恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044

ANNUAL REPORT 2018

CORPORATE MISSION

"GROWING WITH YOU FOR A BETTER LIFE"

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

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Sze Man Bok *(Chairman)*
Hui Lin Chit *(Deputy Chairman and Chief Executive Officer)*
Hung Ching Shan
Xu Shui Shen
Xu Da Zuo
Xu Chun Man
Sze Wong Kim
Hui Ching Chi
Li Wai Leung

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Henry
Wang Ming Fu
Ada Ying Kay Wong
Ho Kwai Ching Mark
Zhou Fang Sheng

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
China Construction Bank
Industrial and Commercial Bank of China
Industrial Bank

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road, P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

INVESTORS AND MEDIA RELATIONS

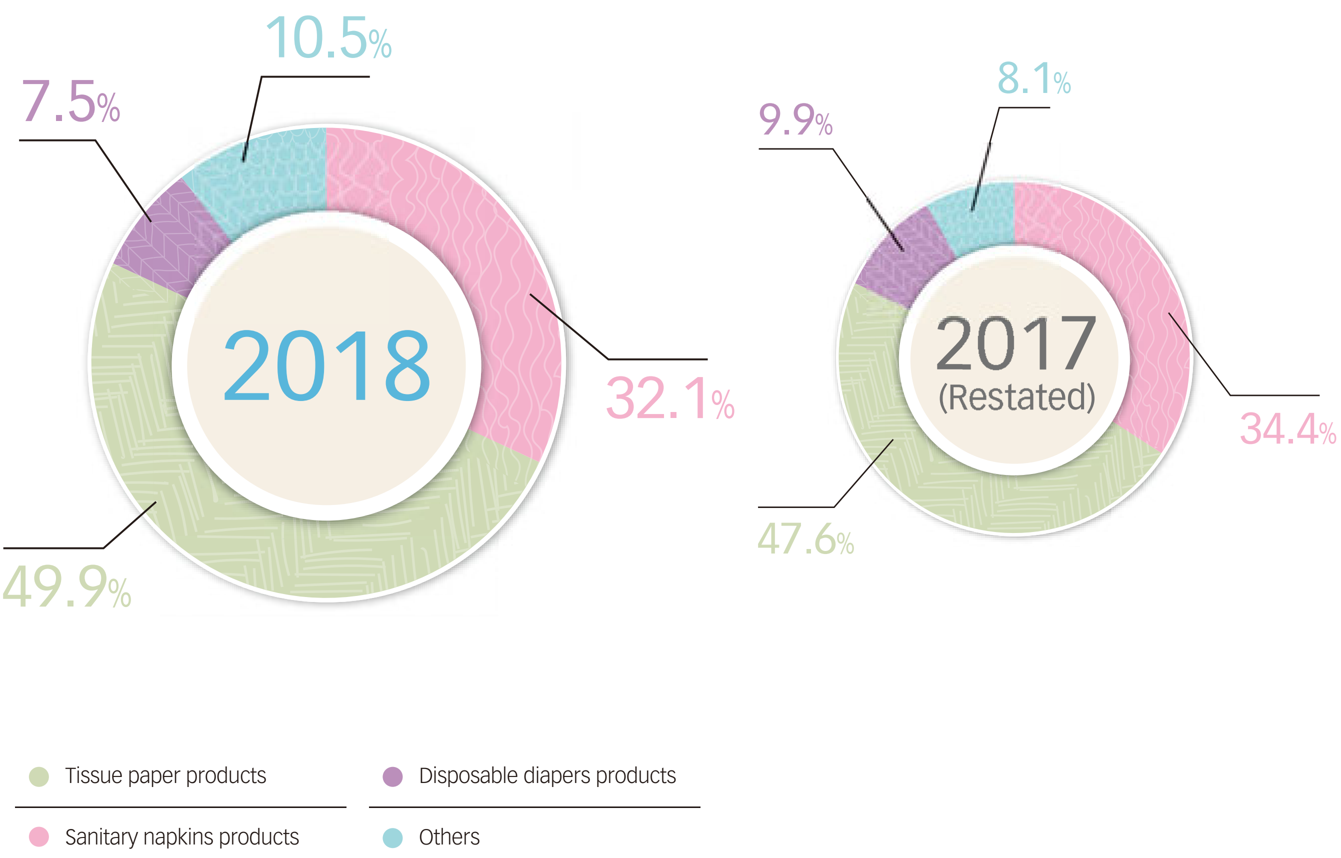
iPR Ogilvy Ltd.
Units 2008–12, 20/F, The Centre
99 Queen's Road
Central Hong Kong

FINANCIAL HIGHLIGHTS

	2018	2017 (Restated)	2016	2015	2014
Net profit margin — based on profit attributable to shareholders of the Company (%) (Note)	**18.5**	21.0	18.0	17.3	16.4
Earnings per share — basic (RMB)	**3.151**	3.149	2.864	2.645	2.525
Finished goods turnover (days)	**41**	46	46	43	49
Trade receivables turnover (days) (Note)	**46**	51	47	40	35
Current ratio (times)	**1.3**	1.3	1.4	1.2	1.5
Gross gearing ratio (%)	**145.1**	118.5	108.1	98.8	115.3
Net gearing ratio (%)	**(9.9)**	(11.5)	(4.9)	(7.9)	(10.3)

Note: The financial highlights for 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



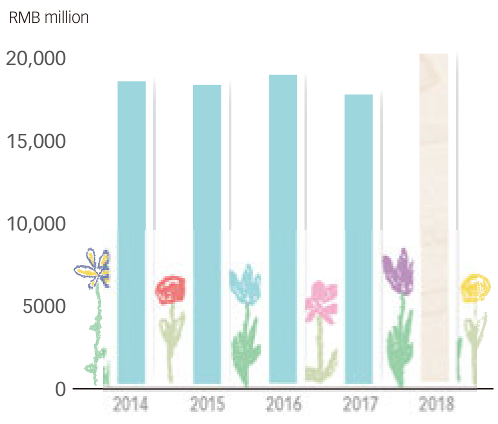
FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS — FOR THE YEAR ENDED 31 DECEMBER

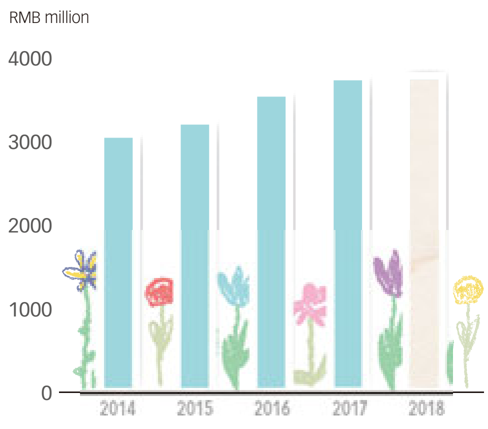
	2018 RMB'000	2017 RMB'000 (Restated)	2016 RMB'000	2015 RMB'000	2014 RMB'000
Revenue *(Note)*	**20,513,881**	18,079,560	19,277,397	18,662,576	18,883,508
Profit before income tax	**4,904,394**	4,960,598	4,559,011	4,548,674	4,231,297
Income tax expense	**(1,097,261)**	(1,159,142)	(1,079,445)	(1,299,209)	(1,084,310)
Profit for the year from continuing operations	**3,807,133**	3,801,456	3,479,566	3,249,465	–
Profit for the year from discontinued operations	**–**	–	281,896	52,272	–
Profit for the year	**3,807,133**	3,801,456	3,761,462	3,301,737	3,146,987
Non-controlling interests	**(7,328)**	(7,415)	(164,641)	(41,874)	(45,788)
Profit attributable to shareholders of the Company	**3,799,805**	3,794,041	3,596,821	3,259,863	3,101,199
Earnings per share - basic (RMB)	**3.151**	3.149	2.864	2.645	2.525

Note: The financial highlights for 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



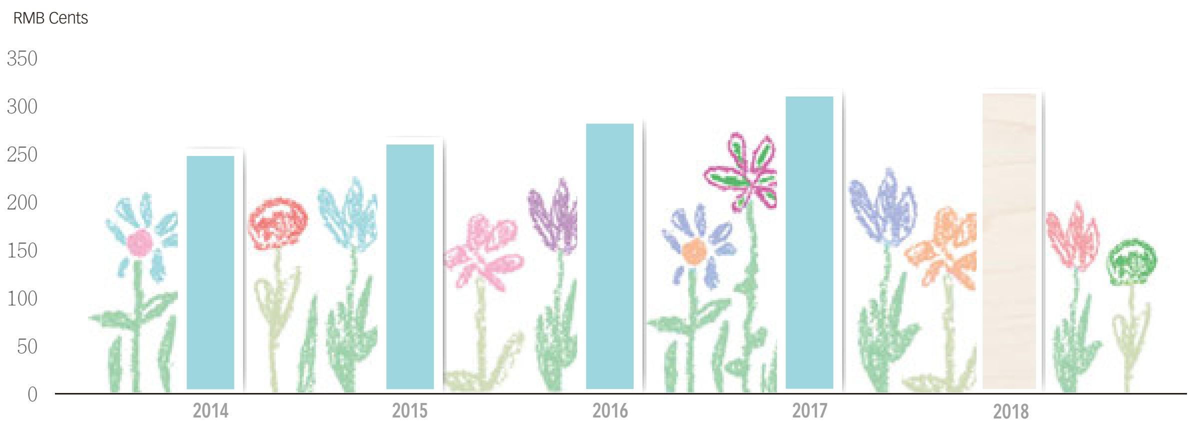
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY



CONSOLIDATED ASSETS AND LIABILITIES — AS AT 31 DECEMBER

	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Assets					
Property, plant and equipment	8,095,356	8,044,858	7,344,807	7,468,314	6,996,840
Construction-in-progress	580,790	878,088	1,094,145	1,089,602	1,091,711
Investment properties	225,036	216,753	194,848	185,886	188,542
Land use rights	844,532	773,327	751,308	858,708	881,855
Intangible assets	686,558	503,246	498,510	599,356	609,975
Prepayments for non-current assets	124,187	141,132	163,281	151,924	281,270
Deferred income tax assets	132,344	172,244	210,813	186,094	171,372
Investment in associates	101,670	–	–	–	–
Cash and bank balances	21,576,830	18,429,716	14,874,877	14,866,085	16,800,949
Long-term bank deposits	4,338,000	2,499,738	1,760,000	850,000	865,000
Other current assets	8,946,849	7,238,938	7,252,139	6,708,384	5,853,258
Total assets	45,652,152	38,898,040	34,144,728	32,964,353	33,740,772
Liabilities					
Long-term borrowings	4,240,286	3,247,233	3,524,687	–	–
Convertible bonds	–	455,537	472,719	4,656,907	4,252,382
Deferred income tax liabilities	160,170	120,007	106,452	159,563	111,423
Other current and non-current liabilities	24,253,017	18,730,962	15,280,014	13,056,088	14,978,378
Total liabilities	28,653,473	22,553,739	19,383,872	17,872,558	19,342,183
Non-controlling interest	273,519	237,883	34,065	380,928	340,378
Net assets attributable to shareholders of the Company	16,725,160	16,106,418	14,726,791	14,710,867	14,058,211

EARNINGS PER SHARE



"HEARTTEX", "PINO" AND "BAMBOO π"
POCKET HANDKERCHIEFS

"HEARTTEX", "PINO"
AND "BAMBOO π" BOX TISSUE
PAPER

"JUNICHI" BABY SKIN CARE PRODUCTS
AND "SUNREST" CLEANSING PRODUCTS

"HEARTTEX" PRESERVATION
BAGS/PAPER

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

"HEARTTEX" AND
"PINO" TOILET ROLLS

"HEARTTEX" KITCHEN
TOWELS/PAPER

"SPACE 7", "ANERLE", "ANLE" AND "DORIA"
SANITARY NAPKINS AND PANTILINERS

"ANERLE" AND "Q • MO"
BABY DIAPERS

"ELDERJOY" AND
"BANITORE" ADULT DIAPERS

"HEARTTEX" WET TISSUES

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 2018. During the year under review, opportunities and challenges existed side by side. Despite the uncertainties over the global economy, China's economy maintained steady growth. The resident income of China grew largely in line with the overall economy. The growth of China's resident spending accelerated, and domestic demand remained the key growth driver of the overall economy. On the other hand, the persistently high price of wood pulp and the tightening of China's environmental protection policies speeded up the industry consolidation. Leveraging on its economies of scale, the spirit of constant evolution, the market sensitivity and responsiveness originated from the Amoeba team, Hengan International capitalised the opportunity of consumption premiumisation and industry consolidation to push forward the healthy development of the business. The Group's overall sales thus resumed double-digit growth. Hengan International has entered into the South-East Asian market, officially rolled out its internationalisation strategy.

SZE MAN BOK,
Chairman

For the year ended 31 December 2018, the Group's revenue amounted to approximately RMB20,513,881,000 (2017(Restated): RMB18,079,560,000), representing an increase of about 13.5% over the prior year. Profit attributable to the shareholders of the Company remained stable at approximately RMB3,799,805,000 (2017(Restated): RMB3,794,041,000). Basic earnings per share were approximately RMB3.151 (2017: RMB3.149). The Board of Directors recommended the payment of a final dividend of RMB1.20 per share (2017: RMB1.15), which together with the interim dividend of RMB1.00 per share (2017: RMB0.95), bringing the annual dividend to RMB2.20 per share (2017: RMB2.10).

Consumption habit changed drastically in recent years. Retail sales extended from brick-and-mortar sales to online sales and followed by the convergence of online and offline sales. In response to these changes, the Group continued to implement its omni-channel strategy to cater to the different consumer groups. During the year, the Group's e-commerce channel has become mature. Its contribution to total sales revenue was approximately 14.4%, approaching the market average. To cope with the fierce competition faced by traditional sales channel of disposable diapers, the Group continued to focus on the development of maternity stores channel as well as the sales of high-end premium disposable diapers and other maternity products. During the year, the trend of consumption premiumisation was particularly pronounced. As a first mover to capitalise on the market opportunities, the Group has been focusing on the research and development in upgrading and developing new packaged high-margin products and increasing the proportion of high-end high-margin products in the product portfolio over the past few years, so as to foster the long-term growth driver of the Group. During the year, the functional, new packaged and upgraded tissue, sanitary napkin and disposable diaper products received overwhelming response from the consumers.

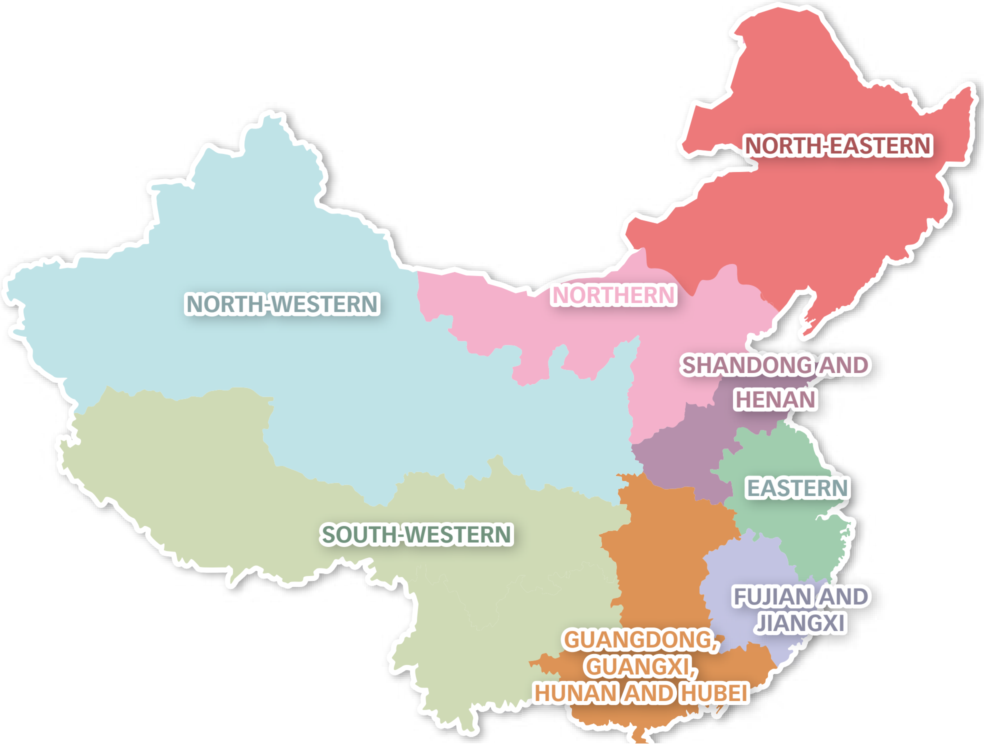
The year 2018 was the 20th Anniversary of Hengan International's listing. I am pleased that the Group constantly evolves and makes breakthroughs while maintaining its leading position in the personal and household hygiene products industry. During the year, the Group's Amoeba team passed through various stages, including start-up, nation-wide rollout and Group-wide implementation. The strategy's early success was reflected in the performance of the small sales team, which reinvigorated the sales network. The Group's overall sales increased robustly, and the expenses as a percentage of total revenue continued to decrease. The Amoeba strategy has been implemented to all operation units of the Group. It is expected that the benefits of the strategy will emerge gradually. Leveraging on the market responsiveness of the Amoeba team which is in place at each unit of the supply chain, the Group will continue to improve efficiency in sales, production, and administration, so as to launch the products that are most suitable to the market to cater to consumers' needs.

In 2017, the Group took the first step towards its internationalisation. It acquired WangZheng Berhad, a company listed on the Main Market of Bursa Malaysia Securities Berhad, and expanded its sales network to the South-East Asian market. The Group's efforts over the past year has resulted in the launch of the Hengan-branded Banitore diapers and star product Super Mini wet wipes in Malaysia through WangZheng's distribution channel. It was a great breakthrough on the path of internationalisation. Moreover, the Group expanded beyond the Asian market. It invested in Finnpulp Oy, a wood pulp manufacturer in Finland, and set foot in the upstream industry. The Group also set up manufacturing base in Russia, to pave the way for expansion in the European market.

Looking ahead to 2019, despite the uncertainties and downward trend of the global economy, it is expected that China's economy will maintain a medium-to-high pace growth under the pursuit of high quality and efficient development. It will continue to drive the citizens' pursuit of personal hygiene and the quality of life and provide long-term growth driver for the market. In face of ever-changing market environment and consumer demand, the Group will leverage on Amoeba team's execution capabilities and the nationwide sales network to understand the market dynamics and react quickly; adhere to the "customer-oriented" principle, while fulfilling consumers' needs in terms of product design and sales channel, at the same time constantly optimise and upgrade product portfolio, to capitalise the trend of consumption premiumisation. In terms of internationalisation, the Group will actively look for appropriate opportunities and prudently make decisions, while expanding into the international market at a firm and stable pace.

Lastly, I would like to take this opportunity to appreciate the efforts of every member of staff and the business partners' support which made up this memorable year. I would also like to thank the shareholders who have walked side by side with the Group for its first 20 years for their trust in and recognition to the Group. All members of Hengan International's staff will continue to remain fully committed to leading the Group to a more prosperous future and creating higher return for all shareholders.

REVENUE FROM CONTINUING OPERATIONS BY REGIONS IN MAINLAND CHINA



	2018	2017
NORTH-WESTERN		
Sales Value: (RMB million)	975	886
Percentage of Total Sales:	4.8%	4.9%

	2018	2017
NORTHERN		
Sales Value: (RMB million)	1,197	1,163
Percentage of Total Sales:	5.8%	6.4%

	2018	2017
NORTH-EASTERN		
Sales Value: (RMB million)	751	712
Percentage of Total Sales:	3.7%	3.9%

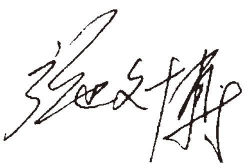
	2018	2017
SHANDONG AND HENAN		
Sales Value: (RMB million)	1,565	1,539
Percentage of Total Sales:	7.6%	8.5%

	2018	2017
EASTERN		
Sales Value: (RMB million)	2,815	2,545
Percentage of Total Sales:	13.7%	14.1%

	2018	2017
FUJIAN AND JIANGXI		
Sales Value: (RMB million)	5,498	4,345
Percentage of Total Sales:	26.8%	24.1%

	2018	2017
SOUTH-WESTERN		
Sales Value: (RMB million)	2,046	2,084
Percentage of Total Sales:	10.0%	11.5%

	2018	2017
GUANGDONG, GUANGXI, HUNAN AND HUBEI		
Sales Value: (RMB million)	3,651	3,199
Percentage of Total Sales:	17.8%	17.7%



Sze Man Bok
Chairman

Hong Kong, 19 March 2019

CHIEF EXECUTIVE OFFICER'S REPORT

BUSINESS REVIEW

In 2018, the global economy experienced slowdown in growth. Due to China-US trade frictions and China's deleveraging effect, the country's gross domestic product for 2018 increased by 6.6% year-on-year, the lowest economic growth rate in 28 years. Despite waning economic momentum dampened consumer sentiment, the per capita consumption expenditure of national residents in the daily necessities and services category increased by 9.1% compared with 2017 which showing that the demand for household goods has continued to grow. As the leading personal and household hygiene-products company in China, Hengan exploited its scale advantages and effective cost control measures to sustain steady growth, during times of domestic economic downturn and vigorous competition in China's fast-moving consumer goods market.

During the year under review, Hengan Group further improved the platform rules of "Fair and Transparent" and continued to deepen the "small sales team operating model" (also known as "Hengan's Amoeba model"). The Group fully exploited Amoeba's advantages of high flexibility and prompt-response, effectively developed sales strategies and adjusted the product mix that are more suitable for different regional markets. During the year, the "small sales team operating model" further optimised sales networks, independently managed the ultimate point of sales network, got closer to consumers, and successfully stimulated the sales growth of various product categories. Coupled with the rapid growth of the Group's tissue business and e-commerce sales, overall sales resumed double-digit growth. During 2018, the Group's revenue increased by approximately 13.5% to approximately RMB20,513,881,000 year on year (2017 (Restated): RMB18,079,560,000). While promoting sales, the Group also focused on improving logistics and administrative efficiency.

HUI LIN CHIT
Chief Executive Officer

In 2018, due to the overall prices of wood pulp remained at historical high, with Renminbi depreciating since the second half of 2018, the Group's production cost was relatively higher compared with the same period of last year and pressured gross profit margin. The Group's gross profit margin dropped to about 38.2% (2017 (Restated): 41.8%). The Group expects its gross profit margin to gradually improve in 2019 as the prices of wood pulp have trended downward since the fourth quarter of 2018, coupled with the Group's continued efforts to optimise its product mix and expand its economies of scale in 2019 so as to mitigate the negative effects of intensified competition in the market. Although the Group strengthened brand promotion during the year which resulted in the increase in selling and distribution costs and administrative expenses by approximately 1.4% compared to last year. In terms of the percentage of total revenue, the proportion of selling and distribution costs and administrative expenses decreased to approximately 16.9% (2017 (Restated): 18.9%) of the Group's revenue. The decrease was mainly attributable to the implementation of "small sales team operating model" which enhanced the sales efficiency.

In 2018, operating profit increased by about 3.0% to approximately RMB5,429,224,000 (2017: RMB5,271,574,000). Profit attributable to shareholders of the Company remained stable at approximately RMB3,799,805,000 (2017: RMB3,794,041,000). Excluding the non-recurring gains, profit attributable to shareholders of the Company rose by about 2.6% year on year, which was attributable to the income of approximately RMB55,413,000 generated from the acquisition of its subsidiaries in 2017, and the gains after current income tax expense recorded as a result of the sale of properties in Hunan and Zhejiang amounted to approximately RMB35,659,000 in 2017 respectively. The Board of Directors declared a final dividend of RMB1.20 per share for the year ended 31 December 2018 (2017: RMB1.15).

SANITARY NAPKIN

While China has seen steady growth in market demand for sanitary napkin, the market penetration increased year after year with the market entering the stage of saturation. In recent years, the competition in sanitary napkin market heated up. To cater for needs of different ages, the Group actively upgraded and renewed its product mix. The Group focuses on premium high-end products like the Space 7 series which targets the white-collar market and the mature females to further consolidate its market positioning as a high-end brand. The Group continued to upgrade its product mix, such as Space 7, including Super Slim series, Super Long 420 night series and Sweet Sleeping Panty series, which received overwhelming response from the market. The Group made changes to the product packaging according to the needs of consumers in different age groups so as to enhance its market competitiveness. In 2018, the Group's sanitary napkin sales achieved steady growth and continued to maintain its leading position in the market.

During the year, revenue of the sanitary napkins business grew by approximately 6.1% to approximately RMB6,593,710,000, which accounted for approximately 32.1% of the Group's revenue (2017 (Restated): 34.4%). In 2018, the gross profit margin of the sanitary napkins business increased approximately to 69.4% (2017 (Restated): 68.8%) as the result of the increase in the high-end and upgrade products portion in the product portfolio to offset the impact of increasing petrochemical raw material cost.

Looking ahead, as the population's income level continues to increase along with the consumers' pursuit of higher quality of sanitary napkin, product upgrades are expected to continue to boost the sales. Aligning with the Group's revised corporate strategy, the Group will expand to the overall female personal care product industry from a single type of hygiene product. On one hand, the Group will develop more brand new products that are closely aligned to market needs, upgrade existing products in addition to launching brand new packaging, as well as further develop the high-end market. By capitalising on the market trends, the Group aims to increase its market share in this saturated market and further consolidate its brand as a market leader. On the other hand, the Group will actively research and develop female care products that satisfy consumer needs by leveraging the Group's advantages and leadership in the sanitary napkin industry, to extend the female care product portfolio and expand the Group's source of revenue, thus laying the foundation for its foray into the massive female care product market. The Group will continue to utilise its e-commerce channels to serve the younger generation's consumption habits so as to provide more effective sales to these. Steady growth in sales is forecasted for 2019.

TISSUE PAPER

In light of the persistent consumption upgrade trend in the domestic market, Chinese demand for tissue paper has been shifting towards diversification and mid-to-high-quality products. Given the enormous market potential of household paper industry, enhancing the product quality, reducing the costs of production and developing modernized large-scale production have become the mainstream trends.

In 2018, tissue paper segment was still the largest income source of the Group, which accounted for approximately 49.9% of the revenue. During the year, persistently high raw material cost and tightened environmental policies imposed massive pressure on the industry. Those medium and small sized manufacturers with low pricing power and failed to meet the environmental standard are therefore gradually eliminated from the market, which speeds up the industry consolidation. Leveraging on its scale advantage, the Group maintained a stable price level and along with its leading environmental production technologies, the Group managed to gain market share and increased its product penetration notwithstanding the challenging market environment. In 2018, the upgraded product mix, "Tea Classical series", "Super mini" wet wipes series were popular in the market and its sales continued to record significant growth in the domestic market and outperformed in the market. In which, the "Super mini" wet wipes series were successfully entered the Malaysian market during the year and were well received by local consumers.

During the year under review, revenue from the Group's tissue paper segment largely increased by about 18.8% to approximately RMB10,227,313,000, accounting for approximately 49.9% (2017 (Restated): 47.6%) of the Group's total revenue. Tissue paper segment recorded a substantial increase in revenue, which was mainly attributable to the "small sales team operating model" strategy that improved sales of tissue paper from traditional and modern channels, compared with 2017, rapid growth in sales from e-commerce channels, and the increased market share as a result of market consolidation. On the other hand, wood pulp prices increased compared to last year, and the Renminbi depreciated substantially in the second half of 2018. As wood pulp was mainly imported and settled in US dollars, the overall cost was higher compared with the same period in 2017, thereby weighing on the gross profit margin of the tissue paper business.

During the year, gross profit margin decreased to approximately 22.5% (2017 (Restated): 26.8%). Nevertheless, the Group is confident that following the full-scale implementation of the "small sales team operating model" strategy across all departments, it can optimise product portfolio and increase the cost effectiveness. In addition, the wood pulp prices began to decrease in late 2018, it is expected that the gross profit margin of tissue paper segment will be improved gradually in 2019.

The Group's annualised production capacity was approximately 1,420,000 tons by end of year 2018. Moving forward, the Group will consider the pace of adding production capacity according to the market conditions and sales performance.

Environmental protection has become the lifestyle of today's generation. In 2019, the Group will focus on the promotion of the brand Bamboo π series. The Bamboo π series features natural bamboo fibers with non-colored materials and has a clear concept of environmental protection. The Bamboo π series has been well received by the market since its launch in 2018. In 2019, the product categories of Bamboo π series will be expanded to kitchen paper, paper towels and paper rolls. With the Group's leading production technologies and stringent production procedures, the Group can assure the products that made of recycled pulp will have the same good quality.

In response to the rising market awareness for environmental protection and wild conservation, the Group cooperated with the Shaanxi Qinling Research Base of Giant Panda Breeding in 2018 to adopt two pandas named "Heng Heng" and "An An". In the latest promotional activities in relation to the upcoming upgraded and new Bamboo π series products, the Group will incorporate the elements of "Heng Heng" and "An An" with a view of raising the awareness for conservation while promoting the products. On the other hand, the Group will continue to leverage the market popularity and brand leadership of its and "Super mini" wet wipes series to upgrade and expand its product portfolio, and extend its market reach to Hong Kong, Malaysia and other South East Asian regions. The Group will also take advantage of the ever-increasing consumer demands from e-commerce channels, by launching e-commerce exclusive themed products, upgraded version of popular products and brand-new repackaged products which cater to the needs of the personal and family consumers. Under the direction of the flexible and consumer-oriented strategy of "small sales team operating model", the Group believes tissue segment will maintain robust sales growth and further enhance its gross profit margin.

DISPOSABLE DIAPERS

Urbanisation has always been a major driving force of the diapers market. Increasing personal hygiene awareness, the pursuit of higher living standards and a rapidly ageing population, would bring great development opportunities to the adult diapers market. In addition, the market penetration rate of disposable diapers in China is still relatively low compared with that in other developed countries, the Group believes there is a huge untapped market potential in China. Also, concerning the business model, the fragmented sales channels including online stores, WeChat stores and overseas buying agents have significantly affected the traditional sales channels such as supermarkets and physical store.

In 2018, revenue from the Group's disposable diapers segment decreased by approximately 14.4% to approximately RMB1,536,304,000, which accounted for approximately 7.5% of the Group's revenue (2017 (Restated): 9.9%). During the year under review, the competition in diapers market intensified, the Group's disposable diapers business strategically increased investment in e-commerce channel and maternity stores while continuously implementing its omni-channel strategy. In particular, the Group expedited its development of disposable diapers sales on e-commerce channel. As at 31 December 2018, sales of disposable diapers through e-commerce channel increased to more than 35% of the overall diaper sales. The sales of e-commerce channel increased by about 10% year-on-year, effectively alleviating the decline in the Group's overall diapers sales. However, the sales through traditional channels recorded a decrease of 35% in revenue, which accounted for approximately 40% of the overall diapers sales. Thus, affected the overall diapers sales of the Group.

In view of the consumers' increasing pursuit of high-quality products, the Group has strived to develop high-quality, high-end and high-margin products. In 2018, the Group continued to focus on developing the high quality brand "Q • MO", driving the sales of "Q • MO" to grow by more than three times compared to the same period of previous year, which accounted for approximately 5% of the disposable diaper's total sales. In October 2018, the "Pure Air" brand under "Q • MO" launched an innovative thin and light new product to replace the traditional thick diapers, to enhance the innovative feature of products.. "Soft and thin", the upgraded product of Anerle, recorded a significant growth in sales in 2018, which rose by over 15%. On the other hand, the Group's revenue of adult diapers amounted to approximately RMB174,963,000 (2017: RMB151,963,000), which accounted for approximately 11.4% of the total revenue of disposable diapers (2017 (Restated): 8.5%). Sales increased by approximately 15.1% compared to the same period of previous year. Adult diaper products also entered the Malaysian market during the year, laying a good foundation for the Group's future development in Malaysia and South East Asia.

During the year, as the prices of petrochemical products increased, coupled with intensified market competition, gross profit margin of disposable diapers business dropped to around 39.2% (2017 (Restated): 40.8%).

The Group will continue to implement the omni-channel strategy. In 2019, the Group will continue to leverage on "small sales team operating model" to improve its understanding of consumers from different channels, adjust the product mix and the pace of supplies, and actively increase the sales of e-commerce and maternity stores. The Group will strive to upgrade existing products and launch new products so as to forge ahead towards the long-term goal of developing high-end market, mitigate the impact on traditional channels and improve the sales performance of traditional channels. The Group will also actively develop baby care products to gradually expand into the baby care industry. In addition, with substantial growth in elderly care demand, the Group will continue to cooperate with elderly homes to supply adult diapers, mattresses and other care products, and develop the care products business in the long term. It believes that the development of the elderly care industry will become the long-term growth driver of the diaper business.

OTHER INCOMES

Revenue from the Group's household products segment amounted to approximately RMB230,423,000 (2017 (Restated): RMB9,851,000), including the revenue of Sunway Kordis Group for the eight months between April to December 2018, which contributed additional revenue of RMB201,343,000. The business accounted for approximately 1.1% (2017 (Restated): 0.1%) of the Group's revenue. Sales of first-aid products under the brands of "Banitore" and "Bandi" amounted to approximately RMB32,717,000 (2017 (Restated): RMB32,451,000). The business accounted for approximately 0.2% (2017 (Restated): 0.2%) of the Group's revenue and did not have any significant impact on the Group's overall results.

In recent years, the Group has stepped up its efforts to develop the household products business so as to expand its market coverage. On 4 April 2018, the Group acquired the entire issued share capital of the Sunway Kordis Holding Limited ("Sunway Kordis") and its subsidiaries. Sunway Kordis is principally engaged in the manufacturing of food wrap film and plastic bags in the PRC which are sold locally and exported to markets in Europe, Australia, North America and Asia. The acquisition will further enhance the overall growth of the Group and is undertaken as part of its plan to expand its household products offerings and diversify its revenue stream inside and outside the PRC. In 2019, the Group will further utilise the experience of Sunway Kordis in household product industry and develop the coverage of Hengan's household product. The Group will also seek to leverage on its overseas sales network to bring Hengan's products to the overseas market.

For the year ended 31 December 2018, revenue of Wang-Zheng Group amounted to RMB425,080,000 (only seven months revenue was recognised in last period amounted to RMB261,477,000). Together with the revenue generated by Sunway Kordis Group, therefore, other income of the Group increased by 47.6% year on year.

E-COMMERCE

In 2018, the national online retail sales of physical goods increased by approximately 25.4% year on year. Its contribution to the total social retail sales of consumer goods increased 18.4%, an increase of 3.4 percentage points when compared to 2017. It reflected the continued shift of consumption from in-store shopping to online shopping. In response to the market changes, the Group has fully implemented the "Omni-Channel Sales" strategy.

To cater to the changes in the consumption patterns and habits of the Chinese consumers, apart from the traditional channels like distributors and supermarkets, the Group has been making use of sales channel like online stores and WeChat stores, to further expand its sales network in China. Through the strategic collaborations with well-known large e-commerce operators in China, the Group has started to make use of big data to more precisely analyse the online shopping habits and preferences of consumers, so that the Group could flexibly allocate the resources used in production, inventory supplies and sales in order to enhance the sales productivity. With the Retail Expert ("零售通") platform, the Group also expanded the customer base of B2B business, enhanced the logistics system, and increased the coverage of its offline sales network.

As at 31 December 2018, revenue from e-commerce (including Retail Export (零售通) and WeChat sales) exceeded approximately 2.9 billion, up by 50% over the previous year. E-commerce's contribution to total sales revenue also rose to approximately 14.4% (2017 (Restated): 10.6%) in which the sales of tissue paper segment continued to benefit from the rapid growth of e-commerce channel. Besides, the Group continued to enhance the profitability of e-commerce sales with targeted investment in e-commerce and continued optimization of the e-commerce product portfolio during the year.

Looking ahead, the Group will continue to expand the coverage of e-commerce channels, launch online exclusive products, such as online combination products, and engage in online promotions. The Group believes that the comprehensive improvements in sales, inventory supplies, logistics and distribution will boost the sales and profit of e-commerce in 2019.

HENGAN'S AMOEBA MODEL

To cater the rapidly evolving demand of consumers, Hengan Group began to implement the "small sales team operating model" by the end of 2016. Leveraging on the platform and the "Fair and Transparent" platform rules, the Group has fully empowered the employees, motivated the team and stimulated creativity, which enhanced the team flexibility and market responsiveness. Adhering to the "customer-oriented" principle, the Group managed to quickly adjust its supplies, production capacity and product development, effectively formulate unique sales strategy according to the needs of consumers in various markets and launch products and services for different targeted consumer groups.

In 2018, the Group continued to deepen the implementation of the "small sales team operating model" and achieved notable results. Meanwhile, the "small sales team operating model" has gradually extended to all divisions of the Group, including production, products, e-commerce and maternity departments.

In 2018, the Group's total sales resumed double-digit growth, and its expense ratio was 16.9%, decreased by about 2 percentage point year-on-year, effectively alleviating the impact of high raw material costs on the profitability of the Group.

Looking ahead, the Group believes the effectiveness of the "small sales team operating model" at all operation divisions will be further strengthened. The Group will keep upgrading its entire supply chain and deepen the operational efficiency of "small sales team operating model" in order to enhance the agility and market responsiveness of the Group, thereby fully exploiting the potential of the strategy.

INTERNATIONAL BUSINESS DEVELOPMENT

The Group has actively expanded to overseas markets. Currently, the Group sells its products in 43 countries and regions, with 76 direct partnerships with major clients or distributors.

In 2017, the Group acquired an aggregate of 80,003,000 shares of Wang-Zheng Berhad (Stock code: 7203), a company listed on the Main Market of Bursa Malaysia Securities Berhad. The shares brought represented approximately 50.45% of the equity interest in Wang-Zheng. Wang-Zheng and its subsidiaries are principally engaged in investment holding and the manufacturing and processing of fibre-based products, which include disposable adult and baby diapers, sanitary protection and tissue products, cotton products and processed papers. In 2018, Hengan successfully expanded into the Malaysian market by launching the high-end adult diapers and the Banitore brand in order to establish a foothold in the elderly care industry. In the fourth quarter of 2018, the Group launched the "Super mini" wet wipes series in Malaysia which achieved good sales and received great word-of-mouth reviews, laying the foundation for expansion into the domestic market. The Group will continue to utilise the sales network of Wang-Zheng in South East Asia (including supermarkets and personal hygiene products chain stores), in order to promote Hengan products to Malaysian and South East Asian market.

During the year, the revenue and net profit of Wang-Zheng amounted to RMB425,080,000 and RMB14,975,000 respectively, accounting for approximately 2.1% and 0.4% of the Group's total revenue and net profit respectively.

In 2019, Wang-Zheng will vigorously promote Hengan's products in Malaysia through various sales channels (such as convenient store and e-commerce channels), comprehensively establish brand image and high-quality product philosophy. The Group will continue to upgrade existing Wang-Zheng products and develop high-end products. The new production line (including adult pull-on pants) will commence operation in 2019 in order to enhance the product competitiveness. In addition, as part of its strategic plan for the South East Asian market, the Group has established a sales office in Indonesia to promote and sell Hengan branded products.

In addition, the Group completed the investment in a Russian factory, with plans to start producing diapers in 2019, thereby expanding its diaper business to the Russian market.

In April 2018, the company invested in Finnpulp Oy ("Finnpulp") which is currently engaged in planning and aiming to build a large-scale bio-product mill in Kuopio, Finland. The planned mill is in the pre-engineering phase and construction is expected to commence in 2020. Upon completion of the construction work, the planned mill targets to produce approximately 1,200,000 tonnes of northern bleached softwood sulphate kraft pulp per year for the global market, as well as other bio-products. The Group will expand its business to upstream wood pulp, enabling the Group to secure stable supply of wood pulp in the long term, and therefore reinforce the long-term stable development of the Group's tissue business.

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 loss of approximately RMB31,978,000 as a result from the purchases of raw materials from oversea suppliers. The Group has not experienced any difficulties in obtaining sufficient foreign currencies for settlement of the purchases or repatriation of profits declared by the subsidiaries in Mainland China to the overseas holding companies.

As at 31 December 2018, 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 maintained a solid financial position. As at 31 December 2018, the Group's cash and bank balances, long-term bank time deposits and restricted bank deposits totally amounted to approximately RMB25,919,500,000 (31 December 2017: RMB20,932,456,000); medium-term notes (panda bonds), corporate bonds and super short-term commercial papers totally amounted to approximately RMB9,986,824,000 (31 December 2017: RMB2,991,175,000), and bank borrowings amounted to approximately RMB14,275,540,000 (31 December 2017: RMB15,631,443,000). The principal amount of the convertible bonds issued in June 2013 was approximately RMB4,328,000,000. The convertible bonds were fully redeemed on 27 June 2018 (31 December 2017: RMB455,537,000).

In the second half of 2016, the Group successfully registered for the proposed issue of RMB5 billion medium-term notes (panda bonds) and RMB5.75 billion domestic corporate bonds. The Group also completed the issue of the first tranche 3-year panda bonds of RMB2 billion and the issue of the first tranche of 5-year domestic corporate bonds of RMB1 billion in September 2016, with a coupon rate of 3.24% and 3.30% per annum respectively. The Group finished the second tranche 3-year domestic bonds of RMB3 billion, with a coupon rate of 4.58% per annum on 30 July 2018.

In addition, the Group successfully registered for the proposed issue of RMB5.0 billion super short-term commercial paper on April 2017. The Group issued commercial paper in five batches, with a coupon rate from 3.78% to 4.15% per annum respectively. Apart from one of the tranches having an effective period of 97 days and was fully repaid during the year 2018, the rest of these super short-term commercial paper tranches are 270 days.

The bank borrowings were subject to floating annual interest rates ranging from approximately 1.4% to 7.0% (2017: from 1.0% to 5.6%).

As at 31 December 2018, the Group's gross gearing ratio was approximately 145.1% (31 December 2017: 118.5%), 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). 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 9.9% (31 December 2017: negative 11.5%) as the Group was in a net cash position.

During the year, the Group's capital expenditure for continuing operations amounted to approximately RMB845,755,000. As at 31 December 2018, the Group had no material contingent liabilities.

CHANGES IN ACCOUNTING RULE

Starting form 2018, the Group adopted Hong Kong Financial Reporting Standard 9 and 15. The adoption of Hong Kong Financial Reporting Standard 9 did not result in any significant impact on the amounts reported in the opening balance sheet on 1 January 2018 and the consolidated financial statements for the year ended 31 December 2018. According to Hong Kong Financial Reporting Standard 15, the reporting promotional and sales campaign expense was changed. The Group's revenue is offset by the expenses in promotional and sales campaign. Therefore, the Group's revenue, gross profit, and expense level on the book had been presented in according to Hong Kong Financial Reporting Standard 15 for the year ended 31 December 2018. The financial statement for the last year has been restated. For the year ended 31 December 2018 and 2017, the expenses offset against revenue were RMB1,882,350,000 and RMB1,745,471,000 respectively.

PRODUCT AND RAW MATERIAL 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 China's increasingly stringent environmental policies, Hengan will exploit its production scale and technical strength, strive to develop green products and sustainable environmental 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. As at 31 December 2018, the Group employed approximately 23,000 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.

LATEST AWARDS

In 2018, the Group awards and honors won by the Group are as follows:

Award	Organisation
Top 100 Hong Kong Stocks. The Group has received this award for six consecutive years.	Finet Group Limited
QuamIR Awards – The Most Remarkable Investor Relations Recognition 2017	Oceanwide IR Limited
The 13th "Capital China" Outstanding Enterprise Award	Hong Kong Capital Magazine
Global 2000: The World's Largest Public Companies, 2018	Forbes
Listed Enterprises of the Year 2018	Bloomberg Businessweek/Chinese Edition
Hong Kong Outstanding Enterprises Parade 2018 Award	Economic Digest
Listed Company Awards of Excellence 2018	Hong Kong Economic Journal
40th Anniversary of China's reform and opening-up: Top 40 Brands	China Central Television

OUTLOOK

Looking ahead to 2019, uncertainties over China-US trade frictions and the volatile movement of Renminbi exchange rate linger. US President Trump's economic policies and the upcoming Brexit process also bring uncertainties to the market. The Group will closely monitor the impact of external factors on the prices of imported wood pulp and petrochemical products. With accelerating urbanisation in China, the national income level continues to increase. The Chinese government has been promoting high-quality development of the society, which would drive up the demand for high-quality products in the personal hygiene products market in the long run.

The Group expects the wood pulp prices to fall in 2019, which will ease the cost pressure on the company and help improving gross profit margin. At the same time, the Group will continue to execute the "small sales team operating model" strategy to the greatest effect, focusing on consumers and satisfying their needs through high-quality products and services. The Group is also actively implementing the omni-channel strategy, as well as exploring new potential channels, to seize the tremendous market opportunities.

Leveraging its production scale, brand influence, perseverance to product quality and strength in constant progression, the Group will consider industrial expansion as the long-term development target, leveraging on its existing resources and business foundation, to focus on female care industry, baby care industry and elderly care industry, as well as to launch brand new products and upgraded products, so as to cater for the needs of different consumers. Also, leveraging its scale advantages to continue to decrease the expenses percentage against total revenue, the Group's overall profits will be improved. The Group will continue to promote the Hengan brand to the overseas markets and create higher value for shareholders.

HUI LIN CHIT
Chief Executive Officer

Hong Kong, 19 March 2019

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mr. Sze Man Bok

Mr. Hui Lin Chit

Mr. Hung Ching Shan

Mr. Xu Shui Shen

Mr. Xu Da Zuo

DIRECTORS

Executive Directors

Mr. Sze Man Bok, aged 69, 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 an 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 redesigned as non-independent non-executive director of WZB on 25 September 2017.

Mr. Hui Lin Chit (formerly known as Hui Chi Lin), aged 65, 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.

During the period from 1998 to 2012, Mr. Hui was a member of the Ninth, Tenth and Eleventh National Committee of the Chinese People's Political Consultative Conference. During the period from 1997 to 2011, he was also a member of the Executive Committee (at the Eighth) and Standing Committee (at the Ninth), and deputy chairman (at the Tenth) of All-China Federation of Industry and Commence. He was also a deputy chairman of the Ninth, Tenth and Eleventh Political Consultative Conference in Quanzhou City and the chairman of the Tenth, Eleventh, Twelfth and Thirteenth Quanzhou Federation of Industry and Commence.

He is the father of 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 redesigned as non-independent non-executive chairman of WZB on 25 September 2017.

Mr. Hung Ching Shan, aged 69, is responsible for supervising the Group's purchasing tender assignments. He has over 40 years of experience in raw materials procurement as well as in import and export trading. Mr. Hung is one of the founding shareholders of the Company.

Mr. Xu Shui Shen, aged 49, the Chief Operating Officer of the Group. In August 2017, he was appointed as the Chief Executive Officer of Operation Service Centre and Sales Director. 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 Centre. He joined the Group in 1985 and has over 34 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 52, was appointed as the Chief Financial Officer of the Group on 30 November 2016 and appointed as Chief Executive Officer of Services Sharing Centre (in charge of Finance Department, Asset and Property Management Department and Information System Department) appointed in August 2017. Joining the Group in 1985, Mr. Xu has over 34 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

Mr. Sze Wong Kim

Mr. Hui Ching Chi

Mr. Li Wai Leung

Mr. Chan Henry

Mr. Xu Chun Man, aged 44, 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 28 years of experience in business development and customer service management.

Mr. Sze Wong Kim, aged 43, 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 34. He was appointed as Operation Management Department Director and also as the Deputy Chief Executive Officer of Operation Service Centre in August 2017, responsible for supervising and implementing the operations of the Operation Service Centre (including but not limited to sales services, procurement, production, logistic coordination management etc) and the Operations Service Centre 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 Substantial shareholder of the Company. Mr. Hui was appointed as executive director of WZB on 25 September 2017.

Mr. Li Wai Leung, aged 40, joined the Group on 3 January 2017 as the Deputy Chief Financial Officer, the Company Secretary and authorized representative of the Company. He was appointed as an executive director of the Company on 21 March 2017. He has over 18 years of experience in accounting, finance and business advisory work. Before joining the Group, 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 53, 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 32 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

Mr. Wang Ming Fu

Mr. Ho Kwai Ching Mark

Mr. Zhou Fang Sheng

Ms. Ada Ying Kay Wong, JP, aged 59, 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. Wang Ming Fu, aged 53, is an Independent Non-executive Director of the Company appointed on 1 January 2010. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee. Currently, he is the chairman of the HeJun Consulting Co., Ltd. He was a managing director of Security Research Institute and a general manager of merger and acquisition department of Junan Securities Co., Ltd. from 1993 to 1998, and was an executive director of Institute of Finance and Security, Renmin University of China from 1999 to 2003. He is a director of New Oriental Education Fund from 2007. In addition, he was an independent non-executive director of Shenzhen Airport Co., Ltd, Hainan Minsheng Gas Corporation and Beiqi Foton Motor Co., Ltd.

He obtained a bachelor degree in political education from the East China Normal University, a master of law degree from the Nanjing University and a doctorate degree in economic from the Renmin University of China. He was a senior visiting scholar of University of Illinois. Mr. Wang is a reputable strategist and investment banker in China providing long-term strategy, corporate culture, corporate governance, merger and acquisition professional consulting services for government, corporations, listed companies and institutional investors, and has over 24 years of working experience. His articles with original ideas and theories on various Chinese industries, corporate governance and capital markets amount to millions of words.

Mr. Ho Kwai Ching Mark, aged 57, 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 a consultant in the securities and futures industry and an independent non-executive director of Lee Kee Holdings Limited, a company listed in Hong Kong with stock code 0637. 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 24 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 69, 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 25 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 company listed in Shen Zhen with stock code 300138).

Senior Management

Ms. Liu Ying, aged 50, was appointed as the a Deputy Chief Executive Officer of Services Sharing Center (in charge of Human Resources Department, Concentrated Operation Centre and Legal Department) 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 32 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. Xu Zi Dan, aged 51, is the Director of Napkin Products Development Department of the Group and is responsible for the overall management and business development of napkin products of the Group. Mr. Xu joined the Group in 1985 and has accumulated over 33 years of experience in management, marketing and sales of consumer products. He obtained his MBA from University of North Virginia in US and has the title of senior economist in the PRC.

Mr. Xu Wen Mo, aged 53, is the Director of Tissue Paper Products Development Department of the Group and is responsible for the overall management and business development of paper products of the Group. Mr. Xu joined the Group in 1985 and has accumulated over 30 years of experience in management, marketing and sales of consumer products. He has the title of senior economist in the PRC.

Mr. Wang Gui Zhong, aged 45, is the Deputy Director of Diaper Products Development Department of the Group and is responsible for the overall management and business development of diaper products of the Group. Before taking up this position, he held the position of sales and marketing general manager of Tissue Paper Products Development Department of the Group, responsible for marketing and brand management of Tissue Paper Products Development Department of the Group. Mr. Wang joined the Group in 1999 and has over 20 years of experience in sales and marketing of consumer products. Mr. Wang graduated from HuaQiao University with a degree in electronic engineering and Liming Vocational University with a degree in corporate management.

Mr. Wang Xiang Yang, aged 50, is an assistant to Chief Executive Officer and the Director of Purchase Platform. He is responsible for the overall purchasing of raw materials and logistic management. 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 20 years' experience in supply chain and logistic management. Mr. Wang graduated from HuaQiao University with a degree in science. He holds the title of senior economist in the PRC.

Mr. Zhu Jian Shui, aged 44, is the General Manager of Internal Audit Department. He joined the Group in 1998 and has over 23 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.

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 2018, except that:

Under Code Provision A.6.7 stipulates Independent non-executive directors and other non-executive directors, should also attend general meetings and develop a balanced understanding of the views of shareholders. Miss Ada Ying Kay Wong, Mr. Wang Ming Fu and Mr. Zhou Fang Sheng, the independent non-executive directors of the Company, were unable to attend the annual general meeting of the Company held on 17 May 2018 because they had other urgent business engagement.

BOARD OF DIRECTORS

Board Composition

During the year ended 31 December 2018, the Board comprises fourteen members, including Chairman, Deputy Chairman (who is also the Chief Executive Officer), seven Executive Directors and five Independent Non-executive Directors. More than 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 Chi, 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 Chi is a son 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, revaluating 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 statues, 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 2018, 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 2018, the Directors also participated in the following trainings:

Members	Types of training
EXECUTIVE DIRECTORS	
Mr. Sze Man Bok *(Chairman)*	A/C
Mr. Hui Lin Chit *(Deputy Chairman and Chief Executive Officer)*	A/B/C
Mr. Hung Ching Shan	A/C
Mr. Xu Shui Shen	A/B/C
Mr. Xu Da Zuo	A/B/C
Mr. Xu Chun Man	A/B/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/B/C
Mr. Wang Ming Fu	A/B/C
Ms. Ada Ying Kay Wong	A/B/C
Mr. Ho Kwai Ching Mark	A/B/C
Mr. Zhou Fang Sheng	A/B/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*
Mr. Wang Ming Fu *(Independent Non-executive Director)*
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)*

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 2018, one remuneration committee meetings were 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 2018 are showed in Note 40 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 2018 overall salary increment 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. Wang Ming Fu, 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 Committees" 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 internal controls of the Group, to review accounting policies and practices adopted by the Group, to engage independent legal or other advisers as it determines is necessary and to perform investigations.

During the year, the Audit Committee 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. Wang Ming Fu (Chairman of the Nomination Committee), Mr. Chan Henry, Ms. Ada Ying Kay Wong, Mr. Ho Kwai Ching Mark and Mr. Zhou Fang Sheng.

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 Article 116 of the Articles of Association of the Company and the Corporate Government Code, Mr. Sze Man Bok, Mr. Li Wai Leung, Mr. Ho Kwai Ching Mark and Mr. Zhou Fang Sheng will retire office at the Company's annual general meeting to be held on 17 May 2019 ("AGM"), and being eligible, offer themselves for re-election. Mr. Wang Ming Fu will also retire from office at the AGM but will not offer himself for re-election at the AGM. Accordingly, subject to the election by the shareholders of the Company ("Shareholders") at the AGM, Mr. Wang will cease to be an independent non-executive Director, the chairman of the remuneration committee of the Company and a member of each of the nomination committee and audit committee of the Company upon the conclusion of the AGM.

Mr. Wang has confirmed that, in relation to his retirement as an independent non-executive Director, he has no disagreement with the Board and there are no other matters that need to be brought to the attention of the Stock Exchange and/or the Shareholders.

The Board recommends that Mr. Theil Paul Marin be proposed for election as independent non-executive Director by the Shareholders at the AGM. The biographical details of Mr. Theil are set out in Appendix II to the circular of the Company dated 12 April 2019 in relation to, inter alia, the re-election of retiring directors and election of director at the AGM.

BOARD MEETING AND DIRECTOR'S ATTENDANCE

Directors' attendance at the Board, Remuneration Committee, Nomination Committee, Audit Committee and general meetings in 2018:

	Attendance/Number of Meetings Held				
Directors	**Full Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee Meeting**	**Nomination Committee Meeting**	**Annual General Meeting**
Executive Directors					
Mr. Sze Man Bok *(Chairman)*	4/4	N/A	N/A	2/2	1/1
Mr. Hui Lin Chit *(Vice-chairman and Chief Executive Officer)*	4/4	N/A	1/1	2/2	1/1
Mr. Hung Ching Shan	3/4	N/A	N/A	N/A	1/1
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*	2/2*	1/1
Independent Non-executive Directors					
Mr. Chan, Henry	3/4	2/2	0/1	0/1	1/1
Ms. Ada Ying Kay Wong	4/4	2/2	1/1	1/1	0/1
Mr. Wang Ming Fu	2/4	2/2	1/1	1/1	0/1
Mr. Ho Kwai Ching, Mark	4/4	2/2	1/1	1/1	1/1
Mr. Zhou Fang Sheng	3/4	2/2	0/1	0/1	0/1

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 RMB5,950,000 and RMB13,676,000 (RMB12,800,000 is capitalized) by the Company's external auditor, PricewaterhouseCoopers, for auditing and non-auditing services respectively for the year ended 31 December 2018. Non-auditing services mainly included services provided for tax advisory services, preliminary announcements of results provided, prepare for "Environmental, Social and Governance Report", assist to design management reports and establish the Group's online and offline strategy 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 critically 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 staffs 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 2018 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 2018 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 2018, 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 2018 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 22, 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 2018.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

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

	2018		2017	
	Revenue RMB'000	Contribution to operating profit RMB'000	Revenue RMB'000 (Restated)	Contribution to operating profit RMB'000
Personal hygiene products				
— Sanitary napkin products	**6,593,710**	**3,366,111**	6,214,820	3,195,717
— Disposable diaper products	**1,536,304**	**281,893**	1,793,726	326,921
— Tissue paper products	**10,227,313**	**578,257**	8,609,840	545,403
Others	**2,156,554**	**175,070**	1,461,174	106,993
	20,513,881	**4,401,331**	18,079,560	4,175,034

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

	2018		2017	
	Revenue RMB'million	Percentage of total revenue (%)	Revenue RMB'million (Restated)	Percentage of total revenue (%)
Mainland China				
Fujian and Jiangxi	**5,498**	**26.8**	4,345	24.1
North-western	**975**	**4.8**	886	4.9
South-western	**2,046**	**10.0**	2,084	11.5
Guangdong, Guangxi, Hunan and Hubei	**3,651**	**17.8**	3,199	17.7
North-eastern	**751**	**3.7**	712	3.9
Northern	**1,197**	**5.8**	1,163	6.4
Shandong and Henan	**1,565**	**7.6**	1,539	8.5
Eastern	**2,815**	**13.7**	2,545	14.1
Hong Kong and Overseas	**2,016**	**9.8**	1,607	8.9
	20,514	**100**	18,080	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 RMB1.00 (2017: RMB0.95) per ordinary share, totalling RMB1,206,068,000 (2017: RMB1,144,644,000), which was paid on 5 October 2018.

The Directors recommend the payment of/paid a final dividend of RMB1.20 (2017: RMB1.15) per ordinary share, totalling RMB1,430,182,000 (2017: RMB1,387,190,000). Such dividend is to be approved by shareholders of the Company at the annual general meeting to be held on 17 May 2019.

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 RMB152,000 (2017: RMB40,659,000).

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 24 to the accounts.

DISTRIBUTABLE RESERVES

The Company’s reserves available for distribution comprise the share premium account and retained earnings. At 31 December 2018, the reserves of the Company available for distribution to shareholders amounted to RMB6,729,681,000 (2017: RMB6,107,444,000), subject to the restrictions stated in Note 26 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 2018, the Company repurchased a total of 14,477,000 ordinary shares on the Stock Exchange at an aggregate consideration of approximately HK$797,123,000 (excluding expenses) for enhancing its per share net asset value and earnings. 227,500 ordinary shares had been cancelled before 31 December 2018. On 28 January 2019, the remaining 14,249,500 shares have been cancelled by the Group. 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$
23 August 2018	227,500	64.60	64.20
17 December 2018	647,000	55.90	54.90
18 December 2018	1,322,500	54.65	53.60
19 December 2018	2,284,000	53.00	51.90
20 December 2018	2,659,500	53.50	52.00
21 December 2018	167,500	54.60	54.40
24 December 2018	1,487,000	55.80	57.00
27 December 2018	3,129,000	57.05	56.50
28 December 2018	1,009,500	56.80	56.05
31 December 2018	1,543,500	57.00	56.10
	14,477,000		

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 2018.

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. 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
Mr. Wang Ming Fu
Ms. Ada Ying Kay Wong
Mr. Ho Kwai Ching Mark
Mr. Zhou Fang Sheng

In accordance with Article 116 of the Articles of Association of the Company and the Corporate Government Code, Mr. Sze Man Bok, Mr. Li Wai Leung, Mr. Ho Kwai Ching Mark and Mr. Zhou Fang Sheng will retire office at the AGM, and being eligible, offer themselves for re-election. Mr. Wang Ming Fu will also retire from office at the AGM but will not offer himself for re-election at the AGM.

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 2020, while Mr. Wang Ming Fu, Mr. Ho Kwai Ching Mark and Mr. Zhou Fang Sheng shall expiry on 31 December 2021.

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 24.

Directors' and Senior Management Emoluments

Directors' emoluments are set out on pages 131 to 132. The emoluments payable to six senior management (2017: six senior management) during the year fell within the following bands:

	Number of individuals	
	2018	2017
Emolument bands		
Below HK$500,000 (equivalent to below RMB423,200)	**1**	1
HK$500,001 to HK$1,000,000 (equivalent to RMB423,201 to RMB846,400)	**5**	5

DIRECTORS' INTERESTS IN CONTRACTS

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

CONTINUING CONNECTED TRANSACTIONS

The following transactions are regarded as continuing connected transactions under The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules"), and are disclosed in accordance with Main Board Chapter 14A of the Listing Rules. These continuing connected transactions also constituted related party transactions of the Group as disclosed in Note 37 to the accounts.

	2017 RMB'000
Purchases from Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power")	
— Electricity energy	94,527
— Heat energy	60,136

Pursuant to agreements entered between a wholly-owned subsidiary of the Company and Weifang Power, an electricity generation company, the Group purchased electricity and heat energy from Weifang Power at prices determined according to the terms of the contract. Weifang Power was beneficially owned by Mr. Sze Wong Kim, an Executive Director of the Company, and the sons of Mr. Hui Lin Chit and Mr. Hung Ching Shan, Executive Directors of the Company.

On 27 December 2017, Hengan Mega Jumbo Investments Limited and 恒安（中國）投資有限公司 (Hengan (China) Investment Co., Ltd.), (each a wholly owned subsidiary of the Company), entered into the equity transfer agreement (the "Agreement") to collectively acquire the entire equity interest in Weifang Power for a total consideration of RMB150 million, which was determined and agreed between the parties based on arm's length negotiations and with reference to the valuation of Weifang Power issued by an independent valuer as at 27 December 2017. The consideration was paid in cash.

Upon signing of the Agreement, Weifang Power was no longer a connected person of the Group and services provided by it to the Group was no longer considered as connected transactions under the Listing Rules. Weifang Power would continue to provide electricity and heat energy to the Group as a subsidiary of the Company.

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

At 31 December 2018, the interests of each Director in the shares, short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO and disclosed in accordance with the Listing Rules were as follows:

	Capacity/Nature of Interest Number of shares		Number of unlisted shares *(Note (1))*		
Name of Directors	**Personal interests/ Beneficiary**	**Family interests**	**Personal interests/ Beneficiary**	**Total**	**Approximate percentage of shareholding**
Mr. Sze Man Bok *(Note (2))*	238,990,399	–	20,000	239,010,399	19.82%
Mr. Hui Lin Chit *(Note (3))*	245,030,251	–	148,000	245,178,251	20.33%
Mr. Hung Ching Shan *(Note (4))*	7,150,000	–	–	7,150,000	0.59%
Mr. Xu Shui Shen	–	33,030	110,000	143,030	0.01%
Mr. Xu Da Zuo *(Notes (5))*	19,777,321	–	108,000	19,885,321	1.65%
Mr. Xu Chun Man *(Note (6))*	14,715,621	–	20,000	14,735,621	1.22%
Mr. Sze Wong Kim	851,700	–	20,000	871,700	0.01%
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 40 to 41.

(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 Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse Trust Limited ("Credit Suisse"), 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 245,030,251 shares in the Company. It is a company incorporated in the Bahamas and is a wholly owned subsidiary of An Ping Investments Limited ("An Ping Investments"). An Ping Investments is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse, the trustee of the Hui Family Trust. Mr. Hui Lin Chit is the settlor and beneficiary of the Hui Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Hui Family Trust in the Company.

(4) 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 Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse, 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) Out of the 19,777,321 listed ordinary shares, 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 Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse, the trustee of the Xu Family Trust. Mr. Xu Da Zuo is the settlor and beneficiary of the Xu Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Xu Family Trust in the Company. The remaining 2,507,321 shares were held by Hengan International Investments Limited ("HIIL"), a nominee company holding shares of the Company on behalf of certain Directors and senior management of the Group and their family members.

(6) Out of the 14,715,621 ordinary shares, Zhong Shen Holdings Limited holds 11,500,000 shares in the Company. It 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. Mr. Xu also held personal interests in 40,000 shares. The remaining 3,175,621 shares are held by HIIL.

(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 2018 which have been granted under the Scheme are as follows:

	Number of share options								
Eligible person	Balance as at 01/01/2018	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled or lapsed during the period	Balance as at 31/12/2018	Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
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	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
	80,000	–	(50,000)	–	–	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

Eligible person	Number of share options: Balance as at 01/01/2018	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled or lapsed during the period	Balance as at 31/12/2018	Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
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
Participants	920,000	–	(36,000)	–	–	884,000	68.30	28/07/2011	28/07/2014–27/07/2021
	487,250	–	(21,750)	–	–	465,500	68.30	28/07/2011	28/07/2015–27/07/2021
	483,750	–	(19,250)	–	–	464,500	68.30	28/07/2011	28/07/2016–27/07/2021
	3,867,500	–	(128,500)	–	–	3,739,000	72.75	27/07/2012	28/07/2015–27/07/2022
	2,042,500	–	(51,000)	–	–	1,991,500	72.75	27/07/2012	28/07/2016–27/07/2022
	2,069,304	–	(58,000)	–	–	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
	15,719,304	–	(384,500)	–	–	15,334,804			

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% per annum	2.3% per annum	0.8% per annum	0.8% per annum	1.5% per annum
Expected volatility	33.3% per annum	33.3% per annum	32.5% per annum	32.5% per annum	34.5% per annum
Expected dividend yield	2.0% per annum	2.0% per annum	1.8% per annum	1.8% per annum	2.041% 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% per annum	14.7% per annum	4.8% per annum	27.1% per annum	16.70% 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 2018, amounted to RMB26,683,000 (2017: RMB37,843,000) and the remaining unamortised fair value of approximately RMB15,582,000 (2017: RMB43,195,000) 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 2018, 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)	19.77%
Tin Wing Holdings Limited	*(1)*	Interests of controlled corporation	238,414,799 (L)	19.77%
An Ping Holdings Limited	*(2)*	Beneficial owner	245,030,251 (L)	20.32%
An Ping Investments Limited	*(2)*	Interests of controlled corporation	245,030,251 (L)	20.32%
Serangoon Limited	*(1), (2) & (3)*	Interests of controlled corporation	523,466,954 (L)	43.40%
Seletar Limited	*(1), (2) & (3)*	Interests of controlled corporation	523,466,954 (L)	43.40%
Credit Suisse Trust Limited	*(3)*	Trustee	523,466,954 (L)	43.40%

(L) denotes long position

Notes:

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

(3) Credit Suisse Trust Limited 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	11.9%
— five largest suppliers combined	35.4%

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 2019.

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 2019

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 132, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- 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 2018 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 (23) (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 RMB20,514 million for the year ended 31 December 2018. 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 are 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 HKSAs, 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, related safeguards.

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 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000 (Restated) *(Note 2 (1)(i))*
Revenue	*5*	**20,513,881**	18,079,560
Cost of goods sold	*7*	**(12,678,128)**	(10,525,679)
Gross profit		**7,835,753**	7,553,881
Selling and distribution costs	*7*	**(2,269,713)**	(2,145,564)
Administrative expenses	*7*	**(1,199,406)**	(1,276,567)
Net impairment losses on financial assets	*7*	**(10,890)**	(15,787)
Other income and other gains – net	*6*	**1,073,480**	1,155,611
Operating profit		**5,429,224**	5,271,574
Finance income	*8*	**115,024**	93,653
Finance costs	*8*	**(639,854)**	(404,629)
Finance costs – net		**(524,830)**	(310,976)
Profit before income tax		**4,904,394**	4,960,598
Income tax expense	*9*	**(1,097,261)**	(1,159,142)
Profit for the year		**3,807,133**	3,801,456
Profit attributable to:			
Shareholders of the Company		**3,799,805**	3,794,041
Non-controlling interests		**7,328**	7,415
		3,807,133	3,801,456
Earnings per share for profit attributable to shareholders of the Company			
– Basic	*10*	**RMB3.151**	RMB3.149
– Diluted	*10*	**RMB3.146**	RMB3.149

The notes on pages 56 to 132 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Profit for the year	**3,807,133**	3,801,456
Other comprehensive income		
Items that may be reclassified to profit or loss		
– Currency translation differences	**69,525**	(42,651)
Total comprehensive income for the year	**3,876,658**	3,758,805
Attributable to:		
Shareholders of the Company	**3,867,513**	3,749,429
Non-controlling interests	**9,145**	9,376
Total comprehensive income for the year	**3,876,658**	3,758,805

The notes on pages 56 to 132 are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Note	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000 (Restated) (*Note 2 (1)(i)*)
Assets			
Non-current assets			
Property, plant and equipment	13	**8,095,356**	8,044,858
Construction-in-progress	15	**580,790**	878,088
Investment properties	14	**225,036**	216,753
Land use rights	16	**844,532**	773,327
Intangible assets	17	**686,558**	503,246
Prepayments for non-current assets	18	**124,187**	141,132
Deferred income tax assets	30	**132,344**	172,244
Investments in associates	36	**101,670**	–
Long-term bank time deposits	23	**4,338,000**	2,499,738
		15,128,473	13,229,386
Current assets			
Inventories	20	**4,285,483**	3,435,666
Trade and bills receivables	21	**2,843,532**	2,312,060
Other receivables, prepayments and deposits	21	**1,701,097**	1,406,346
Current income tax recoverable		**109,145**	52,431
Derivative financial instruments	22	**2,922**	29,433
Restricted bank deposits		**4,670**	3,002
Cash and bank balances	23	**21,576,830**	18,429,716
		30,523,679	25,668,654
Total assets		**45,652,152**	38,898,040
Equity			
Equity attributable to shareholders of the Company			
Share capital	24	**127,092**	127,080
Other reserves	26	**2,614,789**	3,141,363
Retained earnings	27	**13,983,279**	12,837,975
		16,725,160	16,106,418
Non-controlling interests		**273,519**	237,883
Total equity		**16,998,679**	16,344,301

The notes on pages 56 to 132 are an integral part of the consolidated financial statements.

	Note	As at 31 December 2018 RMB'000	2017 RMB'000 (Restated) *(Note 2 (1)(i))*
Liabilities			
Non-current liabilities			
Borrowings	*28*	**4,240,286**	3,247,233
Finance lease payable		**107**	264
Deferred income tax liabilities	*30*	**160,170**	120,007
		4,400,563	3,367,504
Current liabilities			
Trade and bills payables	*31*	**2,900,641**	2,128,813
Other payables and accrued charges	*31*	**1,192,264**	1,005,732
Contract liabilities	*5*	**118,276**	193,559
Derivative financial instruments	*22*	**18,603**	6,698
Current income tax liabilities		**890**	20,222
Borrowings	*28*	**20,022,078**	15,375,385
Convertible bonds	*29*	**–**	455,537
Finance lease payable		**158**	289
		24,252,910	19,186,235
Total liabilities		**28,653,473**	22,553,739
Total equity and liabilities		**45,652,152**	38,898,040

The notes on pages 56 to 132 are an integral part of the consolidated financial statements.

The consolidated financial statements on pages 50 to 132 were approved by the Board of Directors on 19 March 2019 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 2018

	Note	Attributable to shareholders of the Company					
		Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2018		**127,080**	**3,141,363**	**12,837,975**	**16,106,418**	**237,883**	**16,344,301**
Profit for the year		**–**	**–**	**3,799,805**	**3,799,805**	**7,328**	**3,807,133**
Currency translation differences	*26(c)*	**–**	**67,708**	**–**	**67,708**	**1,817**	**69,525**
Total comprehensive income		**–**	**67,708**	**3,799,805**	**3,867,513**	**9,145**	**3,876,658**
Transactions with owners:							
2017 final dividends paid	*11*	**–**	**–**	**(1,387,190)**	**(1,387,190)**	**(6,443)**	**(1,393,633)**
2018 interim dividends paid	*11*	**–**	**–**	**(1,206,068)**	**(1,206,068)**	**(3,442)**	**(1,209,510)**
Share-based compensation							
– value of employee services	*25,26*	**–**	**26,683**	**–**	**26,683**	**–**	**26,683**
– proceeds from shares issued	*24,26*	**32**	**23,278**	**–**	**23,310**	**–**	**23,310**
Redemption of convertible bonds	*26,27*	**–**	**(12,966)**	**12,966**	**–**	**–**	**–**
Change in ownership interests in subsidiaries without change of control		**–**	**(4,370)**	**–**	**(4,370)**	**4,370**	**–**
Capital contribution by non-controlling interests		**–**	**–**	**–**	**–**	**32,006**	**32,006**
Buy-back of shares	*24*	**–**	**(701,136)**	**–**	**(701,136)**	**–**	**(701,136)**
Cancellation of shares	*24,26*	**(20)**	**20**	**–**	**–**	**–**	**–**
Total of transactions with owners		**12**	**(668,491)**	**(2,580,292)**	**(3,248,771)**	**26,491**	**(3,222,280)**
Appropriation to statutory reserves	*26,27*	**–**	**74,209**	**(74,209)**	**–**	**–**	**–**
Balance at 31 December 2018		**127,092**	**2,614,789**	**13,983,279**	**16,725,160**	**273,519**	**16,998,679**
Balance at 1 January 2017		126,991	2,944,971	11,654,829	14,726,791	34,065	14,760,856
Profit for the year		–	–	3,794,041	3,794,041	7,415	3,801,456
Currency translation differences	*26(c)*	–	(44,612)	–	(44,612)	1,961	(42,651)
Total comprehensive income		–	(44,612)	3,794,041	3,749,429	9,376	3,758,805
Transactions with owners							
2016 final dividends paid	*11*	–	–	(1,325,377)	(1,325,377)	(11,227)	(1,336,604)
2017 interim dividends paid	*11*	–	–	(1,144,644)	(1,144,644)	–	(1,144,644)
Share-based compensation							
– value of employee services	*25,26*	–	37,843	–	37,843	–	37,843
– proceeds from shares issued	*24,26*	89	63,341	–	63,430	–	63,430
Acquisition of subsidiaries		–	–	–	–	184,770	184,770
Disposal of subsidiaries with loss of control		–	(1,054)	–	(1,054)	–	(1,054)
Capital contribution by non-controlling interests		–	–	–	–	20,899	20,899
Total of transactions with owners		89	100,130	(2,470,021)	(2,369,802)	194,442	(2,175,360)
Appropriation to statutory reserves	*26,27*	–	140,874	(140,874)	–	–	–
Balance at 31 December 2017		127,080	3,141,363	12,837,975	16,106,418	237,883	16,344,301

The notes on pages 56 to 132 are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations	32(a)	**5,074,822**	4,935,631
Income tax paid		**(1,112,921)**	(909,394)
Net cash generated from operating activities		**3,961,901**	4,026,237
Cash flows from investing activities			
Purchase of property, plant and equipment, intangible assets, and land use rights, including additions of construction-in-progress		**(701,354)**	(888,776)
Proceeds from disposal of property, plant and equipment and land use rights	32(b)	**29,222**	84,218
Increase in long-term and short-term bank time deposits, net		**(701,657)**	(3,072,799)
Acquisition of subsidiaries, net of cash acquired	35	**(110,504)**	(79,812)
Interest received		**690,768**	409,890
Net proceeds on disposal of subsidiaries		**–**	(642)
Investment in associates	36	**(101,670)**	–
Net cash used in investing activities		**(895,195)**	(3,547,921)
Cash flows from financing activities			
Proceeds from capital contribution by non-controlling interests		**32,006**	–
Proceeds from borrowings	32(c)	**27,410,264**	22,482,231
Repayment of borrowings	32(c)	**(22,282,003)**	(18,766,170)
Finance lease payments	32(c)	**(301)**	(319)
(Increase)/decrease in restricted bank deposits		**(1,668)**	11,620
Payment for redemption of convertible bonds		**(462,309)**	–
Buy-back of shares		**(590,625)**	–
Interest paid	32(c)	**(571,695)**	(358,722)
Dividends paid	11	**(2,593,258)**	(2,470,021)
Dividends paid to non-controlling interests		**(9,885)**	(9,434)
Proceeds from shares issued under the employee share option scheme		**23,310**	63,430
Net cash generated from financing activities		**953,836**	952,615
Increase in cash and cash equivalents		**4,020,542**	1,430,931
Cash and cash equivalents at 1 January	23	**6,784,580**	5,562,802
Effect of foreign exchange rate changes		**263,177**	(209,153)
Cash and cash equivalents at 31 December	23	**11,068,299**	6,784,580

The notes on pages 56 to 132 are an integral part of the consolidated financial statements.

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, Ugland 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 2019.

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 the revaluation of derivative financial instruments at fair value through profit or loss.

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.

(i) New and amended standards adopted by the Group

The following new standards and amendments to standards relevant to the Group are mandatory adopted for the first time for the financial year beginning on or after 1 January 2018:

- HKFRS 9 Financial instruments[(a)],
- HKFRS 15 Revenue from contract's with customers[(b)],
- Amendments to HKAS 40 Transfers to investment property,
- Amendments to HKFRS 2 Classification and measurement of share-based payment transactions, and
- HK(IFRIC) 22 Foreign currency transactions and advance consideration

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(1) Basis of preparation *(continued)*

(i) New and amended standards adopted by the Group (continued)

The following amendments of HKFRSs are effective for the first time for the financial year beginning on 1 January 2018 and not relevant to the Group's operations (although they may affect the accounting for future transactions and events):

- Amendments to HKFRS 4 Insurance contracts
- Annual Improvements 2014-2016 cycle

The Group had to change its accounting policies and make certain adjustments following the adoption of HKFRS 9 and HKFRS 15. The other newly adopted standards or amendments listed above did not have material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(a) *HKFRS 9 Financial Instruments*

HKFRS 9 Financial Instruments was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The Group used modified retrospective approach while adopting HKFRS 9. There was no impact on the consolidated financial statements for the year ended 31 December 2017.

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

There was no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities which are subject to HKFRS 9.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated as the Group does not have any hedge instrument.

The Group has trade and bills receivables for sales of products that are subject to HKFRS 9's new expected credit loss model, and the Group was required to revise its impairment methodology under HKFRS 9 for these receivables.

The Group applied the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade and bills receivables from initial recognition. To measure the expected credit losses, trade and bills receivables have been grouped based on shared credit risk characteristics and the days past due. The adoption of new approach did not result in any significant impact on the amounts reported in the opening balance sheet on 1 January 2018 and the consolidated statement of profit or loss for the year ended 31 December 2018.

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 of greater than 30-90 days past due (credit term).

While cash and cash equivalents were also subject to the impairment requirements of HKFRS 9, no impairment loss was identified.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(1) Basis of preparation *(continued)*

(i) New and amended standards adopted by the Group (continued)

(b) *HKFRS 15 Revenue from Contracts with Customers*

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in HKFRS 15, the Group has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year.

a) Accounting for customer incentives for promotion activities

The Group provided certain customer incentives for promotion activities and recorded such customer incentives as selling and distribution costs under HKAS 18 before 1 January 2018. These incentives did not provide a distinct good or service to the customers and the application of HKFRS 15 resulted in the incentives recorded as a reduction of the arrangement's transaction price. As a consequence compared with HKAS 18, revenue and selling and distribution costs for the year ended 31 December 2017 decreased by RMB1,745,471,000. For the year ended 31 December 2018, revenue and selling and distribution costs decreased by RMB1,882,350,000.

b) Presentation of assets and liabilities related to contracts with customers

Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under HKFRS 15:

Contract liabilities in relation to advance receipts from customers were previously included in other payables and accrued charges (RMB193,559,000 as at 1 January 2018). The amount of contract liabilities as at 1 January 2017 were not significant for the Group.

Contract liabilities are recognised when the payment is made or the payment is due (whichever is earlier), if customers pay consideration, or have a right to an amount of consideration that is unconditional, before the Group transfers goods or service to the customer.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. There was no impact to the Group's opening retained earnings as at 1 January 2018 and 1 January 2017. The adjustments are explained in more detail by standard below.

	As at 31 December 2017		
Consolidated balance sheet (extract)	As originally presented RMB'000	HKFRS 15 RMB'000	Restated RMB'000
Other payables and accrued charges	1,199,291	(193,559)	1,005,732
Contract liabilities	–	193,559	193,559

	Year ended 31 December 2017		
Consolidated statement of profit or loss (extract)	As originally presented RMB'000	HKFRS 15 RMB'000	Restated RMB'000
Revenue	19,825,031	(1,745,471)	18,079,560
Selling and distribution costs	(3,891,035)	1,745,471	(2,145,564)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(1) Basis of preparation *(continued)*

(ii) New and amended standards not yet adopted

Certain new and amended standards and interpretations are effective for annual periods beginning after 1 January 2018 and have not been early adopted in preparing these consolidated financial statements. The Group has started assessing the full impact of the amendments and standards and intents to adopt the amendments no later than the respective effective dates of the amendments. The Group's assessment of the impact of these new and amended standards and interpretations are set out below:

Standards		Effective for annual periods beginning on or after
HKFRS 16[(a)]	Leases	1 January 2019
HKFRS 17	Insurance contracts	1 January 2022
(HK) Interpretation 23	Uncertainty over income tax treatments	1 January 2019
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Annual Improvements to HKFRS Standards 2015-2017 Cycle		
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Amendments to HKFRS 3	Definition of business	1 January 2020
Amendments to HKAS 1 and HKAS 8	Definition of material	1 January 2020

(a) *HKFRS 16 Leases*

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB44,066,000 (Note 34). Of these commitments, approximately RMB40,340,000 relate to short-term leases and RMB91,000 to low value leases which will be both recognised on a straight-line basis as expense in consolidated statement of profit or loss.

For the remaining lease commitments, the Group expects to recognise right-of-use assets of approximately RMB3,481,000 on 1 January 2019, lease liabilities of RMB3,481,000 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018).

The Group expects the effect on profit before income tax and cash flows will be insignificant for 2019 as a result of adopting the new rules.

The Group's activities as a lessor are not material hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(1) Basis of preparation *(continued)*

(ii) New and amended standards not yet adopted (continued)

(a) HKFRS 16 Leases *(continued)*

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjust for any prepaid or accrued lease expenses).

Apart from HKFRS 16, there are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

(2) Principles of consolidation and equity accounting subsidiaries

(i) Subsidiaries

Subsidiaries are all entities (including a 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.

When 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 profit/(loss) of an associate' 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 re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement 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(8)(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 re-measured 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 re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the 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

Leasehold land classified as finance lease and all other 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.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold land classified as finance lease	10-50 years
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(9)).

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) Land use rights

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods of the lease. Amortisation of land use rights is calculated on a straight-line basis over the period of the leases.

(8) 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) Patents and trademarks

Separately acquired patents and trademarks are shown at historical cost. Patents and trademarks acquired in a business combination are recognised at fair value at the acquisition date. Patents and trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patents and trademarks 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.

(9) 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)*

(10) Financial assets

(i) Classification

From 1 January 2018, 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 fair value through profit or loss ("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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(10) Financial assets *(continued)*

(iv) Impairment

From 1 January 2018, 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.

(v) Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017, the Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivative financial instruments are categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets, if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period and are classified as non-current assets. The Group's loans and receivables comprise "trade, bills and other receivables" (Note 21), "restricted bank deposits", "cash and bank balance", and "long-term bank time deposits" (Note 23) in the consolidated balance sheet.

The Group's long-term bank time deposits and short-term bank time deposits are held as investments, hence the interest income arising from these long-term and short-term bank time deposits is recognised within "other income and other gains – net" in the consolidated statement of profit or loss. The interest income from cash and cash equivalents is recognised in "finance income" in the consolidated statement of profit or loss.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(10) Financial assets *(continued)*

(v) Accounting policies applied until 31 December 2017 (continued)

(b) Loans and receivables *(continued)*

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated statement of profit or loss within "other income and other gains – net", in the period in which they arise. Dividend income from "financial assets at fair value through profit or loss" is recognised in the consolidated statement of profit or loss as part of other income when the Group's right to receive payments is established.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loan and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(11) Derivative financial instruments

Derivatives are initially recongnised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument. There are no derivatives designated as a hedging instrument for the Group.

Derivatives of the Group are categorised as financial assets/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.

(12) 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.

(13) 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(10)(iii) for further information about the Group's accounting for trade and bills receivables Note 2(10)(iv) and 3(a)(ii) for a description of the Group's impairment policies.

(14) 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.

(15) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(16) 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.

(17) 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 facility 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 facility 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.

(18) Borrowings 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 in respect of finance lease 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(19) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible bonds that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component, which is included in shareholders' equity in other reserves. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Liability component of a convertible instrument is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

When convertible bonds are early redeemed or repurchased in which the original conversion privileges are unchanged, the consideration paid and any transaction costs for the repurchase or redemption are allocated to the liability and equity components of the instrument at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the company when the convertible instrument was issued. The amount of gain or loss relating to the liability component is recognised in "other income and other gains – net" in the consolidated statement of profit or loss. The amount of consideration related to the equity component is recognised in equity.

(20) 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 operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

(ii) Deferred income tax (continued)

(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.

(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.

(21) 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 RMB1,270 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 25). 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)*

(22) 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.

(23) 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)*

(24) 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.

(25) 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.

(26) 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.

(27) Operating leases

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

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(28) 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:

(i) it is technically feasible to complete the intangible asset so that it will be available for use;

(ii) management intends to complete the intangible asset and use it;

(iii) there is an ability to use the intangible asset;

(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and

(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

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.

(29) 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.

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(i) Market risk (continued)

(1) Foreign exchange risk *(continued)*

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 2018, 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 loss of RMB15,328,000 (2017: RMB98,467,000). 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 2018, 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 RMB43,145,000 (2017: RMB82,568,000) 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) 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 28.

At 31 December 2018, 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 RMB105,247,000 (2017: RMB72,776,000) lower/higher as a result of higher/lower interest expenses on floating rate borrowings.

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(ii) Credit risk

Credit risk is managed on a group basis. Credit risk arises from restricted bank deposits, long-term bank time deposits, cash and bank balances, derivative financial instruments, trade and 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, trade 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 2018, 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 2018 and 2017:

	2018 RMB'000	2017 RMB'000
Counterparties		
– Big 4 domestic banks *(Note)*	**2,759,095**	2,282,615
– Other reputable and sizeable domestic commercial banks	**21,302,487**	15,325,032
– Highly reputable and sizeable foreign-owned banks	**1,857,244**	3,318,574
	25,918,826	20,926,221

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 2018 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 2018 (on adoption of HKFRS 9) was determined as follows for trade and bills receivables (Note 21). Adopting HKFRS 9 is not expect to have significant impact on the loss allowance of trade and bills receivables as at 1 January 2018.

31 December 2018	Within 180 days	181 to 365 days	Over 365 days	Total
Gross carrying amount (RMB'000)	2,719,826	82,109	109,091	2,911,026
Expected loss rate	0.02%	0.09%	61.30%	2.32%
Loss allowance (RMB'000)	544	74	66,876	67,494

The closing loss allowances for trade and bills receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	2018 RMB'000
As at 1 January – calculated under HKAS 39	57,461
Amounts restated through opening retained earnings	–
Opening loss allowance as at 1 January 2018 – calculated under HKFRS 9	57,461
Acquisition of subsidiaries	570
Increase in loss allowance recognised in profit or loss during the year	10,890
Receivables written off during the year as uncollectible	(1,427)
As at 31 December – calculated under HKFRS 9	67,494

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.

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(ii) Credit risk (continued)

In the prior year, the impairment of trade, and bills receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or late payments (more than 30 days overdue).

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

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. The change of the impairment methodology to other receivables has immaterial impacts on the existing amount of loss allowances for other receivables as at 1 January 2018 and hence the Group has not made adjustments.

(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.

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(iii) Liquidity risk (continued)

	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 2018					
Borrowings	**20,023,197**	**4,123**	**4,244,123**	**4,097**	**24,275,540**
Interest payables of borrowings	**498,588**	**178,407**	**106,316**	**217**	**783,528**
Net settled derivative financial instruments	**18,603**	**–**	**–**	**–**	**18,603**
Financial lease payables	**158**	**107**	**–**	**–**	**265**
Trade, bills and other payables	**3,550,690**	**–**	**–**	**–**	**3,550,690**
Total	**24,091,236**	**182,637**	**4,350,439**	**4,314**	**28,628,626**
At 31 December 2017					
Borrowings	15,375,385	2,004,021	54,021	1,198,016	18,631,443
Interest payables of borrowings	258,180	85,128	40,282	27,093	410,683
Convertible bonds	462,591	–	–	–	462,591
Net settled derivative financial instruments	6,698	–	–	–	6,698
Financial lease payables	289	219	45	–	553
Trade, bills and other payables	2,926,835	–	–	–	2,926,835
Total	19,029,978	2,089,368	94,348	1,225,109	22,438,803

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 and convertible bonds less long-term bank time deposits and cash and bank balances.

During 2018, the Group's strategy was to maintain a net gearing ratio at or below 20%. The calculation of the gearing ratios at 31 December 2018 was as follows:

	2018 RMB'000	2017 RMB'000
Gross gearing ratio:		
Total borrowings and convertible bonds	**24,262,364**	19,078,155
Total equity excluding non-controlling interests	**16,725,160**	16,106,418
Gross gearing ratio	**145.1%**	118.5%
Net gearing ratio:		
Total borrowings and convertible bonds	**24,262,364**	19,078,155
Less: long-term bank time deposits and cash and bank balances	**(25,914,830)**	(20,929,454)
Net debt	**(1,652,466)**	(1,851,299)
Total equity excluding non-controlling interests	**16,725,160**	16,106,418
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 2018 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).

	2018 Level 2 RMB'000	2017 Level 2 RMB'000
Financial assets fair value through profit or loss		
– Derivative financial instruments *(Note 22)*	**2,922**	29,433
Financial liabilities fair value through profit or loss		
– Derivative financial instruments *(Note 22)*	**(18,603)**	(6,698)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price is the current bid price. These instruments are included in level 1 which comprise primarily equity investments classified as trading securities or available for sale. The Group did not have such instrument as at 31 December 2018.

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The Group did not have such instrument as at 31 December 2018.

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(8)(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-maker has 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:

	2018 RMB'000	2017 RMB'000 (Restated) *(Note 2(1)(i))*
Personal hygiene products		
– Sanitary napkin products	**6,593,710**	6,214,820
– Disposable diaper products	**1,536,304**	1,793,726
– Tissue paper products	**10,227,313**	8,609,840
Others	**2,156,554**	1,461,174
	20,513,881	18,079,560

Most of the Group companies are domiciled in Mainland China. The revenue from external customers in Mainland China 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 RMB9,845,897,000 as at 31 December 2018 (2017: RMB9,785,538,000) and the total non-current assets located in other places amounted to RMB812,232,000 (2017: RMB771,866,000).

During the year ended 31 December 2018, there was no single customer generated more than 10% of the Group's total revenue (2017: 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), investment properties (Note 14), construction-in-progress (Note 15), land use rights (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 corporate borrowings.

5 REVENUE AND SEGMENT INFORMATION *(continued)*

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

	2018 Sanitary napkins products RMB'000	Disposable diapers products RMB'000	Tissue paper products RMB'000	Others RMB'000	Group RMB'000
Segment revenue	6,641,286	1,815,860	10,731,741	2,873,176	22,062,063
Inter-segment sales	(47,576)	(279,556)	(504,428)	(716,622)	(1,548,182)
Revenue of the Group	6,593,710	1,536,304	10,227,313	2,156,554	20,513,881
Segment profit	3,366,111	281,893	578,257	175,070	4,401,331
Unallocated costs					(45,587)
Other income and other gains – net					1,073,480
Operating profit					5,429,224
Finance income					115,024
Finance costs					(639,854)
Profit before income tax					4,904,394
Income tax expense					(1,097,261)
Profit for the year					3,807,133
Non-controlling interests					(7,328)
Profit attributable to shareholders of the Company					3,799,805
Other items for the year ended 31 December 2018					
Additions to non-current assets	265,056	47,219	372,990	160,490	845,755
Depreciation charge	160,802	35,810	480,736	49,293	726,641
Amortisation charge	19,484	2,952	13,132	6,884	42,452
As at 31 December 2018					
Segment assets	6,818,197	4,694,476	13,572,436	3,474,375	28,559,484
Deferred income tax assets					132,344
Current income tax recoverable					109,145
Investments in associates					101,670
Unallocated assets					16,749,509
Total assets					45,652,152
Segment liabilities	2,019,664	1,123,081	4,198,093	336,828	7,677,666
Deferred income tax liabilities					160,170
Current income tax liabilities					890
Unallocated liabilities					20,814,747
Total liabilities					28,653,473

5 REVENUE AND SEGMENT INFORMATION *(continued)*

			2017		
	Sanitary napkins products RMB'000	Disposable diapers products RMB'000	Tissue paper products RMB'000	Others RMB'000	Group RMB'000
Segment revenue (Restated) *(Note 2 (1)(i))*	6,266,426	1,804,468	8,890,307	2,019,314	18,980,515
Inter-segment sales	(51,606)	(10,742)	(280,467)	(558,140)	(900,955)
Revenue of the Group (Restated) *(Note 2 (1)(i))*	6,214,820	1,793,726	8,609,840	1,461,174	18,079,560
Segment profit	3,195,717	326,921	545,403	106,993	4,175,034
Unallocated costs					(59,071)
Other income and other gains – net					1,155,611
Operating profit					5,271,574
Finance income					93,653
Finance costs					(404,629)
Profit before income tax					4,960,598
Income tax expense					(1,159,142)
Profit for the year					3,801,456
Non-controlling interests					(7,415)
Profit attributable to shareholders of the Company					3,794,041
Other items for the year ended 31 December 2017					
Additions to non-current assets	156,306	70,372	663,115	46,375	936,168
Depreciation charge	159,424	33,454	442,285	36,011	671,174
Amortisation charge	9,204	2,146	13,302	904	25,556
As at 31 December 2017					
Segment assets	6,807,730	3,965,895	11,649,866	5,718,517	28,142,008
Deferred income tax assets					172,244
Current income tax recoverable					52,431
Unallocated assets					10,531,357
Total assets					38,898,040
Segment liabilities	1,602,377	1,501,511	3,044,361	2,239,176	8,387,425
Deferred income tax liabilities					120,007
Current income tax liabilities					20,222
Unallocated liabilities					14,026,085
Total liabilities					22,553,739

5 REVENUE AND SEGMENT INFORMATION *(continued)*

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

	As at 31 December	
	2018 RMB'000	2017 RMB'000 (Restated) (Note 2(1)(i))
Contract liabilities-sanitary napkins products	**35,484**	68,162
Contract liabilities-disposable diapers products	**14,025**	25,633
Contract liabilities-tissue paper products	**65,356**	96,971
Contract liabilities-others	**3,411**	2,793
Total contract liabilities	**118,276**	193,559

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.

	2018 RMB'000
Sanitary napkins products	**68,162**
Disposable diapers products	**25,633**
Tissue paper products	**96,971**
Others	**2,793**
	193,559

The Group selected to choose a practical expedient and omitted disclosure of remaining performance obligations as all related contracts have a duration of one year or less.

6 OTHER INCOME AND OTHER GAINS – NET

	2018 RMB'000	2017 RMB'000
Interests income from long-term and short-term bank time deposits	**636,790**	411,085
Government grants income *(Note)*	**517,450**	484,611
(Losses)/gains on disposal of property, plant and equipment and land use rights *(Note 32(b))*	**(35,025)**	36,445
Exchange (losses)/gains from operating activities – net	**(31,978)**	126,370
Realised fair value (losses)/gains on derivative financial instruments	**(20,705)**	1,073
Unrealised fair value (losses)/gains on derivative financial instruments	**(15,147)**	22,781
Gains from acquisition of subsidiaries	**–**	55,413
Others	**22,095**	17,833
	1,073,480	1,155,611

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:

	2018 RMB'000	2017 RMB'000 (Restated) *(Note 2 (1)(i))*
Raw materials and consumables used	**10,320,482**	8,642,215
Employee benefit expense, including Directors' emoluments *(Note 12)*	**1,601,043**	1,441,795
Utilities and various office expenses	**1,262,947**	882,482
Transportation and packaging expenses	**774,977**	782,738
Depreciation of property, plant and equipment *(Note 13)*	**721,393**	666,556
Marketing and advertising expenses	**411,327**	271,517
Research and development expenses	**410,677**	408,809
Repairs and maintenance expenses	**145,936**	161,304
Tax surcharges	**133,818**	163,902
Travelling expenses	**132,278**	128,196
Operating leases rentals	**89,708**	88,906
Amortisation of land use rights *(Note 16)*	**24,465**	22,347
Amortisation of intangible assets *(Note 17)*	**17,987**	3,209
Net impairment losses on trade and bills receivables *(Note 3(a)(ii))*	**10,890**	15,787
Auditor's remuneration		
– Audit services	**5,950**	5,600
– Non-audit services	**876**	2,556
Changes in inventories of finished goods	**(208,530)**	8,067
Reversal of inventories write-down *(Note 20)*	**(29,185)**	(6,539)
Others	**331,098**	274,150
Total cost of sales, selling and distribution costs, administrative expenses and net impairment on financial assets	**16,158,137**	13,963,597

8 FINANCE INCOME AND FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Finance costs:		
Interest expense		
– Borrowings	**623,379**	361,079
– Convertible bonds	**6,874**	14,267
Exchange loss	**–**	27,903
Other finance charges	**20,045**	11,554
Total finance costs incurred	**650,298**	414,803
Less: Finance costs capitalised in buildings and machinery under construction-in-progress *(Note 15)*	**(10,444)**	(10,174)
	639,854	404,629
Finance income:		
Interest income from cash and cash equivalents	**(98,374)**	(93,653)
Exchange gain	**(16,650)**	–
	(115,024)	(93,653)
Finance costs, net	**524,830**	310,976

For the year ended 31 December 2018, the capitalisation rate applied to funds borrowed generally and used for the development of construction-in-progress was 3.04% (2017: 1.89%) per annum.

9 INCOME TAX EXPENSE

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

	2018 RMB'000	2017 RMB'000
Current income tax		
– Current tax on profits for the year	**904,150**	959,294
– PRC withholding income tax	**133,078**	175,257
Deferred income tax, net *(Note 30)*	**60,033**	24,591
Income tax expense	**1,097,261**	1,159,142

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 entities 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 issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs" (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"), 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 above said preferential tax rate.

(b) Hong Kong and overseas profits tax has been provided at the rates of taxation prevailing in the countries 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 foreign 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:

	2018 RMB'000	2017 RMB'000
Profit before income tax	**4,904,394**	4,960,598
Tax calculated at tax rates applicable to profits of the Group's companies	**1,125,435**	1,147,711
Tax exemption and concession on the profits of certain subsidiaries	**(167,367)**	(86,336)
Withholding tax on distributed profit and unremitted earnings	**152,199**	161,242
Over provision of income tax in the previous year	**–**	(52,370)
Others	**(13,006)**	(11,105)
Income tax expense	**1,097,261**	1,159,142

The weighted average applicable tax rate was 22.9% (2017: 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, excluding ordinary shares purchased by the Group and held as treasury shares (Note 24).

	2018	2017
Profit attributable to shareholders of the Company (RMB'000)	**3,799,805**	3,794,041
Weighted average number of shares outstanding (thousands)	**1,205,832**	1,204,928
Basic earnings per share (RMB)	**3.151**	3.149

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options, both are regarded as dilutive potential ordinary shares as at 31 December 2018. The profit attributed to shareholders of the Company was adjusted for the interest of charge for the year, and the number of ordinary shares was increased as well assuming the convertible bonds were converted to ordinary shares at 1 January 2018. Calculations are done to determine the number of shares that could have been acquired at fair value (determined by using average market share price of the Company's shares for the year ended 31 December 2018) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as below is compared with the number of shares that would have been issued assuming the exercise of the share options.

The diluted earnings per share is the same as the basic earnings per share for the year ended 31 December 2017 as the potential ordinary shares in respect of outstanding share options and convertible bonds are anti-dilutive.

	2018	2017
Profit attributable to shareholders of the Company (RMB'000)	**3,799,805**	3,794,041
Adjusted for convertible bonds (RMB'000)	**6,875**	–
Profit attributable to shareholders of the Company for diluted earnings (RMB'000)	**3,806,680**	3,794,041
Weighted average number of shares outstanding (thousands)	**1,205,832**	1,204,928
Adjusted for share options (thousands)	**72**	–
Adjusted for convertible bonds (thousands)	**4,172**	–
Weighted average number of shares outstanding (thousands)	**1,210,076**	1,204,928
Diluted earnings per share (RMB)	**3.146**	3.149

11 DIVIDENDS

	2018 RMB'000	2017 RMB'000
Interim, paid, RMB1.00 (2017: RMB0.95) per ordinary share *(Note (a))*	**1,206,068**	1,144,644
Final, proposed/paid, RMB1.20 (2017: RMB1.15) per ordinary share *(Note (b))*	**1,430,182**	1,387,190
	2,636,250	2,531,834

(a) The dividends paid in 2018 amounted to RMB2,593,258,000 (2018 interim: RMB1.00 per share, 2017 final: RMB1.15 per share). The dividends paid in 2017 amounted to RMB2,470,021,000 (2017 interim: RMB0.95 per share, 2016 final: RMB1.10 per share). A final dividend in respect of the year ended 31 December 2018 of RMB1.20 per share, amounting to a total dividend of RMB1,430,182,000, was proposed by the Board of Directors at a meeting held on 19 March 2019, subject to the final approval by the shareholders of the Company at the Annual General Meeting to be held on 17 May 2019. These financial statements do not reflect this dividend payable.

(b) A final dividend in respect of the year ended 31 December 2018 of RMB1.20 per share (equivalent to HK$1.404051 per share) (2017: RMB1.15 per share (equivalent to HK$1.423109 per share)) was proposed by the Board of Directors. Dividends payable to shareholders will be paid in HK$. 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 exchange rate of HK$ to RMB on 18 March 2019 is 0.85467.

12 EMPLOYEE BENEFIT EXPENSE

	2018 RMB'000	2017 RMB'000
Wages and salaries	**1,349,693**	1,200,018
Retirement and social benefits cost	**224,667**	203,934
Equity-settled share-based payment *(Note 25)*	**26,683**	37,843
Total employee benefit expense	**1,601,043**	1,441,795

12 EMPLOYEE BENEFIT EXPENSE *(continued)*

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2017: four) Directors whose emoluments are reflected in the analysis shown in Note 40. The emoluments payable to the remaining one (2017: one) individual during the year are as follows:

	2018 RMB'000	2017 RMB'000
Basic salaries, housing allowances, share-based compensation, other allowances and benefits-in-kind	**613**	663
Bonuses	**103**	138
	716	801

The emoluments fell within the following bands:

	Number of individuals	
	2018	2017
Emolument bands		
HK$500,001 to HK$1,000,000 (equivalent to RMB423,201 to RMB846,400)	**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
At 1 January 2018					
Cost	4,779,427	7,629,884	261,463	30,753	12,701,527
Accumulated depreciation	(1,202,968)	(3,283,607)	(152,586)	(17,508)	(4,656,669)
Net book amount	3,576,459	4,346,277	108,877	13,245	8,044,858
Year ended 31 December 2018					
Opening net book amount	3,576,459	4,346,277	108,877	13,245	8,044,858
Additions	38,967	80,066	25,050	292	144,375
Transfer from construction-in-progress *(Note 15)*	184,145	471,481	10,808	–	666,434
Acquisition of subsidiaries *(Note 35)*	21,345	10,597	548	–	32,490
Transfer to investment properties *(Note 14)*	(10,922)	–	–	–	(10,922)
Depreciation for the year *(Note 7)*	(223,281)	(457,953)	(36,412)	(3,747)	(721,393)
Disposals *(Note 32(b))*	(128)	(62,386)	(1,122)	(611)	(64,247)
Currency translation differences	3,174	431	58	98	3,761
Closing net book amount	3,589,759	4,388,513	107,807	9,277	8,095,356
At 31 December 2018					
Cost	4,996,453	8,047,434	296,249	34,613	13,374,749
Accumulated depreciation	(1,406,694)	(3,658,921)	(188,442)	(25,336)	(5,279,393)
Net book amount	3,589,759	4,388,513	107,807	9,277	8,095,356

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
At 1 January 2017					
Cost	4,291,548	6,913,988	232,920	39,957	11,478,413
Accumulated depreciation	(1,019,014)	(2,957,086)	(130,141)	(27,365)	(4,133,606)
Net book amount	3,272,534	3,956,902	102,779	12,592	7,344,807
Year ended 31 December 2017					
Opening net book amount	3,272,534	3,956,902	102,779	12,592	7,344,807
Additions	21,517	93,226	30,181	3,784	148,708
Transfer from construction-in-progress *(Note 15)*	360,259	610,914	3,295	–	974,468
Acquisition of subsidiaries	160,482	130,628	1,960	4,990	298,060
Transfer to investment properties *(Note 14)*	(9,244)	–	–	–	(9,244)
Depreciation for the year *(Note 7)*	(206,923)	(428,145)	(27,739)	(3,749)	(666,556)
Disposals *(Note 32(b))*	(19,030)	(17,439)	(1,596)	(4,415)	(42,480)
Disposal of subsidiaries	–	–	(20)	–	(20)
Currency translation differences	(3,136)	191	17	43	(2,885)
Closing net book amount	3,576,459	4,346,277	108,877	13,245	8,044,858
At 31 December 2017					
Cost	4,779,427	7,629,884	261,463	30,753	12,701,527
Accumulated depreciation	(1,202,968)	(3,283,607)	(152,586)	(17,508)	(4,656,669)
Net book amount	3,576,459	4,346,277	108,877	13,245	8,044,858

13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

	2018 RMB'000	2017 RMB'000
Manufacturing overheads included under cost of goods sold	**526,891**	482,336
Selling and distribution costs	**4,681**	7,154
Administrative expenses	**189,821**	177,066
	721,393	666,556

There was no pledge of property, plant and equipment of the Group as at 31 December 2018 and 2017.

14 INVESTMENT PROPERTIES

	2018 RMB'000	2017 RMB'000
At 1 January		
Opening net book amount	**216,753**	194,848
Currency translation differences	**331**	151
Addition	**2,278**	1,794
Acquisition of subsidiaries	**–**	10,647
Transfer from construction-in-progress *(Note 15)*	**–**	12,404
Transfer from property, plant and equipment *(Note 13)*	**10,922**	9,244
Transfer to land use rights *(Note 16)*	**–**	(7,717)
Depreciation for the year	**(5,248)**	(4,618)
Closing net book amount	**225,036**	216,753
At 31 December		
Cost	**269,696**	236,365
Accumulated depreciation	**(44,660)**	(19,612)
Net book amount	**225,036**	216,753

The above investment properties are located in Fujian, Guangxi and Tianjin, the PRC and 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.

14 INVESTMENT PROPERTIES *(continued)*

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

	2018 RMB'000	2017 RMB'000
Rental income	**30,845**	19,949
Direct operating expenses	**(6,860)**	(4,764)
Net book amount	**23,985**	15,185

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

	2018 RMB'000	2017 RMB'000
Other income and other gains – net	**5,248**	4,618

15 CONSTRUCTION-IN-PROGRESS

	2018 RMB'000	2017 RMB'000
At 1 January	**878,088**	1,094,145
Additions	**496,824**	770,815
Transfer to property, plant and equipment *(Note 13)*	**(666,434)**	(974,468)
Transfer to Investment properties *(Note 14)*	**–**	(12,404)
Transfer to Intangible assets *(Note 17)*	**(130,666)**	–
Acquisition of subsidiaries *(Note 35)*	**3,485**	–
Currency translation differences	**(507)**	–
At 31 December	**580,790**	878,088

During the year ended 31 December 2018, finance costs capitalised in construction-in-progress amounted to RMB10,444,000 (2017: RMB10,174,000) (Note 8).

16 LAND USE RIGHTS

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

	2018 RMB'000	2017 RMB'000
At 1 January	**773,327**	751,308
Additions	**67,270**	14,851
Acquisition of subsidiaries *(Note 35)*	**28,400**	27,091
Transfer from investment properties *(Note 14)*	**–**	7,717
Disposals *(Note 32(b))*	**–**	(5,293)
Amortisation of prepaid operating leases payments *(Note 7)*	**(24,465)**	(22,347)
At 31 December	**844,532**	773,327

As at 31 December 2018, land use rights with a carrying amount of RMB2,617,000 (cost of RMB3,720,000) are pledged as collateral for the Group's short-term borrowings of RMB12,000,000 (Note 28).

As at 31 December 2017, land use rights with a carrying amount of RMB27,091,000 (cost of RMB35,345,000) are pledged as collateral for the Group's short-term borrowings of RMB47,000,000 (Note 28).

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

17 INTANGIBLE ASSETS

	Goodwill RMB'000	Patents and trademarks RMB'000	Customer relationships RMB'000	Computer softwares RMB'000	Total RMB'000
At 1 January 2018					
Cost	**479,713**	**3,771**	**7,945**	**23,664**	**515,093**
Accumulated amortisation	**–**	**(2,314)**	**(463)**	**(9,070)**	**(11,847)**
Net book amount	**479,713**	**1,457**	**7,482**	**14,594**	**503,246**
Year ended 31 December 2018					
Opening net book amount	**479,713**	**1,457**	**7,482**	**14,594**	**503,246**
Additions	**–**	**–**	**–**	**4,544**	**4,544**
Transfer from construction-in-progress *(Note 15)*	**–**	**–**	**–**	**130,666**	**130,666**
Acquisition of subsidiaries *(Note 35)*	**8,577**	**6,500**	**51,000**	**12**	**66,089**
Amortisation charge *(Note 7)*	**–**	**(868)**	**(4,619)**	**(12,500)**	**(17,987)**
Closing net book amount	**488,290**	**7,089**	**53,863**	**137,316**	**686,558**
At 31 December 2018					
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**
At 1 January 2017					
Cost	479,713	3,771	–	23,664	507,148
Accumulated amortisation	–	(1,934)	–	(6,704)	(8,638)
Net book amount	479,713	1,837	–	16,960	498,510
Year ended 31 December 2017					
Opening net book amount	479,713	1,837	–	16,960	498,510
Acquisition of subsidiaries	–	–	7,945	–	7,945
Amortisation charge *(Note 7)*	–	(380)	(463)	(2,366)	(3,209)
Closing net book amount	479,713	1,457	7,482	14,594	503,246
At 31 December 2017					
Cost	479,713	3,771	7,945	23,664	515,093
Accumulated amortisation	–	(2,314)	(463)	(9,070)	(11,847)
Net book amount	479,713	1,457	7,482	14,594	503,246

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 2018 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:

	2018 RMB'000	2017 RMB'000
Tissue paper products	**479,713**	479,713
Others	**8,577**	–
	488,290	479,713

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 3% to 7.4% (2017: 3% to 3.6%) and gross profit margins of 22.5% (2017: 32.9%). 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 10.2% (2017: 10.5%) per annum. Based on management's assessment results, there was no impairment of goodwill as at 31 December 2018 and 2017 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

	2018 RMB'000	2017 RMB'000
Financial assets		
– Trade and other receivables, excluding prepayments and value added tax recoverable	**3,299,075**	2,664,389
– Restricted bank deposits	**4,670**	3,002
– Long-term bank time deposits *(Note 23)*	**4,338,000**	2,499,738
– Cash and bank balances *(Note 23)*	**21,576,830**	18,429,716
	29,218,575	23,596,845
Assets at fair value through profit or loss		
– Derivative financial instruments *(Note 22)*	**2,922**	29,433
Total	**29,221,497**	23,626,278

19 FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

(b) Liabilities

	2018 RMB'000	2017 RMB'000
Financial liabilities		
– Trade and other payables, excluding non-financial liabilities	**3,550,690**	2,926,835
– Borrowings *(Note 28)*	**24,262,364**	18,622,618
– Convertible bonds *(Note 29)*	**–**	455,537
– Finance lease payable	**265**	553
	27,813,319	22,005,543
Liabilities at fair value through profit or loss		
– Derivative financial instruments *(Note 22)*	**18,603**	6,698
Total	**27,831,922**	22,012,241

20 INVENTORIES

	2018 RMB'000	2017 RMB'000
Finished goods	**1,521,927**	1,313,397
Raw materials	**2,561,100**	1,958,045
Spare parts and consumables	**202,456**	164,224
	4,285,483	3,435,666

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB10,111,952,000 (2017: RMB8,650,282,000).

The Group reversed a provision for inventories write-down of RMB29,185,000 (2017: RMB6,539,000). 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

	2018 RMB'000	2017 RMB'000
Trade receivables	**2,881,279**	2,339,547
Bills receivable	**29,747**	29,974
	2,911,026	2,369,521
Less: provision for impairment	**(67,494)**	(57,461)
Trade and bills receivables, net	**2,843,532**	2,312,060
Other receivables, prepayments and deposits		
– Advance payments to suppliers	**810,307**	492,425
– Interest income receivables	**250,068**	205,672
– Prepayments for rental fee and utility fee	**18,009**	18,623
– Value added tax recoverable	**417,238**	542,969
– Others	**205,475**	146,657
	1,701,097	1,406,346
Trade, bills and other receivables, prepayments and deposits	**4,544,629**	3,718,406

Part of the Group's sales are on open account with credit terms ranging from 30 days to 90 days. At 31 December 2018, the ageing analysis of the trade and bills receivables based on invoice date was as follows:

	2018 RMB'000	2017 RMB'000
Within 30 days	**1,323,082**	932,311
31–180 days	**1,396,744**	1,217,240
181–365 days	**82,109**	134,336
Over 365 days	**109,091**	85,634
	2,911,026	2,369,521

Due to the short-term nature of the current receivables, their carrying amounts are considered to be the same as their fair value.

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)(ii).

22 DERIVATIVE FINANCIAL INSTRUMENTS

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

	2018 RMB'000	2017 RMB'000
Assets:		
Interest rate swap contracts	2,922	7,005
Foreign exchange forward contract – held for trading	–	22,428
	2,922	29,433
Liabilities:		
Interest rate swap contracts	(6,948)	(6,698)
Foreign currency swap contract – held for trading	(11,655)	–
	(18,603)	(6,698)
	(15,681)	22,735

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

	2018 RMB'000	2017 RMB'000
Long-term bank time deposits	**4,338,000**	2,499,738
Cash and bank balances		
– Bank time deposits	**10,508,531**	11,645,136
– Cash and cash equivalents	**11,068,299**	6,784,580
	21,576,830	18,429,716
Total	**25,914,830**	20,929,454

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 2018 was approximately 3.23% (31 December 2017: 2.48%) per annum.

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

	2018 RMB'000	2017 RMB'000
Long-term bank time deposits		
RMB	**4,338,000**	2,499,738
Cash and bank balances		
RMB	**12,464,791**	6,897,083
US$	**7,909,088**	9,633,132
HK$	**987,306**	1,683,579
Others	**215,645**	215,922
Total	**21,576,830**	18,429,716

The Group's bank deposits and cash denominated in US$, RMB and HK$ 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 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares	RMB'000
At 1 January 2018	**1,205,910,917**	**127,080**
Employee share option schemes		
– Shares issued upon exercise of share options *(Note 25)*	**384,500**	**32**
Buy-back *(Note)*	**(227,500)**	**(20)**
At 31 December 2018	**1,206,067,917**	**127,092**
At 1 January 2017	1,204,888,221	126,991
Employee share option schemes		
– Shares issued upon exercise of share options *(Note 25)*	1,022,696	89
At 31 December 2017	1,205,910,917	127,080

Note: The Group acquired 14,477,000 its own ordinary shares through purchases on the Stock Exchange during the year ended 31 December 2018. The total consideration paid to acquire the shares was approximately RMB701,136,000 and have been deducted from share capital and other reserves (Note 26) in the amounts of RMB20,000 and RMB701,116,000. 227,500 ordinary shares had been cancelled before 31 December 2018. On 28 January 2019, the remaining 14,249,500 shares have been cancelled by the Group.

25 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:

	2018		2017	
	Average exercise price in HK$ per share	**Options (thousands)**	Average exercise price in HK$ per share	Options (thousands)
At 1 January	**74.39**	**15,719**	74.22	16,742
Exercised	**71.63**	**(385)**	71.70	(1,023)
At 31 December	**74.46**	**15,334**	74.39	15,719

Out of the 15,334,000 outstanding options (2017: 15,719,000), 12,668,000 options (2017: 10,386,000) were exercisable as at 31 December 2018.

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)**	
		2018	2017
Expiry date – 27 July 2021	68.30	**1,854**	1,951
Expiry date – 28 July 2022	72.75	**8,147**	8,435
Expiry date – 5 Oct 2025	79.20	**5,333**	5,333
		15,334	15,719

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 2018 amounted to RMB26,683,000 (2017: RMB37,843,000) (Note 12), and the remaining unamortised fair value of approximately RMB15,582,000 (2017: RMB43,195,000) 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.

26 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))*	Convertible bonds – equity component RMB'000	Total RMB'000
At 1 January 2018	–	603,965	1,922	2,060,571	296,864	165,075	12,966	3,141,363
Other comprehensive income – currency translation differences	–	–	–	–	–	67,708	–	67,708
Appropriation to statutory reserves	–	–	–	74,209	–	–	–	74,209
Share-based compensation								
– value of employee services	–	–	–	–	26,683	–	–	26,683
– proceeds from shares issued	–	23,278	–	–	–	–	–	23,278
– exercise of share options	–	6,655	–	–	(6,655)	–	–	–
Buy-back of shares *(Note 24)*	(701,136)	–	–	–	–	–	–	(701,136)
Cancellation of shares *(Note 24)*	12,772	(12,752)	–	–	–	–	–	20
Redemption of convertibles bonds	–	–	–	–	–	–	(12,966)	(12,966)
Change in ownership interests in subsidiaries without change of control	–	(4,370)	–	–	–	–	–	(4,370)
At 31 December 2018	(688,364)	616,776	1,922	2,134,780	316,892	232,783	–	2,614,789
At 1 January 2017	–	523,284	1,922	1,920,751	276,361	209,687	12,966	2,944,971
Other comprehensive income – currency translation differences	–	–	–	–	–	(44,612)	–	(44,612)
Appropriation to statutory reserves	–	–	–	140,874	–	–	–	140,874
Share-based compensation								
– value of employee services	–	–	–	–	37,843	–	–	37,843
– proceeds from shares issued	–	63,341	–	–	–	–	–	63,341
– exercise of share options	–	17,340	–	–	(17,340)	–	–	–
Disposal of subsidiaries with loss of control	–	–	–	(1,054)	–	–	–	(1,054)
At 31 December 2017	–	603,965	1,922	2,060,571	296,864	165,075	12,966	3,141,363

Notes:

(a) Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company.

(b) 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.

(c) 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 Company and the Group.

27 RETAINED EARNINGS

	2018 RMB'000	2017 RMB'000
At 1 January	**12,837,975**	11,654,829
Profit for the year	**3,799,805**	3,794,041
Appropriation to statutory reserves *(Note 26)*	**(74,209)**	(140,874)
2017/2016 final dividends paid *(Note 11)*	**(1,387,190)**	(1,325,377)
2018/2017 interim dividends paid *(Note 11)*	**(1,206,068)**	(1,144,644)
Redemption of convertible bonds *(Note 29)*	**12,966**	–
At 31 December	**13,983,279**	12,837,975

28 BORROWINGS

	2018 RMB'000	2017 RMB'000
Non-current		
Long-term bank loans – unsecured (a)	**252,343**	256,058
Medium-term notes (b)	**–**	1,997,174
Corporate bonds (c)	**3,987,943**	994,001
	4,240,286	3,247,233
Current		
Trust receipt bank loans (a)	**472,743**	225,688
Short-term bank loans – unsecured (a)	**13,538,454**	15,102,697
Short-term bank loans – secured (a)	**12,000**	47,000
Medium-term notes (b)	**1,998,881**	–
Super short-term commercial papers (d)	**4,000,000**	–
	20,022,078	15,375,385
Total borrowings	**24,262,364**	18,622,618

28 BORROWINGS *(continued)*

(a) Bank loans

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

	2018 RMB'000	2017 RMB'000
HK$	**5,919,234**	8,490,080
US$	**5,142,883**	3,653,449
RMB	**3,104,112**	3,396,780
Other currencies	**109,311**	91,134
	14,275,540	15,631,443

At 31 December 2018, the Group's long-term bank borrowings are repayable as follows:

	2018 RMB'000	2017 RMB'000
Between 1 and 2 years	**4,123**	4,021
Between 2 and 3 years	**244,123**	54,021
Between 3 and 5 years	**4,097**	198,016
	252,343	256,058

As at 31 December 2018, the effective interest rate of the Group's bank loans is approximately 2.59% (2017: 1.63%) per annum.

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

As at 31 December 2018, bank borrowings of RMB12,000,000 were pledged by the land use rights (cost of RMB3,720,000 and carrying amount of RMB2,617,000) (Note 16) of a subsidiary. As at 31 December 2017, bank borrowings of RMB47,000,000 were pledged by the land use rights (cost of RMB35,345,000 and carrying amount of RMB27,091,000) (Note 16) of a subsidiary.

(b) Medium-term notes

In September 2016, the Company issued a medium-term note at a par value of RMB2,000,000,000, which was dominated in RMB with a fixed interest of 3.24% per annum. The notes will mature in three years from the issue date. The values of the liability, net of transaction costs of RMB5,000,000, were determined at issuance of the notes.

The fair value of the medium-term notes approximated its carrying amount as at 31 December 2018.

28 BORROWINGS *(continued)*

(c) Corporate bonds

In September 2016, Hengan (China) Investment Co., Ltd ("Hengan China Investment" or "恒安中投"), a wholly-owned subsidiary of the Group issued a corporate bonds at a par value of RMB1,000,000,000, which was dominated 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 coporate bond at a par value of RMB3,000,000,000, which was dominated 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 bonds will mature in three years from the issue date. The value of the liability, net transaction cost of RMB9,600,000, were determined at issuance of the bonds.

The fair value of the corporate bonds approximated its carrying amount as at 31 December 2018.

(d) Super short-term commercial papers

As at 31 December 2018, Hengan China Investment issued following super short-term commercial papers:

	Interest rate	Issue date	Expiration term	Amount RMB'000
18 恒安中投SCP001	4.15%	2018-08-28	270 days	1,000,000
18 恒安中投 SCP003	4.07%	2018-10-29	270 days	1,000,000
18 恒安中投SCP004	3.99%	2018-11-29	270 days	1,000,000
18 恒安中投SCP005	3.90%	2018-12-05	270 days	1,000,000

29 CONVERTIBLE BONDS

	2018 RMB'000	2017 RMB'000
Face value of convertible bonds issued on 27 June 2013	**4,328,181**	4,328,181
Issuing expenses	**(87,625)**	(87,625)
Equity component	**(140,634)**	(140,634)
Liability component on initial recognition on 27 June 2013	**4,099,922**	4,099,922
Accumulated finance costs	**430,124**	423,250
Early redemption of convertible bonds	**(4,392,425)**	(4,392,425)
Redemption of convertible bonds	**(462,309)**	–
Cumulative currency translation differences	**324,688**	324,790
Liability component		
– Current	**–**	455,537

On 27 June 2013, the Company issued zero-coupon convertible bonds with an initial conversion price of HK$120.0825 per share, in the aggregate principal amount of HK$5,434 million, equivalent to RMB4,328 million. The bonds were due for repayment on 27 June 2018 (the "maturity date"). Unless previously redeemed, converted, purchased or cancelled (subject to redemption conditions), these bonds were redeemed at 110.46 per cent of their principal amount on the maturity date.

The fair values of the liability component and the equity conversion component were determined upon the issuance of the convertible bonds.

The fair value of the liability component was calculated using a market interest rate of 2.70% for an equivalent non-convertible bond. The residual amount, representing the value of equity conversion component, is included in shareholders' equity in other reserves.

During the year ended 31 December 2018, no bond holders have converted their bonds into ordinary shares of the Company. All the outstanding convertible bonds brought forward from 31 December 2017, with principal amount of HK$501 million, equivalent to RMB399 million were redeemed at the maturity date, 27 June 2018, resulting in transfer of a sum of RMB12,966,000 from convertible bonds equity reserve to retained earnings.

30 DEFERRED INCOME TAX

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

	2018 RMB'000	2017 RMB'000
Deferred income tax assets		
– Deferred tax asset to be recovered more than 12 months	**30,714**	27,129
– Deferred tax asset to be recovered within 12 months	**101,630**	145,115
	132,344	172,244
Deferred income tax liabilities		
– Deferred tax liability to be settled more than 12 months	**(41,661)**	(23,791)
– Deferred tax liability to be settled within 12 months	**(118,509)**	(96,216)
	(160,170)	(120,007)
Deferred income tax (liabilities)/assets – net	**(27,826)**	52,237

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

	2018 RMB'000	2017 RMB'000
At 1 January	**52,237**	104,361
Charged to consolidated statement of profit or loss *(Note 9)*	**(60,033)**	(24,591)
Acquisition of subsidiaries *(Note 35)*	**(19,947)**	(27,494)
Currency translation differences	**(83)**	(39)
At 31 December	**(27,826)**	52,237

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	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
At 1 January	119,845	112,396	25,270	25,074	27,129	73,343	172,244	210,813
Acquisition of subsidiaries *(Note 35)*	17	–	1,414	–	1,521	–	2,952	–
(Charged)/credited to consolidated statement of profit or loss *(Note 9)*	(38,245)	7,449	(6,671)	196	2,064	(46,214)	(42,852)	(38,569)
At 31 December	81,617	119,845	20,013	25,270	30,714	27,129	132,344	172,244

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	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
At 1 January	92,437	106,452	24,230	–	3,340	–	120,007	106,452
Currency translation differences	–	–	–	–	83	39	83	39
Acquisition of subsidiaries *(Note 35)*	3,316	–	19,583	24,486	–	3,008	22,899	27,494
Charged/(credited to) consolidated statement of profit or loss *(Note 9)*	19,121	(14,015)	(1,723)	(256)	(217)	293	17,181	(13,978)
At 31 December	114,874	92,437	42,090	24,230	3,206	3,340	160,170	120,007

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 deductible losses can be carried forward to subsequent five years for deduction of the taxable profit. There were no unrecognised deferred income tax assets in respect of losses as at 31 December 2018 and 2017.

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 2018 and 2017, 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 2018 and 2017.

31 TRADE, BILLS AND OTHER PAYABLES AND ACCRUED CHARGES

	2018 RMB'000	2017 RMB'000 (Restated)
Trade payables	**2,594,760**	2,128,813
Bills payables	**305,881**	–
	2,900,641	2,128,813
Other payables and accrued charges		
– Payables for purchase of property, plant and equipment	**496,114**	509,566
– Payables for treasury shares	**110,511**	–
– Accrued expenses and other payables	**560,994**	469,731
– Other taxes payables	**24,645**	26,435
	1,192,264	1,005,732
Trade, bills and other payables and accrued charges	**4,092,905**	3,134,545

At 31 December 2018, the ageing analysis of trade and bills payables based on invoice date was as follows:

	2018 RMB'000	2017 RMB'000
Within 30 days	**1,241,453**	1,361,045
31–180 days	**1,599,637**	733,593
181–365 days	**29,446**	14,364
Over 365 days	**30,105**	19,811
	2,900,641	2,128,813

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:

	2018 RMB'000	2017 RMB'000
RMB	**1,333,039**	1,021,008
US$	**1,556,781**	1,091,737
Other currencies	**10,821**	16,068
	2,900,641	2,128,813

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from operations

	2018 RMB'000	2017 RMB'000
Profit before income tax	**4,904,394**	4,960,598
Adjustments for:		
Depreciation of property, plant and equipment *(Note 13)*	**721,393**	666,556
Amortisation of land use rights *(Note 16)*	**24,465**	22,347
Depreciation of investment properties *(Note 14)*	**5,248**	4,618
Amortisation of intangible assets *(Note 17)*	**17,987**	3,209
Unrealised fair value losses/(gains) on derivative financial instruments *(Note 6)*	**15,147**	(22,781)
Realised fair value losses/(gains) on derivative financial instruments *(Note 6)*	**20,705**	(1,073)
Losses/(gains) on disposal of property, plant and equipment and land use rights *(Note 6)*	**35,025**	(36,445)
Share-based compensation expenses *(Note 25)*	**26,683**	37,843
Interest income and other finance income	**(751,814)**	(504,738)
Gains from acquisition of subsidiaries	**–**	(55,413)
Finance costs *(Note 8)*	**639,854**	404,629
Operating profit before working capital changes	**5,659,087**	5,479,350
Increase in inventories	**(783,224)**	(163,734)
Increase in trade and bills receivables, other receivables, prepayments and deposits	**(274,629)**	(122,851)
Increase/(decrease) in trade and bills payables, other payables and accrued charges	**473,588**	(257,134)
Cash generated from operations	**5,074,822**	4,935,631

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

	2018 RMB'000	2017 RMB'000
Net book value *(Note 13 and 16)*	**64,247**	47,773
(Losses)/gains on disposal of property, plant and equipment and land use rights *(Note 6)*	**(35,025)**	36,445
Proceeds from disposal of property, plant and equipment and land use rights	**29,222**	84,218

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Debt reconciliation

	Current borrowings					Non-current borrowings				
	Bank loans RMB'000	Convertible bonds RMB'000	Medium-term notes RMB'000	Super short-term commercial papers RMB'000	Current finance lease payables RMB'000	Non-current finance lease payebls RMB'000	Bank loans RMB'000	Medium-term notes RMB'000	Corporate bonds RMB'000	Total RMB'000
Debt as at 1 January 2018	15,390,915	455,537	–	–	289	264	256,058	2,017,946	1,004,308	19,125,317
Cash flows	(2,320,783)	(462,309)	(65,101)	4,024,527	(138)	(163)	(8,105)	–	2,926,028	4,093,956
Acquisitions of subsidiaries	26,000	–	–	–	–	–	–	–	–	26,000
Reclassification	–	–	2,017,946	–	–	–	–	(2,017,946)	–	–
Interest expense and other finance charges	441,934	6,874	66,808	1,821	–	–	8,105	–	124,756	650,298
Currency translation differences	520,202	(102)	–	–	7	6	408	–	–	520,521
Debt as at 31 December 2018	14,058,268	–	2,019,653	4,026,348	158	107	256,466	–	4,055,092	24,416,092

	Current borrowings			Non-current borrowings				
	Bank loans RMB'000	Convertible Bonds RMB'000	Current finance lease payables RMB'000	Non-current finance lease payebls RMB'000	Bank loans RMB'000	Medium-term notes RMB'000	Corporate bonds RMB'000	Total RMB'000
Debt as at 1 January 2017	11,923,380	472,719	–	–	536,700	2,016,291	1,002,775	15,951,865
Cash flows	3,748,204	–	(215)	(104)	(293,025)	(64,840)	(33,000)	3,357,020
Acquisitions of subsidiaries	151,798	–	503	365	18,194	–	–	170,860
Interest expense and other finance charges	259,891	14,266	–	–	11,715	66,495	34,533	386,900
Currency translation differences	(692,358)	(31,448)	1	3	(17,526)	–	–	(741,328)
Debt as at 31 December 2017	15,390,915	455,537	289	264	256,058	2,017,946	1,004,308	19,125,317

33 CONTINGENT LIABILITIES

At 31 December 2018, the Group had no material contingent liabilities (2017: Nil).

34 COMMITMENTS

At 31 December 2018 and 2017, the Group had the following commitments:

(a) Capital commitments

	2018 RMB'000	2017 RMB'000
Contracted but not provided for in respect of:		
Machinery and equipment	**301,908**	365,058
Leasehold land and buildings	**53,497**	120,456
Total capital commitments	**355,405**	485,514

(b) Commitments under operating leases

(i) The Group is the lessee:

At 31 December 2018 and 2017, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land use rights and buildings	
	2018 RMB'000	2017 RMB'000
Not later than 1 year	**42,472**	26,317
Later than 1 year and not later than 5 years	**1,594**	4,025
	44,066	30,342

(ii) 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:

	2018 RMB'000	2017 RMB'000
Not later than 1 year	**29,760**	20,266
Later than 1 year and not later than 5 years	**67,847**	52,035
Later than 5 years	**43,206**	32,975
	140,813	105,276

35 BUSINESS COMBINATION

On 4 April 2018, the Group had entered into a sale and purchase agreement to acquire 100% shareholding of Sunway Kordis Holding Limited (together with its subsidiaries, "Sunway Kordis Group"), at a consideration of RMB142,205,000. The acquisition was completed on 10 April 2018.

Sunway Kordis Group is principally engaged in the manufacturing of food wrap film and plastic bags in the PRC which are sold locally and exported to markets in Europe, Australia, North America and Asia. The acquisition is expected to enhance the overall growth of the Group and is undertaken as part of its plan to expand its household products offerings and diversify its revenue stream inside and outside the PRC.

The following table summarises the consideration paid for Sunway Kordis Group, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	At 10 April 2018, the date of acquisition RMB'000
Purchase consideration	
– Cash paid	142,205
Recognised amounts of identifiable assets acquired and liabilities assumed	
Fair value	
Cash and banks	31,701
Property, plant and equipment *(Note 13)*	32,490
Construction-in-progress *(Note 15)*	3,485
Land use rights *(Note 16)*	28,400
Intangible Assets *(Note 17)*	57,512
Deferred income tax assets *(Note 30)*	2,952
Inventories	37,161
Trade and other receivables	37,119
Current income tax recoverable	1,008
Borrowings *(Note 32(c))*	(26,000)
Trade, bills and other payables	(49,301)
Deferred income tax liabilities *(Note 30)*	(22,899)
Total identifiable net assets	133,628
Goodwill *(Note 17)*	8,577
	142,205
Acquisition-related costs (included in administrative expenses in the consolidated statement of profit or loss for the year ended 31 December 2018)	797

35 BUSINESS COMBINATION *(continued)*

	At 10 April 2018, the date of acquisition RMB'000
Outflow of cash to acquire business, net of cash acquired	
– Cash consideration	(142,205)
– Cash and bank balances in the subsidiary acquired	31,701
Cash outflow on acquisition	(110,504)

(i) Revenue and profit contribution

The acquired business contributed revenue of RMB201,343,000 and net profit of RMB1,579,000 to the Group for the period from 10 April 2018 to 31 December 2018. If the acquisition had occurred on 1 January 2018, the consolidated revenue and consolidated net profit of the Group for the year ended 31 December 2018 would have been increased by RMB256,992,000 and decreased by RMB1,084,000 respectively.

36 INVESTMENTS IN ASSOCIATES

The amounts recognised in the balance sheet are as follows:

	2018 RMB'000	2017 RMB'000
Interests in associates	101,670	–

The movement in interest in associates are as follows:

	2018 RMB'000
At 1 January 2018	–
Additions	101,670
At 31 December 2018	101,670

36 INVESTMENTS IN ASSOCIATES *(continued)*

The particulars of the associates of the Group as at 31 December 2018, 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(i)	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

(i) On 23 April 2018, the Group entered into an initial investment agreement and a shareholders' agreement to acquire 36.46% shareholdings of Finnpulp Oy for cash consideration of EUR11,666,666 (equivalent to approximately RMB90,252,000). As a consequence, the Group gained significant influence over this investment to an associate. Details of the above acquisition are set out in the announcement of the Group dated 23 April 2018.

The Group will have the right but not the obligation to subscribe for additional new shares or acquire existing shares of Finnpulp Oy at the building stage, when the commencement of the construction of the bioproduct mill, which expected in 2019, to eventually hold a total of 40–49% of Finnpulp Oy.

Finnpulp Oy is currently engaged in planning and aiming to build a large-scale bioproduct mill in Kuopio, Finland. The Group believes that the entering into the transactions contemplated by the Agreements will allow the Group to expand its business to the upstream pulp manufacturing industry to stabilise the supply of wood pulp in the future, and therefore enhance the Group's long-term development.

37 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 2018 and 2017:

(a) Purchase of energy

	2017 RMB'000
Weifang Power Thermal Power Co., Ltd ("Weifang Power")	
– Electricity energy	94,527
– Heat energy	60,136
	154,663

Weifang Power is an electricity power plant company, the Group used to purchase electricity and heat energy from Weifang Power at prices determined according to the terms of the contracts entered. Weifang Power was beneficially owned by Mr. Sze Wong Kim, an Executive Director of the Company, and the sons of Mr. Hui Lin Chit and Mr. Hung Ching Shan, Executive Directors of the company. On 27 December 2017, the Group entered into a sale and purchase agreement to acquire 100% shareholding of Weifang Power. From 27 December 2017, Weifang Power was no longer a connected party of the Group and the services provided by it to the Group would no longer be considered as connected transaction thereafter.

(b) Key management compensation

	2018 RMB'000	2017 RMB'000
Basic salaries, housing allowances, other allowances and benefits-in-kind	**9,116**	9,106
Share-based compensation	**–**	515
Contributions to pension schemes	**80**	82
	9,196	9,703

38 PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries of the Company at 31 December 2018 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 2018 %
Direct subsidiaries:				
Hengan Mega Jumbo Investments Ltd.	Hong Kong, limited liability company	Investment holding, trading and procurement in Hong Kong	9,000 ordinary shares of HK$1,367,302,854	100
Ever Town Investments Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100
Hengan International Holdings Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100
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 sales of hygiene products in Hong Kong	10,000 ordinary shares of HK$2,030,786	70
PT. Hengan Global	Indonisa, limited liability company	Trading and procurement	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

38 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 2018 %
Indirect subsidiaries: *(continued)*				
Hengan (Jinjiang) Household Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of 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	90.1
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	RMB24,000,000	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
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

38 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 2018 %
Indirect subsidiaries: *(continued)*				
Hengan (Chongqing) Paper Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	HK$2,778,000	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$145,760,000	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
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 Hearttex Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$19,810,000	100

38 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 2018 %
Indirect subsidiaries: *(continued)*				
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$98,660,000	100
Shandong Hengan Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$47,050,000	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$21,630,000	100
Fushun Hengan Tissue Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$6,000,000	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
Hengan (Changji) Paper Co., Ltd*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB137,000,000	100

38 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 2018 %
Indirect subsidiaries: *(continued)*				
Hengan (Zhejiang) Homecare Products Co., Ltd. *	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper in the PRC	US$70,000,000	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
Hengan (Sichuan) Maternal and Child Products Co., Ltd*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$10,000,000	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 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	RMB250,000,000	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
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	51
PT. Hengan Global Hygiene Products	Indonisa, joint venture enterprise	Trading and procurement in Indonesia	US$10,000,000	70

38 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 2018 %
Indirect subsidiaries: *(continued)*				
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	50.45
Wang-Zheng Corporation Sdn. Bhd.	Malaysia, Limited liability company	Distributor of disposable fibre-based products in Malaysia	MYR 3,325,000	50.45
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	50.45
Carefeel Cotton Industries (M) Sdn. Bhd.	Malaysia, Limited liability company	Manufacturing, distribution and sale of facial cotton products in Malaysia	MYR 2,187,500	50.45
New Top Win Corporation Sdn. Bhd.	Malaysia, Limited liability company	Manufacturing and trading of papers in Malaysia	MYR 1,000,000	50.45
Modern Alpine Sdn. Bhd.	Malaysia, Limited liability company	Trading of papers in Malaysia	MYR 3,000,000	50.45
Mey Paper Industries Sdn. Bhd.	Malaysia, Limited liability company	Manufacture, distribution and sale of corrugated paper carton boxes in Malaysia	MYR 1,062,500	50.45
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
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 the Russia;	Russian Ruble 600,000,000	51
Sunway Kordis Holding Ltd	Cayman, limited liability company	Investment holding in Cayman	US$2,100	100
Starful Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	US$50,000	100

38 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 2018 %
Indirect subsidiaries: *(continued)*				
SunKor Hong Kong Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	HK$100	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 Pharmacare Company 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. 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.

39 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Assets		
Non-current assets		
Amounts due from subsidiaries	**–**	1,996,693
Investments in subsidiaries	**5,691,538**	5,535,691
	5,691,538	7,532,384
Current assets		
Inventories	**–**	547
Amounts due from subsidiaries	**6,344,963**	5,918,625
Other receivables, prepayments and deposits	**570**	21,396
Derivative financial instruments	**1,174**	1,155
Cash and bank balances	**146,667**	159,705
	6,493,374	6,101,428
Total assets	**12,184,912**	13,633,812
Equity		
Equity attributable to shareholders of the Company		
Share capital	**127,083**	127,080
Other reserves *(Note(a))*	**(140,010)**	387,685
Retained earnings *(Note(a))*	**6,036,106**	5,431,049
Total equity	**6,023,179**	5,945,814
Liabilities		
Non-current liabilities		
Borrowings	**–**	1,997,174
Amounts due to subsidiaries	**2,538,832**	2,392,643
	2,538,832	4,389,817
Current liabilities		
Trade payables	**–**	21,748
Amounts to subsidiaries	**60,352**	48,701
Other payables and accrued charges	**138,476**	24,050
Derivative financial instruments	**–**	33
Borrowings	**3,424,073**	2,748,112
Convertible bonds	**–**	455,537
	3,622,901	3,298,181
Total liabilities	**6,161,733**	7,687,998
Total equity and liabilities	**12,184,912**	13,633,812

The balance sheet of the Company was approved by the Board of Directors on 19 March 2019 and was signed on its behalf.

Director	*Director*
Sze Man Bok	Hui Lin Chit

39 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 2018	5,431,049	387,685
Profit for the year	3,185,349	–
Currency translation differences	–	136,426
2017 final dividend paid	(1,387,190)	–
2018 interim dividend paid	(1,206,068)	–
Share-based compensation		
– value of employee services	–	26,683
– proceeds from shares issued	–	23,278
Buy-back of shares	–	(701,136)
Cancellation of shares	–	20
Redemption of convertible bonds	12,966	(12,966)
At 31 December 2018	6,036,106	(140,010)
At 1 January 2017	4,499,403	445,574
Profit for the year	3,401,667	–
Currency translation differences	–	(159,073)
2016 final dividend paid	(1,325,377)	–
2017 interim dividend paid	(1,144,644)	–
Share-based compensation		
– value of employee services	–	37,843
– proceeds from shares issued	–	63,341
At 31 December 2017	5,431,049	387,685

40 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 2018 is set out below:

Name of Director	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Share-based compensation RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Director						
Mr. Sze Man Bok	51	301	–	–	15	367
Mr. Hui Lin Chit	51	679	420	–	15	1,165
Mr. Xu Shui Shen	51	1,083	286	–	3	1,423
Mr. Hung Ching Shan	51	115	8	–	9	183
Mr. Xu Da Zuo	51	605	51	–	3	710
Mr. Xu Chun Man	51	–	–	–	3	54
Mr. Sze Wong Kim	51	–	–	–	3	54
Mr. Hui Ching Chi	51	414	86	–	15	566
Mr. Li Wai Leung	51	990	212	–	15	1,268
Independent Non-Executive Director						
Mr. Chan Henry	102	–	–	–	–	102
Mr. Wang Ming Fu	102	–	–	–	–	102
Ms. Ada Ying Kay Wong	102	–	–	–	–	102
Mr. Ho Kwai Ching, Mark	102	–	–	–	–	102
Mr. Zhou Fang Sheng	102	–	–	–	–	102

40 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 2017 is set out below:

Name of Director	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Share-based compensation RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Director						
Mr. Sze Man Bok	52	307	–	15	16	390
Mr. Hui Lin Chit	52	662	450	108	16	1,288
Mr. Xu Shui Shen	52	1,058	295	117	3	1,525
Mr. Hung Ching Shan	52	120	8	15	9	204
Mr. Xu Da Zuo	52	595	64	79	3	793
Mr. Xu Chun Man	52	–	–	15	3	70
Mr. Sze Wong Kim	52	–	–	–	3	55
Mr. Hui Ching Chi	52	399	122	–	16	589
Mr. Li Wai Leung	40	1,012	130	–	16	1,198
Independent Non-Executive Director						
Mr. Chan Henry	104	–	–	–	–	104
Mr. Wang Ming Fu	104	–	–	–	–	104
Ms. Ada Ying Kay Wong	104	–	–	–	–	104
Mr. Ho Kwai Ching, Mark	104	–	–	–	–	104
Mr. Zhou Fang Sheng	104	–	–	–	–	104

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

No significant transactions, arrangements and contracts in relation to the Groups'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.