恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044

# 2010 ANNUAL REPORT

## Corporate Mission

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

# Contents



# Corporate Information

## EXECUTIVE DIRECTORS

Sze Man Bok *(Chairman)*
Hui Lin Chit *(Deputy Chairman and Chief Executive Officer)*
Hung Ching Shan
Xu Shui Shen
Xu Da Zuo
Xu Chun Man
Sze Wong Kim
Hui Ching Chi
Loo Hong Shing Vincent

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Henry
Wang Ming Fu
Ada Ying Kay Wong

## COMPANY SECRETARY

Loo Hong Shing Vincent *FCCA, AHKSA*

## AUTHORISED REPRESENTATIVES

Hui Lin Chit
Loo Hong Shing Vincent

## LEGAL ADVISERS

*Hong Kong*
Richards Butler

*PRC*
Global Law Office

*Cayman Islands*
Maples and Calder Asia

## AUDITOR

PricewaterhouseCoopers
*Certified Public Accountants*

## REGISTERED OFFICE

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

## HEAD OFFICE

Hengan Industrial City
Anhai Town
Jinjiang City
Fujian Province
PRC

## PLACE OF BUSINESS IN HONG KONG

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

## PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock Code: 1044

## WEBSITES

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

## PRINCIPAL BANKERS

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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

## SHARE REGISTRAR AND TRANSFER OFFICE

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

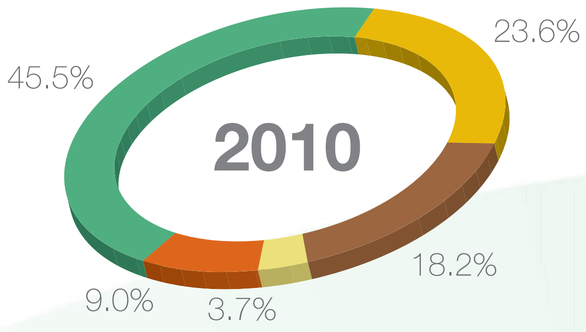
## INVESTORS AND MEDIA RELATIONS

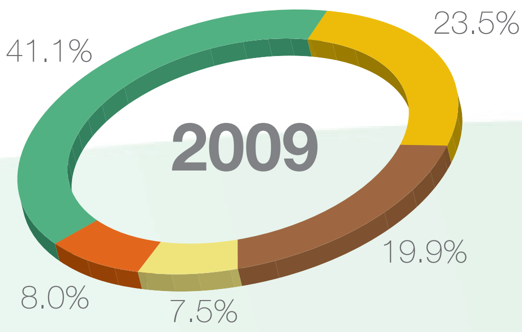
iPR Ogilvy Ltd.
Units 2008-12, 20/F, The Centre
99 Queen's Road
Central
Hong Kong

# Financial Highlights

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Net profit margin — based on profit attributable to shareholders of the Company (%) | **18.2** | 19.5 | 16.8 | 17.7 | 16.9 |
| Earnings per share (HK$) | **1.996** | 1.770 | 1.172 | 0.924 | 0.645 |
| Finished goods turnover (days) | **54** | 58 | 61 | 64 | 71 |
| Trade receivables turnover (days) | **31** | 28 | 31 | 32 | 29 |
| Current ratio (times) | **1.8** | 1.9 | 2.7 | 3.4 | 2.5 |
| Gross gearing ratio (%) | **50.6** | 30.3 | 27.9 | 35.5 | 64.2 |
| Net gearing ratio (%) | **—** | — | 2.8 | — | 27.2 |

## ANALYSIS OF REVENUE BY PRODUCT




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

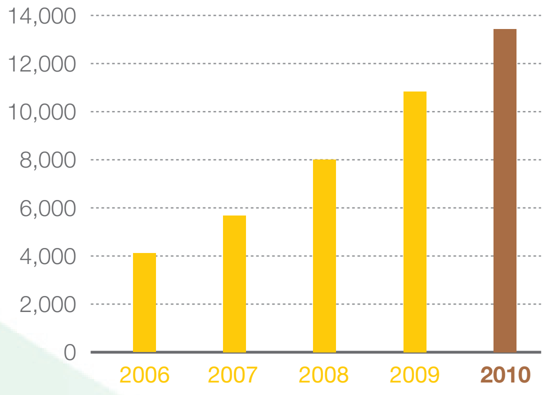
# Five-Year Financial Summary

## Consolidated Results — for the year ended 31 December

| | 2010 HK$'000 | 2009 HK$'000 | 2008 HK$'000 | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|---|---|
| Revenue | **13,431,688** | 10,833,839 | 8,001,545 | 5,686,972 | 4,114,943 |
| Profit before income tax | **3,038,367** | 2,582,729 | 1,510,688 | 1,184,690 | 870,756 |
| Income tax expense | **551,950** | (415,706) | (166,032) | (175,555) | (171,773) |
| Profit for the year | **2,486,417** | 2,167,023 | 1,344,656 | 1,009,135 | 698,983 |
| Non-controlling interests | **(48,089)** | (49,514) | (3,742) | (978) | (972) |
| Profit attributable to shareholders of the Company | **2,438,328** | 2,117,509 | 1,340,914 | 1,008,157 | 698,011 |
| Earnings per share (HK$) | **1,996** | 1.770 | 1.172 | 0.924 | 0.645 |

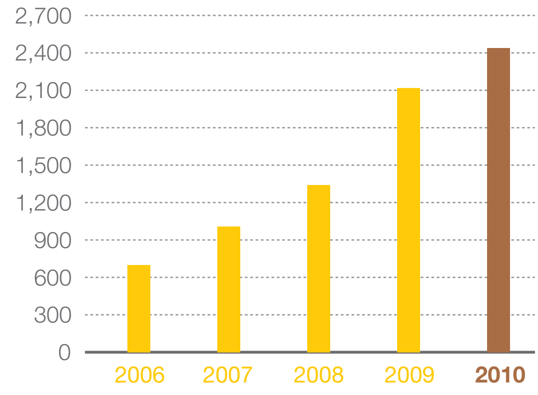
## REVENUE

HK$ million




## PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

HK$ million

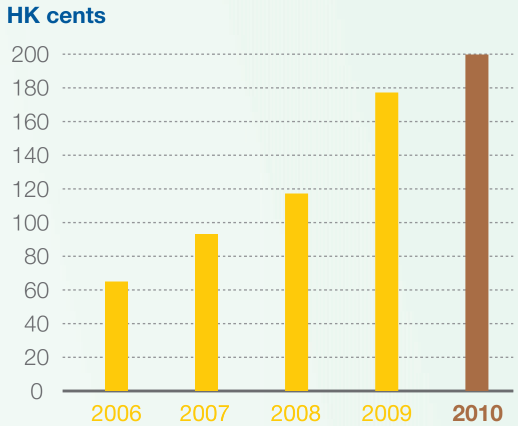


# Five-Year Financial Summary

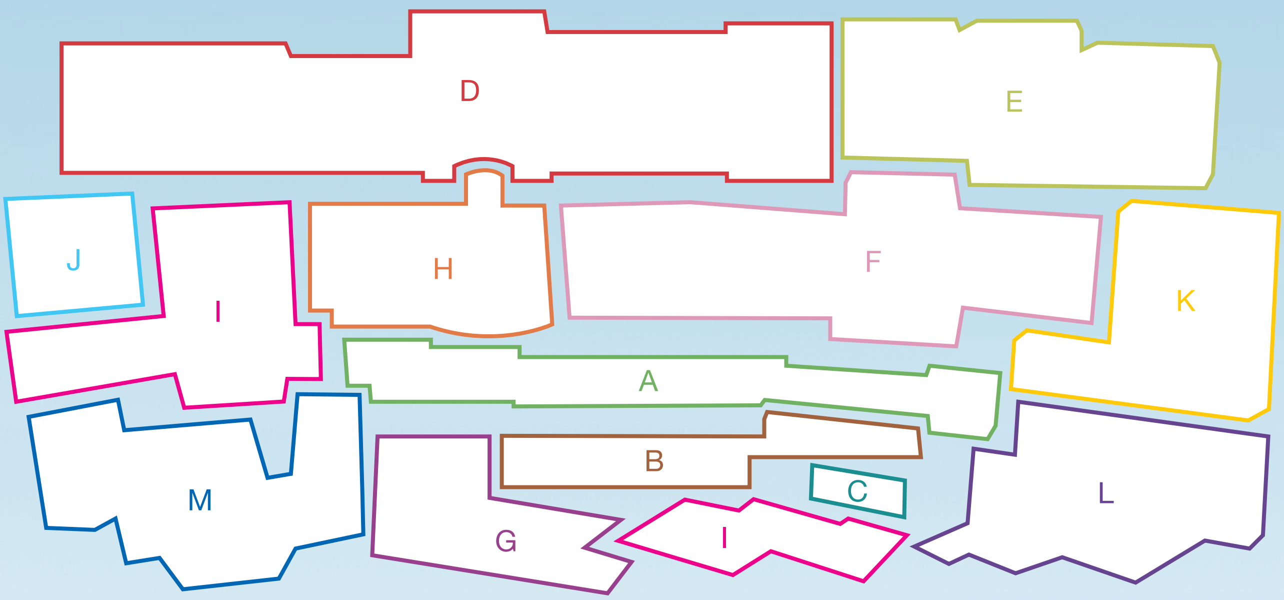
## Consolidated Assets and Liabilities — as at 31 December

| | 2010 HK$'000 | 2009 HK$'000 | 2008 HK$'000 | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Property, plant and equipment | 4,519,090 | 3,535,811 | 3,080,750 | 2,342,837 | 1,608,956 |
| Construction-in-progress | 665,130 | 808,410 | 813,329 | 455,664 | 387,560 |
| Leasehold land and land use rights | 613,982 | 397,541 | 239,408 | 143,172 | 63,529 |
| Intangible assets | 606,508 | 616,384 | 626,296 | 454,663 | 454,940 |
| Prepayments for non-current assets | 537,714 | 428,913 | 466,679 | 322,219 | 175,153 |
| Deferred income tax assets | 98,213 | 89,395 | 68,269 | 45,216 | 59,825 |
| Non-current finance lease receivables | – | – | 9,692 | – | – |
| Cash and cash equivalents | 5,989,024 | 4,449,674 | 1,610,552 | 2,160,031 | 1,014,894 |
| Long-term bank deposits | 786,274 | 468,597 | – | – | – |
| Other current assets | 4,761,445 | 3,353,214 | 3,134,037 | 2,450,057 | 1,670,379 |
| Total assets | 18,577,380 | 14,147,939 | 10,049,012 | 8,373,859 | 5,435,236 |
| **Liabilities** | | | | | |
| Long-term bank loans | 1,497,050 | 555,031 | 45,840 | 85,227 | 69,837 |
| Convertible bonds | – | – | 1,465,247 | 1,562,833 | 1,497,313 |
| Deferred income tax liabilities | 172,637 | 115,476 | 56,892 | – | – |
| Deferred income on government grants | 5,281 | 5,104 | 7,555 | 11,211 | 10,166 |
| Current liabilities | 6,076,880 | 4,175,345 | 1,757,577 | 1,348,952 | 1,074,786 |
| Total liabilities | 7,751,848 | 4,850,956 | 3,333,111 | 3,008,223 | 2,652,102 |
| Non-controlling interest | 322,345 | 279,977 | 231,844 | 21,413 | 23,411 |
| **Net assets attributable to shareholders of the Company** | 10,503,187 | 9,017,006 | 6,484,057 | 5,344,223 | 2,759,723 |

## EARNINGS PER SHARE




Anerle
安儿乐
L 40片
超值干爽
M
超柔防漏
M 36片
超能
心相印
厨房纸巾
Kitchen Towel
柔肤系列
PINO
鸡香醇鲜
香格里
绿色食品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| | |
|---|---|
| A | "Anerle" and "Anle" sanitary napkins |
| B | "Anerle" pantiliners |
| C | "Anerle" skincare wipes |
| 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 2010. During the year, the external economic environment is still grim as European debt crisis burst out right after the global financial tsunami. However, benefited from the improved external trade and internal consumption, China still achieved steady but robust economic growth during the year. Meanwhile, the rising income and consumption levels promoted the expansion of hygiene products demand, especially the demand for higher quality care and hygiene products. Coupled with strong brand and scale advantage, and a steady leading position in the domestic personal and family hygiene product industry, the Group seized market opportunities and achieved sustainable business development.

During the year under review, the Group recorded growth in both revenue and profit attributable to shareholders. For the year ended 31 December 2010, the Group's revenue was approximately HK$13,431,688,000 (2009: HK$10,833,839,000), representing an increase of approximately 24.0% from that of the previous year. Profit attributable to shareholders increased by approximately 15.2% to approximately HK$2,438,328,000 (2009: HK$2,117,509,000). Basic earnings per share amounted to approximately HK$1.996 per share (2009: HK$1.770). The Board of Directors recommended the payment of a final dividend of HK$0.70 per share (2009: HK$0.60). Taking the interim dividend of HK$0.60 per share (2009: HK$0.50) into account, the annual dividend amounted to HK$1.30 per share (2009: HK$1.10).

During the year, tissue paper business continued to be the Group's major revenue source, accounting for approximately 45.5% of the Group's total revenue. The sanitary napkin and disposable diaper businesses accounted for approximately 23.6% and 18.2% of the total revenue of the Group respectively. QinQin Foodstuffs Group Company Limited ("QinQin Foodstuffs"), which was acquired by the Group at the end of 2008, continued to integrate with hygiene products business in every aspects and the economic benefit resulted from this acquisition was emerging. During the year, revenue of QinQin Foodstuffs accounted for approximately 9.0% of the Group's total revenue.

During the year under review, the Group's production costs recorded a significant increase and the operation was facing pressure as a result of significant rebound in prices of major raw materials, tissue wood pulp, fluff pulp and petrochemical products, from the trough in 2009. However, the Group reacted proactively and adopted appropriate cost control measures and product mix optimization to offset the negative impact brought by cost increase to a large extent. During the year, overall gross profit margin of the Group slightly decreased to approximately 44.3% (2009: 46.0%).

While steadily expediting business growth, the Group also actively participated in social welfare activities within its ability in order to contribute to the society. During the year, the Group made charitable donations amounted to approximately HK$25,784,000 (2009: HK$37,026,000).

The past year was also the 25th anniversary of Hengan Group. During the past quarter century, the Group adhered to its operation philosophy of "Growing with You for a Better Life" and the enterprise spirit of "Integrity, Diligence, Innovation, Dedication", and promoted business development actively through continuous improvement and innovation.

Looking forward to the year ahead, China Government will continue to expand domestic demand to support the robust economic growth momentum. The Group believes that it will continue to benefit from the expanding higher quality hygiene products market as the accelerating urbanization contributes to the rise of income levels, living standards and people's awareness in health and hygiene. Leveraging on its brand reputation, prudent expansion strategy and strong competitiveness, the Group will further improve its distribution network and diversify product mix in order to seize more market opportunities as well as to consolidate its market leadership.

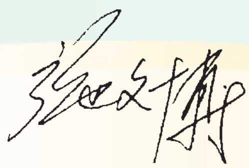
I would like to express my gratitude to every member of staff for their continuous effort that contributed to the steady growth of Hengan International. I would also like to thank shareholders for their enduring support and recognition of the development strategies and future goals of the Group. To thank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

Chairman's Statement

## REVENUE BY REGIONS IN MAINLAND CHINA


| | 2010 | 2009 |
|---|---|---|
| **NORTH-WESTERN** | | |
| Sales Value: (HK$ million) | **638** | 476 |
| Percentage of Total Sales: | **4.7%** | 4.4% |
| **NORTHERN** | | |
| Sales Value: (HK$ million) | **1,292** | 984 |
| Percentage of Total Sales: | **9.6%** | 9.1% |
| **NORTH-EASTERN** | | |
| Sales Value: (HK$ million) | **1,133** | 820 |
| Percentage of Total Sales: | **8.4%** | 7.6% |
| **SHANDONG** | | |
| Sales Value: (HK$ million) | **1,261** | 1,022 |
| Percentage of Total Sales: | **9.4%** | 9.4% |
| **EASTERN** | | |
| Sales Value: (HK$ million) | **1,965** | 1,646 |
| Percentage of Total Sales: | **14.6%** | 15.2% |

| | 2010 | 2009 |
|---|---|---|
| **CENTRAL** | | |
| Sales Value: (HK$ million) | **1,992** | 1,647 |
| Percentage of Total Sales: | **14.8%** | 15.2% |
| **FUJIAN AND GUANGDONG** | | |
| Sales Value: (HK$ million) | **2,685** | 2,114 |
| Percentage of Total Sales: | **20.0%** | 19.5% |
| **SOUTH-WESTERN** | | |
| Sales Value: (HK$ million) | **668** | 588 |
| Percentage of Total Sales: | **5.0%** | 5.4% |
| **SICHUAN** | | |
| Sales Value: (HK$ million) | **1,170** | 931 |
| Percentage of Total Sales: | **8.7%** | 8.6% |



**Sze Man Bok**
*Chairman*

Hong Kong, 29 March 2011

# Chief Executive Officer's Report

**Hui Lin Chit**
*Chief Executive Officer*

Dear shareholders,

## Business Overview

In 2010, although the global economy was gradually recovering from the financial tsunami, the European sovereign debt crisis brought uncertainty to the global financial market. Nevertheless, China still achieved robust economic growth during the year under review with the strong foundation of the China economy and a series of domestic demand stimulating measures launched by the Central Government. According to the preliminary figures from the National Bureau of Statistics of China, China's GDP increased by approximately 10.3% to approximately RMB39,798.3 billion, as compared with that of the previous year. Disposable income per capita for urban and rural citizens grew by 7.8% and 10.9% to approximately RMB19,109 and approximately RMB5,919 respectively, reflecting a continuous and steady growth in the income of Chinese urban and rural citizens.

During the year under review, the ongoing urbanization process and the rising overall living standards promoted people's awareness in health and hygiene as well as their demand for personal hygiene products. Although the soaring price of raw materials suppressed the gross profit margin of manufacturing industries, the Group, a leader in the domestic personal and family hygiene product industry, still benefited from market expansion and maintained steady growth capitalizing on its brand reputation and economies of scale.

# Chief Executive Officer's Report


For the year ended 31 December 2010, the Group's revenue amounted to approximately HK$13,431,688,000, representing approximately 24.0% increase from that of the previous year. Profit attributable to shareholders grew by approximately 15.2% to about HK$2,438,328,000. Overall gross profit margin for the Group dropped by about 1.7% to approximately 44.3% (2009: 46.0%), mainly due to the increase in production cost resulted from surge of raw material prices. Meanwhile, the Group continued to optimize its product mix, increase production capacity gradually to enhance economies of scale and implement strict cost control initiatives, thus successfully reducing the pressure of increasing raw material prices on the Group's gross profit margin.

During the year, distribution costs and administrative expenses accounted for approximately 23.8% of the revenue (2009: 23.0%), similar to that in last year.

## Business review

### Tissue papers

The continuous increase in mainland per capita income and improving living standards raised consumers' attention to the quality of tissue papers. As a result, the demand for quality tissue papers in China continued to grow rapidly in recent years. Moreover, the annual tissue paper consumption per capita of Chinese citizens is still lower than that of other developed countries, which implies huge growth potential of the market.

In 2010, revenue from the Group's tissue paper business grew by about 37.2% to approximately HK$6,114,379,000, accounting for approximately 45.5% of the total revenue (2009: 41.1%). During the year, the Group continued to manufacture and sell products with higher gross profit margins, namely, box tissue papers, pocket handkerchiefs and wet tissues, while the sales of toilet roll products with relatively lower gross profit margin accounted for approximately 33.4% of revenue of tissue paper products (2009: 33.9%).

The production costs of tissue paper business increased sharply as the price of the major raw material, tissue wood pulp, rebounded significantly from the trough in 2009. As a result, gross profit margin of the Group's tissue paper business decreased by 4.8% to approximately 37.3% (2009: 42.1%).

As at 31 December 2010, the Group's annualized production capacity for tissue papers amounted to 540,000 tons. In order to cater to the Group's development and grasp the opportunities brought by the Central Government's policy in developing western China, the Group has determined to build a new tissue paper production base in Chongqing, which will commence operation in the fourth quarter of 2011 with an annualized production capacity of 60,000 tons. Thus, the Group's annualized production capacity will reach 600,000 tons by the end of 2011. Besides, the Group also focuses on the market development in Eastern China, and plans to add a new tissue paper production base in Wuhu. In 2012, the Group will increase 60,000 tons, 120,000 tons and 120,000 tons of production capacity in Chongqing, Wuhu and Jinjiang. Subsequent to the expansion, the Group's total annualized production capacity is expected to reach 900,000 tons by the end of 2012.

**Sanitary Napkins**

As the rising living standards and consumption power continue to improve, mainland consumers have become more aware of the importance of personal hygiene, driving the continuous growth in the market penetration of sanitary napkins products. During the year, the Group continued to exert its brand advantage and its sanitary napkin business recorded satisfactory growth. As a result, the revenue of sanitary napkin business increased by about 24.5% to approximately HK$3,169,544,000, accounting for almost 23.6% of total revenue (2009: 23.5%).

During the year, the significant increase in the prices of major raw materials, petrochemical products and fluff pulp, caused pressure on the Group's production costs. However, through strengthening cost controls and increasing sales of mid-to-high-end products, the Group was able to offset the negative influence brought by the increasing prices of raw materials. Hence, the overall gross profit margin of sanitary napkins business increased slightly to approximately 62.5% (2009: 61.1%).

# Chief Executive Officer's Report

In 2011, the Group will continue to optimize its product portfolio to produce more mid-to-high-end products. Currently, in order to cater to the market's need for high quality products, the Group is planning to launch new "Space Seven" series of sanitary napkins in the second half of 2011, the average selling price and gross profit margin of which are expected to be higher than those of the existing products.

**Disposable Diapers**

Alongside the increase in family income and urbanization, the demand for disposable diapers in China continues to grow, which brought both opportunities and competitions for the industry players. In 2010, revenue from disposable diapers business grew by about 13.3% to approximately HK$2,446,901,000, accounting for about 18.2% of the total revenue (2009: 19.9%). The moderate growth of the Group's disposable diapers business during the year reflected keen market competition. It was because the revenue of the Group's low-end diapers was impacted by the lower-priced products launched by new small and medium enterprises which entered into the low-end diapers market due to the low entry barrier.

Although the prices of major raw materials, petrochemical products and fluff pulp, surged significantly, the gross profit margin of the Group's disposable diapers business still recorded slight increase to approximately 42.4% (2009: 41.1%), due to the continuous effort in cost controls and product mix optimization.

The "Super Absorbent" series launched by the Group in the second half of 2009 were well accepted by the market. The Group has planned to launch higher-end products including "Day and Night" series in mid of 2011 and "Pull Up" series in the second half of 2011 in order to meet consumers' demand for high-end products. It is expected that the average selling price and gross profit margin of these new series will be higher than those of the current product lines.

**Food and Snacks Products**

During the year, the Group actively optimized the distribution network of food and snack business by applying the distribution network operation mode of personal hygiene products business to the food and snacks business in order to further improve the operation of this business. In 2010, revenue of food and snacks business increased by 39.3% to approximately HK$1,202,726,000, accounting for about 9.0% of the Group total revenue (2009: 8.0%). Through continuous cost controls effort and product mix optimization, the Group effectively offset the influence brought by the increase of raw materials prices, which enabled gross profit margin to remain fairly stable at approximately 36.2% (2009: 36.5%).

In 2011, the Group will continue to integrate distribution network and launch new high-end products to consolidate its profit base.


**First Aid Products**

Revenue from the Group's first aid product business in 2010 under the brandnames of "Banitore" and "Bandi" amounted to approximately HK$35,719,000 (2009: HK$33,893,000). As this business only accounted for approximately 0.3% of the Group's total revenue (2009: 0.3%), it has insignificant impact on the Group's overall results.

**Skincare and Cleansing Products**

Revenue of the Group's skincare and cleansing product business reached approximately HK$30,708,000 (2009: HK$26,329,000). As this business only accounted for approximately 0.2% of the Group's total revenue (2009: 0.2%), it has only negligible impact on the Group's overall results.

**Distribution and Marketing Strategy**

In 2010, the Group celebrated its 25th anniversary and stepped up its investment in brand equity by launching more advertisements and various promotion activities. During the year, the Group launched a massive TV advertising campaign in China Central Television ("CCTV"), China's largest TV station, as well as other advertisement and promotion activities, in order to raise awareness of the Group and its brands. As a result, the Group's advertising and promotion expenses and supermarket expenses increased in 2010, accounting for about 11.1% of revenue (2009: 9.8%).

As advertising and promotion expenses increased during the year, the sales and distribution costs to revenue ratio increased to approximately 19.3% accordingly (2009: 18%).

**Research and Development of Products**

The Group always strives for excellence of its products. As the first and so far the only enterprise in the mainland's tissue paper industry being awarded the Enterprise Technological Centre with State Accreditation, the Group continued to allocate more resources on the research and development front, in a bid to further enhance its product quality, offer new and high quality hygiene products to consumers, and consolidate the Group's leading position in the personal hygiene product market.

# Chief Executive Officer's Report

## National Recognition and Awards

During the year, a major subsidiary of the Company, Fujian Hengan Holding Co., Ltd., was one of the first batch of companies in mainland China and the only company in Fujian province awarded by "State Administration for Industry and Commerce of the People's Republic of China" as "Model Enterprise for National Implementation of Trademark Strategy". In addition, the Company was also awarded the "Outstanding China Enterprise Awards in Personal Hygiene" in Hong Kong. These are recognitions of the Group's outstanding performance and market leadership in China's personal hygiene product market.

On the products front, following the "Heartex tissue paper" and "Anerle sanitary napkin", "Anerle baby diaper" was also awarded by Trademark Office of The State Administration For Industry and Commerce of the PRC as "China Renowned Brand" during the year, showing its popularity in the market.

## Liquidity, Financial Resources and Bank Loans

The Group has maintained a solid financial position. As at 31 December 2010, the Group's cash and cash equivalents, long-term bank deposits and restricted bank deposits totally amounted to approximately HK$6,834,535,000 (31 December 2009: HK$4,929,635,000); and the Group's total borrowings amounted to approximately HK$5,312,241,000 (31 December 2009: HK$2,730,200,000). The bank borrowings were subject to floating annual interest rates ranging from approximately 0.8% to 3.4% (2009: 0.7% to 3.0%). As at 31 December 2010, apart from the bank deposits of HK$59,237,000 (31 December 2009: HK$11,364,000) deposited in banks as collaterals for issuing letters of credit/guarantee for customs duty, there were no other charges on the Group's assets for its bank loans. As at 31 December 2010, the Group's gross gearing ratio was approximately 50.6% (31 December 2009: 30.3%), 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, long-term bank deposits and restricted bank deposits as a percentage of the shareholders' equity (not including minority interests) was nil (31 December 2009: nil), as the Group was in a net cash position.

During the year, the Group's capital expenditure (excluding prepayment) amounted to approximately HK$1,261,167,000.

As at 31 December 2010, the Group had no material contingent liabilities.

## Appointment of New Board Members

On 1 June 2010, the Board of Directors of the Group announced that Mr. Xu Shui Shen, Mr. Sze Wong Kim and Mr. Hui Ching Chi had been appointed as executive directors of the Company. The appointment will contribute to the long-term growth and expansion of the Group.

## Management Consulting Company

In 2010, the Group appointed Shenzhen Holographic Management Consulting & Training Limited as the Group's consultancy firm, which will help to improve the operational flows of the Group's supply chain management and optimize human resources management.

# Chief Executive Officer's Report

**Human Resources and Management**

As at 31 December 2010, the Group employed approximately 30,921 staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employee and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and continued professional opportunities according to their needs.

**Foreign Currency Risks**

Most of the Group's income is denominated in Renminbi while part 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 2010, apart from certain non-deliverable foreign exchange forward contracts to sell Renminbi for United States dollar entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

**Outlook**

Looking forward, the country's rapid economic growth and the increasing domestic demand will continue to drive the demand for various daily products and hygiene products. Furthermore, consumers' increasing awareness of personal hygiene will also promote growth in consumption of high quality hygiene products. Capitalizing on its brand reputation and scale advantage, as well as its improving distribution network, the Group is confident that it will continue to lead the sustainable development of domestic personal hygiene product market.

In addition, the Group will continue to uphold its belief that quality takes precedence, improve product quality through unceasingly enhancing technology and refine product portfolio. Meanwhile, the Group will continue to enhance management efficiency to increase competitiveness, and also reinforce its brand influence as well as further expand market share by actively expanding sales network and increasing its efforts on advertising and promotion activities.

Leveraging on its solid foundation and brand equity, the Group is confident in maintaining its leading position in the personal hygiene product market and creating greater value for shareholders by delivering steady growth of business.

**Hui Lin Chit**
*Chief Executive Officer*

Hong Kong, 29 March 2011

# Directors and Senior Management Profiles

Mr. Sze Man Bok | Mr. Hui Lin Chit | Mr. Hung Ching Shan | Mr. Xu Shui Shen | Mr. Xu Da Zuo | Mr. Xu Chun Man

## DIRECTORS

### Executive Directors

**Mr. Sze Man Bok,** aged 61, 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. He is the father of Mr. Sze Wong Kim, a Director of the Company.

**Mr. Hui Lin Chit,** aged 57, 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. He is the father of Mr. Hui Ching Chi, a Director of the Company.

**Mr. Hung Ching Shan,** aged 61, is responsible for supervising the Group's purchasing tender assignments. He has over 32 years of experience in raw materials procurement as well as in import and export trading. Mr. Hung is one of the founding shareholders of the Company.

**Mr. Xu Shui Shen,** aged 42, is the Chief Operating Officer and the Director of Business Development Department of the Group. He is responsible for the development and implementation of the Group's sales strategy, operation and business management. He joined the Group in 1985 and has over 26 years of experience in quality control management and business development. He graduated from business administration department in the HuaQiao University and holds the title of economist in the PRC. Mr. Xu is a younger brother of Mr. Xu Da Zuo and Mr. Xu Lian Pi, a Director and a senior officer of the Company respectively.

**Mr. Xu Da Zuo,** aged 44, 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 26 years of experience in accounting and internal audit. He has the title of senior accountant in the PRC. Mr. Xu is the vice-chairman of the Youth Trade Association in Fujian province, China. He is a brother of Mr. Xu Lian Pi and Mr. Xu Shui Shen, senior management of the Group and a Director of the Company respectively.

**Mr. Xu Chun Man,** aged 36, 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 18 years of experience in business development and customer service management.

# Directors and Senior Management Profiles

Mr. Sze Wong Kim | Mr. Hui Ching Chi | Mr. Loo Hong Shing Vincent | Mr. Chan Henry | Ms. Ada Ying Kay Wong | Mr. Wang Ming Fu

**Mr. Sze Wong Kim,** aged 35, is responsible for overall strategy of the Group. Before joining the Group, Mr. Sze worked in two accountancy firms in Australia and gained extensive experience in assurance and business advisory work. He started his own business in 2005 on wholesale and distribution of branded electronic components and computer accessories products in Hong Kong and overseas markets. Mr. Sze graduated from the University of Technology, Sydney with a Bachelor Degree of Business majoring in accounting and obtained a Master Degree of Commerce in finance from the University of New South Wales, Australia. He is a member of CPA Australia and a member of the Hong Kong Institute of Certified Public Accountants. He is the son of Mr. Sze Man Bok, the Chairman and a Director of the Company.

**Mr. Hui Ching Chi,** aged 26, is the General Manager of Hengan (Hong Kong) Trading Company Limited, and is responsible for sales in Hong Kong and merger and acquisition projects of the Group. Mr. Hui worked in a major international bank in London prior to joining the Group in February 2008. Mr. Hui holds a Law Degree from the London University. He is a son of Mr. Hui Lin Chit, the Chief Executive Officer and a Director of the Company.

**Mr. Loo Hong Shing Vincent,** aged 45, is the Chief Financial Officer, the Company Secretary and authorised representative of the Company. Before joining the Company in 2004, Mr. Loo worked in an international firm of accountants in Hong Kong. He has substantial experience in assurance and business advisory work, company listing and merger and acquisition work in both Hong Kong and the PRC. He graduated from the Hong Kong Polytechnic University and is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

### Independent Non-Executive Directors

**Mr. Chan Henry,** aged 45, is an Independent Non-Executive Director of the Company appointed in 1998. Mr. Chan is also a member of the Audit Committee and Remuneration Committee.

Mr. Chan has over 24 years of experience in the financial market and is the Managing Director of Sanfull Securities Limited. He was a Director of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Chan is currently a member of the Advisory Committee of the Securities and Futures Commission, the Permanent Honorary President of Hong Kong Stockbrokers Association Limited, a supervisory committee member of The Chinese Gold & Silver Exchange Society, an independent non¬executive director of Luen Thai Holdings Limited, a company listed on the Main Board of the Stock Exchange which engages in the manufacturing and trading of garment and textile products. Mr. Chan is also a committee member of the Chinese People's Political Consultative Conference in Xiamen, Fujian Province, China. Mr. Chan holds a Master's degree in Business Administration.

**Ms. Ada Ying Kay Wong,** JP, aged 51, is an Independent Non-executive Director of the Company appointed in 1998 and a member of the Audit Committee and Remuneration Committee.

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

# Directors and Senior Management Profiles

**Mr. Wang Ming Fu,** aged 45, is an Independent Non-executive Director and a member of the Audit Committee and Remuneration Committee appointed on 1 January 2010. Currently, he is the chairman of the HeJun Consulting Co., Ltd. He was a managing director of Security Research Institute and a general manager of merger and acquisition department of Junan Securities Co., Ltd. from 1993 to 1998, and was an executive director of Institute of Finance and Security, Renmin University of China from 1999 to 2003. He is a director of New Oriental Education Fund from 2007. In addition, he was an independent non-executive director of Shenzhen Airport Co., Ltd. and Hainan Minsheng Gas Corporation. He has been appointed as an independent non-executive director of Beijing UFSOFT Co., Ltd, Zhongrong Life Insurance Company Limited, and Beiqi Foton Motor Co., Ltd. since 2005, 2009 and April 2010 respectively.

He obtained a bachelor degree in political education from the East China Normal University, a master of law degree from the Nanjing University and a doctorate degree in economic from the Remin University of China. He was a senior visiting scholar of University of Illinois. Mr. Wang is a reputable strategist and investment banker in China providing long-term strategy, corporate culture, corporate governance, merger and acquisition professional consulting services for government, corporations, listed companies and institutional investors, and has over 17 years of working experience. His articles with original ideas and theories on various Chinese industries, corporate governance and capital markets amount to millions of words.

## Senior Management

**Mr. Cheng Yong,** aged 47, is the Chief Executive Officer of Qin Qin Incorporated Co. Ltd (Fujian), a non-wholly owned subsidiary of the Group. He is responsible for the overall management, business development and operation of the said subsidiary. Before transferring to that subsidiary, he was the Chief Operating Officer and responsible for the Group's daily operation management. Prior to joining the Group in 2001, he worked in some well-known corporations in the PRC and has over 21 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 50, is responsible for the Group's daily operation management. Mr. Xu joined the Group in 1985 and has over 25 years of experience in human resources management, administration, marketing and sales of fast moving consumer products. He has the title of senior economist in the PRC. He is an elder brother of Mr. Xu Da Zuo and Mr. Xu Shui Shen, Directors of the Company.

**Mr. Wang Xiang Yang,** aged 42, 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 Wen Mo,** aged 45, 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 22 years of experience in management, marketing and sales of consumer products. He has the title of senior economist in the PRC.

**Mr. Xu Zi Dan,** aged 44, 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 25 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.

# Directors and Senior Management Profiles

**Mr. Xie Gang Yi,** aged 45, is the Assistant to Chief Financial Officer of the Group. Prior to joining the Group in 2006, he was a supervisor of electronic banking department at Jinjiang branch of the Industrial and Commercial Bank of China. Mr. Xie has accumulated over 26 years of experience in finance and auditing. He graduated from Xiamen University with a degree in finance and has the titles of certified internal auditor, certified accountant, corporate legal consultant, senior economist and financial management economist in the PRC.

**Ms. Liu Ying,** aged 43, is the Vice-President of the Human Resources Department and is responsible for the Group's human resources management. Joining the Group in 1995, she has accumulated over 24 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 Jian Shui,** aged 37, is the General Manager of Internal Audit Department. He joined the Group in 1998 and has over 15 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, certified auditor, senior economist and corporate legal consulate.

**Mr. Paul S. Woon,** aged 69, is the Chief Technology Officer of the Group. He joined the Group in 2008 and is responsible for research and development of products and materials of the Group. Mr. Woon is highly experienced in design, research and development of sanitary napkins, disposable diapers and hygienic materials. He was vice president in Asia region of Kimberly-Clark Group. Graduated from The Ohio State University in Polymer Chemistry with a doctoral degree, Mr. Woon was the patentee of fifteen disposable diapers, sanitary napkins and non-woven fabric design and application in the United States. He was also listed on "Marquis Who's Who in the World" in 1997 for his outstanding achievements.

**Mr. Wang Gui Zhong,** aged 37, is the Vice-President of Diaper Products Development Department of the Group. He is responsible for the overall management and business development of diaper products of the Group. Before taking up this position, he held the position of sales and marketing general manager of Tissue Paper Products Development Department of the Group, responsible for marketing and brand management of Tissue Paper Products Development Department of the Group. Mr. Wang joined the Group in 1999 and has over 12 years of experience in sales and marketing of consumer products. Mr. Wang graduated from HuaQiao University with a degree in electronic engineering and Liming Vocational University with a degree in corporate management.

**Mr. Zhang San Hong,** aged 39, is the Vice-President of Quality Control Department and is responsible for the overall quality control management and improvement. He joined the Group in 2009 and graduated in HuBei University of Technology with a degree. He worked for various international companies and has over 16 years of experience in products management and quality management.

**Mr. Zhu Hong Bo,** aged 49, is the Strategic Development Director of the Group and responsible for corporate development and investment. Before re-joining the Group in 2010, he worked as senior management in some listed companies and has over 27 years of experience in marketing promotion and corporate management. Mr. Zhu graduated from the Tianjin Normal University in 1984.

# 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 2010.

## 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 twelve members, including Chairman, Deputy Chairman (who is also the Chief Executive Officer), seven 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 18 to 21.

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. Sze Wong Kim is the son of Mr. Sze Man Bok, the Chairman and a substantial shareholder of the Company. Mr. Hui Ching Chi is a son of Mr. Hui Lin Chit, the Chief Executive Officer and a substantial shareholder of the Company. Mr. Xu Da Zuo and Mr. Xu Shui Shen are brothers. Save as disclosed above, the Directors are not otherwise related to each other.

## REMUNERATION COMMITTEE

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

Mr. Hui Lin Chit *(Chief Executive Officer)*
Mr. Chan Henry *(Independent Non-executive Director) — Chairman of the Committee*
Mr. Wang Ming Fu *(Independent Non-executive Director)*
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 2010 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 2011 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. Wang Ming Fu 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 2010:

| Directors | Attendance/Number of Meetings Held<br>Full Board Meeting | Audit Committee Meeting | Remuneration Committee Meeting |
|---|---|---|---|
| **Executive Directors** | | | |
| Mr. Sze Man Bok *(Chairman)* | 4/4 | N/A | N/A |
| Mr. Hui Lin Chit *(Vice-chairman and Chief Executive Officer)* | 4/4 | N/A | 1/1 |
| Mr. Hung Ching Shan | 4/4 | N/A | N/A |
| Mr. Xu Shui Shen *(appointed on 1 June 2010)* | 3/4 | N/A | N/A |
| Mr. Xu Da Zuo | 4/4 | N/A | N/A |
| Mr. Xu Chun Man | 4/4 | N/A | N/A |
| Mr. Sze Wong Kim *(appointed on 1 June 2010)* | 3/4 | N/A | N/A |
| Mr. Hui Ching Chi *(appointed on 1 June 2010)* | 3/4 | 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. Wang Ming Fu | 2/4 | 2/2 | 0 |

* Being the secretary of the meetings.

## NOMINATION OF DIRECTORS

The Board has established formal and transparent procedures for the appointments of new Directors and re-nomination and re-election of Directors at regular intervals. In accordance with Articles 99 and 116 of the Articles of Association of the Company. Mr. Hui Lin Chit, Mr. Chan Henry, Ms. Ada Ying Kay Wong, Mr. Xu Shui Shen, Mr. Xu Chun Man, Mr. Sze Wong Kim and Mr. Hui Ching Chi will retire office at the Company's annual general meeting, and being eligible, offer themselves for re-election.

## AUDITOR'S REMUNERATION

The Group was charged approximately HK$5,894,000 and HK$630,091 by the Company's external auditor for auditing and non-auditing services respectively for the year ended 31 December 2010. Non-auditing services included tax advisory services and 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 provided during the year. The Audit Committee is of the view that the auditors' independence is not affected by the services rendered.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

## INTERNAL CONTROLS

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

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

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

In 2010, the internal audit department of the Group had performed a review to ensure that the recommendations made by the independent international accounting firm, Booz & Company and HMCT had been implemented accordingly and proper internal control policies, procedures and practices were in place.

## 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 2010.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

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

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Revenue HK$'000** | **Contribution to operating profit HK$'000** | Revenue HK$'000 | Contribution to operating profit HK$'000 |
| Personal hygiene products | | | | |
| — Sanitary napkins products | **3,169,544** | **1,138,211** | 2,546,369 | 921,415 |
| — Disposable diapers products | **2,446,901** | **503,486** | 2,160,251 | 420,767 |
| — Tissue paper products | **6,114,379** | **962,896** | 4,455,841 | 951,350 |
| Food and snacks products | **1,202,726** | **98,549** | 863,283 | 111,937 |
| Skin care products and others | **498,138** | **92,932** | 808,095 | 192,287 |
| | **13,431,688** | **2,796,074** | 10,833,839 | 2,597,756 |

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

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Revenue HK$ million** | **Percentage of total revenue (%)** | Revenue HK$ million | Percentage of total revenue (%) |
| PRC | | | | |
| Fujian and Guangdong | **2,685** | **20.0** | 2,114 | 19.5 |
| North-western | **638** | **4.7** | 476 | 4.4 |
| South-western | **668** | **5.0** | 588 | 5.4 |
| Sichuan | **1,170** | **8.7** | 931 | 8.6 |
| North-eastern | **1,133** | **8.4** | 820 | 7.6 |
| Northern | **1,292** | **9.6** | 984 | 9.1 |
| Shandong | **1,261** | **9.4** | 1,022 | 9.4 |
| Eastern | **1,965** | **14.6** | 1,646 | 15.2 |
| Central | **1,992** | **14.8** | 1,647 | 15.2 |
| Overseas | **628** | **4.8** | 606 | 5.6 |
| | **13,432** | **100** | 10,834 | 100 |

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 38.

The Directors declared an interim dividend of HK$0.60 (2009: HK$0.50) per ordinary share, totalling HK$734,531,000 (2009: HK$609,657,000), which was paid on 7 October 2010.

The Directors recommend the payment of a final dividend of HK$0.70 (2009: HK$0.60) per ordinary share, totalling HK$856,953,000 (2009: HK$731,588,000). Such dividend is to be approved by shareholders of the Company at the annual general meeting to be held on 26 May 2011.

## RESERVES

Details of the movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 44.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK$25,784,000 (2009: HK$37,026,000).

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL

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

## DISTRIBUTABLE RESERVES

The Company's reserves available for distribution comprise the share premium account and retained earnings. At 31 December 2010, the reserves of the Company available for distribution to shareholders amounted to HK$3,156,352,000 (2009: HK$4,269,333,000), subject to the restrictions stated in Note 29 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.

Report of the Directors

## DIRECTORS

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

**Executive Directors**

Mr. Sze Man Bok
Mr. Hui Lin Chit
Mr. Hung Ching Shan
Mr. Xu Shui Shen (appointed on 1 June 2010)
Mr. Xu Da Zuo
Mr. Xu Chun Man
Mr. Sze Wong Kim (appointed on 1 June 2010)
Mr. Hui Ching Chi (appointed on 1 June 2010)
Mr. Loo Hong Shing Vincent

**Independent Non-Executive Directors**

Mr. Chan Henry
Mr. Wang Ming Fu
Ms. Ada Ying Kay Wong

In accordance with Articles 99 and 116 of the Company's Articles of Association, Mr. Hui Lin Chit, Mr. Chan Henry, Ms, Ada Ying Kay Wong, Mr. Xu Shui Shen, Mr. Xu Chun Man, Mr. Sze Wong Kim and Mr. Hui Ching Chi retire, and being eligible, offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

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

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

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and senior management are set out on pages 18 to 21.

## 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 39 to the accounts.

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Purchases from Weifang Power | | |
| — electricity energy | **92,601** | 76,195 |
| — heat energy | **65,334** | 57,949 |

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 not less favorable than the prevailing market prices. Weifang Power is 95% beneficially owned by Mr, Sze Wong Kim, an executive director of the Company and, a son of Mr. Hui Lin Chit, an executive director and a substantial shareholder of the Company.

The aforesaid continuing connected transaction has been reviewed by independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connected transaction were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in page 102 of the Annual Report in accordance with paragraph 14A.38 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

## COMPANY OR ANY ASSOCIATED CORPORATION

At 31 December 2010, the interests of each Director in the shares, short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO and disclosed in accordance with the Listing Rules were as follows:

| | Capacity/Nature of Interest Number of shares | | Number of unlisted shares (Note (1)) | | |
|---|---|---|---|---|---|
| Name of Directors | Personal interests/ Beneficiary | Family interests | Personal interests/ Beneficiary | Total | Approximate percentage of shareholding |
| Mr. Sze Man Bok | 227,238,999 (Note (2a)) | – | 646,305 (Note (2b)) | 227,885,304 | 18.61% |
| Mr. Hui Lin Chit | 224,669,751 (Note (3)) | – | 90,000 | 224,759,751 | 18.36% |
| Mr. Hung Ching Shan | 7,000,000 | – | 10,000 | 7,010,000 | 0.57% |
| Mr. Xu Shui Shen | – | 33,030 | 75,000 | 108,030 | 0.01% |
| Mr. Xu Da Zuo | 19,637,321 (Notes (4)&(5)) | – | 65,000 | 19,702,321 | 1.61% |
| Mr. Xu Chun Man | 16,167,445 (Note (4)) | – | 10,000 | 16,177,445 | 1.32% |
| Mr. Sze Wong Kim | – | – | 151,783 (Note (6)) | 151,783 | 0.01% |
| Mr. Hui Ching Chi | 40,000 | – | – | 40,000 | 0.003% |
| Mr. Loo Hong Shing Vincent | 100,000 | 30,000 | 85,000 | 215,000 | 0.02% |

Notes:

(1) Unless stated otherwise, unlisted shares represent share options granted to Directors pursuant to share option scheme of the Company and details of which are set out in note 28.

(2a) & (2b) Out of the 227,238,999 ordinary shares, Tin Lee Investments Limited ("Tin Lee") held 227,228,999 ordinary shares while Mr. Sze had personal interests in 10,000 ordinary shares in the Company. For the 646,305 unlisted ordinary shares, Tin Lee held trigger equity linked notes underlying 329,800 shares while Mr. Sze had personal interests in 10,000 share options and trigger equity linked notes underlying 306,505 shares in the Company. Tin Lee is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Tin Wing Holdings Limited ("Tin Wing"). Tin Wing is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse Trust Limited ("Credit Suisse"), the trustee of Sze's Family Trust. Mr. Sze Man Bok is the settlor and beneficiary of Sze's Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of Sze's Family Trust in the Company.

(3) An Ping Holdings Limited held 224,669,751 shares in the Company. It is a company incorporated in the Bahamas and is a wholly owned subsidiary of An Ping Investments Limited ("An Ping Investments"). An Ping Investments is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse, the trustee of The Hui Family Trust. Mr. Hui Lin Chit is the settlor and beneficiary of The Hui Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of The Hui Family Trust in the Company.

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

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

(6) Mr. Sze Wong Kim held trigger equity linked notes underlying 151,783 shares in the Company.

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

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

## SHARE OPTION SCHEME

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

**(i) Purpose of the Scheme**

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

**(ii) Eligible Persons**

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

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

**(iii) Subscription Price**

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

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

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

(c) the nominal value of a share.

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

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

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

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

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

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

**(vii) Acceptance of Offer**

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

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

The Scheme will remain in force before 2 May 2013.

(2) Details of movements in the share options as at 31 December 2010 which have been granted under the Scheme are as follows:

| | Number of share options | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Eligible person | Balance as at 01/01/2010 | Granted during the year | Exercised during the year | Reclassified during the year | Cancelled/ lapsed during the year | Balance as at 31/12/2010 | Exercise price per share HK$ | Date of grant (DD/MM/YYYY) | Exercisable period (DD/MM/YYYY) |
| **Directors** | | | | | | | | | |
| Sze Man Bok | 10,000 | – | (10,000) | – | – | – | 25.30 | 18/07/2007 | 18/07/2010–02/05/2013 |
| | 10,000 | – | – | – | – | 10,000 | 25.30 | 18/07/2007 | 18/07/2011–02/05/2013 |
| Hui Lin Chit | 90,000 | – | (90,000) | – | – | – | 25.30 | 18/07/2007 | 18/07/2010–02/05/2013 |
| | 90,000 | – | – | – | – | 90,000 | 25.30 | 18/07/2007 | 18/07/2011–02/05/2013 |
| Hung Ching Shan | 10,000 | – | (10,000) | – | – | – | 25.30 | 18/07/2007 | 18/07/2010–02/05/2013 |
| | 10,000 | – | – | – | – | 10,000 | 25.30 | 18/07/2007 | 18/07/2011–02/05/2013 |
| Mr. Xu Shui Shen (appointed on 1 June 2010) | – | – | (75,000) | 75,000 | – | – | 25.05 | 12/07/2007 | 12/07/2010–02/05/2013 |
| | – | – | – | 75,000 | – | 75,000 | 25.05 | 12/07/2007 | 12/07/2011–02/05/2013 |
| Xu Da Zuo | 65,000 | – | (65,000) | – | – | – | 25.30 | 18/07/2007 | 18/07/2010–02/05/2013 |
| | 65,000 | – | – | – | – | 65,000 | 25.30 | 18/07/2007 | 18/07/2011–02/05/2013 |
| Xu Chun Man | 10,000 | – | (10,000) | – | – | – | 25.30 | 18/07/2007 | 18/07/2010–02/05/2013 |
| | 10,000 | – | – | – | – | 10,000 | 25.30 | 18/07/2007 | 18/07/2011–02/05/2013 |
| Loo Hong Shing Vincent | 85,000 | – | (85,000) | – | – | – | 25.30 | 18/07/2007 | 18/07/2010–02/05/2013 |
| | 85,000 | – | – | – | – | 85,000 | 25.30 | 18/07/2007 | 18/07/2011–02/05/2013 |
| **Employees** | 4,779,500 | – | (4,490,000) | (75,000) | (167,000) | 47,500 | 25.05 | 12/07/2007 | 12/07/2010–02/05/2013 |
| | 4,779,500 | – | – | (75,000) | (259,000) | 4,445,500 | 25.05 | 12/07/2007 | 12/07/2011–02/05/2013 |
| | 20,000 | – | (20,000) | – | – | – | 25.30 | 18/07/2007 | 18/07/2010–02/05/2013 |
| | 20,000 | – | – | – | – | 20,000 | 25.30 | 18/07/2007 | 18/07/2011–02/05/2013 |
| | 50,000 | – | (50,000) | – | – | – | 25.05 | 18/03/2008 | 12/07/2010–02/05/2013 |
| | 50,000 | – | – | – | – | 50,000 | 25.05 | 18/03/2008 | 12/07/2011–02/05/2013 |
| | 2,793,000 | – | – | – | (257,000) | 2,536,000 | 44.30 | 07/09/2009 | 07/09/2012–02/05/2013 |
| | 13,032,000 | – | (4,905,000) | – | (683,000) | 7,444,000 | | | |

Mr. Xu Shui Shen was appointed as a director of the Company on 1 June 2010. The options granted to Mr. Xu 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. It is an appropriate model to estimate the fair value of an option that can be exercised before the expiry of the option period. The assumptions adopted in the calculation are:

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

According to the Binomial Model, the fair value of the options granted, which had been charged to the profit and loss account for the year ended 31 December 2010, amounted to HK$24,699,000 (2009: HK$26,638,000) and the remaining unamortised fair value of approximately HK$30,537,000 will be charged to the profit and loss account in the future years.

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

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

The register of substantial shareholders maintained under section 336 of part XV of the SFO shows that as at 31 December 2010, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

| Name of Shareholder | Note | Capacity | Number of ordinary shares beneficially held | Approximate percentage of shareholding |
|---|---|---|---|---|
| Tin Lee Investments Limited | (1) | Beneficial owner | 227,558,799 (L) | 18.59% |
| Tin Wing Holdings Limited | (1) | Interests of controlled corporation | 227,558,799 (L) | 18.59% |
| An Ping Holdings Limited | (2) | Beneficial owner | 224,669,751 (L) | 18.35% |
| An Ping Investments Limited | (2) | Interests of controlled corporation | 224,669,751 (L) | 18.35% |
| Serangoon Limited | (1), (2) & (3) | Interests of controlled corporation | 469,358,550 (L) | 38.34% |
| Seletar Limited | (1), (2) & (3) | Interests of controlled corporation | 469,358,550 (L) | 38.34% |
| Credit Suisse Trust Limited | (3) | Trustee | 469,358,550 (L) | 38.34% |
| JP Morgan Chase & Co | (4) | Beneficial owner | 738,000 (L) | 0.06% |
| | (4) | Investment manager | 5,501,500 (L) | 0.45% |
| | (4) | Approved lending agent | 55,527,679 (L) | 4.54% |

(L) denotes long position

Notes:

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

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

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

(4) JP Morgan Chase & Co and its various wholly-owned subsidiaries were beneficial owners or held the shares on behalf of the accounts they managed.

## MANAGEMENT CONTRACTS

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

## MAJOR CUSTOMERS AND SUPPLIERS

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

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

| | |
|---|---|
| — the largest supplier | 8.7% |
| — five largest suppliers combined | 32.3% |

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 29 March 2011.

## 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, 29 March 2011

# Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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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 financial statements of Hengan International Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 38 to 108, which comprise the consolidated and company balance sheets as at 31 December 2010 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statement that give a true and fair view 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 consolidated financial statements.

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 financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 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, 29 March 2011

# Consolidated Income Statement

For the year ended 31 December 2010

| | Note | Year ended 31 December 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Revenue** | 5 | **13,431,688** | 10,833,839 |
| Cost of goods sold | 7 | **(7,486,900)** | (5,853,348) |
| Gross profit | | **5,944,788** | 4,980,491 |
| Other gains — net | 6 | **248,811** | 106,803 |
| Distribution costs | 7 | **(2,591,384)** | (1,951,460) |
| Administrative expenses | 7 | **(602,515)** | (535,283) |
| Operating profit | | **2,999,700** | 2,600,551 |
| Finance income | 8 | **110,460** | 45,128 |
| Finance costs | 8 | **(71,793)** | (62,950) |
| Finance income/(costs) — net | | **38,667** | (17,822) |
| Profit before income tax | | **3,038,367** | 2,582,729 |
| Income tax expense | 9 | **(551,950)** | (415,706) |
| **Profit for the year** | | **2,486,417** | 2,167,023 |
| **Profit attributable to:** | | | |
| Shareholders of the Company | 10 | **2,438,328** | 2,117,509 |
| Non-controlling interests | | **48,089** | 49,514 |
| | | **2,486,417** | 2,167,023 |
| **Earnings per share for profit attributable to shareholders of the Company** | | | |
| — Basic | 11 | **HK$1.996** | HK$1.770 |
| — Diluted | 11 | **HK$1.988** | HK$1.765 |

The notes on pages 46 to 108 are an integral part of the consolidated financial statements.

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

| | Year ended 31 December | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| **Profit for the year** | **2,486,417** | 2,167,023 |
| **Other comprehensive income** | | |
| — Currency translation differences | **370,631** | 6,798 |
| **Total comprehensive income for the year** | **2,857,048** | 2,173,821 |
| **Attributable to:** | | |
| Shareholders of the Company | **2,804,658** | 2,124,188 |
| Non-controlling interests | **52,390** | 49,633 |
| | **2,857,048** | 2,173,821 |

The notes on pages 46 to 108 are an integral part of the consolidated financial statements.

# Consolidated Balance Sheet

As at 31 December 2010

| | Note | As at 31 December 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | 4,519,090 | 3,535,811 |
| Construction-in-progress | 15 | 665,130 | 808,410 |
| Leasehold land and land use rights | 16 | 613,982 | 397,541 |
| Intangible assets | 17 | 606,508 | 616,384 |
| Prepayments for non-current assets | 18 | 537,714 | 428,913 |
| Deferred income tax assets | 33 | 98,213 | 89,395 |
| Long-term bank deposits | 26 | 786,274 | 468,597 |
| | | 7,826,911 | 6,345,051 |
| **Current assets** | | | |
| Inventories | 21 | 2,760,090 | 2,174,505 |
| Trade and bills receivables | 22 | 1,395,837 | 882,841 |
| Other receivables, prepayments and deposits | | 532,479 | 260,522 |
| Current finance lease receivables | | — | 10,044 |
| Derivative financial instruments | 24 | 13,802 | 13,938 |
| Restricted bank deposits | 25 | 59,237 | 11,364 |
| Cash and cash equivalents | 26 | 5,989,024 | 4,449,674 |
| | | 10,750,469 | 7,802,888 |
| **Total assets** | | 18,577,380 | 14,147,939 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's shareholders** | | | |
| Share capital | 27 | 122,422 | 121,931 |
| Other reserves | 29 | 3,630,385 | 4,936,821 |
| Retained earnings | 30 | | |
| — Proposed final dividend | 12 | 856,953 | 731,588 |
| — Unappropriated retained earnings | | 5,893,427 | 3,226,666 |
| | | 10,503,187 | 9,017,006 |
| **Non-controlling interests** | | 322,345 | 279,977 |
| **Total equity** | | 10,825,532 | 9,296,983 |

The notes on pages 46 to 108 are an integral part of the consolidated financial statements.

# Consolidated Balance Sheet

As at 31 December 2010

| | Note | As at 31 December 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Bank borrowings | 31 | 1,497,050 | 555,031 |
| Deferred income tax liabilities | 33 | 172,637 | 115,476 |
| Deferred income on government grants | | 5,281 | 5,104 |
| | | 1,674,968 | 675,611 |
| **Current liabilities** | | | |
| Trade payables | 34 | 1,318,908 | 875,608 |
| Bills payable | 35 | — | 397,501 |
| Other payables and accrued charges | | 659,696 | 565,255 |
| Deferred income on government grants | | — | 1,598 |
| Current income tax liabilities | | 283,085 | 160,214 |
| Bank borrowings | 31 | 3,815,191 | 2,175,169 |
| | | 6,076,880 | 4,175,345 |
| **Total liabilities** | | 7,751,848 | 4,850,956 |
| **Total equity and liabilities** | | 18,577,380 | 14,147,939 |
| **Net current assets** | | 4,673,589 | 3,627,543 |
| **Total assets less current liabilities** | | 12,500,500 | 9,972,594 |

Sze Man Bok
*Director*

Hui Lin Chit
*Director*

The notes on pages 46 to 108 are an integral part of the consolidated financial statements.

# Balance Sheet

As at 31 December 2010

| | Note | As at 31 December 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments in subsidiaries | 19 | **5,428,811** | 5,423,811 |
| **Current assets** | | | |
| Inventories | 21 | **—** | 8,227 |
| Trade receivables | 22 | **142,780** | 73,461 |
| Amounts due from subsidiaries | 23 | **1,387,231** | 366,762 |
| Other receivables, prepayments and deposits | | **6,503** | 207 |
| Cash and cash equivalents | 26 | **45,997** | 11,258 |
| | | **1,582,511** | 459,915 |
| **Total assets** | | **7,011,322** | 5,883,726 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's shareholders** | | | |
| Share capital | 27 | **122,422** | 121,931 |
| Other reserves | 29 | **1,784,469** | 3,637,318 |
| Retained earnings | 30 | | |
| — Proposed final dividend | 12 | **856,953** | 731,588 |
| — Unappropriated retained earnings | | **601,509** | (37,693) |
| **Total equity** | | **3,365,353** | 4,453,144 |

The notes on pages 46 to 108 are an integral part of the consolidated financial statements.

# Balance Sheet

As at 31 December 2010

| | Note | As at 31 December 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Bank borrowings | 31 | 476,000 | — |
| Amounts due to subsidiaries | 23 | 1,800,548 | 591,027 |
| | | 2,276,548 | 591,027 |
| **Current liabilities** | | | |
| Trade payables | 34 | 109,756 | 58,055 |
| Other payables and accrued charges | | 5,665 | 5,212 |
| Current income tax liabilities | | — | 1,288 |
| Bank borrowings | 31 | 1,254,000 | 775,000 |
| | | 1,369,421 | 839,555 |
| **Total liabilities** | | 3,645,969 | 1,430,582 |
| **Total equity and liabilities** | | 7,011,322 | 5,883,726 |
| **Net current liabilities** | | 213,090 | (379,640) |
| **Total assets less current liabilities** | | 5,641,901 | 5,044,171 |

Sze Man Bok
*Director*

Hui Lin Chit
*Director*

The notes on pages 46 to 108 are an integral part of the consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

| | Note | Attributable to the Company's shareholders | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| | | Share capital | Other reserves | Retained earnings | Total | | |
| | | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Balance at 1 January 2009** | | 115,007 | 4,499,296 | 1,869,754 | 6,484,057 | 231,844 | 6,715,901 |
| Profit for the year | | — | — | 2,117,509 | 2,117,509 | 49,514 | 2,167,023 |
| Currency translation differences | 29(d) | — | 6,679 | — | 6,679 | 119 | 6,798 |
| Total comprehensive income | | — | 6,679 | 2,117,509 | 2,124,188 | 49,633 | 2,173,821 |
| **Transactions with owners** | | | | | | | |
| 2008 final dividends paid | | — | — | (486,095) | (486,095) | — | (486,095) |
| 2009 interim dividends paid | 12 | — | — | (609,657) | (609,657) | (1,500) | (611,157) |
| Conversion of convertible bonds | 32 | 6,924 | 1,482,026 | — | 1,488,950 | — | 1,488,950 |
| Share-based compensation | 28 | — | 26,638 | — | 26,638 | — | 26,638 |
| Liquidation of subsidiaries | | — | (11,075) | — | (11,075) | — | (11,075) |
| **Total of transactions with owners** | | 6,924 | 1,497,589 | (1,095,752) | 408,761 | (1,500) | 407,261 |
| Appropriation to statutory reserves | 29(c) | — | 133,257 | (133,257) | — | — | — |
| Transfer to retained earnings | | — | (1,200,000) | 1,200,000 | — | — | — |
| **Balance at 31 December 2009** | | 121,931 | 4,936,821 | 3,958,254 | 9,017,006 | 279,977 | 9,296,983 |
| **Balance at 1 January 2010** | | **121,931** | **4,936,821** | **3,958,254** | **9,017,006** | **279,977** | **9,296,983** |
| Profit for the year | | **—** | **—** | **2,438,328** | **2,438,328** | **48,089** | **2,486,417** |
| Currency translation differences | 29(d) | **—** | **366,330** | **—** | **366,330** | **4,301** | **370,631** |
| Total comprehensive income | | **—** | **366,330** | **2,438,328** | **2,804,658** | **52,390** | **2,857,048** |
| **Transactions with owners** | | | | | | | |
| 2009 final dividends paid | | **—** | **—** | **(731,588)** | **(731,588)** | **—** | **(731,588)** |
| 2010 interim dividends paid | 12 | **—** | **—** | **(734,531)** | **(734,531)** | **(1,800)** | **(736,331)** |
| Share-based compensation | | | | | | | |
| — Value of employee services | 27, 28 | **—** | **24,699** | **—** | **24,699** | **—** | **24,699** |
| — Proceeds from shares issued | 27, 28 | **491** | **122,452** | **—** | **122,943** | **—** | **122,943** |
| Liquidation of subsidiaries | | **—** | **—** | **—** | **—** | **(8,222)** | **(8,222)** |
| **Total of transactions with owners** | | **491** | **147,151** | **(1,466,119)** | **(1,318,477)** | **(10,022)** | **(1,328,499)** |
| Appropriation to statutory reserves | 29(c) | **—** | **180,083** | **(180,083)** | **—** | **—** | **—** |
| Transfer to retained earnings | | **—** | **(2,000,000)** | **2,000,000** | **—** | **—** | **—** |
| **Balance at 31 December 2010** | | **122,422** | **3,630,385** | **6,750,380** | **10,503,187** | **322,345** | **10,825,532** |

The notes on pages 46 to 108 are an integral part of the consolidated financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2010

| | Note | Year ended 31 December 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 36(a) | 2,667,180 | 2,810,578 |
| Income tax paid | | (387,572) | (295,026) |
| Net cash generated from operating activities | | 2,279,608 | 2,515,552 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment, including additions of construction-in-progress | | (1,034,575) | (779,227) |
| Additions of leasehold land and land use rights | | (82,189) | (169,268) |
| Proceeds from disposal of property, plant and equipment | 36(b) | 5,677 | 10,175 |
| (Increase)/decrease in prepayments for non-current assets | | (235,729) | 38,261 |
| (Increase)/decrease in restricted bank deposits | | (46,393) | 5,699 |
| Increase in long-term bank deposits | | (294,489) | (468,225) |
| Interest received | | 110,460 | 45,128 |
| Net cash used in investing activities | | (1,577,238) | (1,317,457) |
| **Cash flows from financing activities** | | | |
| Proceeds from bank borrowings | | 5,011,265 | 3,955,302 |
| Repayment of bank borrowings | | (2,458,182) | (1,568,492) |
| Interest paid | | (75,393) | (40,921) |
| Dividends paid | | (1,466,119) | (1,095,752) |
| Dividends paid by subsidiaries to their minority shareholders | | (1,800) | (1,500) |
| Redemption of convertible bonds | | — | (575) |
| Proceeds from discounted bills | | — | 397,186 |
| Payment of discounted bills | | (397,501) | — |
| Shares issued under the employee share option scheme | | 122,943 | — |
| Net cash generated from financing activities | | 735,213 | 1,645,248 |
| Net increase in cash and cash equivalents | | 1,437,583 | 2,843,343 |
| Cash and cash equivalents at 1 January | 26 | 4,449,674 | 1,610,552 |
| Effect of foreign exchange rate changes | | 101,767 | (4,221) |
| Cash and cash equivalents at 31 December | 26 | 5,989,024 | 4,449,674 |

The notes on pages 46 to 108 are an integral part of the consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 1 General information

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

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

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

These consolidated financial statements of the Group are presented in Hong Kong dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 29 March 2011.

## 2 Summary of significant accounting policies

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

### (a) Basis of preparation

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

The preparation of financial statements in conformity with 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 financial statements are disclosed in Note 4.

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

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

### (a) Basis of preparation *(continued)*

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

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. The revised standard has no impact on the current period, as there is no business combination.

- HKAS 27 (revised) 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 revised standard has no significant impact on the current period.

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating leases using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating leases under "Leasehold land and land use rights", and amortised over the lease term.

  The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 January 2010 on the basis of information existing at the inception of those leases. As a result of the reassessment, no retrospective application is applied as the impact of the reclassification to the financial statements for the year ended 31 December 2009 was not material.

  The land interest of the Group that is held for own use is accounted for as property, plant and equipment and is depreciated from the land interest available for its intended use over the shorter of the useful live of the asset and the lease term.

- HKAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of HKFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

### (a) Basis of preparation *(continued)*

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

- HKAS 38 (amendment), 'Intangible assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

- In November 2010 the HKICPA issued Hong Kong Interpretation 5 Presentation of Financial Statements-Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause. The Interpretation is effective immediately and is a clarification of an existing standard of HKICPA that a term loan which contains a clause which gives the lender the unconditional right to demand repayment at any time shall be classified as a current liability in accordance with paragraph 69(d) of HKAS 1 irrespective of the probability that the lender will invoke the clause without cause. The Group has applied this new accounting policy, and classified a term loan amounting to HK$200,000,000 as current liabilities.

#### (ii) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

HK(IFRIC) 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

- HK(IFRIC) 9, 'Reassessment of embedded derivatives and HKAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to HK(IFRIC) 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified as at fair value through profit or loss in its entirety.

- HK(IFRIC) 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of HKAS 39 that relate to a net investment hedge are satisfied. In particular, the Group should clearly document its hedging strategy because of the possibility of different designations at different levels of the Group.

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

### (a) Basis of preparation *(continued)*

**(ii) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)** *(continued)*

- HKAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

- HKFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective from 1 January 2010. In addition to incorporating HK(IFRIC) 8, 'Scope of HKFRS 2', and HK(IFRIC) 11, HKFRS 2 — 'Group and treasury share transactions', the amendments expand on the guidance in HK(IFRIC) 11 to address the classification of group arrangements that were not covered by that interpretation.

- HKFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations', effective 1 January 2010. The amendment clarifies that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1.

**(iii) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted**

The Group's assessment of the impact of these new standards and interpretations is set out below.

- HKFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace HKAS 39, 'Financial instruments: recognition and measurement'. HKFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for its financial assets. HKFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. The standard is not applicable until 1 January 2013 but is available for early adoption. It is not expected to have an impact to the Group as the Group does not have available-for-sale debt investments.

- HKAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes HKAS 24, 'Related party disclosures', issued in 2003. HKAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the revised standard from 1 January 2011. It is not expected to have an impact to the Group's financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

### (a) Basis of preparation *(continued)*

#### (iii) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted *(continued)*

- 'Classification of rights issues' (amendment to HKAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with HKAS 8 'Accounting policies, changes in accounting estimates and errors'. It is not expected to have an impact to the Group's financial statements.

- HK (IFRIC) 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group will apply the interpretation from 1 January 2011. It is not expected to have an impact on the Group's financial statements.

- 'Prepayments of a minimum funding requirement' (amendments to HK (IFRIC) 14). The amendments correct an unintended consequence of HK (IFRIC) 14, 'HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when HK (IFRIC) 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. It is not expected to have any impact to the Group's financial statements.

### (b) Consolidation

#### (i) Subsidiaries

Subsidiaries are all 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.

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

### (b) Consolidation *(continued)*

#### (i) Subsidiaries *(continued)*

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

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.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

#### (ii) Transactions with Non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

#### (iii) Partial disposal

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

### (b) Consolidation *(continued)*

#### (iii) Partial disposal *(continued)*

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

### (c) Segment reporting

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

### (d) Foreign currency translation

#### (i) Functional and presentation currency

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

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated income statement within "finance income or cost". All other foreign exchange gains and losses are presented in the consolidated income statement within "other gains — net".

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

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

## 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:

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

(2) income and expenses for each consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates on the dates the transactions); and

(3) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that are recorded in other comprehensive income are recognised in the consolidated income statement as part of the gains or losses on sale.

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

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

Leasehold land classified as finance lease and all other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

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

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

| | |
|---|---|
| Leasehold land classified as finance lease | 10–50 years |
| Buildings | 20 years |
| Machinery | 10–20 years |
| Office equipment, furniture and fixtures | 5 years |
| Motor vehicles | 5 years |

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

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

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

### (f) Leasehold land and land use rights

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

### (g) Intangible assets

#### (i) Goodwill

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

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

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

### (g) Intangible assets *(continued)*

#### (ii) Patents and trademarks

Acquired patents and trademarks are shown at historical cost. Patents and trademarks acquired in a 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 licenses over their estimated useful lives of not exceeding 20 years.

#### (iii) Customer relationships

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

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

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

### (i) Financial assets

#### (i) Classification

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

### (i) Financial assets *(continued)*

#### (i) Classification *(continued)*

(2) Loans and receivables

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

#### (ii) Recognition and measurement

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

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated income statement within "other gains — net" in the period in which they arise.

#### (iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

#### (iv) Impairment of financial assets

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

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

### (i) Financial assets *(continued)*

**(iv) Impairment of financial assets** *(continued)*

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

### (j) Derivative financial instruments

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

Derivatives of the Group are categorised as financial assets at fair value through profit or loss and the changes in fair value are recognised in the consolidated income statement under "other gains — net" in the year in which they arise.

### (k) Inventories

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

### (l) Trade, bills and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### (m) Cash and cash equivalents

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

### (n) Share capital

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

### (o) Trade and bills payables

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

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

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

### (p) Borrowings

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

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

### (q) Current and deferred income tax

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

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

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

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

### (r) Employee benefits

#### (i) Retirement benefits

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

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

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

#### (ii) Share-based compensation

The Group operates a share-based compensation plan (Note 28). The fair value of the employee services received in exchange for the grant of the options to purchase shares of the Company is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

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

### (s) Provisions

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

### (s) Provisions *(continued)*

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

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

### (t) Revenue recognition

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

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

(i) Revenue from the sales of goods is recognised when the risk and reward of the goods has been transferred to the customer, which is usually at the date when a group entity has delivered products to the customer and the customer has accepted the products, the collectability of the related receivables is reasonably assumed and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

(ii) Finance income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Finance income on impaired loans is recognized 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 income statement over the period necessary to match them with the costs that they are intended to compensate.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

### (u) Government grants *(continued)*

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 income statement on a straight-line basis over the expected lives of the related assets.

### (v) Leases

#### (i) Finance leases by lessor

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

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

#### (ii) Operating leases

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

### (w) Dividend distribution

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

## 3 Financial risk management

### (a) Financial risk factors

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

#### (i) Market risk

(1) Foreign exchange risk

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

## 3 Financial risk management *(continued)*

### (a) Financial risk factors *(continued)*

#### (i) Market risk *(continued)*

(1) Foreign exchange risk *(continued)*

The Group considers the risk of movements in exchange rate between HK$ and US$ to be insignificant as HK$ and US$ are pegged. In addition, during the year ended 31 December 2010, the fluctuations in exchange rates between RMB (the functional currency of the majority of the Group's entities) and US$ (the denomination currency of the majority of the Group's imports of raw material and property, plant and equipment) were not significant. The Group had never experienced any difficulties in getting sufficient foreign currencies for settlement of the purchases or repatriation of profits declared by the subsidiaries in the PRC to their overseas holding companies. As at 31 December 2010 apart from certain forward foreign exchange contracts entered into with commercial banks which were stated at fair value (Note 24), the Group did not hedge its foreign currency risk since the exposure was considered insignificant.

At 31 December 2010, if Hong Kong dollar and US$ had weakened/strengthened by 10% against the RMB with all other variables held constant, profit for the year would have been HK$75,317,000 (2009: HK$44,306,000) higher/lower. There is no impact on equity.

(2) Cash flow and fair value interest rate risk

Except for restricted bank deposits (Note 25), long-term bank deposits (Note 26) and cash and 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 31) and convertible bonds (Note 32). Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk.

The Group does not hedge its cash flow and fair value interest rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 31.

At 31 December 2010, if interest rates on bank borrowings had been 150 basis points higher/lower with all other variables held constant, the profit for the year would have been HK$35,207,000 (2009: HK$19,853,000) lower/higher as a result of higher/lower interest expenses on floating rate borrowings.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 3 Financial risk management *(continued)*

### (a) Financial risk factors *(continued)*

#### (i) **Market risk** *(continued)*

(3) Credit risk

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

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

At 31 December 2010, all restricted bank deposits, bank balances and derivative financial instruments were related in highly reputable and sizable banks and financial institutions without significant credit risk.

(4) Liquidity risk

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

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

## 3 Financial risk management *(continued)*

### (a) Financial risk factors *(continued)*

#### (i) Market risk *(continued)*

(4) Liquidity risk *(continued)*

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

| | Less than 1 year HK$'000 | Between 1 and 2 years HK$'000 | Between 3 and 5 years HK$'000 |
|---|---|---|---|
| **Group** | | | |
| **At 31 December 2010** | | | |
| **Bank borrowings** | **3,815,191** | **1,349,155** | **147,895** |
| **Interest payables** | **63,525** | **14,916** | **950** |
| **Trade and other payables** | **1,747,243** | **—** | **—** |
| **At 31 December 2009** | | | |
| Bank borrowings | 2,175,169 | 555,031 | — |
| Interest payables | 25,762 | 9,994 | — |
| Bills payable | 397,501 | — | — |
| Trade and other payables | 1,259,754 | — | — |
| **Company** | | | |
| **At 31 December 2010** | | | |
| **Bank borrowings** | **1,254,000** | **476,000** | **—** |
| **Interest payables** | **17,552** | **5,838** | **—** |
| **Trade and other payables** | **115,421** | **—** | **—** |
| **Amount due to subsidiaries** | **1,800,548** | **—** | **—** |
| **At 31 December 2009** | | | |
| Bank borrowings | 775,000 | — | — |
| Interest payables | 3,908 | — | — |
| Trade and other payables | 63,267 | — | — |
| Amount due to subsidiaries | 591,027 | — | — |

At 31 December 2010, the Company provided financial guarantees for bank loans of its subsidiaries amounting to HK$595,000,000 (2009: HK$1,062,000,000). The subsidiaries are capable for the repayment of the borrowings.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 3 Financial risk management *(continued)*

### (b) Capital risk management

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

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

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

During 2010, the Group's strategy was to maintain a net gearing ratio at or below 20%. The calculation of net gearing ratio at 31 December 2010 was as follows:

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| *Gross gearing ratio:* | | |
| Total borrowings | **5,312,241** | 2,730,200 |
| Total equity excluding non-controlling interests | **10,503,187** | 9,017,006 |
| Gross gearing ratio | **50.6%** | 30.3% |
| *Net gearing ratio:* | | |
| Total borrowings | **5,312,241** | 2,730,200 |
| Less: Cash and cash equivalents, long-term bank deposits and restricted bank deposits | **(6,834,535)** | (4,929,635) |
| Net debt | **(1,522,294)** | (2,199,435) |

The Group has net cash position at the year end, thus the net gearing ratio is zero.

### (c) Fair value estimation

The table below analyses financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

## 3 Financial risk management *(continued)*

### (c) Fair value estimation *(continued)*

The following table presents the Group's assets that are measured at fair value at 31 December 2010:

| | **2010** | 2009 |
|---|---|---|
| | **Level 2** | Level 2 |
| | **HK$'000** | HK$'000 |
| Financial assets at fair value through profit or loss | | |
| — Derivative financial instruments (Note 24) | **13,802** | 13,938 |

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price is the current bid price. These instruments are included in level 1 which comprise primarily equity investments classified as trading securities or available for sale. The Group did not have such instrument as at 31 December 2010.

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The Group did not have such instrument as at 31 December 2010.

## 4 Critical accounting estimates and judgements

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 4 Critical accounting estimates and judgements *(continued)*

### (a) Useful lives of property, plant and equipment

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

### (b) Current tax and deferred tax

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

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

### (c) Assessment of impairment of goodwill

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

### (d) Fair value of derivative financial instruments

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

## 5 Segment information

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

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

## 5 Segment information *(continued)*

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

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Sales of goods: | | |
| Personal hygiene products | | |
| — Sanitary napkins products | **3,169,544** | 2,546,369 |
| — Disposable diapers products | **2,446,901** | 2,160,251 |
| — Tissue paper products | **6,114,379** | 4,455,841 |
| Food and snacks products | **1,202,726** | 863,283 |
| Skin care products and others | **498,138** | 808,095 |
| | **13,431,688** | 10,833,839 |

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

The total of non-current assets located in the PRC other than deferred income tax assets amounted to HK$7,220,954,000 (2009: HK$5,747,241,000) as at 31 December 2010 and the total of these non-current assets located in other places amounted to HK$507,744,000 (2009: HK$508,415,000).

During the year ended 31 December 2010, none of the customers of the Group from whom the revenue amounted to 10% or more of the Group's revenue (2009: none).

Additions to non-current assets comprise additions to property, plant and equipment (Note 14), construction-in-progress (Note 15), leasehold land and land use rights (Note 16), intangible assets (Note 17) and prepayments for non-current assets (Note 18).

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 5 Segment information *(continued)*

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

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Sanitary napkins products HK$'000 | Disposable diapers products HK$'000 | Tissue paper products HK$'000 | Food and snacks products HK$'000 | Skin care products and others HK$'000 | Group HK$'000 |
| **Consolidated income statement for the year ended 31 December 2010** | | | | | | |
| Segment revenue | 3,274,838 | 2,495,982 | 6,403,214 | 1,202,726 | 925,033 | 14,301,793 |
| Inter-segment sales | (105,294) | (49,081) | (288,835) | — | (426,895) | (870,105) |
| Revenue of the Group | 3,169,544 | 2,446,901 | 6,114,379 | 1,202,726 | 498,138 | 13,431,688 |
| Segment profit | 1,138,211 | 503,486 | 962,896 | 98,549 | 92,932 | 2,796,074 |
| Unallocated costs | | | | | | (45,185) |
| Other gains — net | | | | | | 248,811 |
| Operating profit | | | | | | 2,999,700 |
| Finance income | | | | | | 110,460 |
| Finance costs | | | | | | (71,793) |
| Profit before income tax | | | | | | 3,038,367 |
| Income tax expense | | | | | | (551,950) |
| Profit for the year | | | | | | 2,486,417 |
| Non-controlling interests | | | | | | (48,089) |
| Profit attributable to shareholders of the Company | | | | | | 2,438,328 |
| **Consolidated balance sheet as at 31 December 2010** | | | | | | |
| Segment assets | 3,239,417 | 3,502,243 | 8,741,452 | 961,307 | 1,809,052 | 18,253,471 |
| Deferred income tax assets | | | | | | 98,213 |
| Unallocated assets | | | | | | 225,696 |
| Total assets | | | | | | 18,577,380 |
| Segment liabilities | 455,888 | 592,198 | 2,130,624 | 219,840 | 42,219 | 3,440,769 |
| Deferred income tax liabilities | | | | | | 172,637 |
| Current income tax liabilities | | | | | | 283,085 |
| Unallocated liabilities | | | | | | 3,855,357 |
| Total liabilities | | | | | | 7,751,848 |
| **Other items for the year ended 31 December 2010** | | | | | | |
| Addition to non-current assets | 122,291 | 281,218 | 1,001,519 | 55,417 | 153,555 | 1,614,000 |
| Depreciation charge | 57,517 | 45,286 | 221,895 | 22,922 | 9,002 | 356,622 |
| Amortisation charge | 3,603 | 2,592 | 10,294 | 11,160 | 232 | 27,881 |

## 5 Segment information *(continued)*

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

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Sanitary napkins products HK$'000 | Disposable diapers products HK$'000 | Tissue paper products HK$'000 | Food and snacks products HK$'000 | Skin care products and others HK$'000 | Group HK$'000 |
| **Consolidated income statement for the year ended 31 December 2009** | | | | | | |
| Segment revenue | 2,613,459 | 2,214,994 | 4,655,920 | 863,283 | 1,197,240 | 11,544,896 |
| Inter-segment sales | (67,090) | (54,743) | (200,079) | — | (389,145) | (711,057) |
| Revenue of the Group | 2,546,369 | 2,160,251 | 4,455,841 | 863,283 | 808,095 | 10,833,839 |
| Segment profit | 921,415 | 420,767 | 951,350 | 111,937 | 192,287 | 2,597,756 |
| Unallocated costs | | | | | | (104,008) |
| Other gains — net | | | | | | 106,803 |
| Operating profit | | | | | | 2,600,551 |
| Finance income | | | | | | 45,128 |
| Finance costs | | | | | | (62,950) |
| Profit before income tax | | | | | | 2,582,729 |
| Income tax expense | | | | | | (415,706) |
| Profit for the year | | | | | | 2,167,023 |
| Non-controlling interests | | | | | | (49,514) |
| Profit attributable to shareholders of the Company | | | | | | 2,117,509 |
| **Consolidated balance sheet as at 31 December 2009** | | | | | | |
| Segment assets | 2,412,106 | 4,115,277 | 5,725,451 | 754,538 | 750,782 | 13,758,154 |
| Deferred income tax assets | | | | | | 89,395 |
| Unallocated assets | | | | | | 300,390 |
| Total assets | | | | | | 14,147,939 |
| Segment liabilities | 516,031 | 857,583 | 1,080,890 | 147,292 | 90,190 | 2,691,986 |
| Deferred income tax liabilities | | | | | | 115,476 |
| Current income tax liabilities | | | | | | 160,214 |
| Unallocated liabilities | | | | | | 1,883,280 |
| Total liabilities | | | | | | 4,850,956 |
| **Other items for the year ended 31 December 2009** | | | | | | |
| Addition to non-current assets | 129,683 | 178,633 | 689,053 | 12,724 | 224,326 | 1,234,419 |
| Depreciation charge | 52,979 | 35,667 | 200,340 | 19,940 | 12,095 | 321,021 |
| Amortisation charge | 2,376 | 742 | 3,782 | 11,107 | 3,452 | 21,459 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 6 Other gains — net

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Government grants income (Note (a)) | 165,067 | 80,671 |
| Operating exchange gain | 67,921 | — |
| Losses on disposal/write off of property, plant and equipment | (4,802) | (6,028) |
| Realised fair value gain on derivative financial instruments (Note 24) | 7,202 | — |
| Unrealised fair value (losses)/gains on derivative financial instruments (Note (b)) (Note 24) | (136) | 13,938 |
| Others | 13,559 | 18,222 |
| | 248,811 | 106,803 |

Note:

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

(b) The Group entered into a number of foreign exchange forward contracts. As at 31 December 2010, the changes in fair value of these contracts recorded as losses of HK$136,000 (2009: gains of HK$13,938,000) were recognised in the consolidated income statement. The majority of these contracts were non-deliverable forward contracts. Such contracts were entered into as part of the Group's treasury operation for the purpose of capturing the price differential between the spot and forward foreign exchange markets thereby reducing the impact of exchange fluctuation of US$ receivables, payables and funds on hand. The notional principal amount of the outstanding forward foreign exchange contracts as at 31 December 2010 was US$ 122,080,000 (2009: US$ 120,500,000).

The Group does not currently designate any hedging relationship on the foreign exchange forward contracts for the purpose of hedging accounting.

The above foreign exchange forward contracts are measured at fair value at each balance sheet date. The fair value of forward foreign exchange contracts is determined using forward foreign exchange rates at the balance sheet date.

## 7 Expenses by nature

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

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Raw materials and consumables used | **5,747,169** | 4,840,836 |
| Changes in inventories of work-in-progress and finished goods | **429,358** | (77,736) |
| Marketing and advertising expenses | **1,493,474** | 1,058,388 |
| Transportation and packaging expenses | **557,674** | 478,966 |
| Utilities and various office expenses | **534,914** | 401,437 |
| Travelling expenses | **99,502** | 81,764 |
| Net exchange losses | **—** | 7,551 |
| Depreciation of property, plant and equipment (Note 14) | **356,622** | 321,021 |
| Amortisation of leasehold land and land use rights (Note 16) | **17,958** | 11,543 |
| Amortisation of intangible assets (Note 17) | **9,923** | 9,916 |
| Employee benefit expense, including directors' emoluments (Note 13) | **958,354** | 763,876 |
| Operating leases rentals | **59,466** | 47,926 |
| Repairs and maintenance expenses | **99,345** | 73,232 |
| Auditor's remuneration | **5,894** | 5,219 |
| (Reversal of)/provision for impairment of trade receivables (Note 22) | **(1,865)** | 14 |
| (Reversal of)/provision for impairment of inventories (Note 21) | **(297)** | 7,153 |
| Others | **313,308** | 308,985 |
| Total cost of sales, distribution costs and administration expenses | **10,680,799** | 8,340,091 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 8 Finance income and finance costs

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Finance costs: | | |
| Interest expenses | | |
| — Bank borrowings | 68,065 | 34,214 |
| — Convertible bonds wholly repayable within five years (Note 32) | — | 24,279 |
| Other finance charges | 7,728 | 6,707 |
| Total borrowing costs incurred | 75,793 | 65,200 |
| Less: Borrowing costs capitalised in buildings and machinery under construction-in-progress (Note 15) | (4,000) | (2,250) |
| | 71,793 | 62,950 |
| Finance income: | | |
| Interest income from bank deposits | (107,209) | (45,128) |
| Exchange gain | (3,251) | — |
| | (110,460) | (45,128) |
| Finance (income)/costs, net | (38,667) | 17,822 |

The capitalisation rate applied to funds borrowed generally and used for the development of construction-in-progress is between 0.8% to 3.4% (2009: 0.7% to 3.0%) per annum.

## 9 Income tax expense

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

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Current income tax | | |
| — Hong Kong profits tax | 49,241 | 14,498 |
| — PRC income tax | 454,672 | 363,345 |
| Deferred income tax, net (Note 33) | 48,037 | 37,863 |
| Income tax expense | 551,950 | 415,706 |

Hong Kong profits tax has been provided for at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits for the year. Taxation on PRC income has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC in which the Group operates.

## 9 Income tax expense *(continued)*

Effective from 1 January 2008, the Company's subsidiaries incorporated in the PRC are subject to Corporate Income Tax ("CIT") at the rate of 25% in accordance with the Corporate Income Tax Law of the PRC (the "New CIT Law") as approved by the National People's Congress on 16 March 2007 and the Detailed Implementations Regulations of the New CIT Law as approved by the State Council on 6 December 2007. For enterprises which were established before the publication of the New CIT Law and were entitled to preferential treatment of reduced CIT rates granted by the relevant tax authorities, the new CIT rates will be gradually increased from the preferential rates to 25% within 5 years after 1 January 2008. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

Enterprises incorporated in Hong Kong and other places are subject to income tax at the prevailing rates ranging from 0% to 16.5%.

According to the New CIT Law, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors incorporated in Hong Kong, or at a rate of 10% for other foreign investors. Deferred income tax liabilities have been provided for in this regard based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

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

| | **2010**<br>**HK$'000** | 2009<br>HK$'000 |
|---|---|---|
| Profit before income tax | **3,038,367** | 2,582,729 |
| Tax calculated at tax rates applicable to profits of the Group's companies | **732,133** | 645,682 |
| Tax exemption and concession on the profits of certain subsidiaries | **(214,281)** | (269,235) |
| Income not subject to taxation | **(28,197)** | (22,561) |
| Deferred tax benefit arising from tax losses not previously recognised | **3,317** | 1,094 |
| Under-provision in prior years | **1,874** | 2,181 |
| Utilisation of previously unrecognised tax losses | **(21)** | (3,581) |
| Withholding tax on unremitted earnings (Note 33) | **57,125** | 62,126 |
| Income tax expense | **551,950** | 415,706 |

The weighted average applicable tax rate was 24.1% (2009: 25.0%).

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

## 10 Profit attributable to shareholders of the Company

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of a profit of HK$230,686,000 (2009: a loss of HK$52,877,000) (Note 30).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 11 Earnings per share

### (a) Basic

Basic earnings per share is calculated by dividing the Group's profit attributable to shareholders of HK$2,438,328,000 (2009: HK$2,117,509,000) by the weighted average number of 1,221,449,809 (2009: 1,196,348,252) ordinary shares in issue during the year.

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Basic** | | |
| Profit attributable to shareholders of the Company *(HK$'000)* | 2,438,328 | 2,117,509 |
| Weighted average number of ordinary shares in issue *(thousands)* | 1,221,450 | 1,196,348 |
| Basic earnings per share | HK$1.996 | HK$1.770 |

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's share options are regarded as dilutive potential ordinary shares as at 31 December 2010. Calculations are done to determine the number of shares that could have been acquired at fair value (determined by using average market share price of the Company's shares for the year ended 31 December 2010) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| **Diluted** | | |
| Profit attributable to shareholders of the Company *(HK$'000)* | 2,438,328 | 2,117,509 |
| Weighted average number of ordinary shares in issue *(thousands)* | 1,221,450 | 1,196,348 |
| — Share options *(thousands)* | 5,189 | 3,628 |
| Weighted average number of ordinary shares for diluted earnings per share *(thousands)* | 1,226,639 | 1,199,976 |
| Diluted earnings per share | HK$1.988 | HK$1.765 |

## 12 Dividends

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Interim, paid, HK$0.60 (2009: HK$0.50) per ordinary share | **734,531** | 609,657 |
| Final, proposed, HK$0.70 (2009: HK$0.60) per ordinary share | **856,953** | 731,588 |
| | **1,591,484** | 1,341,245 |

The dividends paid in 2010 amounted to HK$1,467,919,000 (2010 Interim: HK$0.60 per share, 2009 Final: HK$0.60 per share). The dividend paid in 2009 amounted to HK$1,069,683,000 (2009 Interim: HK$0.50 per share, 2008 Final: HK$0.40 per share). A dividend in respect of the year ended 31 December 2010 of HK$0.70 per share, amounting to a total dividend of HK$856,953,000, is to be proposed at the annual general meeting being held on 26 May 2011. These financial statements do not reflect this dividend payable.

The aggregate amounts of the dividends paid and proposed during 2010 and 2009 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

## 13 Employee benefit expense, including directors' emoluments

| | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|
| Wages and salaries | **863,118** | 680,567 |
| Retirement benefit costs | **70,537** | 56,671 |
| Share-based compensation expenses (Note 28) | **24,699** | 26,638 |
| | **958,354** | 763,876 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 13 Employee benefit expense, including directors' emoluments *(continued)*

### (a) Directors' and senior management's emoluments

The remuneration of each Director for the year ended 31 December 2010 is set out below:

| Name of Director | Fees HK$'000 | Salary HK$'000 | Discretionary bonuses HK$'000 | Housing allowance HK$'000 | Share-based compensation HK$'000 | Employer's contribution to pension scheme HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| *Director* | | | | | | | |
| Mr. Sze Man Bok | 60 | 338 | – | – | 33 | 12 | 443 |
| Mr. Hui Lin Chit | 60 | 550 | 1,271 | 50 | 295 | 12 | 2,238 |
| Mr. Xu Shui Shen (Note 1) | 30 | 638 | 912 | – | 246 | 2 | 1,828 |
| Mr. Hung Ching Shan | 60 | 138 | 23 | – | 33 | 10 | 264 |
| Mr. Xu Da Zuo | 60 | 392 | 214 | – | 213 | 3 | 882 |
| Mr. Xu Chun Man | 60 | 74 | 33 | – | 33 | 3 | 203 |
| Mr. Sze Wong Kim (Note 1) | 30 | – | – | – | – | 2 | 32 |
| Mr. Hui Ching Chi (Note 1) | 30 | 336 | – | – | – | 14 | 380 |
| Mr. Loo Hong Shing Vincent | 60 | 1,377 | 500 | – | 279 | 12 | 2,228 |
| *Independent Non-Executive Director* | | | | | | | |
| Mr. Chan Henry | 120 | – | – | – | – | – | 120 |
| Mr. Wang Ming Fu (Note 2) | 120 | – | – | – | – | – | 120 |
| Ms. Ada Ying Kay Wong | 120 | – | – | – | – | – | 120 |

## 13 Employee benefit expense, including directors' emoluments *(continued)*

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

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

| Name of Director | Fees HK$'000 | Salary HK$'000 | Discretionary bonuses HK$'000 | Housing allowance HK$'000 | Share-based compensation HK$'000 | Employer's contribution to pension scheme HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| *Director* | | | | | | | |
| Mr. Sze Man Bok | 60 | 389 | – | – | 44 | 12 | 505 |
| Mr. Hui Lin Chit | 60 | 486 | 839 | 600 | 398 | 12 | 2,395 |
| Mr. Yeung Wing Chun (Note 3) | 30 | – | – | – | 22 | 1 | 53 |
| Mr. Hung Ching Shan | 60 | 136 | 34 | – | 44 | 10 | 284 |
| Mr. Xu Da Zuo | 60 | 334 | 202 | – | 288 | 3 | 887 |
| Mr. Xu Chun Man | 60 | 57 | 24 | – | 44 | 3 | 188 |
| Mr. Loo Hong Shing Vincent | 60 | 990 | 600 | 336 | 376 | 12 | 2,374 |
| *Independent Non-Executive Director* | | | | | | | |
| Mr. Chan Henry | 120 | – | – | – | – | – | 120 |
| Mr. Chu Cheng Chung (Note 4) | 120 | – | – | – | – | – | 120 |
| Ms. Ada Ying Kay Wong | 120 | – | – | – | – | – | 120 |

Notes:

1. Mr. Xu Shui Shen, Mr. Sze Wong Kim and Mr. Hui Ching Chi were appointed as Executive Directors on 1 June 2010.

2. Mr. Wang Ming Fu was appointed as an Non-Executive Director on 1 January 2010.

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 13 Employee benefit expense, including directors' emoluments *(continued)*

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2009: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2009: three) individuals during the year are as follows:

| | **2010 HK$'000** | 2009 HK$'000 |
|---|---|---|
| Basic salaries, housing allowances, share-based compensation, other allowances and benefits-in-kind | **1,937** | 2,622 |
| Bonuses | **230** | 1,104 |
| | **2,167** | 3,726 |

The emoluments fell within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2010** | 2009 |
| Emolument bands | | |
| HK$1,000,001 to HK$1,500,000 | **2** | 3 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 14 Property, plant and equipment — Group

| | Leasehold land and buildings HK$'000 | Machinery HK$'000 | Office equipment, furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2009 | | | | | |
| Cost | 1,075,235 | 3,325,702 | 128,669 | 26,226 | 4,555,832 |
| Accumulated depreciation | (178,537) | (1,215,973) | (69,041) | (11,531) | (1,475,082) |
| Opening net book amount | 896,698 | 2,109,729 | 59,628 | 14,695 | 3,080,750 |
| Year ended 31 December 2009 | | | | | |
| Opening net book amount | 896,698 | 2,109,729 | 59,628 | 14,695 | 3,080,750 |
| Exchange differences | 1,013 | 3,445 | 142 | 21 | 4,621 |
| Additions | 18,934 | 54,207 | 7,946 | 3,986 | 85,073 |
| Transfer from construction-in-progress (Note 15) | 309,470 | 379,238 | 13,883 | — | 702,591 |
| Depreciation for the year (Note 7) | (59,873) | (243,317) | (13,774) | (4,057) | (321,021) |
| Disposals | (4,497) | (9,727) | (1,198) | (781) | (16,203) |
| Closing net book amount | 1,161,745 | 2,293,575 | 66,627 | 13,864 | 3,535,811 |
| At 31 December 2009 and 1 January 2010 | | | | | |
| Cost | 1,398,930 | 3,731,304 | 141,220 | 25,752 | 5,297,206 |
| Accumulated depreciation | (237,185) | (1,437,729) | (74,593) | (11,888) | (1,761,395) |
| Net book amount | 1,161,745 | 2,293,575 | 66,627 | 13,864 | 3,535,811 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 14 Property, plant and equipment — Group *(continued)*

| | Leasehold land and buildings HK$'000 | Machinery HK$'000 | Office equipment, furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Year ended 31 December 2010 | | | | | |
| Opening net book amount | 1,161,745 | 2,293,575 | 66,627 | 13,864 | 3,535,811 |
| Exchange differences | 47,765 | 89,120 | 2,575 | 739 | 140,199 |
| Effect of adoption of HKAS 17 (Amendment) | 4,730 | — | — | — | 4,730 |
| Additions | 17,721 | 61,845 | 24,657 | 17,020 | 121,243 |
| Transfer from construction-in-progress (Note 15) | 440,590 | 636,864 | 6,754 | — | 1,084,208 |
| Depreciation for the year (Note 7) | (75,686) | (255,967) | (19,716) | (5,253) | (356,622) |
| Disposals | (2,570) | (6,719) | (366) | (824) | (10,479) |
| Closing net book amount | 1,594,295 | 2,818,718 | 80,531 | 25,546 | 4,519,090 |
| At 31 December 2010 | | | | | |
| Cost | 1,918,328 | 4,547,842 | 163,552 | 38,796 | 6,668,518 |
| Accumulated depreciation | (324,033) | (1,729,124) | (83,021) | (13,250) | (2,149,428) |
| Net book amount | 1,594,295 | 2,818,718 | 80,531 | 25,546 | 4,519,090 |

Depreciation expenses have been charged to the consolidated income statement as follows:

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Manufacturing overheads included under cost of goods sold | 291,075 | 266,546 |
| Distribution costs | 5,478 | 4,071 |
| Administrative expenses | 60,069 | 50,404 |
| | 356,622 | 321,021 |

There was no pledge of property, plant and equipment of the Group as at 31 December 2010 and 2009.

## 15 Construction-in-progress — Group

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| At 1 January | **808,410** | 813,329 |
| Exchange differences | **23,596** | 1,268 |
| Additions | **917,332** | 696,404 |
| Transfer to property, plant and equipment (Note 14) | **(1,084,208)** | (702,591) |
| At 31 December | **665,130** | 808,410 |

During the year ended 31 December 2010, finance costs capitalised in construction-in-progress amounted to HK$4,000,000 (2009: HK$2,250,000) (Note 8).

## 16 Leasehold land and land use rights — Group

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

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| In Hong Kong, held on: | | |
| Leases between 10 to 50 years | **—** | 4,730 |
| Outside Hong Kong, held on: | | |
| Leases between 10 to 50 years | **613,982** | 392,811 |
| | **613,982** | 397,541 |
| At 1 January, as previously reported | **397,541** | 239,408 |
| Exchange differences | **16,537** | 408 |
| Effect of adoption of HKAS 17 (Amendment) | **(4,730)** | — |
| Additions | **222,592** | 169,268 |
| Amortisation of prepaid operating leases payments (Note 7) | **(17,958)** | (11,543) |
| At 31 December | **613,982** | 397,541 |

Amortisation has been charged to administrative expenses in the consolidated income statement.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 17 Intangible assets — Group

| | Goodwill HK$'000 | Patents and trademarks HK$'000 | Customer relationships HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2009 | | | | |
| Cost | 495,300 | 76,606 | 57,850 | 629,756 |
| Accumulated amortisation | — | (3,412) | (48) | (3,460) |
| Net book amount | 495,300 | 73,194 | 57,802 | 626,296 |
| Year ended 31 December 2009 | | | | |
| Opening net book amount | 495,300 | 73,194 | 57,802 | 626,296 |
| Exchange differences | — | 4 | — | 4 |
| Amortisation charge (Note 7) | — | (4,179) | (5,737) | (9,916) |
| Closing net book amount | 495,300 | 69,019 | 52,065 | 616,384 |
| At 31 December 2009 | | | | |
| Cost | 495,300 | 76,616 | 57,850 | 629,766 |
| Accumulated amortisation | — | (7,597) | (5,785) | (13,382) |
| Net book amount | 495,300 | 69,019 | 52,065 | 616,384 |
| Year ended 31 December 2010 | | | | |
| Opening net book amount | **495,300** | **69,019** | **52,065** | **616,384** |
| Exchange differences | **—** | **47** | **—** | **47** |
| Amortisation charge (Note 7) | **—** | **(4,138)** | **(5,785)** | **(9,923)** |
| Closing net book amount | **495,300** | **64,928** | **46,280** | **606,508** |
| At 31 December 2010 | | | | |
| Cost | **495,300** | **76,820** | **57,850** | **629,970** |
| Accumulated amortisation | **—** | **(11,892)** | **(11,570)** | **(23,462)** |
| Net book amount | **495,300** | **64,928** | **46,280** | **606,508** |

Amortisation of HK$9,923,000 (2009: HK$9,916,000) has been charged to administrative expense in the consolidated income statement.

The Directors have performed an impairment review of the carrying amount of goodwill as at 31 December 2010 and have concluded that no provision for impairment is required. For the purposes of impairment testing, goodwill acquired has been allocated to the smallest individual of cash generating units identified by business segments, including goodwill on the tissue paper products segment of HK$452,030,000 and goodwill on the food and snack products segment of HK$43,270,000 as at 31 December 2010. The recoverable amount of each of the cash generating units is determined based on value-in-use calculations. The calculation uses cash flow projections based on financial estimates made by the Directors, with reference to the prevailing market conditions, covering a period of three years and assuming sales growth rate of 20% and gross profit margins ranging from 31.5% to 35.3%. The management assumes that the sales beyond the three-year period will keep stable and the cash flows are extrapolated with reference to the production capacity of the cash generating units acquired. The cash flow projections are discounted at a pre-tax discount rate of 10% per annum.

## 18 Prepayments for non-current assets — Group

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

## 19 Investments in subsidiaries — Company

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **527,004** | 527,004 |
| Due from subsidiaries | **4,901,807** | 4,896,807 |
| | **5,428,811** | 5,423,811 |

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

The particulars of the Company's principal subsidiaries are set out in Note 40 to the consolidated financial statements.

## 20 Financial instruments by category

### (a) Assets

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Loans and receivables** | | | | |
| — Trade and other receivables, excluding advance to suppliers and prepayments | **1,624,843** | 984,578 | **142,780** | 73,461 |
| — Amount due from subsidiaries (Note 23) | **—** | — | **1,387,231** | 366,762 |
| — Restricted bank deposits (Note 25) | **59,237** | 11,364 | **—** | — |
| — Long-term bank deposits (Note 26) | **786,274** | 468,597 | **—** | — |
| — Cash and cash equivalents (Note 26) | **5,989,024** | 4,449,674 | **45,997** | 11,258 |
| | **8,459,378** | 5,914,213 | **1,576,008** | 451,481 |
| **Assets at fair value through profit or loss** | | | | |
| — Derivative financial instruments (Note 24) | **13,802** | 13,938 | **—** | — |
| Total | **8,473,180** | 5,928,151 | **1,576,008** | 451,481 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 20 Financial instruments by category *(continued)*

### (b) Liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Financial liabilities at amortised costs** | | | | |
| — Trade and other payables, excluding advance receipts from customers | **1,747,243** | 1,259,754 | **115,421** | 63,267 |
| — Amount due to subsidiaries (Note 23) | **—** | — | **1,800,548** | 591,027 |
| — Bank borrowings (Note 31) | **5,312,241** | 2,730,200 | **1,730,000** | 775,000 |
| Total | **7,059,484** | 3,989,954 | **3,645,969** | 1,429,294 |

## 21 Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Finished goods | **1,322,052** | 892,739 | **—** | 8,227 |
| Work-in-progress | **30,005** | 29,960 | **—** | — |
| Raw materials | **1,283,795** | 1,147,936 | **—** | — |
| Spare parts and consumables | **124,238** | 103,870 | **—** | — |
| | **2,760,090** | 2,174,505 | **—** | 8,227 |

The cost of inventories recognised as expenses and included in cost of goods sold amounted to HK$7,486,900,000 (2009: HK$5,846,195,000).

The Group reversed a previous inventory write-down of HK$297,000 (2009: provision for impairment of HK$7,153,000). These amounts have been included in cost of goods sold in the consolidated income statement (Note 7).

## 22 Trade and bills receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Trade receivables | 1,395,257 | 882,147 | 142,780 | 73,461 |
| Less: provision for impairment | (7,707) | (11,378) | — | — |
| | 1,387,550 | 870,769 | 142,780 | 73,461 |
| Bills receivable | 8,287 | 12,072 | — | — |
| Trade and bills receivables | 1,395,837 | 882,841 | 142,780 | 73,461 |

The majority of the Group's sales is on open account with credit terms ranging from 30 days to 90 days. At 31 December 2010, the ageing analysis of the trade and bills receivables based on invoice date was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Within 30 days | 691,307 | 485,286 | 43,242 | 73,461 |
| 31–180 days | 667,640 | 385,762 | 98,498 | — |
| 181–365 days | 31,726 | 5,435 | 1,040 | — |
| Over 365 days | 5,164 | 6,358 | — | — |
| | 1,395,837 | 882,841 | 142,780 | 73,461 |

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

The credit quality of the trade receivables that are neither past due nor impaired in the amount of HK$1,253,385,000 (2009: HK$747,432,000) could be assessed by reference to their payment history and current financial position. These receivables relate to a whole range of customers for whom there was no recent history of default. Management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are expected to be fully recoverable.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 22 Trade and bills receivables *(continued)*

As at 31 December 2010, trade receivables of HK$142,452,000 (2009: HK$135,409,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. As at December 2010 and 2009, the ageing analysis of these trade receivables were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| 31–180 days | **130,415** | 130,848 | **—** | — |
| 181–365 days | **7,039** | 797 | **—** | — |
| Over 365 days | **4,998** | 3,764 | **—** | — |
| | **142,452** | 135,409 | **—** | — |

Trade receivables of HK$7,707,000 (2009: HK$11,378,000) were impaired and fully provided for.

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| At 1 January | **11,378** | 12,152 | **—** | — |
| Exchange differences | **302** | 19 | **—** | — |
| (Reversal of)/provision for impairment of trade receivables (Note 7) | **(1,865)** | 14 | **—** | — |
| Receivables written off during the year as uncollectible | **(2,108)** | (807) | **—** | — |
| As 31 December | **7,707** | 11,378 | **—** | — |

The creation and release of provision for impaired receivables have been included in the consolidated income statement (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.

## 22 Trade and bills receivables *(continued)*

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| RMB | **1,200,575** | 821,169 | **—** | — |
| Other currencies | **195,262** | 61,672 | **142,780** | 73,461 |
| | **1,395,837** | 882,841 | **142,780** | 73,461 |

## 23 Amounts due from and to subsidiaries — Company

The amounts due from subsidiaries were unsecured, interest-free, denominated in RMB and repayable on demand. The amounts due to subsidiaries were unsecured, interest bearing at a rate of 1.39% (2009: 0.66%) per annum, denominated in RMB and not repayable within 12 months from the balance sheet date.

## 24 Derivative financial instruments — Group

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

## 25 Restricted bank deposits — Group

Approximately HK$59,237,000 (2009: HK$11,364,000) of the bank balances were restricted to be drawn down until certain letters of credit issued by the Group are settled.

## 26 Long-term bank deposits and cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Long-term bank deposits** | | | | |
| — Term deposits with initial term over one year | **786,274** | 468,597 | **—** | — |
| **Cash and cash equivalents** | **5,989,024** | 4,449,674 | **45,997** | 11,258 |
| | **6,775,298** | 4,918,271 | **45,997** | 11,258 |

The cash and cash equivalents represented cash deposits held at call with banks and in hand and deposits with short-term maturity within one year.

The effective interest rate on bank deposit as at 31 December 2010 was approximately 1.96% (2009: 1.23%) per annum.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 26 Long-term bank deposits and cash and cash equivalents *(continued)*

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Long-term bank deposits** | | | | |
| RMB | **786,274** | 468,597 | **—** | — |
| **Cash and cash equivalents** | | | | |
| RMB | **4,822,668** | 3,718,427 | **—** | — |
| US$ | **1,090,337** | 628,469 | **37,291** | 5,867 |
| HK$ | **75,857** | 102,708 | **8,706** | 5,391 |
| Others | **162** | 70 | **—** | — |
| | **5,989,024** | 4,449,674 | **45,997** | 11,258 |

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

## 27 Share capital

| | Authorised share capital<br>Ordinary shares of HK$0.1 each<br>Number of shares | HK$'000 |
|---|---|---|
| At 31 December 2010 and 31 December 2009 | 3,000,000,000 | 300,000 |

| | Issued and fully paid<br>Ordinary shares of HK$0.1 each<br>Number of shares | HK$'000 |
|---|---|---|
| At 1 January 2009 | 1,150,064,924 | 115,007 |
| Conversion of convertible bonds into ordinary shares (Note 32) | 69,248,797 | 6,924 |
| At 31 December 2009 | 1,219,313,721 | 121,931 |
| Employee share option scheme | | |
| — Shares issued upon exercise of share options (Note 28) | **4,905,000** | **491** |
| At 31 December 2010 | **1,224,218,721** | **122,422** |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 28 Share-based compensation

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

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

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Average exercise price in HK$ per share** | **Options (thousands)** | Average exercise price in HK$ per share | Options (thousands) |
| At 1 January | **29.19** | **13,032** | 25.06 | 10,464 |
| Granted | **—** | **—** | 44.30 | 2,793 |
| Forfeited | **25.05** | **(426)** | 25.05 | (225) |
| Forfeited | **44.30** | **(257)** | — | — |
| Exercised | **25.05** | **(4,615)** | — | — |
| Exercised | **25.30** | **(290)** | — | — |
| At 31 December | **31.62** | **7,444** | 29.19 | 13,032 |

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

| | **Number of share options (thousands)** | |
|---|---|---|
| **Exercise price per share option** | **2010** | 2009 |
| HK$25.30 | **290** | 580 |
| HK$25.05 | **4,618** | 9,659 |
| HK$44.30 | **2,536** | 2,793 |
| | **7,444** | 13,032 |

## 28 Share-based compensation *(continued)*

The total amount of the fair value of share options granted to Directors and selected employees is expensed over the vesting period. The share-based compensation expense for the year ended 31 December 2010 amounted to HK$24,699,000 (2009: HK$26,638,000) (Note 13), and the remaining unamortised fair value of approximately HK$30,537,000 will be charged to the consolidated income statement in the future years.

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

## 29 Other reserves

### Group

| | Share premium account HK$'000 | Capital reserve HK$'000 | Capital redemption reserve HK$'000 | Convertible bonds-equity component reserve HK$'000 | Statutory reserves HK$'000 | Share-based compensation reserve HK$'000 | Exchange reserve HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2009 | 2,689,950 | 517,705 | 1,807 | 18,462 | 394,283 | 33,435 | 843,654 | 4,499,296 |
| Other comprehensive income – currency translation differences | – | – | – | – | – | – | 6,679 | 6,679 |
| Total other comprehensive income | – | – | – | – | – | – | 6,679 | 6,679 |
| Appropriation to statutory reserves | – | – | – | – | 133,257 | – | – | 133,257 |
| Transfer to retained earnings (Note (a)) | (1,200,000) | – | – | – | – | – | – | (1,200,000) |
| Conversion of convertible bonds (Note 32) | | | | | | | | |
| – equity component | 18,462 | – | – | (18,462) | – | – | – | – |
| – conversion into shares | 1,482,026 | – | – | – | – | – | – | 1,482,026 |
| Share-based compensation (Notes 13 and 28) | – | – | – | – | – | 26,638 | – | 26,638 |
| Liquidation of subsidiaries | – | – | – | – | (11,075) | – | – | (11,075) |
| At 31 December 2009 | 2,990,438 | 517,705 | 1,807 | – | 516,465 | 60,073 | 850,333 | 4,936,821 |
| **At 1 January 2010** | **2,990,438** | **517,705** | **1,807** | **–** | **516,465** | **60,073** | **850,333** | **4,936,821** |
| Other comprehensive income – currency translation differences | **–** | **–** | **–** | **–** | **–** | **–** | **366,330** | **366,330** |
| Total other comprehensive income | **2,990,438** | **517,705** | **1,807** | **–** | **516,465** | **60,073** | **1,216,663** | **5,303,151** |
| Appropriation to statutory reserves | **–** | **–** | **–** | **–** | **180,083** | **–** | **–** | **180,083** |
| Transfer to retained earnings (Note (a)) | **(2,000,000)** | **–** | **–** | **–** | **–** | **–** | **–** | **(2,000,000)** |
| Share-based compensation | | | | | | | | |
| – Value of employee services (Note 13) | **–** | **–** | **–** | **–** | **–** | **24,699** | **–** | **24,699** |
| – Proceeds from shares issued | **122,452** | **–** | **–** | **–** | **–** | **–** | **–** | **122,452** |
| At 31 December 2010 | **1,112,890** | **517,705** | **1,807** | **–** | **696,548** | **84,772** | **1,216,663** | **3,630,385** |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 29 Other reserves *(continued)*

### Company

| | Share premium account HK$'000 | Capital redemption reserve HK$'000 | Convertible bonds-equity component reserve HK$'000 | Share-based compensation reserve HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2009 | 3,274,950 | 1,807 | 18,462 | 33,435 | 3,328,654 |
| Transfer to retained earnings (Note (a)) | (1,200,000) | – | – | – | (1,200,000) |
| Conversion of convertible bonds (Note 32) | | | | | |
| – equity component | 18,462 | – | (18,462) | – | – |
| – conversion into shares | 1,482,026 | – | – | – | 1,482,026 |
| Share-based compensation (Notes 13 and 28) | – | – | – | 26,638 | 26,638 |
| At 31 December 2009 | 3,575,438 | 1,807 | – | 60,073 | 3,637,318 |
| At 1 January 2010 | **3,575,438** | **1,807** | **–** | **60,073** | **3,637,318** |
| Transfer to retained earnings (Note (a)) | **(2,000,000)** | **–** | **–** | **–** | **(2,000,000)** |
| Share-based compensation | | | | | |
| – Value of employee services (Note 13) | **–** | **–** | **–** | **24,699** | **24,699** |
| – Proceeds from shares issued | **122,452** | **–** | **–** | **–** | **122,452** |
| At 31 December 2010 | **1,697,890** | **1,807** | **–** | **84,772** | **1,784,469** |

Notes:

(a) Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company. During the year ended 31 December 2010, HK$2,000,000,000 (2009: HK$1,200,000,000) was transferred from share premium account to retained earnings.

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

(c) Statutory reserves comprise statutory surplus reserve 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 shareholders. 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 financial statements of companies within the Group that have a functional currency different from HK$, the presentation currency of the financial statements of the Company and the Group.

## 30 Retained earnings

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| At 1 January | **3,958,254** | 1,869,754 | **693,895** | 642,524 |
| 2009/2008 final dividends paid | **(731,588)** | (486,095) | **(731,588)** | (486,095) |
| 2010/2009 interim dividends paid | **(734,531)** | (609,657) | **(734,531)** | (609,657) |
| Profit/(loss) for the year | **2,438,328** | 2,117,509 | **230,686** | (52,877) |
| Appropriation to statutory reserves | **(180,083)** | (133,257) | **—** | — |
| Transfer from share premium account | **2,000,000** | 1,200,000 | **2,000,000** | 1,200,000 |
| At 31 December | **6,750,380** | 3,958,254 | **1,458,462** | 693,895 |

## 31 Bank borrowings

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Non-current** | | | | |
| Long-term bank loans — unsecured | **1,497,050** | 555,031 | **476,000** | — |
| **Current** | | | | |
| Trust receipt bank loans | **207,102** | 6,375 | **—** | — |
| Current portion of long-term bank loans — unsecured | **692,432** | 59,742 | **—** | — |
| Short-term bank loans — unsecured | **2,915,657** | 2,109,052 | **1,254,000** | 775,000 |
| | **3,815,191** | 2,175,169 | **1,254,000** | 775,000 |
| Total bank borrowings | **5,312,241** | 2,730,200 | **1,730,000** | 775,000 |

As at 31 December 2010, the effective interest rate of the Group's borrowings was approximately 1.74% (2009: 1.19%) per annum.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 31 Bank borrowings *(continued)*

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| HK$ | **3,960,328** | 2,205,941 | **1,730,000** | 775,000 |
| US$ | **1,349,375** | 512,336 | **—** | — |
| RMB | **2,538** | 11,923 | **—** | — |
| | **5,312,241** | 2,730,200 | **1,730,000** | 775,000 |

At 31 December 2010, the Group's long-term bank borrowings were repayable as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Within 1 year | **692,432** | 59,742 |
| Between 1 and 2 years | **1,349,155** | 495,031 |
| Between 3 and 5 years | **147,895** | 60,000 |
| Wholly repayable within 5 years | **2,189,482** | 614,773 |

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

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| 6 months or less | **1,890,758** | 464,810 | **1,000,000** | 775,000 |
| 7 to 12 months | **1,924,433** | 1,710,359 | **254,000** | — |
| 1 to 5 years | **1,497,050** | 555,031 | **476,000** | — |
| | **5,312,241** | 2,730,200 | **1,730,000** | 775,000 |

## 31 Bank borrowings *(continued)*

The Group has the following undrawn bank borrowing facilities:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Undrawn bank borrowing facilities | **4,286,521** | 3,763,005 |

## 32 Convertible bonds

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

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

## 33 Deferred income tax — Group

| | **2010** | 2009 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Deferred income tax assets** | | |
| — Deferred tax asset to be recovered within 12 months | **98,213** | 89,395 |
| **Deferred income tax liabilities** | | |
| — Deferred tax liability to be settled after more than 12 months | **46,324** | 49,808 |
| — Deferred tax liability to be settled within 12 months | **126,313** | 65,668 |
| | **172,637** | 115,476 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 33 Deferred income tax — Group *(continued)*

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

**Deferred income tax assets:**

| | Unrealised profit in inventories | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| At 1 January | **89,395** | 68,269 |
| Exchange differences | **3,243** | 405 |
| Credited to consolidated income statement (Note 9) | **5,575** | 20,721 |
| At 31 December | **98,213** | 89,395 |

**Deferred income tax liabilities:**

| | Withholding tax on unremitted earnings in PRC subsidiaries | | Fair value adjustments on intangible assets recognised upon business combination | | Total | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| At 1 January | **62,126** | — | **53,350** | 56,892 | **115,476** | 56,892 |
| Exchange rate difference | **3,549** | — | **—** | — | **3,549** | — |
| Charged/(credited) to consolidated income statement (Note 9) | **57,125** | 62,126 | **(3,513)** | (3,542) | **53,612** | 58,584 |
| At 31 December | **122,800** | 62,126 | **49,837** | 53,350 | **172,637** | 115,476 |

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$680,000 (2009: HK$778,000) in respect of losses amounted to HK$2,717,000 (2009: HK$3,115,000) that can be carried forward against future taxable income. The unrecognised tax losses will expire up to 2015.

## 34 Trade payables

At 31 December 2010, the ageing analysis of trade payables was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within 30 days | **707,931** | 553,524 | **43,426** | 23,964 |
| 31–180 days | **589,328** | 306,432 | **66,330** | 34,091 |
| 181–365 days | **14,119** | 10,585 | **—** | — |
| Over 365 days | **7,530** | 5,067 | **—** | — |
| | **1,318,908** | 875,608 | **109,756** | 58,055 |

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

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| RMB | **693,488** | 599,240 | **—** | — |
| US$ | **584,206** | 271,827 | **105,237** | 53,139 |
| Other currencies | **41,214** | 4,541 | **4,519** | 4,916 |
| | **1,318,908** | 875,608 | **109,756** | 58,055 |

## 35 Bill payables

During the year end 2009, the Group discounted certain bills to banks with recourse in exchange for cash. The bills discounted to banks and remained outstanding as at 31 December 2009 amounted to HK$397,501,000. During the year end 2010, the Group has fully settled the discounted bills and there was no remaining outstanding balance as at 31 December 2010.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 36 Notes to the consolidated cash flow statement

### (a) Cash generated from operations

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Profit before income tax | 3,038,367 | 2,582,729 |
| Depreciation of property, plant and equipment (Note 14) | 356,622 | 321,021 |
| Amortisation of leasehold land and land use rights (Note 16) | 17,958 | 11,543 |
| Amortisation of intangible assets (Note 17) | 9,923 | 9,916 |
| Unrealised fair value losses/(gain) on derivative financial instruments (Note 6) | 136 | (13,938) |
| Loss on disposal/write-off of property, plant and equipment (Note 6) | 4,802 | 6,028 |
| Liquidation of subsidiaries | — | (11,075) |
| Share-based compensation expenses (Note 28) | 24,699 | 26,638 |
| Amortisation of deferred income on government grants | (1,616) | (2,649) |
| Finance income (Note 8) | (110,460) | (45,128) |
| Finance costs (Note 8) | 71,393 | 62,950 |
| Operating profit before working capital changes | 3,411,824 | 2,948,035 |
| Increase in inventories | (503,520) | (43,505) |
| Increase in trade and bills receivables, other receivables, prepayments and deposits | (717,993) | (153,790) |
| Increase in trade payables, other payables and accrued charges | 476,869 | 59,838 |
| Cash generated from operations | 2,667,180 | 2,810,578 |

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

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Net book value (Note 14) | 10,479 | 16,203 |
| Losses on disposal/write off of property, plant and equipment (Note 6) | (4,802) | (6,028) |
| Proceeds from disposal of property, plant and equipment | 5,677 | 10,175 |

## 37 Contingent liabilities

At 31 December 2010, the Group had no material contingent liabilities (2009: Nil).

## 38 Commitments

At 31 December 2010, the Group had the following commitments:

### (a) Capital commitments

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Contracted but not provided for in respect of: | | |
| Plant, machinery and equipment | **707,244** | 355,767 |
| Leasehold land and buildings | **409,009** | 68,042 |
| | **1,116,253** | 423,809 |
| Authorised but not contracted for in respect of: | | |
| Leasehold land and buildings | **656,210** | 851,771 |
| Total capital commitment | **1,772,463** | 1,275,580 |

### (b) Commitments under operating leases

At 31 December 2010, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | Leasehold land and buildings | |
|---|---|---|
| | **2010** | 2009 |
| | **HK$'000** | HK$'000 |
| Not later than 1 year | **25,497** | 20,149 |
| Later than 1 year and not later than 5 years | **8,861** | 4,826 |
| Later than 5 year | **–** | 12 |
| | **34,358** | 24,987 |

The Company did not have significant commitment as at 31 December 2010 and 2009.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 39 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.

The Group had the following significant related party transactions during the year ended 31 December 2010:

| | | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| (a) | Purchases from Weifang Power | | |
| | — electricity energy | 92,601 | 76,195 |
| | — heat energy | 65,334 | 57,949 |
| | | 157,935 | 134,144 |
| (b) | Key management compensation | | |
| | Basic salaries, housing allowances, other allowances and benefits-in-kind | 13,384 | 8,318 |
| | Share-based compensation | 2,392 | 2,041 |
| | Contributions to pension schemes | 68 | 53 |
| | | 15,844 | 10,412 |

There were no balances with related parties as at 31 December 2010 (2009: nil).

Pursuant to agreements entered 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 not less favorable than the prevailing market prices. Weifang Power is beneficially owned by Mr. Sze Wong Kim, an executive director, and a son of Mr. Hui Lin Chit, an executive director and a substantial shareholder of the Company.

## 40 Principal subsidiaries

The following is a list of the principal subsidiaries of the Company at 31 December 2010 which, in the opinion of the Directors, are significant to the results of the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

| Company | Place of incorporation/ establishment and kind of legal entity | Principal activities and place of operation | Particulars of issued share capital/ registered capital | Interest held 2010 % |
|---|---|---|---|---|
| **Direct subsidiaries:** | | | | |
| Hengan Mega Jumbo Investment Ltd. | Hong Kong, limited liability company | Investment holding in Hong Kong | 1 ordinary share of HK$1 each | 100 |
| Ever Town Investments Limited | British Virgin Islands, limited liability company | Investment holding in Hong Kong | 1 ordinary share of US$1 each | 100 |
| Hengan International Holdings Limited | British Virgin Islands, limited liability company | Investment holding in Hong Kong | 1 ordinary share of US$1 each | 100 |
| **Indirect subsidiaries:** | | | | |
| 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 |
| Hengan Industrial (Hong Kong) Limited | Hong Kong, limited liability company | Trading and procurement in Hong Kong | 2 ordinary shares of HK$1 each | 100 |
| Hengan Pharmacare Company Limited | Hong Kong, limited liability company | Trading, procurement and distribution of hygiene products in Hong Kong | 10,000 ordinary shares of HK$1 each | 70 |
| Fujian Hengan Holding Xiamen Business Trade Co., Ltd | PRC, sino-foreign equity joint venture | Trading in the PRC | RMB100,000,000 | 100 |
| Fujian Hengan Holding Co., Ltd | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of personal hygiene products in the PRC | RMB511,407,600 | 99.02 |
| Guangzhou Xingshi Professional Equipments Co., Ltd. | PRC, wholly foreign-owned enterprise | Manufacturing, distribution and sale of personal hygiene equipments in the PRC | US$18,000,000 | 100 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 40 Principal subsidiaries *(continued)*

| Company | Place of incorporation/ establishment and kind of legal entity | Principal activities and place of operation | Particulars of issued share capital/ registered capital | Interest held 2010 % |
|---|---|---|---|---|
| **Indirect subsidiaries:** *(continued)* | | | | |
| Hengan (Jinjiang) Household Products Co., Ltd | PRC, wholly foreign-owned enterprise | Manufacturing, distribution and sale of personal hygiene products in the PRC | US$15,800,000 | 100 |
| Hengan (Jiangxi) Hygiene Products Co., Ltd. | PRC, wholly foreign-owned enterprise | Manufacturing, distribution and sale of personal hygiene products in the PRC | HK$6,958,000 | 100 |
| Hengan (Shaanxi) Hygiene Products Co., Ltd. | PRC, wholly foreign-owned enterprise | Manufacturing, distribution and sale of personal hygiene products in the PRC | RMB3,980,000 | 100 |
| Hengan (Sichuan) Hygiene Products Co. Ltd. | PRC, wholly foreign-owned enterprise | Manufacturing, distribution and sale of personal hygiene products in the PRC | US$1,380,000 | 100 |
| Hengan (Tianjin) Hygiene Supplies Co., Ltd. | PRC, wholly foreign-owned enterprise | Manufacturing, distribution and sale of personal hygiene products in the PRC | US$3,000,000 | 100 |
| Hengan (Weifang) Hygiene Products Co., Ltd. | PRC, wholly foreign-owned enterprise | Manufacturing, distribution and sale of personal hygiene products in the PRC | US$3,410,000 | 100 |
| Fujian Hengan Hygiene Material Co., Ltd. | PRC, wholly foreign-owned enterprise | Manufacturing of personal hygiene materials in the PRC | US$40,000,000 | 100 |
| Jinjiang Hengan Antimicrobial Science and Technology Development Co., Ltd. | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of personal hygiene products in the PRC | RMB11,100,000 | 90.1 |
| Hengan (Sichuan) Household Products Co., Ltd. | PRC, wholly foreign-owned enterprise | Manufacturing, distribution and sale of personal hygiene products in the PRC | US$3,000,000 | 100 |
| 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 |

## 40 Principal subsidiaries *(continued)*

| Company | Place of incorporation/ establishment and kind of legal entity | Principal activities and place of operation | Particulars of issued share capital/ registered capital | Interest held 2010 % |
|---|---|---|---|---|
| **Indirect subsidiaries:** *(continued)* | | | | |
| Hengan (Xiaogan) Family Products Co., Ltd. | PRC, wholly foreign-owned enterprise | Manufacturing, distribution and sale of personal hygiene products in the PRC | HK$10,000,000 | 100 |
| Hengan (Sichuan) Household Products Co., Ltd | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of personal hygiene products in the PRC | US$12,000,000 | 100 |
| Hengan (Fushun) Household Products Co., Ltd | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of personal hygiene products in the PRC | RMB24,000,000 | 100 |
| Hengan (Hubei) Household Products Co., Ltd. | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of personal hygiene products in the PRC | RMB33,600,000 | 100 |
| Hengan (Jiangxi) Household Products Co., Ltd. | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of personal hygiene products in the PRC | HK$20,000,000 | 100 |
| Hengan (Shangyu) Hygiene Products Co., Ltd. | PRC, wholly foreign-owned enterprise | Manufacturing, distribution and sale of personal hygiene products in the PRC | US$5,000,000 | 100 |
| Hengan (Hefeii) Living Co., Ltd. | PRC, sino-foreign foreign-owned enterprise | Manufacturing, distribution and sale of packaged tissue paper products in the PRC | RMB114,300,000 | 100 |
| Hunan Hengan Paper Co., Ltd | PRC, wholly foreign-owned enterprise | Manufacturing, distribution and sale of packaged tissue paper products in the PRC | US$39,980,000 | 100 |
| Hengan (Chongqing) Paper Products Co., Ltd. | PRC, wholly foreign-owned enterprise | Manufacturing, distribution and sale of packaged tissue paper products in the PRC | HK$2,500,000 | 100 |
| Hengan (China) Paper Products Co., Ltd. | PRC, wholly foreign-owned enterprise | Manufacturing, distribution and sale of packaged tissue paper products in the PRC | US$68,880,000 | 100 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 40 Principal subsidiaries *(continued)*

| Company | Place of incorporation/ establishment and kind of legal entity | Principal activities and place of operation | Particulars of issued share capital/ registered capital | Interest held 2010 % |
|---|---|---|---|---|
| **Indirect subsidiaries:** *(continued)* | | | | |
| 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 personal hygiene products in the PRC | US$30,000,000 | 100 |
| Hengan (Tianjin) Paper Co., Ltd | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of packaged tissue paper products in the PRC | RMB80,900,000 | 100 |
| Hengan Guangxi Paper Co., Ltd | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of packaged tissue paper products in the PRC | US$161,400,000 | 100 |
| Hengan (Hubei) Hearttex Paper Products Co., Ltd | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of packaged tissue paper products in the PRC | RMB32,000,000 | 100 |
| Hengan (Hunan) Tissue Paper Co., Ltd | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of packaged tissue paper products in the PRC | RMB79,000,000 | 100 |
| Hunan Hengan Living Paper Products Co., Ltd | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of packaged tissue paper products in the PRC | RMB402,280,000 | 100 |
| Hengan (Chongqi) Living Paper Products Co., Ltd. | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of packaged tissue paper products in the PRC | RMB250,000,000 | 100 |
| Hengan (Shaanxi) Paper Products Co., Ltd | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of packaged tissue paper products in the PRC | US$9,980,000 | 100 |
| Jinjiang Hengan Hearttex Paper Products Co., Ltd. | PRC, wholly foreign-owned enterprise | Manufacturing, distribution and sale of packaged tissue paper products in the PRC | US$12,000,000 | 100 |

Notes to the Consolidated Financial Statements

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## 40 Principal subsidiaries *(continued)*

| Company | Place of incorporation/ establishment and kind of legal entity | Principal activities and place of operation | Particulars of issued share capital/ registered capital | Interest held 2010 % |
|---|---|---|---|---|
| **Indirect subsidiaries:** *(continued)* | | | | |
| 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 Hearttex Paper Products Co., Ltd. | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of packaged tissue paper products in the PRC | US$35,880,000 | 100 |
| Chongqing Hengan Hearttex Paper Co., Ltd. | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of packaged tissue paper products in the PRC | US$6,000,000 | 100 |
| Fushun Hengan Hearttex Paper Co., Ltd. | PRC, wholly foreign-owned enterprise | Manufacturing, distribution and sale of packaged tissue paper products in the PRC | US$3,000,000 | 100 |
| Fushun Hengan Tissue Co., Ltd. | PRC, wholly foreign-owned enterprise | Manufacturing, distribution and sale of packaged tissue paper products in the PRC | US$3,000,000 | 100 |
| Hengan Li Ren Tang (Jian) Cosmetics Co., Ltd. | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of skin care products and daily personal necessities in the PRC | RMB32,000,000 | 70 |
| QinQin Foodstuffs Group Company Limited | British Virgin Islands limited liability company | Investment holding in Hong Kong | 135,946,900 Ordinary shares of HK$0.001 each | 51 |
| QinQin Foodstuffs Group (Hong Kong) Limited | Hong Kong limited liability | Investment holding in Hong Kong | 1 ordinary share of HK$1 each | 51 |
| Fushun Nanfang Food Industry Co., Ltd. | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of snack foods in the PRC | RMB10,000,000 | 51 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

## 40 Principal subsidiaries *(continued)*

| Company | Place of incorporation/ establishment and kind of legal entity | Principal activities and place of operation | Particulars of issued share capital/ registered capital | Interest held 2010 % |
|---|---|---|---|---|
| **Indirect subsidiaries:** *(continued)* | | | | |
| Fushun QinQin Food Industry Development Co., Ltd. | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of snack foods in the PRC | RMB22,000,000 | 51 |
| Luohe Linying QinQin Food Industry Co., Ltd. | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of snack foods in the PRC | RMB10,000,000 | 51 |
| Qin Qin Incorporated Co., Ltd. (Fujian) | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of snack foods in the PRC | RMB70,000,000 | 51 |
| Quanzhou QinQin Foodstuff Co., Ltd. | PRC, wholly foreign-owned enterprise | Manufacturing, distribution and sale of snack foods in the PRC | RMB130,000,000 | 51 |
| Taian QinQin Food Co., Ltd. | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of snack foods in the PRC | RMB5,000,000 | 51 |
| Xianto QinQin Food Industry Co., Ltd. | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of snack foods in the PRC | RMB10,000,000 | 51 |
| Xianyang Qin Qin Foods Stuff Co., Ltd. | PRC, wholly foreign-owned enterprise | Manufacturing, distribution and sale of snack foods in the PRC | RMB5,000,000 | 51 |
| Hengan Wuhu Paper Co., Ltd | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of packaged tissue paper products in the PRC | RMB204,000,000 | 100 |
| Junichi (Xiamen) Maternal and Child Articles Co., Ltd. | PRC, wholly foreign-owned enterprise | Trading pregnant women, infants and kid's products in the PRC | HK$580,000 | 100 |
| Qin Qin Business Trade Co., Ltd | PRC, limited liability company | Trading and procurement in PRC | RMB5,000,000 | 51 |
| Junichi Co., Ltd | Japan, limited liability company | Trading the products for ladies and babies in Japan | JPY100,000 | 100 |

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2010.