恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044

Annual Report 2008

Corporate Mission

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

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Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Henry
Chu Cheng Chung
Ada Ying Kay Wong

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Loo Hong Shing Vincent *FCCA, AHKSA*

AUTHORISED REPRESENTATIVES

Hui Lin Chit
Loo Hong Shing Vincent

LEGAL ADVISERS

Hong Kong
Richards Butler

PRC
Global Law Office

Cayman Islands
Maples and Calder Asia

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

REGISTERED OFFICE

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

HEAD OFFICE

Hengan Industrial City
Anhai Town
Jinjiang City
Fujian Province
PRC

PLACE OF BUSINESS IN HONG KONG

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

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock Code: 1044

WEBSITES

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

PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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

SHARE REGISTRAR AND TRANSFER OFFICE

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

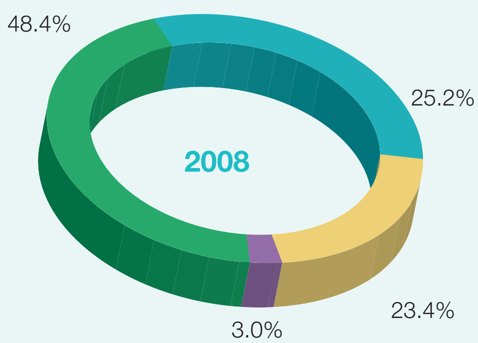
INVESTORS AND MEDIA RELATIONS

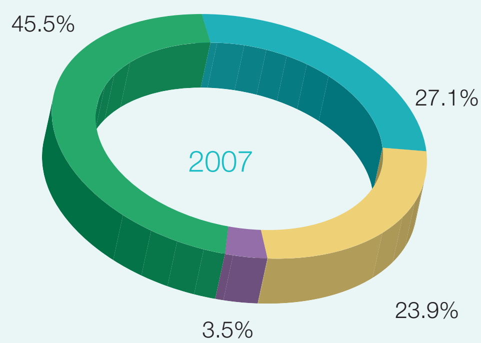
iPR Ogilvy Ltd.
Unit 2608-10, 26/F., The Centre
99 Queen's Road
Central
Hong Kong

Financial Highlights

	2008	2007 Restated	2006 Restated	2005 Restated	2004 Restated
Net profit margin (%)	**16.8**	17.7	16.9	14.9	13.0
Earnings per share (HK$)	**1.172**	0.924	0.645	0.419	0.282
Finished goods turnover (days)	**61**	64	71	73	72
Trade receivables turnover (days)	**31**	32	29	28	34
Current ratio (times)	**2.7**	3.4	2.5	1.3	1.9
Gross gearing ratio (%)	**27.9**	35.5	64.2	41.6	37.9
Net gearing ratio (%)	**2.8**	–	27.2	19.9	11.4

ANALYSIS OF REVENUE BY PRODUCT





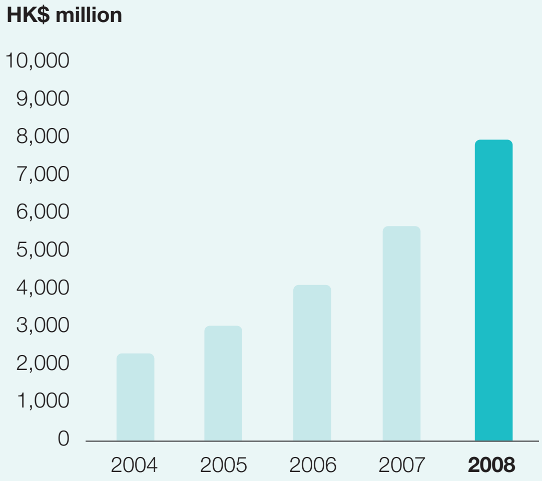
Tissue paper products | Sanitary napkins | Disposable diapers | Others

Five-Year Financial Summary

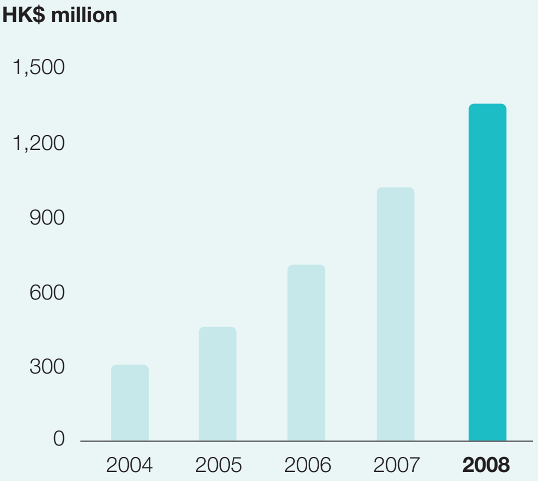
Consolidated Results – for the year ended 31 December

	2008 HK$'000	2007 HK$'000 Restated	2006 HK$'000 Restated	2005 HK$'000 Restated	2004 HK$'000 Restated
Revenue	**8,001,545**	5,686,972	4,114,943	3,030,122	2,293,547
Profit before income tax	**1,510,688**	1,184,690	870,756	544,567	374,796
Income tax expense	**(166,032)**	(175,555)	(171,773)	(91,591)	(55,670)
Profit for the year	**1,344,656**	1,009,135	698,983	452,976	319,126
Minority interests	**(3,742)**	(978)	(972)	(597)	(19,323)
Profit attributable to shareholders of the Company	**1,340,914**	1,008,157	698,011	452,379	299,803
Earnings per share (HK$)	**1.172**	0.924	0.645	0.419	0.282

REVENUE



PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

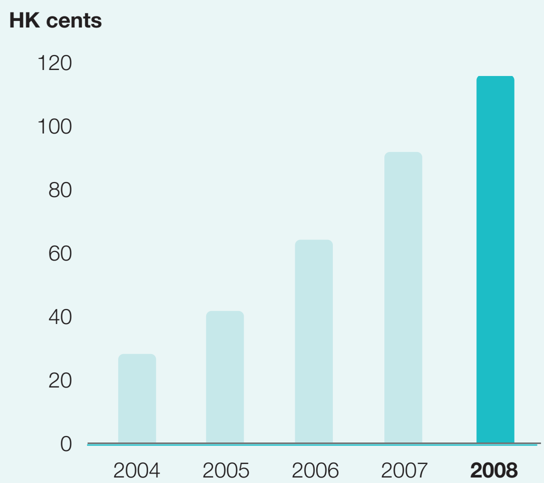


Five-Year Financial Summary

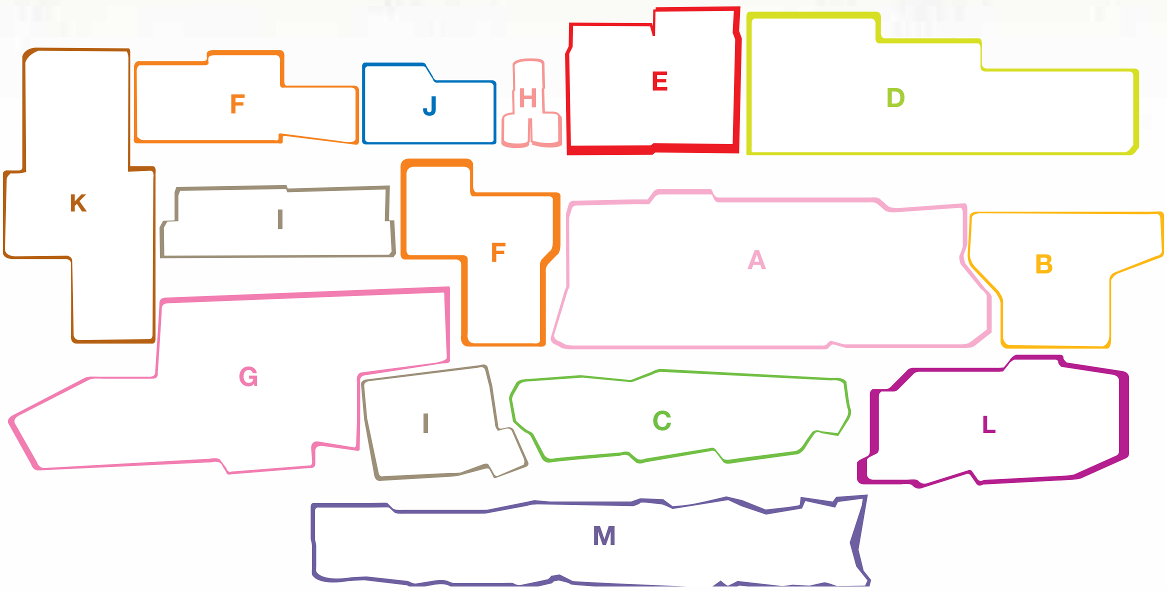
Consolidated Assets and Liabilities – as at 31 December

	2008 HK$'000	2007 HK$'000 Restated	2006 HK$'000 Restated	2005 HK$'000 Restated	2004 HK$'000 Restated
Assets					
Property, plant and equipment	**3,080,750**	2,342,837	1,608,956	1,329,734	987,666
Construction-in-progress	**813,329**	455,664	387,560	246,659	100,522
Leasehold land and land use rights	**239,408**	143,172	63,529	47,554	50,173
Intangible assets	**626,296**	454,663	454,940	455,204	455,605
Deferred income tax assets	**68,269**	45,216	59,825	32,457	17,681
Non-current finance lease receivables	**9,692**	–	–	–	–
Assets classified as held-for-sale/investments	**–**	–	–	53,157	23,054
Prepayment for non-current assets	**466,679**	322,219	175,153	63,886	–
Cash and cash equivalents	**1,610,552**	2,160,031	1,014,894	499,937	543,807
Other current assets	**3,134,037**	2,450,057	1,670,379	1,133,634	1,013,197
Total assets	**10,049,012**	8,373,859	5,435,236	3,862,222	3,191,705
Liabilities					
Long-term bank loans – unsecured	**45,840**	85,227	69,837	188,571	260,000
Convertible bonds	**1,465,247**	1,562,833	1,497,313	–	–
Deferred income tax liabilities	**56,892**	–	–	7,979	–
Deferred income on government grants	**7,555**	11,211	10,166	11,386	9,001
Current liabilities	**1,757,577**	1,348,952	1,074,786	1,326,481	847,872
Total liabilities	**3,333,111**	3,008,223	2,652,102	1,534,417	1,116,873
Minority interests	**231,844**	21,413	23,411	23,656	24,027
Net assets	**6,484,057**	5,344,223	2,759,723	2,304,149	2,050,805

EARNINGS PER SHARE




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


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

Chairman's Statement

Sze Man Bok *Chairman*

On behalf of Hengan International Group Company Limited ("Hengan International" or the "Group"), I present the annual results of the Group for the year ended 31 December 2008. During the year, the financial tsunami resulting from the U.S. sub-prime mortgage crisis has dampened global economy and consumer market. Nevertheless, thanks to the relatively stable economic situation in mainland China, the demand for hygiene products as daily necessities remained steady during the year. The strong business foundation of the Group together with its high brand recognition also enabled us to maintain our leading position in the personal and household hygiene product industry in mainland China and contributed to the strong growth in both revenue and profit.

During the year under review, the Group recorded steady growth in both revenue and profit attributable to shareholders. For the year ended 31 December 2008, the Group's revenue was approximately HK$8,001,545,000 (2007: HK$5,686,972,000), representing an increase of approximately 40.7% from the previous year. Profit attributable to shareholders increased by approximately 33.0% to approximately HK$1,340,914,000 (2007: HK$1,008,157,000). Earnings per share amounted to approximately HK$1.172 per share (2007: HK$0.924). The Board of Directors recommended the payment of a final dividend of HK$0.40 per share (2007: HK$0.32). Taking the interim dividend of HK$0.32 per share (2007: HK$0.28) into account, the annual dividend amounted to HK$0.72 per share (2007: HK$0.60).

During the year, tissue paper business remained the major source of revenue of the Group, accounting for approximately 48.4% of the total revenue of the Group. The sanitary napkin and disposable diaper businesses also recorded satisfactory growth, accounting for approximately 25.2% and 23.4% of the total revenue of the Group respectively.

The continuous rise in the prices of wood pulp and petrochemical products, the major raw materials, during the first three quarters of the year increased the production and transportation costs of the Group. Nevertheless, the impact of the cost increase was mitigated by the drop in prices of raw materials commencing from the fourth quarter, and the proactive measures adopted by the Group, including optimizing its product portfolio, gradual increasing

Chairman's Statement

production capacity that resulted in better economies of scale, seizing the right time to purchase raw materials at a relatively lower price, improving efficiency to reduce raw material wastage rate and raising the selling price of tissue products in March 2008.

On 28 November 2008, the Group successfully acquired the controlling interest in QinQin Foodstuffs Group Company Limited ("QinQin Foodstuffs"), one of the leading confectionery manufacturers in the mainland of the People's Republic of China ("PRC"). The Company is principally engaged in the manufacturing and distribution of food and snack products. Its key products are sold under the brand names of "QinQin" and "Xianggeli". As only about one month of QinQin Foodstuffs' results was consolidated into the accounts of the Group, contribution from QinQin Foodstuffs to the Group's results for 2008 was not significant. By capitalising on the years of experience of the Group in fast moving consumer products industry and the synergy effect resulting from the integration of supply chain, distribution channel and brand management with the Group's existing personal hygiene product business, the Group aimed at developing the food business into the Group's fourth major business segment in the future.

During the year under review, in order to satisfy different needs of customers and also increase its market share, the Group focused on developing its hygiene product business by continuing to diversify its product portfolio, developing more mid-to-high end product series and strengthening the intensity of brand promotion.

The Group continued to bring in new technology and employ experienced technical talents. During the year, the Research and Development Department of the Group was awarded the "Enterprise Technological Centre with State Accreditation" by five mainland China national departments, namely the National Development and Reform Commission, the National Bureau of Science and Technology, the Ministry of Finance, the China Customs and the State Administration of Taxation of the PRC. The accreditation was in recognition of our technological innovation and research and development standard. The Group will continue to dedicate efforts to technological innovation, strengthen our product research and development capabilities and enhance our production technology and product quality in order to improve our overall competitiveness. In early 2009, the Group appointed a leading international consulting firm as the independent management consultant in order to strengthen our internal control and enhance our operational efficiency and competitiveness.

Looking ahead, the Group strongly believes that despite the uncertainties surrounding the global economy, the prospect of the hygiene product market in mainland China still carries huge growth potential, thanks to improving living standard and increasing awareness in health and hygiene of Chinese people. According to the National Bureau of Statistics, Gross Domestic Products of mainland China and the overall consumer price level still maintained high single-digit growth in 2008, and disposable income per capita for urban and rural citizens continued to grow, reflecting rising living standard of Chinese people. In order to cope with the financial tsunami and bolster economic growth, the central government announced a massive RMB4 trillion stimulus package to stimulate the economy and boost domestic demand. It is expected that the positive effects of these measures will be reflected gradually. Therefore, the Group will take a prudent yet optimistic approach and by consolidating our existing business, developing distribution network, strengthening market promotion to reinforce our brand position, enhancing product portfolio and developing more advanced technologies to upgrade our products and customer services. In addition to improving our product standard, we will also strive to expand our production capacity to achieve better economies of scale and thereby capturing market opportunities.

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

REVENUE BY REGIONS IN MAINLAND CHINA

	2008	2007
NORTH-WESTERN		
Sales Value: (HK$ million)	**391**	270
Percentage of Total Sales:	**4.9%**	4.7%
NORTHERN		
Sales Value: (HK$ million)	**856**	598
Percentage of Total Sales:	**10.7%**	10.5%
NORTH-EASTERN		
Sales Value: (HK$ million)	**478**	389
Percentage of Total Sales:	**6.0%**	6.8%
SHANDONG		
Sales Value: (HK$ million)	**750**	527
Percentage of Total Sales:	**9.4%**	9.3%
EASTERN		
Sales Value: (HK$ million)	**1,236**	890
Percentage of Total Sales:	**15.4%**	15.6%

	2008	2007
CENTRAL		
Sales Value: (HK$ million)	**1,201**	833
Percentage of Total Sales:	**15.0%**	14.7%
FUJIAN AND GUANGDONG		
Sales Value: (HK$ million)	**1,561**	1,112
Percentage of Total Sales:	**19.5%**	19.6%
SOUTH-WESTERN		
Sales Value: (HK$ million)	**472**	325
Percentage of Total Sales:	**5.9%**	5.7%
SICHUAN		
Sales Value: (HK$ million)	**745**	556
Percentage of Total Sales:	**9.3%**	9.8%

Sze Man Bok
Chairman

Hong Kong, 18 March 2009

Chief Executive Officer's Report

Hui Lin Chit *Chief Executive Officer*

Dear Shareholders,

GENERAL PERFORMANCE

The global financial tsunami brought abrupt and dramatic changes to the world economy in the year 2008, resulting in rapid economic slowdown across countries with some facing the threat of recession. Nonetheless, thanks to the collective efforts of the Chinese government and its citizens, mainland China managed to maintain steady economic growth. According to preliminary information published by the National Bureau of Statistics of China, Gross Domestic Products of mainland China amounted to approximately RMB30,067 billion, up about 9.0% from the previous year. Disposable income per capita for urban and rural citizens maintained steady growth and increased by about 14.5% to RMB15,781 and almost 15% to approximately RMB4,761 respectively when comparing with last year. Domestic demand in mainland China remained strong and the sales of consumption products for the year 2008 was approximately RMB10,848.8 billion, representing an increase of approximately 21.6% from the previous year.

Living standard of Chinese people improved rapidly as a result of the thriving economy. In addition, sales of hygiene products as daily necessities were relatively less affected by the global financial crisis. Therefore, demand for quality hygiene products continued to grow during the year, leading to expansion of the business of the Group. Thanks to its sound business foundation and strong brand awareness, the Group maintained a leading position in the personal and household hygiene product industry in mainland China. During the year, the Group was the only tissue producer in mainland China to have been named "A Cooperative Partner of China Space" (中國航天事業合作夥伴) by China Space Foundation. "Hearttex" tissue products and "ElderJoy" adult diapers were also designated as "Designated Product for China Aerospace" (中國航天專用產品) and "Designated Product for China's Shenzhou Spacecraft" (中國神舟專用產品). In addition, Hearttex was named one of the eight "Most Trusted Brands" by international consulting firm Alix

Chief Executive Officer's Report

Partners in a Chinese consumer survey. These accolades served as the foundation for the persistent growth in the revenue and profit of the Group. In 2008, the revenue of the Group amounted to approximately HK$8,001,545,000 (2007: HK$5,686,972,000), representing a 40.7% increase year-on-year approximately. Profit attributable to shareholders amounted to about HK$1,340,914,000 (2007: HK$1,008,157,000), up about 33.0%.

Continued increase in the costs of major raw materials, wood pulp and petrochemicals, from the first to the third quarters last year had added pressure to the production and transportation costs of the Group. However, the prices of major raw materials began to fall in the fourth quarter, thus alleviating the cost pressure. The Group also adopted various measures, including raising the selling price of tissue products, optimizing its product portfolio, implementing effective purchasing strategy, shortening workflow and reducing raw material wastage rate, to enhance production efficiency to further negate the impact of rising prices. As a result, the gross profit margin of the Group remained stable at about 40.0% (2007: 40.0%).

During the year, distribution costs and administrative expenses accounted for about 22.1% of the revenue (2007: 19.7%). This was mainly attributable to the Group's strategic effort to increase expenses in marketing, advertising and promotion and also due to rising labour cost and the increase in transportation expenses resulting from the surge in the average oil price.

BUSINESS REVIEW

Tissue Papers

Despite the global economic downturn in 2008, per capita income of the mainland population continued to show steady increase, driving up demand for quality tissue products. Compared with developed countries in Europe and the United States, the consumption of tissue paper in China is still relatively low which implies huge growth potential of the market. Meanwhile, the strict enforcement of the environment laws and regulations by the Chinese government has accelerated market consolidation, bringing new opportunities to the Group.

During the year, revenue from the Group's tissue paper business rose by about 49.9% to approximately HK$3,874,924,000 (2007: HK$2,585,105,000), accounting for about 48.4% of the total revenue (2007: 45.5%). Thanks to the diversified products development strategy of the Group, the Group's variety of products could cater to the needs of different consumers under different circumstances and helped maintain the growth momentum of the business. During the year, the Group continued to focus on manufacturing products with higher gross profit margins, including box tissue papers, pocket handkerchiefs and wet tissues. Sales from these products accounted for approximately 68.7% of total tissue papers sales of the Group (2007: 71.4%).

The gross profit margin for tissue products of about 31.6% (2007: 31.5%) was comparable with last year. This was mainly because the Group had benefited from the increase in selling prices of tissue paper products by 5% to 10% since March 2008 and the price decline of raw materials since the fourth quarter of last year, which offset the impact of raw materials price surge during the first to third quarters of the year.

During the year, the Group continued to increase its production capacity in order to satisfy growing demand. Fujian production base phase II and the Hunan production base phase II commenced production in April and December 2008 respectively. By the end of 2008, the Group's annual production capacity had reached 360,000 tons.

Sanitary Napkins

Rising living standard and growing awareness in health and hygiene among mainland consumers translated into continuous growth in the demand for sanitary napkins. Meanwhile, continuous rise in the prices of raw materials between the first and third quarters of 2008 had generated great pressure on small and medium enterprises. Some of them were forced to close down or suspend production. The development led to further market consolidation and benefited large manufacturers.

As a leading manufacturer of personal hygiene products in the mainland, the Group delivered encouraging results for its sanitary napkin business. Revenue reached approximately HK$2,015,580,000 (2007: HK$1,538,889,000), representing a 31.0% increase year-on-year and accounting for 25.2% of the Group's total revenue (2007: 27.1%) approximately. The Group continued to focus on producing mid-to-high end products. The "Space 7" series remained widely popular, accounted for approximately 50.0% of the Group's revenue in sanitary napkin business (2007: 40.9%).

During the first to third quarters of 2008, the price of petrochemical products and flupp wood pulp, the key raw materials for producing sanitary napkins, remained at a high level. However, the Group has successfully pushed up the annual gross profit margin to 57.9% (2007: 56.9%) by tightening cost controls, increasing the proportion of products with a high gross profit margin, and also taking advantage of the fall in price of raw materials in the fourth quarter of the year.

Disposable Diapers

Rapid economic growth of mainland China and the general improvement in the living standard of the Chinese population have led to growing popularity of baby disposable diapers. Despite the impact of the global economic downturn and that consumers have become more cautious about spending, there is huge growth potential for the disposable diaper market in mainland China given the penetration rate was still relatively low when compared with that of other developed countries. Therefore, sales figures of the Group's diapers products were set to rise persistently. During the year, the diapers business raked in revenue of about HK$1,873,526,000 (2007: HK$1,360,913,000), up about 37.7% and accounting for about 23.4% of the total revenue (2007: 23.9%).

Benefiting from the fall in price of petrochemical products and wood pulp in the fourth quarter, the key materials for producing diapers products, and as a result of the Group's continuous efforts on strengthening internal controls and improving its product mix, gross profit margin of disposable diapers rose to about 35.3% in 2008 (2007: 33.3%).

Skincare and Cleansing Products

Competition of skincare product market was keen in mainland China. Sales of "MissMay" products amounted to approximately HK$15,540,000 (2007: HK$31,869,000). This business contributed approximately 0.2% of the Group's total revenue (2007: 0.5%). It has only negligible impact to the overall business of the Group.

First Aid Products

Sales of the Group's first aid products under the brand names of "Banitore" and "Bandi" continued to record a satisfactory business growth. Sales increased by about 22.6% to around HK$32,007,000 (2007: HK$26,105,000). This business only accounted for approximately 0.4% of the Group's total revenue (2007: 0.5%), hence it did not affect the Group's overall business performance significantly.

Acquisition of QinQin Foodstuffs Group Company Limited

China's buoyant economy offers great development potential for the food and snacks products industry. As such, the Group acquired 51% equity interest in QinQin Foodstuffs Group Company Limited ("QinQin Foodstuffs") on 28 November 2008, at a total consideration of approximately HK$260,000,000. The move marked the Group's first step to establish a presence in the food and snacks products industry.

During the year, QinQin Foodstuffs recorded revenue and profit attributable to shareholders of approximately HK$843,635,000 and HK$53,307,000 respectively. However, as only about one month of QinQin Foodstuffs' results was consolidated into the accounts of the Group since the acquisition date, contribution from QinQin Foodstuffs to the Group's results for the year was not significant.

QinQin Foodstuffs is one of the leading confectionery manufacturers in the PRC and is principally engaged in the manufacture and distribution of snack food including fruit jelly, prawn crackers and chips and potato chips. Its key products are sold under the brand names of "QinQin" and "Xianggeli". QinQin has an extensive nationwide sales network of approximately 30,000 sales outlets in 28 provinces.

The flagship products of prawn chips, potato chips and fruit jelly under the brand name of "QinQin" and the seasoning products under the brand name of "Xianggeli" are recognised by China National Food Industry Association as Famous Chinese Food. The fruit jelly under the brand name of "QinQin" is designated as a China Top Brand Product by General Administration of Quality Supervision, Inspection and Quarantine of the PRC.

DISTRIBUTION AND MARKETING STRATEGIES

To grasp the business opportunities arising from the rapid market growth, the Group has stepped up marketing, advertising and sales promotion efforts strategically during the first half of 2008. By capitalising on its nationwide distribution network, it extended product coverage to include the second-tier and third-tier cities, towns, villages and agricultural areas. However, China's economy was dragged down by the slumping global economy in the second half of 2008. Therefore, the Group continued to adopt proactive sales strategies that involved strengthening its marketing and promotion efforts, boosting its brand awareness and customer loyalty, in a bid to capture the market to enlarge market share and further strengthen its leading market position.

In view of above factors, distribution costs as a percentage of the Group's total revenue increased to approximately 18.1% (2007: 15.9%).

RESEARCH AND DEVELOPMENT OF PRODUCTS

The Group was devoted to improve quality of products and hence continued to allocate more resources on research and development in order to enhance the quality of products, provide new personal hygiene products to customers and capture expanding business opportunities in the market. During the year, the Research and Development Department of the Group was awarded the "Enterprise Technological Centre with State Accreditation" by five PRC national departments, namely the National Development and Reform Commission, the National Bureau of Science and Technology, the Ministry of Finance, the China Customs and the State Administration of Taxation of the People's Republic of China. The Group is the first and the only enterprise in the household tissue products industry to be honoured for this accreditation by Chinese government. The accreditation was in recognition of our technological innovation and research and development standard. We will continue to adhere to our consumer-oriented philosophy, strengthen our product research and development capabilities and enhance our product technology and product quality in order to improve overall competitiveness and further strengthen our leading position in the personal hygiene product industry.

APPOINTMENT OF BOOZ & COMPANY

In view of progressive growth in personal hygiene products market in mainland China and competitive market landscape, together with the rapid development in the Group's business and operation scale for years, the Group appointed Booz & Company, a leading management consulting firm, as independent management consultant in December 2008 in order to cope with challenges arising from the business expansion. The consultant will help the Group to further improve the Group's strategic planning, supply chain management and performance assessment mechanism, and make improvement on the operation and budgeting fronts.

The appointment of Booz & Company as the Group's independent management consultant was yet another move to strengthen our competitiveness following the Group's internal transformation by launching various time management tools in 2001. Booz & Company specialises in the provision of consulting services for both the public and private sectors around the world. With Booz & Company's expertise and new management tools and concept, we believe that our operational efficiency, competitiveness, productivity and profitability will be enhanced, and in turn consolidate our leading market position.

HUMAN RESOURCES MANAGEMENT

As at 31 December 2008, the Group employed approximately 21,500 full-time and temporary staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employee and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and continued professional opportunities according to their needs.

LIQUIDITY, FINANCIAL RESOURCES AND BANK LOANS

The Group maintained a solid financial position. As at 31 December 2008, the Group's cash and cash equivalents and restricted bank deposits amounted to approximately HK$1,627,592,000 (2007: HK$2,304,920,000), convertible bonds liability portion was approximately HK$1,465,247,000 (2007: HK$1,562,833,000) and short-term and long-term bank loans amounted to approximately HK$342,664,000 (2007: HK$332,037,000). During the year, the Group's capital expenditure on the acquisition and installation of production facilities amounted to approximately HK$1,490,253,000.

The convertible bonds were subject to a fixed interest rate of 4.7% semi-annually while the bank borrowings were subject to floating annual interest rates ranging from 0.94% to 5.62% (2007: from 2.04% to 4.63%). As at 31 December 2008, apart from the bank deposits of approximately HK$17,040,000 (2007: HK$144,889,000) deposited in banks as collaterals, there were no other charges on the Group's assets for its bank loans. As at 31 December 2008, the Group's gross gearing ratio was approximately 27.9% (2007: 35.5%), which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including minority interests). The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and cash equivalents and restricted bank deposits as a percentage of the shareholders' equity (not including minority interests), was 2.8% (2007: nil). The decline in the cash and cash equivalents was mainly due to the payment of large amount of capital expenditure as mentioned above and purchase of approximately 125,000 tons of wood pulp near the year end at a consideration of approximately HK$467,942,000.

As at 31 December 2008, the Group had no material contingent liabilities.

FOREIGN CURRENCY RISKS

A large portion of the Group's income is denominated in Renminbi while most of the raw materials purchases are required to be settled in US dollar. The Group has never had any difficulties in getting sufficient foreign currencies for settlement of the purchases or repatriation of profits declared by the subsidiaries in mainland China to the overseas holding companies. As at 31 December 2008, the Group had not issued any financial instruments or entered into any contracts for foreign currency hedging purposes.

FUTURE PROSPECTS

The slowdown of the global economy has brought forth many uncertainties over the operating environment of different industries. Nevertheless, in light of the rising living standard, stronger awareness of health and hygiene of Chinese people together with the increasing progress of urbanisation and marketisation, the Group maintains a prudent yet optimistic attitude about the prospect of personal care and hygiene product market. Larger players will benefit from market consolidation as a result of the changing market and environment. By capitalising on our existing solid foundation and our competitiveness in this industry, the Group is confident of its ability to continue leading the development of the personal hygiene product market in mainland China.

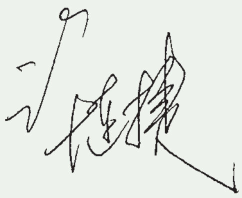
With regard to the tissue paper business, the Group continued to develop and introduce more quality tissue paper products in order to cope with the market demand. We will also further enrich our product portfolio to cater to different market needs. In order to fulfill market demand, the Group plans to further expand production capacity to 420,000 tons and 540,000 tons before the end of 2009 and 2010 respectively.

As for the sanitary napkin business, our mid-to-high end products such as "Anerle" and "Space 7" products continued to be well received by the market. The Group will proactively produce more mid-to-high end products with higher gross profit margins and strengthen brand promotion activities in order to increase our market share.

Regarding the disposable diapers business, the Group will seize the opportunities arising from the fast-growing diapers market, improve its product portfolio and launch more competitive products. In order to strengthen our productivity, we will upgrade our existing production technology and add new production lines.

For the snack food business, the Group will focus on consolidating QinQin business so as to create synergy effect resulting from the integration of supply chain, distribution channel and brand management with the Group's existing business. In view of the outstanding track record and promising outlook of QinQin, the Group believes that the acquisition will push forward the overall performance of the Group and consolidate its earning base. The Group aims at developing the food business into one of its four major business segments in the future.

In 2009, the global market and operating environment will become more volatile and full of both challenges and opportunities. In order to strengthen our leading market position, the Group will continue to bring in new technology and improve our product quality. Meanwhile, the Group will actively expand its sales network, step up marketing and promotion efforts, strengthen our brand equity and enlarge our market share. The Group is committed to elevating our management standard, increasing operational efficiency and strengthening our competitiveness through appointment of an independent management consultant. The Group is poised to capture market opportunities in the future and expand the development scale with a view to ensuring a steady growth in business and creating greater value for shareholders.



Hui Lin Chit
Chief Executive Officer

Hong Kong, 18 March 2009

Directors and Senior Management Profiles

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

DIRECTORS

Executive Directors

Mr. Sze Man Bok, aged 59, is the Chairman of the Group. He is responsible for the Group's overall corporate direction and business strategy. Mr. Sze is one of the founding shareholders of the Company.

Mr. Hui Lin Chit, aged 55, is the Deputy Chairman and Chief Executive Officer of the Group. He is responsible for strategic planning, human resources and the overall management of the Group. Mr. Hui is one of the founding shareholders of the Company. He is also a member of Remuneration Committee. Mr. Hui has the title of senior economist in the People's Republic of China ("PRC") and is a member of the National Committee of the Chinese People's Political Consultative Conference, a deputy chairman of All-China Federation of Industry and Commerce and also Political Consultative Conference in Quanzhou City. He is also the deputy chairman of Fujian Province Industry and Trade Association and the chairman of Quanzhou City Trade Association.

Mr. Yeung Wing Chun, aged 60, is responsible for the Group's overall corporate direction and business strategy. Mr. Yeung graduated from Fuzhou University and has the title of engineer in the PRC. He is one of the founding shareholders of Company.

Mr. Hung Ching Shan, aged 59, is responsible for supervising the Group's purchasing tender assignments. He has over 30 years of experience in raw materials procurement as well as in import and export trading. Mr. Hung is one of the founding shareholders of the Company.

Mr. Xu Da Zuo, aged 42, is the Group's Deputy Director of Finance and is responsible for overseeing and monitoring the accounting and finance functions of the Group. Joining the Group in 1985, Mr. Xu has over 24 years of experience in accounting and internal audit. He has the title of senior accountant in the PRC. Mr. Xu is the vice-chairman of the Youth Trade Association and a standing member of an audit institution in the PRC. He is a brother of Mr. Xu Lian Pi and Mr. Xu Shui Shen, senior management of the Group.

Mr. Xu Chun Man, aged 34, is the General Manager of Hengan (Shaanxi) Hygiene Products Co. Ltd and Hengan (Shannxi) Paper Products Co. Ltd., subsidiaries in Shaanxi Province. He is responsible for the overall management, business development and operations of the said subsidiaries. He joined the Group after graduating from Fujian Jinjiang Vocational Institute in 1991. Mr. Xu has over 16 years of experience in business development and customer service management.

Mr. Loo Hong Shing Vincent, aged 43, is the Chief Financial Officer, the Company Secretary and authorised representative of the Company. Before joining the Company in November 2004, Mr. Loo worked in an international firm of accountants in Hong Kong. He has substantial experience in assurance and business advisory work, company listing and merger and acquisition work in both Hong Kong and the PRC. He graduated from the Hong Kong Polytechnic University and is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Directors and Senior Management Profiles

Independent Non-Executive Directors

Mr. CHAN Henry, aged 43, is an Independent Non-Executive Director of the Company appointed in October 1998. Mr. Chan is also a member of both the Audit Committee and the Remuneration Committee.

Mr. Chan has over 22 years of experience in the financial market and is the Managing Director of Sanfull Securities Limited. He was a Director of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Chan is currently a member of the Advisory Committee of the Securities and Futures Commission, the Permanent Honorary President of Hong Kong Stockbrokers Association Limited, a supervisory committee member of The Chinese Gold & Silver Exchange Society, an independent non-executive director of Luen Thai Holdings Limited, a company listed on the Main Board of the Stock Exchange which engages in the manufacture and trading of garment and textile products. Mr. Chan is also a committee member of the Chinese People's Political Consultative Conference in Xiamen, Fujian Province, China. Mr. Chan holds a Master's degree in Business Administration.

Mr. Chu Cheng Chung, aged 65, is an Independent Non-executive Director of the Company appointed in June 2002 and a member of the Audit Committee and Remuneration Committee of the Company. Presently, he is a chief consultant for Wallstreet Management Consulting Co., Ltd.. He has over 32 years of experience working in US corporations and 10 years of which were with Coca Cola Company Group in the US and China. Mr. Chu joined Thomas Group as the general manager in 2001 and later as the chief operating officer for Media Partners International Holdings Inc., an outdoor media company in Shanghai. He was an independent non-executive director of China Paradise Electronics Retail Limited, which was previously a listed (main board) company.

Mr. Chu obtained his Master of Science degree from Tuskegee Institute in Chemistry and MBA from Chicago Lake Forest Management Graduate School. During his time in Shanghai, he was twice awarded the Magnolia Award by the Shanghai Municipal Government.

Ms. Ada Ying Kay Wong, JP, aged 49, is an Independent Non-executive Director of the Company appointed in October 1998 and a member of the Audit Committee and Remuneration Committee.

Ms. Wong, a practising solicitor, is a partner of Philip K. H. Wong, Kennedy Y. H. Wong & Co., Solicitors & Notaries. She was the Chairperson of the Wanchai District Council and an elected Councillor for Wan Chai's Broadwood Constituency. She was an elected member of the Urban Council from 1995 to 2000. Ms. Wong also participates actively in other public and education services. She is a Council Member of the Hong Kong Academy for Performing Arts, the Hong Kong Institute of Education and Hong Kong Shue Yan University respectively. 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.

Senior Management

Mr. Cheng Yong, aged 45, is the Chief Operating Officer and responsible for the Group's daily operation management. Before joining the Group in 2001, he worked in some well-known corporations in the PRC and has over 19 years of experience in operation management and specialise in production management and quality control. Mr. Cheng graduated with a bachelor degree in automation-control from the Harbin Engineering University and received a MBA from the Xiamen University. He has the title of electrical engineer in the PRC.

Mr. Xu Lian Pi, aged 48, is the Director of Administration. He is responsible for the Group's administration matters. Mr. Xu joined the Group in 1985 and has over 23 years of experience in marketing and sales of fast moving consumer products. He has the title of senior economist in the PRC. He is an elder brother of Mr. Xu Da Zuo and Mr. Xu Shui Shen.

Mr. Li Chang Yao, aged 46, is the Chief Executive Officer of Qin Qin Incorporated Co. Ltd (Fujian), a non-wholly owned subsidiary of the Group. He is responsible for the overall management, business development and operation of the said subsidiary. Before transferring to that subsidiary, he was the Director of Diaper Products Development Department and Marketing Director of the Group. He was responsible for the overall management and business development of diaper products of the Group and the formulation of the Group's marketing and branding strategy, overall marketing logistics management. He joined the Group in 1999 and has over 21 years of experience in marketing and promotion. Mr. Li graduated from the Fudan University with a degree in world economy and the Xiamen University with a degree in business administration. He has the title of senior economist in the PRC.

Directors and Senior Management Profiles

Mr. Wang Xiang Yang, aged 40, is the Director of Supply Chain Management of the Group. He is responsible for the overall strategy relating to the Group's planning and purchasing of raw materials and logistic management. Prior to joining the Group in 1999, he was a manager of the international business department at Jinjiang branch of the Construction Bank of China. Mr. Wang graduated from HuaQiao University with a degree in science. He holds the title of senior economist in the PRC.

Mr. Xu Shui Shen, aged 40, is the Director of Business Development Department. He is responsible for the development and implementation of the Group's sales strategy and business management. He joined the Group in 1985 and has over 24 years of experience in quality control management and business development. He graduated from business administration department in HuaQiao University and holds the title of economist in the PRC. Mr. Hui is a younger brother of Mr. Xu Da Zuo and Mr. Xu Lian Pi.

Mr. Xu Wen Mo, aged 43, is the Director of Tissue Paper Products Development Department of the Group. He is responsible for the overall management and business development of paper products of the Group. Mr. Xu joined the Group in 1985 and has accumulated over 20 years of experience in management, marketing and sales of consumer products.

Mr. Xu Zi Dan, aged 42, is the Director of Napkin Products Development Department of the Group and is responsible for the overall management and business development of napkin products of the Group. Mr. Xu joined the Group in 1985 and has accumulated over 23 years of experience in management, marketing and sales of consumer products. He obtained his MBA from University of North Virginia in US and has the title of financial economist in the PRC.

Mr. Xie Gang Yi, aged 43, is the Assistant to Chief Financial Officer of the Group. Prior to joining the Group in August 2006, he was a supervisor of electronic banking department at Jinjiang branch of the Industrial and Commercial Bank of China. Mr. Xie has accumulated over 24 years of experience in finance and auditing. He graduated from Xiamen University with a degree in finance and has the title of certified internal auditor and financial management economist in the PRC.

Ms. Liu Ying, aged 41, is the Vice-President of the Human Resources Department and responsible for the Group's human resources management. Joining the Group in 1995, she has accumulated over 22 years of experiences in human resources management and administration. Ms. Liu is a graduate from Peking University with a degree in administration management. She has the title of senior economist in the PRC.

Mr. Zhu Hong Bo, aged 47, is the Strategic Development Director of the Group and responsible for corporate development, investment, merger and acquisition work. Before joining the Group in 2007, he worked as senior management in some listed companies, has over 25 years of experience in marketing promotion, corporate management and capital management. Mr. Zhu graduated from Tianjin Normal University in 1984.

Mr. Zhu Jian Shui, aged 35, is the General Manager of Internal Audit Department. He joined the Group in December 1998 and has over 13 years of experience in finance and auditing areas. He is a graduate from Tanjin University of Commerce with a degree in international accounting and also holds a bachelor degree in law from law school of Southwest University in China. He also has the title of China certified tax agent, senior economist and corporate legal consulate.

Mr. Paul S. Woon, aged 67, is the Chief Technology Officer of the Group. He joined the Group in January 2008 and is responsible for research and development of products and materials of the Group. Mr. Woon is highly experienced in design, research and development of sanitary napkins, disposable diapers and hygienic materials. He was the research and development director in Asia region of Kimberly-Clark Group. Graduated from The Ohio State University in Polymer Chemistry with a doctoral degree, Mr. Woon was the patentee of ten disposable diapers, sanitary napkins and non-woven fabric design and application in the United States. He was also listed on "Marquis Who's Who in the World" in 1997 for his outstanding achievements.

Corporate Governance Report

CODE OF BEST PRACTICE AND CODE ON CORPORATE GOVERNANCE PRACTICES

The board of Directors of the Company (the "Board") is committed to maintaining high standards of corporate governance. It believes that high standards of corporate governance provide a framework and solid foundation for the Group to manage business risks, enhance transparency, maintain high standards of accountability and protect shareholders' interests in general.

The Company has complied with the Code on Corporate Governance Practices (the "Code") throughout the year ended 31 December 2008.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

The Board comprises ten members, including Chairman, Deputy Chairman (who is also the Chief Executive Officer), five Executive Directors and three Independent Non-executive Directors. Biographical details of the Directors are set out in the section of Directors and Senior Management Profiles on pages 17 to 19.

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

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

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

REMUNERATION COMMITTEE

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

Mr. Hui Lin Chit *(Chief Executive Officer)*
Mr. Chan Henry *(Independent Non-executive Director) – Chairman of the Committee*
Mr. Chu Cheng Chung *(Independent Non-executive Director)*
Ms. Ada Ying Kay Wong *(Independent Non-executive Director)*

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

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

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 2008 are showed in Note 13 to the accounts.

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

- reviewed the Group's remuneration policy and made recommendations to the Board;
- reviewed and approved the proposed 2009 overall salary increment of the Group; and
- reviewed the proposal of granting share options according to the Company's share option scheme, and made recommendations to the Board.

AUDIT COMMITTEE

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

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

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

- met with the external auditor to discuss the general scope and findings of their annual audit and interim review work;
- reviewed and recommended to the Board for approval of the external auditor's remuneration;
- made recommendations to the Board on the re-appointment of the external auditor;
- reviewed the external auditor's independence, objectivity and the effectiveness of the audit process;
- reviewed the annual and interim reports and annual and interim announcements of the Company;
- discussed on auditing, internal control, risk management and financial reporting matters before recommending them to the Board for approval; and
- reviewed the connected transactions entered into by the Group.

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

Directors' attendance at Board, Remuneration Committee and Audit Committee Meetings in 2008:

	Attendance/Number of Meetings Held		
Directors	**Full Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee Meeting**
Executive Directors			
Mr. Sze Man Bok *(Chairman)*	4/4	N/A	N/A
Mr. Hui Lin Chit *(Vice-chairman and Chief Executive Officer)*	3/4	N/A	1/1
Mr. Yeung Wing Chun	4/4	N/A	N/A
Mr. Hung Ching Shan	4/4	N/A	N/A
Mr. Xu Da Zuo	3/4	N/A	N/A
Mr. Xu Chun Man	4/4	N/A	N/A
Mr. Loo Hong Shing Vincent	4/4	2/2*	1/1*
Independent Non-executive Directors			
Mr. Chan, Henry	4/4	2/2	1/1
Ms. Ada Ying Kay Wong	4/4	2/2	1/1
Mr. Chu Cheng Chung	4/4	2/2	1/1

* Being the secretary of the meetings.

NOMINATION OF DIRECTORS

The Board has established formal and transparent procedures for the appointments of new Directors and re-nomination and re-election of Directors at regular intervals. In accordance with the Company's Articles of Association, not less than one-third of the Directors will retire from office at the Company's annual general meeting. Mr. Xu Da Zuo, Mr. Yeung Wing Chun, Mr. Chu Cheng Chung and Mr. Xu Chun Man retire, and being eligible, offer themselves for re-election. Mr. Yeung has informed the Company that he plans to retire and is not going to be re-elected at the forthcoming annual general meeting.

AUDITOR'S REMUNERATION

The Group was charged approximately HK$4,909,000 and HK$1,100,000 by review services on the accounts of QinQin Foodstuffs Group Company Limited and external auditors for auditing and non-auditing services respectively for the year ended 31 December 2008. Non-auditing services included professional services in accordance with the Hong Kong Standard on Related services 4400 "Engagement to Perform Agreed-Upon Procedures Regarding Financial Information" for continuing connected transaction on sample basis and preliminary announcements of results during the year. The Audit Committee is of the view that the auditors' independence is not affected by the services rendered.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the accounts of the Group. With the assistance of the accounting department, which is under the supervision of the 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 are provided for management and publication purposes, investment and business risks affecting the Group are identified and managed. The adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget are also considered.

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

In 2006, an independent international professional accounting firm was appointed by the Group to conduct a review on its systems of internal controls and to provide recommendations on areas of improvement. In 2007 and 2008, the internal audit department of the Group had performed a review for each year to ensure that the recommendations made by the independent international accounting firm has been implemented accordingly and proper internal control policies, procedures and practices were in place.

In December 2008, the Group appointed Booz & Company, a leading management consulting firm, to further improve the Group's strategic planning, management in business operation and budgeting, supply chain management and performance assessment mechanism.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

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

Report of the Directors

The Directors have pleasure in presenting herewith their report together with the audited accounts of the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding and trading of personal hygienic products. The principal activities of its subsidiaries are the manufacturing, distribution and sale of personal hygiene products and food and snacks products, mainly in the PRC. The Group's principal activities have been expanded to the manufacturing and distribution of food and snack products subsequent to the acquisition of QinQin Foodstuffs Group Company Limited ("QinQin") on 28 November 2008.

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

	2008		2007	
	Revenue HK$'000	**Contribution to operating profit HK$'000**	Revenue HK$'000	Contribution to operating profit HK$'000 Restated
Sanitary napkins	**2,015,580**	**682,471**	1,538,889	559,121
Disposable diapers	**1,873,526**	**297,827**	1,360,913	244,370
Tissue paper products	**3,874,924**	**404,354**	2,585,105	301,546
Skin care, food and snacks products and others	**237,515**	**83,756**	202,065	78,243
	8,001,545	**1,468,408**	5,686,972	1,183,280

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

	2008		2007	
	Revenue HK$ million	**Percentage of total revenue (%)**	Revenue HK$ million	Percentage of total revenue (%)
PRC				
Fujian and Guangdong	**1,561**	**19.5**	1,112	19.6
North-western	**391**	**4.9**	270	4.7
South-western	**472**	**5.9**	325	5.7
Sichuan	**745**	**9.3**	556	9.8
North-eastern	**478**	**6.0**	389	6.8
Northern	**856**	**10.7**	598	10.5
Shandong	**750**	**9.4**	527	9.3
Eastern	**1,236**	**15.4**	890	15.6
Central	**1,201**	**15.0**	833	14.7
Overseas	**312**	**3.9**	187	3.3
	8,002	**100**	5,687	100

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 34.

The Directors have declared an interim dividend of HK$0.32 (2007: HK$0.28) per ordinary share, totalling HK$365,858,000 (2007: HK$302,673,000), which was paid on 17 October 2008.

The Directors recommend the payment of a final dividend of HK$0.40 (2007: HK$0.32) per ordinary share, totalling HK$460,026,000 (2007: HK$365,714,000).

RESERVES

Details of the movements in the reserves of the Group and of the Company during the year are set out in Note 32 to the accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK$16,727,000 (2007: HK$2,015,000).

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 30 to the accounts.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution comprise the share premium account and retained earnings. At 31 December 2008, the reserves of the Company available for distribution to shareholders amounted to HK$3,917,474,000 (2007: HK$3,540,851,000), subject to the restrictions stated in Note 32(a) to the accounts.

FIVE-YEAR FINANCIAL SUMMARY

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

DIRECTORS

The Directors during the year were:

Executive Directors

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

Independent Non-Executive Directors

Mr. Chan Henry
Mr. Chu Cheng Chung
Ms. Ada Ying Kay Wong

In accordance with Article 116 of the Company's Articles of Association, Mr. Xu Da Zuo, Mr. Yeung Wing Chun, Mr. Chu Cheng Chung and Mr. Xu Chun Man retire, and being eligible, offer themselves for re-election. Mr. Yeung has informed the Company that he plans to retire and is not going to be re-elected at the forthcoming annual general meeting.

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 expiring on 16 December 2011.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 17 to 19.

DIRECTORS' INTERESTS IN CONTRACTS

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

CONTINUING CONNECTED TRANSACTIONS

The following transactions are regarded as continuing connected transactions under The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), and are disclosed in accordance with Main Board Chapter 14A of the Listing Rules. These continuing connected transactions also constituted related party transactions of the Group as disclosed in note 38 to the consolidated accounts.

	2008 **HK$'000**	2007 HK$'000
Purchases from Weifang Power		
– electricity energy	**75,627**	43,049
– heat energy	**31,438**	18,589

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

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

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

DISCLOSEABLE AND CONNECTED TRANSACTIONS

On 12 September 2008, a wholly-owned subsidiary of the Company, Ever Town Investments Limited as purchaser, Total Good Group Limited as vendor (the "Vendor") and Mr. Wu Huolu (a director of the Vendor), Ms. Chim Chunyi, Mr. Ng Hingyam and Mr. Go Onsui (who in aggregate were interested in 87.32% of the issued share capital of the Vendor), together with Mr. Wu Sichuan and Mr. Wu Yinhang (both being directors of the Vendor) as guarantors entered into a conditional sale and purchase agreement to acquire from the Vendor 51% of the entire issued share capital of QinQin for a cash consideration of RMB228,798,633 (equivalent to approximately HK$260,000,000) (the "Acquisition"). QinQin and its subsidiaries is one of the leading and reputable confectionery manufacturing groups in the PRC and is principally engaged in the manufacturing and distribution of food and snack products including fruit jelly, seaweed, prawn cracker and chips, potato chips and candy in the PRC.

The Acquisition constitutes a discloseable transaction of the Company under the Listing Rules. QinQin is a wholly-owned subsidiary of the Vendor. The son of Mr. Hui Lin Chit (being an associate of Mr. Hui Lin Chit under the Listing Rules) was interested in 12.68% of the issued share capital of QinQin through his interest in the Vendor. Mr. Hui Lin Chit is an executive director of the Company and a substantial shareholder of the Company as defined under Rule 14A.10(3) of the Listing Rules. Accordingly, pursuant to Rule 14A.13(1)(b)(i), the Acquisition constituted a connected transaction for the Company and is subject to the approval by the independent shareholders of the Company by poll at the extraordinary general meeting, at which Mr. Hui Lin Chit and his associate(s) are required to abstain from voting. The Acquisition was approved by the independent shareholders on 20 October 2008 and completed on 28 November 2008.

DIRECTORS' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31 December 2008, the interests of each Director in the shares, short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO and disclosed in accordance with the Listing Rules were as follows:

Name of Directors	Capacity/Nature of Interests Number of shares: Personal interests/ Beneficiary	Family interests	Corporate interests	Number of unlisted shares (Note(1)): Personal interests	Total	Approximate percentage of shareholding
Mr. Sze Man Bok	227,228,999	–	–	20,000	227,248,999	19.76%
Mr. Hui Lin Chit	224,619,751 (Note (3))	–	–	180,000	224,799,751	19.55%
Mr. Yeung Wing Chun	38,344,257	45,619 (Note (2))	–	20,000	38,409,876	3.34%
Mr. Hung Ching Shan	7,350,000	–	–	20,000	7,370,000	0.64%
Mr. Xu Da Zuo	20,270,135 (Note (2))	–	–	130,000	20,400,135	1.77%
Mr. Xu Chun Man	16,493,445 (Note (2))	–	–	20,000	16,513,445	1.44%
Mr. Loo Hong Shing Vincent	100,000	30,000	–	170,000	300,000	0.03%

Notes:

(1) Unlisted shares are share options granted to the Directors pursuant to the share option scheme of the Company and details of which are set out on pages 30 and 31.

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

(3) An Ping Holdings Limited ("An Ping Holdings") holds 224,619,751 shares in the Company. It is a company incorporated in the Bahamas and is a wholly owned subsidiary of An Ping Investments Limited ("An Ping Investments"). An Ping Investments is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse Trust Limited ("Credit Suisse Trust"), 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) Interests in shares and share options were long position.

Apart from the above, at no time during the period 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 SCHEME

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

(i) **Purpose of the Scheme**

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

(ii) **Eligible Persons**

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

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

(iii) **Subscription Price**

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

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

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

(c) the nominal value of a share.

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

The maximum number of shares available for issue after considering the share options already granted is 88,431,200, representing approximately 7.69% of the issued share capital of the Company as at the date of this report.

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

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

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

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

(vii) **Acceptance of Offer**

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

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

The Scheme will remain in force before 2 May 2013.

(2) Movement of Share Options

Details of movements in the share options as at 31 December 2008 which have been granted under the Scheme are as follows:

	Number of share options								
Eligible person	Balance as at 01/01/2008	Granted during year	Exercised during year	Reclassified during year	Cancelled/ lapsed during year	Balance as at 31/12/2008	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	25.30	18/07/2007	18/07/2010–02/05/2013
	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2011–02/05/2013
Mr. Hui Lin Chit	90,000	–	–	–	–	90,000	25.30	18/07/2007	18/07/2010–02/05/2013
	90,000	–	–	–	–	90,000	25.30	18/07/2007	18/07/2011–02/05/2013
Mr. Yeung Wing Chun	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2010–02/05/2013
	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2011–02/05/2013
Mr. Hung Ching Shan	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2010–02/05/2013
	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2011–02/05/2013
Mr. Xu Da Zuo	65,000	–	–	–	–	65,000	25.30	18/07/2007	18/07/2010–02/05/2013
	65,000	–	–	–	–	65,000	25.30	18/07/2007	18/07/2011–02/05/2013
Mr. Xu Chun Man	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2010–02/05/2013
	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2011–02/05/2013
Mr. Loo Hong Shing Vincent	85,000	–	–	–	–	85,000	25.30	18/07/2007	18/07/2010–02/05/2013
	85,000	–	–	–	–	85,000	25.30	18/07/2007	18/07/2011–02/05/2013
Mr. Zhang Shi Pao	10,000	–	–	(10,000)	–	–	25.30	18/07/2007	18/07/2010–02/05/2013
	10,000	–	–	(10,000)	–	–	25.30	18/07/2007	18/07/2011–02/05/2013
Employees	5,210,000	–	–	–	(318,000)	4,892,000	25.05	12/07/2007	12/07/2010–02/05/2013
	5,210,000	–	–	–	(318,000)	4,892,000	25.05	12/07/2007	12/07/2011–02/05/2013
	–	–	–	10,000	–	10,000	25.30	18/07/2007	18/07/2010–02/05/2013
	–	–	–	10,000	–	10,000	25.30	18/07/2007	18/07/2011–02/05/2013
	–	50,000	–	–	–	50,000	25.05	18/03/2008	18/07/2010–02/05/2013
	–	50,000	–	–	–	50,000	25.05	18/03/2008	18/07/2011–02/05/2013
	11,000,000	100,000	–	–	(636,000)	10,464,000			

Mr. Zhang Shi Pao resigned as a director of the Company on 19 July 2007. The options granted to Mr. Zhang were reclassified accordingly.

No options lapsed during the year.

The Company has used the Binomial Model for assessing the fair value of the share options granted during the year ended 31 December 2008. 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 to Directors	Options granted to employees
Risk free rate	4.64% per annum	4.64% per annum
Expected volatility	35% per annum	35% per annum
Expected dividend yield	2.5% per annum	2.5% per annum
Trigger price multiple	2 times	1.5 times
Expected turnover rate	0% per annum	15% per annum

According to the Binomial Model, the fair value of the options granted to employees and Directors amounted to approximately HK$78,159,000 at the dates of grant, of which approximately HK$22,698,000 (2007: HK$10,737,000) has been charged to the profit and loss account for the year ended 31 December 2008 and the remaining fair value of approximately HK$44,724,000 will be charged to the profit and loss account in the future years according to the respective vesting periods of the options.

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

The register of substantial shareholders maintained under section 336 of part XV of the SFO shows that as at 31 December 2008, 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/ Nature of interests	Number of Shares	Approximate percentage of shareholding
An Ping Holdings	(1)	Beneficial owner	224,619,751(L)	19.53%
An Ping Investments	(1) & (2)	Interests of controlled corporation	224,619,751(L)	19.53%
Seletar Limited	(1) & (2)	Interests of controlled corporation	224,619,751(L)	19.53%
Serangoon Limited	(1) & (2)	Interests of controlled corporation	224,619,751(L)	19.53%
Credit Suisse Trust Limited	(2)	Trustee	224,619,751(L)	19.53%
Deutsche Bank			86,760,280(L)	7.54%
Aktiengesellschaft		Beneficial owner	1,614,345	
		Person having a security interest	80,955,935	
	(3)	Investment manager	4,190,000	
			31,427,870(S)	2.73%
		Beneficial owner	243,026	
		Person having a security interest	31,184,844	
UBS AG			80,193,758(L)	6.97%
		Beneficial owner	57,426,658	
	(4)	Interest of corporation controlled by you	22,767,100	
			42,671,873(S)	3.71%
		Beneficial owner	21,537,229	
		Person having a security interest in shares	11,778,194	
	(5)	Interest of corporation controlled by you	9,356,450	

(L) denotes long position

(S) denotes short position

Notes:

(1) An Ping Holdings, a company incorporated in the Bahamas, is a wholly-owned subsidiary of An Ping Investments. An Ping Investments is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in the trust for Credit Suisse Trust as the trustee of The Hui Family Trust. The 224,619,751 Shares beneficially owned by An Ping Holdings represent the same interests and are therefore duplicated among these corporations.

(2) Credit Suisse Trust as trustee of The Hui Family Trust is deemed to be interested in the 224,619,751 Shares held by this trust.

(3) The 4,190,000 Shares are held by Deutsche Bank Aktiengesellschaft ("Deutsche Bank") as investment manager through DB Valoren S.a.r.l., Deutsche Asia Pacific Holdings Pte Ltd, Deutsche Asset Management (Asia) Limited, DB Capital (Deutschland) GmbH, DWS Holdings & Service GmbH, DWS Investment GmbH, Deutsche Bank Luxembourg S.A. and DWS Investment S.A. Luxembourg, being controlled corporations of Deutsche Bank by virtue of the SFO.

(4) The 22,767,100 (L) Shares are held by UBS AG ("UBS") through various subsidiaries, namely, UBS Global Asset Management (Singapore) Ltd., UBS Securities LLC, UBS Global Asset Management (Japan) Ltd., UBS Global Asset Management (UK) Ltd, UBS Fund Management (Switzerland) AG, UBS Global Asset Management (Americas) Inc., UBS Global Asset Management (Canada) Co., UBS Global Asset Management Life Limited, UBS Financial Services Inc., UBS Global Asset Management (Australia) Ltd., UBS Wealth Management Australia Ltd and UBS Bank (Canada), being controlled corporations of UBS by virtue of the SFO.

(5) The 9,356,450 (S) Shares are held by UBS AG though UBS Securities LLC, being a controlled corporation of UBS AG by virtue of the SFO.

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	7.5%
– five largest suppliers combined	27.9%

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at 18 March 2009.

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, 18 March 2009

Independent Auditor's Report

羅兵咸永道會計師事務所

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

We have audited the consolidated accounts of Hengan International Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 34 to 94, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the accounts

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 March 2009

Consolidated Profit and Loss Account

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000 Restated Note 2(a)
Revenue	5	**8,001,545**	5,686,972
Cost of goods sold	7	**(4,798,999)**	(3,410,728)
Gross profit		**3,202,546**	2,276,244
Other gains – net	6	**92,993**	103,618
Distribution costs	7	**(1,451,005)**	(902,467)
Administrative expenses	7	**(313,462)**	(219,396)
Operating profit		**1,531,072**	1,257,999
Finance income		**46,494**	21,707
Finance costs	8	**(66,878)**	(95,016)
Profit before income tax		**1,510,688**	1,184,690
Income tax expense	9	**(166,032)**	(175,555)
Profit for the year		**1,344,656**	1,009,135
Attributable to:			
Shareholders of the Company	10	**1,340,914**	1,008,157
Minority interests		**3,742**	978
		1,344,656	1,009,135
Earnings per share for profit attributable to shareholders of the Company	11		
– Basic		**HK$1.172**	HK$0.924
– Diluted		**HK$1.152**	HK$0.924
Dividends	12	**825,884**	668,387

The notes on pages 41 to 94 are an integral part of the consolidated accounts.

Consolidated Balance Sheet

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000 Restated Note 2(a)
ASSETS			
Non-current assets			
Property, plant and equipment	14	**3,080,750**	2,342,837
Construction-in-progress	15	**813,329**	455,664
Leasehold land and land use rights	16	**239,408**	143,172
Intangible assets	17	**626,296**	454,663
Deferred income tax assets	33	**68,269**	45,216
Non-current finance lease receivables		**9,692**	–
Prepayment for non-current assets	20	**466,679**	322,219
		5,304,423	3,763,771
Current assets			
Inventories	21	**2,128,030**	1,329,120
Trade and bills receivables	24	**779,902**	594,455
Other receivables, prepayments and deposits		**195,393**	381,593
Current finance lease receivables		**13,672**	–
Restricted bank deposits	25	**17,040**	144,889
Cash and cash equivalents	26	**1,610,552**	2,160,031
		4,744,589	4,610,088
Total assets		**10,049,012**	8,373,859
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	30	**115,007**	114,162
Other reserves	32	**4,499,296**	3,870,069
Retained earnings	32		
– Proposed dividend	12	**460,026**	365,714
– Unappropriated retained earnings		**1,409,728**	994,278
		6,484,057	5,344,223
Minority interests		**231,844**	21,413
Total equity		**6,715,901**	5,365,636

The notes on pages 41 to 94 are an integral part of the consolidated accounts.

Consolidated Balance Sheet

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000 Restated Note 2(a)
LIABILITIES			
Non-current liabilities			
Long-term bank loans – unsecured	28	**45,840**	85,227
Convertible bonds	29	**1,465,247**	1,562,833
Deferred income tax liabilities	33	**56,892**	–
Deferred income on government grants		**7,555**	11,211
		1,575,534	1,659,271
Current liabilities			
Trade and bills payables	27	**898,159**	672,830
Other payables and accrued charges		**480,659**	370,850
Deferred income on government grants		**1,783**	1,981
Taxation payable		**80,152**	56,481
Trust receipt bank loans	28	**1,688**	3,602
Current portion of long-term bank loans – unsecured	28	**95,136**	114,465
Short-term bank loans – unsecured	28	**200,000**	10,000
Short-term bank loans – secured	28	**–**	118,743
		1,757,577	1,348,952
Total liabilities		**3,333,111**	3,008,223
Total equity and liabilities		**10,049,012**	8,373,859
Net current assets		**2,987,012**	3,261,136
Total assets less current liabilities		**8,291,435**	7,024,907

Sze Man Bok
Director

Hui Lin Chit
Director

The notes on pages 41 to 94 are an integral part of the consolidated accounts.

Balance Sheet

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	18	**5,165,502**	4,842,729
Current assets			
Trade receivables	24	**43,824**	84,698
Due from subsidiaries	22	**498,299**	3,904
Other receivables, prepayments and deposits		**9**	63,638
Cash and cash equivalents	26	**132,387**	363,674
		674,519	515,914
Total assets		**5,840,021**	5,358,643
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	30	**115,007**	114,162
Other reserves	32	**3,328,654**	3,145,681
Retained earnings	32		
– Proposed dividend	12	**460,026**	365,714
– Unappropriated retained earnings		**182,498**	62,712
Total equity		**4,086,185**	3,688,269

The notes on pages 41 to 94 are an integral part of the consolidated accounts.

Balance Sheet

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
LIABILITIES			
Non-current liabilities			
Convertible bonds	29	**1,465,247**	1,562,833
Due to subsidiaries	23	**42,437**	20,090
		1,507,684	1,582,923
Current liabilities			
Trade payables	27	**41,379**	73,530
Other payables and accrued charges		**3,485**	2,633
Taxation payable		**1,288**	1,288
Short-term bank loans – unsecured	28	**200,000**	10,000
		246,152	87,451
Total liabilities		**1,753,836**	1,670,374
Total equity and liabilities		**5,840,021**	5,358,643
Net current assets		**428,367**	428,463
Total assets less current liabilities		**5,593,869**	5,271,192

Sze Man Bok
Director

Hui Lin Chit
Director

The notes on pages 41 to 94 are an integral part of the consolidated accounts.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

		Attributable to the Company's shareholders					
		Share capital	Other reserves	Retained earnings	Total	Minority interests	Total equity
	Note	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2007, as previously reported		108,077	1,688,062	997,088	2,793,227	23,787	2,817,014
Prior year adjustment	2(a)	–	(33,372)	(131)	(33,503)	(377)	(33,880)
Balance at 1 January 2007, as restated		108,077	1,654,690	996,957	2,759,724	23,410	2,783,134
2006 final dividends paid		–	–	(270,244)	(270,244)	(1,458)	(271,702)
2007 interim dividends paid	12	–	–	(302,821)	(302,821)	(1,524)	(304,345)
Profit for the year		–	–	1,008,157	1,008,157	978	1,009,135
Issue of new shares	30	6,000	1,791,579	–	1,797,579	–	1,797,579
Appropriation to statutory reserves	32(c)	–	72,057	(72,057)	–	–	–
Conversion of convertible bonds	29	85	16,335	–	16,420	–	16,420
Share-based compensation	31	–	10,737	–	10,737	–	10,737
Translation of subsidiaries' accounts	32(d)	–	324,671	–	324,671	7	324,678
Balance at 31 December 2007		114,162	3,870,069	1,359,992	5,344,223	21,413	5,365,636
Balance at 1 January 2008, as previously reported		**114,162**	**4,040,849**	**1,359,700**	**5,514,711**	**22,595**	**5,537,306**
Prior year adjustment	**2(a)**	**–**	**(170,780)**	**292**	**(170,488)**	**(1,182)**	**(171,670)**
Balance at 1 January 2008, as restated		**114,162**	**3,870,069**	**1,359,992**	**5,344,223**	**21,413**	**5,365,636**
2007 final dividends paid		**–**	**–**	**(365,714)**	**(365,714)**	**–**	**(365,714)**
2008 interim dividends paid	**12**	**–**	**–**	**(365,858)**	**(365,858)**	**(2,389)**	**(368,247)**
Profit for the year		**–**	**–**	**1,340,914**	**1,340,914**	**3,742**	**1,344,656**
Appropriation to statutory reserves	**32(c)**	**–**	**99,580**	**(99,580)**	**–**	**–**	**–**
Conversion of convertible bonds	**29**	**845**	**160,275**	**–**	**161,120**	**–**	**161,120**
Share-based compensation	**31**	**–**	**22,698**	**–**	**22,698**	**–**	**22,698**
Acquisition of subsidiaries	**35**	**–**	**–**	**–**	**–**	**208,231**	**208,231**
Translation of subsidiaries' accounts	**32(d)**	**–**	**346,674**	**–**	**346,674**	**847**	**347,521**
Balance at 31 December 2008		**115,007**	**4,499,296**	**1,869,754**	**6,484,057**	**231,844**	**6,715,901**

The notes on pages 41 to 94 are an integral part of the consolidated accounts.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Cash flows from operating activities			
Cash inflow generated from operations	34(a)	**1,490,996**	1,104,838
Income tax paid		**(166,919)**	(205,788)
Net cash generated from operating activities		**1,324,077**	899,050
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,004,398)**	(827,148)
Purchase of leasehold land and land use rights		**(24,850)**	(77,520)
Proceeds from disposal of property, plant and equipment	34(b)	**21,911**	4,569
Increase in prepayment for non-current assets		**(120,007)**	(147,066)
Decrease/(increase) in restricted bank deposits		**135,603**	(139,114)
Government grants received		**–**	3,022
Interest received		**46,494**	21,707
Acquisition of subsidiaries	35	**(223,640)**	–
Net cash used in investing activities		**(1,168,887)**	(1,161,550)
Cash flows from financing activities			
Proceeds from bank borrowings		**320,761**	1,119,928
Repayment of bank borrowings		**(332,773)**	(1,061,452)
Net proceeds from issuance of ordinary shares		**–**	1,797,579
Interest paid		**(16,344)**	(26,817)
Dividends paid		**(731,572)**	(573,065)
Dividends paid by subsidiaries to their minority shareholders		**(2,389)**	(2,982)
Net cash (used in)/generated from financing activities		**(762,317)**	1,253,191
Net (decrease)/increase in cash and cash equivalents		**(607,127)**	990,691
Cash and cash equivalents at 1 January	26	**2,160,031**	1,014,894
Effect of foreign exchange rate changes		**57,648**	154,446
Cash and cash equivalents at 31 December	26	**1,610,552**	2,160,031

The notes on pages 41 to 94 are an integral part of the consolidated accounts.

Notes to the Consolidated Accounts

For the year ended 31 December 2008

1. General information

Hengan International Group Company Limited (the "Company") and its subsidiaries (together the "Group") are engaged in the manufacturing, distribution and sale of personal hygiene products, mainly in the People's Republic of China ("PRC"). During the year, the Group has expanded its activities to the manufacturing and distribution of food and snack products subsequent to the acquisition of QinQin Foodstuffs Group Company Limited ("QinQin") on 28 November 2008.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Ugland House, South Church Street, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies. The Company's shares have been listed on The Stock Exchange of Hong Kong Limited since December 1998.

These consolidated accounts are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated accounts have been approved for issue by the Board of Directors on 18 March 2009.

2. Summary of significant accounting policies

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

(a) Basis of preparation

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), including Hong Kong Accounting Standards ("HKAS"), and prepared under the historical cost convention.

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

(i) Prior year adjustment – change in accounting policy

In the previous years, the buildings of the Group, which comprise mainly factories, retail outlets and offices, were included in property, plant and equipment and stated at fair value based on periodic but at least triennial, valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation was eliminated against the gross carrying amounts of buildings and the net amounts were restated to the revalued amount of buildings, while all the other property, plant and equipment were stated at historical cost less accumulated depreciation and impairment losses.

In 2008, the Company's directors decided to apply the same accounting policy across all the property, plant and equipment of the Group. Accordingly, buildings are restated at historical cost less accumulated deprecation and impairment losses, if any. The Company's directors are of the view that applying the new accounting policy on buildings can provide more comparable and relevant information to the users of the accounts of the Group because this accounting policy is commonly used in manufacturing industry to reflect the actual usage of the buildings which are held for long term operation use. The change in accounting policy has been accounted for retrospectively and the consolidated accounts for the year ended 31 December 2007 have been restated in order to comply with HKAS 8 "Accounting policies, changes in accounting estimates and errors".

Notes to the Consolidated Accounts
For the year ended 31 December 2008

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

(a) Basis of preparation *(continued)*

(i) Prior year adjustment – change in accounting policy *(continued)*

The effect of the change in accounting policy is as follows:

	2008 HK$'000	2007 HK$'000
At 31 December :		
Decrease in property, plant and equipment	**(212,429)**	(209,641)
Decrease/(increase) in equity		
– Retained earnings	**(739)**	(292)
– Other reserves	**172,354**	170,780
– Minority interests	**2,645**	1,182
Decrease in deferred income tax liabilities	**38,169**	37,971
For the year ended 31 December:		
Increase in profit	**10,691**	2,194

As the effect of the change in accounting policy on the consolidated accounts for the year ended 31 December 2007 and 31 December 2008 is not significant, there is no material effect on the corresponding basic and diluted earnings per share.

(ii) Amendments and interpretations of HKFRS effective in 2008

Relevant to the Group's operations:

- HK(IFRIC) – Int 11, "HKFRS 2 – Group and treasury share transactions", provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's consolidated accounts, but will be applied to the separate accounts of the subsidiaries where relevant.

Not relevant to the Group's operations:

- HKAS 39, "Financial instruments: recognition and measurement".
- HK(IFRIC) – Int 12, "Service concession arrangements".
- HK(IFRIC) – Int 14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction".

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

(a) Basis of preparation *(continued)*

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, and the Group has not early adopted them:

Relevant to the Group's operations:

- HKAS 1 (Revised), "Presentation of financial statements" (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated profit and loss account and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009.

- HKAS 23 (Revised), "Borrowing costs" (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. It is not expected to have a material impact on the Group's consolidated accounts as the Group has already chosen the allowed alternative treatment to capitalise borrowing cost attributable to qualifying assets under the original HKAS 23.

- HKAS 27 (Revised), "Consolidated and separate financial statements" (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- HKFRS 2 (Amendment), "Share-based payment" (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1 January 2009.

Notes to the Consolidated Accounts

For the year ended 31 December 2008

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

(a) Basis of preparation *(continued)*

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(continued)*

Relevant to the Group's operations: *(continued)*

- HKFRS 3 (Revised), "Business combinations" (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated profit and loss account. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- HKFRS 8, "Operating segments" (effective from 1 January 2009). HKFRS 8 replaces HKAS 14, "Segment reporting", and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. The Group will apply HKFRS 8 from 1 January 2009.

- HK(IFRIC) – Int 16, "Hedges of a net investment in a foreign operation" (effective from 1 October 2008). HK(IFRIC) – Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of HKAS 21, "The effects of changes in foreign exchange rates", do apply to the hedged item. The Group will apply HK(IFRIC) – Int 16 from 1 January 2009.

- HKICPA's improvements to HKFRS published in October 2008:

  There are a number of amendments to HKAS 1 (Amendment), "Presentation of financial statements", HKAS 16 (Amendment), "Property, plant and equipment" (and consequential amendment to HKAS 7, "Statement of cash flows"), HKAS 19 (Amendment), "Employee benefits", HKAS 20 (Amendment), "Accounting for government grants and disclosure of government assistance", HKAS 23 (Amendment), "Borrowing costs", HKAS 27 (Amendment), "Consolidated and separate financial statement", HKAS 36 (Amendment), "Impairment of assets", HKAS 38 (Amendment), "Intangible assets", HKAS 39 (Amendment), "Financial instruments: recognition and measurement", HKFRS 7, "Financial instruments: disclosures", HKAS 8, "Accounting policies, changes in accounting estimates and errors", HKAS 10, "Events after the balance sheet date", HKAS 18, "Revenue" and HKAS 34, "Interim financial reporting" which are not addressed in details. The Group is currently assessing the impact of these amendments on the Group's consolidated accounts.

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

(a) Basis of preparation *(continued)*

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(continued)*

Not relevant to the Group's operations:

- HKAS 32 (Amendment), "Financial instruments: presentation", and HKAS 1 (Amendment), "Presentation of financial statements" – "Puttable financial instruments and obligations arising on liquidation" (effective from 1 January 2009).

- HKAS 39 (Amendment) "Financial Instruments: recognition and measurement" – "Eligible hedged items" (effective from 1 July 2009).

- HKFRS 1 (Amendment), "First time adoption of HKFRS" and HKAS 27 "Consolidated and separate financial statements" (effective from 1 July 2009).

- HK(IFRIC) – Int 13, "Customer loyalty programmes" (effectively from 1 July 2008).

- HK(IFRIC) – Int 15, "Agreements for construction of real estates" (effective from 1 January 2009).

- HK(IFRIC) – Int 17 – "Distributions of non-cash assets to owners" (effective from 1 July 2009).

- HK(IFRIC) – Int 18 – "Transfer of assets from customers" (effective from 1 July 2009).

- HKICPA's improvements to HKFRS published in October 2008:

  These include HKAS 28 (Amendment), "Investments in associates" (and consequential amendments to HKAS 32, "Financial instruments: presentation" and HKFRS 7, "Financial instrument: disclosures"), HKAS 29 (Amendment), "Financial reporting in hyperinflationary economies", HKAS 31 (Amendment), "Interests in joint ventures" (and consequential amendments to HKAS 32 and HKFRS 7), HKAS 40 (Amendment), "Investment property" (and consequential amendments to HKAS 16), HKAS 41 (Amendment), "Agriculture" and HKFRS 5 (Amendment), "Non-current assets held for sale and discontinued operations" (and consequential amendment to HKFRS 1, "First-time adoption").

(b) Consolidation

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

Subsidiaries are those entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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

(b) Consolidation *(continued)*

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

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(d) Foreign currency translation *(continued)*

(iii) Group companies

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

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

(II) income and expenses for each consolidated profit and loss account 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 dates of the transactions); and

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

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

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

(e) Property, plant and equipment

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

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 profit and loss account during the financial period in which they are incurred.

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(h)).

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

(e) Property, plant and equipment *(continued)*

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within other gains – net in the profit and loss account.

(f) Leasehold land and land use rights

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

(g) Intangible assets

(i) Goodwill

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

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

(ii) Patents and trademarks

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

(iii) Customer relationship

Customer relationship acquired in a business combination is recognised at fair value at the acquisition date. The customer relationship has a finite useful life and is 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.

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

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

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

(i) Financial assets – loans and receivables

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

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

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Loans and receivables are initially recognised at fair value plus transaction costs and are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Impairment testing of trade, bills and other receivables is described in Note 2(k).

(j) 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.

(k) Trade, bills and other receivables

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

(l) Cash and cash equivalents

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

(m) 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.

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

(n) Trade and bills payables

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

(o) 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 profit and loss account over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bond. The remainder of the proceeds is allocated to the conversion option. This is recognised in shareholders' equity, net of income tax effects.

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.

(p) Current and deferred income tax

Income tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated profit and loss account, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

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

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

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

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

Notes to the Consolidated Accounts

For the year ended 31 December 2008

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

(q) Employee benefits

(i) Retirement benefits

The Group participates in defined contribution retirement schemes administered by local government in different parts of the PRC (the "Central Schemes"). The Group also maintains a defined contribution pension scheme (the "Hengan Scheme") for those full time employees who wish to participate in the Hengan Scheme on a voluntary basis. Both the Group and the employees are required to make cash contributions calculated as a percentage of the employees' basic salaries to either the Central Schemes or the Hengan Scheme. The funds of the Hengan Scheme are placed with a local financial institution and are managed by a representative committee of the Group's employees. The assets of the schemes are held separately from those of the Group in independently administered funds.

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

The Group's contributions to the defined contribution retirement schemes are expensed as incurred while forfeited contribution are written back. There were no forfeited contributions in the years ended 31 December 2008 and 2007. The Group has no further payment obligations once the contributions have been made.

(ii) Share-based compensation

The Group operates a share option scheme (Note 31). The fair value of the employee services received in exchange for the grant of the options to purchase shares of the Company is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the consolidated profit and loss account, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(r) 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)*

(s) Financial guarantee liabilities

Financial guarantee liabilities are recognised initially at fair value plus transaction costs that are directly attributable to the issue of the financial guarantee liabilities. Subsequent to initial recognition, such contracts are measured at the higher of: (i) the present value of the best estimate of the expenditure required to settle the present obligation; and (ii) the amount initially recognised less cumulative amortisation.

Financial guarantee liabilities are derecognised from the balance sheet when, and only when, the obligation specified in the contract in discharged or cancelled or expired.

(t) Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:

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

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

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

(u) Government grants

Grants from the government are 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 profit and loss account over the period necessary to match them with the costs that they are intended to compensate.

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

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in the consolidated profit and loss account in the period in which they become receivable.

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

(v) Leases

(i) Finance leases – the Group is the lessor

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

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

(ii) Operating leases

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

(w) Borrowing costs

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

(x) Dividend distribution

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

3. Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, 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 currency risk

The Company's functional currency is Hong Kong dollar and majority of its subsidiaries' functional currencies are Renminbi. Foreign exchange risk arises from future commercial transactions of purchases from overseas by the Company's subsidiaries and recognised assets or liabilities, such as cash and cash equivalents, trade and bills receivables, trade and bills payables and bank borrowings held by its subsidiaries, which are denominated in United States dollar and other currencies. The Group have never experienced any difficulties in getting sufficient foreign currencies for settlement of the purchases or repatriation of profits declared by the subsidiaries in the PRC to their overseas holding companies. As at 31 December 2008, the Group did not hedge its foreign currency risk since the exposure was considered insignificant.

The Group considers the risk of movements in exchange rates between Hong Kong dollar and United States dollar to be insignificant as Hong Kong dollar and United States dollar are pegged.

As 31 December 2008, if Hong Kong dollar and United States dollar had weakened/strengthened by 10% against the Renminbi with all other variables held constant, profit for the year would have been HK$12,167,000 (2007: HK$13,700,000) higher/lower. There is no impact on equity.

Notes to the Consolidated Accounts
For the year ended 31 December 2008

3. Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(i) Market risk *(continued)*

(2) Price risk

As at 31 December 2008 and 2007, the Group did not hold any equity securities and was not exposed to significant price risk.

(3) Cash flow and fair value interest rate risk

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

The Group's interest-rate risk arises from borrowings. Borrowings include bank borrowings (Note 28) and convertible bonds (Note 29). Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The Group does not hedge its cash flow and fair value interest rate risk. The interest rates and terms of repayments of borrowings are disclosed in Notes 28 and 29.

As at 31 December 2008 and 2007, if interest rates on bank borrowings had been 150 basis points higher/lower with all other variables held constant, the post-tax profit for each year would have changed as a result of higher/lower interest expenses on floating rate borrowings. Details of the changes are as follows:

	2008 **HK$'000**	2007 HK$'000
Post-tax profit increase/(decrease)		
– Higher 150 basis points higher	**(3,498)**	(7,149)
– Lower 150 basis points lower	**3,498**	7,149

(ii) Credit risk

Credit risk is managed on a group basis. Credit risk arises from restricted bank deposits, bank balances, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

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

Notes to the Consolidated Accounts
For the year ended 31 December 2008

3. Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(ii) Credit risk *(continued)*

As at 31 December 2008 and 2007, all restricted bank deposits and bank balances were deposited in highly reputable and sizable banks without significant credit risk. The table below shows the balances with the three major counterparties as at 31 December 2008 and 2007:

Counterparty	Rating	2008 HK$'000	2007 HK$'000
China Construction Bank*	A–	**436,937**	742,915
China Merchants Bank**	AA–	**309,805**	366,668
Industrial and Commercial Bank of China*	A–	**244,648**	329,261
		991,390	1,438,844

* Based on the rating from "Standard and Poor's"
** Based on the rating from "Xinhua Far East China Credit Ratings"

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

Majority of the Group's sales are settled in cash by its customers on delivery of goods. Credit sales are made only to selected customers with good credit history. The Group has polices in place to ensure that trade receivables are followed up on a timely basis.

(iii) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of fund through adequate amounts of committed credit facilities and the ability to close out market positions. The Group's objective is to maintain adequate committed credit facilities to ensure sufficient and flexible funding is available to the Group.

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

Notes to the Consolidated Accounts
For the year ended 31 December 2008

3. Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(iii) Liquidity risk *(continued)*

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000
Group			
At 31 December 2008			
Bank borrowings	**297,303**	**48,809**	**–**
Convertible bonds	**–**	**–**	**1,668,230**
Trade and bills payables	**898,159**	**–**	**–**
Other payables	**480,659**	**–**	**–**
At 31 December 2007			
Bank borrowings	259,031	62,921	28,397
Convertible bonds	–	–	1,874,724
Trade and bills payables	672,830	–	–
Other payables	370,850	–	–
Company			
At 31 December 2008			
Bank borrowings	**200,034**	**–**	**–**
Convertible bonds	**–**	**–**	**1,668,230**
Trade payables	**41,379**	**–**	**–**
Other payables	**3,485**	**–**	**–**
At 31 December 2007			
Bank borrowings	10,919	–	–
Convertible bonds	–	–	1,874,724
Trade payables	73,530	–	–
Other payables	2,633	–	–

(b) Capital risk management

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

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

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

3. Financial risk management *(continued)*

(b) Capital risk management *(continued)*

The Group's strategy is to maintain a gearing ratio within 30% to 60%. The gearing ratios at 31 December 2008 and 2007 were as follows:

	2008 HK$'000	2007 HK$'000 Restated
Total borrowings	**1,807,911**	1,894,870
Total equity excluding minority interests	**6,484,057**	5,344,223
Gearing ratio	**27.9%**	35.5%

(c) Fair value estimation

The carrying amounts of the Group's current financial assets (including cash and cash equivalents, trade and bills receivables, other receivables and bank deposits) and current financial liabilities (including trade and bills payables, other payables and bank borrowings) approximate their fair values as at the balance sheet date due to their short maturities.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgements

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

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

(a) Assessment of impairment provision of goodwill

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

Management believes that any reasonably foreseeable change in any of the key assumptions would not cause the aggregate carrying amount of goodwill to exceed the aggregate recoverable amount.

(b) Income taxes

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

Notes to the Consolidated Accounts
For the year ended 31 December 2008

5. Revenue and segment information

The Group is principally engaged in manufacturing, distribution and sale of personal hygiene products, skin care and food and snacks products in the PRC. Revenue recognised during the year is as follows:

	2008 HK$'000	2007 HK$'000
Sales of goods:		
Sanitary napkins	**2,015,580**	1,538,889
Disposable diapers	**1,873,526**	1,360,913
Tissue paper products	**3,874,924**	2,585,105
Skin care, food and snacks products and others	**237,515**	202,065
	8,001,545	5,686,972

The Group is organised into four major business segments:

(a) sanitary napkins;
(b) disposable diapers;
(c) tissue paper products; and
(d) skin care, food and snacks products and others.

Unallocated costs represent corporate expenses.

Segment assets consist primarily of property, plant and equipment, construction-in-progress, leasehold land and land use rights, intangible assets, prepayment for non-current assets, inventories, receivables and operating cash. They exclude deferred income tax assets.

Segment liabilities comprise operating liabilities. They exclude items such as taxation payable, deferred income tax liabilities and corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment (Note 14), construction-in-progress (Note 15), leasehold land and land use rights (Note 16) and intangible assets (Note 17), including additions resulting from acquisitions through business combinations.

5. Revenue and segment information *(continued)*

No geographical analysis is provided as less than 10% of the Group's revenue and less than 10% of the consolidated trading results of the Group are attributable to markets outside the PRC.

	2008				
	Sanitary napkins HK$'000	Disposable diapers HK$'000	Tissue paper products HK$'000	Skin care, food and snacks products and others HK$'000	Group HK$'000
Segment revenue	2,076,116	1,882,835	3,996,467	534,230	8,489,648
Inter-segment sales	(60,536)	(9,309)	(121,543)	(296,715)	(488,103)
Revenue of the Group	2,015,580	1,873,526	3,874,924	237,515	8,001,545
Segment results	682,471	297,827	404,354	83,756	1,468,408
Unallocated costs					(30,329)
Other gains – net					92,993
Operating profit					1,531,072
Finance income					46,494
Finance costs					(66,878)
Profit before income tax					1,510,688
Income tax expense					(166,032)
Profit for the year					1,344,656
Minority interests					(3,742)
Profit attributable to shareholders of the Company					1,340,914
Segment assets	1,315,167	2,041,084	5,159,309	1,197,150	9,712,710
Deferred income tax assets					68,269
Unallocated assets					268,033
Total assets					10,049,012
Segment liabilities	187,334	234,071	480,989	232,348	1,134,742
Deferred income tax liabilities					56,892
Taxation payable					80,152
Unallocated liabilities					2,061,325
Total liabilities					3,333,111
Capital expenditure	125,379	273,362	618,529	472,983	1,490,253
Depreciation	61,291	32,225	169,755	15,312	278,583
Amortisation charge	2,328	208	3,340	1,155	7,031

Notes to the Consolidated Accounts
For the year ended 31 December 2008

5. Revenue and segment information *(continued)*

	2007 Sanitary napkins HK$'000 Restated	Disposable diapers HK$'000 Restated	Tissue paper products HK$'000 Restated	Skin care and others HK$'000 Restated	Group HK$'000 Restated
Segment revenue	1,648,455	1,368,406	2,636,245	342,652	5,995,758
Inter-segment sales	(109,566)	(7,493)	(51,140)	(140,587)	(308,786)
Revenue of the Group	1,538,889	1,360,913	2,585,105	202,065	5,686,972
Segment results	559,121	244,370	301,546	78,243	1,183,280
Unallocated costs					(28,899)
Other gains – net					103,618
Operating profit					1,257,999
Finance income					21,707
Finance costs					(95,016)
Profit before income tax					1,184,690
Income tax expense					(175,555)
Profit for the year					1,009,135
Minority interests					(978)
Profit attributable to shareholders of the Company					1,008,157
Segment assets	1,317,464	1,182,776	4,242,645	560,538	7,303,423
Deferred income tax assets					45,216
Unallocated assets					1,025,220
Total assets					8,373,859
Segment liabilities	196,500	254,807	821,658	37,262	1,310,227
Taxation payable					56,481
Unallocated liabilities					1,641,515
Total liabilities					3,008,223
Capital expenditure	87,324	78,213	746,169	6,462	918,168
Depreciation	56,477	20,820	116,555	6,101	199,953
Amortisation charge	2,505	90	2,158	628	5,381

Notes to the Consolidated Accounts
For the year ended 31 December 2008

6. Other gains – net

	2008 HK$'000	2007 HK$'000 Restated
Government grants income	**101,947**	100,089
Loss on disposal/write off of property, plant and equipment (Note 34(b))	**(4,512)**	(1,594)
Amortisation of deferred income on government grants	**4,629**	1,436
Others	**(9,071)**	3,687
	92,993	103,618

The government grants income mainly represented subsidies received from certain PRC municipal governments as encouragement to the Group's investments.

7. Expenses by nature

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

	2008 HK$'000	2007 HK$'000 Restated
Raw materials and consumables used	**4,033,953**	3,106,380
Changes in inventories of work-in-progress and finished goods	**315,114**	95,078
Marketing and advertising expenses	**755,800**	429,416
Transportation and packaging expenses	**379,696**	238,531
Net exchange gains	**(53,920)**	(591)
Depreciation of property, plant and equipment (Note 14)	**278,583**	199,953
Amortisation of leasehold land and land use rights (Note 16)	**6,466**	4,909
Amortisation of intangible assets (Note 17)	**565**	472
Staff costs, including Directors' emoluments (Note 13)	**516,626**	343,752
Operating leases rental in respect of factory premises and sales liaison offices	**35,802**	22,420
Repairs and maintenance expenses	**55,659**	31,742
Auditors' remuneration	**4,909**	4,168
Provision for impairment of trade receivables (Note 24)	**11,266**	2,235
Provision for impairment/written off of inventories (Note 21)	**26,155**	6,382
Others	**196,792**	47,744
Total	**6,563,466**	4,532,591

Notes to the Consolidated Accounts
For the year ended 31 December 2008

8. Finance costs

	2008 HK$'000	2007 HK$'000
Interest expenses		
Trust receipt bank loans	**108**	147
Short-term bank loans	**6,695**	14,312
Long-term bank loans wholly repayable within five years	**5,209**	10,198
Convertible bonds wholly repayable within five years (Note 29)	**63,534**	81,940
Other finance charges	**4,332**	1,919
Total borrowing costs incurred	**79,878**	108,516
Less : borrowing costs capitalised in buildings and machinery under construction-in-progress (Note 15)	**(13,000)**	(13,500)
	66,878	95,016

The capitalisation rate applied to funds borrowed generally and used for the development of construction-in-progress is between 1.7% to 5.9 % (2007: 3.2% to 6.4%) per annum.

9. Income tax expense

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

	2008 HK$'000	2007 HK$'000
Hong Kong profits tax	**9,396**	2,319
PRC income tax	**169,816**	154,973
Deferred income tax (Note 33)	**(13,180)**	18,263
Income tax expense	**166,032**	175,555

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits of the Group's companies in Hong Kong for the year.

PRC income tax represents tax charges on the assessable profits of the PRC subsidiaries of the Group at the prevailing tax rates ranging from 0% to 25% (2007: 0% to 33%) applicable to the PRC subsidiaries. Effective from 1 January 2008, the subsidiaries of the Group incorporated in the PRC are subject to corporate income tax at the rate of 25% in accordance with the Corporate Income Tax Law of the PRC (the "New CIT Law") as approved by the National People's Congress on 16 March 2007. The CIT rate applicable to subsidiaries of the Group established in the PRC is reduced to 25% for those with original applicable CIT rates higher than 25%, or gradually increased to 25% over a 5-year period from 2008 to 2012 for those with original applicable CIT rates lower than 25%, where appropriate.

9. Income tax expense *(continued)*

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate in the PRC applicable to the Group as follows:

	2008 HK$'000	2007 HK$'000
Profit before income tax	**1,510,688**	1,184,690
Tax calculated at tax rates applicable to profits of the Group's companies	**377,672**	388,851
Tax exemption and concession on the profit of certain subsidiaries	**(218,141)**	(193,381)
Income not subject to taxation	**(3,424)**	(27,624)
Deferred tax benefit arising from tax losses not recognised previously	**4,264**	1,579
Under-provision in prior years	**5,661**	6,130
Income tax expense	**166,032**	175,555

The weighted average applicable tax rate was 25.0% (2007: 32.9%). The decrease of the weighted average applicable tax rate is mainly due to impact of the new CIT Law to the Group's PRC subsidiaries.

According to the New CIT Law, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax at a rate of 5% upon the distribution of such profits of foreign investors incorporated in Hong Kong, or at rate of 10% for other foreign investors. The Group determined that no deferred withholding tax liabilities shall be recognised in respect of the profits of the PRC subsidiaries for the year ended 31 December 2008 since the Group plans to reinvest such profits to set up new companies in the PRC and has no plan to distribute such profits in the foreseeable future.

10. Profit attributable to shareholders

The profit attributable to shareholders of the Company is dealt with in the accounts of the Company to the extent of HK$945,670,000 (2007: HK$700,079,000) (Note 32).

11. Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the Group's profit attributable to shareholders of the Company of HK$1,340,914,000 (2007: HK$1,008,157,000) and the weighted average number of 1,143,923,795 (2007: 1,090,492,475) ordinary shares in issue during the year.

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, there is no dilutive effect on the earnings per share.

11. Earnings per share *(continued)*

	2008 HK$'000
Earnings	
Profit attributable to equity holders of the Company	**1,340,914**
Interest expense on convertible bonds	**63,534**
Profit used to determine diluted earnings per share	**1,404,448**
Weighted average number of ordinary shares in issue (thousands)	**1,143,924**
Adjustments for assumed conversion of convertible bonds (thousands)	**75,416**
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,219,340**
Diluted earnings per share	**HK$1.152**

Diluted earnings per share for 2007 was not presented as the convertible bonds and share options issued did not have any dilutive effect on the earnings per share.

12. Dividends

	2008 HK$'000	2007 HK$'000
Interim, paid, HK$0.32 (2007: HK $0.28) per ordinary share	**365,858**	302,673
Final, proposed, HK$0.40 (2007: HK$0.32) per ordinary share (Note 32)	**460,026**	365,714
	825,884	668,387

At a meeting held on 18 March 2009, the directors of the Company proposed a final dividend of HK$0.40 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2009.

13. Staff costs, including Directors' emoluments

	2008 HK$'000	2007 HK$'000
Wages and salaries	**461,613**	316,096
Retirement benefit costs	**32,315**	16,919
Share-based compensation expenses (Note 31)	**22,698**	10,737
	516,626	343,752

Notes to the Consolidated Accounts
For the year ended 31 December 2008

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

(a) Directors' and senior management's emoluments

The remuneration of each Director is set out below:

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Housing allowance HK$'000	Share-based compensation HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Year ended 31 December 2008							
Director							
Mr. SZE Man Bok	**60**	**411**	**–**	**–**	**44**	**12**	**527**
Mr. HUI Lin Chit	**60**	**483**	**594**	**470**	**399**	**12**	**2,018**
Mr. YEUNG Wing Chun	**60**	**–**	**–**	**–**	**44**	**3**	**107**
Mr. HUNG Ching Shan	**60**	**135**	**34**	**–**	**44**	**10**	**283**
Mr. XU Da Zuo	**60**	**332**	**200**	**–**	**288**	**3**	**883**
Mr. XU Chun Man	**60**	**67**	**15**	**–**	**44**	**3**	**189**
Mr. LOO Hong Shing Vincent	**60**	**1,095**	**500**	**231**	**377**	**12**	**2,275**
Independent Non-Executive Director							
Mr. CHAN Henry	**120**	**–**	**–**	**–**	**–**	**–**	**120**
Mr. CHU Cheng Chung	**120**	**–**	**–**	**–**	**–**	**–**	**120**
Ms. Ada Ying Kay WONG	**120**	**–**	**–**	**–**	**–**	**–**	**120**
Year ended 31 December 2007							
Director							
Mr. SZE Man Bok	60	412	–	–	20	12	504
Mr. HUI Lin Chit	60	460	560	444	182	12	1,718
Mr. YEUNG Wing Chun	60	62	10	–	20	6	158
Mr. HUNG Ching Shan	60	130	21	–	20	9	240
Mr. XU Da Zuo	60	272	182	–	133	3	650
Mr. XU Chun Man	60	54	14	–	20	3	151
Mr. LOO Hong Shing Vincent	60	1,144	400	156	172	12	1,944
Non-Executive Director							
Mr. ZHANG Shi Pao (Note)	24	66	10	–	20	–	120
Independent Non-Executive Director							
Mr. CHAN Henry	120	–	–	–	–	–	120
Mr. CHU Cheng Chung	120	–	–	–	–	–	120
Ms. Ada Ying Kay WONG	120	–	–	–	–	–	120

Note: Mr. Zhang Shi Po resigned as a Non-Executive Director on 19 July 2007.

None of the Directors waived any emoluments during the years ended 31 December 2008 and 2007.

Notes to the Consolidated Accounts
For the year ended 31 December 2008

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2007: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2007: two) individuals during the year are as follows:

	2008 HK$'000	2007 HK$'000
Basic salaries, housing allowances, pension, share-based compensation, other allowances and benefits-in-kind	**2,552**	993
Bonuses	**931**	870
	3,483	1,863

The emoluments fell within the following bands:

	Number of individuals	
	2008	2007
Emolument bands (in HK dollar)		
Nil – HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**3**	1
	3	2

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For the year ended 31 December 2008

14. Property, plant and equipment – Group

	Buildings HK$'000	Plant and machinery HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2007					
Cost or valuation					
At 1 January 2007, as previously reported	457,864	1,994,492	91,527	17,825	2,561,708
Prior year adjustment (Note 2(a))	(51,842)	–	–	–	(51,842)
At 1 January 2007, as restated	406,022	1,994,492	91,527	17,825	2,509,866
Accumulated depreciation					
At 1 January 2007, as previously reported	(100,164)	(738,637)	(54,728)	(13,104)	(906,633)
Prior year adjustment (Note 2(a))	5,723	–	–	–	5,723
At 1 January 2007, as restated	(94,441)	(738,637)	(54,728)	(13,104)	(900,910)
Opening net book amount, as restated	311,581	1,255,855	36,799	4,721	1,608,956
Year ended 31 December 2007					
Opening net book amount, as restated	311,581	1,255,855	36,799	4,721	1,608,956
Exchange differences	24,093	104,727	3,246	6,650	138,716
Additions	14,230	61,068	12,855	6,570	94,723
Transfer from construction-in-progress (Note 15)	299,201	391,993	15,364	–	706,558
Deprecation (Note 7)	(24,402)	(158,367)	(11,375)	(5,809)	(199,953)
Disposals (Note 34(b))	(217)	(3,319)	(2,245)	(382)	(6,163)
Closing net book amount	624,486	1,651,957	54,644	11,750	2,342,837
At 31 December 2007					
Cost	749,158	2,598,705	119,123	23,410	3,490,396
Accumulated depreciation	(124,672)	(946,748)	(64,479)	(11,660)	(1,147,559)
Net book amount	624,486	1,651,957	54,644	11,750	2,342,837
At 1 January 2008					
Cost or valuation					
At 1 January 2008, as previously reported	**834,127**	**2,598,705**	**119,123**	**23,410**	**3,575,365**
Prior year adjustment (Note 2(a))	**(84,969)**	**–**	**–**	**–**	**(84,969)**
At 1 January 2008, as restated	**749,158**	**2,598,705**	**119,123**	**23,410**	**3,490,396**
Accumulated depreciation					
At 1 January 2008, as previously reported	**–**	**(946,748)**	**(64,479)**	**(11,660)**	**(1,022,887)**
Prior year adjustment (Note 2(a))	**(124,672)**	**–**	**–**	**–**	**(124,672)**
At 1 January 2008, as restated	**(124,672)**	**(946,748)**	**(64,479)**	**(11,660)**	**(1,147,559)**
Opening net book amount, as restated	**624,486**	**1,651,957**	**54,644**	**11,750**	**2,342,837**
At 31 December 2008					
Opening net book amount, as restated	**624,486**	**1,651,957**	**54,644**	**11,750**	**2,342,837**
Exchange differences	**39,142**	**102,987**	**3,343**	**727**	**146,199**
Additions	**16,390**	**57,119**	**1,162**	**2,728**	**77,399**
Acquisition of subsidiaries (Note 35)	**119,604**	**78,631**	**5,126**	**2,028**	**205,389**
Transfer from construction-in-progress (Note 15)	**155,271**	**454,825**	**3,836**	**–**	**613,932**
Depreciation (Note 7)	**(51,370)**	**(217,550)**	**(7,805)**	**(1,858)**	**(278,583)**
Disposals (Note 34(b))	**(6,825)**	**(18,240)**	**(678)**	**(680)**	**(26,423)**
Closing net book amount	**896,698**	**2,109,729**	**59,628**	**14,695**	**3,080,750**
At 31 December 2008					
Cost	**1,075,235**	**3,325,702**	**128,669**	**26,226**	**4,555,832**
Accumulated depreciation	**(178,537)**	**(1,215,973)**	**(69,041)**	**(11,531)**	**(1,475,082)**
Net book amount	**896,698**	**2,109,729**	**59,628**	**14,695**	**3,080,750**

Notes to the Consolidated Accounts
For the year ended 31 December 2008

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

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

	2008 HK$'000	2007 HK$'000
Manufacturing overheads included under cost of goods sold	**234,812**	175,265
Distribution costs	**3,793**	3,096
Administrative expenses	**39,978**	21,592
	278,583	199,953

There is no pledge of property, plant and equipment of the Group as at 31 December 2008 and 2007.

15. Construction-in-progress – Group

	2008 HK$'000	2007 HK$'000
At 1 January	**455,664**	387,560
Exchange differences	**30,212**	28,737
Additions	**939,999**	745,925
Acquisition of subsidiaries (Note 35)	**1,386**	–
Transfer to property, plant and equipment (Note 14)	**(613,932)**	(706,558)
At 31 December	**813,329**	455,664

During the year ended 31 December 2008, finance costs capitalised in construction-in-progress amounted to HK$13,000,000 (2007: HK$13,500,000) (Note 8).

Notes to the Consolidated Accounts
For the year ended 31 December 2008

16. Leasehold land and land use rights – Group

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

	2008 HK$'000	2007 HK$'000
In Hong Kong, held on:		
Leases between 10 to 50 years	**5,170**	5,610
Outside Hong Kong, held on:		
Leases between 10 to 50 years	**234,238**	134,810
Leases over 50 years	**–**	2,752
	239,408	143,172
At 1 January	**143,172**	63,529
Exchange differences	**8,664**	7,032
Additions	**24,850**	77,520
Acquisition of subsidiaries (Note 35)	**69,188**	–
Amortisation of prepaid operating lease payments (Note 7)	**(6,466)**	(4,909)
At 31 December	**239,408**	143,172

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

Notes to the Consolidated Accounts
For the year ended 31 December 2008

17. Intangible assets – Group

	Goodwill HK$'000	Patents and trademarks HK$'000	Customer relationship HK$'000	Total HK$'000
At 1 January 2007				
Cost	452,030	4,885	–	456,915
Accumulated amortisation	–	(1,975)	–	(1,975)
Net book amount	452,030	2,910	–	454,940
Year ended 31 December 2007				
Opening net book amount	452,030	2,910	–	454,940
Exchange differences	–	195	–	195
Amortisation charge (Note 7)	–	(472)	–	(472)
Closing net book amount	452,030	2,633	–	454,663
At 31 December 2007				
Cost	452,030	5,355	–	457,385
Accumulated amortisation	–	(2,722)	–	(2,722)
Net book amount	452,030	2,633	–	454,663
Year ended 31 December 2008				
Opening net book amount	**452,030**	**2,633**	**–**	**454,663**
Exchange differences	**–**	**156**	**–**	**156**
Acquisition of subsidiaries (Note 35)	**43,270**	**70,922**	**57,850**	**172,042**
Amortisation charge (Note 7)	**–**	**(517)**	**(48)**	**(565)**
Closing net book amount	**495,300**	**73,194**	**57,802**	**626,296**
At 31 December 2008				
Cost	**495,300**	**76,606**	**57,850**	**629,756**
Accumulated amortisation	**–**	**(3,412)**	**(48)**	**(3,460)**
Net book amount	**495,300**	**73,194**	**57,802**	**626,296**

Notes:

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

(b) The Directors have performed an impairment review of the carrying amount of goodwill as at 31 December 2008 and have concluded that no impairment is required. For the purposes of impairment testing, goodwill acquired has been allocated to individual cash-generating unit identified by business segment which are reviewed for impairment based on forecast operating performance and cash flows. Goodwill of HK$439,385,000 and HK$55,915,000 is allocated to the tissue paper products segment and skin care, food and snacks products segment respectively.

17. Intangible assets – Group *(continued)*

The recoverable amount of a cash generating unit is determined based on value-in-use calculations.

Tissue paper products segment

The calculation uses cash flow projections based on financial estimates made by management covering a period of three years, with reference to prevailing market conditions and an estimated gross profit margin and growth rate of 31.5% and 8%, respectively. The cash flows beyond the three-year period are extrapolated with reference to the production capacity of the cash generating unit acquired. The cash flow projections are discounted appropriately at a pre-tax discount rate of 8%.

Skin care, food and snacks products segment

The calculation uses cash flow projections based on financial estimates made by management covering a period of three years, with reference to prevailing market conditions and an estimated gross profit margin and growth rate of 26% and 10%, respectively. The cash flow projections are discounted appropriately at a pre-tax discount rate of 8%.

18. Investments in subsidiaries – Company

	2008 HK$'000	2007 HK$'000
Unlisted shares, at cost	**3,886,951**	3,965,636
Due from subsidiaries	**1,278,551**	877,093
	5,165,502	4,842,729

The balances due from subsidiaries are unsecured, interest-free and not repayable within 12 months.

The particulars of the Company's principal subsidiaries are set out in Note 39 to the consolidated accounts.

Notes to the Consolidated Accounts
For the year ended 31 December 2008

19. Financial instruments by category

The accounting policies for financial instruments of the Group and the Company have been applied to the line items below:

(a) Assets

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loans and receivables				
Trade and bills receivables (Note 24)	**779,902**	594,455	**43,824**	84,698
Other receivables	**107,640**	125,073	**–**	35,793
Due from subsidiaries (Note 22)	**–**	–	**498,299**	3,904
Restricted bank deposits (Note 25)	**17,040**	144,889	**–**	–
Cash and cash equivalents (Note 26)	**1,610,552**	2,160,031	**132,387**	363,674
Total	**2,515,134**	3,024,448	**674,510**	488,069

(b) Liabilities

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities measured at amortised cost				
Trade and bills payables (Note 27)	**898,159**	672,830	**41,379**	73,530
Other payables	**129,894**	129,601	**3,485**	2,633
Due to subsidiaries (Note 23)	**–**	–	**42,437**	20,090
Bank borrowings (Note 28)	**342,664**	332,037	**200,000**	10,000
Convertible bonds (Note 29)	**1,465,247**	1,562,833	**1,465,247**	1,562,833
Total	**2,835,964**	2,697,301	**1,752,548**	1,669,086

20. Prepayment for non-current assets – Group

The balance represents prepayment for purchase of property, plant and equipment and land use rights.

21. Inventories – Group

	2008 HK$'000	2007 HK$'000
Finished goods	**951,428**	655,065
Work-in-progress	**49,007**	30,256
Raw materials	**1,022,938**	578,974
Spare parts and consumables	**104,657**	64,825
	2,128,030	1,329,120

The cost of inventories recognised as expenses and included in cost of goods sold amounted to HK$4,772,844,000 (2007: HK$3,410,728,000).

The Group recognised a loss of HK$26,155,000 (2007: HK$6,382,000), in respect of the obsolete inventories for the year ended 31 December 2008. These amounts have been included in cost of goods sold in the consolidated profit and loss account (Note 7).

22. Due from subsidiaries – Company

The balances are unsecured, interest-free and repayment on demand.

23. Due to subsidiaries – Company

The balances are unsecured, interest bearing at a rate of 5.97% (2007: 4.87%) per annum and not repayable within twelve months from the balance sheet date.

24. Trade and bills receivables

	Group		Company	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Trade receivables	**780,951**	618,148	**43,824**	84,698
Less : provision for impairment	**(12,152)**	(30,933)	**–**	–
Trade receivables, net	**768,799**	587,215	**43,824**	84,698
Bills receivables	**11,103**	7,240	**–**	–
	779,902	594,455	**43,824**	84,698

Notes to the Consolidated Accounts
For the year ended 31 December 2008

24. Trade and bills receivables *(continued)*

The majority of the Group's sales is on open account with credit terms ranging from 30 days to 90 days. At 31 December 2008, the ageing analysis of the trade and bills receivables is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 30 days	**400,543**	235,076	**43,824**	84,698
31 – 180 days	**356,465**	332,785	**–**	–
181 – 365 days	**8,191**	14,816	**–**	–
Over 365 days	**14,703**	11,778	**–**	–
	779,902	594,455	**43,824**	84,698

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

The credit quality of the trade receivables that are neither past due nor impaired in the amount of HK$637,866,000 (2007: HK$465,903,000) can be assessed by reference to their payment history and current financial position. These receivables relate to a whole range of customers for whom there was no recent history of default.

Management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are expected to be fully recoverable.

As at 31 December 2008, trade receivables of HK$142,036,000 (2007: HK$128,552,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 30 days	**–**	–	**–**	–
31 – 180 days	**132,999**	117,616	**–**	–
181 – 365 days	**5,991**	5,227	**–**	–
Over 365 days	**3,046**	5,709	**–**	–
	142,036	128,552	**–**	–

Notes to the Consolidated Accounts
For the year ended 31 December 2008

24. Trade and bills receivables *(continued)*

As at 31 December 2008, trade receivables of HK$12,152,000 (2007: HK$30,933,000) were impaired and fully provided for. The individually impaired receivables mainly relate to supermarkets and distributors, which are in unexpected difficult economic situations. The ageing of these receivables is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
31 – 180 days	**–**	45	**–**	–
181 – 365 days	**–**	549	**–**	–
Over 365 days	**12,152**	30,339	**–**	–
	12,152	30,933	**–**	–

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

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**30,933**	39,661	**–**	–
Exchange differences	**1,730**	2,457	**–**	–
Provision for impairment of trade receivables (Note 7)	**11,266**	2,235	**–**	–
Receivables written off during the year as uncollectible	**(31,777)**	(13,420)	**–**	–
As 31 December	**12,152**	30,933	**–**	–

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

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

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

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi	**751,137**	566,326	**–**	–
Other currencies	**28,765**	28,129	**43,824**	84,698
	779,902	594,455	**43,824**	84,698

Notes to the Consolidated Accounts
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25. Restricted bank deposits – Group

Approximately HK$17,040,000 (2007: HK$14,421,000) of the bank balances and cash is restricted to be drawn down until the bills payables of the Group are settled. In 2007, the balance also included bank deposits of HK$130,468,000 placed as securities for short-term bank loans amounting to HK$118,743,000 (Note 28).

26. Cash and cash equivalents

The effective interest rate on short-term bank deposit was approximately 2.37% (2007: 1.28%) per annum.

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

The carrying amounts of the cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollar	**164,217**	1,013,297	**104,416**	352,259
Renminbi	**1,379,922**	1,060,812	**–**	–
United States dollar	**66,401**	85,689	**27,959**	11,415
Others	**12**	233	**12**	–
	1,610,552	2,160,031	**132,387**	363,674

27. Trade and bills payables

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**878,813**	646,601	**41,379**	73,530
Bills payables	**19,346**	26,229	**–**	–
	898,159	672,830	**41,379**	73,530

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

Notes to the Consolidated Accounts
For the year ended 31 December 2008

27. Trade and bills payables *(continued)*

At 31 December 2008, the ageing analysis of the trade payables is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 30 days	**389,415**	418,946	**4,835**	73,530
31 – 180 days	**470,948**	202,519	**36,544**	–
181 – 365 days	**10,834**	17,710	**–**	–
Over 365 days	**7,616**	7,426	**–**	–
	878,813	646,601	**41,379**	73,530

Bills payables of approximately HK$19,346,000 (2007: HK$26,229,000) of the Group are normally with maturity periods within 180 days.

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

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi	**537,409**	430,184	**–**	–
United States dollar	**360,354**	224,890	**38,407**	70,175
Hong Kong dollar	**–**	–	**2,972**	3,355
Others	**396**	17,756	**–**	–
	898,159	672,830	**41,379**	73,530

28. Bank borrowings

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current				
Long-term bank loans – unsecured	**45,840**	85,227	**–**	–
Current				
Trust receipt bank loans	**1,688**	3,602	**–**	–
Current potion of long-term bank loans – unsecured	**95,136**	114,465	**–**	–
Short-term bank loans – unsecured	**200,000**	10,000	**200,000**	10,000
Short-term bank loans – secured (Note 25)	**–**	118,743	**–**	–
	296,824	246,810	**200,000**	10,000
Total bank borrowings	**342,664**	332,037	**200,000**	10,000

As at 31 December 2008, the effective interest rate was approximately 4.52% (2007: 4.87%) per annum.

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28. Bank borrowings *(continued)*

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

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollar	**321,201**	213,294	**200,000**	10,000
United States dollar	**–**	118,743	**–**	–
Renminbi	**21,463**	–	**–**	–
	342,664	332,037	**200,000**	10,000

At 31 December 2008, the Group's long-term bank loans were repayable as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Within 1 year	**95,136**	114,465
Between 1 and 2 years	**45,840**	59,318
Between 2 and 5 years	**–**	25,909
Wholly repayable within 5 years	**140,976**	199,692

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

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

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
6 months or less	**244,837**	99,956	**200,000**	10,000
7 – 12 months	**51,987**	146,854	**–**	–
1 – 5 years	**45,840**	85,227	**–**	–
	342,664	332,037	**200,000**	10,000

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29. Convertible bonds – Company and Group

On 16 May 2006, the Company issued zero-coupon convertible bonds due on 16 May 2011 (the "maturity date") in the aggregate principal amount of HK$1.5 billion with an initial conversion price of HK$19.12 per ordinary share of the Company (adjusted to HK$19.09 on 24 October 2007). Unless previously redeemed, converted, purchased or cancelled (subject to redemption conditions), these bonds will be redeemed at 126.15 per cent of their principal amount on the maturity date.

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

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

The convertible bonds recognised in the balance sheet are calculated as follows:

	2008 **HK$'000**	2007 HK$'000
Face value of convertible bonds issued on 16 May 2006	**1,500,000**	1,500,000
Issuing expenses	**(31,989)**	(31,989)
Equity component (Note 32)	**(20,941)**	(20,941)
Liability component on initial recognition on 16 May 2006	**1,447,070**	1,447,070
Accumulated finance costs (Note 8)	**195,717**	132,183
Right of conversion exercised by bond holders	**(177,540)**	(16,420)
Liability component as at 31 December	**1,465,247**	1,562,833

The fair value of the liability component of the convertible bonds as at 31 December 2008 amounted to approximately HK$1,475,851,000 (2007: HK$1,564,207,000). The fair value is calculated using cash flows discounted at rate a based on the borrowing rate of 5.3% (2007: 5.3%) per annum.

For the year ended 31 December 2008, bond holders served conversion notices and convertible bonds with face values of approximately HK$161,120,000 (2007: HK$16,420,000) were converted to 8,440,016 (2007: 858,553) ordinary shares of the Company, resulting in increase in share capital and share premium by HK$845,000 (2007: HK$85,000) (Note 30) and HK$160,275,000 (2007: HK$16,335,000) (Note 32) respectively.

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30. Share capital

	Authorised Ordinary shares of HK$0.1 each	
	Number of shares	HK$'000
At 31 December 2008 and 31 December 2007	3,000,000,000	300,000

	Issued and fully paid Ordinary shares of HK$0.1 each	
	Number of shares	HK$'000
At 1 January 2007	1,080,766,355	108,077
Issue of new shares	60,000,000	6,000
Conversion of convertible bonds into shares (Note 29)	858,553	85
At 31 December 2007	1,141,624,908	114,162
Conversion of convertible bonds into shares (Note 29)	**8,440,016**	**845**
At 31 December 2008	**1,150,064,924**	**115,007**

On 5 November 2007, the Company issued 60,00,000 shares of HK$0.10 each at a price of HK$30.47 per share, raising approximately HK$1,797,579,000 (net of transaction cost) for financing potential acquisitions, capacity expansion and for general working capital purposes.

31. Share-based compensation

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

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

	2008		2007	
	Average exercise price in HK dollar per share	**Options (thousands)**	Average exercise price in HK dollar per share	Options (thousands)
At 1 January	**25.06**	**11,000**	–	–
Granted	**25.05**	**100**	25.06	11,000
Forfeited	**25.05**	**(636)**	–	–
At 31 December	**25.06**	**10,464**	25.06	11,000

31. Share-based compensation *(continued)*

Share options outstanding at the end of the year will expire in May 2013 and have the following exercise prices:

	Number of share options (thousands)	
Exercise price per share option	**2008**	2007
HK$25.30	**580**	580
HK$25.05	**9,884**	10,420
	10,464	11,000

No share option was exercisable as at 31 December 2008 and 2007 respectively.

The weighted average fair value of options granted was determined by using the Binomial Model was HK$7.105 per option. The significant inputs into the model were share prices at the grant dates, the exercise prices shown above, volatility of 35%, dividend yield of 2.5%, and annual risk-free interest rate of 4.64%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last two years.

The total amount of the fair value of share options granted to Directors and employees is expensed over the vesting period. The share-based compensation expenses for the year ended 31 December 2008 amounted to HK$22,698,000 (2007: HK$10,737,000) (Note 13), and the remaining unamortised fair value of approximately HK$44,724,000 will be charged to the profit and loss account in the future years.

In accordance with the share option scheme approved by the shareholders of the Company on 2 May 2003, after taking into account the number of shares already granted, the Company may grant upto 99,531,200 share options within 10 years from the adoption date of the share option scheme. As at 31 December 2008, the maximum number of shares available for issue after considering the share options already granted is 88,431,200.

32. Reserves

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000 Restated	**HK$'000**	HK$'000
Retained earnings				
Proposed final dividend (Note 12)	**460,026**	365,714	**460,026**	365,714
Unappropriated retained earnings	**1,409,728**	994,278	**182,498**	62,712
	1,869,754	1,359,992	**642,524**	428,426
Other reserves	**4,499,296**	3,870,069	**3,328,654**	3,145,681
Total reserves	**6,369,050**	5,230,061	**3,971,178**	3,574,107

Notes to the Consolidated Accounts

For the year ended 31 December 2008

32. Reserves *(continued)*

Group

	Share premium account HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Property revaluation reserve HK$'000	Convertible bonds-equity component reserve HK$'000	Statutory reserves HK$'000	Share-based compensation reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2007,										
as previously reported	719,282	517,705	1,807	31,325	20,941	222,646	–	174,356	997,088	2,685,150
Prior year adjustment (Note 2(a))	–	–	–	(31,325)	–	–	–	(2,047)	(131)	(33,503)
At 1 January 2007, as restated	719,282	517,705	1,807	–	20,941	222,646	–	172,309	996,957	2,651,647
2006 final dividends paid	–	–	–	–	–	–	–	–	(270,244)	(270,244)
2007 interim dividends paid	–	–	–	–	–	–	–	–	(302,821)	(302,821)
Profit for the year	–	–	–	–	–	–	–	–	1,008,157	1,008,157
Issue of new shares (Note 30)	1,791,579	–	–	–	–	–	–	–	–	1,791,579
Appropriation to statutory reserves	–	–	–	–	–	72,057	–	–	(72,057)	–
Conversion of convertible bonds										
(Note 29)										
– equity component	229	–	–	–	(229)	–	–	–	–	–
– conversion into shares	16,335	–	–	–	–	–	–	–	–	16,335
Share-based compensation										
(Notes 13 and 31)	–	–	–	–	–	–	10,737	–	–	10,737
Translation of subsidiaries' accounts	–	–	–	–	–	–	–	324,671	–	324,671
At 31 December 2007	2,527,425	517,705	1,807	–	20,712	294,703	10,737	496,980	1,359,992	5,230,061
At 1 January 2008,										
as previously reported	**2,527,425**	**517,705**	**1,807**	**166,300**	**20,712**	**294,703**	**10,737**	**501,460**	**1,359,700**	**5,400,549**
Prior year adjustment (Note 2(a))	**–**	**–**	**–**	**(166,300)**	**–**	**–**	**–**	**(4,480)**	**292**	**(170,488)**
At 1 January 2008, as restated	**2,527,425**	**517,705**	**1,807**	**–**	**20,712**	**294,703**	**10,737**	**496,980**	**1,359,992**	**5,230,061**
2007 final dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(365,714)**	**(365,714)**
2008 interim dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(365,858)**	**(365,858)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,340,914**	**1,340,914**
Appropriation to statutory reserves	**–**	**–**	**–**	**–**	**–**	**99,580**	**–**	**–**	**(99,580)**	**–**
Conversion of convertible bonds										
(Note 29)										
– equity component	**2,250**	**–**	**–**	**–**	**(2,250)**	**–**	**–**	**–**	**–**	**–**
– conversion into shares	**160,275**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**160,275**
Share-based compensation										
(Notes 13 and 31)	**–**	**–**	**–**	**–**	**–**	**–**	**22,698**	**–**	**–**	**22,698**
Translation of subsidiaries' accounts	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**346,674**	**–**	**346,674**
At 31 December 2008	**2,689,950**	**517,705**	**1,807**	**–**	**18,462**	**394,283**	**33,435**	**843,654**	**1,869,754**	**6,369,050**

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32. Reserves *(continued)*

Company

	Share premium account HK$'000	Capital redemption reserve HK$'000	Convertible bonds-equity component HK$'000	Share-based compen-sation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2007	1,304,282	1,807	20,941	–	301,412	1,628,442
2006 final dividends paid	–	–	–	–	(270,244)	(270,244)
2007 interim dividends paid	–	–	–	–	(302,821)	(302,821)
Profit for the year (Note 10)	–	–	–	–	700,079	700,079
Issue of new shares (Note 30)	1,791,579	–	–	–	–	1,791,579
Convertible bonds (Note 29)						
– equity component	229	–	(229)	–	–	–
– conversion into shares	16,335	–	–	–	–	16,335
Share-based compensation (Notes 13 and 31)	–	–	–	10,737	–	10,737
At 31 December 2007	3,112,425	1,807	20,712	10,737	428,426	3,574,107
At 1 January 2008	**3,112,425**	**1,807**	**20,712**	**10,737**	**428,426**	**3,574,107**
2007 final dividends paid	**–**	**–**	**–**	**–**	**(365,714)**	**(365,714)**
2008 interim dividends paid	**–**	**–**	**–**	**–**	**(365,858)**	**(365,858)**
Profit for the year (Note 10)	**–**	**–**	**–**	**–**	**945,670**	**945,670**
Convertible bonds (Note 29)						
– equity component	**2,250**	**–**	**(2,250)**	**–**	**–**	**–**
– conversion into shares	**160,275**	**–**	**–**	**–**	**–**	**160,275**
Share-based compensation (Notes 13 and 31)	**–**	**–**	**–**	**22,698**	**–**	**22,698**
At 31 December 2008	**3,274,950**	**1,807**	**18,462**	**33,435**	**642,524**	**3,971,178**

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

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

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

33. Deferred income tax – Group

Deferred income tax is calculated in full on temporary differences under the liability method using the prevailing tax rates applicable to the PRC subsidiaries of the Group.

The movements in the deferred income tax assets and liabilities during the year are as follows:

Deferred income tax assets

	Unrealised profit in inventories	
	2008	2007
	HK$'000	HK$'000
At 1 January	**45,216**	59,825
Exchange differences	**3,181**	3,654
Acquisition of subsidiaries (Note 35)	**6,692**	–
Credited/(charged) to the consolidated profit and loss account (Note 9)	**13,180**	(18,263)
At 31 December	**68,269**	45,216

Deferred income tax liabilities

	Revaluation of buildings and fair value adjustments of intangible assets	
	2008	2007
	HK$'000	HK$'000
		Restated
At 1 January, as previously reported	**37,971**	12,239
Prior year adjustment (Note 2(a))	**(37,971)**	(12,239)
At 1 January, as restated	**–**	–
Acquisition of subsidiaries (Note 35)	**56,892**	–
At 31 December	**56,892**	–

Deferred income tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred tax assets of HK$3,708,000 (2007: HK$2,147,000) in respect of losses amounted to HK$16,449,000 (2007: HK$13,368,000) that can be carried forward against future taxable income. The unrecognised tax losses will expire up to 2012.

34. Notes to the consolidated cash flow statement

(a) Cash inflow generated from operations

	2008 HK$'000	2007 HK$'000 Restated
Profit before income tax	**1,510,688**	1,184,690
Depreciation of property, plant and equipment (Note 14)	**278,583**	199,953
Amortisation of leasehold land and land use rights (Note 16)	**6,466**	4,909
Amortisation of intangible assets (Note 17)	**565**	472
Losses on disposal/write-off of property, plant and equipment (Note 6)	**4,512**	1,594
Share-based compensation expenses (Note 13)	**22,698**	10,737
Amortisation of deferred income on government grants (Note 6)	**(4,629)**	(1,436)
Finance income	**(46,494)**	(21,707)
Finance costs	**66,878**	95,016
Operating profit before working capital changes	**1,839,267**	1,474,228
Increase in inventories	**(591,479)**	(234,861)
Decrease/(increase) in finance lease receivables, trade and bills receivables, other receivables, prepayments and deposits	**120,129**	(405,703)
Increase in trade and bills payables, other payables and accrued charges	**123,079**	271,174
Net cash inflow generated from operations	**1,490,996**	1,104,838

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

	2008 HK$'000	2007 HK$'000
Net book value (Note 14)	**26,423**	6,163
Losses on disposal/write-off of property, plant and equipment (Note 6)	**(4,512)**	(1,594)
Proceeds from disposal of property, plant and equipment	**21,911**	4,569

35. Business combination – acquisition of subsidiaries

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

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

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

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

36. Contingent liabilities

At 31 December 2008, the Group had no material contingent liabilities (2007 : Nil).

At 31 December 2008, the Company provided financial guarantees for bank loans of its subsidiaries amounting to HK$457,000,000 (2007: HK$350,000,000).

37. Commitments

At 31 December 2008, the Group had the following commitments:

(a) Capital commitments

	Group	
	2008	2007
	HK$'000	HK$'000
Contracted but not provided for in respect of :		
Plant, machinery and equipment	**506,298**	146,221
Land and buildings	**71,995**	60,870
	578,293	207,091
Authorised but not contracted for in respect of:		
Land and buildings	**843,633**	–

(b) Commitments under operating leases

At 31 December 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group					
	Land and buildings		Others		Total	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Not later than 1 year	**15,861**	11,722	**–**	3,083	**15,861**	14,805
Later than 1 year and not later than 5 years	**5,415**	2,962	**–**	–	**5,415**	2,962
Later than 5 years	**19**	–	**–**	–	**19**	–
	21,295	14,684	**–**	3,083	**21,295**	17,767

The Company did not have commitments as at 31 December 2008 and 2007.

38. Significant related party transactions

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

Save as disclosed in Notes 13, 18, 22 and 23 above, the Group had the following significant related party transactions during the year ended 31 December 2008:

	2008 HK$'000	2007 HK$'000
(a) Purchases from Weifang Power		
– electricity energy	**75,627**	43,049
– heat energy	**31,438**	18,589

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

	2008 HK$'000	2007 HK$'000
(b) Key management compensation		
Basic salaries, housing allowances, other allowances and benefits-in-kind	**7,695**	6,312
Share-based compensation	**2,015**	859
Contributions to pension schemes	**55**	57
	9,765	7,228

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39. Subsidiaries

The following is a list of the principal subsidiaries of the Company at 31 December 2008 which, in the opinion of the Directors, were 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 2008 %
Direct subsidiaries:				
Hengan Mega Jumbo Investment Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share of HK$1 each	100
Ever Town Investments Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100
Hengan International Holdings Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100
Hengan (China) Investment Co., Ltd.	PRC, wholly foreign-owned enterprise	Investment holding in the PRC, trading and procurement in the PRC	RMB800,000,000	100
Indirect subsidiaries:				
Hengan Industrial (Hong Kong) Limited	Hong Kong, limited liability company	Trading and procurement in Hong Kong	2 ordinary shares of HK$1 each	100
Hengan Pharmacare Company Limited	Hong Kong, limited liability company	Trading, procurement and distribution of hygiene products in Hong Kong	10,000 ordinary shares of HK$1 each	70
QinQin Foodstuffs Group Company Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	135,946,900 Ordinary shares of HK$0.001 each	51
QinQin Foodstuffs Group (Hong Kong) Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	1 ordinary share of HK$1 each	51
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	RMB147,360,000	98.32

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39. 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 2008 %
Indirect subsidiaries: *(continued)*				
Guangzhou Xingshi Professional Equipments Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene equipments in the PRC	US$18,000,000	100
Hengan (Jinjiang) Household Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$15,800,000	100
Hengan (Jiangxi) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	HK$6,958,000	100
Hengan (Shaanxi) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB3,980,000	100
Hengan (Sichuan) Hygiene Products Co. Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$1,380,000	100
Hengan (Tianjin) Hygiene Supplies Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$3,000,000	100
Hengan (Weifang) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$3,410,000	100
Hengan (Xiaogan) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$1,460,000	100
Jinjiang Hengan Hygiene Material Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing of personal hygiene materials in the PRC	US$10,000,000	100

39. 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 2008 %
Indirect subsidiaries: *(continued)*				
Jinjiang Hengan Antimicrobial Science and Technology Development Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB11,100,000	90.1
Hengan (Sichuan) Household Products Co.,Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$3,000,000	100
Hengan (Jiangxi) Household Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	HK$20,000,000	100
Hengan (Weifang) Household Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	HK$10,000,000	100
Hengan (Xiaogan) Family Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	HK$10,000,000	100
Hengan (Shangyu) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$5,000,000	100
Hengan (Sichuan) Household Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$12,000,000	100
Hengan (Fushun) Household Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB24,000,000	100
Hengan (Hubei) Household Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB33,600,000	100

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39. 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 2008 %
Indirect subsidiaries: *(continued)*				
Hengan (Hefei) Living Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB114,300,000	100
Chongqing Hengan Hearttex Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$6,000,000	100
Fushun Hengan Hearttex Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$3,000,000	100
Fushun Hengan Tissue Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$3,000,000	100
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
Hengan (Chongqing) Hearttex Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	HK$2,500,000	100
Hengan (China) Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$68,880,000	100
Hengan (China) Hygiene Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$12,000,000	100
Hengan Zhejiang Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$30,000,000	100

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39. 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 2008 %
Indirect subsidiaries: *(continued)*				
Hengan (Tianjin) Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB80,900,000	100
Hengan Guangxi Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB161,400,000	100
Hengan (Hubei) Hearttex Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB32,000,000	100
Hengan (Hunan) Tissue Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB79,000,000	100
Hunan Hengan Living Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB197,500,000	100
Hengan (Shaanxi) Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$9,980,000	100
Jinjiang Hengan Hearttex Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$12,000,000	100
Jinjiang Hengan Household Tissue Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$12,000,000	100
Shandong Hengan Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$49,800,000	100
Shandong Hengan Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$35,880,000	100

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39. 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 2008 %
Indirect subsidiaries: *(continued)*				
Hengan Li Ren Tang (Jian) Cosmetics Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of skin care and personal daily use products in the PRC	RMB32,000,000	70
Fushun Nanfang Food Industry Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of food and snack products in the PRC	RMB10,000,000	51
Fushun QinQin Food Industry Development Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of food and snack products in the PRC	RMB22,000,000	51
Luohe Linying QinQin Food Industry Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of food and snack products in the PRC	RMB10,000,000	51
Qin Qin Incorporated Co., Ltd. (Fujian)	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of food and snack products in the PRC	RMB70,000,000	51
Quanzhou QinQin Foodstuff Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of food and snack products in the PRC	RMB130,000,000	51
Taian QinQin Food Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of food and snack products in the PRC	RMB5,000,000	51
Xianto QinQin Food Industry Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of food and snack products in the PRC	RMB10,000,000	51
Xianyang Qin Qin Foods Stuff Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of food and snack products in the PRC	RMB5,000,000	51

None of the subsidiaries had any loan capital in issue at any time during the years ended 31 December 2008 and 2007.