恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1044

ANNUAL REPORT 2019

CORPORATE MISSION

"GROWING WITH YOU FOR A BETTER LIFE"

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

CONTENTS

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 (retired on 17 May 2019)
Ada Ying Kay Wong
Ho Kwai Ching Mark
Zhou Fang Sheng
Theil Paul Marin (appointed on 17 May 2019)

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 54, Hopewell Centre
183 Queen's Road East
Hong Kong

INVESTORS AND MEDIA RELATIONS

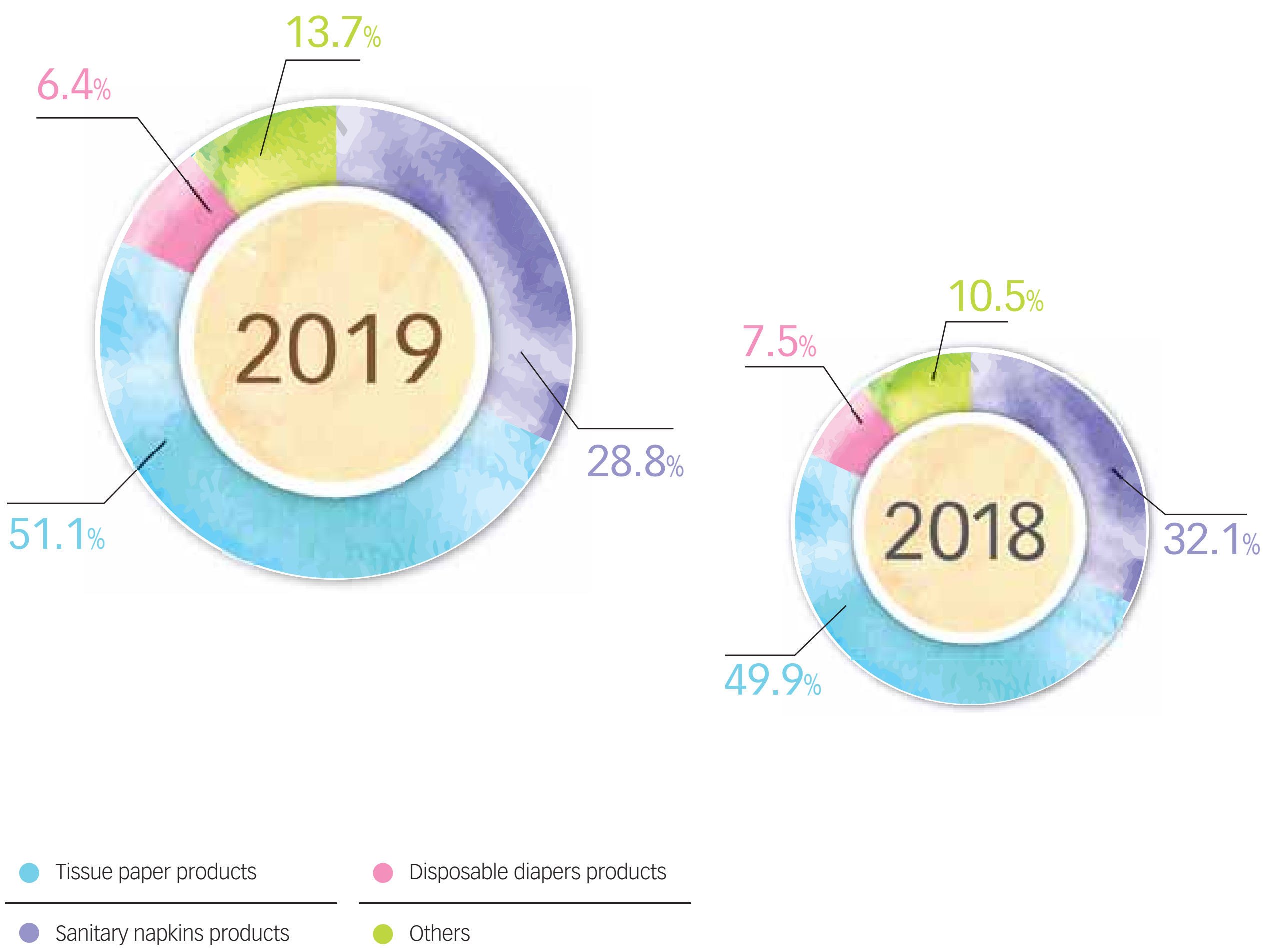
iPR Ogilvy Ltd.
40th Floor
China Online Centre
333 Lockhart Road, Wan Chai
Hong Kong

FINANCIAL HIGHLIGHTS

	2019	2018	2017 (Restated)	2016	2015
Net profit margin — based on profit attributable to shareholders of the Company (%) *(Note)*	**17.4**	18.5	21.0	18.0	17.3
Earnings per share — basic (RMB)	**3.285**	3.151	3.149	2.864	2.645
Finished goods turnover (days)	**43**	41	46	46	43
Trade receivables turnover (days) *(Note)*	**53**	46	51	47	40
Current ratio (times)	**1.3**	1.3	1.3	1.4	1.2
Gross gearing ratio (%)	**120.9**	145.1	118.5	108.1	98.8
Net gearing ratio (%)	**(7.6)**	(9.9)	(11.5)	(4.9)	(7.9)

Note: The financial highlights for the year ended 31 December 2019 and 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



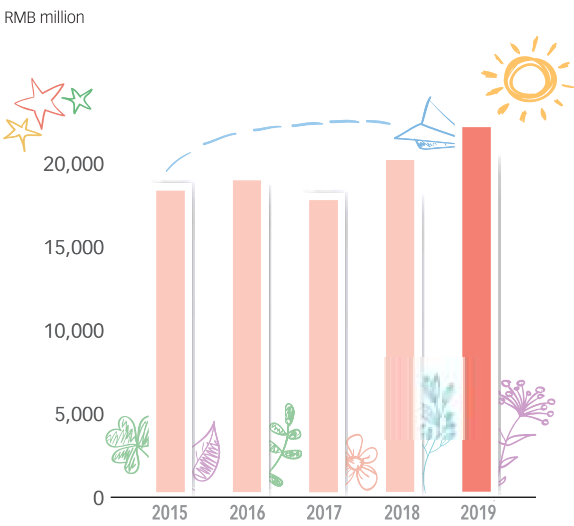
FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS — FOR THE YEAR ENDED 31 DECEMBER

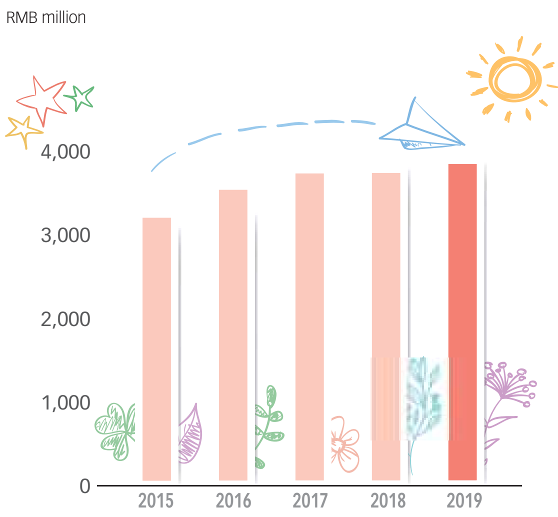
	2019 RMB'000	2018 RMB'000	2017 RMB'000 (Restated)	2016 RMB'000	2015 RMB'000
Revenue *(Note)*	**22,492,845**	20,513,881	18,079,560	19,277,397	18,662,576
Profit before income tax	**5,046,887**	4,904,394	4,960,598	4,559,011	4,548,674
Income tax expense	**(1,129,784)**	(1,097,261)	(1,159,142)	(1,079,445)	(1,299,209)
Profit for the year from continuing operations	**3,917,103**	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	**3,917,103**	3,807,133	3,801,456	3,761,462	3,301,737
Non-controlling interests	**(9,380)**	(7,328)	(7,415)	(164,641)	(41,874)
Profit attributable to shareholders of the Company	**3,907,723**	3,799,805	3,794,041	3,596,821	3,259,863
Earnings per share - basic (RMB)	**3.285**	3.151	3.149	2.864	2.645

Note: The financial highlights for the year ended 31 December 2019 and 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



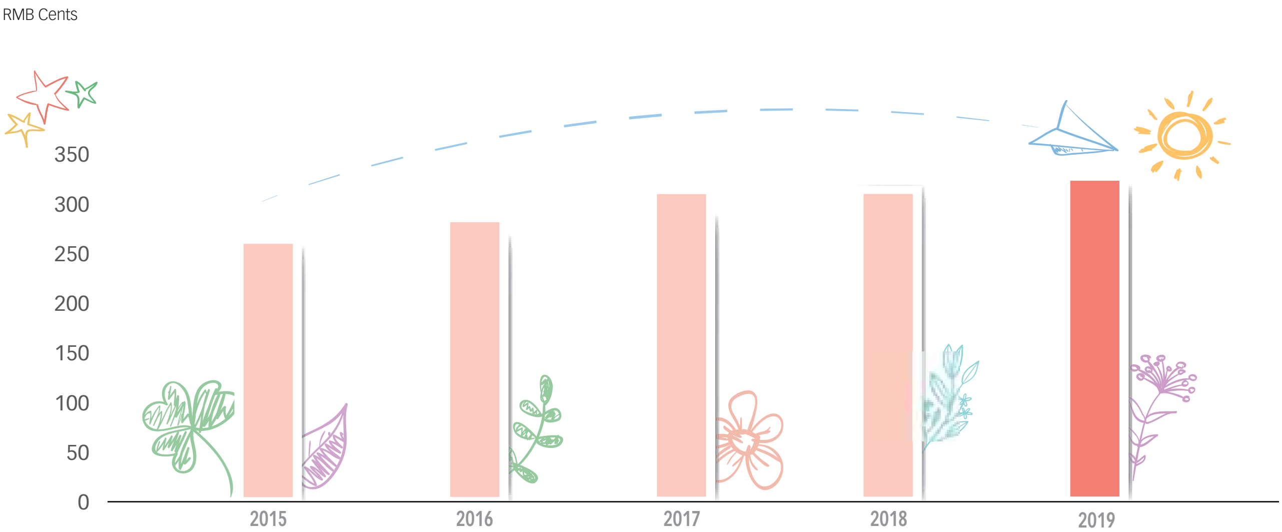
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY



CONSOLIDATED ASSETS AND LIABILITIES — AS AT 31 DECEMBER

	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Assets					
Property, plant and equipment	**7,822,857**	8,095,356	8,044,858	7,344,807	7,468,314
Right-of-use assets	**988,245**	–	–	–	–
Construction-in-progress	**543,534**	580,790	878,088	1,094,145	1,089,602
Investment properties	**226,233**	225,036	216,753	194,848	185,886
Land use rights	**–**	844,532	773,327	751,308	858,708
Intangible assets	**724,620**	686,558	503,246	498,510	599,356
Prepayments for non-current assets	**120,293**	124,187	141,132	163,281	151,924
Deferred income tax assets	**213,211**	132,344	172,244	210,813	186,094
Investment in associates	**101,670**	101,670	–	–	–
Cash and bank balances	**20,540,270**	21,576,830	18,429,716	14,874,877	14,866,085
Long-term bank deposits	**2,430,082**	4,338,000	2,499,738	1,760,000	850,000
Other current assets	**9,528,160**	8,946,849	7,238,938	7,252,139	6,708,384
Total assets	**43,238,775**	45,652,152	38,898,040	34,144,728	32,964,353
Liabilities					
Long-term borrowings	**1,246,992**	4,240,286	3,247,233	3,524,687	–
Convertible bonds	**–**	–	455,537	472,719	4,656,907
Deferred income tax liabilities	**171,467**	160,170	120,007	106,452	159,563
Other current and non-current liabilities	**23,668,438**	24,253,017	18,730,962	15,280,014	13,056,088
Total liabilities	**25,086,897**	28,653,473	22,553,739	19,383,872	17,872,558
Non-controlling interest	**278,937**	273,519	237,883	34,065	380,928
Net assets attributable to shareholders of the Company	**17,872,941**	16,725,160	16,106,418	14,726,791	14,710,867

EARNINGS PER SHARE



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

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

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

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

"SPACE 7", "XIAOHAISEN" AND "ANERLE"
SANITARY NAPKINS, PANTILINERS, OVERNIGHT PANTS

"ANERLE" AND
"Q • MO" BABY DIAPERS

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

"ELDERJOY" AND "BANITORE" ADULT CARE PRODUCTS

CHAIRMAN'S STATEMENT

SZE MAN BOK
Chairman

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 2019. During the year under review, against the backdrop of the long dragging trade war between China and the US, global economic and investor sentiment turned cautious. However, personal and household hygiene products industry as the daily necessities continued to see firm support from steady growth of China's economy and national income. In addition to benefitting from persistently low wood pulp prices during the year, the positive effects of transforming sales channels were gradually realized in the second half of the year after the Group experienced a short painful transition period in the first half of the year, reflecting the positive results from product upgrades and optimisation strategy implemented by the Group in the recent years. The Group managed to achieve near double-digit sales growth in a challenging year.

For the year ended 31 December 2019, the Group's revenue amounted to approximately RMB22,492,845,000 (2018: RMB20,513,881,000), representing an increase of about 9.6% over the prior year. Profit attributable to the shareholders of the Company increased to approximately RMB3,907,723,000 (2018: RMB3,799,805,000). Basic earnings per share were approximately RMB3.285 (2018: RMB3.151). The Board of Directors recommended the payment of a final dividend of RMB1.25 per share (2018: RMB1.20), which together with the interim dividend of RMB1.00 per share (2018: RMB1.00), bringing the annual dividend to RMB2.25 per share (2018: RMB2.20).

The Group believes that product upgrade will be the key driving force of the personal and household hygiene products market in the future, thus the Group has stepped up its efforts to transform the sales channels and encouraged small sales team to directly sell more upgraded and premium products to the point-of-sales, in order to enhance the proportion of high-margin products in the overall product portfolio and gradually expand its high-income and high-spending consumer base. The sales channel transformation affected the sales of sanitary napkins in the first half of the year. Nevertheless, the benefits of channel transformation were gradually realised in the second half of the year and the sales of sanitary napkins gradually rebounded and improved, with fourth-quarter sales recorded high single-digit growth year-on-year. The transformation achieved encouraging results and it is believed that sanitary napkin business will maintain steady sales growth in 2020. The Group will continue to drive product upgrades and reinforce the strategy of direct selling high margin products to the point-of-sales, thereby helping the Group to capture the opportunities arising from the consumption upgrade in the long run.

"Small sales team" operating model (also known as "Hengan's Amoeba Model") was the reform initiated by the Group in 2016. In 2019, the Group promulgated the refined rules for the 'small sales team' operating model. While the Group has fully empowered the small sales team, it also has focused on improving the selling expenses effectiveness in order to enhance both sales and profitability. The Group also encouraged direct sales to the point-of-sales, helping small sales team to swiftly implement the Group's decisions and increase the sales proportion of new products and high-margin products while better serving the needs of customers, thereby contributing to the Group's long-term development.

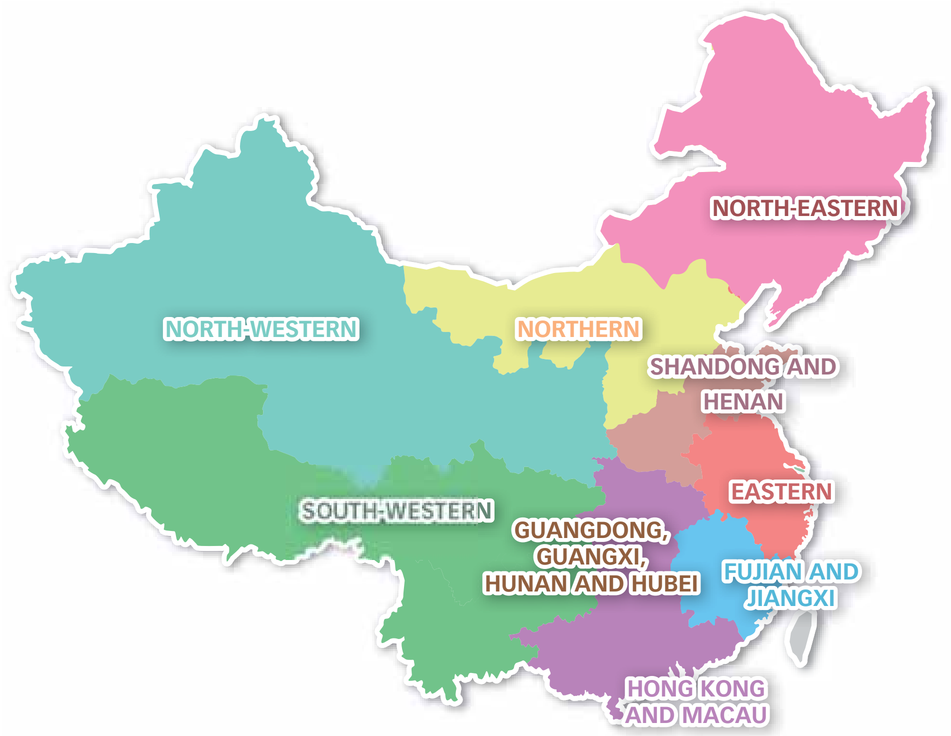
The Group has actively expanded to overseas markets. Currently, the Group sells its products in 51 countries and regions, with 74 direct partnerships with major clients or distributors. During the year, the Group not only sold the popular products including 'Super Mini wet wipes, 'Banitore' disposable adult diapers in Malaysia through the Malaysian company Wang-Zheng Berhad acquired by the Group in 2017, but also sold the Group's products in other Southeast Asia markets through various channels including convenient stores and e-commerce platforms. After two years of integration, the Group has optimised the production lines of Wang-Zheng which has become an important foothold of the Group in Southeast Asia. The Group will further optimise the management model of Wang-Zheng and gradually incorporate the Group's organizational structure and corporate culture into Wang-Zheng. As for other markets, the diapers production line of Russian plant has commenced production during the year and began supplying the products to the local market, making steady progress. On the other hand, the Supreme Administrative Court rejected the environmental permit that is required for the construction of Finnpulp's pulp mill. The Group is engaged in discussion in relation to the next course of action. Despite the change to the Pulp Mill Project, the Group will not slow down its pace of internationalisation and will continue to seek overseas investment opportunities according to its business development needs and the industry environment. For the projects in operation, the Group will integrate the strengths of Hengan and the local project step by step considering the project progress and local culture, in order to create synergies and achieve mutual benefits.

Looking ahead to 2020, China-US trade dispute continues and the outlook for global economic growth remains sluggish. The coronavirus epidemic will further undermine the growth of China's economy. Nevertheless, growing hygiene awareness of citizens and their pursuit of better living quality will continue to expand the personal and household hygiene products market, bring more development opportunities to the industry. In addition, the Group is vigorously developing super premium products to grasp the opportunities arising from consumption upgrade, with a view to increase its market share in the domestic top-end personal hygiene products market. In order to maximise the benefits of premium products, the Group will continue to strengthen its direct sales strategy, ensuring the point-of-sales to closely align their products with the Group's overall strategy. The Group believes that personal

and household hygiene products industry is a growing market but the whole industry should constantly innovate and evolve in order to keep up with the changing tastes and needs of consumers, thereby paving the way for the implementation of "small sales team" operating model by the Group. The Group will continue to leverage on the small sales team's swift response to market needs, exploit its leading industry position and scale advantage, continuously enhance the eco-friendly production equipment, steadily expand overseas networks, stay committed to consumer-oriented principle and flexibly transform its channel and sales strategy while setting its sight on the global market, striving to establish Hengan as the top-tier fast-moving household consumer goods production and distribution enterprise.

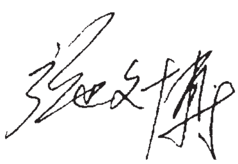
Lastly, I would like to take this opportunity to express my gratitude to every member of staff for their efforts and contributions over the past year and to the business partners for their support. I would also like to thank the shareholders for their long-term support and trust, growing with the Group for a better life. All members of Hengan International's staff will continue to remain fully committed to leading the Group to a more prosperous future and creating outstanding and sustainable return for all shareholders.

REVENUE BY REGIONS IN THE PRC



	2019	2018
NORTH-WESTERN		
Sales Value: (RMB million)	**872**	975
Percentage of Total Sales:	**3.9%**	4.8%
NORTHERN		
Sales Value: (RMB million)	**1,078**	1,197
Percentage of Total Sales:	**4.8%**	5.8%
NORTH-EASTERN		
Sales Value: (RMB million)	**705**	751
Percentage of Total Sales:	**3.1%**	3.7%
SHANDONG AND HENAN		
Sales Value: (RMB million)	**1,840**	1,565
Percentage of Total Sales:	**8.2%**	7.6%

	2019	2018
EASTERN		
Sales Value: (RMB million)	**3,022**	2,815
Percentage of Total Sales:	**13.4%**	13.7%
FUJIAN AND JIANGXI		
Sales Value: (RMB million)	**6,662**	5,498
Percentage of Total Sales:	**29.6%**	26.8%
SOUTH-WESTERN		
Sales Value: (RMB million)	**1,958**	2,046
Percentage of Total Sales:	**8.7%**	10.0%
GUANGDONG, GUANGXI, HUNAN AND HUBEI		
Sales Value: (RMB million)	**3,671**	3,651
Percentage of Total Sales:	**16.3%**	17.8%
HONG KONG AND MACAU		
Sales Value: (RMB million)	**2,126**	1,581
Percentage of Total Sales:	**9.5%**	7.7%



Sze Man Bok
Chairman

Hong Kong, 26 March 2020

CHIEF EXECUTIVE OFFICER'S REPORT

BUSINESS REVIEW

In 2019, China-US trade tensions and geopolitical turbulence dragged down growth in the world economy. China's gross domestic product increased by 6.1% year-on-year, the slowest economic growth rate in nearly 30 years. Against the backdrop of macro uncertainties, the domestic consumption demand continued to grow with the per capita consumption expenditure of national residents in the daily necessities and services category increased by 4.8% compared with 2018. The growth in household consumption contributed 57.8% to the growth of the gross domestic product in 2019, becoming the mainspring of China's economy. During the year, despite the challenging operating environment, Hengan, with its scale advantage and leading brand strength, has maintained steady growth amid fierce competition in the fast-moving consumer goods market in China, and has continued to consolidate the Group's leadership in the personal and household hygiene products market in China.

HUI LIN CHIT
Chief Executive Officer

During the year under review, Hengan Group further enhanced and strengthened implementation of the platform rules of "Fair and Transparent" and continuously reinforced the "small sales team" operating model (also known as "Hengan's Amoeba model") and developed effective sales strategies and adjusted product portfolios that are more suitable for regional markets in order to improve sales and operational efficiency. During the year, the Group stepped up efforts to reform sales channels, strengthened the construction and expansion of point-of-sales, and enhanced its capability to conduct precision marketing, thereby increasing product penetration and market share. Benefitting from the rapid sales growth of tissue business and growth in incomes from other businesses, during 2019, the Group's revenue increased by approximately 9.6% to approximately RMB22,492,845,000 year-on-year (2018: RMB20,513,881,000).

In 2019, the overall prices of wood pulp gradually declined from the peak level, thus helping to reduce the production cost of tissue business of the Group and offsetting the impact of increase in selling and distribution costs during the year and mitigating the pressure on gross profit margin. However, as the proportion of revenue generated from other businesses increased to approximately 13.7% (2018: 10.5%), and its respective gross profit margin was lower comparing with the three major business segments, offsetting some of the growth, therefore the Group's gross profit margin increased only slightly to approximately 38.6% (2018: 38.2%). It is expected that the favourable effect of weaker pulp prices will continue into the first half of 2020, coupled with the Group's continued efforts to optimise its product mix, focus on high margin products and expand its scale advantage in order to mitigate the negative effects of intensified market competition. The Group expects to continue to improve gross profit margin in the first half of 2020. During the year, in the light of the launch of high-end and new products, the Group stepped up brand promotion, resulting in the increase in selling and distribution costs and administrative expenses by approximately 29.4% compared to the same period of last year. In terms of the percentage of total revenue, the proportion of selling and distribution costs and administrative expenses increased to approximately 20.0% (2018: 16.9%).

In 2019, operating profit increased by approximately 4.6% to approximately RMB5,680,296,000 (2018: RMB5,429,224,000). Profit attributable to shareholders of the Company amounted to approximately RMB3,907,723,000 (2018: RMB3,799,805,000). The Board of Directors declared a final dividend of RMB1.25 per share for the year ended 31 December 2019 (2018: RMB1.20).

Sanitary Napkin

The development of China's sanitary napkin market is becoming more mature, and the market penetration rate is comparable to that of developed countries. The market has entered the stage of saturation and the market competition is fierce. Thus, product upgrade and innovation will become the key growth drivers of the market in the future. During the year, the Group increased its efforts to transform the sales channels and required "small sales teams" to strengthen the construction and maintenance of point-of-sales in order to enhance the capabilities of precision marketing and be more responsive to consumer needs. Furthermore, the Group continued to launch upgrades and premium products so as to further expand the high-end and high-quality market. Despite the reform of sales channels brought a period of transition and adjustment in the first half of the year which affected sales growth, the positive effects of a series of optimisation measures became increasingly evident in the second half of the year, driving the recovery of sanitary napkin sales. Sales of sanitary napkins returned to low single-digit growth in the second half and even achieved high single-digit growth in the fourth quarter, above the industry average. Therefore, despite the sales of sanitary napkins decreased by approximately 4.6% in the first half of the year, the sales decline of the sanitary napkin business narrowed to approximately 1.6% to approximately RMB6,487,003,000 during the year under review, which accounted for approximately 28.8% of the Group's revenue (2018: 32.1%). In 2020, the Group will capitalise on consumer demand by launching well-crafted upgraded and new premium products while complementing with effective marketing strategies and diversified sales channels. It is expected that the sanitary napkin business will resume steady growth.

During the year under review, the Group flexibly adapted to changes in spending power and consumption patterns and continued to vigorously optimise its product portfolio with upgraded functions, materials and packaging of products. During the year, the Group upgraded the popular Sweet Sleeping Panty to Ultra-Thin Adorable Sleeping Panty (超薄萌睡褲), offering carefree and comfortable user experience to the consumers. Meanwhile, the premium Space 7 series continued to expand store network and consumer groups. Upgraded products effectively increased the average selling price, coupled with the Group's continued increase in the proportion of high-end products in its product portfolio. In addition, the cost of petrochemical raw materials decreased during the year. As a result, the Group still managed to increase profitability of the sanitary napkins business in spite of the intensified market competition. In 2019, the gross profit margin of the sanitary napkins business increased to approximately 70.3% (2018: 69.4%).

While upgrading the products, the Group grasped the consumption upgrade trend and continued to optimise the sales model during the year, increasing the proportion of direct sales and strengthening the collaborations with New Retail platforms (i.e. Retail Integrated ("零售通"), New Channel ("新通路") etc.) sales models so as to expand the coverage of retail stores. The Group continued to bring the best quality and upgraded products to the market and improve sales efficiency, thereby maintaining its leading position in the market for feminine hygiene products. In addition, with a view to increasing its appeal to the young consumers and capitalising on the strong consumer demand, Space 7 sponsored the music variety show "The Big Band" ("樂隊的夏天") which is in line with the brand positioning and is popular among the younger generation, and signed brand ambassador contract with Yang Chaoyue, a member of "Rocket Girl 101". The effective marketing strategy has greatly enhanced the brand image and made the brand more fashionable and younger. In terms of product development, the Group stepped up efforts to research and upgrade the functions, materials and packaging of high-margin products with production efficiency in order to gain higher market share in a near-saturated market and further strengthen the brand's leading position.

Regarding the development of other feminine care products, during the year under review, the Group launched a new feminine care brand, "Origin and Prime" (若顏初), and launched products such as cotton towels, makeup removers, moisturising facial masks and other feminine care products. In 2020, the Group will continue to actively research and develop other feminine care products beyond sanitary napkins, steadily developing the "feminine care industry" to open up new growth opportunities.

Tissue Paper

China's tissue paper market continues to grow steadily, but the per capita consumption of tissue paper in China is still lower than those in mature overseas markets. In addition, with the continuous domestic consumption upgrade and increasing national health awareness, consumer demand for tissue products have seen constant improvement in diversity and quality. The overall market still has huge untapped potential.

In 2019, the Group's core tissue products achieved satisfactory sales performance. Upgraded products such as wet tissue series, as well as the key promoted products such as "Tea Classical" series and "Bamboo π" series, were widely welcomed by the market, and achieved significant sales growth, coupled with strong growth in e-commerce sales, resulting in a near double-digit growth in sales of tissue products, thus being one of the driving forces for the Group's overall sales growth. During the year, revenue from the Group's tissue paper segment increased by about 12.3% to approximately RMB11,486,538,000, accounting for approximately 51.1% (2018: 49.9%) of the Group's total revenue. On the other hand, the sales of Group's wet wipe products (including "Super Mini" wet wipes) maintained significant growth. The revenue of wet wipes amounted to approximately RMB606,663,000 (2018: RMB500,372,000), increased by approximately 21.2% year on year. During the year, wood pulp prices decreased from the first half of 2019, the benefits brought by the decline in raw material costs were gradually reflected in the second half of 2019, resulting in a significant improvement in gross profit margin. The gross profit margin of tissue product remarkably improved from about 25.0% in first half of 2019 to about 30.1% in second half of 2019. During the year, the gross margin rebounded to about 27.7% (2018: 22.5%). The Group expects the price of wood pulp will continue to remain at a low level and the gross profit margin of tissue paper will continue to improve in the first half of 2020.

In addition, in order to cater to modern people's pursuit of green life, the Group incorporates environmental protection concepts in the process of product development and innovation. During the year, the Group focused on promoting the "Bamboo π" series which features fast-growing natural bamboo fibers, expanding its product portfolio to include toilet rolls and kitchen paper to grasp the eco-friendly trend

and meet the needs of consumers. At the same time, the Group further strengthened its mid-to-high-end positioning of Hengan brand paper towels such as upgrading the "Tea Classical" series by introducing the new packaging in the form of cassette tapes. In terms of wet tissue business, the Group not only focused on the promotion of the highly popular "Super Mini" wet wipes, but also launched wet toilet paper and baby wipes to continuously expand its market share in domestic wet tissue market and maintain its leading market position.

In order to meet the increasingly sophisticated and diversified consumer needs, in 2020, the Group will focus on the promotion of the new series of "Cloudy Soft Skin" (雲感柔膚) to improve the consumer experience by using new double-sided stereoscopic embossed high-quality tissue paper with cotton soft skin like. The Group will also launch more high-quality products in new packaging and continue to upgrade and optimise the popular star products, in order to increase the Group's market share in the mid to high-end product market. Driven by the optimisation of the product mix, the Group is confident that the sales of tissue paper can maintain growth and continue to improve its gross profit margin.

The Group's production capacity was approximately 1,420,000 tons. The Group will consider expanding its production capacity according to the market conditions and sales performance in the future.

Disposable Diapers

With rising level of national education and health awareness, and continuous ageing trend, coupled with the current China's diaper market penetration rate is still lower than developed countries, baby and adult diapers market is a promoting market. On the other hand, national consumption upgrade supports the market expansion of high-quality and high-margin products. The overall diapers market still has huge untapped potential. During the year, the Group continued to strengthen its sales distribution of disposable diapers through e-commerce channel and it has continued to make good progress with the strategy. In addition, the Group upgraded high-end products "Q • MO" and "Soft and Thin" which achieved satisfactory sales performance and gradually increased the market penetration rate, thus effectively narrowing the decline in sales of disposable diapers.

Benefiting from the increase in e-commerce penetration and the increase in the proportion of sales of high-end product "Q • MO", the sales decline of the diaper business narrowed from about 7.4% in the first half of 2019 to about 5.1% in the second half of 2019. For the year ended 31 December 2019, revenue from the Group's disposable diapers segment was approximately RMB1,439,087,000, narrowing the decline to about 6.3% (2018: 14.4%) which accounted for approximately 6.4% of the Group's revenue (2018: 7.5%). During the year under review, the sales distribution of e-commerce channel effectively drove sales growth and the proportion of the Group's disposable diapers sales through e-commerce

channel increased to more than 40% of the overall sales of disposable diapers, and the sales of e-commerce channels increased by more than 10% year-on-year, which helped to alleviate the decline in the overall sales of the Group's disposable diapers business.

In the light of national consumption upgrades and the consumers' increasing pursuit of high-end products, the Group seized the opportunities to deeply develop the high-end product market and focused resources and product development on high-quality premium products and constantly upgraded high-end diaper series such as "Q • MO" and "Soft and Thin", the upgraded product of Anerle. During the year under review, the sales of "Q • MO" and "Soft and Thin" reported more than 70% and 10% growth respectively, accounting for approximately 10.8% and 20.0% of the overall sales of disposable diapers. On the other hand, the Group's revenue of adult diapers amounted to approximately RMB222,532,000 (2018: RMB174,963,000), which accounted for approximately 15.5% of the total revenue of disposable diapers (2018: 11.4%). Sales increased by approximately 27.2% year-on-year. During the year, adult diaper products have consistently its market share in the PRC market and also entered the Malaysian market successfully, laying a good foundation for the Group's future development in the Malaysian and the Southeast Asian markets. Benefitting from the decreased petrochemical raw material costs during the year and the increase in the proportion of high-margin products, the gross profit margin of the disposable diapers segment increased to 40.5% during the period (2018: 39.2%).

Looking ahead, the Group will continue to leverage on its understanding of the market and swift response through the "small sales team" to improve the sales performance of disposable diapers in the e-commerce channel, and sell other baby care products in the "Q • MO" online flagship store, while integrating online store with offline maternity stores to attract families to make one-stop consumption in the "Q • MO" online flagship store. The Group will also continue to consider premium high-end market as a long-term development goal in order to alleviate the impact on traditional channels and improve the sales performance of traditional channels. In addition, with the substantial growth in the elderly care demand, the Group will continue to cooperate with nursing homes and hospitals and supply adult disposable diapers and mattresses and other care products so as to develop the elderly care products business in the long run. It believed that the development of the elderly care industry will become the long-term growth driver of the disposable diapers business.

Household products

Revenue from the Group's household products segment amounted to approximately RMB376,874,000 (2018: RMB230,423,000), including revenue from Sunway Kordis Holding Limited ("Sunway Kordis") amounted to approximately RMB243,962,000 (2018: RMB201,343,000). The business accounted for approximately 1.7% (2018: 1.1%) of the Group's revenue. Sales of first-aid products under the brands of "Banitore" and "Bandi" amounted to approximately RMB27,575,000 (2018: RMB32,717,000). The business accounted for approximately 0.1% (2018: 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. The revenue of the Group's household products segment increased significantly by 63.6%. The increase was mainly attributable to the Group's acquisition of the entire issued share capital of the Sunway Kordis and its subsidiaries in April 2018. The acquisition greatly expanded the product diversification, production technology and sales network of the Group's household products. 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 2020, the Group will further utilise the extensive experiences of Sunway Kordis in household product industry to vigorously develop its strategic footholds of household products in China. The Group will also seek to leverage on its overseas sales network to bring Hengan's products to the overseas market.

Other Incomes

The Group's other incomes mainly included the revenue of Wang-Zheng in Malaysia, the revenue of Sunway Kordis and the revenue of raw materials trading business. For the year ended 31 December 2019, revenue of Wang-Zheng Group amounted to RMB446,551,000 (2018: RMB425,080,000), increased by about 5.1% year-on-year. The increase was mainly attributable to the efforts made by Hengan Group to actively reinvigorate the sales momentum of Wang-Zheng in Malaysia and expand its e-commerce sales. In addition, the newly launched "Super Mini" wet wipes and Banitore adult diapers and other Hengan Group's products received overwhelming responses from the local market, which helped boost the sales. For the year ended 31 December 2019, revenue of Sunway Kordis amounted to approximately RMB243,962,000 (2018: RMB201,343,000), increased by about 21.2% year-on-year. On the other hand, the revenue of the Group's raw materials sales business, increased by approximately 58.7% compared to the year ended 31 December 2018. Therefore, other incomes increased by about 42.8% year-on-year.

E-commerce

In 2019, the national online retail sales of physical products increased by approximately 16.5% year-on-year. Its contribution to the total retail sales of social consumer goods amounted to approximately 20.7%, representing an increase of 2.3 percentage points from 18.4% of 2018, indicating that continuous expansion of the domestic online shopping market. Online shopping, as a convenient shopping channel, has been integrated into the daily lives of Chinese consumers. Since the Group launched its e-commerce business, the e-commerce channel has become one of the Group's high-growth direct sales channels.

The Group's core brands such as Space 7, Hearttex and "Q • MO" have opened official flagship online stores which are operated directly by the Group, enabling the Group to unify its sales strategy and flexibly adjust its product portfolio. In addition, the Group also collected and analysed the shopping and browsing habits and preferences of consumers through strategic cooperation with well-known large-scale e-commerce platforms in China, which helped products planning and development, and improved efficiency of sales, to meet customer needs. Through the Retail Integrated and New Channel platforms, the Group expanded the customer base of B2B business, enhanced the logistics system, and increased the coverage of its offline sales network.

In response to the current macroeconomic environment, the Group launched a number of online exclusive products including online exclusive packaging and combo packages to attract consumers to make purchases through e-commerce channel and to persistently boost the rapid sales growth of the channel. Apart from that, in the light of the growing number of young e-commerce users with strong purchasing power, the Group implemented youth marketing strategy. For example, Space 7 cooperated with the World University Cyber Games (WUCG) to increase its appeal to young consumer groups.

During the year, the Group's sales of e-commerce recorded rapid growth. The e-commerce sales of the core business such as sanitary napkins, tissue papers, disposable diapers maintained a good growth momentum. The Group's market share in e-commerce channels continued to increase. During the year revenue from e-commerce (including Retail Integrated platform and WeChat sales) exceeded approximately RMB4.4 billion, up by more than 50% year-on-year. E-commerce's contribution to the total sales revenue also rose to approximately 19.8% (2018: 14.4%).

Looking ahead, the "small sales team" of the Group's e-commerce department will leverage on big data technology to analyse consumer data obtained from interaction with the market so as to better understand market demand and consumer preferences, formulate effective strategic marketing timely, and continue to expand the coverage of e-commerce channels. The Group will also continue to make good use of the promotion season of the e-commerce platform to promote the brand, continue to launch high-margin and different combinations of exclusive themed products to further garner market share in the e-commerce channel. e-commerce will remain the driving force of the overall sales growth.

Hengan's Amoeba Model

To cater to the rapidly evolving demand of consumers, Hengan Group began to implement the "small sales team" operating model at 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 suitable sales strategy according to the needs of consumers in various markets and launch products and services for different targeted consumer groups.

The "small sales team" operating model has been implemented for more than two years and achieved full coverage with all divisions of the Group implementing the model. The extensive establishment of controlled sales model through the "small sales team" model has helped the Group to swiftly implement decisions, increase the sales proportion of new products and high-margin products while better serving the needs of customers, thereby benefiting the Group's long-term development. As a result, the Group maintained steady progress and achieved a near double-digit growth in overall sales in 2019. The Group will continue to fully authorise the "small sales team" while optimising the operational rules and strengthening the control of operating expenses, to increase the support and supervision of the "small sales team" by the regional operation centers. Meanwhile, the Group is striving to increase the proportion of direct sales to consumers and analyse the consumer data gathered from the interactions at the point-of-sales, in order to achieve precision marketing by understanding the consumer needs more precisely.

In July 2019, the Group promulgated the refined rules for the "small sales team" operating model at the mid-year sales review meeting held at the headquarter of the Group, in order to further strengthen the supervision and promote the operating efficiency of the "small sales team". Going forward, the Group believes that benefits of the "small sales team" operating model will become increasingly evident at all the business divisions. The Group will continue to enhance the supply chain efficiency and the operational efficiency of "small sales team", thereby further improving the Group's overall flexibility and market responsiveness to take full advantage of the strategy.

International Business Development

The Group has actively expanded to overseas markets. Currently, the Group sells its products in 51 countries and regions, with 74 direct partnerships with major clients or distributors.

In April 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 acquired shares 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 2019, the innovative "Super Mini" wet wipes series launched by Hengan in Malaysia continued to sell like hot cakes, while the disposable adult diapers also achieved good sales and received great word-of-mouth reviews. Besides, Hengan assisted Wang-Zheng to develop the e-commerce business, laying the foundation for expansion into the Malaysian and Southeast Asian markets. The Group will continue to utilise the sales network of Wang-Zheng in Southeast Asia (including supermarkets and personal hygiene products chain stores), in order to promote Hengan products to the Malaysian and Southeast Asian markets.

During the year, the revenue and net profit of Wang-Zheng amounted to approximately RMB446,551,000 (2018: RMB425,080,000) and RMB16,902,000 (2018: RMB14,975,000) respectively, accounting for approximately 2.0% (2018: 2.1%) and 0.4% (2018: 0.4%) of the Group's total revenue and net profit respectively.

Looking to 2020, Wang-Zheng will continue to vigorously promote Hengan's products to the Southeast Asian market 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 the existing Wang-Zheng products and develop high-end products. In addition, as part of its strategic plan for the Southeast Asian market, the Group has established a sales office in Indonesia to promote and sell Hengan branded products.

In addition, the Russian plant invested by the Group has started production of diapers in June 2019, thereby expanding its diaper business to the Russian market. In 2020, the Group will continue to promote Hengan products in the Russian market in order to gradually establish its brand reputation in the local market.

Regarding the Group's investment in Finnpulp made in April 2018, the Supreme Administrative Court (KHO) rejected the environmental permit for Finnpulp on 19 December 2019. The decision was based on uncertainty of long-term effects of the Pulp Mill Project to the Kallavesi lake which is very close to the planned location of the mill. The decision is final and is not subject to appeal. To the best of knowledge of the Group, the said environmental permit is crucial to the construction of the Pulp Mill Project. As such, the Group is engaging in discussions with Finnpulp and the existing shareholders of Finnpulp in relation to the next course of action, including the continuity of obligations under the initial investment agreement and the shareholders' agreement and the possibility of alternative investment options. Since the subsequent arrangement is still being discussed, as of now, there is no clear indication of impairment factor for the investment, thus the Group has not made any provision for impairment in relation to the investment during the reporting year. The Group will review and evaluate the investment annually.

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 RMB89,331,000 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 2019, 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 2019, the Group's cash and bank balances, long-term bank time deposits and restricted bank deposits totally amounted to approximately RMB22,977,561,000 (31 December 2018: RMB25,919,500,000); Corporate bonds amounted to RMB3,994,474,000 (31 December 2018: RMB3,987,943,000); medium-term notes (panda bonds) and super short-term commercial papers totally amounted to approximately RMB Nil (31 December 2018: RMB5,998,881,000), and bank borrowings amounted to approximately RMB17,613,967,000 (31 December 2018: RMB14,275,540,000).

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. During the year, the Group has fully repaid the panda bonds of RMB2 billion.

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 of RMB4.5 billion, 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. During the year, the Group has fully repaid the RMB4.0 billion super short-term commercial paper.

The bank borrowings were subject to floating annual interest rates ranging from approximately 1.97% to 4.80% (2018: from 1.4% to 7.0%).

As at 31 December 2019, the Group's gross gearing ratio fell to approximately 120.9% (31 December 2018: 145.1%), 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 7.6% (31 December 2018: negative 9.9%) as the Group was in a net cash position.

During the year, the Group's capital expenditure amounted to approximately RMB729,363,000. As at 31 December 2019, the Group had no material contingent liabilities.

In December 2019, the Group successfully registered for the proposed issue of RMB3 billion super short-term commercial papers on the National Association of Financial Market Institutional Investors. In February and March 2020, the Group issued super short-term commercial papers in four batches of RMB3 billion, with a coupon rate from 2.60% to 2.85% per annum respectively. The super short-term commercial papers will mature in 270 days from the respective issue date.

Latest awards

In 2019, awards and honors won by the Group were as follows:

Awards/Honors	Organisation
Hearttex was honored in the 'Top 100 Most Popular China Brands 2019'	The Organising Committee of China Brand Day
Ranked 441st in China's Top 500 Chinese Private Enterprises	All-China Federation of Industry and Commerce
China's Best Managed Companies 2019 Award	Deloitte China, the Business School of Hong Kong University of Science and Technology, 'Harvard Business Review China' and other organisations
Mr. Hui Lin Chit was granted the Outstanding Industry Leadership Award	The Professional Commission of China National Household Paper Industry Association
Ranked 5th on the List of Corporate Brands – Light Industry 2019	China Brand Development Summit
Top 10 Leading Brands in China's Paper Manufacturing Industry 2019	The 14th Asia Brand Ceremony
Hengan Group named in the Top 70 Brands for the 70th Founding Anniversary of New China	National Development and Reform Commission, Ministry of Industry and Information Technology, Chinese Academy of Sciences and other national ministries
Ranked 8th in the Top 50 Private Fujian Provincial Manufacturing Enterprises 2019	Fujian Provincial Federation of Enterprises and Entrepreneurs
Chinese Enterprise ESG 2019 – 'Gold Corporate Social Responsibility Award'	Sina Finance
Strategic Transformation	'Harvard Business Review China'
Top 100 Chinese Enterprises with the Best CSR Reputation 2019	The Discussion Committee of China International Charity Foundation
Hong Kong Outstanding Enterprises Parade 2019 Award	Economic Digest

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 environment-friendly production technologies.

Human Resources and Management

Benefitting from the "small sales team" operating model strategy, the Group effectively enhanced the efficiency of human resources. As at 31 December 2019, the Group employed approximately 25,000 staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and career opportunities according to their needs.

Outlook

Looking ahead to 2020, the global economic environment remains complicated and volatile. In the light of lingering uncertainties over the China-US trade friction, softening Chinese yuan and coronavirus epidemic, the Group will closely monitor the impact of external factors on the prices of imported wood pulp and petrochemical products. As China has been accelerating its efforts to drive industrial upgrading and consumption upgrading, personal hygiene awareness of citizens has continued to increase, thereby promoting the high-quality and sophisticated development of the personal hygiene product market in the long run.

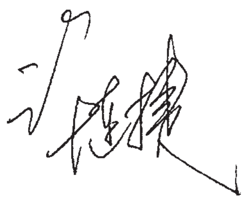
The worldwide outbreak of coronavirus began in 2020. China has continued to implement epidemic control mechanism across the country, including countrywide extension of Chinese New Year Holidays, delaying post-holiday return to work in some regions, control of people's movement and traffic, quarantine of specific groups, raising the sanitary and anti-epidemic requirements for the factories and offices, as well as a series of measures to increase social distance. The Group will closely monitor the progress of the health crisis and evaluate the impacts of epidemic on the Group's financial position and operational performance. As of the publication date of the financial report, the Group has not identified any significant adverse impact.

Facing the challenges of coronavirus, Hengan, as a personal and household hygiene product enterprise rooted in China, is committed to its mission of "Growing with You for a Better Life", caring for the people and the society while fully supporting the disease control and prevention works across the nation. As of the reporting date, the Group has donated over RMB10 million worth of supplies and swiftly arranged the delivery of supplies of personal hygiene products including Hearttex high quality tissue paper, disinfectant wet wipes, hand sanitizers, adult disposable diapers and female sanitary panties to disease control centers and hospitals at various locations. To further support the female medical staff who devoted themselves to the battle against the epidemic in Xiaogan city, Hubei province, the Group has committed to making monthly donations of 2.6 million pieces of Space 7 sanitary napkins and 200,000 pieces of Space 7 Adorable Sleeping Panties through Hubei Women's Federation until the end of the epidemic. In addition, the Group has donated RMB1 million in cash to southern district of Xiaogan city, Hubei province. All in all, as of the reporting date, the Group has donated an aggregate of RMB20.0 million worth of cash and supplies.

Meanwhile, the Group has vigorously responded to the government's call for support by procuring surgical mask production equipment at home and aboard, starting production of surgical masks and other preventive supplies in February. With the production equipment gradually put in place, the production capacity of surgical mask could be further increased. The surgical masks produced by the Group have obtained the production license and inspection certificate issued by the government. The Group will continue to exploit its advantages and integrate resources, endeavouring to ensure the production and supply of preventive supplies in order to meet the needs of national public health.

The Group expects the wood pulp prices to stay at the low levels in the first half of 2020, which will ease the cost pressure on the company and help further improve the gross profit margin. At the same time, the Group will continue to deepen implementation of "small sales team" operating model strategy, strive to achieve benefit maximization and efficiency optimisation, and improve the flexibility and market responsiveness of the sales team in order to swiftly respond to the ever-evolving market demands. To seize the market opportunities arising from the consumption upgrade in China, the Group will continue to adhere to its consumer-centered business philosophy, satisfy the needs of consumers through constant innovation, product upgrade and optimisation of product portfolio, and provide consumers with high-quality and healthy products.

On the other hand, the Group will step up its efforts to develop the omni-channel retail strategy, with a view to meeting the needs of integrated customer experience through increasing e-commerce penetration and precision marketing. The Group will also provide consumers with more comprehensive, convenient and diversified online-to-offline new retail experience, thereby enhancing customer stickiness and loyalty. As the leading company of personal and household hygiene products in China, Hengan will extend its long-standing success and continue to forge ahead with industrial expansion as the long-term development target, expanding into high growth potential industries namely feminine care industry, infant child care industry and elderly care industry, while gradually exporting Hengan's brand to the overseas market. The Group will also continue to enhance its overall profitability in order to maximise values for shareholders.



HUI LIN CHIT
Chief Executive Officer

Hong Kong, 26 March 2020

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 70, 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 66, 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 70, is responsible for supervising the Group's purchasing tender assignments. He has over 41 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 50, he was appointed as the Chief Executive Officer of Operation Service Center and Sales Director in August 2017. He is responsible for the development, implementation of the Group's sales strategy, operation, business management and supervision of the operations of the Operation Service Center. He joined the Group in 1985 and has over 35 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 53, is appointed as the Chief Executive Officer of Capital Operation and Investment Department of the Group on 26 March 2020 and ceases to be the Chief Financial Officer of the Group and the Chief Executive Officer of Services Sharing Center (in charge of Finance Department, Asset and Property Management Department and Information System Department). Joining the Group in 1985, Mr. Xu has over 35 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 45, 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 29 years of experience in business development and customer service management.

Mr. Sze Wong Kim, aged 44, 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 35. He was appointed as Operation Management Department Director and also as the Deputy Chief Executive Officer of Operation Service Center in August 2017, responsible for supervising and implementing the operations of the Operation Service Center (including but not limited to sales services, procurement, production, logistic coordination management etc) and the Operations Service Center business management. He was the Director of Supply Chain Management of the Group from 2015 to 2016, was responsible for the overall strategy relating to the Group's planning and purchasing of raw materials and logistic management. Mr. Hui worked in a major international bank in London prior to joining the Group in February 2008. Mr. Hui holds a Law Degree from the London University. He is a son of Mr. Hui Lin Chit, the Chief Executive Officer and a Director of the Company. Mr. Hui was appointed as executive director of WZB on 25 September 2017.

Mr. Li Wai Leung, aged 41, is appointed as the Chief Financial Officer of the Group on 26 March 2020 and ceases to be the Deputy Chief Financial Officer of the Group. Mr. Li is also the Company Secretary and authorized representative of the Company. He has over 19 years of experience in accounting, finance and business advisory work. Before joining the Group on 3 January 2017, Mr. Li was the chief financial officer, company secretary and authorized representative of Evergreen International Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 238). Prior to that, Mr. Li also worked as the chief financial officer of two sizable PRC based manufacturing companies and as a senior manager in PricewaterhouseCoopers. Mr. Li obtained his bachelor's degree in Business Administration in Accounting and Finance from the University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Li was appointed as executive director of WZB on 15 June 2017.

Independent Non-Executive Directors

Mr. Chan Henry, aged 54, 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 33 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. Theil Paul Marin

Mr. Ho Kwai Ching Mark

Mr. Zhou Fang Sheng

Ms. Ada Ying Kay Wong, JP, aged 60, is an Independent Non-executive Director of the Company appointed in 1998. She is also a member of the Audit Committee, Nomination Committee and Remuneration Committee.

Ms. Wong, a practicing solicitor, is a partner of Philip K. H. Wong, Kennedy Y. H. Wong & Co., Solicitors & Notaries. She is also a culture and creative education advocate. She is the supervisor of HKICC Lee Shau Kee School of Creativity and the council member of Hong Kong Shue Yan University. She was Chair of the Wanchai District Council (2004–2007), and is currently a member of Museum Advisory Committee and Art Sub-committee, Museum Advisory Committee. Currently, she is an independent non-executive director of Pak Fah Yeow International Limited, a company listed on the main board of the Stock Exchange with stock code 0239.

Mr. Theil Paul Marin, aged 66, was appointed as an independent non-executive director and also a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company on 17 May 2019. He has had extensive experience in the finance and investment industry. He is the founder and has been the Chairman of Shenzhen Zhong An Credit Investment Co., Ltd since January 2008. He has served as an independent director of China Industrial Bank Co. Ltd., (stock code: SH601166) since October 2013, and an independent non-executive director of Qin Qin Foodstuffs Group (a company listed in Shenzhen with stock code: HK1583) ("QinQin") since June 2016. He was also previously a director of the Company from July 2000 to September 2001.

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

Mr. Ho Kwai Ching Mark, aged 58, 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 (stock code 0637) and Green Future Food Hydrocolloid Marine Science Company Limited (stock code 1084). He was the Chief Operating Officer of Oriental Patron Securities Limited, the Chief Compliance Officer of Hong Kong Mercantile Exchange Limited, the Director of Business Development of Sun Hung Kai Securities Limited and a Director of Phillip Securities (HK) Limited. He was also previously Vice President of Corporate Strategy of Hong Kong Exchanges and Clearing Limited and Head of Compliance of Hong Kong Futures Exchange Limited. He has more than 25 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 70, 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 26 years of management experience. From 1991 to 1997, Mr. Zhou served as deputy division director and division director in State-owned Assets Administration Bureau, and deputy director in Stated-owned Assets Administration Research Institute. From 1997 to 2001, Mr. Zhou worked as deputy director in difficulty relief working office for state-owned enterprises of State Economic and Trade Commission. From 2001 to 2003, Mr. Zhou served as a director in State-owned Assets Administration Research Section of Research Institute for Fiscal Science of Ministry of Finance. From 2003 to 2009, Mr. Zhou worked as Vice Counsel in charge of state-owned enterprise restructuring and business management in Enterprise Reform Bureau of State-owned Assets Supervision and Administration Commission of the State Council. From 2012 to 2017, Mr. Zhou was appointed as an independent non-executive director of Beijing BDStar Navigation Co., Ltd (listed on Shenzhen Stock Exchange). Mr. Zhou is currently appointed as a supervisor of Sinotrans Limited, a company listed in Hong Kong with stock code 598. Mr. Zhou is also an independent non-executive director of China National Building Material Company Limited (a company listed in Hong Kong with stock code 3323) and an independent director of Chenguang Biotech Group Co.,Ltd. (a Shenzhen stock code 300138).

Senior Management

Mr. Zhu Jianshui, aged 45, is appointed as the Chief Executive Officer of the Service Sharing Center and Deputy Chief Financial Officer of the Group in March 2020. Mr. Zhu was the General Manager of Internal Audit Department from 2008 to 2019. He joined the Group in 1998 and has over 24 years of experience in finance and auditing areas. He is a graduate from Tianjin University of Commerce with a degree in international accounting and also holds a bachelor degree in law from law school of Southwest University in China. He also has the title of China certified tax agent, certified auditor, senior economist and corporate legal consulate.

Ms. Liu Ying, aged 51, was a Deputy Chief Executive Officer of Services Sharing Center (in charge of Human Resources Department, Concentrated Operation Center) in September 2016. She was the Deputy Director of the Human Resources Department and is responsible for the Group's human resources management. Joining the Group in 1995, she has accumulated over 33 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 52, is the Chief Executive Officer of Feminine Care Business Development Department of the Group and is responsible for the overall management and business development of sanitary napkin products of the Group. Mr. Xu joined the Group in 1985 and has accumulated over 34 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. Wang Xiang Yang, aged 51, is the Chief Executive Officer of Purchase and Trade Department of the Group. He is responsible for the overall purchasing of raw materials and logistic management of the Group. He joined the Group in 1999 and resigned in February 2015. His position before leaving the Group was Director of Supply Chain Management. Prior to joining the Group in 1999, he was a manager of the international business department at Jinjiang branch of the Construction Bank of China. Mr. Wang re-joined the Group in February 2017 and has over 21 years' experience in supply chain and logistic management. Mr. Wang graduated from Hua Qiao University with a degree in science. He holds the title of senior economist in the PRC.

Mr. Xu Wen Mo, aged 54, 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 31 years of experience in management, marketing and sales of consumer products. He has the title of senior economist in the PRC.

Ms. Zheng Ning, aged 35, is the Director of the Baby Care Business Development Department. She joined the Group in 2008 and has over 12 years of experience in product category, brand and marketing. She graduated from Anhui Normal University in China with a Bachelor of Arts degree in Chinese Language and Literature.

Mr. Ruan Yue Jin, aged 37, is the General Manager of Internal Audit Department. He joined the Group in January 2020 and has over 15 years of experience in finance and internal and external auditing. He was served as an audit manager in an accounting firm and several companies. He graduated from Fuzhou University with a Bachelor of Administration degree in accounting. He was certified as a Chinese certified public accountant, a tax accountant, an asset appraiser, a certified international internal auditor and also has a legal professional qualification.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board of Directors of the Company (the "Board") is committed to maintaining high standards of corporate governance. The Company has adopted the code provisions in the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") as its guidelines. It believes that high standards of corporate governance provide a framework and solid foundation for the Group to manage business risks, enhance transparency, maintain high standards of accountability and protect shareholders' interests in general.

The Company has complied with the applicable code provisions in the CG Code throughout the year ended 31 December 2019, 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, the independent non-executive director of the Company, was unable to attend the annual general meeting of the Company held on 17 May 2019 because she had other urgent business engagement.

BOARD OF DIRECTORS

Board Composition

During the year ended 31 December 2019, 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 Chit, Chief Executive Officer of the Group, is responsible for strategic planning, human resources and the overall management of the Group. Mr. Sze Wong Kim is the son of Mr. Sze Man Bok, the Chairman and a substantial shareholder of the Company. Mr. Hui Ching 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 2019, 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 2019, 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/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/C
Mr. Wang Ming Fu (retired on 17 May 2019)	A/B/C
Ms. Ada Ying Kay Wong	A/C
Mr. Ho Kwai Ching Mark	A/C
Mr. Zhou Fang Sheng	A/C
Mr. Theil Paul Marin (appointed on 17 May 2019)	A/C

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

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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

REMUNERATION COMMITTEE

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

Mr. Hui Lin Chit *(Chief Executive Officer)*
Mr. Chan Henry *(Independent Non-executive Director) — Chairman of the Committee*
Mr. Wang Ming Fu *(Independent Non-executive Director, retired on 17 May 2019)*
Ms. Ada Ying Kay Wong *(Independent Non-executive Director)*
Mr. Ho Kwai Ching Mark *(Independent Non-executive Director)*
Mr. Zhou Fang Sheng *(Independent Non-executive Director)*
Mr. Theil Paul Marin *(Independent Non-executive Director, appointed on 17 May 2019)*

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 2019, one remuneration committee meeting was held.

Directors' emoluments comprise payments to Directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The amounts paid to each Director of the Company for 2019 are showed in Note 39 to the accounts.

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

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

— reviewed and approved the proposed 2019 overall remuneration of the Group.

AUDIT COMMITTEE

The Audit Committee was formed to review and supervise the financial reporting process, internal controls and risk management matters of the Company. The Audit Committee comprises five Independent Non-executive Directors and one of whom possesses the appropriate business and financial experience and skills to understand the accounts of the Group. The Committee is chaired by Ms. Ada Ying Kay Wong and other members are Mr. Theil Paul Marin (replaced Mr. Wang Ming Fu on 17 May 2019), Mr. Chan Henry, Mr. Ho Kwai Ching Mark and Mr. Zhou Fang Sheng.

Its terms of reference are aligned with the recommendations set out in "A Guide for Effective Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Corporate Governance Code. The Audit Committee is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's interim and annual results, to review the scope, extent and effectiveness of the risk management and internal controls systems of the Group, to review accounting policies and practices adopted by the Group, to engage independent legal or other advisers as it determines is necessary and to perform investigations.

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

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

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

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

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

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

— reviewed to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

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

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

NOMINATION COMMITTEE

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

The Nomination Committee consists of a majority of Independent Non-executive Directors and its members are Mr. Sze Man Bok (Chairman of the Board), Mr. Hui Lin Chit (Chief Executive Officer), and all Independent Non-executive Directors, Mr. Wang Ming Fu (Chairman of the Nomination Committee, retired on 17 May 2019), Mr. Chan Henry, Ms. Ada Ying Kay Wong, Mr. Ho Kwai Ching Mark (appointed as Chairman of the Nomination Committee on 17 May 2019), Mr. Zhou Fang Sheng and Mr. Theil Paul Marin (appointed on 17 May 2019).

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. Hui Lin Chit, Mr. Hung Ching Shan, Mr. Xu Shui Shen, Mr. Xu Chun Man and Mr. Chan Henry will retire office at the Company's annual general meeting to be held on 21 May 2020 ("AGM"), and being eligible, offer themselves for re-election.

BOARD MEETING AND DIRECTOR'S ATTENDANCE

Directors' attendance at the Board, Remuneration Committee, Nomination Committee, Audit Committee and general meetings in 2019:

Directors	Full Board Meeting	Attendance/Number of Meetings Held 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 *(Deputy-chairman and Chief Executive Officer)*	4/4	N/A	1/1	2/2	1/1
Mr. Hung Ching Shan	4/4	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	4/4	2/2	1/1	2/2	1/1
Ms. Ada Ying Kay Wong	4/4	2/2	1/1	2/2	0/1
Mr. Wang Ming Fu (retired on 17 May 2019)	1/4	1/2	N/A	1/2	1/1
Mr. Ho Kwai Ching, Mark	4/4	2/2	1/1	2/2	1/1
Mr. Zhou Fang Sheng	4/4	2/2	1/1	2/2	1/1
Mr. Theil Paul Marin (appointed on 17 May 2019)	3/4	1/2	1/1	1/2	N/A

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

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

* Being the secretary of the meetings.

AUDITOR'S REMUNERATION

The Group was charged approximately RMB6,300,000 and RMB8,604,000 (RMB7,065,000 is capitalised) 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" and assist to design management reports etc during the year. The Audit Committee is of the view that the auditors' independence is not affected by the services rendered.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

INTERNAL CONTROLS

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

The Group has an independent and subjective internal audit department which reviews and monitors all critical aspects of the Group's authorities and its internal controls. Internal audit reports are presented to the Board and the Audit Committee on a quarterly basis. The Audit Committee has also annually reviewed the adequacy of resources, qualifications, experience and training programs of the Group's internal audit staff and accounting and financial reporting staff and considered that the staffing is adequate and the staff are competent to carry out their roles and responsibilities.

In 2006, an independent international professional accounting firm was appointed by the Group to conduct a review on its systems of internal controls and to provide recommendations on areas of improvement. In December 2008, the Group appointed Booz & Company, a leading management consulting firm, to further improve the Group's strategic planning, management in business operation and budgeting, supply chain management and performance assessment mechanism. The project was completed in 2009. In 2010, the Group appointed Shenzhen Holographic Management Consulting & Training Limited ("HMCT") as the Group's consulting firm, which helped to improve the operational flows of the Group's supply chain management and optimise human resource management.

Through the Audit Committee, the Board has conducted annual review of the effectiveness of the Group's internal control systems for the year ended 31 December 2019 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 2019 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 2019, 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 2019 and considered the Group's risk management effective and adequate.

INVESTOR RELATIONS

(i) Communication with Shareholders

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

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

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

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

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

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

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

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

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

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

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

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

CONSTITUTIONAL DOCUMENTS

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

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting herewith their report together with the audited accounts of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

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

	2019		2018	
	Revenue RMB'000	**Contribution to operating profit RMB'000**	Revenue RMB'000	Contribution to operating profit RMB'000
Personal hygiene products				
— Sanitary napkin products	**6,487,003**	**3,104,858**	6,593,710	3,366,111
— Disposable diaper products	**1,439,087**	**151,365**	1,536,304	281,893
— Tissue paper products	**11,486,538**	**843,218**	10,227,313	578,257
Others	**3,080,217**	**123,943**	2,156,554	175,070
	22,492,845	**4,223,384**	20,513,881	4,401,331

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

	2019		2018	
	Revenue RMB'million	**Percentage of total revenue (%)**	Revenue RMB'million	Percentage of total revenue (%)
PRC				
Fujian and Jiangxi	**6,662**	**29.6**	5,498	26.8
North-western	**872**	**3.9**	975	4.8
South-western	**1,958**	**8.7**	2,046	10.0
Guangdong, Guangxi, Hunan and Hubei	**3,671**	**16.3**	3,651	17.8
North-eastern	**705**	**3.1**	751	3.7
Northern	**1,078**	**4.8**	1,197	5.8
Shandong and Henan	**1,840**	**8.2**	1,565	7.6
Eastern	**3,022**	**13.4**	2,815	13.7
Hong Kong and Macau	**2,126**	**9.5**	1,581	7.7
Overseas	**559**	**2.5**	435	2.1
	22,493	**100**	20,514	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 (2018: RMB1.00) per ordinary share, totalling RMB1,189,677,000 (2018: RMB1,206,068,000), which was paid on 4 October 2019.

The Directors recommend the payment of/paid a final dividend of RMB1.25 (2018: RMB1.20) per ordinary share, totalling RMB1,487,097,000 (2018: RMB1,427,613,000). Such dividend is to be approved by shareholders of the Company at the annual general meeting to be held on 21 May 2020.

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 RMB316,000 (2018: RMB152,000).

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution comprise the share premium account and retained earnings. At 31 December 2019, the reserves of the Company available for distribution to shareholders amounted to RMB6,263,214,000 (2018: RMB6,729,681,000), subject to the restrictions stated in Note 27 to the accounts.

FIVE-YEAR FINANCIAL SUMMARY

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

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2019, the Company repurchased a total of 2,146,000 ordinary shares on the Stock Exchange at an aggregate consideration of approximately HK$121,977,700 (excluding expenses) for enhancing its per share net asset value and earnings. Details of the repurchase of shares are summarized as follows:

Date of repurchase	Number of shares repurchased	Highest price paid	Lowest price paid
		HK$	HK$
2 January 2019	546,500	57.00	55.90
3 January 2019	1,059,000	57.00	56.20
10 January 2019	540,500	56.80	56.15
	2,146,000		

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 2019.

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 (retired on 17 May 2019)
Ms. Ada Ying Kay Wong
Mr. Ho Kwai Ching Mark
Mr. Zhou Fang Sheng
Mr. Theil Paul Marin (appointed on 17 May 2019)

In accordance with Article 116 of the Articles of Association of the Company and the Corporate Government Code, Mr. Hui Lin Chit, Mr. Hung Ching Shan, Mr. Xu Shui Shen, Mr. Xu Chun Man and Mr. Chan Henry will retire office at the AGM, and being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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

Independent Non-Executive Directors were appointed for a 3-year term. The letters of appointment of Mr. Chan Henry and Ms. Ada Ying Kay Wong shall expire on 15 December 2020. Mr. Ho Kwai Ching Mark and Mr. Zhou Fang Sheng shall expiry on 31 December 2021, while Mr. Theil Paul Marin shall expiry on 16 May 2022.

BIOGRAPHICAL AND EMOLUMENT DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and senior management are set out on pages 22 to 24.

Directors' and Senior Management Emoluments

Directors' emoluments are set out on pages 127 to 128. The emoluments payable to six senior management (2018: six senior management) during the year fell within the following bands:

	Number of individuals	
	2019	2018
Emolument bands		
Below HK$500,000 (equivalent to below RMB440,000)	**1**	1
HK$500,001 to HK$1,000,000 (equivalent to RMB440,001 to RMB880,000)	**3**	5
HK$1,500,000 to HK$2,000,000 (equivalent to RMB1,320,201 to RMB1,760,000)	**2**	–

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.

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

At 31 December 2019, the interests of each director in the shares, short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO and disclosed in accordance with the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange were as follows:

	Capacity/Nature of Interest Number of shares		Number of unlisted shares *(Note (1))*		
Name of Directors	Personal interests/ Beneficiary	Family Interest	Personal interests/ Beneficiary	Total	Approximate percentage of shareholding
Mr. Sze Man Bok *(Note (2))*	238,990,399	–	20,000	239,010,399	20.09%
Mr. Hui Lin Chit *(Note (3))*	245,030,251	–	148,000	245,178,251	20.61%
Mr. Hung Ching Shan *(Note (4))*	7,150,000	–	–	7,150,000	0.60%
Mr. Xu Shui Shen	–	33,030	110,000	143,030	0.01%
Mr. Xu Da Zuo *(Note (5))*	17,270,000	–	108,000	17,378,000	1.46%
Mr. Xu Chun Man *(Note (6))*	11,540,000	–	20,000	11,560,000	0.97%
Mr. Sze Wong Kim	851,700	–	20,000	871,700	0.07%
Mr. Hui Ching Chi	40,000	–	20,000	60,000	0.01%

Notes:

(1) Unlisted shares represent share options granted to Directors pursuant to share option scheme of the Company and details of which are set out on pages 41 to 42.

(2) Out of the 238,990,399 ordinary shares, Tin Lee Investments Limited ("Tin Lee") held 238,414,799 ordinary shares while Mr. Sze had personal interests in 575,600 ordinary shares in the Company. Tin Lee is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Tin Wing Holdings Limited ("Tin Wing"). Tin Wing is a company incorporated in the Bahamas and owned by Credit Suisse Trust Limited ("Credit Suisse") as nominee and being the trustee of the Sze's Family Trust. Mr. Sze Man Bok is the settlor and beneficiary of the Sze's Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Sze's Family Trust in the Company.

(3) An Ping Holdings Limited held 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 Credit Suisse as nominee and being the trustee of the Hui Family Trust. Mr. Hui Lin Chit is the settlor and beneficiary of the Hui Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Hui Family Trust in the Company.

(4) Out of the 7,150,000 ordinary shares, Wan Li Company Limited ("Wan Li") held 7,100,000 shares in the Company while Mr. Hung had personal interests in 50,000 ordinary shares in the Company. Wan Li is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Manley Investments Limited ("Manley"). Manley is a company incorporated in the Bahamas and owned by Credit Suisse as nominee and being the trustee of the Wan Li Trust. Mr. Hung Ching Shan is the settlor and beneficiary of the Wan Li Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Wan Li Trust in the Company.

(5) Skyful Holdings Limited held 17,270,000 shares in the Company. It is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Charter Towers Limited ("Charter Towers"). Charter Towers is a company incorporated in the Bahamas and owned by Credit Suisse as nominee and being the trustee of the Xu Family Trust. Mr. Xu Da Zuo is the settlor and beneficiary of the Xu Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Xu Family Trust in the Company.

(6) Out of the 11,540,000 ordinary shares, Zhong Shen Holdings Limited ("Zhong Shen") holds 11,500,000 shares in the Company while Mr. Xu had personal interests in 40,000 ordinary shares in the Company. Zhong Shen is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Zhong Shen Limited ("Zhong Shen"). Zhong Shen is a company incorporated in the British Virgin Islands and owned by HSBC International Trustee Limited as nominee and being the trustee of Zhong Shen Trust. Mr. Xu Chun Man is the settlor and beneficiary of Zhong Shen Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of Zhong Shen Trust in the Company.

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

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

SHARE OPTION SCHEMES

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

(i) Purpose of the Scheme

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

(ii) Eligible Persons

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

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

(iii) Subscription Prices

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

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

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

(c) the nominal value of a share.

(iv) Maximum Number of Shares Available for Issue

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

(v) Maximum Entitlement of Each Participant

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

(vi) Time on Exercise of Options

An option may be exercised in accordance with the terms of the Scheme and the offer of the grant of an option at any time commencing on the date of grant and expiring on such date as determined by the Board provided that the option may not be exercised after the expiration of 10 years from the date of grant.

(vii) Acceptance of Offer

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

(viii) Remaining Life of the Scheme

The Scheme will remain in force before 26 May 2021.

(2) Details of movements in the share options as at 31 December 2019 which have been granted under the Scheme are as follows:

Eligible person	Number of share options Balance as at 01/01/2019	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled or lapsed during the period	Balance as at 31/12/2019	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	30,000	–	–	–	–	30,000	72.75	27/07/2012	28/07/2015–27/07/2022
	40,000	–	–	–	–	40,000	72.75	27/07/2012	28/07/2016–27/07/2022
	40,000	–	–	–	–	40,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Xu Da Zuo	54,000	–	–	–	–	54,000	72.75	27/07/2012	28/07/2015–27/07/2022
	27,000	–	–	–	–	27,000	72.75	27/07/2012	28/07/2016–27/07/2022
	27,000	–	–	–	–	27,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Xu Chun Man	10,000	–	–	–	–	10,000	72.75	27/07/2012	28/07/2015–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2016–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Sze Wong Kim	10,000	–	–	–	–	10,000	68.30	28/07/2011	28/07/2014–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2015–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2016–27/07/2021
Mr. Hui Ching Chi	10,000	–	–	–	–	10,000	68.30	28/07/2011	28/07/2014–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2015–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2016–27/07/2021

Eligible person	Number of share options: Balance as at 01/01/2019	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled or lapsed during the period	Balance as at 31/12/2019	Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
Participants	884,000	–	(2,500)	–	–	881,500	68.30	28/07/2011	28/07/2014–27/07/2021
	465,500	–	(1,250)	–	–	464,250	68.30	28/07/2011	28/07/2015–27/07/2021
	464,500	–	(1,250)	–	–	463,250	68.30	28/07/2011	28/07/2016–27/07/2021
	3,739,000	–	–	–	–	3,739,000	72.75	27/07/2012	28/07/2015–27/07/2022
	1,991,500	–	–	–	–	1,991,500	72.75	27/07/2012	28/07/2016–27/07/2022
	2,011,304	–	–	–	–	2,011,304	72.75	27/07/2012	28/07/2017–27/07/2022
	2,666,500	–	–	–	–	2,666,500	79.20	05/10/2015	05/10/2018–05/10/2025
	1,333,250	–	–	–	–	1,333,250	79.20	05/10/2015	05/10/2019–05/10/2025
	1,333,250	–	–	–	–	1,333,250	79.20	05/10/2015	05/10/2020–05/10/2025
	15,334,804	–	(5,000)	–	–	15,329,804			

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 2019, amounted to RMB11,606,000 (2018: RMB26,683,000) and the remaining unamortised fair value of approximately RMB4,595,000 (2018: RMB15,582,000) 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 2019, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

Name of Shareholder	*Note*	Capacity	Number of ordinary shares beneficially held	Approximate percentage of shareholding
Tin Lee Investments Limited	*(1)*	Beneficial owner	238,414,799 (L)	20.04%
Tin Wing Holdings Limited	*(1)*	Interests of controlled corporation	238,414,799 (L)	20.04%
An Ping Holdings Limited	*(2)*	Beneficial owner	245,030,251 (L)	20.60%
An Ping Investments Limited	*(2)*	Interests of controlled corporation	245,030,251 (L)	20.60%
Credit Suisse Trust Limited	*(3)*	Trustee	532,201,436 (L)	44.73%

(L) denotes long position

Notes:

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

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

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

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

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

— the largest supplier	14.1%
— five largest suppliers combined	41.6%

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 26 March 2020.

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, 26 March 2020

INDEPENDENT AUDITOR'S REPORT

pwc

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 128, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- 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 2019 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 RMB22,493 million for the year ended 31 December 2019. 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, 26 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Revenue	5	**22,492,845**	20,513,881
Cost of goods sold	7	**(13,803,888)**	(12,678,128)
Gross profit		**8,688,957**	7,835,753
Selling and distribution costs	7	**(3,202,780)**	(2,269,713)
Administrative expenses	7	**(1,284,556)**	(1,199,406)
Net impairment losses on financial assets	7	**(7,614)**	(10,890)
Other income and other gains – net	6	**1,486,289**	1,073,480
Operating profit		**5,680,296**	5,429,224
Finance income	8	**140,069**	115,024
Finance costs	8	**(773,478)**	(639,854)
Finance costs – net		**(633,409)**	(524,830)
Profit before income tax		**5,046,887**	4,904,394
Income tax expense	9	**(1,129,784)**	(1,097,261)
Profit for the year		**3,917,103**	3,807,133
Profit attributable to:			
Shareholders of the Company		**3,907,723**	3,799,805
Non-controlling interests		**9,380**	7,328
		3,917,103	3,807,133
Earnings per share for profit attributable to shareholders of the Company			
– Basic	10	**RMB3.285**	RMB3.151
– Diluted	10	**RMB3.285**	RMB3.146

The notes on pages 56 to 128 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit for the year	**3,917,103**	3,807,133
Other comprehensive income		
Items that may be reclassified to profit or loss		
– Currency translation differences	**(39,511)**	69,525
Total comprehensive income for the year	**3,877,592**	3,876,658
Attributable to:		
Shareholders of the Company	**3,858,224**	3,867,513
Non-controlling interests	**19,368**	9,145
Total comprehensive income for the year	**3,877,592**	3,876,658

The notes on pages 56 to 128 are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	*13*	**7,822,457**	8,095,356
Right-of-use assets	*14*	**988,245**	–
Construction-in-progress	*16*	**543,534**	580,790
Investment properties	*15*	**226,233**	225,036
Land use rights	*17*	**–**	844,532
Intangible assets	*18*	**724,620**	686,558
Prepayments for non-current assets	*19*	**120,293**	124,187
Deferred income tax assets	*30*	**213,211**	132,344
Investments in associates	*35*	**101,670**	101,670
Long-term bank time deposits	*24*	**2,430,082**	4,338,000
		13,170,345	15,128,473
Current assets			
Inventories	*21*	**3,802,496**	4,285,483
Trade and bills receivables	*22*	**3,651,224**	2,843,532
Other receivables, prepayments and deposits	*22*	**1,956,862**	1,701,097
Current income tax recoverable		**97,511**	109,145
Derivative financial instruments	*23*	**12,858**	2,922
Restricted bank deposits		**7,209**	4,670
Cash and bank balances	*24*	**20,540,270**	21,576,830
		30,068,430	30,523,679
Total assets		**43,238,775**	45,652,152
Equity			
Equity attributable to shareholders of the Company			
Share capital	*25*	**125,654**	127,092
Other reserves	*27*	**3,203,594**	2,614,789
Retained earnings	*28*	**14,543,693**	13,983,279
		17,872,941	16,725,160
Non-controlling interests		**278,937**	273,519
Total equity		**18,151,878**	16,998,679

The notes on pages 56 to 128 are an integral part of the consolidated financial statements.

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	29	1,246,992	4,240,286
Lease liabilities	14	4,365	–
Finance lease payables		–	107
Deferred income tax liabilities	30	171,467	160,170
		1,422,824	4,400,563
Current liabilities			
Trade and bills payables	31	2,223,894	2,900,641
Other payables and accrued charges	31	907,752	1,192,264
Contract liabilities	5	145,230	118,276
Derivative financial instruments	23	19,788	18,603
Lease liabilities	14	5,960	–
Current income tax liabilities		–	890
Borrowings	29	20,361,449	20,022,078
Finance lease payables		–	158
		23,664,073	24,252,910
Total liabilities		25,086,897	28,653,473
Total equity and liabilities		43,238,775	45,652,152

The notes on pages 56 to 128 are an integral part of the consolidated financial statements.

The consolidated financial statements on pages 50 to 128 were approved by the Board of Directors on 26 March 2020 and were signed on its behalf.

Director	*Director*
Sze Man Bok	Hui Lin Chit

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	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 2019		**127,092**	**2,614,789**	**13,983,279**	**16,725,160**	**273,519**	**16,998,679**
Profit for the year		–	–	3,907,723	3,907,723	9,380	3,917,103
Currency translation differences	27(c)	–	(49,499)	–	(49,499)	9,988	(39,511)
Total comprehensive income		–	(49,499)	3,907,723	3,858,224	19,368	3,877,592
Transactions with owners:							
2018 final dividends paid	11	–	–	(1,427,613)	(1,427,613)	(9,521)	(1,437,134)
2019 interim dividends paid	11	–	–	(1,189,677)	(1,189,677)	(629)	(1,190,306)
Share-based compensation							
– value of employee services	26,27	–	11,606	–	11,606	–	11,606
– proceeds from shares issued	25,27	1	300	–	301	–	301
Change in ownership interests in subsidiaries without change of control		–	–	–	–	(3,800)	(3,800)
Buy-back of shares	25	–	(105,060)	–	(105,060)	–	(105,060)
Cancellation of shares	25,27,28	(1,439)	692,958	(691,519)	–	–	–
Total of transactions with owners		(1,438)	599,804	(3,308,809)	(2,710,443)	(13,950)	(2,724,393)
Appropriation to statutory reserves	27,28	–	38,500	(38,500)	–	–	–
Balance at 31 December 2019		**125,654**	**3,203,594**	**14,543,693**	**17,872,941**	**278,937**	**18,151,878**
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	27(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	26,27	–	26,683	–	26,683	–	26,683
– proceeds from shares issued	25,27	32	23,278	–	23,310	–	23,310
Redemption of convertible bonds	27,28	–	(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	25	–	(701,136)	–	(701,136)	–	(701,136)
Cancellation of shares	25,27,28	(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	27,28	–	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

The notes on pages 56 to 128 are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash generated from operations	32(a)	**4,604,577**	5,074,822
Income tax paid		**(1,188,719)**	(1,112,921)
Net cash generated from operating activities		**3,415,858**	3,961,901
Cash flows from investing activities			
Purchase of property, plant and equipment, intangible assets, and land use rights, including additions of construction-in-progress		**(898,140)**	(701,354)
Proceeds from disposal of property, plant and equipment and land use rights	32(b)	**16,310**	29,222
Decrease/(Increase) in long-term and short-term bank time deposits, net		**996,355**	(701,657)
Acquisition of subsidiaries, net of cash acquired		**(39,012)**	(110,504)
Interest received		**1,037,887**	690,768
Investment in associates	35	**–**	(101,670)
Net cash generated from/(used in) investing activities		**1,113,400**	(895,195)
Cash flows from financing activities			
Proceeds from capital contribution by non-controlling interests		**–**	32,006
Proceeds from borrowings	32(c)	**20,254,466**	27,410,264
Repayment of borrowings	32(c)	**(23,127,359)**	(22,282,003)
Finance lease payments	32(c)	**–**	(301)
Lease payments for right-of-use assets excluding land use rights	32(c)	**(10,778)**	–
Increase in restricted bank deposits		**(2,539)**	(1,668)
Payment for redemption of convertible bonds	32(c)	**–**	(462,309)
Transactions with non-controlling interests		**(3,800)**	–
Buy-back of shares		**(215,571)**	(590,625)
Interest paid	32(c)	**(808,043)**	(571,695)
Dividends paid	11	**(2,617,290)**	(2,593,258)
Dividends paid to non-controlling interests		**(7,970)**	(9,885)
Proceeds from shares issued under the employee share option scheme		**301**	23,310
Net cash (used in)/generated from financing activities		**(6,538,583)**	953,836
(Decrease)/increase in cash and cash equivalents		**(2,009,325)**	4,020,542
Cash and cash equivalents at 1 January	24	**11,068,299**	6,784,580
Effect of foreign exchange rate changes		**61,202**	263,177
Cash and cash equivalents at 31 December	24	**9,120,176**	11,068,299

The notes on pages 56 to 128 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 26 March 2020.

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 2019:

- HKFRS 16 Leases[a],
- Amendments to HKFRS 9 Prepayment Features with Negative Compensation,
- Amendments to HKAS 28 Long-term Interests in Associates and Joint Ventures,
- Amendments to HKAS 19 Plan Amendment, Curtailment or Settlement,
- HK(IFRIC) 23 Uncertainty over Income Tax Treatments, and
- Annual Improvements to HKFRS Standards 2015–2017 Cycle.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(1) Basis of preparation *(continued)*

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

The Group changed its accounting policies as a result of adopting HKFRS 16 and the related impact is disclosed below. The other newly adopted standards or amendments listed above did not have material impact on these financial statements.

(a) HKFRS 16 Leases

The Group has adopted HKFRS 16 since 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2(27).

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The lessee's weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.67%.

a) Measurement of lease liabilities

	2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	44,066
Less:	
Short-term leases not recognised as a liability	(40,340)
Low-value leases not recognised as a liability	(91)
	3,635
Discounted using the lessee's weighted average incremental borrowing rate at the date of initial application, lease liability recognised as at 1 January 2019	3,481
Add:	
Finance lease payables recognised as at 1 January 2019	265
Lease liability recognised as at 1 January 2019	3,746

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(1) Basis of preparation *(continued)*

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

(a) HKFRS 16 Leases (continued)

b) Measurement of right-of-use assets

The right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any rental prepayments relating to that lease recognised in the balance sheet as at 1 January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

	2019 RMB'000
Discounted using the lessee's weighted average incremental borrowing rate at the date of initial application, right-of-use assets recognised as at 1 January 2019	3,481
Add:	
Rental prepayments recognised as at 1 January 2019	494
Reclassification of land use rights	971,802
Reclassification of property, plant and equipment	419
Right-of-use assets recognised as at 1 January 2019	**976,196**

c) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the consolidated balance sheet on 1 January 2019:

- Property, plant and equipment – decreased by RMB127,689,000
- Land use rights – decreased by RMB844,532,000
- Other receivables, prepayments and deposits – decreased by RMB494,000
- Right-of-use assets – increased by RMB976,196,000
- Finance lease payables – decreased by RMB265,000
- Lease liabilities – increased by RMB3,746,000

There was no impact on retained earnings on 1 January 2019.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(1) Basis of preparation *(continued)*

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

(a) HKFRS 16 Leases (continued)

d) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and (HK) IFRIC 4 *Determining whether an Arrangement contains a Lease*.

e) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

(ii) New and amended standards not yet adopted

Certain new and amended standards and interpretations are effective for annual periods beginning after 1 January 2019 and have not been early adopted in preparing these consolidated financial statements. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Standards and amendments		Effective for annual periods beginning on or after
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interbank interest rate benchmark reform	1 January 2020
HKFRS 17	Insurance contracts	1 January 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

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

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

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

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

(iii) Business combinations (continued)

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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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

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.

Freehold land is not subject to amortisation. Depreciation on property, plant and equipment other than freehold lands is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

As disclosed in Note 2(1)(i)(a), the Group has adopted HKFRS 16 Leases since 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard. The reclassifications from land use rights to right-of-use asset arising from the new leasing standards are therefore recognised in the opening consolidated balance sheet on 1 January 2019.

(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) Trademarks and licences

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

(iii) Customer relationships

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

(iv) Computer software

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(10) Financial assets

(i) Classification

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

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

- those to be measured at amortised cost.

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

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

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

(ii) Recognition and measurement

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

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(10) Financial assets *(continued)*

(iii) Measurement (continued)

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.

(iv) Impairment

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

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

(11) Derivative financial instruments

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

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

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

(18) Borrowing costs

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(18) Borrowing costs *(continued)*

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

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

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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 RMB1,320 per month. Contributions from the employer are vested in the employees as soon as they are paid to relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 subject to a few exceptions.

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

(ii) Share-based compensation

The Group operates an equity-settled share-based payment plan (Note 26). The fair value of the employee services received in exchange for the grant of the options to purchase shares of the Company is recognised as an expenses. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of profit or loss, with a corresponding adjustment to equity.

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

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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) Leases

As explained in Note 2(1)(i)(a) above, the Group has changed its accounting policy for leases where the Group is the lessee with effect from 1 January 2019. The new policy is described below and the impact of the change is set out in Note 2(1)(i)(a).

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

For the year ended 31 December 2018 and before, leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Until the 2018 financial year, payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(27) Leases *(continued)*

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

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

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office furniture.

Extension and termination options are included in a number of property leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. None of the extension option was exercised in the year ended 31 December 2019.

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

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of HKFRS 16 are only applied after that date.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

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 2019, 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 RMB81,564,000 (2018: RMB15,328,000). 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 2019, 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 RMB206,074,000 (2018: RMB43,145,000) 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 24), 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.

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(i) Market risk (continued)

(3) Cash flow and fair value interest rate risk (continued)

The Group's interest-rate risk mainly arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The Group manages certain of its cash flow risk by purchasing interest swap contracts. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The interest rates and terms of repayments of borrowings are disclosed in Note 29.

At 31 December 2019, 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 RMB104,005,000 (2018: RMB105,247,000) lower/higher as a result of higher/lower interest expenses on floating rate borrowings.

(ii) Credit risk

Credit risk is managed on a group basis. Credit risk arises from restricted bank deposits, long-term bank time deposits, cash and bank balances, derivative financial instruments, 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 2019, 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 2019 and 2018:

	2019 RMB'000	2018 RMB'000
Counterparties		
– Big 4 domestic banks *(Note)*	**3,295,913**	2,759,095
– Other reputable and sizeable domestic commercial banks	**18,386,253**	21,302,487
– Highly reputable and sizeable foreign-owned banks	**1,295,048**	1,857,244
	22,977,214	25,918,826

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 measure 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 2019 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 2019 was determined as follows for trade and bills receivables:

31 December 2019	Within 180 days	181 to 365 days	Over 365 days	Total
Gross carrying amount (RMB'000)	3,501,065	119,287	96,036	3,716,388
Expected loss rate	0.02%	0.09%	67.01%	1.75%
Loss allowance (RMB'000)	700	107	64,357	65,164

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

	2019 RMB'000	2018 RMB'000
Opening loss allowance as at 1 January	67,494	57,461
Acquisition of subsidiaries	–	570
Increase in loss allowance recognised in profit or loss during the year *(Note 7)*	7,614	10,890
Receivables written off during the year as uncollectible	(9,910)	(1,427)
Currency translation differences	(34)	–
Closing loss allowance at 31 December	65,164	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.

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(iii) Liquidity risk

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

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

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. For the corporate bond issued in 2018, the bond holders have the option to demand early redemption from issuer at August 2020. The details refer to Note 29(b). The analysis shows the cash outflow based on the earliest period in which the Group can be required to pay. The maturity analysis for other liabilities is prepared based on the scheduled repayment dates.

	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 2019					
Borrowings	**20,364,207**	**1,190,000**	**–**	**59,760**	**21,613,967**
Interest payables of borrowings	**349,223**	**27,078**	**1,793**	**1,341**	**379,435**
Net settled derivative financial instruments	**19,788**	**–**	**–**	**–**	**19,788**
Lease liabilities	**6,375**	**2,957**	**1,539**	**29**	**10,900**
Trade, bills and other payables	**2,660,181**	**–**	**–**	**–**	**2,660,181**
Total	**23,399,774**	**1,220,035**	**3,332**	**61,130**	**24,684,271**
At 31 December 2018					
Borrowings	20,023,197	3,004,123	1,244,123	4,097	24,275,540
Interest payables of borrowings	498,588	121,157	26,166	217	646,128
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	3,125,387	1,270,289	4,314	28,491,226

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(iii) Liquidity risk (continued)

The following table summarises the maturity analysis of the corporate and other liabilities based on agreed scheduled repayments set out in the agreement. The amounts include interest payments computed using contractual rates.

	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 2019					
Borrowings	**17,364,207**	**4,190,000**	**–**	**59,760**	**21,613,967**
Interest payables of borrowings	**406,473**	**107,228**	**1,793**	**1,341**	**516,835**
Net settled derivative financial instruments	**19,788**	**–**	**–**	**–**	**19,788**
Lease liabilities	**6,375**	**2,957**	**1,539**	**29**	**10,900**
Trade, bills and other payables	**2,660,181**	**–**	**–**	**–**	**2,660,181**
Total	**20,457,024**	**4,300,185**	**3,332**	**61,130**	**24,821,671**
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

3 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Capital risk management

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

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

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

During 2019, the Group's strategy was to maintain a net gearing ratio at or below 20%. The calculation of the gearing ratios at 31 December was as follows:

	2019 RMB'000	2018 RMB'000
Gross gearing ratio:		
Total borrowings	**21,608,441**	24,262,364
Total equity excluding non-controlling interests	**17,872,941**	16,725,160
Gross gearing ratio	**120.9%**	145.1%
Net gearing ratio:		
Total borrowings	**21,608,441**	24,262,364
Less: long-term bank time deposits and cash and bank balances	**(22,970,352)**	(25,914,830)
Net debt	**(1,361,911)**	(1,652,466)
Total equity excluding non-controlling interests	**17,872,941**	16,725,160
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 2019 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

	2019 Level 2 RMB'000	2018 Level 2 RMB'000
Financial assets fair value through profit or loss		
– Derivative financial instruments *(Note 23)*	**12,858**	2,922
Financial liabilities fair value through profit or loss		
– Derivative financial instruments *(Note 23)*	**(19,788)**	(18,603)

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 2019.

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 2019.

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 18). These calculations require the use of estimates.

5 REVENUE AND SEGMENT INFORMATION

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

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

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

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

	2019 RMB'000	2018 RMB'000
Personal hygiene products		
– Sanitary napkin products	6,487,003	6,593,710
– Disposable diaper products	1,439,087	1,536,304
– Tissue paper products	11,486,538	10,227,313
Others	3,080,217	2,156,554
	22,492,845	20,513,881

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

The total non-current assets (other than deferred income tax assets and long-term bank time deposit) located in Mainland China amounted to RMB9,685,695,000 as at 31 December 2019 (2018: RMB9,845,897,000) and the total non-current assets located in other places amounted to RMB841,357,000 (2018: RMB812,232,000).

During the year ended 31 December 2019, there was no single customer generated more than 10% of the Group's total revenue (2018: 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), leases (Note 14), investment properties (Note 15), construction-in-progress (Note 16), land use rights (Note 17) and intangible assets (Note 18).

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:

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

5 REVENUE AND SEGMENT INFORMATION *(continued)*

	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)*

(a) Liabilities related to contracts with customers

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Contract liabilities		
Sanitary napkins products	**37,579**	35,484
Disposable diapers products	**21,577**	14,025
Tissue paper products	**80,521**	65,356
Others	**5,553**	3,411
Total contract liabilities	**145,230**	118,276

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.

	2019	2018
	RMB'000	RMB'000
Sanitary napkins products	**35,484**	68,162
Disposable diapers products	**14,025**	25,633
Tissue paper products	**65,356**	96,971
Others	**3,411**	2,793
	118,276	193,559

5 REVENUE AND SEGMENT INFORMATION *(continued)*

(b) Change in accounting policy

The adoption of HKFRS 16 had the following impact on the segment disclosures for the year ended 31 December 2019.

	Increase/(Decrease) Segment profit RMB'000	Segment depreciation RMB'000	Segment assets RMB'000	Segment liabilities RMB'000
Sanitary napkins products	(581)	3,323	2,383	2,177
Disposable diapers products	(132)	675	384	350
Tissue paper products	(1,056)	5,388	3,062	2,791
Others	(117)	954	5,034	5,007
	(1,886)	10,340	10,863	10,325

Comparative segment information has not been restated. As a consequence, the segment information disclosed for the items noted above is not entirely comparable to the information disclosed for the prior year.

6 OTHER INCOME AND OTHER GAINS – NET

	2019 RMB'000	2018 RMB'000
Interests income from long-term and short-term bank time deposits	**833,343**	636,790
Government grants income *(Note)*	**692,420**	517,450
Losses on disposal of property, plant and equipment and land use rights	**(32,549)**	(35,025)
Exchange losses from operating activities – net	**(89,331)**	(31,978)
Realised fair value gains/(losses) on derivative financial instruments	**15,711**	(20,705)
Unrealised fair value losses on derivative financial instruments	**(6,808)**	(15,147)
Others	**73,503**	22,095
	1,486,289	1,073,480

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:

	2019 RMB'000	2018 RMB'000
Raw materials and consumables used	**11,730,075**	10,320,482
Employee benefit expense, including Directors' emoluments *(Note 12)*	**1,823,062**	1,601,043
Marketing and advertising expenses	**1,136,555**	411,327
Utilities and various office expenses	**851,848**	1,262,947
Transportation and packaging expenses	**816,591**	774,977
Depreciation of property, plant and equipment *(Note 13)*	**745,188**	721,393
Research and development expenses	**405,950**	410,677
Short-term and low-value lease expenses *(Note 14)*	**86,306**	–
Depreciation of right-of-use assets *(Note 14)*	**38,478**	–
Operating lease expenses	**–**	89,708
Repairs and maintenance expenses	**149,104**	145,936
Travelling expenses	**146,378**	132,278
Tax surcharges	**132,858**	133,818
Amortisation of land use rights *(Note 17)*	**–**	24,465
Amortisation of intangible assets *(Note 18)*	**26,607**	17,987
Net impairment losses on trade and bills receivables *(Note 3(a)(ii))*	**7,614**	10,890
Auditor's remuneration		
– Audit services	**6,300**	5,950
– Non-audit services	**1,539**	876
Provision for/(reversal of) inventories write-down *(Note 21)*	**4,747**	(29,185)
Changes in inventories of finished goods	**(170,930)**	(208,530)
Others	**360,568**	331,098
Total cost of sales, selling and distribution costs, administrative expenses and net impairment on financial assets	**18,298,838**	16,158,137

8 FINANCE INCOME AND FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Finance costs:		
Interest expense		
– Borrowings	**770,207**	623,379
– Lease liabilities	**491**	–
– Convertible bonds	**–**	6,874
Other finance charges	**18,410**	20,045
Total finance costs incurred	**789,108**	650,298
Less: Finance costs capitalised in buildings and machinery under construction-in-progress *(Note 16)*	**(15,630)**	(10,444)
	773,478	639,854
Finance income:		
Interest income from cash and cash equivalents	**(132,302)**	(98,374)
Exchange gain	**(7,767)**	(16,650)
	(140,069)	(115,024)
Finance costs, net	**633,409**	524,830

For the year ended 31 December 2019, the capitalisation rate applied to funds borrowed generally and used for the development of construction-in-progress was 3.56% (2018: 3.04%) per annum.

9 INCOME TAX EXPENSE

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

	2019 RMB'000	2018 RMB'000
Current income tax		
– Current tax on profits for the year	**1,042,369**	904,150
– PRC withholding income tax	**157,094**	133,078
Deferred income tax, net *(Note 30)*	**(69,679)**	60,033
Income tax expense	**1,129,784**	1,097,261

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" (財稅[2011]58號"關於深入實施西部大開發戰略有關稅收政策問題的通知") issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, companies set up in the western region and falling into certain encouraged industry catalogue promulgated by the PRC government are entitled to a preferential tax rate of 15%. Some of the Group's subsidiaries in Mainland China were set up in the western development region and fall into the encouraged industry catalogue, and therefore they are entitled to the foresaid preferential tax rate.

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

	2019 RMB'000	2018 RMB'000
Profit before income tax	**5,046,887**	4,904,394
Tax calculated at tax rates applicable to profits of the Group's companies	**1,167,846**	1,125,435
Tax exemption and concession on the profits of certain subsidiaries	**(184,740)**	(167,367)
Withholding tax on distributed profit and unremitted earnings	**169,931**	152,199
Others	**(23,253)**	(13,006)
Income tax expense	**1,129,784**	1,097,261

The weighted average applicable tax rate was 23.1% (2018: 22.9%).

(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 Company and held as treasury shares (Note 25).

	2019	2018
Profit attributable to shareholders of the Company (RMB'000)	**3,907,723**	3,799,805
Weighted average number of shares outstanding (thousands)	**1,189,697**	1,205,832
Basic earnings per share (RMB)	**3.285**	3.151

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the year ended 31 December 2018, the Company has two categories of dilutive potential ordinary shares: convertible bonds and share options, both are regarded as dilutive potential ordinary shares. 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.

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

	2019	2018
Profit attributable to shareholders of the Company (RMB'000)	**3,907,723**	3,799,805
Adjusted for convertible bonds (RMB'000)	**–**	6,875
Profit attributable to shareholders of the Company for diluted earnings (RMB'000)	**3,907,723**	3,806,680
Weighted average number of shares outstanding (thousands)	**1,189,697**	1,205,832
Adjusted for share options (thousands)	**–**	72
Adjusted for convertible bonds (thousands)	**–**	4,172
Weighted average number of shares outstanding (thousands)	**1,189,697**	1,210,076
Diluted earnings per share (RMB)	**3.285**	3.146

11 DIVIDENDS

	2019 RMB'000	2018 RMB'000
Interim, paid, RMB1.00 (2018: RMB1.00) per ordinary share *(Note (a))*	**1,189,677**	1,206,068
Final, proposed/paid, RMB1.25 (2018: RMB1.20) per ordinary share *(Note (b))*	**1,487,097**	1,427,613
	2,676,774	2,633,681

(a) The dividends paid in 2019 amounted to RMB2,617,290,000 (2019 interim: RMB1.00 per share, 2018 final: RMB1.20 per share). The dividends paid in 2018 amounted to RMB2,593,258,000 (2018 interim: RMB1.00 per share, 2017 final: RMB1.15 per share). A final dividend in respect of the year ended 31 December 2019 of RMB1.25 per share, amounting to a total dividend of RMB1,487,097,000, was proposed by the Board of Directors at a meeting held on 26 March 2020, subject to the final approval by the shareholders of the Company at the Annual General Meeting to be held on 21 May 2020. These financial statements do not reflect this dividend payable.

(b) A final dividend in respect of the year ended 31 December 2019 of RMB1.25 per share (equivalent to HK$1.369968 per share)(2018: RMB1.20 per share (equivalent to HK$1.404051 per share)) was proposed by the Board of Directors. Dividends payable to shareholders will be paid in HK$. 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 25 March 2020 is 0.91243.

12 EMPLOYEE BENEFIT EXPENSE

	2019 RMB'000	2018 RMB'000
Wages and salaries	**1,563,984**	1,349,693
Retirement and social benefits cost	**247,472**	224,667
Equity-settled share-based payment *(Note 26)*	**11,606**	26,683
Total employee benefit expense	**1,823,062**	1,601,043

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 (2018: four) Directors whose emoluments are reflected in the analysis shown in Note 39. The emoluments payable to the remaining one (2018: one) individual during the year are as follows:

	2019 RMB'000	2018 RMB'000
Basic salaries, other allowances and benefits-in-kind	1,064	613
Bonuses	576	103
	1,640	716

The emoluments fell within the following bands:

	Number of individuals	
	2019	2018
Emolument bands		
HK$500,001 to HK$1,000,000 (equivalent to RMB440,001 to RMB880,000)	–	1
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,320,201 to RMB1,760,000)	1	–

13 PROPERTY, PLANT AND EQUIPMENT

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

13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Leasehold land and buildings RMB'000	Machinery RMB'000	Office equipment, furniture and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
Year ended 31 December 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 16)*	184,145	471,481	10,808	–	666,434
Acquisition of subsidiaries	21,345	10,597	548	–	32,490
Transfer to investment properties *(Note 15)*	(10,922)	–	–	–	(10,922)
Depreciation for the year *(Note 7)*	(223,281)	(457,953)	(36,412)	(3,747)	(721,393)
Disposals	(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

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

	2019 RMB'000	2018 RMB'000
Manufacturing overheads included under cost of goods sold	**538,780**	526,891
Selling and distribution costs	**4,550**	4,681
Administrative expenses	**201,858**	189,821
	745,188	721,393

There was no pledge of property, plant and equipment of the Group as at 31 December 2019 and 2018.

14 LEASES

(a) Amounts recognised in the consolidated balance sheet

	As at 31 December 2019 RMB'000	As at 1 January 2019 RMB'000 *(Note)*
Right-of-use assets		
– Land use rights	**977,382**	971,802
– Buildings	**10,725**	3,975
– Equipment and others	**138**	419
Total right-of-use assets	**988,245**	976,196
Lease liabilities		
– Current	**(5,960)**	(2,907)
– Non-current	**(4,365)**	(839)
Total lease liabilities	**(10,325)**	(3,746)

Additions to the right-of-use assets during the 2019 financial year were RMB49,960,000.

Expenses have been charged to the consolidated statement of profit or loss.

Note:

In the previous year, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as finance leases under HKAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as finance lease payables.

The Group has land lease arrangement with Mainland China government and Malaysia government. The reclassifications from land use rights to right-of-use asset arising from the new leasing standards are therefore recognised in the opening balance sheet on 1 January 2019.

For adjustments recognised on adoption of HKFRS 16 on 1 January 2019, please refer to Note 2(1)(i)(a).

14 LEASES *(continued)*

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

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

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

The total cash payment for leases in the year ended 31 December 2019 was RMB112,117,000.

15 INVESTMENT PROPERTIES

	2019 RMB'000	2018 RMB'000
At 1 January		
Opening net book amount	225,036	216,753
Currency translation differences	507	331
Addition	4,357	2,278
Transfer from property, plant and equipment *(Note 13)*	2,194	10,922
Depreciation for the year	(5,861)	(5,248)
Closing net book amount	226,233	225,036
At 31 December		
Cost	279,934	269,696
Accumulated depreciation	(53,701)	(44,660)
Net book amount	226,233	225,036

15 INVESTMENT PROPERTIES *(continued)*

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

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

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

	2019 RMB'000	2018 RMB'000
Rental income	**33,682**	30,845
Direct operating expenses	**(6,140)**	(6,860)
Net book amount	**27,542**	23,985

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

	2019 RMB'000	2018 RMB'000
Other income and other gains – net	**5,861**	5,248

16 CONSTRUCTION-IN-PROGRESS

	2019 RMB'000	2018 RMB'000
At 1 January	**580,790**	878,088
Additions	**400,101**	496,824
Transfer to property, plant and equipment *(Note 13)*	**(395,820)**	(666,434)
Transfer to Intangible assets *(Note 18)*	**(42,536)**	(130,666)
Acquisition of subsidiaries	**–**	3,485
Currency translation differences	**999**	(507)
At 31 December	**543,534**	580,790

During the year ended 31 December 2019, finance costs capitalised in construction-in-progress amounted to RMB15,630,000 (2018: RMB10,444,000) (Note 8).

17 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:

	RMB'000
Balance as at 1 January 2018	773,327
Additions	67,270
Acquisition of subsidiaries	28,400
Amortisation of prepaid operating leases payments	(24,465)
Balance as at 31 December 2018	844,532
Change in accounting policy – HKFRS 16 *(Note 2(1)(i)(a))*	(844,532)
Balance as at 1 January 2019	–

18 INTANGIBLE ASSETS

	Goodwill RMB'000	Trademarks and licences RMB'000	Customer relationships RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2019					
Cost	488,290	10,271	58,945	158,886	716,392
Accumulated amortisation	–	(3,182)	(5,082)	(21,570)	(29,834)
Net book amount	488,290	7,089	53,863	137,316	686,558
Year ended 31 December 2019					
Opening net book amount	488,290	7,089	53,863	137,316	686,558
Transfer from construction-in-progress *(Note 16)*	–	–	–	42,536	42,536
Acquisition of a subsidiary	–	22,133	–	–	22,133
Amortisation charge *(Note 7)*	–	(4,719)	(5,894)	(15,994)	(26,607)
Closing net book amount	488,290	24,503	47,969	163,858	724,620
At 31 December 2019					
Cost	488,290	32,404	58,945	201,422	781,061
Accumulated amortisation	–	(7,901)	(10,976)	(37,564)	(56,441)
Net book amount	488,290	24,503	47,969	163,858	724,620
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 16)*	–	–	–	130,666	130,666
Acquisition of subsidiaries	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

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

18 INTANGIBLE ASSETS *(continued)*

Impairment tests for goodwill

The Directors have performed an impairment review of the carrying amount of goodwill as at 31 December 2019 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:

	2019 RMB'000	2018 RMB'000
Tissue paper products	479,713	479,713
Others	8,577	8,577
	488,290	488,290

The recoverable amount of the CGUs is determined based on value-in-use calculations. The calculation of goodwill on the tissue paper product segment uses cash flow projections based on financial estimates made by the Directors, with reference to the prevailing market conditions, covering a period of five years and assuming revenue growth rate ranging from 3% to 7.7% (2018: 3% to 7.4%) and gross profit margins of 27.7% (2018: 22.5%). 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 discount rate of 12.0% (2018: 11.8%) per annum. Based on management's assessment results, there was no impairment of goodwill as at 31 December 2019 and 2018 and any reasonable change to the key assumptions would not lead to a significant impairment.

19 PREPAYMENTS FOR NON-CURRENT ASSETS

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

20 FINANCIAL INSTRUMENTS BY CATEGORY

(a) Assets

	2019 RMB'000	2018 RMB'000
Financial assets		
– Trade and other receivables, excluding prepayments and value added tax recoverable	**4,290,748**	3,299,075
– Restricted bank deposits	**7,209**	4,670
– Long-term bank time deposits *(Note 24)*	**2,430,082**	4,338,000
– Cash and bank balances *(Note 24)*	**20,540,270**	21,576,830
	27,268,309	29,218,575
Assets at fair value through profit or loss		
– Derivative financial instruments *(Note 23)*	**12,858**	2,922
Total	**27,281,167**	29,221,497

(b) Liabilities

	2019 RMB'000	2018 RMB'000
Financial liabilities		
– Trade and other payables, excluding non-financial liabilities	**2,660,181**	3,550,690
– Borrowings *(Note 29)*	**21,608,441**	24,262,364
– Lease Liabilities *(Note 14)*	**10,325**	–
– Finance lease payable	**–**	265
	24,278,947	27,813,319
Liabilities at fair value through profit or loss		
– Derivative financial instruments *(Note 23)*	**19,788**	18,603
Total	**24,298,735**	27,831,922

21 INVENTORIES

	2019 RMB'000	2018 RMB'000
Finished goods	1,692,857	1,521,927
Raw materials	1,873,971	2,561,100
Spare parts and consumables	235,668	202,456
	3,802,496	4,285,483

The cost of inventories recognised as expenses and included in cost of goods sold amounted to RMB11,559,145,000 (2018: RMB10,111,952,000).

The Group provided a provision for inventories of RMB4,747,000 (2018: reversed RMB29,185,000). These amounts have been included in cost of sales in the consolidated statement of profit or loss (Note 7).

22 TRADE, BILLS AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2019 RMB'000	2018 RMB'000
Trade receivables	3,710,388	2,881,279
Bills receivables	6,000	29,747
	3,716,388	2,911,026
Less: provision for impairment	(65,164)	(67,494)
Trade and bills receivables, net	3,651,224	2,843,532
Other receivables, prepayments and deposits		
– Advance payments to suppliers	741,590	810,307
– Value added tax recoverables	514,024	417,238
– Government grants receivables	448,143	182,358
– Interest income receivables	177,826	250,068
– Prepaid expenses	61,724	18,009
– Others	13,555	23,117
	1,956,862	1,701,097
Trade, bills and other receivables, prepayments and deposits	5,608,086	4,544,629

22 TRADE, BILLS AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS *(continued)*

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

	2019 RMB'000	2018 RMB'000
Within 30 days	**1,483,539**	1,323,082
31–180 days	**2,017,526**	1,396,744
181–365 days	**119,287**	82,109
Over 365 days	**96,036**	109,091
	3,716,388	2,911,026

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).

23 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.

	2019 RMB'000	2018 RMB'000
Assets:		
Interest rate swap contracts	**603**	2,922
Foreign exchange forward contract – held for trading	**12,255**	–
	12,858	2,922
Liabilities:		
Interest rate swap contracts	**(19,754)**	(6,948)
Foreign currency swap contract – held for trading	**(34)**	(11,655)
	(19,788)	(18,603)
	(6,930)	(15,681)

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).

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

	2019 RMB'000	2018 RMB'000
Long-term bank time deposits	**2,430,082**	4,338,000
Cash and bank balances		
– Bank time deposits	**11,420,094**	10,508,531
– Cash and cash equivalents	**9,120,176**	11,068,299
	20,540,270	21,576,830
Total	**22,970,352**	25,914,830

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 2019 was approximately 4.26% (31 December 2018: 3.23%) per annum.

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

	2019 RMB'000	2018 RMB'000
Long-term bank time deposits		
RMB	**2,377,760**	4,338,000
US$	**52,322**	–
Total	**2,430,082**	4,338,000
Cash and bank balances		
RMB	**14,490,325**	12,464,791
US$	**4,507,684**	7,909,088
HK$	**72,088**	987,306
Others	**1,470,173**	215,645
Total	**20,540,270**	21,576,830

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

25 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares	RMB'000
At 1 January 2019	**1,206,067,917**	**127,092**
Employee share option schemes		
– Shares issued upon exercise of share options *(Note 26)*	**5,000**	**1**
Buy-back *(Note)*	**(16,395,500)**	**(1,439)**
At 31 December 2019	**1,189,677,417**	**125,654**
At 1 January 2018	1,205,910,917	127,080
Employee share option schemes		
– Shares issued upon exercise of share options *(Note 26)*	384,500	32
Buy-back *(Note)*	(227,500)	(20)
At 31 December 2018	1,206,067,917	127,092

Note:

The Group acquired its own ordinary shares of 14,477,000 on the Stock Exchange from 23 August 2018 till 31 December 2018, among which 227,500 shares had been cancelled during the year ended 31 December 2018 and 14,249,500 shares had been cancelled during the year ended 31 December 2019. The total amount paid to acquire the shares was RMB701,136,000 and had been deducted from share capital and other reserves during the year ended 31 December 2018.

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

26 SHARE-BASED COMPENSATION

The Company adopted a share option scheme on 26 May 2011 ("2011 Scheme"). Pursuant to the scheme, share options had been granted to the Directors and selected employees. The options granted will be forfeited if the Directors and employees leave the Group before the options are exercisable. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	2019		2018	
	Average exercise price in HK$ per share	**Options (thousands)**	Average exercise price in HK$ per share	Options (thousands)
At 1 January	**74.46**	**15,334**	74.39	15,719
Exercised	**68.30**	**(5)**	71.63	(385)
At 31 December	**74.46**	**15,329**	74.46	15,334

Out of the 15,329,000 outstanding options (2018: 15,334,000), 13,997,000 options (2018: 12,668,000) were exercisable as at 31 December 2019.

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) 2019	Options (thousands) 2018
Expiry date – 27 July 2021	68.30	**1,849**	1,854
Expiry date – 28 July 2022	72.75	**8,147**	8,147
Expiry date – 5 Oct 2025	79.20	**5,333**	5,333
		15,329	15,334

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 2019 amounted to RMB11,606,000 (2018: RMB26,683,000) (Note 12), and the remaining unamortised fair value of approximately RMB4,595,000 (2018: RMB15,582,000) will be charged to the consolidated statement of profit or loss in the future years.

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

27 OTHER RESERVES

	Treasury share RMB'000	Share premium RMB'000 *(Note(a))*	Capital redemption reserve RMB'000	Statutory reserves RMB'000 *(Note(b))*	Share-based compensation reserve RMB'000	Exchange reserve RMB'000 *(Note(c))*	Convertible bonds – equity component RMB'000	Total RMB'000
At 1 January 2019	(688,364)	616,776	1,922	2,134,780	316,892	232,783	–	2,614,789
Other comprehensive income – currency translation differences	–	–	–	–	–	(49,499)	–	(49,499)
Appropriation to statutory reserves	–	–	–	38,500	–	–	–	38,500
Share-based compensation								
– value of employee services *(Note 26)*	–	–	–	–	11,606	–	–	11,606
– proceeds from shares issued	–	300	–	–	–	–	–	300
– exercise of share options	–	92	–	–	(92)	–	–	–
Buy-back of shares *(Note 25)*	(105,060)	–	–	–	–	–	–	(105,060)
Cancellation of shares *(Note 25)*	793,424	(100,466)	–	–	–	–	–	692,958
At 31 December 2019	–	516,702	1,922	2,173,280	328,406	183,284	–	3,203,594
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 *(Note 26)*	–	–	–	–	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 25)*	(701,136)	–	–	–	–	–	–	(701,136)
Cancellation of shares *(Note 25)*	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

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 Group.

28 RETAINED EARNINGS

	2019 RMB'000	2018 RMB'000
At 1 January	**13,983,279**	12,837,975
Profit for the year	**3,907,723**	3,799,805
Appropriation to statutory reserves *(Note 27)*	**(38,500)**	(74,209)
2018/2017 final dividends paid *(Note 11)*	**(1,427,613)**	(1,387,190)
2019/2018 interim dividends paid *(Note 11)*	**(1,189,677)**	(1,206,068)
Cancellation of shares *(Note 25)*	**(691,519)**	–
Redemption of convertible bonds	**–**	12,966
At 31 December	**14,543,693**	13,983,279

29 BORROWINGS

	2019 RMB'000	2018 RMB'000
Non-current		
Long-term bank loans – unsecured (a)	**249,760**	252,343
Corporate bonds (b)	**997,232**	3,987,943
	1,246,992	4,240,286
Current		
Short-term bank loans – unsecured (a)	**16,962,788**	13,538,454
Corporate bonds (b)	**2,997,242**	–
Trust receipt bank loans (a)	**401,419**	472,743
Short-term bank loans – secured (a)	**–**	12,000
Medium-term notes (c)	**–**	1,998,881
Super short-term commercial papers (d)	**–**	4,000,000
	20,361,449	20,022,078
Total borrowings	**21,608,441**	24,262,364

29 BORROWINGS *(continued)*

(a) Bank loans

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

	2019 RMB'000	2018 RMB'000
RMB	6,354,760	3,104,112
HK$	5,854,365	5,919,234
US$	5,310,159	5,142,883
Other currencies	94,683	109,311
	17,613,967	14,275,540

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

	2019 RMB'000	2018 RMB'000
Between 1 and 2 years	190,000	4,123
Between 2 and 3 years	–	244,123
Between 3 and 5 years	59,760	4,097
	249,760	252,343

As at 31 December 2019, the effective interest rate of the Group's bank loans is approximately 3.20% (2018: 2.59%) per annum.

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

There was no pledge of land use rights of the Group as at 31 December 2019.

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) of a subsidiary.

29 BORROWINGS *(continued)*

(b) 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 corporate 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 2019.

(c) 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 medium-term notes were matured on 6 September 2019.

(d) Super short-term commercial papers

During 2019, following super short-term commercial papers were matured:

	Interest rate	Expiration term	Mature date	Amount RMB'000
18恒安中投SCP001	4.15%	270 days	2019-05-27	1,000,000
18恒安中投SCP003	4.07%	270 days	2019-07-28	1,000,000
18恒安中投SCP004	3.99%	270 days	2019-08-30	1,000,000
18恒安中投SCP005	3.90%	270 days	2019-09-02	1,000,000

30 DEFERRED INCOME TAX

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

	2019 RMB'000	2018 RMB'000
Deferred income tax assets		
– Deferred tax asset to be recovered more than 12 months	102,804	30,714
– Deferred tax asset to be recovered within 12 months	110,407	101,630
	213,211	132,344
Deferred income tax liabilities		
– Deferred tax liability to be settled more than 12 months	(39,509)	(41,661)
– Deferred tax liability to be settled within 12 months	(131,958)	(118,509)
	(171,467)	(160,170)
Deferred income tax assets/(liabilities) – net	41,744	(27,826)

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

	2019 RMB'000	2018 RMB'000
At 1 January	(27,826)	52,237
Credit/(charged) to consolidated statement of profit or loss *(Note 9)*	69,679	(60,033)
Acquisition of subsidiaries	–	(19,947)
Currency translation differences	(109)	(83)
At 31 December	41,744	(27,826)

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	
	2019 RMB'000	2018 RMB'000	**2019 RMB'000**	2018 RMB'000	**2019 RMB'000**	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
At 1 January	**81,617**	119,845	**20,013**	25,270	**30,714**	27,129	**132,344**	172,244
Acquisition of subsidiaries	**–**	17	**–**	1,414	**–**	1,521	**–**	2,952
Credited/(charged) to consolidated statement of profit or loss *(Note 9)*	**9,003**	(38,245)	**(226)**	(6,671)	**72,090**	2,064	**80,867**	(42,852)
At 31 December	**90,620**	81,617	**19,787**	20,013	**102,804**	30,714	**213,211**	132,344

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	
	2019 RMB'000	2018 RMB'000	**2019 RMB'000**	2018 RMB'000	**2019 RMB'000**	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
At 1 January	**114,874**	92,437	**42,090**	24,230	**3,206**	3,340	**160,170**	120,007
Currency translation differences	**–**	–	**–**	–	**109**	83	**109**	83
Acquisition of subsidiaries	**–**	3,316	**–**	19,583	**–**	–	**–**	22,899
Charged/(credited) to consolidated statement of profit or loss *(Note 9)*	**12,837**	19,121	**(2,152)**	(1,723)	**503**	(217)	**11,188**	17,181
At 31 December	**127,711**	114,874	**39,938**	42,090	**3,818**	3,206	**171,467**	160,170

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB24,667,000 in respect of losses amounting to RMB149,496,000, which are not subject to expiration and can be carried forward against future taxable income.

The Group has been providing deferred income tax liabilities on the withholding income tax on certain amount of the unremitted earnings of some PRC subsidiaries following the dividend distribution plan of the Company. As at 31 December 2019 and 2018, 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 2019 and 2018.

31 TRADE, BILLS AND OTHER PAYABLES AND ACCRUED CHARGES

	2019 RMB'000	2018 RMB'000
Trade payables	**2,219,943**	2,594,760
Bills payables	**3,951**	305,881
	2,223,894	2,900,641
Other payables and accrued charges		
– Accrued expenses and other payables	**629,034**	560,994
– Payables for purchase of property, plant and equipment	**255,992**	496,114
– Payables for treasury shares	**–**	110,511
– Other taxes payables	**22,726**	24,645
	907,752	1,192,264
Trade and other payables and accrued charges	**3,131,646**	4,092,905

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

	2019 RMB'000	2018 RMB'000
Within 30 days	**1,094,302**	1,241,453
31–180 days	**1,073,147**	1,599,637
181–365 days	**19,387**	29,446
Over 365 days	**37,058**	30,105
	2,223,894	2,900,641

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:

	2019 RMB'000	2018 RMB'000
RMB	**1,410,555**	1,333,039
US$	**796,083**	1,556,781
Other currencies	**17,256**	10,821
	2,223,894	2,900,641

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from operations

	2019 RMB'000	2018 RMB'000
Profit before income tax	**5,046,887**	4,904,394
Adjustments for:		
Depreciation of property, plant and equipment *(Note 13)*	**745,188**	721,393
Depreciation of right of use assets *(Note 14)*	**38,478**	–
Amortisation of land use rights *(Note 17)*	**–**	24,465
Depreciation of investment properties *(Note 15)*	**5,861**	5,248
Amortisation of intangible assets *(Note 18)*	**26,607**	17,987
Unrealised fair value losses on derivative financial instruments *(Note 6)*	**6,808**	15,147
Realised fair value (gains)/losses on derivative financial instruments *(Note 6)*	**(15,711)**	20,705
Losses on disposal of property, plant and equipment and land use rights *(Note 6)*	**32,549**	35,025
Share-based compensation expenses *(Note 26)*	**11,606**	26,683
Interest income and other finance income	**(973,412)**	(751,814)
Finance costs *(Note 8)*	**773,478**	639,854
Operating profit before working capital changes	**5,698,339**	5,659,087
Decrease/(increase) in inventories	**478,455**	(783,224)
Increase in trade and bills receivables, other receivables, prepayments and deposits	**(1,070,733)**	(274,629)
(Decrease)/increase in trade and bills payables, other payables and accrued charges	**(501,484)**	473,588
Cash generated from operations	**4,604,577**	5,074,822

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

	2019 RMB'000	2018 RMB'000
Net book value	**48,859**	64,247
Losses on disposal of property, plant and equipment and land use rights *(Note 6)*	**(32,549)**	(35,025)
Proceeds from disposal of property, plant and equipment and land use rights	**16,310**	29,222

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

(c) Debt reconciliation

	Bank loans RMB'000	Convertible bonds RMB'000	Medium-term notes RMB'000	Super short-term commercial papers RMB'000	Finance lease payables RMB'000	Lease liabilities RMB'000	Corporate bonds RMB'000	Total RMB'000
Debt as at 1 January 2018	15,646,973	455,537	2,017,946	–	553	–	1,004,308	19,125,317
Cash flows	(2,328,888)	(462,309)	(65,101)	4,024,527	(301)	–	2,926,028	4,093,956
Acquisitions of subsidiaries	26,000	–	–	–	–	–	–	26,000
Interest expense and other finance charges	450,039	6,874	66,808	1,821	–	–	124,756	650,298
Currency translation differences	520,610	(102)	–	–	13	–	–	520,521
Debt as at 31 December 2018	14,314,734	–	2,019,653	4,026,348	265	–	4,055,092	24,416,092
Recognised on adoption of HKFRS 16	–	–	–	–	(265)	3,746	–	3,481
Debt as at 1 January 2019	14,314,734	–	2,019,653	4,026,348	–	3,746	4,055,092	24,419,573
Cash flows	2,673,311	–	(2,065,432)	(4,119,169)	–	(10,778)	(169,646)	(3,691,714)
Interest expense and other finance charges	473,087	–	45,779	92,821	–	491	176,930	789,108
Recognition of right-of-use assets	–	–	–	–	–	17,090	–	17,090
Currency translation differences	211,844	–	–	–	–	(224)	–	211,620
Debt as at 31 December 2019	17,672,976	–	–	–	–	10,325	4,062,376	21,745,677

33 CONTINGENT LIABILITIES

At 31 December 2019, the Group had no material contingent liabilities (2018: Nil).

34 CAPITAL COMMITMENTS

At 31 December 2019 and 2018, the Group had the following commitments:

(a) Capital commitments

	2019 RMB'000	2018 RMB'000
Contracted but not provided for in respect of:		
Machinery and equipment	**277,310**	301,908
Leasehold land and buildings	**199,331**	53,497
	476,641	355,405

(b) Commitments under operating leases

The Group is the lessor:

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

	2019 RMB'000	2018 RMB'000
Not later than 1 year	**29,166**	29,760
Later than 1 year and not later than 5 years	**69,166**	67,847
Later than 5 years	**39,667**	43,206
	137,999	140,813

35 INVESTMENTS IN ASSOCIATES

The amounts recognised in the consolidated balance sheet are as follows:

	2019 RMB'000	2018 RMB'000
Interests in associates	**101,670**	101,670

35 INVESTMENTS IN ASSOCIATES *(continued)*

The particulars of the associates of the Group as at 31 December 2019, all of which equity method is used to account for, are set out as follows:

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

* *For identification purpose only*

36 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following significant related party transactions during the year ended 31 December 2019 and 2018:

Key management compensation

	2019 RMB'000	2018 RMB'000
Basic salaries, other allowances and benefits-in-kind	13,661	9,116
Contributions to pension schemes	85	80
	13,746	9,196

37 PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries of the Company at 31 December 2019 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 2019 %
Direct subsidiaries:				
Hengan Mega Jumbo Investments Ltd.	Hong Kong, limited liability company	Investment holding, E-commerce, trading and procurement in Hong Kong	9,000 ordinary shares of HK$1,367,302,854	100
Hengan International Holdings Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100
Indirect subsidiaries:				
Anhai (Macao Commercial Offshore) Limited	Macau, limited liability company	Trading and procurement in Macau	Pataca de Macau 100,000	100
Hengan (China) Investment Co., Ltd. *	PRC, wholly foreign-owned enterprise	Investment holding, trading and procurement in the PRC	RMB1,180,000,000	100
Hengan Industrial (Hong Kong) Limited	Hong Kong, limited liability company	Trading and procurement in Hong Kong	2 ordinary shares of HK$2	100
Hengan Pharmacare Company Limited	Hong Kong, limited liability company	Trading, procurement and sales of personal hygiene products in Hong Kong	10,000 ordinary shares of HK$2,030,786	70
PT. Hengan Global	Indonesia, limited liability company	Distribution and sales of personal hygiene products in Indonesia	US$6,200,000	90.32
Fujian Hengan Holding Xiamen Business Trade Co., Ltd.	PRC, sino-foreign equity joint venture	Trading in the PRC	RMB100,000,000	100
Fujian Hengan Holding Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB511,407,600	99.02
Guangdong Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$18,000,000	100

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2019 %
Indirect subsidiaries: *(continued)*				
Hengan (Jinjiang) Household Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products, personal hygiene material products and household products in the PRC	US$15,800,000	100
Fujian Hengan Hygiene Material Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products and household products in the PRC	US$40,000,000	100
Quanzhou Jinjiang Hengan Hygiene Science and Technology Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene material in the PRC	RMB11,100,000	90.1
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	RMB73,660,000	100
Hengan (Jiangxi) Household Products Co., Ltd. *	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	HK$94,388,000	100
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

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2019 %
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

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2019 %
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$157,710,000	100
Chongqing Hengan Hearttex Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$21,630,000	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

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2019 %
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$100,000,000	100
Fujian Hengan Homecare Products Co., Ltd. *	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB360,000,000	100
Wuhu Hengan Hearttex Paper Products Co., Ltd. *	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB105,000,000	100
Xiamen Hengan E-commerce Co., Ltd*	PRC, wholly foreign-owned enterprise	Sales of cosmetic products and personal hygiene products via online in the PRC	RMB2,000,000	100
Xiamen Space Seven E-commerce Co., Ltd*	PRC, wholly foreign-owned enterprise	Sales of cosmetic products and personal hygiene products via online in the PRC	RMB2,000,000	100
Hengan Li Ren (Jiangxi) Cosmetics Co., Ltd*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of skin care products and daily personal necessities in the PRC	RMB35,880,000	100
Xinjiang Hengan Paper Co., Ltd*	PRC, wholly foreign-owned enterprise	Manufacturing and distribution of packaged tissue paper products in the PRC	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
Weifang Hengan Gas Co., Ltd.*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of gas in the PRC	RMB10,000,000	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	70

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2019 %
Indirect subsidiaries: *(continued)*				
PT. Hengan Global Hygiene Products	Indonesia, limited liability company	Manufacturing, distribution and sales of papers in Indonesia	US$10,000,000	70
Hengan (Malaysia) Investments Company Limited	British Virgin Islands, limited liability company	Investment holding in Malaysia	US$1	100
Wang-Zheng Berhad	Malaysia, public listed limited	Investment holding in Malaysia	Malaysian Ringgit ("MYR")80,000,000	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 and sale of facial cotton products in Malaysia	MYR 2,187,500	50.45
New Top Win Corporation Sdn. Bhd.	Malaysia, limited liability company	Importing, proceeding 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
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 the PRC	US$2,100	100

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2019 %
Indirect subsidiaries: *(continued)*				
Starful Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	US$50,000	100
Sunway Kordis Asia Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	HK$100	100
Sunway Kordis (Shanghai) Limited*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of household products in the PRC	US$3,100,000	100
Sunway Household (Weifang) Limited*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of household products in the PRC	US$2,000,000	100

* *For identification purpose only*

The non-controlling interests in respect of Hengan 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.

38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Assets		
Non-current assets		
Investments in subsidiaries	**5,523,211**	5,691,538
Current assets		
Amounts due from subsidiaries	**5,308,600**	6,344,963
Other receivables, prepayments and deposits	**332**	570
Derivative financial instruments	**587**	1,174
Cash and bank balances	**5,352**	146,667
	5,314,871	6,493,374
Total assets	**10,838,082**	12,184,912
Equity		
Equity attributable to shareholders of the Company		
Share capital	**125,654**	127,083
Other reserves *(Note(a))*	**503,144**	(140,010)
Retained earnings *(Note(a))*	**5,669,712**	6,036,106
Total equity	**6,298,510**	6,023,179
Liabilities		
Non-current liabilities		
Amounts due to subsidiaries	**2,804,660**	2,538,832
Current liabilities		
Amounts due to subsidiaries	**80,002**	60,352
Other payables and accrued charges	**6,018**	138,476
Derivative financial instruments	**258**	–
Borrowings	**1,648,634**	3,424,073
	1,734,912	3,622,901
Total liabilities	**4,539,572**	6,161,733
Total equity and liabilities	**10,838,082**	12,184,912

The balance sheet of the Company was approved by the Board of Directors on 26 March 2020 and was signed on its behalf.

Director
Sze Man Bok

Director
Hui Lin Chit

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

Note (a) Reserve movement of the Company

	Retained earnings RMB'000	Other reserves RMB'000
At 1 January 2019	**6,036,106**	**(140,010)**
Profit for the year	**2,942,415**	**–**
Currency translation differences	**–**	**43,350**
2018 final dividend paid	**(1,427,613)**	**–**
2019 interim dividend paid	**(1,189,677)**	**–**
Share-based compensation		
– value of employee services	**–**	**11,606**
– proceeds from shares issued	**–**	**300**
Buy-back of shares	**–**	**(105,060)**
Cancellation of shares	**(691,519)**	**692,958**
At 31 December 2019	**5,669,712**	**503,144**
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)

39 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and Chief Executive's emoluments

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

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

Notes:

(a) Mr. Wang Ming Fu retired from independent Non-Executive Director on 17 May 2019.

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

39 BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

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

The remuneration of every Director and the Chief Executive for the year ended 31 December 2018 is set out below:

Name of Director	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Director					
Mr. Sze Man Bok	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

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

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

40 SUBSEQUENT EVENT

(a) In February and March 2020, the Group completed the issuance of four tranches of super short-term commercial papers on the National Association of Financial Market Institutional Investors, with an aggregate principal amount of RMB3,000,000,000, with a coupon rate from 2.60% to 2.85% per annum respectively. The super short-term commercial papers will mature in 270 days from the respective issue date.

(b) The worldwide outbreak of coronavirus ("Coronavirus Pandemic") began in January 2020. The Directors of the Company have reviewed the operation, supply chain, working capital requirements and sufficiency of the Group and considered the Coronavirus Pandemic does not have a significant adverse impact on the Group's financial position and operational performance as at 31 December 2019 and for the year ended. The Group is making great effort to support the fight against the Coronavirus Pandemic through donation and production of surgical masks and other preventive supplies.