



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1044



2020

ANNUAL REPORT



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 high 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*)
Hung Ching Shan
Hui Ching Lau
Xu Shui Shen
Xu Da Zuo
Xu Chun Man
Sze Wong Kim
Hui Ching Chi
Li Wai Leung

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Henry
Ada Ying Kay Wong
Ho Kwai Ching Mark
Zhou Fang Sheng
Theil Paul Marin

COMPANY SECRETARY

Li Wai Leung *FCPA*

AUTHORISED REPRESENTATIVES

Hui Lin Chit
Li Wai Leung

LEGAL ADVISERS

Hong Kong
ReedSmith Richards Butler

PRC
Global Law Office

Cayman Islands
Maples and Calder (Hong Kong) LLP

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
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

Bank of China
Industrial and Commercial Bank of China
Standard Chartered Bank

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3
Building D, P.O. Box 1586
Gardenia Court, Camana Bay
Grand Cayman, KY1-1100
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

INVESTORS AND MEDIA RELATIONS

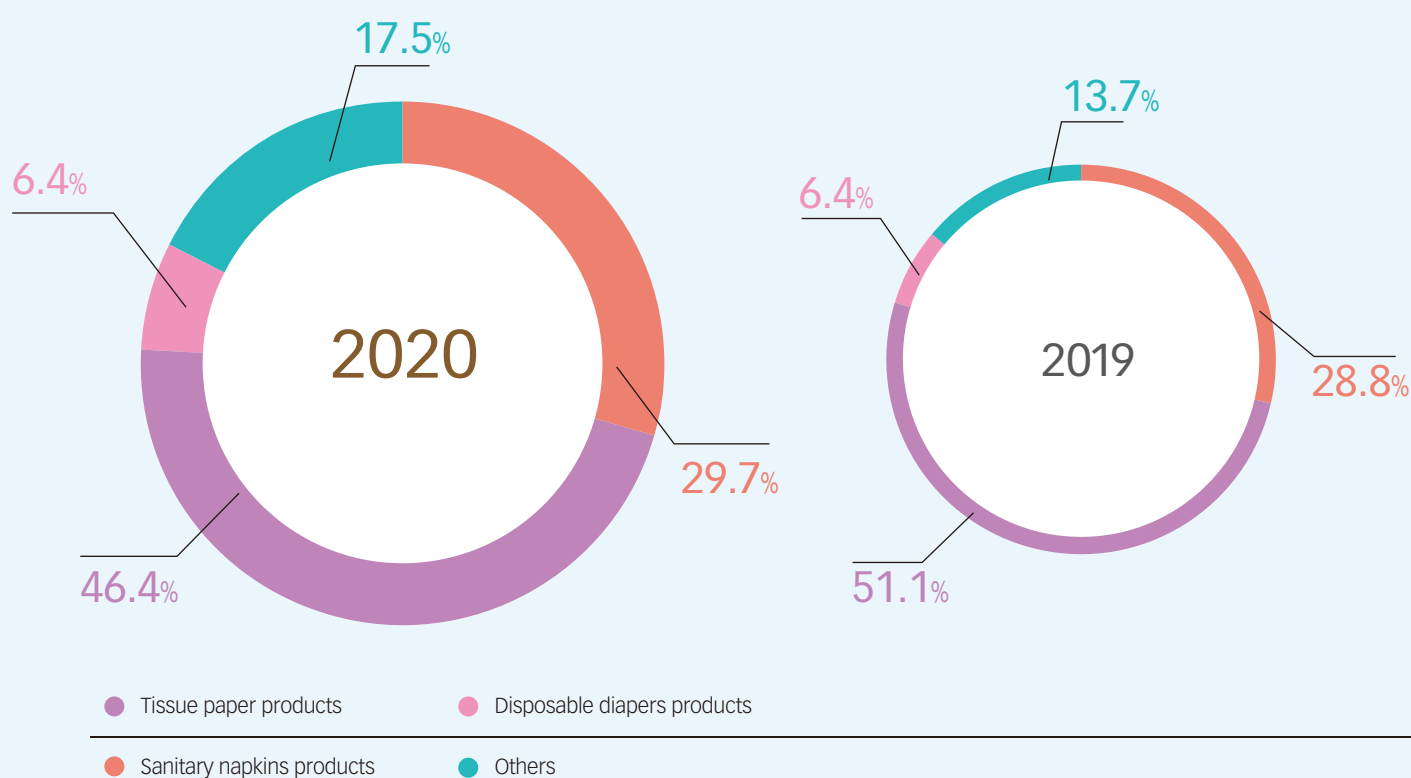
iPR Ogilvy Ltd.
40th Floor
China Online Centre
333 Lockhart Road, Wan Chai
Hong Kong

FINANCIAL HIGHLIGHTS

	2020	2019	2018	2017 (Restated)	2016
Net profit margin — based on profit attributable to shareholders of the Company (%) (Note)	20.5	17.4	18.5	21.0	18.0
Earnings per share — basic (RMB)	3.864	3.285	3.151	3.149	2.864
Finished goods turnover (days)	49	43	41	46	46
Trade receivables turnover (days) (Note)	57	53	46	51	47
Current ratio (times)	1.4	1.3	1.3	1.3	1.4
Gross gearing ratio (%)	107.3	120.9	145.1	118.5	108.1
Net gearing ratio (%)	(16.1)	(7.6)	(9.9)	(11.5)	(4.9)

Note: The financial highlights since the year ended 31 December 2018 were presented according to Hong Kong Financial Reporting Standard 15 and comparatives for the year ended 31 December 2017 have been restated accordingly. The financial highlights prior to 2017 have not been restated.

ANALYSIS OF REVENUE BY PRODUCT



FIVE-YEAR FINANCIAL SUMMARY

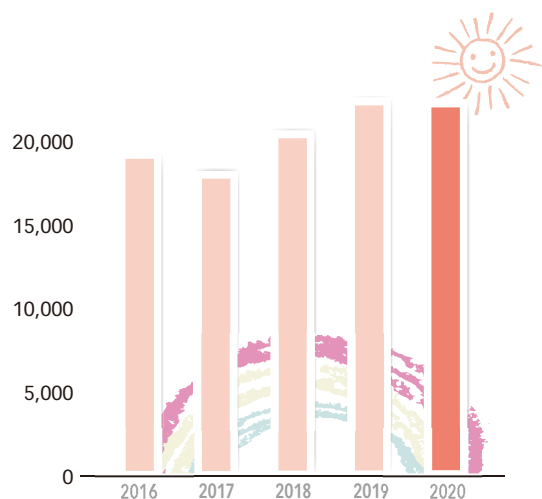
CONSOLIDATED RESULTS — FOR THE YEAR ENDED 31 DECEMBER

	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000 (Restated)	2016 RMB'000
Revenue (Note)	22,374,001	22,492,845	20,513,881	18,079,560	19,277,397
Profit before income tax	5,961,422	5,046,887	4,904,394	4,960,598	4,559,011
Income tax expense	(1,352,980)	(1,129,784)	(1,097,261)	(1,159,142)	(1,079,445)
Profit for the year from continuing operations	4,608,442	3,917,103	3,807,133	3,801,456	3,479,566
Profit for the year from discontinued operations	—	—	—	—	281,896
Profit for the year	4,608,442	3,917,103	3,807,133	3,801,456	3,761,462
Non-controlling interests	(13,627)	(9,380)	(7,328)	(7,415)	(164,641)
Profit attributable to shareholders of the Company	4,594,815	3,907,723	3,799,805	3,794,041	3,596,821
Earnings per share - basic (RMB)	3.864	3.285	3.151	3.149	2.864

Note: The financial highlights since the year ended 31 December 2018 were presented according to Hong Kong Financial Reporting Standard 15 and comparatives for the year ended 31 December 2017 have been restated accordingly. The financial highlights prior to 2017 have not been restated.

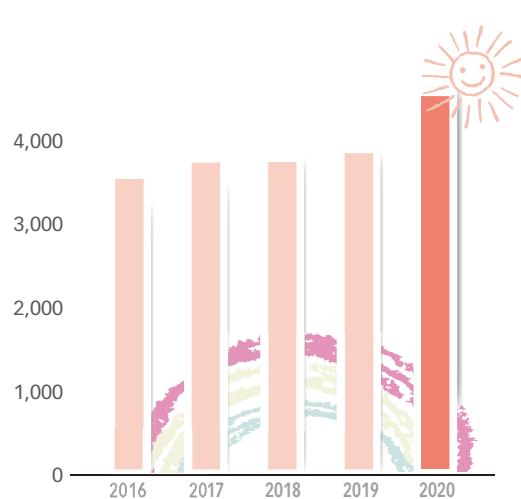
REVENUE

RMB million



PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

RMB million

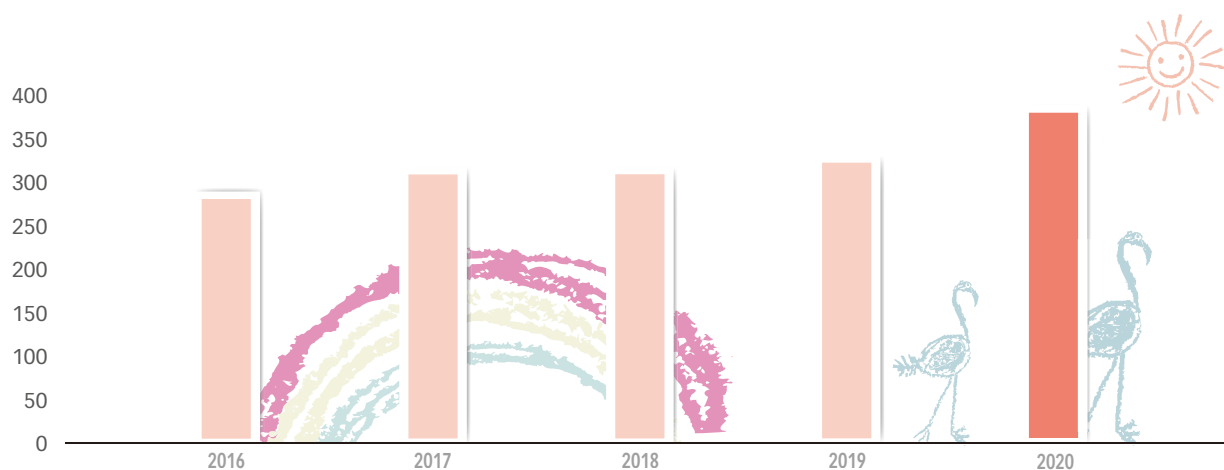


CONSOLIDATED ASSETS AND LIABILITIES — AS AT 31 DECEMBER

	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Assets					
Property, plant and equipment	7,571,430	7,822,457	8,095,356	8,044,858	7,344,807
Right-of-use assets	970,171	988,245	—	—	—
Construction-in-progress	489,052	543,534	580,790	878,088	1,094,145
Investment properties	213,609	226,233	225,036	216,753	194,848
Land use rights	—	—	844,532	773,327	751,308
Intangible assets	755,444	724,620	686,558	503,246	498,510
Prepayments for non-current assets	327,989	120,293	124,187	141,132	163,281
Deferred income tax assets	435,853	213,211	132,344	172,244	210,813
Investment in associates	97,188	101,670	101,670	—	—
Financial assets at fair value through profit or loss	156,593	—	—	—	—
Cash and bank balances	20,483,739	20,540,270	21,576,830	18,429,716	14,874,877
Long-term bank deposits	3,482,147	2,430,082	4,338,000	2,499,738	1,760,000
Other current assets	9,457,710	9,528,160	8,946,849	7,238,938	7,252,139
Total assets	44,440,925	43,238,775	45,652,152	38,898,040	34,144,728
Liabilities					
Long-term borrowings	2,492,618	1,246,992	4,240,286	3,247,233	3,524,687
Convertible bonds	—	—	—	455,537	472,719
Deferred income tax liabilities	216,222	171,467	160,170	120,007	106,452
Other current and non-current liabilities	22,070,611	23,668,438	24,253,017	18,730,962	15,280,014
Total liabilities	24,779,451	25,086,897	28,653,473	22,553,739	19,383,872
Non-controlling interest	250,084	278,937	273,519	237,883	34,065
Net assets attributable to shareholders of the Company	19,411,390	17,872,941	16,725,160	16,106,418	14,726,791

EARNINGS PER SHARE

RMB Cents





"HEARTTEX", "H'YEAS" AND "HOMELINE" GARBAGE AND FOOD BAGS, PRESERVATION PAPER, TABLE CLOTH AND SWABBER



"HEARTTEX" CLEANSING PRODUCTS AND "MISSMAY" PERSONAL CARE PRODUCTS



"BANITORE" FIRST-AID PRODUCTS AND "BENDI" ENEMA



"ANERLE" AND "Q•MO" BABY DIAPERS



"HEARTTEX", "PINO" AND "BAMBOO π" POCKET HANDKERCHIEFS, BOX AND SOFT TISSUE PAPER, KITCHEN TOWELS/PAPER AND TOILET ROLLS



"SPACE 7", "七度空間", "XIAOHAISEN" AND "ANERLE"
SANITARY NAPKINS, PANTLINERS, OVERNIGHT PANTS



"HEARTTEX" WET TISSUES AND "JUNICHI"
MATERNAL AND CHILD CARE PRODUCTS



"ELDERJOY" AND "BANITORE" ADULT CARE PRODUCTS

CHAIRMAN'S STATEMENT



Dear **Shareholders**,

On behalf of Hengan International Group Company Limited ("Hengan International" or the "Group"), I present its annual results for the year ended 31 December 2020. During the year under review, the coronavirus epidemic brought the global economy and people's livelihoods into a phase of "new normal", the operations of the personal and household hygiene product industry must also be deployed in accordance with the development of the epidemic. Fortunately, thanks to the Group's product upgrade and optimisation strategies, as well as the evolution of its operation and management models over the years, after the challenges in the first quarter, the Group quickly seized the overall economic recovery in the second quarter and the high demand for hygiene products to offset the impact of the first quarter effectively and restored normal operations in the second half of the year. During the year, the Group stayed committed to its mission of "Growing with You for a Better Life" and started the production and sales of surgical masks at the end of February to provide domestic consumers with high-quality and reliable surgical masks products. After the epidemic stabilised in China, the Group exported surgical masks to Europe to support locals to fight the epidemic.

Sze Man Bok

Chairman

For the year ended 31 December 2020, the Group's revenue amounted to approximately RMB22,374,001,000 (2019: RMB22,492,845,000), similar to that of last year. Profit attributable to the shareholders of the Company significantly increased to approximately RMB4,594,815,000 (2019: RMB3,907,723,000). Basic earnings per share were approximately RMB3.864 (2019: RMB3.285). The Board of Directors recommended the payment of a final dividend of RMB1.30 per share (2019: RMB1.25), which together with the interim dividend of RMB1.20 per share (2019: RMB1.00), bringing the annual dividend to RMB2.50 per share (2019: RMB2.25).

Although the epidemic has rapidly drove up demand for personal and household hygiene products in a short period of time and the demand will continue for a while, the Group believes that in a market environment where personal and household hygiene products have become more prevalent, product upgrade is the key to fuel the long-term growth momentum of the overall market, which has also been proven by the Group's sales performance and profitability of respective business segments. Since the Group completed channel reform and successfully unified sales strategies of various sales terminals, the high-margin premium sanitary napkin series, "Space 7" has had a significant positive impact on the Group's profitability. The premium tissue paper series of "Cloudy Soft Skin" (雲感柔膚), which was officially launched in 2020, is expected to gradually gain momentum in 2021, together with the Group's star product "Super Mini" series, rendering support to the sales and profit growth of the tissue paper segment.

In addition to improving consumer experience with high-quality raw materials and meticulous craftsmanship, the Group also enhanced the added value of its products through unique packaging, such as Space 7's "National Heritage" (國風) series with Chinese characteristics, Hearttex's "Red Happiness" (紅悅) series, and a variety of co-branded series, namely "Minions" (小黃人) series and "Little Duck Liu" (小劉鴨) series were well-received by consumers. The Group will continue to keep abreast of the trend, repackage existing products and incorporate trendy elements to its hygiene products.

The normalisation of epidemic prevention and control has made online shopping synonymous with everyday shopping. The gradual prevalence of online shopping, coupled with the continuous optimisation of domestic online shopping platform systems and logistics facilities will greatly enhance convenience for online shoppers, which is conducive to the expansion of the overall e-commerce market. The Group has always been actively optimising its e-commerce channels, including clearly defining the positioning of online and offline channels, launching online exclusive products or sets, unifying the sales strategy of the e-commerce platform, participating in e-commerce shopping festivals from time to time to increase the Group's market share on e-commerce channels and making optimal use of live-streaming sales and other mode of sales to attract young consumers. In addition, new retail channels (including community group-buying) and online and offline (O2O) sales have gained increasing popularity in recent years. During the year, the Group allocated more resources and devoted more efforts to these channels, thus laying a foundation for the rapid development of these channels in the future. In 2020, the Group and Alibaba signed a strategic

partnership agreement to jointly build a data centralisation platform of Hengan and establish the brand's ability to directly communicate with end customers in the aspect of business and data through the empowerment of digital intelligence technology. The Group aims to boost e-commerce and new retail channel sales of sanitary napkins, tissue papers and disposable diapers to the industry average in the near future.

Looking ahead to 2021, there are still lots of uncertainties in the development of the global epidemic and the effectiveness of vaccines. It is believed that the epidemic will continue to play a pivotal role in the development of global economy and people's livelihoods and continue to drive robust consumer demand for personal and household hygiene products. Moreover, the steady pace of the economic growth in China in recent years will basically remain unchanged, supporting the people's continuous pursuit of a better life. Personal and household hygiene products are more than necessities, it is important to meet customer needs in terms of user experience and product appearance. Therefore, daily necessities and essential goods are also developing in the direction towards product refinement and upgrades. With the complementary demands of both "quality" and "quantity", the industry as a whole still has immense development potential. The Group believes that catering to the diverse needs of consumers is the long-term key to the growth of the industry. Therefore, the Group will continue to operate with the amoeba team to quickly respond to market needs, understand consumer needs and uphold the consumer-oriented principle to make flexible changes to its products, channels and sales strategies; research and develop premium products and upgrade its existing products, using high-quality raw materials and great user experience as selling points to increase the

market share in high-consumption groups. At the same time, the Group will continue to attract young consumers with new packaging that is in line with sought-after trends. Facing the growing domestic pursuit of and demand for the elderly healthcare, the Group will continue to explore diversified and sustainable channels namely nursing homes and steadily develop the adult and elderly care industry, with an aim to cover the needs of consumers of various age groups across the country for personal and household hygiene products, maintaining the Group's industry leadership position. In the future, the Group will continue to uphold its mission of "Growing with You for a Better Life", provide consumers with high-quality products, forge ahead with industrial expansion as the long-term development target, actively expand industries with high growth potential namely feminine care, infant child care, elderly care and epidemic prevention medical care, promote international development of Hengan's brand, thereby enabling more exchanges between domestic and overseas industries and benefiting domestic and overseas consumers in the long run.

Lastly, I would like to take this opportunity to express my gratitude to every member of staff, regardless of their positions for their efforts and significant contributions to coordinate national epidemic prevention and control work with the Group in this challenging year. At the same time, I would like to thank business partners for their support and shareholders for their long-term support and trust, growing with the Group for a better life. All members of Hengan International's staff will continue to remain fully committed to leading the Group to a more prosperous future and creating outstanding and sustainable return for all shareholders.



REVENUE BY REGIONS IN THE PRC



	2020	2019
NORTH-WESTERN		
Sales Value: (RMB million)	852	872
Percentage of Total Sales:	3.8%	3.9%

NORTHERN		
Sales Value: (RMB million)	1,050	1,078
Percentage of Total Sales:	4.7%	4.8%

NORTH-EASTERN		
Sales Value: (RMB million)	690	705
Percentage of Total Sales:	3.1%	3.1%

SHANDONG AND HENAN		
Sales Value: (RMB million)	1,722	1,840
Percentage of Total Sales:	7.7%	8.2%

Sze Man Bok
Chairman

Hong Kong, 19 March 2021

	2020	2019
EASTERN		
Sales Value: (RMB million)	3,182	3,022
Percentage of Total Sales:	14.2%	13.4%

FUJIAN AND JIANGXI		
Sales Value: (RMB million)	6,774	6,662
Percentage of Total Sales:	30.3%	29.6%

SOUTH-WESTERN		
Sales Value: (RMB million)	1,787	1,958
Percentage of Total Sales:	8.0%	8.7%

GUANGDONG, GUANGXI, HUNAN AND HUBEI		
Sales Value: (RMB million)	3,311	3,671
Percentage of Total Sales:	14.8%	16.3%

HONG KONG AND MACAU		
Sales Value: (RMB million)	2,263	2,126
Percentage of Total Sales:	10.1%	9.5%

CHIEF EXECUTIVE OFFICER'S REPORT

BUSINESS REVIEW

In 2020, the outbreak of coronavirus (COVID-19) epidemic raged across the globe and has made a great impact on the global economy. In the first quarter, China recorded its first negative growth on its gross domestic product ("GDP"). However, as the epidemic was gradually brought under control in Mainland China, China's economy has recovered steadily, the economic growth in the second quarter turned from negative to positive, and GDP in the fourth quarter increased 6.5% year-on-year, GDP in 2020 increased 2.3% year-on-year, exceeded RMB100.0 trillion and GDP per capita exceeded USD10,000. China is expected to be the only major economy in the world to achieve positive economic growth. In 2020, total retail sales of consumer goods fell 3.9% year-on-year, but retail sales from the daily necessities category increased by 7.5% year-on-year, indicating that the daily necessities category saw stronger growth than the overall economy.

National health awareness heightened significantly and demand for personal and household hygiene products was strong. The Group's sales in the first quarter were dampened due to the inevitable impacts on logistics and resumption of work, and amidst the market recovery in the second half of the year, the Group stepped up its efforts in developing e-commerce and new retail channels, resulting in a substantial increase in the expenses of marketing and promotion, all of which put pressure on sales during the year. However, thanks to Hengan's well-known brand quality assurance, agile "small sales team" and the Group's effort to maintain production and supply levels to the greatest possible extent, the negative impacts were effectively mitigated. For the year ended 31 December 2020, the Group's revenue was approximately RMB22,374,001,000 (2019: RMB22,492,845,000), similar to that in 2019.

During the year under review, wood pulp prices remained at a low level, which supported the substantial increase in the gross profit of the Group's tissue paper business. Revenue of the high-margin sanitary napkin business improved remarkably thanks to the effective reformed sales channel, its sales contribution increased to approximately close to 30.0% of total sales (2019: 28.8%). Moreover, the market penetration rate of the newly launched premium sanitary napkin series, "Space 7" surged rapidly during the year, which drove the sales of the sanitary napkin business and further fuelled growth to the overall gross profit and gross profit margin of the Group. In 2020, the overall gross profit increased by approximately 8.8% to approximately RMB9,455,855,000 (2019: RMB8,688,957,000)

HUI LIN CHIT
Chief Executive Officer



and the overall gross profit margin further increased to approximately 42.3% (2019: 38.6%). Notwithstanding that the cost of wood pulp began to rise slowly in the second half of 2020, the Group has sufficient inventory of wood pulp and it is believed that the gross profit in the first half of 2021 will remain at a manageable level.

During the year, operating profit rose approximately 12.5% to approximately RMB6,392,388,000 (2019: RMB5,680,296,000). Benefiting from the low cost of wood pulp, an increase in the proportion of revenue from premium products, and exchange gains, profit attributable to shareholders of the Company amounted to approximately RMB4,594,815,000 (2019: RMB3,907,723,000), increased by about 17.6% year-on-year. Basic earnings per share was approximately RMB3.864 (2019: RMB3.285).

The Board of Directors declared a final dividend of RMB1.30 per share for the year ended 31 December 2020 (2019: RMB1.25), together with the interim dividend of RMB1.20 per share (2019 first half: RMB1.00) already paid, total dividend for the year amounted to RMB2.50 per share (2019: RMB2.25 per share).



Sanitary Napkin

China has the world's largest feminine care products market where competition is fierce and is highly saturated. The Group has been developing in the direction of product upgrades and the launch of premium products to cater to market demand and maintain its leading position. The Group's sanitary napkin brand, 七度空间 has always been a hot-selling product in Mainland China and has long been a market leader in the domestic market. During the year, the Group officially launched the new image of premium "Space 7" product. Leveraging on its high-quality products and brand image, the product was well-received by the market, thereby driving sales growth of the sanitary napkin segment.

In 2020, the sales of the sanitary napkin business returned to an upward trend and recorded an increase of close to 3.0% to approximately RMB6,654,711,000 (2019: RMB6,487,003,000), which was higher than the average market growth and sales of the sanitary napkin business accounted for approximately close to 30.0% (2019: 28.8%) of the overall revenue of the Group. During the year, benefitting from the rapid growth of the premium "Space 7" product with sales reaching close to RMB200 million, gross profit margin of the sanitary napkin business further expanded to approximately 71.4% (2019: 70.3%). The Group is steadily shifting to a strategy of developing the premium market, the premium "Space 7" product is expected to become a potential growth point in 2021 and in the future, enabling the Group to expand its market share in the sanitary napkin industry.

Launched during the year, the premium product "Space 7" which aimed at the mature white-collar market received enthusiastic response, giving the Group the confidence to

further expand the premium market. Since signing Space 7 brand ambassador contract with Yang Chaoyue, a member from Rocket Girl 101 (火箭少女101), her girliness and healing power of spreading happiness greatly enhanced the brand image of "Space 7" and rejuvenated the brand with a sense of style. In addition, the Group signed a contract with the domestic new-generation girl group SNH48-7SENSES as the brand ambassador and star promoter of "Xiaohaisen" (小嗨森) and the "Xiaohaisen" family products, respectively in October 2020. Leveraging on the girl group's influence on young consumers, the Group reached out to more young consumers born after 1995 to further rejuvenate the brand.

Regarding other feminine care products, the Group's new feminine care brand "Origin and Prime" (若顏初) has received positive response and support from the market. The Group will continue to actively research and develop other feminine care products beyond sanitary napkins, steadily developing the feminine care industry, capture growth opportunities brought by consumption upgrade and actively exploring opportunities to sell the Group's sanitary napkin products to overseas markets.

Tissue Paper

The epidemic in China was gradually put under control, but national health awareness has not diminished. The Group has always provided a variety of high-quality products according to the different needs of the market. The Group expects that national demand for tissue paper will continue to rise and believes that there is still room for growth in the overall tissue paper market.

In the second half of the year, the Group invested more in the marketing of the tissue paper segment in response to the market recovery, especially in the fourth quarter, the Group put in additional effort and investment in the promotion in e-commerce and new retail channels, resulting in a substantial increase in advertising and promotion expenses. Hence, the Group's revenue was offset by these expenses under the accounting standards and led to a decline in revenue of the tissue paper segment. On the other hand, commercial and corporate activities in Mainland China were greatly affected by the epidemic, which in turn, reduced the demand for tissue paper. The sales of the tissue paper segment were down approximately 9.6% to approximately RMB10,382,758,000 (2019: RMB11,486,538,000), accounting for approximately 46.4% (2019: 51.1%) of the Group's overall revenue. Nevertheless, benefitting from the low cost of wood pulp, the gross profit margin of the tissue paper business increased significantly to approximately 33.5% (2019: 27.7%).



Against the backdrop of the epidemic, the upgraded wet wipes products continued to perform well. Thanks to the super mini wet wipes that have been well-loved by consumers, sales growth of wet wipes continued to outperform the market in 2020. Sales of wet wipes for the full year increased approximately 20.9% year-on-year to approximately RMB733,192,000 (2019: RMB606,663,000), accounting for approximately 7.1% of the sales of the tissue paper business (2019: 5.3%). In addition, the Group upgraded its wet wipes products during the year and continued to leverage on its advantage as a leader in the “Super Mini” (超迷你) series with a collaboration with “Little Duck Liu” (小劉鴨) to launch super mini wet tissue toilet paper, continued to increase its market share and consolidate its leading position in the wet tissue market.

In terms of other tissue products, the Group continued to provide unique and high-quality products to the market with industry-leading product specifications and innovative technologies. The new premium series “Cloudy Soft Skin” (云感柔膚) launched during the year was well-received by the market. It was made with the Group’s original cloud-like three-dimensional embossing technology to form air cushions, providing enjoyable consumer experience to its customers with cotton soft skin like tissue paper. The Group has also obtained a national design patent on its unique embossing technology. The product is safe and does not contain any chemical adhesives. It was selected as the recommended tissue product at the World Environmental Conference. Paper handkerchiefs from the “Pino Black and White” series (品諾黑白系列) presented in black packaging and featured with the newly upgraded sensation of tissue paper with superb strength are precisely marketed towards business people and young consumers.

As the living habits of people change and the level of consumption continues to rise, the tissue paper market continues to expand and competition is gradually intensifying. The Group will develop more products that can accurately meet consumers’ needs in order to continuously seize business opportunities to expand its market share in domestic wet tissue market and maintain its leading market position. The Group’s annualised production capacity was approximately 1,420,000 tons during the year. The Group will actively consider expanding its production capacity according to the market conditions and sales performance in the future.

Disposable Diapers

There are still a lot of growth potentials in the domestic disposable diaper market. National consumption of adult care products is still very passive. In addition, national consumption upgrades will continue to be the driving force for the Group to continue to upgrade its products and launch premium products. The Group believes that the overall diaper market still has huge untapped potential. The Group has always stayed committed to developing and providing a series of baby and adult care products. During the year, the Group stepped up its effort to upgrade its premium “Q • MO” products and achieved good results, and the market penetration rate of adult diapers “ElderJoy” (安而康) has gradually increased as well.



In 2020, thanks to the Group's additional effort in e-commerce and maternal sales, the proportion of sales through e-commerce and maternal channels has increased to over 40.0% and close to 15.0% respectively. On top of that, the proportion of premium baby and adult diapers products increased, sales of the diaper segment amounted to approximately RMB1,425,567,000 (2019: RMB1,439,087,000) and the decline greatly narrowed to approximately 0.9% (2019: a decrease of 6.3%), accounting for approximately 6.4% of the Group's overall revenue (2019: 6.4%). Among them, sales growth of premium "Q • MO" products exceeded approximately 70.0%, accounting for approximately 18.9% of the overall diaper sales. In terms of gross profit margin, the proportion of premium products has increased which was offset by the cost of petrochemical raw materials used in disposable diapers rose due to the tight supply affected by the epidemic. Hence, the gross profit of the diaper business dropped slightly to approximately 39.6% (2019: 40.5%).

During the year, the Group seized the opportunity to further develop the premium product market and rationalize its product portfolio. The "Q • MO" magic breathing diapers have 3.6 times more vents than traditional diapers and are very well-loved by the market. Anerle's (安兒樂) "Soft and Thin" (小輕芯) diapers feature an ultra-thin absorbent core, allowing babies to wear without discomfort. Many parents are very satisfied with the quality of Anerle's "Soft and Thin" diapers. In addition, as the nation puts more emphasis on the development of the elderly care industry, there will be more

market potential in the field of domestic adult care. The Group will step up its efforts to invest more in the development of adult care products, thereby increasing the domestic market penetration rate of products of the "ElderJoy" and "Banitore" (便利妥) brands and increasing its market share in Southeast Asia at the same time.

The Group will continue to develop the baby care market and the adult care market in parallel. In addition to e-commerce sales channels, the Group will also increase cooperation with maternal stores, nursing homes and hospitals. On the one hand, it will promote the Group's high-quality products. On the other hand, through the cooperation with maternal stores, nursing homes and hospitals, it will expand the Group's customer base and provide an one-stop product sales chain, refuel growth momentum for the diaper business, help the Group to develop the adult health care business in the long term and continue to tap the growth potential of the adult health care market.

Other Income and Household Products

Regarding other income, revenue during the year grew approximately 27.0% year-on-year to approximately RMB3,910,965,000 (2019: RMB3,080,217,000), including revenue from surgical masks and other medical-related products in response to the epidemic. The sales of surgical masks were remarkable with a revenue contribution of approximately RMB260 million in 2020.

In 2020, revenue from the Group's household products segment was approximately RMB400,232,000 (2019: RMB376,874,000), including revenue from Sunway Kordis Holding Limited ("Sunway Kordis"), which amounted to approximately RMB277,265,000 (2019: RMB243,962,000). The household products business accounted for approximately 1.8% (2019: 1.7%) of the Group's revenue.

In 2020, the Group continued to expand its household products business to increase its presence in the sector. The Group has greatly expanded the product range of its brand, Hearttex (心相印) with the successive launch of plastic bags (including garbage bags and disposable gloves), food wrap film, dish detergent and paper cups etc. Sunway Kordis and its subsidiaries have sales channels to export products to markets in Europe, Australia, North America and Asia. The Group will seek to leverage on Sunway Kordis's overseas sales network to bring Hengan's products to overseas market.

Looking ahead, the Group believes that the growth potential in the business of surgical masks and other medical products is immense. The Group will continue to devote itself to the research and development of various types of products that cater to market demand and provide consumers with high-quality medical products to enhance its market competitiveness.

International Business Development

The Group has been actively expanding to overseas markets. Currently, the Group sells its products in 42 countries and regions, with 68 direct partnerships with major clients or distributors. Turnover of overseas business (including Wang-Zhang Group business) for the full year was approximately RMB2,166,847,000 (2019: RMB2,048,125,000), accounting for approximately 9.7% of the Group's overall sales (2019: 9.1%).

Affected by the city's lockdown due to the epidemic, the Group's Wang-Zheng Group in Malaysia recorded a turnover of approximately RMB398,384,000 (2019: RMB446,551,000), accounting for approximately 1.8% of the Group's overall sales (2019: 2.0%). Wang-Zheng Group is principally engaged in investment holding and the manufacturing and processing of fiber-based products, which include adult and baby disposable diapers, sanitary napkins and tissue products, cotton products and processed papers. Its brands include Dry Pro diapers and Carina personal hygiene products. In addition, the Group also leveraged on the Malaysian Wang-Zheng Group as its base to

bring Hengan's own brand "Hearttex" wet wipes and "Banitore" adult diapers into the Southeast Asian market. In the future, the Group will continue to upgrade its existing Wang-Zheng products, research and develop and launch more high-end products under the Hengan brand and strengthen its market share in Malaysia and Southeast Asia.

E-commerce and New Retail Channel Strategies

The epidemic has prompted the rapid maturation of the domestic online shopping market and bolstered the development of new retail channels (including community group-buying) and mainstream e-commerce platforms. As a convenient way of shopping, online shopping has become part of the daily life of domestic consumers. Under the influence of the global epidemic, the growth of e-commerce has far exceeded expectations. It did not only provide profit to e-commerce companies, but also accelerated retailers' investment on e-commerce operations. Since the Group's product launched on various domestic e-commerce platforms, e-commerce channel has become one of the Group's key sales channels.

In 2020, sales revenue of the Group's e-commerce channels (including Retail Integrated ("零售通") and New Channel ("新通路") was approximately RMB4.3 billion (2019: over RMB4.4 billion), accounting for approximately 19.1% (2019: 19.8%) of the Group's overall sales. In the first half of the year, logistics was clogged due to the impact of the epidemic and e-commerce sales were affected by the optimisation and integration of e-commerce channels. With the increasing sales of directly-managed online stores, e-commerce channels have resumed normal development in the fourth quarter, driving e-commerce sales. The Group will review its e-commerce sales strategy from time to time, reiterate the e-commerce rules and strengthen the sales and promotion of directly-managed online stores to achieve rapid growth in the future.

In response to the rapid development and fierce competition in the e-commerce market, the Group adopted the sales strategy of live streaming with brand ambassadors and fans for its brands to leverage on the reputation of brand ambassadors, thereby permeating the Group's products into the fan base, in particular, the live broadcast of "Space 7" with popular idols Liu Tao and Yang Chaoyue on Double Eleven Single's Day drove robust sales to the product.

During the year, the Group signed a data analysis (data centralisation platform) cooperation agreement with Alibaba. In the future, the Group will use the platform to analyse data from end customers, precisely allocate expenses and design related sales strategies. Alibaba will assist Hengan group in upgrading its digital intelligence strategy, business, organisation and technology, and form a comprehensive and unified platform operation for members, products and channels etc., enabling the Group to achieve its strategic goal of becoming the "world's top-tier enterprise of daily necessities".

In addition, with the rising popularity of community group-buying and online and offline (O2O) sales, almost all top platforms have stepped up their effort in this field. The Group will also allocate more resources in this area and leverage on the frequent shopping festivals on e-commerce platforms to attract consumers with exclusive products, thereby increasing the Group's market share in e-commerce and new retail channels and fostering e-commerce and new retail channels as the main growth drivers for overall sales in the future.

Selling and Administrative Expenses

Selling and administrative expenses control has always been the key to achieve stable profit growth for the Group. The Group will seize post-epidemic opportunities as the economy recovers, put forward effective sales strategies and conduct data analysis with its data centralisation platform, continue precise positioning and optimise the product portfolio to bring considerable return for shareholders. The selling and administrative expenses of the Group this year accounted for approximately 21.6% of the overall revenue (2019: 20.0%), which was mainly attributed to the Group's additional efforts and expenses in the promotion of e-commerce and new retail channels in the second half of the year and the increase in expenses related to logistics during the year. With the gradual control of the epidemic in the coming year and the precise cost allocation through data analysis, the Group believes that the expenses-to-revenue ratio will be improved gradually.

Foreign Currency Risks

Most of the Group's income is denominated in Renminbi while part of the raw materials is imported and settled in US dollars. During the year, the Group recorded an operating exchange gain of approximately RMB249,214,000 (2019: exchange loss of RMB89,331,000) as a result from the strengthening of the Chinese Renminbi in the second half of the year.

As at 31 December 2020, apart from certain foreign currency swap contracts and interest rate swap contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

Liquidity, Financial Resources and Bank Loans

The Group has always maintained a solid financial position. As at 31 December 2020, the Group's cash and bank balances, long-term bank time deposits and restricted bank deposits totally amounted to approximately RMB23,970,698,000 (31 December 2019: RMB22,977,561,000); domestic corporate bonds amounted to approximately RMB998,938,000 (31 December 2019: RMB3,994,474,000); and bank borrowings and other borrowings amounted to approximately RMB19,837,362,000 (31 December 2019: RMB17,613,967,000).

In December 2019, the Group successfully registered for the proposed issue of RMB3.0 billion super short-term commercial papers. From February to December 2020, the Group issued super short-term commercial papers in five batches of RMB3.35 billion in total (after the repayment of the super short-term commercial papers of RMB3.0 billion in the second half of the year, the Group issued another batch of super short-term commercial papers of 0.35 billion in December), the coupon rates are between 2.10% to 2.85% per annum. The five batches of super short-term commercial papers will mature in 23 to 270 days from the respective issue date. As at 31 December 2020, the Group has no outstanding super short term commercial papers. In addition, the Group applied for the registration for the proposed issue of short-term commercial papers of RMB6.0 billion in two tranches in June 2020, each tranche of the short-term commercial papers will have a term of not more than one year. Moreover, the Group successfully registered for the proposed issue of RMB5.0 billion domestic bonds in 2021, each tranche of the domestic bonds will have a term of not more than five years.

The bank borrowings and other borrowings were subject to floating annual interest rates ranging from approximately 0.54% to 4.30% (2019: from 1.97% to 4.80%).

As at 31 December 2020, the Group's gross gearing ratio, which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including non-controlling interests) decreased to approximately 107.3% (31 December 2019: 120.9%) mainly due to the repayment of corporate bonds and super short-

term commercial papers during the year. The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term time deposits as a percentage of the shareholders' equity (not including non-controlling interests), was negative 16.1% (31 December 2019: negative 7.6%) as the Group was in a net cash position.

During the year, the Group's capital expenditure amounted to approximately RMB586,651,000. As at 31 December 2020, the Group had no material contingent liabilities.

Latest Awards

In 2020, awards and honours won by the Group were as follows:

Awards/Honors	Organisation
All-Asia Executive Team 2020 rankings Most Honoured Company: Hengan International, Best IR Programs, Best ESG, Best CEO (Mr. Hui Lin Chit) and Best CFO (Mr. Li Wai Leung) in consumer staples sector	Institutional Investor (Magazine)
The 6th Investor Relations Awards 2020 Best IR Company (Large Cap), Best IR (Chairman/CEO) Mr. Hui Lin Chit and Best IR (CFO) Mr. Li Wai Leung	Hong Kong Investor Relations Association
Ranked 1st on the list of daily necessities listed companies	Shanghai Oriental Century Consumer Goods Development & Promotion Centre
Ranked 6th in the light industry	China Brand Evaluation
Junichi was honoured at the German Design Award 2020	German Design Council
Mr. Hui Lin Chit was awarded the honour of Advanced Individual in the Fight Against COVID-19	National Commendation Conference for Fighting COVID-19

Products and Raw Materials Research and Development

Hengan has stayed committed to its corporate vision of "becoming the top household product enterprise in China through sustainable innovation and provision of high-quality products and services". Adhering to the "consumer-oriented" market principle, the Group will vigorously upgrade its products portfolio, facilitate the long-term and sustainable business development and provide the public with high-quality personal and household hygiene products.

In response to consumers' pursuit of products whose manufacturing process and ingredients support environmental protection and sustainable development, Hengan will exploit its production scale and technical strength, strive to develop green products and sustainable environment-friendly production technologies.

Human Resources and Management

Benefitting from the "small sales team" operating model strategy, the Group effectively enhanced the efficiency of human resources. Implemented a more scientific and reasonable 'target remuneration' system, link the salary system with the staff job responsibilities and task goals, thus stimulate the staff enthusiasm for work, and improve work efficiency. As at 31 December

2020, the Group employed approximately 25,000 staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees 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 career opportunities according to their needs. The Group will also continue to improve efficiency and adjust production capacity and supply levels.

CORPORATE GOVERNANCE

Epidemic Prevention and Control

Facing the challenges of coronavirus, Hengan, as a personal and household hygiene product enterprise rooted in China, is committed to its mission of "Growing with You for a Better Life", continues to uphold corporate social responsibility and fully supports the disease control and prevention works across the nation. At the beginning of the epidemic, the Group quickly set up surgical mask production lines and started production in February 2020 to help alleviate the shortage of surgical masks. Looking back on 2020, the Group has donated over RMB23.0 million worth of supplies and cash and delivered products including sanitary napkins, medical protective suits, disinfectant wet wipes, hand sanitizers, adult disposable diapers, baby diapers and tissue paper to disease control centres and hospitals at various locations. On 22 January 2021, Mr. Hui Lin Chit, Chief Executive Officer of the Group was awarded the honour of Advanced Individual in the Fight Against COVID-19 for his benevolent dedication and generosity during the epidemic.

Carbon Reduction and Environmental Protection

Hengan has always been practising the application of green, low-carbon and sustainable development, integrating sustainable development into daily operations and production. In 2020, Hengan's greenhouse gas emissions intensity was 1.19 tonnes of carbon dioxide emissions per revenue in RMB10,000; the energy consumption per unit product of the papermaking sector of the Group was 0.37 ton standard coal per ton, which was much lower than the advanced value requirement of the Energy Consumption Per Unit Product of Pulp and Papermaking ("製漿造紙單位產品能源消耗限額") (GB31825-2015) of 0.42 ton standard coal per ton; the recycling of wastewater from paper production was more than 99% ton the water consumption per unit of the paper making sector of the Group was 6.1 ton water per ton, much lower than the national standard upper limit of water withdrawal per ton of product specified in GB/T18916.5 "Water Quotas Part 5: Paper Products" ("取水定額第5部分：造紙產品").

Sustainable Supply Chain

Hengan also promotes value chain management of sustainable development. In 2020, Hengan, as the sole enterprise to be invited to the preparatory launching ceremony of the Belt and Road Initiative International Green Supply Chain Alliance, received the honour of the Belt and Road Initiative Green Supply Chain Demonstration Enterprise; held an Engineers Conference to discuss and share technological innovation and applied research on sustainable development topics such as biodegradable materials and sustainable soft packaging materials. Hengan continues to promote responsible wood pulp procurement, and work hand-in-hand with suppliers to promote the sustainable development of the wood pulp supply chain. In 2020, six paper production companies under the Group received the Forest Stewardship Council (FSC)/ Chain of Custody (CoC) certification.



Talent Development

Hengan regards human resources as a key factor for the success of the Company. The Group values labour, respects talents and provides employees with competitive salaries, welfares, comprehensive training programs and multi-channel promotion opportunities for developing full potential of all employees and bringing out the best in them. Hengan actively carries out the principle of equal employment and shows no discrimination towards employees based on race, religious belief, gender, age, sexual orientation, disability, nationality, etc.

As of the end of 2020, Hengan had a total of approximately 25,000 employees, the total number of employee training hours exceeded 200,000 hours, the number of management positions promoted was 192, and the percentage of employees joining the labour union was 100%.

Health and Safety

Hengan cares about physical and psychological health of employees and has carried out activities showing care for its employees to continuously improve the safety system of the whole process of enterprise operation. The Group has established occupational health and safety management systems and passed the certification. The Group has also set up a safety management committee as a comprehensive safety management leadership and decision-making body, constructed a framework for the full life cycle safety management process and standardized and orderly carried out safety work in the whole process of operation. The Group regularly organised training on safety regulations, firefighting training and drills, and strengthening the safety awareness and self-protection capabilities of all employees. In 2020, there were no work-related fatalities and no occupational disease cases in the Group and the number of lost days due to work injury was 3,147 days.

During the epidemic, Hengan implemented various measures to improve the Group's epidemic prevention and control work, standardized and carried out employee health management. Hence, there were no cases of COVID-19 infections among over 20,000 employees during the epidemic.

Outlook

Looking ahead to 2021, the epidemic in most regions in China will basically be put under control, the consumer market will gradually regain vitality and consumer demand will continue to be released. It is believed that domestic sales will continue to support the steady growth of the economy in China. However, changes in the external political and economic environment and fluctuation of the epidemic will bring a series of uncertainties across the globe. The Group will continue to pay close attention to the development of the domestic and international epidemic and changes in the markets to agilely respond and take appropriate actions.

The rapid increase in national health awareness due to the epidemic and the on-going trend of domestic consumption upgrades are beneficial to the refinement and high-quality development of the personal hygiene products market in the long run. The epidemic has changed people's living habits. The Group expects that national demand for personal and household hygiene products will continue to be maintained even after the epidemic, and people will continue to pursue high-quality products. In order to meet the increasingly high-end consumer demand of end customers, the Group will actively respond to and seize market opportunities brought by consumption upgrades, flexibly cope with changes in consumer demand, continue to actively optimise the product portfolio and upgrade the packaging, materials and functions of the products to promote the sales of high-end products and inject growth momentum into the Group.

Regarding sales channels, the epidemic has accelerated the shift of the consumption patterns to online. Taking advantage of the Group's omni-channel retail network, the Group will step up its efforts to increase the coverage of e-commerce and new retail, with an aim to drive e-commerce and new retail sales of tissue paper, sanitary napkins, and disposable diapers up to the market average in the foreseeable future. At the same time, the Group will leverage on its data centralisation platform to analyse consumer preferences and market changes and further optimise resource allocation in terms of product design, market distribution and sales channels. In order to meet the different needs of consumers, the Group will integrate online and offline retail models and actively develop new retail channels (including community group-buying) to increase the market penetration rate of the Group's products and further expand the Group's market share.

Affected by the epidemic, the Group has developed the business of preventive medical supplies, such as the manufacturing and selling of surgical masks to provide consumers with high-quality and reliable epidemic prevention products. Although the global epidemic will gradually be brought under control, national health awareness is still rising day by day. The Group believes that there is huge potential in the medical supplies market. With the medical device production license obtained in 2020, the Group will continue to adhere to the mission of "Growing with You for a Better Life", closely monitor the changes in market demand, conduct market research and vigorously explore the feasibility of the launch of various medical supplies.

As a leading enterprise in the personal and household hygiene products industry in China, Hengan is committed to providing high-quality personal and household hygiene products to its consumers and will continue to forge ahead with industrial expansion as the long-term development target, actively expand industries with high growth potential, namely feminine care, infant child care, elderly care and epidemic prevention medical care, gradually promote international development of Hengan's brand, continue to improve its overall competitiveness and profitability in order to generate sustainable returns for shareholders.



HUI LIN CHIT

Chief Executive Officer

Hong Kong, 19 March 2021

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mr. Sze Man Bok



Mr. Hui Lin Chit



Mr. Hung Ching Shan



Mr. Hui Ching Lau



DIRECTORS

Executive Directors

Mr. Sze Man Bok, aged 71, 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 and a member of the Nomination Committee of the Company. He is the father of Mr. Sze Wong Kim, a Director of the Company. Mr. Sze is currently a non-executive director of Qinqin Foodstuffs Group (Cayman) Company Limited (stock code 1583), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Sze was appointed as executive director of Wang-Zeng Berhad ("WZB") on 15 June 2017, a company listed on the Main Market of Bursa Malaysia Securities Berhad with a stock code of 7203. He was redesignated as non-independent non-executive director of WZB on 25 September 2017.

Mr. Hui Lin Chit (formerly known as Hui Chi Lin), aged 67, 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, and is also a member of Nomination Committee and Remuneration Committee. Mr. Hui has the title of senior economist in the People's Republic of China ("PRC"). He is also a deputy chairman of All-China General Chamber of Industry and Commerce, chairman of Fujian Province Industry and Trade Association, United Nations Maritime-Continental Silk Road Cities Alliance, and the Jinjiang City Charity Federation. Mr. Hui is the chairman of the Business Council of the United Nations Maritime-Continental Silk Road Cities Alliance and the president of the Jinjiang City Charity Federation.

Mr. Hui is a member of the 9th, 10th and 11th National Committee of Chinese People's Political Consultative Conference (CPPCC) from 1998 to 2012. During the period from 1997 to 2011, he was also a member of the Executive Committee (at the 8th CPPCC National Committee) and Standing Committee (at the 9th CPPCC National Committee), and deputy chairman (at the 10th CPPCC National Committee) of All-China Federation of Industry and Commerce. He was also a deputy chairman of the 9th, 10th and 11th Quanzhou Municipal CPPCC Committee and the chairman of the 10th, 11th, 12th and 13th Quanzhou Federation of Industry and Commerce.

He is the father of Mr. Hui Ching Lau and Mr. Hui Ching Chi, a Director of the Company. Mr. Hui was the Chairman and is currently a non-executive director of Qinqin Foodstuffs Group (Cayman) Company Limited, a company listed on the

Main Board of the Stock Exchange. Mr. Hui was appointed as executive director of WZB on 15 June 2017 and redesignated as non-independent non-executive chairman of WZB on 25 September 2017.

Mr. Hung Ching Shan, aged 71, is responsible for supervising the Group's purchasing tender assignments. He has over 42 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. Hui Ching Lau, aged 41, joined the Group on 10 December 2020. He has about 19 years of experience in corporate management and will be responsible for providing planning, guidance and strategic advice on strategic development of the Group. He is currently an executive director and chairman of the board of directors of Qinqin Foodstuffs Group (Cayman) Company Limited (a company whose shares are listed on the main board of the Stock Exchange of Hong Kong, stock code: 1583). He is the managing director of Lianjie Investments Group Limited being responsible for the daily operation and management of Lianjie Investments Group Limited, an investment management company.

Mr. Hui was a director of AGORA Hospitality Group Co., Ltd. (a company whose shares are listed on the Tokyo Stock Exchange, stock code: 9704) from 29 March 2018 to 3 December 2020. Mr. Hui was a non-executive director of China Huiyuan Juice Group Limited ("Huiyuan Juice") from 29 January 2018 to 10 January 2019. Huiyuan Juice is a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the Stock Exchange of Hong Kong (Stock code: 1886) until 18 January 2021 which the listed status were cancelled by the stock exchange, being principally engaged in production and sale of fruit juice, fruit and vegetable juice and other beverages. In October 2019, a winding-up petition and provisional liquidators application at the High Court of Hong Kong was served on Huiyuan Juice. For further details of the proceedings, please refer to the announcements of Huiyuan Juice including that dated 24 January 2019 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0124/ltn201901249978.pdf>), 24 October 2019 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/1025/2019102401207.pdf>), 19 November 2020 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1119/2020111901298.pdf>) and 30 November 2020 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1130/2020113001375.pdf>).

Mr. Xu Shui Shen



Mr. Xu Da Zuo



Mr. Xu Chun Man



Mr. Sze Wong Kim



Mr. Hui Ching Chi



Mr. Hui graduated with a Degree of Bachelor of Arts in Accounting & Finance and Economics from the University of Kent at Canterbury in July 2001, and a Degree of Master of Science in Finance from the University of London (Imperial College of Science, Technology and Medicine) in November 2002, in the United Kingdom. He also received a Degree of Executive Master of Business Administration from Cheung Kong Graduate School of Business in September 2010 in the People's Republic of China.

Mr. Hui is the son of Mr. Hui Lin Chit, the Vice-chairman of the Board and an executive director of the Company. Mr. Hui is also the brother of Mr. Hui Ching Chi, an executive director of the Company.

Mr. Xu Shui Shen, aged 51, he was appointed as the Chief Executive Officer of Operation Service Center and Sales Director in August 2017. He is responsible for the development, implementation of the Group's sales strategy, operation, business management and supervision of the operations of the Operation Service Center. He joined the Group in 1985 and has over 36 years of experience in operation management and business development. He graduated from business administration department in the HuaQiao University and holds the title of senior economist in the PRC. Mr. Xu is a younger brother of Mr. Xu Da Zuo, a Director of the Company.

Mr. Xu Da Zuo, aged 54, is appointed as the Chief Executive Officer of Capital Operation and Investment Department of the Group on 26 March 2020 and ceases to be the Chief Financial Officer of the Group and the Chief Executive Officer of Services Sharing Center (in charge of Finance Department, Asset and Property Management Department and Information System Department). Joining the Group in 1985, Mr. Xu has over 36 years of experience in accounting and internal audit. He has the title of senior accountant in the PRC. He is an elder brother of Mr. Xu Shui Shen, a Director of the Company.

Mr. Xu Chun Man, aged 46, is responsible for the Group's overall business development strategy. He joined the Group

after graduating from Fujian Jinjiang Vocational Institute in 1991. Mr. Xu has over 30 years of experience in business development and customer service management.

Mr. Sze Wong Kim, aged 45, is responsible for overall strategy of the Group. Before joining the Group on 1 June 2010, Mr. Sze worked in two accountancy firms in Australia and gained extensive experience in assurance and business advisory work. He started his own business in 2005 on wholesale and distribution of branded electronic components and computer accessories products in Hong Kong and overseas markets. Mr. Sze graduated from the University of Technology, Sydney with a Bachelor Degree of Business majoring in accounting and obtained a Master Degree of Commerce in finance from the University of New South Wales, Australia. He was appointed as the Company Secretary and authorised representative of the Company on 30 November 2016 and resigned on 3 January 2017. He is a member of CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants. He is the son of Mr. Sze Man Bok, the Chairman and a Director of the Company.

Mr. Hui Ching Chi, aged 36. He was appointed as Operation Management Department Director and also as the Deputy Chief Executive Officer of Operation Service Center in August 2017, responsible for supervising and implementing the operations of the Operation Service Center (including but not limited to sales services, procurement, production, logistic coordination management etc) and the Operations Service Center business management. He was the Director of Supply Chain Management of the Group from 2015 to 2016, was responsible for the overall strategy relating to the Group's planning and purchasing of raw materials and logistic management. Mr. Hui worked in a major international bank in London prior to joining the Group in February 2008. Mr. Hui holds a Law Degree from the London University. He is a son of Mr. Hui Lin Chit, the Chief Executive Officer and a Director of the Company. Mr. Hui was appointed as executive director of WZB on 25 September 2017.

Mr. Li Wai Leung



Mr. Chan Henry



Ms. Ada Ying Kay Wong, JP



Mr. Theil Paul Marin



Mr. Li Wai Leung, aged 42, is appointed as the Chief Financial Officer of the Group on 26 March 2020. Mr. Li is also the Company Secretary and authorized representative of the Company. He has over 20 years of experience in accounting, finance and business advisory work. Before joining the Group on 3 January 2017, Mr. Li was the chief financial officer, company secretary and authorized representative of Evergreen International Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 238). Prior to that, Mr. Li also worked as the chief financial officer of two sizable PRC based manufacturing companies and as a senior manager in PricewaterhouseCoopers. Mr. Li obtained his bachelor's degree in Business Administration in Accounting and Finance from the University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Li was appointed as executive director of WZB on 15 June 2017.

Independent Non-Executive Directors

Mr. Chan Henry, aged 55, is an Independent Non-Executive Director of the Company appointed in 1998. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee.

Mr. Chan has over 34 years of experience in the financial market and is the Managing Director of Sanfull Securities Limited. He was a Director of the Stock Exchange and was also a member of the Advisory Committee of the Securities and Futures Commission. Mr. Chan is currently the Permanent Honorary President of Hong Kong Stockbrokers Association Limited, and an independent non-executive director of Luen Thai Holdings Limited, a company listed on the Main Board of the Stock Exchange with stock code 0311, 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 degree in Business Administration.

Ms. Ada Ying Kay Wong, JP, aged 61, is an Independent Non-executive Director of the Company appointed in 1998. She is also a member of the Audit Committee, Nomination 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 Museum Advisory Committee and Art Sub-committee, Museum Advisory Committee. Currently, she is an independent non-executive director of Pak Fah Yeow International Limited, a company listed on the main board of the Stock Exchange with stock code 0239.

Mr. Theil Paul Marin, aged 67, was appointed as an independent non-executive director and also a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company on 17 May 2019. He has had extensive experience in the finance and investment industry. He is the founder and has been the Chairman of Shenzhen Zhong An Credit Investment Co., Ltd since January 2008. He has served as an independent director of China Industrial Bank Co. Ltd., (stock code: SH601166) since October 2013, and an independent non-executive director of Qin Qin Foodstuffs Group (a company listed in Shenzhen with stock code: HK1583) ("QinQin") since June 2016. He was also previously a director of the Company from July 2000 to September 2001.

Mr. Theil graduated from Yale University with a Degree of Bachelor of Arts in June 1975 and a Degree of Master of Arts in East Asian Studies in June 1975. He also graduated with a Degree of Juris Doctor and a Degree of Master of Business Administration from Harvard Law School and Harvard Business School in June 1980 and November 1981 respectively.

Mr. Ho Kwai Ching Mark



Mr. Zhou Fang Sheng



Mr. Ho Kwai Ching Mark, aged 59, is an Independent Non-executive Director of the Company appointed on 1 January 2013. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee. He is currently the co-founder and CEO of ProMEX Limited, a consultant in the securities and futures industry, an independent non-executive director of Lee Kee Holdings Limited (stock code 0637) and Green Future Food Hydrocolloid Marine Science Company Limited (stock code 1084). He was the Chief Operating Officer of Oriental Patron Securities Limited, the Chief Compliance Officer of Hong Kong Mercantile Exchange Limited, the Director of Business Development of Sun Hung Kai Securities Limited and a Director of Phillip Securities (HK) Limited. He was also previously Vice President of Corporate Strategy of Hong Kong Exchanges and Clearing Limited and Head of Compliance of Hong Kong Futures Exchange Limited. He has more than 26 years of experience in the securities and futures industry.

Mr. Ho received a Bachelor Degree in Social Sciences from the University of Hong Kong in 1984 and is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. Zhou Fang Sheng, aged 71, is an Independent Non-executive Director of the Company appointed on 1 January 2013. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee. He has more than 27 years of management experience. From 1991 to 1997, Mr. Zhou served as deputy division director and division director in State-owned Assets Administration Bureau, and deputy director in Stated-owned Assets Administration Research Institute. From 1997 to 2001, Mr. Zhou worked as deputy director in difficulty relief working office for state-owned enterprises of State Economic and Trade Commission. From 2001 to 2003, Mr. Zhou served as a director in State-owned Assets Administration Research Section of Research Institute for Fiscal Science of Ministry of Finance. From 2003 to 2009, Mr. Zhou worked as Vice Counsel in charge of state-owned enterprise restructuring and business management in Enterprise Reform Bureau of State-owned Assets Supervision and Administration Commission of the State Council. From 2012 to 2017, Mr. Zhou was appointed as an independent non-executive director of Beijing BDStar Navigation Co., Ltd (listed on Shenzhen Stock Exchange). Mr. Zhou is currently appointed as a supervisor of Sinotrans Limited, a company listed in Hong Kong with stock code 598. Mr. Zhou is also an independent non-executive director of China National Building Material Company Limited (a company listed in Hong Kong with stock code 3323) and an independent director of Chenguang Biotech Group Co.,Ltd. (a Shenzhen stock code 300138).

Senior Management

Mr. Zhu Jian Shui, aged 46, is appointed as the Chief Executive Officer of the Service Sharing Center and Deputy Chief Financial Officer of the Group in March 2020. Mr. Zhu was the General Manager of Internal Audit Department from 2008 to 2019. He joined the Group in 1998 and has over 25 years of experience in finance and auditing areas. He is a graduate from Tianjin 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, certified auditor, senior economist and corporate legal consulate.

Ms. Liu Ying, aged 52, was a Deputy Chief Executive Officer of Services Sharing Center (in charge of Human Resources Department, Concentrated Operation Center) in September 2016. She was the Deputy Director of the Human Resources Department and is responsible for the Group's human resources management. Joining the Group in 1995, she has accumulated over 34 years of experience 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.

Mr. Wang Xiang Yang, aged 52, is the Chief Executive Officer of Purchase and Trade Department of the Group. He is responsible for the overall purchasing of raw materials and logistic management of the Group. He joined the Group in 1999 and resigned in February 2015. His position before leaving the Group was Director of Supply Chain 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 re-joined the Group in February 2017 and has over 22 years' experience in supply chain and logistic management. Mr. Wang graduated from Hua Qiao University with a degree in science. He holds the title of senior economist in the PRC.

Mr. Xu Wen Mo, aged 55, is the Director of Tissue Paper Products Development Department of the Group and is responsible for the overall management and business development of the offline commercial and corporate channels of the tissue paper products of the Group. Mr. Xu joined the Group in 1985 and has accumulated over 32 years of experience in management, marketing and sales of consumer products. He has the title of senior economist in the PRC.

Mr. Chen Xian Sheng, aged 39, director of Tissue Paper Products Development Department of the Group, is responsible for the overall management and business development of the offline, e-commerce and new retail channels of the tissue paper products of the Group. Mr. Chen joined the Group in 2001. He has 18 years of experience in product category market planning and business development, brand management and marketing. He graduated in economics and management from Hubei University of Education.

Ms. Jin Bei Bei, aged 38, assistant to chief executive officer of Feminine Care Business Development Department and director of Sanitary Napkins of the Group, is responsible for the overall management and business development of sanitary napkins of the Group. She joined the Group in 2004 and has over 17 years of experience in products category, brand management and marketing. Ms. Jin graduated from Fujian Normal University with a bachelor's degree in economics.

Ms. Zheng Ning, aged 36, is the Director of the Baby Care Business Development Department is responsible for the overall management and business development of infant and children products of the Group. She joined the Group in 2008 and has over 13 years of experience in product category, brand and marketing. She graduated from Anhui Normal University in China with a Bachelor of Arts degree in Chinese Language and Literature.

Mr. Lin Yu Xian, aged 41, deputy director of the Group's Business Development Department, is responsible for regional sales and new retail business development. Mr. Lin joined the Group in 2001 and has over 20 years of experience in sales and marketing. He graduated in accounting computerization from the Department of Economics and Management at Liming Vocational University.

Mr. Ruan Yue Jin, aged 38, is the General Manager of Internal Audit Department. He joined the Group in January 2020 and has over 16 years of experience in finance and internal and external auditing. He was served as an audit manager in an accounting firm and several companies. He graduated from Fuzhou University with a Bachelor of Administration degree in accounting. He was certified as a Chinese certified public accountant, a tax accountant, an asset appraiser, a certified international internal auditor and also has a legal professional qualification.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board of Directors of the Company (the “Board”) is committed to maintaining high standards of corporate governance. The Company has adopted the code provisions in the Corporate Governance Code (“CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) as its guidelines. 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 applicable code provisions in the CG Code throughout the year ended 31 December 2020.

BOARD OF DIRECTORS

Board Composition

During the year ended 31 December 2020, the Board comprises fifteen members, including Chairman, Deputy Chairman (who is also the Chief Executive Officer), eight Executive Directors and five Independent Non-executive Directors. One-third of the Board is represented by independent non-executive directors with one of whom being a certified public accountant. The Board believes that the number of executive and non-executive directors is reasonable and adequate to provide sufficient checks and balances that would safeguard the interests of the shareholders and the Company. The directors possess professional qualification and knowledge and industry experience and expertise, which enable them to make valuable and diversified advice and guidance to the Group’s business activities and development. Biographical details of the Directors are set out in the section of Directors and Senior Management Profiles.

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. Sze Man Bok, the Chairman of the Group, is responsible for the Group’s overall corporate direction and business strategy. Mr. Hui Lin Chit, Chief Executive Officer of the Group, is responsible for strategic planning, human resources and the overall management of the Group. Mr. Sze Wong Kim is the son of Mr. Sze Man Bok, the Chairman and a substantial shareholder of the Company. Mr. Hui Ching Lau and Mr. Hui Ching Chi are sons of Mr. Hui Lin Chit, the Chief Executive Officer and a substantial shareholder of the Company. Mr. Xu Da Zuo and Mr. Xu Shui Shen are brothers and cousins of Mr. Hui Lin Chit. Save as disclosed above, the Directors are not otherwise related to each other.

The Board is responsible for approving and monitoring the Group’s strategies and policies, approval of annual budgets and business plans, reevaluating the performance of the Group and supervising the work of management, protecting and maximizing the interests of the Company and its shareholders. The management is responsible for the daily operations of the Group under the leadership of the Chief Executive Officer. It is mindful of the need to uphold the corporate governance principles set out in the Company’s Code of Practice for the Board and responsible for performing corporate governance duties of the Company, including the duties specified in code provision D.3.1 of the Corporate Governance Code. The management is delegated with the authority and responsibility by the Board for the management of the Group.

Appointment and Re-election of Directors

After recommendation from the nomination committee, appointment of new director(s), if any, is vested with the Board. All non-executive directors (including independent non-executive directors) are appointed for a specific term of three years. According to the Articles of Association of the Company, every director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. At each annual general meeting, one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest but not less than one-third, shall retire from office by rotation and shall be eligible for re-election. In addition, any director so appointed shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board), and shall then be eligible for re-election at the meeting.

Board Diversity Policy

The Company adopted a Board diversity policy in accordance with the requirements set out in the code provisions of the CG Code. The Company recognizes the benefits of having a diverse Board, and sees diversity at the Board level is essential in achieving a sustainable and balanced development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, educational background, ethnicity, professional experience, skills, knowledge, industry experience and expertise. All Board appointments are based on meritocracy and considered against a variety of criteria, having due regard for the benefits of diversity on the Board.

Responsibilities

Each director has a duty to act in good faith in the best interests of the Company. The directors are aware of their collective and individual responsibilities to the Company and the shareholders in respect of the manner in which the affairs of the Company are being controlled and managed.

Directors are requested to make declaration of their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board. If a director has a potential conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent board committee will be set up to deal with the matter.

All directors have full access to and are provided with adequate, reliable and timely information about the operations and latest development of the Group to enable them to discharge their responsibilities and make timely decision. Updates have also been provided to all members of the Board on a regular basis to enable them to discharge their duties. Operational and financial information and analysis of the Group can be accessed directly through briefing and reporting by the executive directors and management during Board meetings. Through the company secretary, independent professional advice, on the account of the Company, could be sought should such advice be considered necessary by any director for carrying out his/her duties properly.

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT PROGRAMME

Each newly appointed director is provided with necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under the relevant statutes, laws, rules and regulations.

Pursuant to the Corporate Governance Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that they are well equipped to make contributions to the Board.

During the year ended 31 December 2020, all directors of the Company were updated regularly on the Group's business, operations, risk management and corporate governance matters. Materials on new or changes to salient laws and regulations applicable to the Group were provided to the directors. All directors are requested to provide the Company with their respective training record.

During the year 2020, the Directors also participated in the following trainings:

Members	Types of training
EXECUTIVE DIRECTORS	
Mr. Sze Man Bok (<i>Chairman</i>)	A/C
Mr. Hui Lin Chit (<i>Deputy Chairman and Chief Executive Officer</i>)	A/B/C
Mr. Hung Ching Shan	A/C
Mr. Hui Ching Lau (appointed on 10 December 2020)	A/B/C
Mr. Xu Shui Shen	A/B/C
Mr. Xu Da Zuo	A/C
Mr. Xu Chun Man	A/C
Mr. Sze Wong Kim	A/C
Mr. Hui Ching Chi	A/B/C
Mr. Li Wai Leung	A/B/C
INDEPENDENT NON-EXECUTIVE DIRECTORS	
Mr. Chan Henry	A/C
Ms. Ada Ying Kay Wong	A/C
Mr. Ho Kwai Ching Mark	A/B/C
Mr. Zhou Fang Sheng	A/B/C
Mr. Theil Paul Marin	A/C

- A: attending seminars and/or conferences and/or forums
 B: giving talks at seminars and/or conferences and/or forums
 C: reading newspapers, journals and updates relating to the economy, general business, retails or director's duties and responsibilities, etc.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the 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.

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*
Ms. Ada Ying Kay Wong (*Independent Non-executive Director*)
Mr. Ho Kwai Ching Mark (*Independent Non-executive Director*)
Mr. Zhou Fang Sheng (*Independent Non-executive Director*)
Mr. Theil Paul Marin (*Independent Non-executive Director*)

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. During the year ended 31 December 2020, one remuneration committee meeting was held.

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 2020 are showed in Note 39 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; and
- reviewed and approved the proposed 2020 overall remuneration of the Group.

AUDIT COMMITTEE

The Audit Committee was formed to review and supervise the financial reporting process, internal controls and risk management matters of the Company. The Audit Committee comprises five 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. Theil Paul Marin, Mr. Chan Henry, Mr. Ho Kwai Ching Mark and Mr. Zhou Fang Sheng.

Its terms of reference are aligned with the recommendations set out in "A Guide for Effective Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Corporate Governance Code. 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 the risk management and internal controls systems 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 had 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;
- reviewed to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- discussed on auditing, internal control, risk management and financial reporting matters before recommending them to the Board for approval.

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.

NOMINATION COMMITTEE

The principal role of nomination committee of the Company ("Nomination Committee") is to make recommendations to the Board on the appointment of board member, the structure, size and composition of the Board, and to review the independence of the independent non-executive directors and the suitability of directors who will stand for re-election.

The Nomination Committee consists of a majority of Independent Non-executive Directors and its members are Mr. Sze Man Bok (Chairman of the Board), Mr. Hui Lin Chit (Chief Executive Officer), and all Independent Non-executive Directors, Mr. Ho Kwai Ching Mark (Chairman of the Nomination Committee), Ms. Ada Ying Kay Wong, Mr. Chan Henry, Mr. Zhou Fang Sheng and Mr. Theil Paul Marin.

The director nomination policy aims to set out the relevant selection criteria and nomination procedures.

In assessing the suitability of a proposed candidate, the following criteria would be considered as reference by the Nomination Committee, including but not limited to:

- (a) Character and integrity.
- (b) Qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy.
- (c) Any measurable objectives adopted for achieving diversity on the Board.
- (d) Requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules.
- (e) Any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity.
- (f) Willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company.

For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation. A circular setting out information as required pursuant to the applicable laws, rules and regulations of the proposed candidates will be sent to the shareholders. The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

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

- (i) reviewed the structure, size and composition of the Board, considering inter alia the skills, knowledge, the breadth of expertise of the Board as a whole, and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- (ii) assess the independence of Independent Non-executive Directors and confirmed that all independent non-executive directors are considered independent; and
- (iii) made recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

In accordance with Articles 99 and 116 of the Articles of Association of the Company and the Corporate Government Code, Mr. Hui Ching Lau, Mr. Xu Da Zuo, Mr. Hui Ching Chi, Mr. Sze Wong Kim, Ms. Ada Ying Kay Wong and Mr. Ho Kwai Ching Mark will retire office at the Company's annual general meeting to be held on 17 May 2021 ("AGM"), and being eligible, offer themselves for re-election.

BOARD MEETING AND DIRECTOR'S ATTENDANCE

Directors' attendance at the Board, Remuneration Committee, Nomination Committee, Audit Committee and general meetings in 2020:

Directors	Attendance/Number of Meetings Held				Annual General Meeting
	Full Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	
Executive Directors					
Mr. Sze Man Bok (<i>Chairman</i>)	4/4	N/A	N/A	1/1	1/1
Mr. Hui Lin Chit (<i>Deputy-chairman and Chief Executive Officer</i>)	4/4	N/A	1/1	1/1	1/1
Mr. Hung Ching Shan	4/4	N/A	N/A	N/A	1/1
Mr. Hui Ching Lau (appointed on 10 December 2020)	1/4	N/A	N/A	N/A	N/A
Mr. Xu Shui Shen	4/4	N/A	N/A	N/A	1/1
Mr. Xu Da Zuo	4/4	N/A	N/A	N/A	1/1
Mr. Xu Chun Man	4/4	N/A	N/A	N/A	1/1
Mr. Sze Wong Kim	4/4	N/A	N/A	N/A	1/1
Mr. Hui Ching Chi	4/4	N/A	N/A	N/A	1/1
Mr. Li Wai Leung	4/4	2/2*	1/1*	1/1*	1/1
Independent Non-executive Directors					
Mr. Chan, Henry	4/4	2/2	1/1	1/1	1/1
Ms. Ada Ying Kay Wong	4/4	2/2	1/1	1/1	1/1
Mr. Ho Kwai Ching, Mark	4/4	2/2	1/1	1/1	1/1
Mr. Zhou Fang Sheng	4/4	2/2	0/1	0/1	1/1
Mr. Theil Paul Marin	4/4	2/2	1/1	1/1	1/1

During the year, the Chairman of the Company has held a meeting with Independent Non-executive Directors without the presence of the Executive Directors.

The Company's external auditor also attended the annual general meeting.

* Being the secretary of the meetings.

AUDITOR'S REMUNERATION

The Group was charged approximately RMB6,000,000 and RMB7,516,000 (RMB5,240,000 is capitalised) by the Company's external auditor, PricewaterhouseCoopers, for auditing and non-auditing services respectively for the year ended 31 December 2020. Non-auditing services mainly included services provided for tax advisory services, preliminary announcements of results provided, prepare for "Environmental, Social and Governance Report" and assist to design management reports etc 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 reviews and monitors all critical aspects of the Group's authorities and its internal controls. Internal audit reports are presented to the Board and the Audit Committee on a quarterly basis. The Audit Committee has also annually reviewed the adequacy of resources, qualifications, experience and training programs of the Group's internal audit staff and accounting and financial reporting staff and considered that the staffing is adequate and the staff are competent to carry out their roles and responsibilities.

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 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. In 2010, the Group appointed Shenzhen Holographic Management Consulting & Training Limited ("HMCT") as the Group's consulting firm, which helped to improve the operational flows of the Group's supply chain management and optimise human resource management.

Through the Audit Committee, the Board has conducted annual review of the effectiveness of the Group's internal control systems for the year ended 31 December 2020 and considered that the Group's internal control systems effective and adequate and is of the view that the system of internal control adopted for the year ended 31 December 2020 is sound and effective to safeguard the interests of the shareholders' investments and the Group's assets.

DIVIDEND POLICY

The Company does not have any pre-determined dividend payout ratio. The Board has the discretion to declare and distribute dividends to the shareholders of the Company, subject to the Articles of Association of the Company and all applicable laws and regulations and the factors set out below.

The Board will also take into account the financial results; cash flow situation; balance of distributable reserves; business conditions and strategies; statutory fund reserve requirements; capital requirements and expenditure plans; future operations and earnings; interests of shareholders; any restrictions on payment of dividends; and any other factors that the Board may consider relevant of the Group when considering the declaration and payment of dividends.

The Board will consider to maintain 60% dividend payout ratio to declare and distribute dividends to the shareholders of the Company.

RISK MANAGEMENT

In 2020, a risk checklist with risk mitigation actions and risk owners was compiled by taking emerging risks into account for continuous risk assessment purpose. Risk owners are required to take mitigating actions to address the identified risks. Such actions are integrated in the day-to-day activities and their effectiveness is closely monitored. The risk checklist has been tabled for discussion by the Audit Committee, a summary of the identified key risks and related risk mitigating actions have also been reported to the Board through the Audit Committee members. The summary facilitates the Board in considering the changes in the nature and extent of significant risks, the Group's ability to respond to changes in its business and the external environment, as well the scope and quality of management's ongoing risk monitoring and related mitigating internal control measures.

Through the Audit Committee, the Board has conducted annual review of the effectiveness of the Group's risk management for the year ended 31 December 2020 and considered the Group's risk management effective and adequate.

INVESTOR RELATIONS

(i) 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.

Shareholders can make any query in respect of the Company or to make a request for the Company's information to the extent such information is publicly available. The designated contact details are as follows:

By post: Hengan International Group Company Limited
Unit 2101D, 21/F., Admiralty Centre,
Tower I, 18 Harcourt Road, Hong Kong
By fax: (852) 2799 7372

Shareholders' questions about their shareholdings should be directed to Tricor Abacus Limited, the Company's branch share registrar, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(ii) Procedures for Shareholders to Convene an Extraordinary General Meeting (“EGM”)

Pursuant to the Article 72 of Articles of Association of the Company, the Board shall, on the requisition of the members of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the company of the Company, forthwith proceed duly to convene an EGM of the Company.

The requisition must state the objects of the meeting, and must be signed by the requisitionists and deposited at the Company’s principal place of business in Hong Kong, and may consist of several documents in like form, each signed by one or more requisitionists.

If the Board do not within 21 days from the date of the deposit of the requisition proceed duly to convene the meeting, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of 3 months from the said date. A meeting convened under this Article by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Board. Any reasonable expenses incurred by the requisitionists by reason of the failure of the Board duly to convene a meeting shall be repaid to the requisitionists by the Company.

(iii) Procedures for Putting Forward Proposals at a General Meeting

Shareholders are welcomed to suggest proposals to be discussed at shareholders’ meeting. Proposal shall be sent to the Company Secretary of the Company by written requisition. Pursuant to the articles of association of the Company, Shareholders who wish to put forward a Proposal should convene an extraordinary general meeting by following the procedures set out in “Procedures for Shareholders to Convene an Extraordinary General Meeting”.

(iv) Procedures for Proposing a Person for Election as a Director

As regards the Procedure for proposing a person for election as a Director, please refer to the Procedures made available under the “Corporate Governance” section of the Company’s website at www.hengan.com.

CONSTITUTIONAL DOCUMENTS

An updated version of the Company’s Memorandum of Association and Articles of Association are available on both the websites of the Company and the Stock Exchange.

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 2020.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

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

	2020		2019	
	Revenue	Contribution to operating profit	Revenue	Contribution to operating profit
	RMB'000	RMB'000	RMB'000	RMB'000
Personal hygiene products				
— Sanitary napkin products	6,654,711	3,215,281	6,487,003	3,104,858
— Disposable diaper products	1,425,567	119,363	1,439,087	151,365
— Tissue paper products	10,382,758	1,040,685	11,486,538	843,218
Others	3,910,965	266,831	3,080,217	123,943
	22,374,001	4,642,160	22,492,845	4,223,384

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

	2020		2019	
	Revenue	Percentage of total revenue (%)	Revenue	Percentage of total revenue (%)
	RMB'million		RMB'million	
PRC				
Fujian and Jiangxi	6,774	30.3	6,662	29.6
North-western	852	3.8	872	3.9
South-western	1,787	8.0	1,958	8.7
Guangdong, Guangxi, Hunan and Hubei	3,311	14.8	3,671	16.3
North-eastern	690	3.1	705	3.1
Northern	1,050	4.7	1,078	4.8
Shandong and Henan	1,722	7.7	1,840	8.2
Eastern	3,182	14.2	3,022	13.4
Hong Kong and Macau	2,263	10.1	2,126	9.5
Overseas	743	3.3	559	2.5
	22,374	100	22,493	100

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of profit or loss on pages 50 to 51.

The Directors declared an interim dividend of RMB1.20 (2019: RMB1.00) per ordinary share, totalling RMB1,427,625,000 (2019: RMB1,189,677,000), which was paid on 7 October 2020.

The Directors recommend the payment of/paid a final dividend of RMB1.30 (2019: RMB1.25) per ordinary share, totalling RMB1,542,239,000 (2019: RMB1,487,109,000). Such dividend is to be approved by shareholders of the Company at the annual general meeting to be held on 17 May 2021.

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 54.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately RMB23,758,000 (2019: RMB316,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 13 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 25 to the accounts.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution comprise the share premium account and retained earnings. At 31 December 2020, the reserves of the Company available for distribution to shareholders amounted to RMB8,168,828,000 (2019: RMB6,263,214,000), subject to the restrictions stated in Note 27 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

During the year ended 31 December 2020, the Company repurchased a total of 3,350,000 ordinary shares on the Stock Exchange at an aggregate consideration of approximately HK\$178,976,420 (excluding expenses) for enhancing its per share net asset value and earnings. Details of the repurchase of shares are summarized as follows:

Date of repurchase	Number of shares repurchased	Highest price paid HK\$	Lowest price paid HK\$
29 October 2020	550,000	53.45	51.45
30 October 2020	500,000	54.80	53.45
2 November 2020	800,000	53.55	52.25
3 November 2020	500,000	53.90	53.25
4 November 2020	500,000	54.70	53.60
10 November 2020	500,000	54.10	53.30
	<u>3,350,000</u>		

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2020.

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. Hung Ching Shan
 Mr. Hui Ching Lau (appointed on 10 December 2020)
 Mr. Xu Shui Shen
 Mr. Xu Da Zuo
 Mr. Xu Chun Man
 Mr. Sze Wong Kim
 Mr. Hui Ching Chi
 Mr. Li Wai Leung

Independent Non-Executive Directors

Mr. Chan Henry
 Ms. Ada Ying Kay Wong
 Mr. Ho Kwai Ching Mark
 Mr. Zhou Fang Sheng
 Mr. Theil Paul Marin

In accordance with Articles 99 and 116 of the Articles of Association of the Company and the Corporate Government Code, Mr. Hui Ching Lau, Mr. Xu Da Zuo, Mr. Hui Ching Chi, Mr. Sze Wong Kim, Ms. Ada Ying Kay Wong and Mr. Ho Kwai Ching Mark will retire office at the AGM, and being eligible, offer themselves for re-election.

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 letters of appointment of Mr. Chan Henry and Ms. Ada Ying Kay Wong shall expire on 15 December 2023. Mr. Ho Kwai Ching Mark and Mr. Zhou Fang Sheng shall expiry on 31 December 2021, while Mr. Theil Paul Marin shall expiry on 16 May 2022.

BIOGRAPHICAL AND EMOLUMENT DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and senior management are set out on pages 21 to 25.

Directors' and Senior Management Emoluments

Directors' emoluments are set out on pages 121 to 122. The emoluments payable to nine senior management (2019: six senior management) during the year fell within the following bands:

	Number of individuals	
	2020	2019
Emolument bands		
Below HK\$500,000 (equivalent to below RMB444,350)	2	1
HK\$500,001 to HK\$1,000,000 (equivalent to RMB444,351 to RMB888,700)	6	3
HK\$1,500,000 to HK\$2,000,000 (equivalent to RMB1,333,050 to RMB1,777,400)	1	2

DIRECTORS' INTERESTS IN CONTRACTS

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.

DIRECTOR'S INTERESTS IN THE SHARES AND SHARE OPTIONS IN THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31 December 2020, 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 Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange were as follows:

Name of Directors	Capacity/Nature of Interest Number of shares		Number of unlisted shares (Note (1))	Total	Approximate percentage of shareholding
	Personal interests/ Beneficiary	Family Interest			
Mr. Sze Man Bok (Note (2))	238,990,399	—	20,000	239,010,399	20.15%
Mr. Hui Lin Chit (Note (3))	266,492,733	—	148,000	266,640,733	22.48%
Mr. Hung Ching Shan (Note (4))	7,150,000	—	—	7,150,000	0.60%
Mr. Xu Shui Shen	—	33,030	110,000	143,030	0.01%
Mr. Xu Da Zuo (Note (5))	17,270,000	—	108,000	17,378,000	1.46%
Mr. Xu Chun Man (Note (6))	11,540,000	—	20,000	11,560,000	0.97%
Mr. Sze Wong Kim	851,700	—	20,000	871,700	0.07%
Mr. Hui Ching Chi	40,000	—	20,000	60,000	0.01%

Notes:

- (1) Unlisted shares represent share options granted to Directors pursuant to share option scheme of the Company and details of which are set out on pages 41 to 42.
- (2) Out of the 238,990,399 ordinary shares, Tin Lee Investments Limited ("Tin Lee") held 238,414,799 ordinary shares while Mr. Sze had personal interests in 575,600 ordinary shares in the Company. Tin Lee 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 Credit Suisse Trust Limited ("Credit Suisse") as nominee and being the trustee of the Sze's Family Trust. Mr. Sze Man Bok is the settlor and beneficiary of the Sze's Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Sze's Family Trust in the Company.
- (3) An Ping Holdings Limited held 266,492,733 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 Credit Suisse as nominee and being 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) Out of the 7,150,000 ordinary shares, Wan Li Company Limited ("Wan Li") held 7,100,000 shares in the Company while Mr. Hung had personal interests in 50,000 ordinary shares in the Company. Wan Li is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Manley Investments Limited ("Manley"). Manley is a company incorporated in the Bahamas and owned by Credit Suisse as nominee and being the trustee of the Wan Li Trust. Mr. Hung Ching Shan is the settlor and beneficiary of the Wan Li Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Wan Li Trust in the Company.
- (5) Skyful Holdings Limited held 17,270,000 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 Credit Suisse as nominee and being 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.
- (6) Out of the 11,540,000 ordinary shares, Zhong Shen Holdings Limited ("Zhong Shen") holds 11,500,000 shares in the Company while Mr. Xu had personal interests in 40,000 ordinary shares in the Company. Zhong Shen is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Zhong Shen Limited ("Zhong Shen"). Zhong Shen is a company incorporated in the British Virgin Islands and owned by HSBC International Trustee Limited as nominee and being the trustee of Zhong Shen Trust. Mr. Xu Chun Man is the settlor and beneficiary of Zhong Shen Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of Zhong Shen Trust in the Company.
- (7) 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.

SHARE OPTION SCHEMES

- (1) The terms of the share option scheme of the Company adopted on 26 May 2011 (the "Scheme") are summarised as follows:

- (i) **Purpose of the Scheme**

The purpose of the Scheme is to enable participants of the Group to acquire ownership interests in the Company and to encourage participants 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 period of the Scheme to make an offer to any participants, as the Board may at its absolute discretion determine and select subject to terms and conditions of the Schemes.

The basis of eligibility of any of the participants 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 Prices

The subscription prices for the shares of the Company under the Scheme are 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 under the Scheme are 102,422,872, which are 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 Participant

The maximum number of shares issued and to be issued upon exercise of options granted under the Scheme of the Company to any participant (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 up to 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 participants 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 and the offer of the grant of an option at any time commencing on the date of grant and expiring on such date as determined by the Board provided that the option may not be exercised after the expiration of 10 years from the date of grant.

(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 26 May 2021.

- (2) Details of movements in the share options as at 31 December 2020 which have been granted under the Scheme are as follows:

Eligible person	Number of share options					Balance as at 31/12/2020	Exercise price per share HK\$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
	Balance as at 01/01/2020	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled or lapsed during the period				
Directors									
Mr. Sze Man Bok	10,000	–	–	–	–	10,000	72.75	27/07/2012	28/07/2015–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2016–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Hui Lin Chit	74,000	–	–	–	–	74,000	72.75	27/07/2012	28/07/2015–27/07/2022
	37,000	–	–	–	–	37,000	72.75	27/07/2012	28/07/2016–27/07/2022
	37,000	–	–	–	–	37,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Xu Shui Shen	30,000	–	–	–	–	30,000	72.75	27/07/2012	28/07/2015–27/07/2022
	40,000	–	–	–	–	40,000	72.75	27/07/2012	28/07/2016–27/07/2022
	40,000	–	–	–	–	40,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Xu Da Zuo	54,000	–	–	–	–	54,000	72.75	27/07/2012	28/07/2015–27/07/2022
	27,000	–	–	–	–	27,000	72.75	27/07/2012	28/07/2016–27/07/2022
	27,000	–	–	–	–	27,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Xu Chun Man	10,000	–	–	–	–	10,000	72.75	27/07/2012	28/07/2015–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2016–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Sze Wong Kim	10,000	–	–	–	–	10,000	68.30	28/07/2011	28/07/2014–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2015–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2016–27/07/2021
Mr. Hui Ching Chi	10,000	–	–	–	–	10,000	68.30	28/07/2011	28/07/2014–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2015–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2016–27/07/2021

Eligible person	Number of share options					Balance as at 31/12/2020	Exercise price per share HK\$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
	Balance as at 01/01/2020	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled or lapsed during the period				
Participants	881,500	–	(5,000)	–	–	876,500	68.30	28/07/2011	28/07/2014–27/07/2021
	464,250	–	(2,500)	–	–	461,750	68.30	28/07/2011	28/07/2015–27/07/2021
	463,250	–	(2,500)	–	–	460,750	68.30	28/07/2011	28/07/2016–27/07/2021
	3,739,000	–	–	–	–	3,739,000	72.75	27/07/2012	28/07/2015–27/07/2022
	1,991,500	–	–	–	–	1,991,500	72.75	27/07/2012	28/07/2016–27/07/2022
	2,011,304	–	–	–	–	2,011,304	72.75	27/07/2012	28/07/2017–27/07/2022
	2,666,500	–	–	–	–	2,666,500	79.20	05/10/2015	05/10/2018–05/10/2025
	1,333,250	–	–	–	–	1,333,250	79.20	05/10/2015	05/10/2019–05/10/2025
	1,333,250	–	–	–	–	1,333,250	79.20	05/10/2015	05/10/2020–05/10/2025
	15,329,804	–	(10,000)	–	–	15,319,804			

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 2011 to Directors	Options granted in 2011 to employees	Options granted in 2012 to Directors	Options granted in 2012 to employees	Options granted in 2015 to employees
Risk free rate	2.3%	2.3%	0.8%	0.8%	1.5%
	per annum	per annum	per annum	per annum	per annum
Expected volatility	33.3%	33.3%	32.5%	32.5%	34.5%
	per annum	per annum	per annum	per annum	per annum
Expected dividend yield	2.0%	2.0%	1.8%	1.8%	2.041%
	per annum	per annum	per annum	per annum	per annum
Trigger price multiple	2.2 times	1.6 times	2.2 times	1.6 times	2.51 times
Expected turnover rate	5.8%	14.7%	4.8%	27.1%	16.70%
	per annum	per annum	per annum	per annum	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 2020, amounted to RMB4,641,000 (2019: RMB11,606,000) and there is no remaining unamortised fair value (2019: RMB4,595,000) will be charged to the consolidated statement of profit or loss 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 AND 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 2020, 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	238,414,799 (L)	20.10%
Tin Wing Holdings Limited	(1)	Interests of controlled corporation	238,414,799 (L)	20.10%
An Ping Holdings Limited	(2)	Beneficial owner	266,492,733 (L)	22.46%
An Ping Investments Limited	(2)	Interests of controlled corporation	266,492,733 (L)	22.46%
Credit Suisse Trust Limited	(3)	Trustee	549,587,619 (L)	46.33%

(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 Credit Suisse Trust Limited as nominee and being the trustee of the 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 Credit Suisse Trust Limited as nominee and being the trustee of the Hui Family Trust.
- (3) Credit Suisse Trust Limited is the trustee of the Sze's Family Trust, the Hui Family Trust, the Xu Family Trust, the Wan Li Trust and others 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	11.1%
— five largest suppliers combined	34.2%

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 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 19 March 2021.

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, 19 March 2021

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

To the Shareholders of Hengan International Group Company Limited
(incorporated in Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Hengan International Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 50 to 122, which comprise:

- the consolidated balance sheet as at 31 December 2020;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.



KEY AUDIT MATTERS

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

A key audit matter identified in our audit is summarised as follows:

- Revenue recognition – sales of goods

Key Audit Matter

How our audit addressed the Key Audit Matter

Revenue recognition – sales of goods

Refer to notes 2 (21) (Summary of significant accounting policies) and 5 (Revenue and segment information) to the Group's consolidated financial statements.

Revenue from sales of goods amounted to RMB22,374 million for the year ended 31 December 2020. Revenue is recognised net of estimated volume discount and other customer incentives when the Group satisfies a performance obligation by transferring the control of promised good or service to a customer in an amount that reflects the consideration to which the Group expects to be entitled in exchange for that good or service.

We focused on this area due to the huge volume of revenue transactions generated from sales of numerous kinds of products to a large number of customers, including direct customers and distributors, in many different locations.

We understood, evaluated and validated, on a sample basis, management's key controls in respect of the Group's activities in relation to contract with customers including identification of key contract terms and obligation for goods delivery, acceptance, volume discount and customer incentives; recording sales transactions from customer orders' approval, goods delivery, sales recording, obtaining customer's goods receipt notes, cash receipts, through to subsequent settlements of trade receivables. In addition, we tested the general IT control environment of the Group's systems and the specific automated controls associated with revenue recording to assess the completeness and accuracy of the revenue entries being recorded in the general ledger accounting system.

We inspected agreements with major customers, on a sample basis, to understand the terms of the sales transactions including the terms of delivery, applicable rebate and discount arrangements and any sales return arrangements to assess if the Group's revenue recognition criteria were in accordance with the requirements of the prevailing accounting standards.

We conducted testing of revenue recorded covering different locations and customers by examining the relevant supporting documents including customer orders, goods delivery notes and customer's receipt notes. In addition, we confirmed selected trade receivables balances as at the balance sheet date. The items tested were selected on a sample basis by considering the amount, nature and characteristics of the customers.

Furthermore, we tested sales transactions that took place shortly before and after the balance sheet date to assess whether revenue was recognised in the correct reporting periods.

Based on the work performed, we found the Group's revenue from sales of goods being tested were recognised in a manner consistent with the Group's revenue recognition accounting policy.



OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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



AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

The engagement partner on the audit resulting in this independent auditor's report is Esmond S.C. Kwan.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 19 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS



For the year ended 31 December 2020

	Note	Year ended 31 December	
		2020 RMB'000	2019 RMB'000
Revenue	5	22,374,001	22,492,845
Cost of goods sold	7	(12,918,146)	(13,803,888)
Gross profit		9,455,855	8,688,957
Selling and distribution costs	7	(3,468,931)	(3,202,780)
Administrative expenses	7	(1,363,991)	(1,284,556)
Net impairment losses on financial assets	7	(4,163)	(7,614)
Other income and other gains – net	6	1,773,618	1,486,289
Operating profit		6,392,388	5,680,296
Finance income	8	291,811	140,069
Finance costs	8	(718,295)	(773,478)
Finance costs – net		(426,484)	(633,409)
Share of net losses of associates		(4,482)	–
Profit before income tax		5,961,422	5,046,887
Income tax expense	9	(1,352,980)	(1,129,784)
Profit for the year		4,608,442	3,917,103
Profit attributable to:			
Shareholders of the Company		4,594,815	3,907,723
Non-controlling interests		13,627	9,380
		4,608,442	3,917,103
Earnings per share for profit attributable to shareholders of the Company			
– Basic	10	RMB3.864	RMB3.285
– Diluted	10	RMB3.864	RMB3.285

The notes on pages 57 to 122 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020



Year ended 31 December

	2020 RMB'000	2019 RMB'000
Profit for the year	4,608,442	3,917,103
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
– Currency translation differences	(19,460)	(39,511)
Total comprehensive income for the year	4,588,982	3,877,592
Attributable to:		
Shareholders of the Company	4,592,157	3,858,224
Non-controlling interests	(3,175)	19,368
Total comprehensive income for the year	4,588,982	3,877,592

The notes on pages 57 to 122 are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2020

		As at 31 December	
	Note	2020 RMB'000	2019 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	13	7,571,430	7,822,457
Right-of-use assets	14	970,171	988,245
Construction-in-progress	16	489,052	543,534
Investment properties	15	213,609	226,233
Intangible assets	17	755,444	724,620
Prepayments for non-current assets	18	327,989	120,293
Deferred income tax assets	30	435,853	213,211
Investments in associates	35	97,188	101,670
Financial assets at fair value through profit or loss	24	156,593	–
Long-term bank time deposits	23	3,482,147	2,430,082
		14,499,476	13,170,345
Current assets			
Inventories	20	4,310,918	3,802,496
Trade and bills receivables	21	3,375,149	3,651,224
Other receivables, prepayments and deposits	21	1,616,952	1,956,862
Current income tax recoverable		48,995	97,511
Derivative financial instruments	22	–	12,858
Restricted bank deposits		4,812	7,209
Financial assets at fair value through profit or loss	24	100,884	–
Cash and bank balances	23	20,483,739	20,540,270
		29,941,449	30,068,430
Total assets		44,440,925	43,238,775
Equity			
Equity attributable to shareholders of the Company			
Share capital	25	125,366	125,654
Other reserves	27	3,133,402	3,203,594
Retained earnings	28	16,152,622	14,543,693
		19,411,390	17,872,941
Non-controlling interests		250,084	278,937
Total equity		19,661,474	18,151,878

The notes on pages 57 to 122 are an integral part of the consolidated financial statements.



		As at 31 December	
	Note	2020 RMB'000	2019 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	29	2,492,618	1,246,992
Lease liabilities	14	8,665	4,365
Deferred income tax liabilities	30	216,222	171,467
		2,717,505	1,422,824
Current liabilities			
Trade and bills payables	31	2,244,205	2,223,894
Other payables and accrued charges	31	1,310,282	907,752
Contract liabilities	5	134,847	145,230
Derivative financial instruments	22	15,643	19,788
Lease liabilities	14	11,110	5,960
Current income tax liabilities		2,177	–
Borrowings	29	18,343,682	20,361,449
		22,061,946	23,664,073
Total liabilities		24,779,451	25,086,897
Total equity and liabilities		44,440,925	43,238,775

The notes on pages 57 to 122 are an integral part of the consolidated financial statements.

The consolidated financial statements on pages 50 to 122 were approved by the Board of Directors on 19 March 2021 and were signed on its behalf.

Director
Sze Man Bok

Director
Hui Lin Chit

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020



	Note	Attributable to shareholders of the Company				Non-controlling interests	Total equity
		Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	RMB'000	RMB'000
Balance at 1 January 2020		125,654	3,203,594	14,543,693	17,872,941	278,937	18,151,878
Profit for the year		–	–	4,594,815	4,594,815	13,627	4,608,442
Currency translation differences	27(c)	–	(2,658)	–	(2,658)	(16,802)	(19,460)
Total comprehensive income		–	(2,658)	4,594,815	4,592,157	(3,175)	4,588,982
Transactions with owners:							
2019 final dividends paid	11	–	–	(1,487,109)	(1,487,109)	(2,449)	(1,489,558)
2020 interim dividends paid	11	–	–	(1,427,625)	(1,427,625)	(10,236)	(1,437,861)
Share-based compensation							
– value of employee services	26,27	–	4,641	–	4,641	–	4,641
– proceeds from shares issued	25,27	1	606	–	607	–	607
Change in ownership interests in subsidiaries without change of control		–	10,187	–	10,187	(26,655)	(16,468)
Buy-back of shares	25,27	–	(154,409)	–	(154,409)	–	(154,409)
Cancellation of shares	25,27,28	(289)	289	–	–	–	–
Capital contribution by non-controlling interests		–	–	–	–	13,662	13,662
Total of transactions with owners		(288)	(138,686)	(2,914,734)	(3,053,708)	(25,678)	(3,079,386)
Appropriation to statutory reserves	27,28	–	71,152	(71,152)	–	–	–
Balance at 31 December 2020		125,366	3,133,402	16,152,622	19,411,390	250,084	19,661,474

The notes on pages 57 to 122 are an integral part of the consolidated financial statements.



	Note	Attributable to shareholders of the Company					Non-controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000			
Balance at 1 January 2019		127,092	2,614,789	13,983,279	16,725,160	273,519		16,998,679
Profit for the year		–	–	3,907,723	3,907,723	9,380		3,917,103
Currency translation differences	27(c)	–	(49,499)	–	(49,499)	9,988		(39,511)
Total comprehensive income		–	(49,499)	3,907,723	3,858,224	19,368		3,877,592
Transactions with owners:								
2018 final dividends paid	11	–	–	(1,427,613)	(1,427,613)	(9,521)		(1,437,134)
2019 interim dividends paid	11	–	–	(1,189,677)	(1,189,677)	(629)		(1,190,306)
Share-based compensation								
– value of employee services	26,27	–	11,606	–	11,606	–		11,606
– proceeds from shares issued	25,27	1	300	–	301	–		301
Change in ownership interests in subsidiaries without change of control		–	–	–	–	(3,800)		(3,800)
Buy-back of shares	25,27	–	(105,060)	–	(105,060)	–		(105,060)
Cancellation of shares	25,27,28	(1,439)	692,958	(691,519)	–	–		–
Total of transactions with owners		(1,438)	599,804	(3,308,809)	(2,710,443)	(13,950)		(2,724,393)
Appropriation to statutory reserves	27,28	–	38,500	(38,500)	–	–		–
Balance at 31 December 2019		125,654	3,203,594	14,543,693	17,872,941	278,937		18,151,878

The notes on pages 57 to 122 are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT



For the year ended 31 December 2020

		Year ended 31 December	
	Note	2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Cash generated from operations	32(a)	6,523,380	4,604,577
Income tax paid		(1,481,714)	(1,188,719)
Net cash generated from operating activities		5,041,666	3,415,858
Cash flows from investing activities			
Purchase of property, plant and equipment, intangible assets, and land use rights, including additions of construction-in-progress	32(b)	(760,696)	(898,140)
Proceeds from disposal of property, plant and equipment		4,844	16,310
Decrease in long-term and short-term bank time deposits, net		1,491,349	996,355
Acquisition of subsidiaries, net of cash acquired		—	(39,012)
Interest received		1,078,152	1,037,887
Payments for financial assets at fair value through profit or loss	24	(257,477)	—
Net cash generated from investing activities		1,556,172	1,113,400
Cash flows from financing activities			
Proceeds from capital contribution by non-controlling interests		10,505	—
Proceeds from borrowings	32(c)	23,288,300	20,254,466
Repayment of borrowings	32(c)	(23,337,842)	(23,127,359)
Lease payments for right-of-use assets excluding land use rights	32(c)	(13,433)	(10,778)
Decrease/(increase) in restricted bank deposits		2,397	(2,539)
Transactions with non-controlling interests		(16,468)	(3,800)
Buy-back of shares		(154,409)	(215,571)
Interest paid	32(c)	(788,041)	(808,043)
Dividends paid	11	(2,914,734)	(2,617,290)
Dividends paid to non-controlling interests		(6,253)	(7,970)
Proceeds from shares issued under the employee share option scheme		607	301
Net cash used in financing activities		(3,929,371)	(6,538,583)
Increase/(decrease) in cash and cash equivalents		2,668,467	(2,009,325)
Cash and cash equivalents at 1 January	23	9,120,176	11,068,299
Effect of foreign exchange rate changes		(181,584)	61,202
Cash and cash equivalents at 31 December	23	11,607,059	9,120,176

The notes on pages 57 to 122 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020



1 GENERAL INFORMATION

Hengan International Group Company Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in the manufacturing, distribution and sale of personal hygiene products in the People’s Republic of China (the “PRC”) and certain overseas markets.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is P.O. Box 309, Uglan House, Grand Cayman, KY1-1104, British West Indies.

The Company’s shares have been listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) since December 1998.

These consolidated financial statements were presented in Renminbi (“RMB”), unless otherwise stated.

These consolidated financial statements were approved for issue by the Board of Directors on 19 March 2021.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss (“FVPL”), which are carried at fair value.

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



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(1) Basis of preparation (continued)

(i) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group assessed the adoption of these new and amended standards and concluded that they did not have a significant impact on the Group's results and financial position.

Standards and amendments		Effective for annual periods beginning on or after
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
Amendments to HKFRS 7, HKFRS 9 and HKAS 39	Interest Rate Benchmark Reform	1 January 2020
Amendments to HKFRS 16	COVID-19-related Rent Concessions	1 June 2020

(ii) New and amended standards not yet adopted

Certain new and amended standards and interpretations are effective for annual periods beginning after 1 January 2020 and have not been early adopted in preparing these consolidated financial statements. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Standards and amendments		Effective for annual periods beginning on or after
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2022
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
HKFRS 17	Insurance contracts	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Annual Improvements to HKFRS Standards 2018–2020		1 January 2022



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(2) Principles of consolidation and equity accounting subsidiaries

(i) *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group 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 transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of change in equity and consolidated balance sheet respectively.

(ii) *Associates*

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income ("OCI") of the investee in OCI. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group determines at each reporting date whether there is any objective evidence that the investment in an associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of net losses of associates' in consolidated statement of profit or loss.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2) Principles of consolidation and equity accounting subsidiaries (continued)

(iii) *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRSs.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (Note 2(7)(i)). If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of profit or loss.

(iv) *Changes in ownership interests*

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

(v) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in OCI in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in OCI are reclassified to profit or loss.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2) Principles of consolidation and equity accounting subsidiaries (continued)

(vi) *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend 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 financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(3) 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 Executives Directors who make strategic decisions.

(4) Foreign currency translation

(i) *Functional and presentation currency*

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

(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 remeasured. 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 consolidated statement of profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss within "finance income" and "finance costs", where applicable. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss within "other income and other gains – net".

(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:

- (1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (2) income and expenses for each income statement are translated at average exchange rates (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 rates on the dates of the transactions); and
- (3) all resulting currency translation differences are recognised in OCI.

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.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(5) 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.

Construction-in-progress ("CIP") represents buildings, machineries and software under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. No depreciation is made on CIP until such time as the relevant assets are completed and ready for their intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

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 consolidated statement of profit or loss during the financial period in which they are incurred.

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

Buildings	20 years
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 the end of each reporting period.

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(8)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "other income and other gains – net" in the consolidated statement of profit or loss.

(6) Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

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



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(7) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(ii) Trademarks and licences

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences 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.

(iv) Computer software

Computer software represent purchased software and are amortised over their estimated useful lives, which do not exceed 10 years.

(8) Impairment of investments in non-financial assets

Goodwill is not subject to amortisation and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(9) Financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments as financial assets measured at amortised cost, financial assets measured subsequently at fair value through OCI, and financial assets measured subsequently at fair value through profit or loss.

Financial assets measured at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of profit or loss.

Financial assets measured at FVPL

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(9) Financial assets (continued)

(iv) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and bills receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3(a)(ii) for further details.

(10) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured 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/liabilities at fair value through profit or loss and the changes in fair value are recognised in the consolidated statement of profit or loss under "other income and other gains – net" in the year in which they arise.

(11) 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.

(12) Trade, bills and other receivables

Trade and bills receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade, bills 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 receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 2(9) for further information about the Group's accounting for trade and bills receivables and Note 2(9)(iv) and 3(a)(ii) for a description of the Group's impairment policies.

(13) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(14) 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.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's shareholders until the shares are cancelled.

(15) Trade and bills payables

Trade and bills 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. 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.

(16) 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 consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facilities will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facilities will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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.

(17) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowing costs include interest expense, finance charges and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(17) Borrowing costs *(continued)*

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined on a cumulative basis based on the cumulative amounts of interest expenses that would have been incurred had the entity borrowed in its functional currency. The total amount of foreign exchange differences capitalised cannot exceed the amount of total net foreign exchange differences incurred on a cumulative basis at the end of the reporting period.

(18) Current and deferred income tax

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

(i) Current income tax

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 and associates 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 and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

(ii) Deferred income tax

(a) Inside basis differences

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 financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, 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.

(b) Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability 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 are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(18) Current and deferred income tax (continued)

(iii) Offsetting

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 tax 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.

(19) Employee benefits

(i) Retirement benefits

The Group's companies in Mainland China participate in defined contribution retirement schemes administered by local governments in different locations of the PRC (the "Central Schemes"). The Group's companies and the employees in Mainland China are required to make cash contributions calculated at certain percentages of the employees' basic salaries to the Central Schemes.

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\$1,500, equivalent to RMB1,333 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 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 an equity-settled share-based payment plan (Note 26). 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 expenses. 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. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium account.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(20) 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.

(21) Revenue recognition

The Group manufactures and sells a range of personal hygiene products including sanitary napkin products, disposable diaper products and tissue paper products in the market. Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The personal hygiene products are often sold with retrospective volume discounts based on aggregate sales over a period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in other payables and accrued charges) is recognised for expected volume discounts payable to customers in relation to sales. No element of financing is deemed present as the sales are made with a credit term of 30-90 days, which is consistent with market practice.

A receivable is recognised when the goods are delivered and the customers has inspected and accepted the products as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The Group's obligations to provide a refund for faulty products are under the standard warranty terms. Accumulated experience is used to estimate such returns at the time of sale. Because of the large size and low value of each individual product, the amount of products returned were immaterial. It is highly probable that a significant reversal in the cumulative revenue recognised will not occur. Therefore, no refund liability for goods return was recognised. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

For certain payments to customers for promotion activities, the Group did not provide a distinct good or service to customers and therefore recorded as a deduction of sales price.

The Group does not expect to have any contract containing financing components. As a consequence, the Group does not adjust any of the transition prices for the time value of money.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(22) Earnings per share

(i) *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year and excluding treasury share.

(ii) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(23) Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the consolidated statement of profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 8 below.

(24) Government grants

Grants from government are recognised 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 consolidated statement of profit or loss 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 consolidated statement of profit or loss on a straight-line basis over the expected lives of the related assets.

(25) Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group.

The Group leases various offices, warehouses and vehicles. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, and leased assets may not be used as security for borrowing purposes.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments).

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(25) Leases (continued)

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received

Depreciation on right-of-use assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated lease period.

All land in the PRC is state-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded at cost as right-of-use assets, which are depreciated over the lease periods using the straight-line method.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise small items of office furniture.

Extension and termination options are included in a number of property leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. None of the extension option was exercised in the year ended 31 December 2020.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

(26) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (related to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use it;
- there is an ability to use the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(26) Research and development *(continued)*

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

(27) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the year in which the dividends are approved by the Company's Directors or shareholders, when appropriate.

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, price 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 exchange risk

The Company's functional currency is HK\$ and the majority of its subsidiaries' functional currencies are RMB. 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 and other receivables and payables, and borrowings held by its subsidiaries, which are denominated in RMB, United States dollar ("US\$") and other currencies.

The Group considers the risk of movements in exchange rate between HK\$ and US\$ to be insignificant as HK\$ and US\$ are pegged. During the year ended 31 December 2020, the fluctuations in exchange rates between RMB(the functional currency of the majority of the Group's entities), US\$(the denomination currency of majority of the Group's imports of raw materials and property, plant and equipment and borrowings) and HK\$(the denomination currency of borrowings) resulted in a total exchange gain of RMB321,782,000 (2019: exchange loss of RMB81,564,000). The Group has not experienced any difficulties in getting sufficient foreign currencies for settlement of purchase obligations or repatriation of profits declared by the subsidiaries in the PRC to their overseas holding companies or repayment of bank loans.

At 31 December 2020, if HK\$ and US\$ had weakened/strengthened by 5% against the RMB with all other variables held constant, the net profit for the year would have been RMB186,147,000 (2019: RMB206,074,000) higher/lower.

(2) Price risk

The Group is exposed to raw material price risk because of the volatility of major raw materials such as wood pulp. To manage price risks, the Group enters into long term contracts and diversifies its suppliers to mitigate the risk of significant raw material price changes.



3 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(i) Market risk (continued)

(3) Cash flow and fair value interest rate risk

Except for restricted bank deposits, long-term bank time deposits and cash and bank balances (Note 23), 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 mainly arises from borrowings. 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 manages certain of its cash flow risk by purchasing interest swap contracts. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The interest rates and terms of repayments of borrowings are disclosed in Note 29.

At 31 December 2020, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, the net profit for the year would have been RMB109,738,000/RMB83,057,000 (2019: RMB104,005,000) lower/higher as a result of higher/lower interest expenses on floating rate borrowings.

(ii) Credit risk

Credit risk is managed on a group basis. Credit risk arises from restricted bank deposits, long-term bank time deposits, cash and bank balances, derivative financial instruments, FVPL, trade and bills receivables, other receivables, 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 settlement of 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, long-term bank time deposits, cash and bank balances, derivative financial instruments, FVPL, trade and bills receivables, and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

At 31 December 2020, all restricted bank deposits and bank balances were placed with or entered into with highly reputable and sizable banks and financial institutions without significant credit risk. The table below shows the balances with counterparties as at 31 December 2020 and 2019:

	2020 RMB'000	2019 RMB'000
Counterparties		
– Big 4 domestic banks (Note)	3,036,834	3,295,913
– Other reputable and sizeable domestic commercial banks	19,566,919	18,386,253
– Highly reputable and sizeable foreign-owned banks	1,366,734	1,295,048
	23,970,487	22,977,214

Note:

Big 4 domestic banks comprise Industrial and Commercial Bank of China Limited, Agricultural Bank of China Limited, Bank of China Limited and China Construction Bank Corporation.



3 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(ii) Credit risk (continued)

The Group applies HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables from initial recognition. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 3 years before 31 December 2020 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at 31 December 2020 was determined as follows for trade and bills receivables:

31 December 2020	Within 180 days RMB'000	181 to 365 days RMB'000	Over 365 days RMB'000	Total RMB'000
Gross carrying amount	3,244,838	106,096	91,379	3,442,313
Expected loss rate	0.52%	1.46%	53.31%	1.95%
Loss allowance	16,893	1,554	48,717	67,164

The closing loss allowances for trade and bills receivables as at 31 December reconcile to the opening loss allowances as follows:

	2020 RMB'000	2019 RMB'000
Opening loss allowance as at 1 January	65,164	67,494
Increase in loss allowance recognised in profit or loss during the year (Note 7)	4,163	7,614
Receivables written off during the year as uncollectible	(2,334)	(9,910)
Currency translation differences	171	(34)
Closing loss allowance at 31 December	67,164	65,164

Trade and bills receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than 60-90 days past due.

Impairment losses on trade and bills receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Other financial assets at amortised cost include other receivables. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.



3 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(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.

The table below analyses the Group's 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 RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Between 3 and 5 years RMB'000	Total RMB'000
At 31 December 2020					
Borrowings	18,344,744	2,014,125	476,100	2,393	20,837,362
Interest payables of borrowings	195,822	51,406	4,903	67	252,198
Net settled derivative financial instruments	15,643	–	–	–	15,643
Lease liabilities	11,736	6,947	1,643	332	20,658
Trade, bills and other payables	2,627,786	–	–	–	2,627,786
Total	21,195,731	2,072,478	482,646	2,792	23,753,647
At 31 December 2019					
Borrowings	20,364,207	1,190,000	–	59,760	21,613,967
Interest payables of borrowings	349,223	27,078	1,793	1,341	379,435
Net settled derivative financial instruments	19,788	–	–	–	19,788
Lease liabilities	6,375	2,957	1,539	29	10,900
Trade, bills and other payables	2,660,181	–	–	–	2,660,181
Total	23,399,774	1,220,035	3,332	61,130	24,684,271



3 FINANCIAL RISK MANAGEMENT (continued)

(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, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The gross gearing ratio is calculated on the basis of the total borrowings as a percentage of the total shareholders' equity excluding non-controlling interests. The net gearing ratio is calculated on the basis of net debt as a percentage of the shareholders' equity excluding non-controlling interests. Net debt is calculated as total borrowings less long-term bank time deposits and cash and bank balances.

During the year ended 31 December 2020, the Group's strategy was to maintain a net gearing ratio at or below 20%. The calculation of the gearing ratios at 31 December was as follows:

	2020 RMB'000	2019 RMB'000
Gross gearing ratio:		
Total borrowings	20,836,300	21,608,441
Total equity excluding non-controlling interests	19,411,390	17,872,941
Gross gearing ratio	107.3%	120.9%
Net gearing ratio:		
Total borrowings	20,836,300	21,608,441
Less: long-term bank time deposits and cash and bank balances	(23,965,886)	(22,970,352)
Net debt	(3,129,586)	(1,361,911)
Total equity excluding non-controlling interests	19,411,390	17,872,941
Net gearing ratio	N/A	N/A



3 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2020 and 2019 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- 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).

Recurring fair value measurements		Notes	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2020						
Financial assets						
FVPL		24	100,884	–	156,593	257,477
Financial liabilities						
Derivative financial instruments		22	–	(15,643)	–	(15,643)
At 31 December 2019						
Financial assets						
Derivative financial instruments		22	–	12,858	–	12,858
Financial liabilities						
Derivative financial instruments		22	–	(19,788)	–	(19,788)

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's Deposit Fund are level 1 instruments and their fair value is determined with quoted prices (unadjusted) in active markets.



3 FINANCIAL RISK MANAGEMENT *(continued)*

(c) Fair value estimation *(continued)*

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's investment in unlisted preference shares are level 3 instruments and their fair value is determined with inputs for the asset or liability that are not based on observable market data.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments 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) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Current tax and deferred tax

The Group is subject to income taxes in the PRC and certain overseas countries. Significant judgement is required in determining the provision for income taxes. There are some 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.

Deferred income tax assets and liabilities are determined using tax rates that are expected to apply when the related deferred income tax assets are realised or the deferred income tax liabilities are settled. The expected applicable tax rate is determined based on the enacted tax laws and regulations and the actual situation of the Group. The management of the Group will revise the expectation where the intending tax rate is different from the original expectation.

(c) 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(7)(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.



5 REVENUE AND SEGMENT INFORMATION

The chief operating decision-makers have been identified as the Executive Directors. The Executive Directors review the Group's internal reports in order to assess performance and allocate resources. Management has determined the operating segments based on the internal reports provided for review 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 income and other gains – net, finance income/(costs) and income tax expense which is consistent with that in the consolidated financial statements.

Operations are mainly organised under the segment of the Group's manufacturing, distribution and sale of personal hygiene products including sanitary napkin products, disposable diaper products and tissue paper products.

Sales between segments are carried out at terms mutually agreed amongst these business segments. Revenue from external parties reported to the Executive Directors are measured in a manner consistent with that in the consolidated statement of profit or loss. Revenues from sales of goods recognised during the year are as follows:

	2020 RMB'000	2019 RMB'000
Personal hygiene products		
– Sanitary napkin products	6,654,711	6,487,003
– Disposable diaper products	1,425,567	1,439,087
– Tissue paper products	10,382,758	11,486,538
Others	3,910,965	3,080,217
	22,374,001	22,492,845

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

The total non-current assets (other than deferred income tax assets and long-term bank time deposit) located in Mainland China amounted to RMB9,585,886,000 as at 31 December 2020 (2019: RMB9,685,695,000) and the total non-current assets located in other places amounted to RMB995,590,000 (2019: RMB841,357,000).

During the year ended 31 December 2020, there was no single customer generated more than 10% of the Group's total revenue (2019: None).

The amounts provided to the Executive Directors with respect to total assets and liabilities are measured in a manner consistent with that of the consolidated financial statements. These assets and liabilities are allocated based on the operations of the segment.

Additions to non-current assets comprise additions to property, plant and equipment (Note 13), right-of-use assets (Note 14), investment properties (Note 15), construction-in-progress (Note 16) and intangible assets (Note 17).

Unallocated costs represent corporate expenses. Unallocated assets comprise corporate assets, including certain cash and bank balances and derivative financial instruments. Unallocated liabilities comprise certain borrowings and derivative financial instruments.



5 REVENUE AND SEGMENT INFORMATION (continued)

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

	2020				
	Sanitary napkins products RMB'000	Disposable diapers products RMB'000	Tissue paper products RMB'000	Others RMB'000	Group RMB'000
Segment revenue	6,804,704	1,526,780	11,097,505	4,836,954	24,265,943
Inter-segment sales	(149,993)	(101,213)	(714,747)	(925,989)	(1,891,942)
Revenue of the Group	6,654,711	1,425,567	10,382,758	3,910,965	22,374,001
Segment profit	3,215,281	119,363	1,040,685	266,831	4,642,160
Unallocated costs					(23,390)
Other income and other gains – net					1,773,618
Operating profit					6,392,388
Finance income					291,811
Finance costs					(718,295)
Share of net losses of associates					(4,482)
Profit before income tax					5,961,422
Income tax expense					(1,352,980)
Profit for the year					4,608,442
Non-controlling interests					(13,627)
Profit attributable to shareholders of the Company					4,594,815
Other items for the year ended 31 December 2020					
Additions to non-current assets	132,102	74,070	294,611	85,868	586,651
Depreciation of property, plant and equipment and investment properties	167,642	37,590	505,606	54,100	764,938
Depreciation of right-of-use assets	10,667	3,162	18,568	8,014	40,411
Amortisation charge	16,020	–	382	15,551	31,953
As at 31 December 2020					
Segment assets	7,431,097	4,084,636	14,055,251	3,458,077	29,029,061
Deferred income tax assets					435,853
Current income tax recoverable					48,995
Investments in associates					97,188
FVPL					257,477
Unallocated assets					14,572,351
Total assets					44,440,925
Segment liabilities	2,083,677	1,435,252	5,375,313	911,512	9,805,754
Deferred income tax liabilities					216,222
Current income tax liabilities					2,177
Unallocated liabilities					14,755,298
Total liabilities					24,779,451



5 REVENUE AND SEGMENT INFORMATION (continued)

	2019				
	Sanitary napkins products RMB'000	Disposable diapers products RMB'000	Tissue paper products RMB'000	Others RMB'000	Group RMB'000
Segment revenue	6,546,424	1,470,212	11,984,079	3,910,114	23,910,829
Inter-segment sales	(59,421)	(31,125)	(497,541)	(829,897)	(1,417,984)
Revenue of the Group	6,487,003	1,439,087	11,486,538	3,080,217	22,492,845
Segment profit	3,104,858	151,365	843,218	123,943	4,223,384
Unallocated costs					(29,377)
Other income and other gains – net					1,486,289
Operating profit					5,680,296
Finance income					140,069
Finance costs					(773,478)
Profit before income tax					5,046,887
Income tax expense					(1,129,784)
Profit for the year					3,917,103
Non-controlling interests					(9,380)
Profit attributable to shareholders of the Company					3,907,723
Other items for the year ended 31 December 2019					
Additions to non-current assets	252,343	91,724	291,726	93,570	729,363
Initial recognition of right-of-use assets related to buildings	1,988	208	1,663	116	3,975
Depreciation of property, plant and equipment and investment properties	174,768	38,762	491,760	45,759	751,049
Depreciation of right-of-use assets	10,414	4,174	18,950	4,940	38,478
Amortisation charge	15,782	–	382	10,443	26,607
As at 31 December 2019					
Segment assets	7,371,874	5,009,723	14,576,696	3,641,818	30,600,111
Deferred income tax assets					213,211
Current income tax recoverable					97,511
Investments in associates					101,670
Unallocated assets					12,226,272
Total assets					43,238,775
Segment liabilities	2,392,831	1,457,052	5,235,705	832,438	9,918,026
Deferred income tax liabilities					171,467
Unallocated liabilities					14,997,404
Total liabilities					25,086,897



5 REVENUE AND SEGMENT INFORMATION (continued)

(a) Liabilities related to contracts with customers

The Group has recognised the following liabilities related to contracts with customers:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Contract liabilities		
Sanitary napkins products	36,020	37,579
Disposable diapers products	20,443	21,577
Tissue paper products	68,543	80,521
Others	9,841	5,553
Total contract liabilities	134,847	145,230

The following table shows how much of the revenue recognised in the current reporting period related to carried-forward contract liabilities that were satisfied in a prior year.

	2020 RMB'000	2019 RMB'000
Sanitary napkins products	37,579	35,484
Disposable diapers products	21,577	14,025
Tissue paper products	80,521	65,356
Others	5,553	3,411
	145,230	118,276



6 OTHER INCOME AND OTHER GAINS – NET

	2020 RMB'000	2019 RMB'000
Income from long-term and short-term bank time deposits	917,090	833,343
Government grants income (Note)	605,056	692,420
Losses on disposal of property, plant and equipment	(14,615)	(32,549)
Exchange gains/(losses) from operating activities – net	249,214	(89,331)
Realised fair value gains on derivative financial instruments	6,891	15,711
Unrealised fair value losses on derivative financial instruments	(16,519)	(6,808)
Others	26,501	73,503
	1,773,618	1,486,289

Note:

These represented government grants received from certain municipal governments of Mainland China as an encouragement of the Group's contributions to the development of the local economy.

7 EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and distribution costs, administrative expenses and net impairment on financial assets were analysed as follows:

	2020 RMB'000	2019 RMB'000
Raw materials and consumables used	10,839,391	11,730,075
Employee benefit expense, including Directors' emoluments (Note 12)	1,879,932	1,823,062
Marketing and advertising expenses	1,316,330	1,136,555
Transportation and packaging expenses	917,246	816,591
Utilities and various office expenses	773,016	851,848
Depreciation of property, plant and equipment (Note 13)	758,897	745,188
Research and development expenses	388,945	405,950
Repairs and maintenance expenses	155,979	149,104
Tax surcharges	132,906	132,858
Travelling expenses	128,566	146,378
Short-term and low-value lease expenses (Note 14)	93,426	86,306
Depreciation of right-of-use assets (Note 14)	40,411	38,478
Amortisation of intangible assets (Note 17)	31,953	26,607
Impairment charge on property, plant and equipment (Note 13)	18,675	–
Provision for inventories write-down (Note 20)	9,651	4,747
Impairment charge on investment properties (Note 15)	6,568	–
Auditor's remuneration		
– Audit services	6,000	6,300
– Non-audit services	2,276	1,539
Net impairment losses on financial assets (Note 3(a)(iii))	4,163	7,614
Changes in inventories of finished goods	(84,494)	(170,930)
Others	335,394	360,568
	17,755,231	18,298,838



8 FINANCE INCOME AND FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Finance costs:		
Interest expense		
– Borrowings	710,080	770,207
– Lease liabilities	906	491
Other finance charges	17,401	18,410
Total finance costs incurred	728,387	789,108
Less: Finance costs capitalised in buildings and machinery under construction-in-progress (<i>Note 16</i>)	(10,092)	(15,630)
	718,295	773,478
Finance income:		
Interest income from cash and cash equivalents	(219,243)	(132,302)
Exchange gain	(72,568)	(7,767)
	(291,811)	(140,069)
Finance costs, net	426,484	633,409

For the year ended 31 December 2020, the capitalisation rate applied to funds borrowed generally and used for the development of construction-in-progress was 2.81% (2019: 3.56%) per annum.

9 INCOME TAX EXPENSE

The amount of income tax expense charged to the consolidated statement of profit or loss represents:

	2020 RMB'000	2019 RMB'000
Current income tax		
– Current tax on profits for the year	1,350,340	1,042,369
– PRC withholding income tax	182,067	157,094
Deferred income tax, net (<i>Note 30</i>)	(179,427)	(69,679)
Income tax expense	1,352,980	1,129,784



9 INCOME TAX EXPENSE (continued)

- (a) Taxation on Mainland China income has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in Mainland China in which the Group's subsidiaries operate. The Company's subsidiaries incorporated in Mainland China are subject to Corporate Income Tax ("CIT") at the rate of 25%.

Certain subsidiaries were approved to be new and high-technology enterprises and are entitled to the tax rate of 15%.

Also, according to the Caishui (2011) No. 58 "The notice on the tax policies of further implementation of the western region development strategy" (財稅[2011]58號"關於深入實施西部大開發戰略有關稅收政策問題的通知") issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, companies set up in the western region and falling into certain encouraged industry catalogue promulgated by the PRC government are entitled to a preferential tax rate of 15%. Some of the Group's subsidiaries in Mainland China were set up in the western development region and fall into the encouraged industry catalogue, and therefore they are entitled to the foresaid preferential tax rate.

- (b) Hong Kong and overseas profits tax has been calculated at the rates of taxation prevailing in the regions in which the Group operates respectively.
- (c) The profits of Mainland China subsidiaries of the Group derived since 1 January 2008 are subject to withholding tax at a rate of 5% upon distribution of such profits to investors 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 Mainland China subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.
- (d) 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:

	2020 RMB'000	2019 RMB'000
Profit before income tax	5,961,422	5,046,887
Tax calculated at tax rates applicable to profits of the Group's companies	1,387,330	1,167,846
Tax exemption and concession on the profits of certain subsidiaries	(237,325)	(184,740)
Withholding tax on distributed profit and unremitted earnings	230,108	169,931
Others	(27,133)	(23,253)
Income tax expense	1,352,980	1,129,784

The weighted average applicable tax rate was 23.3% (2019: 23.1%).

- (e) There is no tax charge relating to components of OCI.



10 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the Group's profit attributable to the Company's shareholders by the weighted average number of ordinary shares in issue during the year.

	2020	2019
Profit attributable to shareholders of the Company (RMB'000)	4,594,815	3,907,723
Weighted average number of shares outstanding (thousands)	1,189,149	1,189,697
Basic earnings per share (RMB)	3.864	3.285

(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.

For the year ended 31 December 2020 and 2019, share options is the only category of dilutive potential ordinary shares of the Company. The diluted earnings per share is the same as the basic earnings per share as the potential ordinary shares in respect of outstanding share options is anti-dilutive.

11 DIVIDENDS

	2020 RMB'000	2019 RMB'000
Interim, paid, RMB1.20 (2019: RMB1.00) per ordinary share (Note)	1,427,625	1,189,677
Final, proposed/paid, RMB1.30 (2019: RMB1.25) per ordinary share (Note)	1,542,239	1,487,109
	2,969,864	2,676,786

Note:

The dividends paid in 2020 amounted to RMB2,914,734,000 (2020 interim: RMB1.20 per share, 2019 final: RMB1.25 per share). The dividends paid in 2019 amounted to RMB2,617,290,000 (2019 interim: RMB1.00 per share, 2018 final: RMB1.20 per share).

A final dividend in respect of the year ended 31 December 2020 of RMB1.30 per share, amounting to a total dividend of RMB1,542,239,000, was proposed by the Board of Directors at a meeting held on 19 March 2021, subject to the final approval by the shareholders of the Company at the Annual General Meeting to be held on 17 May 2021. These financial statements do not reflect this dividend payable.

Dividends payable to shareholders will be paid in HK\$. The exchange rate adopted by the Company for its payable is the middle rate of HK\$ to RMB announced by the People's Bank of China for the business day preceding the date of dividend declaration. The final dividend of RMB1.30 per share equivalent to HK\$1.556197 per share using the exchange rate of HK\$ to RMB on 18 March 2021, which is 0.83537.



12 EMPLOYEE BENEFIT EXPENSE

	2020 RMB'000	2019 RMB'000
Wages and salaries	1,731,437	1,563,984
Retirement and social benefits cost	143,854	247,472
Equity-settled share-based payment (Note 26)	4,641	11,606
Total employee benefit expense	1,879,932	1,823,062

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2019: four) Directors whose emoluments are reflected in the analysis shown in Note 39. The emoluments payable to the remaining one (2019: one) individual during the year are as follows:

	2020 RMB'000	2019 RMB'000
Basic salaries, other allowances and benefits-in-kind	1,081	1,064
Bonuses	403	576
	1,484	1,640

The emoluments fell within the following bands:

	Number of individuals	
	2020	2019
Emolument bands		
HK\$1,500,001 to HK\$2,000,000 (equivalent to RMB1,333,051 to RMB1,777,400)	1	1



13 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Machinery RMB'000	Office equipment, furniture and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
Year ended 31 December 2020					
At 1 January 2020	3,368,029	4,341,992	106,456	5,980	7,822,457
Additions	17,519	134,624	44,705	407	197,255
Transfer from construction-in-progress (Note 16)	15,370	334,363	6,415	–	356,148
Transfer to investment properties (Note 15)	(663)	–	–	–	(663)
Depreciation for the year (Note 7)	(225,153)	(501,398)	(30,522)	(1,824)	(758,897)
Impairment charges for the year (Note 7)	–	(18,675)	–	–	(18,675)
Disposals	(2,593)	(15,081)	(774)	(1,011)	(19,459)
Currency translation differences	(3,143)	(3,513)	(155)	75	(6,736)
Closing net book amount	3,169,366	4,272,312	126,125	3,627	7,571,430
At 31 December 2020					
Cost	5,003,780	8,729,592	367,587	21,289	14,122,248
Accumulated depreciation and impairment charges	(1,834,414)	(4,457,280)	(241,462)	(17,662)	(6,550,818)
Net book amount	3,169,366	4,272,312	126,125	3,627	7,571,430



13 PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold land and buildings RMB'000	Machinery RMB'000	Office equipment, furniture and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
Year ended 31 December 2019					
At 1 January 2019, as reported	3,589,759	4,388,513	107,807	9,277	8,095,356
Transfer to right-of-use assets	(127,270)	–	–	(419)	(127,689)
At 1 January 2019, as restated	3,462,489	4,388,513	107,807	8,858	7,967,667
Additions	18,184	197,107	31,562	197	247,050
Transfer from construction-in-progress (Note 16)	126,872	266,832	2,116	–	395,820
Acquisition of subsidiaries	267	5,051	431	13	5,762
Transfer to investment properties (Note 15)	(2,194)	–	–	–	(2,194)
Depreciation for the year (Note 7)	(228,196)	(480,278)	(34,032)	(2,682)	(745,188)
Disposals	(10,502)	(35,909)	(1,504)	(458)	(48,373)
Currency translation differences	1,109	676	76	52	1,913
Closing net book amount	3,368,029	4,341,992	106,456	5,980	7,822,457
At 31 December 2019					
Cost	4,982,245	8,333,335	324,901	29,319	13,669,800
Accumulated depreciation	(1,614,216)	(3,991,343)	(218,445)	(23,339)	(5,847,343)
Net book amount	3,368,029	4,341,992	106,456	5,980	7,822,457

Depreciation expenses have been charged to the consolidated statement of profit or loss as follows:

	2020 RMB'000	2019 RMB'000
Manufacturing overheads included under cost of goods sold	550,237	538,780
Selling and distribution costs	4,230	4,550
Administrative expenses	204,430	201,858
	758,897	745,188

As at 31 December 2020, property, plant and equipment with a carrying amount of RMB12,086,000 (cost of RMB13,529,000) are pledged as collateral for the Group's bank borrowings of RMB8,348,000 (2019: Nil) (Note 29).



14 LEASES

(a) Amounts recognised in the consolidated balance sheet

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Right-of-use assets		
– Land use rights	950,571	977,382
– Buildings	19,600	10,725
– Equipment and others	–	138
Total right-of-use assets	970,171	988,245
Lease liabilities		
– Current	(11,110)	(5,960)
– Non-current	(8,665)	(4,365)
Total lease liabilities	(19,775)	(10,325)

Addition to the right-of-use assets for the year ended 31 December 2020 were RMB24,882,000 (2019: RMB49,960,000).

(b) Amounts recognised in the consolidated statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	For the year ended 31 December	
	2020 RMB'000	2019 RMB'000
Depreciation of right-of-use assets (Note 7)		
– Land use rights	27,178	27,848
– Buildings	13,101	10,340
– Equipment and others	132	290
	40,411	38,478
Interest expense (Note 8)	906	491
Short-term and low-value lease expenses (Note 7)	93,426	86,306

The total cash payment for leases in the year ended 31 December 2020 was RMB108,885,000 (2019: RMB112,117,000).



15 INVESTMENT PROPERTIES

	2020 RMB'000	2019 RMB'000
At 1 January		
Opening net book amount	226,233	225,036
Currency translation differences	(749)	507
Addition	71	4,357
Transfer from property, plant and equipment (Note 13)	663	2,194
Depreciation for the year	(6,041)	(5,861)
Impairment charges for the year (Note 7)	(6,568)	–
Closing net book amount	213,609	226,233
At 31 December		
Cost	280,405	279,934
Accumulated depreciation and impairment charges	(66,796)	(53,701)
Net book amount	213,609	226,233

The above investment properties are located in Fujian, Guangxi, Guizhou and Tianjin, the PRC; Selangor and Johor, Malaysia, and depreciated on a straight-line basis over 20 to 40 years.

The Group's investment properties are stated at historical cost at the end of each reporting period.

Amounts recognised in profit and loss for investment properties are as follow:

	2020 RMB'000	2019 RMB'000
Rental income	30,501	33,682
Direct operating expenses	(5,927)	(6,140)
Net book amount	24,574	27,542



15 INVESTMENT PROPERTIES *(continued)*

Depreciation expenses have been charged to the consolidated statement of profit or loss as follows:

	2020 RMB'000	2019 RMB'000
Other income and other gains – net	6,041	5,861

16 CONSTRUCTION-IN-PROGRESS

	2020 RMB'000	2019 RMB'000
At 1 January	543,534	580,790
Additions	332,295	400,101
Transfer to property, plant and equipment (<i>Note 13</i>)	(356,148)	(395,820)
Transfer to Intangible assets (<i>Note 17</i>)	(30,629)	(42,536)
Currency translation differences	–	999
At 31 December	489,052	543,534

During the year ended 31 December 2020, finance costs capitalised in construction-in-progress amounted to RMB10,092,000 (2019: RMB15,630,000) (*Note 8*).



17 INTANGIBLE ASSETS

	Goodwill RMB'000	Trademarks and licences RMB'000	Customer relationships RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2020					
Cost	488,290	32,404	58,945	201,422	781,061
Accumulated amortisation	–	(7,901)	(10,976)	(37,564)	(56,441)
Net book amount	488,290	24,503	47,969	163,858	724,620
Year ended 31 December 2020					
Opening net book amount	488,290	24,503	47,969	163,858	724,620
Additions	–	–	–	32,148	32,148
Transfer from construction-in-progress (Note 16)	–	–	–	30,629	30,629
Amortisation charge for the year (Note 7)	–	(8,407)	(5,897)	(17,649)	(31,953)
Closing net book amount	488,290	16,096	42,072	208,986	755,444
At 31 December 2020					
Cost	488,290	32,404	58,945	264,199	843,838
Accumulated amortisation	–	(16,308)	(16,873)	(55,213)	(88,394)
Net book amount	488,290	16,096	42,072	208,986	755,444
At 1 January 2019					
Cost	488,290	10,271	58,945	158,886	716,392
Accumulated amortisation	–	(3,182)	(5,082)	(21,570)	(29,834)
Net book amount	488,290	7,089	53,863	137,316	686,558
Year ended 31 December 2019					
Opening net book amount	488,290	7,089	53,863	137,316	686,558
Transfer from construction-in-progress (Note 16)	–	–	–	42,536	42,536
Acquisition of a subsidiary	–	22,133	–	–	22,133
Amortisation charge (Note 7)	–	(4,719)	(5,894)	(15,994)	(26,607)
Closing net book amount	488,290	24,503	47,969	163,858	724,620
At 31 December 2019					
Cost	488,290	32,404	58,945	201,422	781,061
Accumulated amortisation	–	(7,901)	(10,976)	(37,564)	(56,441)
Net book amount	488,290	24,503	47,969	163,858	724,620

Amortisation has been charged to administrative expenses in the consolidated statement of profit or loss.



17 INTANGIBLE ASSETS (continued)

Impairment tests for goodwill

The Directors have performed an impairment review of the carrying amount of goodwill as at 31 December 2020 and have concluded that no provision for impairment is required. For the purposes of impairment testing, goodwill acquired has been allocated to the lowest level of CGUs identified by business segments.

A summary of goodwill by reporting segment is presented below:

	2020 RMB'000	2019 RMB'000
Tissue paper products	479,713	479,713
Others	8,577	8,577
	488,290	488,290

The recoverable amount of the CGUs is determined based on value-in-use calculations. The calculation of goodwill on the tissue paper product segment 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 revenue growth rate ranging from 2.6% to 3.4% (2019: 3.0% to 7.7%) and gross profit margins of 30.9% (2019: 27.7%). The cash flows 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 12.0% (2019: 12.0%) per annum. Based on management's assessment results, there was no impairment of goodwill as at 31 December 2020 and 2019 and any reasonable change to the key assumptions would not lead to a significant impairment.

18 PREPAYMENTS FOR NON-CURRENT ASSETS

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



19 FINANCIAL INSTRUMENTS BY CATEGORY

(a) Assets

	2020 RMB'000	2019 RMB'000
Financial assets		
Financial assets at amortised cost		
– Trade and other receivables, excluding prepayments and value added tax recoverable	3,979,418	4,290,748
– Restricted bank deposits	4,812	7,209
– Long-term bank time deposits (Note 23)	3,482,147	2,430,082
– Cash and bank balances (Note 23)	20,483,739	20,540,270
FVPL (Note 24)	257,477	–
Derivative financial instruments (Note 22)	–	12,858
Total	28,207,593	27,281,167

(b) Liabilities

	2020 RMB'000	2019 RMB'000
Financial liabilities		
Financial assets at amortised cost		
– Trade and other payables, excluding non-financial liabilities	2,627,786	2,660,181
– Borrowings (Note 29)	20,836,300	21,608,441
– Lease liabilities (Note 14)	19,775	10,325
Derivative financial instruments (Note 22)	15,643	19,788
Total	23,499,504	24,298,735



20 INVENTORIES

	2020 RMB'000	2019 RMB'000
Finished goods	1,777,351	1,692,857
Raw materials	2,298,587	1,873,971
Spare parts and consumables	234,980	235,668
	4,310,918	3,802,496

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB10,754,897,000 (2019: RMB11,559,145,000).

The Group provided a provision for inventories of RMB9,651,000 (2019: RMB4,747,000). These amounts have been included in cost of sales in the consolidated statement of profit or loss (Note 7).

21 TRADE, BILLS AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2020 RMB'000	2019 RMB'000
Trade receivables	3,427,737	3,710,388
Bills receivables	14,576	6,000
	3,442,313	3,716,388
Less: provision for impairment	(67,164)	(65,164)
Trade and bills receivables, net	3,375,149	3,651,224
Other receivables, prepayments and deposits		
– Advance payments to suppliers	531,321	741,590
– Value added tax recoverables	441,443	514,024
– Government grants receivables	355,990	448,143
– Interest income receivables	236,007	177,826
– Prepaid expenses	39,919	61,724
– Others	12,272	13,555
	1,616,952	1,956,862
Trade, bills and other receivables, prepayments and deposits	4,992,101	5,608,086



21 TRADE, BILLS AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (continued)

Part of the Group's sales are on open account with credit terms ranging from 30 days to 90 days. At 31 December, the ageing analysis of the trade and bills receivables based on invoice date was as follows:

	2020 RMB'000	2019 RMB'000
Within 30 days	1,557,041	1,483,539
31–180 days	1,687,797	2,017,526
181–365 days	106,096	119,287
Over 365 days	91,379	96,036
	3,442,313	3,716,388

As credit terms are short and most of the trade and bills receivables are due for settlement within one year, the carrying amounts of these balances approximated their fair values as at the balance sheet date.

Information about the impairment of trade and bills receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 3(a).

22 DERIVATIVE FINANCIAL INSTRUMENTS

These amounts represented the fair value of foreign currency swap contracts and interest rate swap contracts entered into with banks. These contracts are regarded as derivative financial instruments.

	2020 RMB'000	2019 RMB'000
Assets:		
Interest rate swap contracts	–	603
Foreign currency swap contract – held for trading	–	12,255
	–	12,858
Liabilities:		
Interest rate swap contracts	(14,437)	(19,754)
Foreign currency swap contract – held for trading	(1,206)	(34)
	(15,643)	(19,788)
	(15,643)	(6,930)

Non-hedging derivatives are classified as current assets or liabilities.

For information about the methods and assumptions used in determining the fair value of derivatives, please refer to Note 3(c).



23 LONG-TERM BANK TIME DEPOSITS AND CASH AND BANK BALANCES

	2020 RMB'000	2019 RMB'000
Long-term bank time deposits	3,482,147	2,430,082
Cash and bank balances		
– Bank time deposits	8,876,680	11,420,094
– Cash and cash equivalents	11,607,059	9,120,176
	20,483,739	20,540,270
Total	23,965,886	22,970,352

The cash and cash equivalents represented cash deposits held at call with banks and in hand and other short-term highly liquid investments with original maturities of three months or less.

The effective interest rate on bank deposits as at 31 December 2020 was approximately 4.10% (31 December 2019: 4.26%) per annum.

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

	2020 RMB'000	2019 RMB'000
Long-term bank time deposits		
RMB	3,155,960	2,377,760
US\$	–	52,322
Others	326,187	–
Total	3,482,147	2,430,082
Cash and bank balances		
RMB	14,465,096	14,490,325
US\$	5,864,510	4,507,684
HK\$	57,344	72,088
Others	96,789	1,470,173
Total	20,483,739	20,540,270

The Group's bank deposits and cash denominated in RMB, US\$ and HK\$ are mainly deposited with banks in the PRC. The conversion of these RMB 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.



24 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets mandatorily measured at FVPL include the following:

	2020 RMB'000	2019 RMB'000
Non-current assets		
Unlisted preference shares	156,593	–
Current assets		
Deposit fund	100,884	–
Total	257,477	–

25 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares	RMB'000
At 1 January 2020	1,189,677,417	125,654
Employee share option schemes		
– Shares issued upon exercise of share options (<i>Note 26</i>)	10,000	1
Cancellation of shares (<i>Note</i>)	(3,350,000)	(289)
At 31 December 2020	1,186,337,417	125,366
At 1 January 2019	1,206,067,917	127,092
Employee share option schemes		
– Shares issued upon exercise of share options (<i>Note 26</i>)	5,000	1
Cancellation of shares (<i>Note</i>)	(16,395,500)	(1,439)
At 31 December 2019	1,189,677,417	125,654

Note:

The Group acquired its own ordinary shares of 3,350,000 on the Stock Exchange from 19 October 2020 till 10 November 2020, all shares had been cancelled after buy-back. The total amount paid to acquire the shares was RMB154,409,000 and had been deducted from share capital and other reserves within shareholders' equity during the year ended 31 December 2020.

The Group acquired its own ordinary shares of 2,146,000 on the Stock Exchange from 2 January 2019 till 10 January 2019, all shares had been cancelled after buy-back. The total amount paid to acquire the shares was RMB105,060,000 and had been deducted from share capital, other reserves and retained earnings during the year ended 31 December 2019.



26 SHARE-BASED COMPENSATION

The Company adopted a share option scheme on 26 May 2011 ("2011 Scheme"). Pursuant to the scheme, share options had been granted to the Directors and selected employees. The options granted will be forfeited 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:

	2020		2019	
	Average exercise price in HK\$ per share	Options (thousands)	Average exercise price in HK\$ per share	Options (thousands)
At 1 January	74.46	15,329	74.46	15,334
Exercised	68.30	(10)	68.30	(5)
At 31 December	74.46	15,319	74.46	15,329

All 15,319,000 outstanding options were exercisable as at 31 December 2020. Out of the 15,329,000 outstanding options as at 31 December 2019, 13,997,000 options were exercisable.

Share options outstanding in thousand at the end of the year have the following expiry dates and exercise prices:

	Exercise price in HK\$ per share option	Options (thousands)	
		2020	2019
Expiry date – 27 July 2021	68.30	1,839	1,849
Expiry date – 28 July 2022	72.75	8,147	8,147
Expiry date – 5 Oct 2025	79.20	5,333	5,333
		15,319	15,329

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 2020 amounted to RMB4,641,000 (2019: RMB11,606,000) (Note 12), and there is no remaining unamortised fair value (2019: approximately RMB4,595,000) will be charged to the consolidated statement of profit or loss in the future years.

The maximum number of shares available for issue after considering the share options already granted under the 2011 Scheme are 102,422,872, which are not more than 10% of the issued share capital of the Company as at the date of the approval of the 2011 Scheme.



27 OTHER RESERVES

	Treasury share RMB'000	Share premium RMB'000 (Note(a))	Capital redemption reserve RMB'000	Statutory reserves RMB'000 (Note(b))	Share-based Compensation reserve RMB'000	Exchange reserve RMB'000 (Note(c))	Total RMB'000
At 1 January 2020	-	516,702	1,922	2,173,280	328,406	183,284	3,203,594
Other comprehensive income – currency translation differences	-	-	-	-	-	(2,658)	(2,658)
Appropriation to statutory reserves (Note 28)	-	-	-	71,152	-	-	71,152
Share-based compensation							
– value of employee services (Note 26)	-	-	-	-	4,641	-	4,641
– proceeds from shares issued	-	606	-	-	-	-	606
– exercise of share options	-	187	-	-	(187)	-	-
Buy-back of shares (Note 25)	(154,409)	-	-	-	-	-	(154,409)
Cancellation of shares (Note 25)	154,409	(154,120)	-	-	-	-	289
Change in ownership interests in subsidiaries without change of control	-	10,187	-	-	-	-	10,187
At 31 December 2020	-	373,562	1,922	2,244,432	332,860	180,626	3,133,402
At 1 January 2019	(688,364)	616,776	1,922	2,134,780	316,892	232,783	2,614,789
Other comprehensive income – currency translation differences	-	-	-	-	-	(49,499)	(49,499)
Appropriation to statutory reserves (Note 28)	-	-	-	38,500	-	-	38,500
Share-based compensation							
– value of employee services (Note 26)	-	-	-	-	11,606	-	11,606
– proceeds from shares issued	-	300	-	-	-	-	300
– exercise of share options	-	92	-	-	(92)	-	-
Buy-back of shares (Note 25)	(105,060)	-	-	-	-	-	(105,060)
Cancellation of shares (Note 25)	793,424	(100,466)	-	-	-	-	692,958
At 31 December 2019	-	516,702	1,922	2,173,280	328,406	183,284	3,203,594

Notes:

- 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.
- Statutory reserves represent statutory surplus reserve of the subsidiary companies in Mainland China. The Company's subsidiaries incorporated in Mainland China 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 Mainland China accounting regulations and before distribution to shareholders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations in Mainland China at rate of 10% or at the discretion of the board of Directors of Mainland China subsidiaries, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries.
- Exchange reserve of the Group represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from RMB, the presentation currency of the financial statements of the Group.



28 RETAINED EARNINGS

	2020 RMB'000	2019 RMB'000
At 1 January	14,543,693	13,983,279
Profit for the year	4,594,815	3,907,723
Appropriation to statutory reserves (Note 27)	(71,152)	(38,500)
2019/2018 final dividends paid (Note 11)	(1,487,109)	(1,427,613)
2020/2019 interim dividends paid (Note 11)	(1,427,625)	(1,189,677)
Cancellation of shares (Note 25)	–	(691,519)
At 31 December	16,152,622	14,543,693

29 BORROWINGS

	2020 RMB'000	2019 RMB'000
Non-current		
Long-term bank loans – unsecured (a)	2,384,705	–
Long-term bank loans – secured (a)	6,473	–
Long-term other borrowings – unsecured (a)	101,440	249,760
Corporate bonds (b)	–	997,232
	2,492,618	1,246,992
Current		
Short-term bank loans – unsecured (a)	17,034,684	16,912,788
Corporate bonds (b)	998,938	2,997,242
Short-term other borrowings – unsecured (a)	190,000	50,000
Trust receipt bank loans (a)	118,185	401,419
Short-term bank loans – secured (a)	1,875	–
	18,343,682	20,361,449
Total borrowings	20,836,300	21,608,441



29 BORROWINGS (continued)

(a) Bank loans and other borrowings

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

	2020 RMB'000	2019 RMB'000
RMB	9,203,998	6,354,760
HK\$	2,140,468	5,854,365
US\$	8,406,118	5,310,159
Other currencies	86,778	94,683
	19,837,362	17,613,967

At 31 December, the Group's long-term bank borrowings are repayable as follows:

	2020 RMB'000	2019 RMB'000
Between 1 and 2 years	1,997,485	—
Between 2 and 3 years	391,300	—
Between 3 and 5 years	2,393	—
	2,391,178	—

At 31 December, the Group's long-term other borrowings are repayable as follows:

	2020 RMB'000	2019 RMB'000
Between 1 and 2 years	16,640	190,000
Between 2 and 3 years	84,800	—
Between 3 and 5 years	—	59,760
	101,440	249,760

As at 31 December 2020, the effective interest rate of the Group's bank loans and other borrowings is approximately 2.61% (2019: 3.20%) per annum.

As all the long-term bank loans and other borrowings charge interest at fixed rates, the carrying amounts of the bank loans and other borrowings approximated their fair values as at the balance sheet dates.

As at 31 December 2020, bank borrowings of RMB8,348,000 were pledged by the property, plant and equipment (carrying amount of RMB12,086,000 and cost of RMB13,529,000) (Note 13) of a subsidiary.



29 BORROWINGS (continued)

(b) Corporate bonds

In September 2016, Hengan (China) Investment Co., Ltd ("Hengan China Investment"), a wholly-owned subsidiary of the Group issued a corporate bonds at a par value of RMB1,000,000,000, which was denominated in RMB with a fixed interest of 3.30% per annum. The bonds will mature in five years from the issue date. The values of the liability, net of transaction costs of RMB8,000,000, were determined at issuance of the bonds.

In July 2018, Hengan China Investment issued a corporate bond at a par value of RMB3,000,000,000, which was denominated in RMB with a fixed interest of 4.58% per annum in first two years. At the end of the second year, the issuer has the option to adjust the coupon rate, while the bond holders have the option to demand early redemption from issuer. The value of the liability, net transaction cost of RMB9,600,000, were determined at issuance of the bonds. The corporate bond was fully redeemed on August 2020.

The fair value of the corporate bonds approximated its carrying amount as at 31 December 2020.

(c) Super short-term commercial papers

During 2020, following super short-term commercial papers were issued and matured:

	Interest rate	Expiration term	Mature date	Amount RMB'000
20恒安國際SCP001	2.85%	270 days	2020-11-24	1,000,000
20恒安國際SCP002	2.65%	270 days	2020-12-11	1,000,000
20恒安國際SCP003	2.60%	270 days	2020-12-14	500,000
20恒安國際SCP004	2.60%	270 days	2020-12-14	500,000
20恒安國際SCP005	2.10%	23 days	2020-12-30	350,000



30 DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income liabilities are as follows:

	2020 RMB'000	2019 RMB'000
Deferred income tax assets		
– Deferred tax asset to be recovered more than 12 months	281,282	102,804
– Deferred tax asset to be recovered within 12 months	154,571	110,407
	435,853	213,211
Deferred income tax liabilities		
– Deferred tax liability to be settled more than 12 months	(37,357)	(39,509)
– Deferred tax liability to be settled within 12 months	(178,865)	(131,958)
	(216,222)	(171,467)
Deferred income tax assets – net	219,631	41,744

The gross movement on the deferred income tax account is as follows:

	2020 RMB'000	2019 RMB'000
At 1 January	41,744	(27,826)
Credit to consolidated statement of profit or loss	179,427	69,679
Currency translation differences	(1,540)	(109)
At 31 December	219,631	41,744



30 DEFERRED INCOME TAX (continued)

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 arising from intra-group transactions		Provisions		Tax losses		Total	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
At 1 January	90,620	81,617	19,787	20,013	102,804	30,714	213,211	132,344
Currency translation differences Credited/(charged) to consolidated statement of profit or loss	–	–	(1,032)	–	(676)	–	(1,708)	–
	33,940	9,003	11,256	(226)	179,154	72,090	224,350	80,867
At 31 December	124,560	90,620	30,011	19,787	281,282	102,804	435,853	213,211

Deferred income tax liabilities:

	Withholding income tax on unremitted earnings in PRC subsidiaries		Tax effect of fair value adjustments on assets recognised upon business combination		Accelerated depreciation		Total	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
At 1 January	127,711	114,874	39,938	42,090	3,818	3,206	171,467	160,170
Currency translation differences Charged/(credited) to consolidated statement of profit or loss	–	–	–	–	(168)	109	(168)	109
	48,041	12,837	(2,152)	(2,152)	(966)	503	44,923	11,188
At 31 December	175,752	127,711	37,786	39,938	2,684	3,818	216,222	171,467

Deferred income tax assets are recognised for tax losses 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 income tax assets of RMB7,525,000 (2019: RMB24,667,000) in respect of losses amounting to RMB45,606,000 (2019: RMB149,496,000), which are not subject to expiration and can be carried forward against future taxable income.

The Group has been providing deferred income tax liabilities on the withholding income tax on certain amount of the unremitted earnings of some PRC subsidiaries following the dividend distribution plan of the Company. As at 31 December 2020 and 2019, deferred income tax liabilities of RMB204,367,000 have not been recognised for the withholding income tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries in the PRC. The unremitted earnings will be permanently reinvested, amounting to RMB4,087,338,000 as at 31 December 2020 and 2019.



31 TRADE, BILLS AND OTHER PAYABLES AND ACCRUED CHARGES

	2020 RMB'000	2019 RMB'000
Trade payables	2,237,031	2,219,943
Bills payables	7,174	3,951
	2,244,205	2,223,894
Other payables and accrued charges		
– Accrued expenses and other payables	1,031,157	629,034
– Payables for purchase of property, plant and equipment	253,539	255,992
– Other taxes payables	25,586	22,726
	1,310,282	907,752
Trade, bills and other payables and accrued charges	3,554,487	3,131,646

At 31 December, the ageing analysis of trade and bills payables based on invoice date was as follows:

	2020 RMB'000	2019 RMB'000
Within 30 days	1,209,694	1,094,302
31–180 days	975,847	1,073,147
181–365 days	22,623	19,387
Over 365 days	36,041	37,058
	2,244,205	2,223,894

The carrying amounts of trade, bills and other payables are approximate their fair value as at the balance sheet date due to short-term maturity.

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

	2020 RMB'000	2019 RMB'000
US\$	1,204,817	796,083
RMB	1,006,062	1,410,555
Other currencies	33,326	17,256
	2,244,205	2,223,894



32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from operations

	2020 RMB'000	2019 RMB'000
Profit before income tax	5,961,422	5,046,887
Adjustments for:		
Depreciation of property, plant and equipment (Note 13)	758,897	745,188
Depreciation of right-of-use assets (Note 14)	40,411	38,478
Depreciation of investment properties (Note 15)	6,041	5,861
Amortisation of intangible assets (Note 17)	31,953	26,607
Impairment charges of property, plant and equipment (Note 13)	18,675	—
Impairment charges of investment properties (Note 15)	6,568	—
Unrealised fair value losses on derivative financial instruments (Note 6)	16,519	6,808
Realised fair value gains on derivative financial instruments (Note 6)	(6,891)	(15,711)
Losses on disposal of property, plant and equipment (Note 6)	14,615	32,549
Share-based compensation expenses (Note 26)	4,641	11,606
Interest income and other finance income	(1,208,901)	(973,412)
Finance costs (Note 8)	718,295	773,478
Operating profit before working capital changes	6,362,245	5,698,339
(Increase)/decrease in inventories	(520,522)	478,455
Decrease/(increase) in trade and bills receivables, other receivables, prepayments and deposits	359,194	(1,070,733)
Increase/(decrease) in trade and bills payables, other payables and accrued charges	322,463	(501,484)
Cash generated from operations	6,523,380	4,604,577

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

	2020 RMB'000	2019 RMB'000
Net book value	19,459	48,859
Losses on disposal of property, plant and equipment (Note 6)	(14,615)	(32,549)
Proceeds from disposal of property, plant and equipment	4,844	16,310



32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Debt reconciliation

	Bank loans and other borrowings RMB'000	Medium- term notes RMB'000	Super short-term commercial papers RMB'000	Lease RMB'000	Corporate bonds RMB'000	Total RMB'000
Debt as at 1 January 2019	14,314,734	2,019,653	4,026,348	3,746	4,055,092	24,419,573
Cash flows	2,673,311	(2,065,432)	(4,119,169)	(10,778)	(169,646)	(3,691,714)
Interest expense and other finance charges	473,087	45,779	92,821	491	176,930	789,108
Addition of leases	–	–	–	17,090	–	17,090
Currency translation differences	211,844	–	–	(224)	–	211,620
Debt as at 31 December 2019	17,672,976	–	–	10,325	4,062,376	21,745,677
Debt as at 1 January 2020	17,672,976	–	–	10,325	4,062,376	21,745,677
Cash flows	2,394,130	–	(59,789)	(13,433)	(3,171,924)	(851,016)
Interest expense and other finance charges	548,809	–	59,789	906	118,883	728,387
Addition of leases	–	–	–	22,187	–	22,187
Currency translation differences	(727,063)	–	–	(210)	–	(727,273)
Debt as at 31 December 2020	19,888,852	–	–	19,775	1,009,335	20,917,962

33 CONTINGENT LIABILITIES

At 31 December 2020, the Group had no material contingent liabilities (2019: Nil).



34 CAPITAL COMMITMENTS

At 31 December 2020 and 2019, the Group had the following commitments:

(a) Capital commitments

	2020 RMB'000	2019 RMB'000
Contracted but not provided for in respect of:		
Machinery and equipment	518,029	277,310
Leasehold land and buildings	136,459	199,331
	654,488	476,641

(b) Commitments under operating leases

The Group is the lessor:

The Group leases out certain office premises under non-cancellable operating lease agreements. The further aggregate minimum rental receivable under these leases is as follows:

	2020 RMB'000	2019 RMB'000
Not later than 1 year	27,145	29,166
Later than 1 year and not later than 2 years	21,028	23,548
Later than 2 years and not later than 3 years	17,291	17,608
Later than 3 years and not later than 4 years	15,769	14,718
Later than 4 years and not later than 5 years	12,499	13,292
Later than 5 years	28,707	39,667
	122,439	137,999

35 INVESTMENTS IN ASSOCIATES

The amounts recognised in the balance sheet are as follows:

	2020 RMB'000	2019 RMB'000
Interests in associates	97,188	101,670



35 INVESTMENTS IN ASSOCIATES (continued)

The details of investments in associates are as follows:

	RMB'000
At 1 January 2020	101,670
Share of net losses	(4,482)
At 31 December 2020	97,188

The particulars of the associates of the Group as at 31 December 2020, all of which equity method is used to account for, are set out as follows:

Name of entity	Place of business/ country of incorporation	% of ownership interest	Paid-up capital	Principal activities
Finnpulp Oy	Kuopio, Finland	36.46%	RMB90,252,000	Manufacturing, distribution and sale of wood pulp
Sinolight (Jinjiang) Hygiene Products Research Co., Ltd.*	Jinjiang, PRC	38.80%	RMB11,412,000	Research and development of personal hygiene materials

36 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 elsewhere in the consolidated financial statements, the Group had the following significant related party transactions during the year ended 31 December 2020 and 2019:

(a) Key management compensation

	2020 RMB'000	2019 RMB'000
Basic salaries, housing allowances, other allowances and benefits-in-kind	15,055	13,661
Contributions to pension schemes	96	85
	15,151	13,746



37 PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries of the Company at 31 December 2020 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 2020 %
Direct subsidiaries:				
Hengan Mega Jumbo Investments Ltd.	Hong Kong, limited liability company	Investment holding, E-commerce, trading and procurement in Hong Kong	9,000 ordinary shares of HK\$1,367,302,854	100
Hengan International Holdings Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US\$1 each	100
Indirect subsidiaries:				
Anhai (Macao Commercial Offshore) Limited	Macau, limited liability company	Trading and procurement in Macau	Pataca de Macau 100,000	100
Hengan (China) Investment Co., Ltd. *	PRC, wholly foreign-owned enterprise	Investment holding, trading and procurement in the PRC	RMB1,180,000,000	100
Hengan Industrial (Hong Kong) Limited	Hong Kong, limited liability company	Trading and procurement in Hong Kong	2 ordinary shares of HK\$2	100
Hengan Pharmacare Company Limited	Hong Kong, limited liability company	Trading, procurement and sale of personal hygiene products in Hong Kong	10,000 ordinary shares of HK\$2,030,786	70
PT. Hengan Global	Indonesia, limited liability company	Distribution and sale of personal hygiene products in Indonesia	US\$6,200,000	90.32
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
Guangdong Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US\$18,000,000	100
Anhai International Trading Limited	Macau, Limited Liability Company	Trading and procurement in Macau	Pataca de Macau 100,000	100



37 PRINCIPAL 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 2020 %
Indirect subsidiaries: (continued)				
Guangdong Hengan Paper Co., Ltd.*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB288,888,000	100
Harmony Pharmacare Limited	Hong Kong, limited liability company	Manufacturing, distribution and sale of protective equipment in Hong Kong	HK\$50,000,000	77
Hengan (Jinjiang) Household Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products, personal hygiene material products and household products in the PRC	US\$15,800,000	100
Fujian Hengan Hygiene Material Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products and household products in the PRC	US\$40,000,000	100
Quanzhou Jinjiang Hengan Hygiene Science and Technology Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene material in the PRC	RMB11,100,000	90.10
Hengan (Sichuan) Family Products Co., Ltd. *	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US\$3,000,000	100
Hengan (Xiaogan) Family Products Co., Ltd. *	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB76,200,200	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\$16,380,000	100
Hengan (Fushun) Household Products Co., Ltd. *	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB73,660,000	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\$94,388,000	100



37 PRINCIPAL 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 2020 %
Indirect subsidiaries: (continued)				
Hengan (Hefei) Living Co., Ltd. *	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene 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
Jiangxi Hengan Biotechnology Co., Ltd. *	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of medical instrument, skin care products and antiseptics in PRC	RMB15,000,000	80
Hegan (Xiaogan) Medical Instruments Technology Co., Ltd. *	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of medical instrument in PRC	US\$10,000,000	100
Hengan (China) Paper Industry Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US\$165,570,000	100
Hengan (China) Hygiene Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene material in the PRC	US\$12,000,000	100
Hengan (Tianjin) Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB105,731,005	100
Hengan (Guangxi) Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB161,400,000	100
Hengan (Hunan) Hearttex Paper Co., Ltd. *	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB209,000,000	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	RMB852,280,000	100



37 PRINCIPAL 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 2020 %
Indirect subsidiaries: (continued)				
Hengan (Chongqing) Living Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB959,200,000	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 Household Tissue Product 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\$157,710,000	100
Chongqing Hengan Hearttex Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US\$21,987,500	100
Hengan Li Ren Tang (Jian) Cosmetics Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of skin care products and daily personal necessities in the PRC	RMB32,000,000	100
Hengan (Wuhu) Paper Co., Ltd. *	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB874,000,000	100
Junichi (Xiamen) Maternal and Child Articles Co., Ltd.	PRC, wholly foreign-owned enterprise	Trading pregnant women, infants and kid's products in the PRC	HK\$24,000,000	100
Junichi Co., Ltd.	Japan, limited liability company	Trading the products for ladies and babies in Japan	Japanese Yen 100,000	100
Hengan (Henan) Hygiene Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB82,000,000	100



37 PRINCIPAL 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 2020 %
Indirect subsidiaries: (continued)				
Shandong Hengan Domesticity Technology Co., Ltd.*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products, personal hygiene material products and household products in the PRC	US\$51,000,000	100
Hengan (Zhejiang) Homecare Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper in the PRC	US\$100,000,000	100
Fujian Hengan Homecare Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB360,000,000	100
Wuhu Hengan Hearttex Paper Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB105,000,000	100
Xiamen Hengan E-commerce Co., Ltd*	PRC, wholly foreign-owned enterprise	Sales of cosmetic products and personal hygiene products via online in the PRC	RMB2,000,000	100
Xiamen Space Seven E-commerce Co., Ltd*	PRC, wholly foreign-owned enterprise	Sales of cosmetic products and personal hygiene products via online in the PRC	RMB2,000,000	100
Hengan Li Ren (Jiangxi) Cosmetics Co., Ltd*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of skin care products and daily personal necessities in the PRC	RMB35,880,000	100
Xinjiang Hengan Paper Co., Ltd*	PRC, wholly foreign-owned enterprise	Manufacturing and distribution of packaged tissue paper products in the PRC	RMB387,000,000	100
Weifang Hengan Thermal Power Co., Ltd*	PRC, sino-foreign equity joint venture	Manufacturing and distribution of heating and power in the PRC	US\$12,000,000	100
Weifang Hengan Gas Co., Ltd.*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of gas in the PRC	RMB10,000,000	100



37 PRINCIPAL 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 2020 %
Indirect subsidiaries: (continued)				
Quanzhou Hengan Anle Homecare Products Co., Ltd. *	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB20,000,000	70
PT. Hengan Global Hygiene Products	Indonesia, limited liability company	Manufacturing, distribution and sales of papers in Indonesia	US\$10,000,000	70
Hengan (Malaysia) Investments Company Limited	British Virgin Islands, limited liability company	Investment holding in Malaysia	US\$1	100
Wang-Zheng Berhad	Malaysia, public listed limited	Investment holding in Malaysia	Malaysian Ringgit ("MYR")80,000,000	57.30
Wang-Zheng Corporation Sdn. Bhd.	Malaysia, limited liability company	Distributor of disposable fibre-based products in Malaysia	MYR 3,325,000	57.30
Quality Hero Corporation Sdn. Bhd.	Malaysia, limited liability company	Manufacturing, distribution and sale of adult diaper, baby diaper and sanitary napkins products in Malaysia	MYR 250,000	57.30
Carefeel Cotton Industries (M) Sdn. Bhd.	Malaysia, limited liability company	Manufacturing and sale of facial cotton products in Malaysia	MYR 2,187,500	57.30
New Top Win Corporation Sdn. Bhd.	Malaysia, limited liability company	Importing, proceeding and trading of papers in Malaysia	MYR 1,000,000	57.30
Modern Alpine Sdn. Bhd.	Malaysia, limited liability company	Trading of papers in Malaysia	MYR 3,000,000	57.30
Hengan (Shaanxi) Homecare Products Co., Ltd. *	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US\$15,000,000	100



37 PRINCIPAL 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 2020 %
Indirect subsidiaries: (continued)				
Hengan (Luxembourg) Investment Company Limited	Luxembourg, limited liability company	Investment holding in Luxembourg	Euro 12,500	100
Hengan (Orient) Hygiene Product Co., Ltd. *	Russia, limited liability company	Manufacturing, distribution and sale of personal hygiene products in Russia	Russian Ruble 600,000,000	51
Sunway Kordis Holding Ltd	Cayman, limited liability company	Investment holding in the PRC	US\$2,100	100
Starful Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	US\$50,000	100
Sunway Kordis Asia Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	HK\$100	100
Sunway Kordis (Shanghai) Limited*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of household products in the PRC	US\$3,100,000	100
Sunway Household (Weifang) Limited*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of household products in the PRC	US\$2,000,000	100

* For identification purpose only

The non-controlling interests in respect of Hengan Pharmicare Company Limited, Harmony Pharmicare Limited, Fujian Hengan Holding Co., Ltd., Quanzhou Jinjiang Hengan Hygiene Science and Technology Co, Ltd., Quanzhou Hengan Anle Homecare Products Co, Ltd., PT. Hengan Global, PT. Hengan Global Hygiene Products, Hengan (Orient) Hygiene Product Co., Ltd., Jiangxi Hengan Biotechnology Co., Ltd and Wang-Zheng Berhad and its subsidiaries are not material.

For the non-wholly owned subsidiaries, the non-controlling interests represent the remaining interests and the related voting rights other than those held by the Company.



38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Assets		
Non-current assets		
Investments in subsidiaries	5,392,152	5,523,211
Current assets		
Amounts due from subsidiaries	6,472,670	5,308,600
Other receivables, prepayments and deposits	152	332
Derivative financial instruments	–	587
Cash and bank balances	98,728	5,352
	6,571,550	5,314,871
Total assets	11,963,702	10,838,082
Equity		
Equity attributable to shareholders of the Company		
Share capital	125,366	125,654
Other reserves (Note (a))	111,654	503,144
Retained earnings (Note (a))	7,728,653	5,669,712
Total equity	7,965,673	6,298,510
Liabilities		
Non-current liabilities		
Amounts due to subsidiaries	1,698,501	2,804,660
Current liabilities		
Amounts due to subsidiaries	–	80,002
Other payables and accrued charges	14,810	6,018
Derivative financial instruments	1,068	258
Borrowings	2,283,650	1,648,634
	2,299,528	1,734,912
Total liabilities	3,998,029	4,539,572
Total equity and liabilities	11,963,702	10,838,082

The balance sheet of the Company was approved by the Board of Directors on 19 March 2021 and was signed on its behalf.

Director
Sze Man Bok

Director
Hui Lin Chit



38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(continued)*

Note (a) Reserve movement of the Company

	Retained earnings RMB'000	Other reserves RMB'000
At 1 January 2020	5,669,712	503,144
Profit for the year	4,973,675	–
Currency translation differences	–	(242,617)
2019 final dividend paid	(1,487,109)	–
2020 interim dividend paid	(1,427,625)	–
Share-based compensation		
– value of employee services	–	4,641
– proceeds from shares issued	–	606
Buy-back of shares	–	(154,409)
Cancellation of shares	–	289
At 31 December 2020	7,728,653	111,654
At 1 January 2019	6,036,106	(140,010)
Profit for the year	2,942,415	–
Currency translation differences	–	43,350
2018 final dividend paid	(1,427,613)	–
2019 interim dividend paid	(1,189,677)	–
Share-based compensation		
– value of employee services	–	11,606
– proceeds from shares issued	–	300
Buy-back of shares	–	(105,060)
Cancellation of shares	(691,519)	692,958
At 31 December 2019	5,669,712	503,144



39 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and Chief Executive's emoluments

The remuneration of every Director and the Chief Executive for the year ended 31 December 2020 is set out below:

Name of Director	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Director					
Mr. Sze Man Bok	75	316	–	16	407
Mr. Hui Lin Chit	75	1,526	627	16	2,244
Mr. Hung Ching Shan	53	116	20	9	198
Mr. Hui Ching Lau (a)	3	–	–	–	3
Mr. Xu Shui Shen	53	1,200	78	3	1,334
Mr. Xu Da Zuo	53	1,042	74	13	1,182
Mr. Xu Chun Man	53	–	–	3	56
Mr. Sze Wong Kim	53	–	–	3	56
Mr. Hui Ching Chi	75	795	319	16	1,205
Mr. Li Wai Leung	75	1,351	311	17	1,754
Independent Non-Executive Director					
Mr. Chan Henry	107	–	–	–	107
Ms. Ada Ying Kay Wong	107	–	–	–	107
Mr. Theil Paul Marin	107	–	–	–	107
Mr. Ho Kwai Ching, Mark	107	–	–	–	107
Mr. Zhou Fang Sheng	107	–	–	–	107

Notes:

- (a) Mr. Hui Ching Lau was appointed as an executive director from 10 December 2020.



39 BENEFITS AND INTERESTS OF DIRECTORS (continued)

(a) Directors' and Chief Executive's emoluments (continued)

The remuneration of every Director and the Chief Executive for the year ended 31 December 2019 is set out below:

Name of Director	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Director					
Mr. Sze Man Bok	74	313	–	16	403
Mr. Hui Lin Chit	74	1,527	320	16	1,937
Mr. Hung Ching Shan	53	116	8	9	186
Mr. Xu Shui Shen	53	1,199	176	3	1,431
Mr. Xu Da Zuo	53	1,274	45	3	1,375
Mr. Xu Chun Man	53	–	–	3	56
Mr. Sze Wong Kim	53	–	–	3	56
Mr. Hui Ching Chi	74	800	243	16	1,133
Mr. Li Wai Leung	74	1,144	220	16	1,454
Independent Non-Executive Director					
Mr. Chan Henry	106	–	–	–	106
Mr. Wang Ming Fu (a)	40	–	–	–	40
Ms. Ada Ying Kay Wong	106	–	–	–	106
Mr. Theil Paul Marin (b)	66	–	–	–	66
Mr. Ho Kwai Ching, Mark	106	–	–	–	106
Mr. Zhou Fang Sheng	106	–	–	–	106

Notes:

(a) Mr. Wang Ming Fu resigned from independent non-executive director on 17 May 2019.

(b) Mr. Theil Paul Marin was appointed as an independent non-executive Director on 17 May 2019.

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.