finding procedures on the above continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed – Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported the factual findings for the selected samples based on the agreed procedures to the Board of Directors that the aforesaid continuing connected transactions for the year ended 31 December 2009 (a) had been approved by the Board; (b) did not involve goods and services provided by the Group; (c) were carried out in accordance with the terms of the relevant agreements governing them; and (d) did not exceed the respective applicable annual caps disclosed in our announcements dated 18 November 2008 and 4 November 2009.

Having reviewed the auditor's report and the continuing connected transactions, the Independent Non-Executive Directors, have also made confirmations that the transactions were entered into (i) by the Group in the ordinary and usual course of the business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the respective agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

COMPANY OR ANY ASSOCIATED CORPORATION

At 31 December 2009, the interests of each Director in the shares, short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO and disclosed in accordance with the Listing Rules were as follows:

	Capacity/Nature of Interest			Number of unlisted shares		
	Number of shares			(Note (1))		Approximate
Name of Directors	Personal interests/ Beneficiary	Family interests	Corporate interests	Personal interests	Total	percentage of shareholding
Mr. Sze Man Bok	227,228,999 (Note (2))	–	–	20,000	227,248,999	18.64%
Mr. Hui Lin Chit	224,619,751 (Note (3))	–	–	180,000	224,799,751	18.44%
Mr. Hung Ching Shan	7,000,000	–	–	20,000	7,020,000	0.58%
Mr. Xu Da Zuo	19,637,321 (Notes (4)&(5))	–	–	130,000	19,767,321	1.62%
Mr. Xu Chun Man	16,167,445 (Note (4))	–	–	20,000	16,187,445	1.33%
Mr. Loo Hong Shing Vincent	100,000	30,000	–	170,000	300,000	0.02%

Notes:

(1) Unlisted share are share options granted to Directors pursuant to share option scheme of the Company and details of which are set out in note 28.

(2) Tin Lee Investments Limited holds 227,228,999 shares in the Company. It is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Tin Wing Holdings Limited ("Tin Wing"). Tin Wing is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse Trust Limited ("Credit Suisse"), the trustee of Sze's Family Trust. Mr. Sze Man Bok is the settlor and beneficiary of Sze's Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of Sze's Family Trust in the Company.

(3) An Ping Holdings Limited holds 224,619,751 shares in the Company. It is a company incorporated in the Bahamas and is a wholly owned subsidiary of An Ping Investments Limited ("An Ping Investments"). An Ping Investments is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse, the trustee of The Hui Family Trust. Mr. Hui Lin Chit is the settlor and beneficiary of The Hui Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of The Hui Family Trust in the Company.

(4) These interests were held by Hengan International Investments Limited ("HIIL") , a nominee company holding shares of the Company on behalf of certain Directors and senior management of the Group and their family members.

(5) Out of the 19,637,321, Skyful Holdings Limited holds 17,130,000 shares in the Company. It is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Charter Towers Limited ("Charter Towers"). Charter Towers is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse, the trustee of The Xu Family Trust. Mr. Xu Da Zuo is the settlor and beneficiary of The Xu Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of The Xu Family Trust in the Company. The remaining 2,507,321 shares were held by HIIL.

(6) Interests in shares and share options were long position.

Apart from the above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations.

Report of the Directors

SHARE OPTION SCHEME

(1) The terms of the share option scheme of the Company ("Scheme") are summarised as follows:

(i) **Purpose of the Scheme**

The purpose of the Scheme is to enable employees of the Group to acquire ownership interests in the Company and to encourage employees to work towards enhancing the value of the Company for the benefit of shareholders.

(ii) **Eligible Persons**

The Board shall have power at any time within the Scheme period to make an offer to any employee (including Directors), as the Board may at its absolute discretion determine and select subject to terms and conditions of the Scheme.

The basis of eligibility of any of the employees to the grant of options shall be determined by the Board from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

(iii) **Subscription Price**

The subscription price for the shares of the Company under the Scheme is to be determined by the Board provided with reference to the highest of:

(a) the closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange for the date of offer (which is deemed to be the date of grant if the offer for the grant of an option is accepted by the employee), which must be a business day;

(b) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer; and

(c) the nominal value of a share.

(iv) **Maximum Number of Shares Available for Issue**

The maximum number of shares available for issue after considering the share options already granted is 85,638,200, which is not more than 10% of the issued share capital of the Company as at the date of the approval of the Scheme.

(v) **Maximum Entitlement of Each Employee**

The maximum number of shares issued and to be issued upon exercise of options granted under the Scheme of the Company to any employee (including both exercised and outstanding options) in any 12-month period from the date of grant shall not exceed 1% of the shares in issue. Any further grant of option in excess of such 1% limit in any 12 month period upto and including the date of such further grant shall be subject to the issue of a circular to the shareholders of the Company and the approval by shareholders with such employee and his associates abstaining from voting.

(vi) **Time on Exercise of Options**

An option may be exercised in accordance with the terms of the Scheme at any time during a period commencing on the date on which the employee complies in full with the requirements of the Board for the acceptance of the offer and expiring at the close of business on the last date of the 10-year period or the end of the Scheme period, whichever is the earlier subject to the provisions of early termination thereof.

(vii) **Acceptance of Offer**

An offer for the grant of options must be accepted not less than 30 days after the offer date and must be accompanied by payment of the option price.

(viii) **Remaining Life of the Scheme**

The Scheme will remain in force before 2 May 2013.

(2) Movement of Share Options

Details of movements in the share options as at 31 December 2009 which have been granted under the Scheme are as follows:

Eligible person	Number of share options: Balance as at 01/01/2009	Granted during the year	Exercised during the year	Reclassified during the year	Cancelled/ lapsed during the year	Balance as at 31/12/2009	Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
Directors									
Sze Man Bok	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2010–02/05/2013
	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2011–02/05/2013
Hui Lin Chit	90,000	–	–	–	–	90,000	25.30	18/07/2007	18/07/2010–02/05/2013
	90,000	–	–	–	–	90,000	25.30	18/07/2007	18/07/2011–02/05/2013
Hung Ching Shan	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2010–02/05/2013
	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2011–02/05/2013
Xu Da Zuo	65,000	–	–	–	–	65,000	25.30	18/07/2007	18/07/2010–02/05/2013
	65,000	–	–	–	–	65,000	25.30	18/07/2007	18/07/2011–02/05/2013
Xu Chun Man	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2010–02/05/2013
	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2011–02/05/2013
Loo Hong Shing Vincent	85,000	–	–	–	–	85,000	25.30	18/07/2007	18/07/2010–02/05/2013
	85,000	–	–	–	–	85,000	25.30	18/07/2007	18/07/2011–02/05/2013
Yeung Wing Chun (resigned on 20 May 2009)	10,000	–	–	(10,000)	–	–	25.30	18/07/2007	18/07/2010–02/05/2013
	10,000	–	–	(10,000)	–	–	25.30	18/07/2007	18/07/2011–02/05/2013
Employees	4,892,000	–	–	–	(112,500)	4,779,500	25.05	12/07/2007	12/07/2010–02/05/2013
	4,892,000	–	–	–	(112,500)	4,779,500	25.05	12/07/2007	12/07/2011–02/05/2013
	10,000	–	–	10,000	–	20,000	25.30	18/07/2007	18/07/2010–02/05/2013
	10,000	–	–	10,000	–	20,000	25.30	18/07/2007	18/07/2011–02/05/2013
	50,000	–	–	–	–	50,000	25.05	18/03/2008	12/07/2010–02/05/2013
	50,000	–	–	–	–	50,000	25.05	18/03/2008	12/07/2011–02/05/2013
	–	2,793,000	–	–	–	2,793,000	44.30	07/09/2009	07/09/2012–02/05/2013
	10,464,000	2,793,000	–	–	(225,000)	13,032,000			

Mr. Yeung Wing Chun resigned as a director of the Company on 20 May 2009. The options granted to Mr. Yeung were reclassified accordingly. In addition, the Company granted 2,793,000 share options to 292 employees of the Group at an exercise price of HK$44.30 on 7 September 2009.

No options lapsed during the year.

Report of the Directors

The Company has used the Binomial Model for assessing the fair value of the share options granted. It is an appropriate model to estimate the fair value of an option that can be exercised before the expiry of the option period. The assumptions adopted in the calculation are:

	Options granted in 2007 to Directors	Options granted in 2007 and 2008 to employees	Options granted in 2009 to employees
Risk free rate	4.64% per annum	4.64% per annum	1.40% per annum
Expected volatility	35% per annum	35% per annum	45% per annum
Expected dividend yield	2.5% per annum	2.5% per annum	2.3% per annum
Trigger price multiple	2 times	1.5 times	1.5 times
Expected turnover rate	0% per annum	15% per annum	13.7% per annum

According to the Binomial Model, the fair value of the options granted, which had been charged to the profit and loss account for the year ended 31 December 2009, amounted to HK$26,638,000 (2008: HK$22,698,000) and the remaining unamortised fair value of approximately HK$55,236,000 will be charged to the profit and loss account in the future years.

It should be noted that the value of an option varies with different variables of certain subjective assumptions; any change in variables so adopted may materially affect the fair value estimate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under section 336 of part XV of the SFO shows that as at 31 December 2009, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

Name of Shareholder	Note	Capacity	Number of ordinary shares beneficially held	Approximate percentage of shareholding
Tin Lee Investments Limited	(1)	Beneficial owner	227,228,999 (L)	18.64%
Tin Wing Holdings Limited	(1)	Interests of controlled corporation	227,228,999 (L)	18.64%
An Ping Holdings Limited	(2)	Beneficial owner	224,619,751 (L)	18.42%
An Ping Investments Limited	(2)	Interests of controlled corporation	224,619,751 (L)	18.42%
Serangoon Limited	(1), (2) & (3)	Interests of controlled corporation	468,978,750 (L)	38.46%
Seletar Limited	(1), (2) & (3)	Interests of controlled corporation	468,978,750 (L)	38.46%
Credit Suisse Trust Limited	(3)	Trustee	468,978,750 (L)	38.46%

(L) denotes long position

Notes:

(1) Tin Lee Investments Limited is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Tin Wing Holdings Limited. Tin Wing Holdings Limited is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse Trust Limited, the trustee of Sze's Family Trust.

(2) An Ping Holdings Limited, a company incorporated in the Bahamas, is a wholly owned subsidiary of An Ping Investments Limited. An Ping Investments Limited is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse Trust Limited, the trustee of The Hui Family Trust.

(3) Credit Suisse Trust Limited as trustee of Sze's Family Trust, The Hui Family Trust and The Xu Family Trust and is deemed to be interested in the shares held by these trusts.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group sold less than 30% of its goods and services to its five largest customers.

The percentages of purchases of goods and services for the year attributable to the Group's major suppliers are as follows:

– the largest supplier	8.9%
– five largest suppliers combined	32.2%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers noted above.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at 25 March 2010.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands.

AUDITOR

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Sze Man Bok
Chairman

Hong Kong, 25 March 2010

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF HENGAN INTERNATIONAL GROUP COMPANY LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated accounts of Hengan International Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 33 to 96, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the accounts

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated accounts based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2010

CONSOLIDATED
PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Revenue	5	**10,833,839**	8,001,545
Cost of goods sold	7	**(5,853,348)**	(4,798,999)
Gross profit		**4,980,491**	3,202,546
Other gains – net	6	**106,803**	92,993
Distribution costs	7	**(1,951,460)**	(1,451,005)
Administrative expenses	7	**(535,283)**	(313,462)
Operating profit		**2,600,551**	1,531,072
Finance income	8	**45,128**	46,494
Finance costs	8	**(62,950)**	(66,878)
Profit before income tax		**2,582,729**	1,510,688
Income tax expense	9	**(415,706)**	(166,032)
Profit for the year		**2,167,023**	1,344,656
Profit attributable to:			
Shareholders of the Company	10	**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	11		
– Basic		**HK$ 1.770**	HK$ 1.172
– Diluted		**HK$1.765**	HK$ 1.152
Dividends	12	**1,341,245**	825,884

The notes on pages 41 to 96 are an integral part of the consolidated accounts.

CONSOLIDATED
STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009 HK$'000	2008 HK$'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

The notes on pages 41 to 96 are an integral part of the consolidated accounts.

CONSOLIDATED BALANCE SHEET

As at 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**3,535,811**	3,080,750
Construction-in-progress	15	**808,410**	813,329
Leasehold land and land use rights	16	**397,541**	239,408
Intangible assets	17	**616,384**	626,296
Prepayments for non-current assets	18	**428,913**	466,679
Deferred income tax assets	33	**89,395**	68,269
Non-current finance lease receivables		**–**	9,692
Long-term bank deposits	26	**468,597**	–
		6,345,051	5,304,423
Current assets			
Inventories	21	**2,174,505**	2,128,030
Trade and bills receivables	22	**882,841**	779,902
Other receivables, prepayments and deposits		**260,522**	195,393
Current finance lease receivables		**10,044**	13,672
Derivative financial instruments	24	**13,938**	–
Restricted bank deposits	25	**11,364**	17,040
Cash and bank balances	26	**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	27	**121,931**	115,007
Other reserves	29	**4,936,821**	4,499,296
Retained earnings	30		
– Proposed final dividend	12	**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

The notes on pages 41 to 96 are an integral part of the consolidated accounts.

Consolidated Balance Sheet

As at 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
LIABILITIES			
Non-current liabilities			
Bank borrowings	31	**555,031**	45,840
Convertible bonds	32	**–**	1,465,247
Deferred income tax liabilities	33	**115,476**	56,892
Deferred income on government grants		**5,104**	7,555
		675,611	1,575,534
Current liabilities			
Trade payables	34	**875,608**	898,159
Bills payable	35	**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	31	**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

Sze Man Bok
Director

Hui Lin Chit
Director

The notes on pages 41 to 96 are an integral part of the consolidated accounts.

BALANCE SHEET

As at 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	19	**5,423,811**	5,165,502
Current assets			
Inventories	21	**8,227**	–
Trade receivables	22	**73,461**	43,824
Amounts due from subsidiaries	23	**366,762**	498,299
Other receivables, prepayments and deposits		**207**	9
Cash and bank balances	26	**11,258**	132,387
		459,915	674,519
Total assets		**5,883,726**	5,840,021
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	27	**121,931**	115,007
Other reserves	29	**3,637,318**	3,328,654
Retained earnings	30		
– Proposed final dividend	12	**731,588**	460,026
– Unappropriated retained earnings		**(37,693)**	182,498
Total equity		**4,453,144**	4,086,185

The notes on pages 41 to 96 are an integral part of the consolidated accounts.

Balance Sheet

As at 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
LIABILITIES			
Non-current liabilities			
Convertible bonds	32	–	1,465,247
Amounts due to subsidiaries	23	591,027	42,437
		591,027	1,507,684
Current liabilities			
Trade payables	34	58,055	41,379
Other payables and accrued charges		5,212	3,485
Current income tax liabilities		1,288	1,288
Bank borrowings	31	775,000	200,000
		839,555	246,152
Total liabilities		1,430,582	1,753,836
Total equity and liabilities		5,883,726	5,840,021
Net current (liabilities)/assets		(379,640)	428,367
Total assets less current liabilities		5,044,171	5,593,869

Sze Man Bok
Director

Hui Lin Chit
Director

The notes on pages 41 to 96 are an integral part of the consolidated accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

		Attributable to the Company's shareholders					
	Note	Share capital HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
Balance at 1 January 2008		114,162	3,870,069	1,359,992	5,344,223	21,413	5,365,636
Profit for the year		–	–	1,340,914	1,340,914	3,742	1,344,656
Other comprehensive income:							
Translation of subsidiaries' accounts	29(d)	–	346,674	–	346,674	847	347,521
Total comprehensive income		–	346,674	1,340,914	1,687,588	4,589	1,692,177
2007 final dividends paid		–	–	(365,714)	(365,714)	–	(365,714)
2008 interim dividends paid	12	–	–	(365,858)	(365,858)	(2,389)	(368,247)
Appropriation to statutory reserves	29(c)	–	99,580	(99,580)	–	–	–
Conversion of convertible bonds	32	845	160,275	–	161,120	–	161,120
Share-based compensation	28	–	22,698	–	22,698	–	22,698
Acquisition of subsidiaries	37	–	–	–	–	208,231	208,231
Balance at 31 December 2008		115,007	4,499,296	1,869,754	6,484,057	231,844	6,715,901
Balance at 1 January 2009		**115,007**	**4,499,296**	**1,869,754**	**6,484,057**	**231,844**	**6,715,901**
Profit for the year		**–**	**–**	**2,117,509**	**2,117,509**	**49,514**	**2,167,023**
Other comprehensive income:							
Translation of subsidiaries' accounts	29(d)	**–**	**6,679**	**–**	**6,679**	**119**	**6,798**
Total comprehensive income		**–**	**6,679**	**2,117,509**	**2,124,188**	**49,633**	**2,173,821**
2008 final dividends paid		**–**	**–**	**(486,095)**	**(486,095)**	**–**	**(486,095)**
2009 interim dividends paid	12	**–**	**–**	**(609,657)**	**(609,657)**	**(1,500)**	**(611,157)**
Appropriation to statutory reserves	29(c)	**–**	**133,257**	**(133,257)**	**–**	**–**	**–**
Transfer to retained earnings		**–**	**(1,200,000)**	**1,200,000**	**–**	**–**	**–**
Conversion of convertible bonds	32	**6,924**	**1,482,026**	**–**	**1,488,950**	**–**	**1,488,950**
Share-based compensation	28	**–**	**26,638**	**–**	**26,638**	**–**	**26,638**
Liquidation of subsidiaries		**–**	**(11,075)**	**–**	**(11,075)**	**–**	**(11,075)**
Balance at 31 December 2009		**121,931**	**4,936,821**	**3,958,254**	**9,017,006**	**279,977**	**9,296,983**

The notes on pages 41 to 96 are an integral part of the consolidated accounts.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2009

	Note	2009 HK$'000	2008 HK$'000
Cash flows from operating activities			
Cash inflow generated from operations	36(a)	**2,810,578**	1,490,996
Income tax paid		**(295,026)**	(166,919)
Net cash generated from operating activities		**2,515,552**	1,324,077
Cash flows from investing activities			
Purchase of property, plant and equipment, including additions of construction-in-progress		**(779,227)**	(1,004,398)
Additions of leasehold land and land use rights		**(169,268)**	(24,850)
Proceeds from disposal of property, plant and equipment	36(b)	**10,175**	21,911
Decrease/(increase) in prepayments for non-current assets		**38,261**	(120,007)
Decrease in restricted bank deposits		**5,699**	135,603
Increase in long-term bank deposits		**(468,225)**	–
Interest received		**45,128**	46,494
Acquisition of subsidiaries		**–**	(223,640)
Net cash used in investing activities		**(1,317,457)**	(1,168,887)
Cash flows from financing activities			
Proceeds from bank borrowings		**3,955,302**	320,761
Repayment of bank borrowings		**(1,568,492)**	(332,773)
Interest paid		**(40,921)**	(16,344)
Dividends paid		**(1,095,752)**	(731,572)
Dividends paid by subsidiaries to their minority shareholders		**(1,500)**	(2,389)
Redemption of convertible bonds		**(575)**	–
Proceeds from discounted bills		**397,186**	–
Net cash generated from/(used in) financing activities		**1,645,248**	(762,317)
Net increase/(decrease) in cash and cash equivalents		**2,843,343**	(607,127)
Cash and cash equivalents at 1 January	26	**1,610,552**	2,160,031
Effect of foreign exchange rate changes		**(4,221)**	57,648
Cash and cash equivalents at 31 December	26	**4,449,674**	1,610,552

The notes on pages 41 to 96 are an integral part of the consolidated accounts.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 December 2009

1. General information

Hengan International Group Company Limited (the "Company") and its subsidiaries (together the "Group") are engaged in manufacturing, distribution and sale of personal hygiene products, food and snack products and skin care products mainly in the People's Republic of China (the "PRC"), Hong Kong and certain overseas markets.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Ugland House, South Church Street, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies.

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited since December 1998.

These consolidated accounts are presented in units of thousands of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated accounts have been approved for issue by the Board of Directors on 25 March 2010.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

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

The preparation of consolidated accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

The changes in accounting policy and disclosures are set out below:

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

The Group has adopted the following new and amended HKFRS, which are relevant to the Group's operations, 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.

Notes to the Consolidated Accounts

For the year ended 31 December 2009

2. Summary of significant accounting policies *(continued)*

(a) Basis of preparation *(continued)*

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

- 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.

Notes to the Consolidated Accounts

For the year ended 31 December 2009

2. Summary of significant accounting policies *(continued)*

(a) Basis of preparation *(continued)*

(ii) 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, which are relevant to the Group's operations, 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

Notes to the Consolidated Accounts

For the year ended 31 December 2009

2. Summary of significant accounting policies *(continued)*

(b) Consolidation

The consolidated accounts include the accounts of the Company and all of its subsidiaries made up to 31 December.

(i) Subsidiaries

Subsidiaries are those entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (see Note 2(g)(i)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2(h)). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2. Summary of significant accounting policies *(continued)*

(b) Consolidation *(continued)*

(ii) Minority interests

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

The group applies a policy of treating transactions with minority interest as transactions with parties external to the group. Disposals to minority interest result in gains and losses for the group and are recorded in the consolidated profit and loss account. Purchases from minority interest result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors that makes strategic decisions.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is Hong Kong dollars ("HK$") and the functional currency of the majority of the Group's companies is Renminbi ("RMB"). The consolidated accounts are presented in HK$.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit and loss account within "finance income or cost". All other foreign exchange gains and losses are presented in the profit and loss account within "administrative expenses".

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

Notes to the Consolidated Accounts

For the year ended 31 December 2009

2. Summary of significant accounting policies *(continued)*

(d) Foreign currency translation *(continued)*

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(I) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(II) Income and expenses for each profit and loss account are translated at the average exchange rate of the financial reporting period unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions; and

(III) All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of and sold, exchange differences that were recorded in equity are recognised in the consolidated profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Property, plant and equipment and construction-in-progress

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Construction-in-progress is stated at cost less accumulated impairment losses. Cost comprises all direct and indirect costs of acquisition or construction of buildings and plant and machinery as well as interest expenses on the related funds borrowed during the construction, installation and testing prior to the commissioning date. A plant is considered to be commissioned when it is capable of producing saleable quality output in commercial quantities on an ongoing basis.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Notes to the Consolidated Accounts

For the year ended 31 December 2009

2. Summary of significant accounting policies *(continued)*

(e) Property, plant and equipment and construction-in-progress *(continued)*

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	20 years
Plant and machinery	10 – 20 years
Office equipment, furniture and fixtures	5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "other gains – net" in the profit and loss account. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

(f) Leasehold land and land use rights

Leasehold land and land use rights are stated at cost less accumulated amortisation and impairment losses. Leasehold land and land use rights are amortised using the straight-line method over the period of the land use rights.

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

(ii) Patents and trademarks

Acquired patents and trademarks are shown at historical cost. Patents and trademarks acquired in a business combination are recognised at fair value at the acquisition date. Patents and trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of not exceeding 20 years.

(iii) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship of not exceeding 10 years.

Notes to the Consolidated Accounts

For the year ended 31 December 2009

2. Summary of significant accounting policies *(continued)*

(h) Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of an impairment at each reporting date.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate accounts exceeds the carrying amount in the consolidated accounts of the investee's net assets including goodwill.

(i) Financial assets

(i) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

(1) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivative financial instruments are categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise "trade and bills receivables", "other receivables", "restricted bank deposits" and "cash and bank balances" in the balance sheet (Notes 2(l) and 2(m)).

(ii) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the profit and loss account within "other gains – net" in the year in which they arise.

2. Summary of significant accounting policies *(continued)*

(i) Financial assets *(continued)*

(iii) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in the profit and loss account. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit and loss account.

(j) Derivative financial instruments

Derivatives are initially recongnised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument. There are no derivatives designated as a hedging instrument for the Group. Derivatives of the Group are categorised as financial assets at fair value through profit or loss and the changes in fair value are recognised in the profit and loss account under "other gains – net" in the year in which they arise.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads based on normal operating capacity. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(l) Trade, bills and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade, bills and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade, bills and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in profit and loss account. When a trade receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against in the profit and loss account.

(m) Cash and bank balances

Cash and bank balances include cash in hand, deposits held at call with banks, and other short-term highly liquid investments.

Notes to the Consolidated Accounts

For the year ended 31 December 2009

2. Summary of significant accounting policies *(continued)*

(n) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(o) Trade and bills payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and bills payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and bills payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds net of transaction costs, and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(q) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised directly in other comprehensive income or equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2. Summary of significant accounting policies *(continued)*

(q) Current and deferred income tax *(continued)*

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

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

(r) Employee benefits

(i) Retirement benefits

The Group participates in defined contribution retirement schemes administered by local government in different parts of the PRC (the "Central Schemes"). The Group and the employees are required to make cash contributions calculated at certain percentages of the employees' basic salaries to the Central Schemes. The assets of the schemes are held separately from those of the Group in independently administered funds.

The Group also operates the mandatory provident fund scheme (the "MPF Scheme") for its Hong Kong staff. The MPF Scheme is a defined contribution retirement benefit scheme administered by independent trustees. Each of the employer and the employee has to contribute an amount equal to 5% of the relevant income of the employee to the MPF Scheme, subject to a cap of HK$1,000 per month. Contributions from the employer are vested in the employees as soon as they are paid to relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 subject to a few exceptions. The assets of the schemes are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred. The Group has no further payment obligations once the contributions have been made.

(ii) Share-based compensation

The Group operates a share-based compensation plan (Note 28). The fair value of the employee services received in exchange for the grant of the options to purchase shares of the Company is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the consolidated profit and loss account, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Notes to the Consolidated Accounts

For the year ended 31 December 2009

2. Summary of significant accounting policies *(continued)*

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(t) Revenue recognition

Revenue comprises the fair value of the consideration received or receivables for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(ii) Finance income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Finance income on impaired loans is recognised using the original effective interest rate.

(iii) Dividend income is recognised when the right to receive payment is established.

(u) Government grants

Grants from the government are reognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit and loss account over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the profit and loss account on a straight-line basis over the expected lives of the related assets.

2. Summary of significant accounting policies *(continued)*

(v) Leases

(i) Finance leases by lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivables. The difference between the gross receivables and the present value of the receivables is recognised as unearned finance income.

Lease income from finance lease is recognised over the terms of the lease using the net investment method, which reflects a constant periodic rate of return.

(ii) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the period of the lease.

(w) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's accounts in the year in which the dividends are approved by the Company's shareholders.

3. Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Market risk

(1) Foreign currency risk

The Company's functional currency is Hong Kong dollar and the majority of its subsidiaries' functional currencies are Renminbi. Foreign exchange risk arises from future commercial transactions of purchases from overseas by the Company's subsidiaries and recognised assets or liabilities, such as cash and bank balances, trade and bills receivables and payables, and bank borrowings held by its subsidiaries, which are denominated in United States dollar and other currencies.

Notes to the Consolidated Accounts

For the year ended 31 December 2009

3. Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(i) Market risk *(continued)*

(1) Foreign currency risk *(continued)*

The Group considers the risk of movements in exchange rate between Hong Kong dollar and United States dollar to be insignificant as Hong Kong dollar and United States dollar are pegged. In addition, during the year ended 31 December 2009, the fluctuations in exchange rates between Renminbi (the functional currency of the majority of the Group's entities) and United States dollar (the denomination currency of the majority of the Group's imports of raw material and property, plant and equipment) were not significant. The Group had never experienced any difficulties in getting sufficient foreign currencies for settlement of the purchases or repatriation of profits declared by the subsidiaries in the PRC to their overseas holding companies. As at 31 December 2009 apart from certain non-deliverable forward foreign exchange contracts entered into with commercial banks which were stated at fair value, the Group did not hedge its foreign currency risk since the exposure was considered insignificant.

At 31 December 2009, if Hong Kong dollar and United States dollar had weakened /strengthened by 10% against the Renminbi with all other variables held constant, profit for the year would have been HK$44,306,000 (2008: HK$12,167,000) higher/lower. There is no impact on equity.

(2) Cash flow and fair value interest rate risk

Except for restricted bank deposits (Note 25), long-term bank deposits (Note 26) and cash and bank balances (Note 26), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

The Group's interest-rate risk arises from borrowings. Borrowings include bank borrowings (Note 31) and convertible bonds (Note 32). Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The Group does not hedge its cash flow and fair value interest rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 31.

At 31 December 2009, if interest rates on bank borrowings had been 150 basis points higher/lower with all other variables held constant, the profit for the year would have been HK$19,853,000 (2008: HK$3,498,000) lower/higher as a result of higher/lower interest expenses on floating rate borrowings.

3. Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(ii) Credit risk

Credit risk is managed on a group basis. Credit risk arises from restricted bank deposits, bank balances, derivative financial instruments, as well as credit exposures to customers, including outstanding receivables and committed transactions. Majority of the Group's sales are settled in cash or by its customers on delivery of goods. Credit sales are made only to selected customers with good credit history. The Group has policies in place to ensure that trade receivables are followed up on a timely basis.

The Group has no significant concentrations of credit risk. The carrying amounts of restricted bank deposits, bank balances, derivative financial instruments, trade receivables and other receivables included in the consolidated accounts represent the Group's maximum exposure to credit risk in relation to its financial assets.

At 31 December 2009, all restricted bank deposits and bank balances were deposited in highly reputable and sizable banks without significant credit risk. The table below shows the balances with the five major counterparties:

		As at 31 December	
		2009	2008
Counterparty	**Rating**	**HK$'000**	HK$'000
China Merchants Bank*	A	**1,117,817**	82,104
Ping An Bank**	–	**804,909**	–
Bank of China*	A	**551,164**	244,648
China Construction Bank*	A	**523,926**	436,937
Industrial and Commercial Bank of China*	A	**437,316**	309,805
		3,435,132	1,073,494

* Based on the rating from "Fitch Ratings"
** No available data

Management does not expect any losses from non-performance of these counterparties.

(iii) Liquidity risk

Cash flow is managed at group level by head office finance department ("Group Finance"). Group Finance monitors the Group's liquidity requirements to ensure that it has sufficient cash to meet operational needs at all times and does not breach borrowing limits or covenants on any of its borrowing facilities. Group Finance usually takes into consideration the Group's debt financing plans, covenant compliance and compliance with internal balance sheet ratio targets.

Group Finance mainly invests surplus cash in time deposits, with appropriate maturities.

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For the year ended 31 December 2009

3. Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(iii) Liquidity risk *(continued)*

The table below analyses the Group's and the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000
Group			
At 31 December 2009			
Bank borrowings	**2,180,573**	**558,745**	**–**
Bills payable	**397,501**	**–**	**–**
Trade and other payables	**1,440,863**	**–**	**–**
At 31 December 2008			
Bank borrowings	297,303	48,809	–
Convertible bonds	–	–	1,668,230
Trade and other payables	1,378,818	–	–
Company			
At 31 December 2009			
Bank borrowings	**777,008**	**–**	**–**
Trade and other payables	**63,267**	**–**	**–**
At 31 December 2008			
Bank borrowings	200,034	–	–
Convertible bonds	–	–	1,668,230
Trade and other payables	44,864	–	–

During the year, in May 2009, the convertible bonds of the Group were fully converted to shares of the Company except for the redemption of a small portion of the bonds amounting to HK$575,000.

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital and reserves as shown in the consolidated balance sheet. Total borrowings included bank borrowings and convertible bonds, if any, as shown in the consolidated balance sheet.

3. Financial risk management *(continued)*

(b) Capital risk management *(continued)*

During 2009, the Group's strategy was to maintain a gearing ratio within 20% to 50%. The gearing ratio at 31 December 2009 was as follows:

	2009 **HK$'000**	2008 HK$'000
Gross gearing ratio:		
Total borrowings	**2,730,200**	1,807,911
Total equity excluding minority interests	**9,017,006**	6,484,057
Gross gearing ratio	**30.3%**	27.9%
Net gearing ratio:		
Total borrowings	**2,730,200**	1,807,911
Less: Cash and bank balances including long-term bank deposits and restricted bank deposits	**(4,929,635)**	(1,627,592)
Total equity excluding minority interests	**9,017,006**	6,484,057
Net gearing ratio	**–%**	2.8%

(c) Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets that are measured at fair value at 31 December 2009:

	Level 2 HK$'000
Financial assets at fair value through profit or loss	
– Derivative financial instruments (Note 24)	13,938

Notes to the Consolidated Accounts

For the year ended 31 December 2009

3. Financial risk management *(continued)*

(c) Fair value estimation *(continued)*

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price is the current bid price. These instruments are included in level 1 which comprise primarily equity investments classified as trading securities or available for sale. The Group did not have such instrument as at 31 December 2009.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The Group's derivative financial instruments above are level 2 instruments and their fair value is determined with reference to quotations provided by various banks.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The Group did not have such instrument as at 31 December 2009.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Assessment of impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2(g)(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates (Note 17). These calculations require the use of estimates.

(b) Income taxes

The Group is subject to income taxes in the PRC and in Hong Kong. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and provisions in the period in which such determination is made.

(c) Fair value of derivative financial instruments

The fair value of derivative financial instruments that are not traded in an active market is estimated by management with reference to quotations provided by various banks and the market situation.

Notes to the Consolidated Accounts

For the year ended 31 December 2009

5. Revenue and segment information

The chief operating decision-maker has been identified as the Executive Directors. The Executive Directors reviews the Group's internal reports in order to assess performance and allocate resources. Management has determined the operating segments based on the reports reviewed by the Executive Directors.

The Executive Directors consider the performance of the Group from a product perspective. The Executive Directors assess the performance of the operating segments based on a measure of segment profit/(loss) without allocation of other gains/(losses) and finance income/(costs) which is consistent with that in the consolidated accounts.

The Group is principally engaged in the manufacturing, distribution and sale of personal hygiene products (including sanitary napkins, disposable diapers and tissue papers), food and snacks products and skin care products in the PRC. Revenue recognised during the year is as follows:

	2009 **HK$'000**	2008 HK$'000
Sales of goods:		
Personal hygiene products		
– Sanitary napkins products	**2,546,369**	2,015,580
– Disposable diapers products	**2,160,251**	1,873,526
– Tissue paper products	**4,455,841**	3,874,924
Food and snacks products	**863,283**	63,084
Skin care products and others	**808,095**	174,431
	10,833,839	8,001,545

Most of the group companies are domiciled in the PRC. The revenue from external customers in the PRC accounted for more from 90% of the Group's total revenue.

The total of non-current assets located in the PRC other than deferred tax assets amounted to HK$5,747,241,000 (2008: HK$4,719,284,000) as at 31 December 2009 and the total of these non-current assets located in other places amounted to HK$508,415,000 (2008: HK$490,707,000).

During the year ended 31 December 2009, none of the customers of the Group from whom the revenue amounted to 10% or more of the Group's revenue (2008: none).

Capital expenditures comprise additions to property, plant and equipment (Note 14), construction-in-progress (Note 15), leasehold land and land use rights (Note 16), intangible assets (Note 17) and prepayments for non-current assets (Note 18), including additions resulting from acquisitions through business combinations for 2008.

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.

Notes to the Consolidated Accounts

For the year ended 31 December 2009

5. Revenue and segment information *(continued)*

The segment information provided to the Executive Directors for the reportable segments is as follows:

	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
Profit and loss account 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
Minority interests						(49,514)
Profit attributable to shareholders of the Company						2,117,509
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
Other items for the year ended 31 December 2009						
Capital expenditures	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
Income tax expense	95,848	86,843	178,141	25,981	28,893	415,706

Notes to the Consolidated Accounts

For the year ended 31 December 2009

5. Revenue and segment information *(continued)*

	2008 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
Profit and loss account for the year ended 31 December 2008						
Segment revenue	2,076,116	1,882,835	3,996,467	63,084	471,146	8,489,648
Inter-segment sales	(60,536)	(9,309)	(121,543)	–	(296,715)	(488,103)
Revenue of the Group	2,015,580	1,873,526	3,874,924	63,084	174,431	8,001,545
Segment profit	682,471	297,827	404,354	2,342	81,414	1,468,408
Unallocated costs						(30,329)
Other gains – net						92,993
Operating profit						1,531,072
Finance income						46,494
Finance costs						(66,878)
Profit before income tax						1,510,688
Income tax expense						(166,032)
Profit for the year						1,344,656
Minority interests						(3,742)
Profit attributable to shareholders of the Company						1,340,914
Balance sheet as at 31 December 2008						
Segment assets	1,315,167	2,041,084	5,159,309	725,649	471,501	9,712,710
Deferred income tax assets						68,269
Unallocated assets						268,033
Total assets						10,049,012
Segment liabilities	187,334	234,071	480,989	204,621	27,727	1,134,742
Deferred income tax liabilities						56,892
Current income tax liabilities						80,152
Unallocated liabilities						2,061,325
Total liabilities						3,333,111
Other items for the year ended 31 December 2008						
Capital expenditures	239,406	323,891	692,477	453,661	51,953	1,761,388
Depreciation charge	61,291	32,225	169,755	–	15,312	278,583
Amortisation charge	2,328	208	3,340	–	1,155	7,031
Income tax expense/(income)	110,620	10,995	37,836	7,712	(1,131)	166,032

Notes to the Consolidated Accounts

For the year ended 31 December 2009

6. Other gains – net

	2009 HK$'000	2008 HK$'000
Government grants income (Note)	**80,671**	101,947
Amortisation of deferred income on government grants	**2,649**	4,629
Loss on disposal/write-off of property, plant and equipment	**(6,028)**	(4,512)
Unrealised fair value gain on derivative financial instruments (Note 24)	**13,938**	–
Others	**15,573**	(9,071)
	106,803	92,993

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

7. Expenses by nature

Expenses included in cost of goods sold, distribution costs and administrative expenses were analysed as follows:

	2009 HK$'000	2008 HK$'000
Raw materials and consumables used	**4,840,836**	3,681,248
Changes in inventories of work-in-progress and finished goods	**(77,736)**	315,114
Marketing and advertising expenses	**1,058,388**	755,800
Transportation and packaging expenses	**478,966**	379,696
Utilities and various office expenses	**401,437**	287,633
Travelling expenses	**81,764**	61,415
Net exchange losses/(gains)	**7,551**	(53,920)
Depreciation of property, plant and equipment (Note 14)	**321,021**	278,583
Amortisation of leasehold land and land use rights (Note 16)	**11,543**	6,466
Amortisation of intangible assets (Note 17)	**9,916**	565
Staff costs, including directors' emoluments (Note 13)	**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
Auditors' remuneration	**5,219**	3,505
Provision for impairment of trade receivables (Note 22)	**14**	11,266
Provision for impairment/written off of inventories (Note 21)	**7,153**	26,155
Others	**308,985**	201,853
Total	**8,340,091**	6,563,466

8. Finance income and finance costs

	2009 HK$'000	2008 HK$'000
Finance costs:		
Interest expenses		
– Bank borrowings	**34,214**	12,012
– Convertible bonds wholly repayable within five years (Note 32)	**24,279**	63,534
Other finance charges	**6,707**	4,332
Total borrowing costs incurred	**65,200**	79,878
Less: Borrowing costs capitalised in buildings and machinery under construction-in-progress (Note 15)	**(2,250)**	(13,000)
	62,950	66,878
Finance income:		
Interest income from bank deposits	**(45,128)**	(46,494)
Finance costs, net	**17,822**	20,384

The capitalisation rate applied to funds borrowed generally and used for the development of construction-in-progress is between 0.7% to 3.0% (2008: 1.7% to 5.9%) per annum.

9. Income tax expense

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

	2009 HK$'000	2008 HK$'000
Current income tax		
– Hong Kong profits tax	**14,498**	9,396
– PRC income tax	**363,345**	169,816
Deferred income tax (Note 33)	**37,863**	(13,180)
Income tax expense	**415,706**	166,032

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

Notes to the Consolidated Accounts

For the year ended 31 December 2009

9. Income tax expense *(continued)*

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.

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.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rates applicable to profits of the Group's companies as follows:

	2009 HK$'000	2008 HK$'000
Profit before income tax	**2,582,729**	1,510,688
Tax calculated at tax rates applicable to profits of the Group's companies	**645,682**	377,672
Tax exemption and concession on the profits of certain subsidiaries	**(269,235)**	(218,141)
Income not subject to taxation	**(22,561)**	(3,424)
Deferred tax benefit arising from tax losses not previously recognised	**1,094**	4,264
Under-provision in prior years	**2,181**	5,661
Utilisation of previously unrecognised tax losses	**(3,581)**	–
Withholding tax on unremitted earnings	**62,126**	–
Income tax expense	**415,706**	166,032

The weighted average applicable tax rate was 25.0% (2008: 25.0%).

There is no tax charge relating to components of other comprehensive income.

10. Profit attributable to shareholders of the Company

The profit attributable to shareholders of the Company is dealt with in the accounts of the Company to the extent of a loss of HK$52,877,000 (2008: profit of HK$945,670,000) (Note 30).

11. 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.

Notes to the Consolidated Accounts

For the year ended 31 December 2009

12. Dividends

	2009 HK$'000	2008 HK$'000
Interim, paid, HK$0.50 (2008: HK$0.32) per ordinary share	**609,657**	365,858
Final, proposed, HK$0.6 (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 to be held on 24 May 2010. These accounts do not reflect this dividend payable.

13. Staff costs, including directors' emoluments

	2009 HK$'000	2008 HK$'000
Wages and salaries	**680,567**	461,613
Retirement benefit costs	**56,671**	32,315
Share-based compensation expenses (Note 28)	**26,638**	22,698
	763,876	516,626

(a) Directors' and senior management's emoluments

The remuneration of each Director for the year ended 31 December 2009 is set out below:

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Housing allowance HK$'000	Share-based compensation HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Director							
Mr. SZE Man Bok	60	389	–	–	44	12	505
Mr. HUI Lin Chit	60	486	839	600	398	12	2,395
Mr. YEUNG Wing Chun (Note 1)	30	–	–	–	22	1	53
Mr. HUNG Ching Shan	60	136	34	–	44	10	284
Mr. XU Da Zuo	60	334	202	–	288	3	887
Mr. XU Chun Man	60	57	24	–	44	3	188
Mr. LOO Hong Shing Vincent	60	990	600	336	376	12	2,374
Independent Non-Executive Director							
Mr. CHAN Henry	120	–	–	–	–	–	120
Mr. CHU Cheng Chung (Note 2)	120	–	–	–	–	–	120
Ms. Ada Ying Kay WONG	120	–	–	–	–	–	120

Notes:

1. Mr. Yeung Wing Chun resigned as an Executive Director on 20 May 2009.

2. Mr. Chu Cheng Chung resigned as an Independent Non-Executive Director on 1 January 2010.

Notes to the Consolidated Accounts

For the year ended 31 December 2009

13. Staff costs, including directors' emoluments *(continued)*

(a) Directors' and senior management's emoluments *(continued)*

The remuneration of each Director for the year ended 31 December 2008 is set out below:

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Housing allowance HK$'000	Share-based compensation HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Director							
Mr. SZE Man Bok	60	411	–	–	44	12	527
Mr. HUI Lin Chit	60	483	594	470	399	12	2,018
Mr. YEUNG Wing Chun	60	–	–	–	44	3	107
Mr. HUNG Ching Shan	60	135	34	–	44	10	283
Mr. XU Da Zuo	60	332	200	–	288	3	883
Mr. XU Chun Man	60	67	15	–	44	3	189
Mr. LOO Hong Shing Vincent	60	1,095	500	231	377	12	2,275
Independent Non-Executive Director							
Mr. CHAN Henry	120	–	–	–	–	–	120
Mr. CHU Cheng Chung	120	–	–	–	–	–	120
Ms. Ada Ying Kay WONG	120	–	–	–	–	–	120

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2008: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2008: three) individuals during the year are as follows:

	2009 HK$'000	2008 HK$'000
Basic salaries, housing allowances, share-based compensation, other allowances and benefits-in-kind	**2,622**	2,552
Bonuses	**1,104**	931
	3,726	3,483

The emoluments fell within the following bands:

	Number of individuals 2009	2008
Emolument bands		
HK$1,000,001 to HK$1,500,000	**3**	3
	3	3

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For the year ended 31 December 2009

14. Property, plant and equipment – Group

	Buildings HK$'000	Plant and machinery HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2008					
Cost	749,158	2,598,705	119,123	23,410	3,490,396
Accumulated depreciation	(124,672)	(946,748)	(64,479)	(11,660)	(1,147,559)
Opening net book amount	624,486	1,651,957	54,644	11,750	2,342,837
Year ended 31 December 2008					
Opening net book amount	624,486	1,651,957	54,644	11,750	2,342,837
Exchange differences	39,142	102,987	3,343	727	146,199
Additions	16,390	57,119	1,162	2,728	77,399
Acquisition of subsidiaries (Note 37)	119,604	78,631	5,126	2,028	205,389
Transfer from construction-in-progress (Note 15)	155,271	454,825	3,836	–	613,932
Depreciation for the year (Note 7)	(51,370)	(217,550)	(7,805)	(1,858)	(278,583)
Disposals	(6,825)	(18,240)	(678)	(680)	(26,423)
Closing net book amount	896,698	2,109,729	59,628	14,695	3,080,750
At 31 December 2008 and 1 January 2009					
Cost	1,075,235	3,325,702	128,669	26,226	4,555,832
Accumulated depreciation	(178,537)	(1,215,973)	(69,041)	(11,531)	(1,475,082)
Net book amount	896,698	2,109,729	59,628	14,695	3,080,750
Year ended 31 December 2009					
Opening net book amount	**896,698**	**2,109,729**	**59,628**	**14,695**	**3,080,750**
Exchange differences	**1,013**	**3,445**	**142**	**21**	**4,621**
Additions	**18,934**	**54,207**	**7,946**	**3,986**	**85,073**
Transfer from construction-in-progress (Note 15)	**309,470**	**379,238**	**13,883**	**–**	**702,591**
Depreciation for the year (Note 7)	**(59,873)**	**(243,317)**	**(13,774)**	**(4,057)**	**(321,021)**
Disposals	**(4,497)**	**(9,727)**	**(1,198)**	**(781)**	**(16,203)**
Closing net book amount	**1,161,745**	**2,293,575**	**66,627**	**13,864**	**3,535,811**
At 31 December 2009					
Cost	**1,398,930**	**3,731,304**	**141,220**	**25,752**	**5,297,206**
Accumulated depreciation	**(237,185)**	**(1,437,729)**	**(74,593)**	**(11,888)**	**(1,761,395)**
Net book amount	**1,161,745**	**2,293,575**	**66,627**	**13,864**	**3,535,811**

14. Property, plant and equipment – Group *(continued)*

Depreciation expenses have been charged to the profit and loss account as follows:

	2009 **HK$'000**	2008 HK$'000
Manufacturing overheads included under cost of goods sold	**266,546**	234,812
Distribution costs	**4,071**	3,793
Administrative expenses	**50,404**	39,978
	321,021	278,583

There is no pledge of property, plant and equipment of the Group as at 31 December 2009 and 2008.

15. Construction-in-progress – Group

	2009 **HK$'000**	2008 HK$'000
At 1 January	**813,329**	455,664
Exchange differences	**1,268**	30,212
Additions	**696,404**	939,999
Acquisition of subsidiaries (Note 37)	**–**	1,386
Transfer to property, plant and equipment (Note 14)	**(702,591)**	(613,932)
At 31 December	**808,410**	813,329

During the year ended 31 December 2009, finance costs capitalised in construction-in-progress amounted to HK$2,250,000 (2008: HK$13,000,000) (Note 8).

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For the year ended 31 December 2009

16. Leasehold land and land use rights – Group

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2009 HK$'000	2008 HK$'000
In Hong Kong, held on:		
Leases between 10 to 50 years	**4,730**	5,170
Outside Hong Kong, held on:		
Leases between 10 to 50 years	**392,811**	234,238
	397,541	239,408
At 1 January	**239,408**	143,172
Exchange differences	**408**	8,664
Additions	**169,268**	24,850
Acquisition of subsidiaries (Note 37)	**–**	69,188
Amortisation of prepaid operating lease payments (Note 7)	**(11,543)**	(6,466)
At 31 December	**397,541**	239,408

Amortisation has been charged to administrative expenses in the consolidated profit and loss account.

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17. Intangible assets – Group

	Goodwill HK$'000	Patents and trademarks HK$'000	Customer relationships HK$'000	Total HK$'000
At 1 January 2008				
Cost	452,030	5,355	–	457,385
Accumulated amortisation	–	(2,722)	–	(2,722)
Net book amount	452,030	2,633	–	454,663
Year ended 31 December 2008				
Opening net book amount	452,030	2,633	–	454,663
Exchange differences	–	156	–	156
Acquisition of subsidiaries (Note 37)	43,270	70,922	57,850	172,042
Amortisation charge (Note 7)	–	(517)	(48)	(565)
Closing net book amount	495,300	73,194	57,802	626,296
At 31 December 2008				
Cost	495,300	76,606	57,850	629,756
Accumulated amortisation	–	(3,412)	(48)	(3,460)
Net book amount	495,300	73,194	57,802	626,296
Year ended 31 December 2009				
Opening net book amount	**495,300**	**73,194**	**57,802**	**626,296**
Exchange differences	**–**	**4**	**–**	**4**
Amortisation charge (Note 7)	**–**	**(4,179)**	**(5,737)**	**(9,916)**
Closing net book amount	**495,300**	**69,019**	**52,065**	**616,384**
At 31 December 2009				
Cost	**495,300**	**76,616**	**57,850**	**629,766**
Accumulated amortisation	**–**	**(7,597)**	**(5,785)**	**(13,382)**
Net book amount	**495,300**	**69,019**	**52,065**	**616,384**

Amortisation has been charged to administrative expenses in the consolidated profit and loss account.

The Directors have performed an impairment review of the carrying amount of goodwill as at 31 December 2009 and have concluded that no provision for impairment is required. For the purposes of impairment testing, goodwill acquired has been allocated to the smallest individual of cash generating units identified by business segments, including goodwill on the tissue paper products segment of HK$452,030,000 and goodwill on the food and snack products segment of HK$43,270,000 as at 31 December 2009. The recoverable amount of each of the cash generating units is determined based on value-in-use calculations. The calculation uses cash flow projections based on financial estimates made by the Directors, with reference to the prevailing market conditions, covering a period of five years and assuming sales growth rate of 18% and gross profit margins ranging from 33.5% to 37.4%. The cash flows beyond the five-year period are extrapolated with reference to the production capacity of the cash generating units acquired. The cash flow projections are discounted at a pre-tax discount rate of 8% per annum.

Notes to the Consolidated Accounts

For the year ended 31 December 2009

18. Prepayments for non-current assets – Group

The balance represented prepayments for purchase of property, plant and equipment and land use rights.

19. Investments in subsidiaries – Company

	2009 HK$'000	2008 HK$'000
Unlisted shares, at cost	**527,004**	3,886,951
Due from subsidiaries	**4,896,807**	1,278,551
	5,423,811	5,165,502

The balances due from subsidiaries are unsecured, interest-free and not repayable within twelve months from the balance sheet date.

The particulars of the Company's principal subsidiaries are set out in Note 41 to the consolidated accounts.

20. Financial instruments by category

(a) Assets

	Group		Company	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Loans and receivables				
– Trade and other receivables, excluding prepayments	**984,578**	887,542	**73,461**	43,824
– Amount due from subsidiaries (Note 23)	**–**	–	**366,762**	498,299
– Restricted bank deposits (Note 25)	**11,364**	17,040	**–**	–
– Long-term bank deposits (Note 26)	**468,597**	–	**–**	–
– Cash and bank balances (Note 26)	**4,449,674**	1,610,552	**11,258**	132,387
	5,914,213	2,515,134	**451,481**	674,510
Financial assets at fair value through profit or loss				
– Derivative financial instruments (Note 24)	**13,938**	–	**–**	–
Total	**5,928,151**	2,515,134	**451,481**	674,510

20. Financial instruments by category *(continued)*

(b) Liabilities

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities at amortised costs				
– Trade and other payables, excluding advance receipts from customers	**1,056,211**	1,028,053	**63,267**	44,864
– Amount due to subsidiaries (Note 23)	**–**	–	**591,027**	42,437
– Bank borrowings (Note 31)	**2,730,200**	342,664	**775,000**	200,000
– Convertible bonds (Note 32)	**–**	1,465,247	**–**	1,465,247
Total	**3,786,411**	2,835,964	**1,429,294**	1,752,548

21. Inventories

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Finished goods	**892,739**	951,428	**8,227**	–
Work-in-progress	**29,960**	49,007	**–**	–
Raw materials	**1,147,936**	1,022,938	**–**	–
Spare parts and consumables	**103,870**	104,657	**–**	–
	2,174,505	2,128,030	**8,227**	–

The cost of inventories recognised as expenses and included in cost of goods sold amounted to HK$5,846,195,000 (2008: HK$4,772,844,000).

The Group recognised a loss of HK$7,153,000 (2008: HK$26,155,000) in respect of obsolete inventories for the year ended 31 December 2009. These amounts have been included in cost of goods sold in the consolidated profit and loss account (Note 7).

Notes to the Consolidated Accounts

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22. Trade and bills receivables

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**882,147**	780,951	**73,461**	43,824
Less: provision for impairment	**(11,378)**	(12,152)	**–**	–
	870,769	768,799	**73,461**	43,824
Bills receivable	**12,072**	11,103	**–**	–
	882,841	779,902	**73,461**	43,824

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:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 30 days	**485,286**	400,543	**73,461**	43,824
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	**73,461**	43,824

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers. As credit terms are short and most of the trade receivables are due for settlement within one year, the carrying value of the trade and bills receivables approximate their fair value at the balance sheet date.

The credit quality of the trade receivables that are neither past due nor impaired in the amount of HK$747,432,000 (2008: HK$637,866,000) could be assessed by reference to their payment history and current financial position. These receivables relate to a whole range of customers for whom there was no recent history of default. Management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are expected to be fully recoverable.

22. Trade and bills receivables *(continued)*

As at 31 December 2009, trade receivables of HK$135,409,000 (2008: HK$142,036,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
31 – 180 days	**130,848**	132,999	**–**	–
181 – 365 days	**797**	5,991	**–**	–
Over 365 days	**3,764**	3,046	**–**	–
	135,409	142,036	**–**	–

Trade receivables of HK$11,378,000 (2008: HK$12,152,000) were impaired and fully provided for.

Movements in the provision for impairment of trade receivables are as follows:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**12,152**	30,933	**–**	–
Exchange differences	**19**	1,730	**–**	–
Provision for impairment of trade receivables (Note 7)	**14**	11,266	**–**	–
Receivables written off during the year as uncollectible	**(807)**	(31,777)	**–**	–
As 31 December	**11,378**	12,152	**–**	–

The creation and release of provision for impaired receivables have been included in the profit and loss account (Note 7). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

The carrying amounts of the Group's trade and bills receivables are denominated in the following currencies:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi	**821,169**	751,137	**–**	–
Other currencies	**61,672**	28,765	**73,461**	43,824
	882,841	779,902	**73,461**	43,824

Notes to the Consolidated Accounts

For the year ended 31 December 2009

23. Amounts due from and to subsidiaries – Company

The amounts due from subsidiaries were unsecured, interest-free and repayable on demand. The amounts due to subsidiaries were unsecured, interest bearing at a rate of 0.66% (2008: 5.97%) per annum and not repayable within 12 months from the balance sheet date.

24. Derivative financial instruments

These represented the fair value of the non-deliverable forward foreign exchange contracts to sell Renminbi for United States dollar entered into with certain banks. These contracts are regarded as derivative financial instruments.

25. Restricted bank deposits – Group

Approximately HK$11,364,000 (2008: HK$17,040,000) of the bank balances is restricted to be drawn down until certain bills payables of the Group are settled.

26. Long-term bank deposits and cash and bank balances

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Long-term bank deposits				
Term deposits with initial term over one year	**468,597**	–	**–**	–
Cash and bank balances	**4,449,674**	1,610,552	**11,258**	132,387

The cash and bank balances represented cash deposits held at call with banks and in hand and deposits with short-term maturity. They are regarded as cash and cash equivalents.

The effective interest rate on bank deposit was approximately 1.19% (2008: 2.37%) per annum.

The carrying amounts of the long-term bank deposits and cash and bank balances were denominated in the following currencies:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Long-term bank deposits				
Renminbi	**468,597**	–	**–**	–
Cash and bank balances				
Renminbi	**3,718,427**	1,379,922	**–**	–
United States dollar	**628,469**	66,401	**5,867**	27,959
Hong Kong dollar	**102,708**	164,217	**5,391**	104,416
Others	**70**	12	**–**	12
	4,449,674	1,610,552	**11,258**	132,387

The Group's bank deposits and cash denominated in Renminbi and United States dollar are mainly deposited with banks in the PRC. The conversion of these Renminbi denominated balances into foreign currencies and the remittance of funds out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Notes to the Consolidated Accounts

For the year ended 31 December 2009

27. Share capital

	Authorised share capital Ordinary shares of HK$0.1 each Number of shares	HK$'000
At 31 December 2009 and 31 December 2008	3,000,000,000	300,000

	Issued and fully paid Ordinary shares of HK$0.1 each Number of shares	HK$'000
At 1 January 2008	1,141,624,908	114,162
Conversion of convertible bonds into ordinary shares (Note 32)	8,440,016	845
At 31 December 2008	1,150,064,924	115,007
Conversion of convertible bonds into ordinary shares (Note 32)	**69,248,797**	**6,924**
At 31 December 2009	**1,219,313,721**	**121,931**

28. Share-based compensation

The Company adopted a share option scheme in 2003. Pursuant to the scheme, 580,000 and 10,420,000 share options were granted to the Directors and selected employees in July 2007 respectively, while 100,000 and 2,793,000 share options were granted to selected employees in April 2008 and July 2009 respectively. The exercise prices of the options granted are equal to the market prices of the Company's shares on the grant dates. For the share options granted in 2007 and 2008, 50% of the options are exercisable from July 2010 onwards while the remaining 50% are exercisable from July 2011 onwards. For the share options granted in 2009, the options are exercisable from September 2012 onwards. The options granted will be cancelled if the Directors and employees leave the Group before the options are exercisable. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2009		2008	
	Average exercise price in HK$ per share	**Options (thousands)**	Average exercise price in HK$ per share	Options (thousands)
At 1 January	**25.06**	**10,464**	25.06	11,000
Granted	**44.30**	**2,793**	25.05	100
Forfeited	**25.05**	**(225)**	25.05	(636)
At 31 December	**29.19**	**13,032**	25.06	10,464

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For the year ended 31 December 2009

28. Share-based compensation *(continued)*

Share options outstanding (in thousands) at the end of the year will expire on 2 May 2013 and have the following exercise prices:

	Number of share options (thousands)	
Exercise price per share option	**2009**	2008
HK$25.30	**580**	580
HK$25.05	**9,659**	9,884
HK$44.30	**2,793**	–
	13,032	10,464

No share option was exercisable as at 31 December 2009 and 2008.

The weighted average fair value of options granted was determined using the Binomial Model. The significant inputs into the model were share prices at the grant dates, the exercise prices shown above and the followings:

	Share options granted in	
	2009	2007 and 2008
Volatility	**45%**	35%
Annual risk-free interest rate	**1.4%**	4.64%
Dividend yield	**2.3%**	2.5%
Fair value per option	**HK$13.322**	HK$7.105

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last two years.

The total amount of the fair value of share options granted to Directors and selected employees is expensed over the vesting period. The share-based compensation expense for the year ended 31 December 2009 amounted to HK$26,638,000 (2008: HK$22,698,000) (Note 13), and the remaining unamortised fair value of approximately HK$55,236,000 will be charged to the profit and loss account in the future years.

In accordance with the share option scheme approved by the shareholders of the Company on 2 May 2003, after taking into account the number of shares already granted, the Company may grant up to 99,531,200 share options within 10 years from May 2003.

29. Other reserves

Group

	Share premium account HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Convertible bonds-equity component reserve HK$'000	Statutory reserves HK$'000	Share-based compensation reserve HK$'000	Exchange reserve HK$'000	Total HK$'000
At 1 January 2008	2,527,425	517,705	1,807	20,712	294,703	10,737	496,980	3,870,069
Other comprehensive income:								
Translation of subsidiaries' accounts	–	–	–	–	–	–	346,674	346,674
Total comprehensive income	–	–	–	–	–	–	346,674	346,674
Appropriation to statutory reserves	–	–	–	–	99,580	–	–	99,580
Conversion of convertible bonds (Note 32)								
– equity component	2,250	–	–	(2,250)	–	–	–	–
– conversion into shares	160,275	–	–	–	–	–	–	160,275
Share-based compensation (Notes 13 and 28)	–	–	–	–	–	22,698	–	22,698
At 31 December 2008	2,689,950	517,705	1,807	18,462	394,283	33,435	843,654	4,499,296
At 1 January 2009	**2,689,950**	**517,705**	**1,807**	**18,462**	**394,283**	**33,435**	**843,654**	**4,499,296**
Other comprehensive income:								
Translation of subsidiaries' accounts	**–**	**–**	**–**	**–**	**–**	**–**	**6,679**	**6,679**
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**6,679**	**6,679**
Appropriation to statutory reserves	**–**	**–**	**–**	**–**	**133,257**	**–**	**–**	**133,257**
Transfer to retained earnings (Note (a))	**(1,200,000)**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,200,000)**
Conversion of convertible bonds (Note 32)								
– equity component	**18,462**	**–**	**–**	**(18,462)**	**–**	**–**	**–**	**–**
– conversion into shares	**1,482,026**	**–**	**–**	**–**	**–**	**–**	**–**	**1,482,026**
Share-based compensation (Notes 13 and 28)	**–**	**–**	**–**	**–**	**–**	**26,638**	**–**	**26,638**
Liquidation of subsidiaries	**–**	**–**	**–**	**–**	**(11,075)**	**–**	**–**	**(11,075)**
At 31 December 2009	**2,990,438**	**517,705**	**1,807**	**–**	**516,465**	**60,073**	**850,333**	**4,936,821**

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29. Other reserves *(continued)*

Company

	Share premium account HK$'000	Capital redemption reserve HK$'000	Convertible bonds-equity component HK$'000	Share-based compensation reserve HK$'000	Total HK$'000
At 1 January 2008	3,112,425	1,807	20,712	10,737	3,145,681
Convertible bonds (Note 32)					
– equity component	2,250	–	(2,250)	–	–
– conversion into shares	160,275	–	–	–	160,275
Share-based compensation (Notes 13 and 28)	–	–	–	22,698	22,698
At 31 December 2008	3,274,950	1,807	18,462	33,435	3,328,654
At 1 January 2009	**3,274,950**	**1,807**	**18,462**	**33,435**	**3,328,654**
Transfer to retained earnings (Note (a))	**(1,200,000)**	**–**	**–**	**–**	**(1,200,000)**
Conversion of convertible bonds (Note 32)					
– equity component	**18,462**	**–**	**(18,462)**	**–**	**–**
– conversion into shares	**1,482,026**	**–**	**–**	**–**	**1,482,026**
Share-based compensation (Notes 13 and 28)	**–**	**–**	**–**	**26,638**	**26,638**
At 31 December 2009	**3,575,438**	**1,807**	**–**	**60,073**	**3,637,318**

Notes:

(a) Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company. During the year ended 31 December 2009, HK$1,200,000,000 was transferred from share premium account to retained earnings.

(b) The capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares issued by the Company as consideration for share exchange on merger in previous years.

(c) Statutory reserves comprise statutory surplus reserve and statutory public welfare fund of the subsidiary companies in the PRC. The Company's subsidiaries incorporated in the PRC are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under the PRC accounting regulations and before distribution to equity holders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations in the PRC at rate of 10%, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries.

(d) Exchange reserve of the Group represents the difference arising from the translation of the accounts of companies within the Group that have a functional currency different from Hong Kong dollar, the presentation currency of the accounts of the Company and the Group.

30. Retained earnings

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**1,869,754**	1,359,992	**642,524**	428,426
2008/2007 final dividends paid	**(486,095)**	(365,714)	**(486,095)**	(365,714)
2009/2008 interim dividends paid	**(609,657)**	(365,858)	**(609,657)**	(365,858)
Profit/(loss) for the year	**2,117,509**	1,340,914	**(52,877)**	945,670
Appropriation to statutory reserves	**(133,257)**	(99,580)	**–**	–
Transfer from share premium account	**1,200,000**	–	**1,200,000**	–
At 31 December	**3,958,254**	1,869,754	**693,895**	642,524

Subsequent to 31 December 2009, the Board approved to transfer HK$2,000,000,000 from other reserves – share premium account to retained earnings of the Company.

31. Bank borrowings

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current				
Long-term bank loans – unsecured	**555,031**	45,840	**–**	–
Current				
Trust receipt bank loans	**6,375**	1,688	**–**	–
Current portion of long-term bank loans – unsecured	**59,742**	95,136	**–**	–
Short-term bank loans – unsecured	**2,109,052**	200,000	**775,000**	200,000
	2,175,169	296,824	**775,000**	200,000
Total bank borrowings	**2,730,200**	342,664	**775,000**	200,000

As at 31 December 2009, the effective interest rate of the Group's borrowings was approximately 1.92% (2008: 4.52%) per annum.

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For the year ended 31 December 2009

31. Bank borrowings *(continued)*

The carrying amounts of the bank borrowings were denominated in the following currencies:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollar	**2,205,941**	321,201	**775,000**	200,000
United States dollar	**512,336**	–	**–**	–
Renminbi	**11,923**	21,463	**–**	–
	2,730,200	342,664	**775,000**	200,000

At 31 December 2009, the Group's long-term bank loans were repayable as follows:

	Group	
	2009	2008
	HK$'000	HK$'000
Within 1 year	**59,742**	95,136
Between 1 and 2 years	**495,031**	45,840
Between 3 and 5 years	**60,000**	–
Wholly repayable within 5 years	**614,773**	140,976

As all the bank borrowings were at floating interest rates, the carrying amounts of the borrowings approximated their fair values as at the balance sheet dates.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates were as follows:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
6 months or less	**464,810**	244,837	**775,000**	200,000
7 to 12 months	**1,710,359**	51,987	**–**	–
1 to 5 years	**555,031**	45,840	**–**	–
	2,730,200	342,664	**775,000**	200,000

32. Convertible bonds

During the year ended 31 December 2009, all the remaining balances of the convertible bonds of the Group were fully converted into ordinary shares of the Company or redeemed. The convertible bonds amounting to HKD1,488,950,000, comprising the face value of approximately HK$1,321,960,000 together with the interest accrued thereon, were converted into 69,248,797 (2008: 8,440,016) ordinary shares of the Company at a conversion price of HK$19.09 per share. The remaining convertible bonds which had not been converted into ordinary shares of the Company amounting to HK$575,000, comprising face values of approximately HK$500,000 together with the interest accrued thereon, were redeemed by the Company in cash.

During the year ended 31 December 2009, the interest expenses incurred at an effective interest rate of approximately 5.51% per annum before the conversion and redemption of the convertible bonds amounted to approximately HK$24,279,000 (2008: HK$63,534,000) (Note 8).

33. Deferred income tax – Group

	2009 **HK$'000**	2008 HK$'000
Deferred income tax assets		
– Deferred tax asset to be recovered after more than 12 months	**–**	–
– Deferred tax asset to be recovered within 12 months	**89,395**	68,269
	89,395	68,269
Deferred income tax liabilities		
– Deferred tax liability to be recovered after more than 12 months	**49,808**	53,350
– Deferred tax liability to be recovered within 12 months	**65,668**	3,542
	115,476	56,892

The movements in the deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax assets:

	Unrealised profit in inventories	
	2009 **HK$'000**	2008 HK$'000
At 1 January	**68,269**	45,216
Exchange differences	**405**	3,181
Acquisition of subsidiaries (Note 37)	**–**	6,692
Credited to profit and loss account (Note 9)	**20,721**	13,180
At 31 December	**89,395**	68,269

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33. Deferred income tax – Group *(continued)*

Deferred income tax liabilities:

	Withholding tax on unremitted earnings in PRC subsidiaries		Fair value adjustments on intangible assets recognised upon acquisition of intangible assets		Total	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**–**	–	**56,892**	–	**56,892**	–
Acquisition of subsidiaries (Note 37)	**–**	–	**–**	56,892	**–**	56,892
Charged/(credited) to profit and loss account (Note 9)	**62,126**	–	**(3,542)**	–	**58,584**	–
At 31 December	**62,126**	–	**53,350**	56,892	**115,476**	56,892

Deferred income tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred tax assets of HK$778,000 (2008: HK$3,708,000) in respect of losses amounted to HK$3,115,000 (2008: HK$16,449,000) that can be carried forward against future taxable income. The unrecognised tax losses will expire up to 2014.

34. Trade payables

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**875,608**	898,159	**58,055**	41,379

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

34. Trade payables *(continued)*

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

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 30 days	**553,524**	389,415	**23,964**	4,835
31 – 180 days	**306,432**	490,294	**34,091**	36,544
181 – 365 days	**10,585**	10,834	**–**	–
Over 365 days	**5,067**	7,616	**–**	–
	875,608	898,159	**58,055**	41,379

The carrying amounts of the trade payables were denominated in the following currencies:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi	**599,240**	537,409	**–**	–
United States dollar	**271,827**	360,354	**53,139**	38,407
Other currencies	**4,541**	396	**4,916**	2,972
	875,608	898,159	**58,055**	41,379

35. Bills payable

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

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For the year ended 31 December 2009

36. Notes to the consolidated cash flow statement

(a) Cash inflow generated from operations

	2009 HK$'000	2008 HK$'000
Profit before income tax	**2,582,729**	1,510,688
Depreciation of property, plant and equipment (Note 14)	**321,021**	278,583
Amortisation of leasehold land and land use rights (Note 16)	**11,543**	6,466
Amortisation of intangible assets (Note 17)	**9,916**	565
Unrealised fair value gain on derivative financial instruments (Note 6)	**(13,938)**	–
Loss on disposal/write-off of property, plant and equipment (Note 6)	**6,028**	4,512
Liquidation of subsidiaries	**(11,075)**	–
Share-based compensation expenses (Note 28)	**26,638**	22,698
Amortisation of deferred income on government grants (Note 6)	**(2,649)**	(4,629)
Finance income	**(45,128)**	(46,494)
Finance costs	**62,950**	66,878
Operating profit before working capital changes	**2,948,035**	1,839,267
Increase in inventories	**(43,505)**	(591,479)
Increase/(decrease) in trade and bills receivables, other receivables, prepayments and deposits	**(153,790)**	120,129
Increase in trade payables, other payables and accrued charges	**59,838**	123,079
Cash inflow generated from operations	**2,810,578**	1,490,996

(b) Proceeds from disposal of property, plant and equipment

	2009 HK$'000	2008 HK$'000
Net book value (Note 14)	**16,203**	26,423
Loss on disposal/write-off of property, plant and equipment (Note 6)	**(6,028)**	(4,512)
Proceeds from disposal of property, plant and equipment	**10,175**	21,911

37. Business combination – acquisition of subsidiaries

On 28 November 2008, the Group completed the acquisition of 51% equity interest of QinQin, a leading and reputable confectionery manufacturer in the PRC, at a cash consideration of RMB228,798,633 (approximately HK$260,000,000). QinQin's operations are mainly carried out in its subsidiaries in the PRC.

The acquired business contributed revenue and net profit of HK$63,084,000 and HK$2,241,000 respectively to the Group for the period from 28 November 2008 to 31 December 2008. If the acquisition had occurred on 1 January 2008, revenue and net profit of the Group for the year ended 31 December 2008 would have been approximately HK$8,782,096,000 and HK$1,385,571,000 respectively. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the acquired subsidiaries to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments on the relevant assets had been applied from 1 January 2008, together with the consequential tax effects.

QinQin's assets and liabilities as at the date of acquisition of 28 November 2008 were as follows:

	Carrying amount HK$'000	Fair value HK$'000
Property, plant and equipment (Note 14)	163,757	205,389
Construction-in-progress (Note 15)	1,386	1,386
Leasehold land and land use rights (Note 16)	11,881	69,188
Intangible assets (Note 17)	142	128,772
Prepayment for non-current assets	15,244	15,244
Inventories	121,942	121,942
Finance lease receivables	21,423	21,423
Cash and bank balances	36,360	36,360
Trade and bills receivables, other receivable, prepayment and deposits	63,833	63,833
Trade and bills payables, other payables and accrued charges	(165,088)	(165,088)
Long-term bank loans – unsecured	(21,429)	(21,429)
Taxation payable	(1,859)	(1,859)
Deferred income tax assets/(liabilities) (Note 33)	6,692	(50,200)
Carrying value/fair value of net assets	254,284	424,961
Minority interests (49%)		(208,231)
Fair value of net assets attributable to the Group		216,730
Goodwill (Note 17)		43,270
Total purchase consideration		260,000
Cash and cash equivalents acquired		(36,360)
Cash outflow on acquisition		223,640

These was no business combination for the year ended 31 December 2009.

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38. Contingent liabilities

At 31 December 2009, the Group had no material contingent liabilities (2008: Nil).

At 31 December 2009, the Company provided financial guarantees from bank loans of its subsidiaries amounting to HK$1,062,000,000 (2008: HK$457,000,000).

39. Commitments

At 31 December 2009, the Group had the following commitments:

(a) Capital commitments

	Group	
	2009	2008
	HK$'000	HK$'000
Contracted but not provided for in respect of:		
Plant, machinery and equipment	**355,767**	506,298
Land and buildings	**68,042**	71,995
	423,809	578,293
Authorised but not contracted for in respect of:		
Land and buildings	**851,771**	843,633

(b) Commitments under operating leases

At 31 December 2009, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings	
	2009	2008
	HK$'000	HK$'000
Not later than 1 year	**20,149**	15,861
Later than 1 year and not later than 5 years	**4,826**	5,415
Later than 5 year	**12**	19
	24,987	21,295

The Company did not have commitment as at 31 December 2009 and 2008.

40. Significant related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

Save as disclosed in Notes 13, 19 and 23 above, the Group had the following significant related party transactions during the year ended 31 December 2009:

	2009 HK$'000	2008 HK$'000
(a) Purchases from Weifang Power (Note)		
– electricity energy	**76,195**	75,627
– heat energy	**57,949**	31,438
(b) Key management compensation		
Basic salaries, housing allowances, other allowances and benefits-in-kind	**8,318**	7,695
Share-based compensation	**2,041**	2,015
Contributions to pension schemes	**53**	55
	10,412	9,765

Note: Pursuant to agreements between a wholly-owned subsidiary of the Company and Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power"), an electricity company, the Group purchased electricity energy and heat energy from Weifang Power at prices lower than the prevailing market prices. Weifang Power is beneficially owned by the sons of Mr. Sze Man Bok and Mr. Hui Lin Chit, the Executive Directors and substantial shareholders of the Company.

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For the year ended 31 December 2009

41. Subsidiaries

The following is a list of the principal subsidiaries of the Company at 31 December 2009 which, in the opinion of the Directors, are significant to the results of the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2009 %
Direct subsidiaries:				
Hengan Mega Jumbo Investment Ltd.	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share of HK$1 each	100
Ever Town Investments Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100
Hengan International Holdings Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100
Hengan (China) Investment Co., Ltd.	PRC, wholly foreign-owned enterprise	Investment holding in the PRC, trading and procurement in the PRC	RMB800,000,000	100
Indirect subsidiaries:				
Hengan Industrial (Hong Kong) Limited	Hong Kong, limited liability company	Trading and procurement in Hong Kong	2 ordinary shares of HK$1 each	100
Hengan Pharmacare Company Limited	Hong Kong, limited liability company	Trading, procurement and distribution of hygiene products in Hong Kong	10,000 ordinary shares of HK$1 each	70
Fujian Hengan Holding Xiamen Business Trade Co., Ltd	PRC, sino-foreign equity joint venture	Trading in the PRC	RMB100,000,000	100
Fujian Hengan Holding Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB511,407,600	99.02
Guangzhou Xingshi Professional Equipments Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene equipments in the PRC	US$18,000,000	100

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41. Subsidiaries *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2009 %
Indirect subsidiaries: *(continued)*				
Hengan (Jinjiang) Household Products Co., Ltd	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$15,800,000	100
Hengan (Jiangxi) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	HK$6,958,000	100
Hengan (Shaanxi) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB3,980,000	100
Hengan (Sichuan) Hygiene Products Co. Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$1,380,000	100
Hengan (Tianjin) Hygiene Supplies Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$3,000,000	100
Hengan (Weifang) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$3,410,000	100
Fujian Hengan Hygiene Material Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing of personal hygiene materials in the PRC	US$40,000,000	100
Jinjiang Hengan Antimicrobial Science and Technology Development Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB11,100,000	90.1
Hengan (Sichuan) Household Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$3,000,000	100

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41. Subsidiaries *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2009 %
Indirect subsidiaries: *(continued)*				
Hengan (Weifang) Household Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	HK$10,000,000	100
Hengan (Xiaogan) Family Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	HK$10,000,000	100
Hengan (Sichuan) Household Products Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$12,000,000	100
Hengan (Fushun) Household Products Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB24,000,000	100
Hengan (Hubei) Household Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB33,600,000	100
Hengan (Jiangxi) Household Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	HK$20,000,000	100
Hengan (Shangyu) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$5,000,000	100
Hengan (Hefeii) Living Co., Ltd.	PRC, sino-foreign foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB114,300,000	100
Hunan Hengan Paper Co., Ltd	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$39,980,000	100

41. Subsidiaries *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2009 %
Indirect subsidiaries: *(continued)*				
Hengan (Chongqing) Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	HK$2,500,000	100
Hengan (China) Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$68,880,000	100
Hengan (China) Hygiene Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$12,000,000	100
Hengan Zhejiang Paper Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$30,000,000	100
Hengan (Tianjin) Paper Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB80,900,000	100
Hengan Guangxi Paper Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$161,400,000	100
Hengan (Hubei) Hearttex Paper Products Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB32,000,000	100
Hengan (Hunan) Tissue Paper Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB79,000,000	100
Hunan Hengan Living Paper Products Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB197,500,000	100

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41. Subsidiaries *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2009 %
Indirect subsidiaries: *(continued)*				
Hengan (Chongqi) Living Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB250,000,000	100
Hengan (Shaanxi) Paper Products Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$9,980,000	100
Jinjiang Hengan Hearttex Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$12,000,000	100
Jinjiang Hengan Household Tissue Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$12,000,000	100
Shandong Hengan Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$49,800,000	100
Shandong Hengan Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$35,880,000	100
Chongqing Hengan Hearttex Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$6,000,000	100
Fushun Hengan Hearttex Paper Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$3,000,000	100
Fushun Hengan Tissue Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$3,000,000	100

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41. Subsidiaries *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2009 %
Indirect subsidiaries: *(continued)*				
Hengan Li Ren Tang (Jian) Cosmetics Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB32,000,000	70
QinQin Foodstuffs Group Company Limited	British Virgin Islands limited liability company	Investment holding in Hong Kong	135,946,900 Ordinary shares of HK$0.001 each	51
QinQin Foodstuffs Group (Hong Kong) Limited	Hong Kong limited liability	Investment holding in Hong Kong	1 ordinary share of HK$1 each	51
Fushun Nanfang Food Industry Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB10,000,000	51
Fushun QinQin Food Industry Development Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB22,000,000	51
Luohe Linying QinQin Food Industry Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB10,000,000	51
Qin Qin Incorporated Co., Ltd. (Fujian)	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB70,000,000	51
Quanzhou QinQin Foodstuff Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of snack foods in the PRC	RMB130,000,000	51
Taian QinQin Food Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB5,000,000	51

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41. Subsidiaries *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2009 %
Indirect subsidiaries: *(continued)*				
Xianto QinQin Food Industry Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB10,000,000	51
Xianyang Qin Qin Foods Stuff Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of snack foods in the PRC	RMB5,000,000	51

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2009.