Vinda

Vinda International Holdings Limited

(incorporated in the Cayman Islands with limited liability)
Stock Code: 3331

Annual Report 2018

Healthy Lifestyle
Starts with Vinda

Libresse

薇尔 VIA

丽贝乐 Libero

Drypers

To Become a **Leading Hygiene Company** in Asia

Contents

Corporate Information

Directors

Executive Directors

Mr. LI Chao Wang (Chairman)
Ms. YU Yi Fang (Vice Chairman)
Mr. Johann Christoph MICHALSKI
(Chief Executive Officer)
Ms. LI Jielin (Deputy Chief Executive Officer)
Mr. DONG Yi Ping (Chief Technology Officer)

Non-Executive Directors

Mr. Jan Christer JOHANSSON (Vice Chairman)
Mr. Carl Magnus GROTH
Mr. Carl Fredrik Stenson RYSTEDT

Independent Non-Executive Directors

Mr. CHIA Yen On
Ms. LEE Hsiao-yun Ann
(appointed on 31 March 2018)
Mr. TSUI King Fai
Mr. WONG Kwai Huen, Albert

Alternate Directors

Mr. Gert Mikael SCHMIDT (alternate to
Mr. JOHANSSON and Mr. GROTH)
Mr. Herve Stephane ROSE
(alternate to Mr. RYSTEDT)

Audit Committee

Mr. TSUI King Fai (Committee Chairman)
(appointed as chairman on 31 March 2018)
Mr. Carl Fredrik Stenson RYSTEDT
Mr. WONG Kwai Huen, Albert

Remuneration Committee

Mr. TSUI King Fai (Committee Chairman)
Mr. Jan Christer JOHANSSON
Ms. LI Jielin
Ms. LEE Hsiao-yun Ann (appointed on 31 March 2018)
Mr. CHIA Yen On

Nomination Committee

Mr. LI Chao Wang (Committee Chairman)
Mr. Jan Christer JOHANSSON
Mr. CHIA Yen On
Ms. LEE Hsiao-yun Ann (appointed on 31 March 2018)
Mr. WONG Kwai Huen, Albert

Risk Management Committee

Mr. Jan Christer JOHANSSON (Committee Chairman)
Ms. YU Yi Fang
Mr. Johann Christoph MICHALSKI
Mr. Carl Fredrik Stenson RYSTEDT
Mr. TSUI King Fai

Executive Committee

Mr. LI Chao Wang (Committee Chairman)
Ms. YU Yi Fang
Mr. Johann Christoph MICHALSKI
Ms. LI Jielin
Mr. DONG Yi Ping

Strategic Development Committee

Mr. Jan Christer JOHANSSON (Committee Chairman)
Mr. Johann Christoph MICHALSKI
Ms. LI Jielin
Mr. DONG Yi Ping
Mr. CHIA Yen On

Authorised Representatives

Ms. LI Jielin
Ms. TAN Yi Yi

Company Secretary

Ms. TAN Yi Yi, FCCA

Auditors

PricewaterhouseCoopers

Legal Advisers to the Company

DLA Piper Hong Kong (as to Hong Kong law)
Conyers Dill & Pearman (as to Cayman Islands law)

Registered Office

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong

Penthouse, East Ocean Centre
98 Granville Road, Tsim Sha Tsui East
Kowloon, Hong Kong
Tel: (852) 2366 9853
Fax: (852) 2366 5805

Place of Listing and Stock Code

The Stock Exchange of Hong Kong Limited
Stock Code: 3331

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre, 183 Queen's Road East
Wanchai, Hong Kong

Principal Bankers

Bank of China Limited
China Construction Bank Corporation
Citibank
DBS Bank Limited
Industrial and Commercial Bank of China Limited
Skandinaviska Enskilda Banken AB
Svenska Handelsbanken AB (publ)

Company Website

http://www.vinda.com

Financial Highlights

	2018	2017
Revenue (HK$ million)	**14,879**	13,486
Gross profit (HK$ million)	**4,187**	4,000
EBITDA (HK$ million)	**1,962**	1,803
Operating profit (HK$ million)	**1,020**	984
Gross margin (%)	**28.1%**	29.7%
Operating margin (%)	**6.9%**	7.3%
EBITDA margin	**13.2%**	13.4%
Earnings per share (HK$) – basic	**54.4 cents**	52.6 cents
Dividend per share (HK$)	**20.0 cents**	19.0 cents
– interim dividend (paid) (HK$)	**6.0 cents**	5.0 cents
– final dividend (proposed) (HK$)	**14.0 cents**	14.0 cents
Finished goods turnover[1]	**49 days**	41 days
Debtors turnover[2]	**43 days**	44 days
Creditors turnover[3]	**87 days**	86 days
Current ratio (times)	**1.0**	1.1
Net debt to EBITDA ratio (times)	**2.4**	2.6
Net gearing ratio (%)[4]	**54%**	54%

Notes:

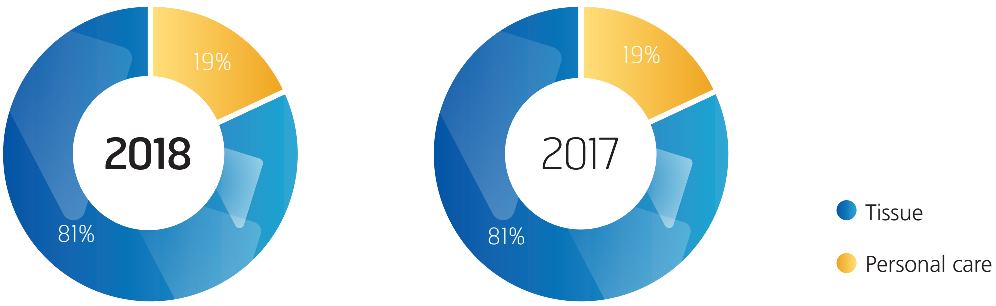
1. Calculation: multiplying 12-month average finished goods by 360 days, and dividing the result by the cost of sales for the 12 months ended 31 December for the relevant year.

2. Calculation: multiplying 12-month average account receivables by 360 days, and dividing the result by the revenue for the 12 months ended 31 December for the relevant year.

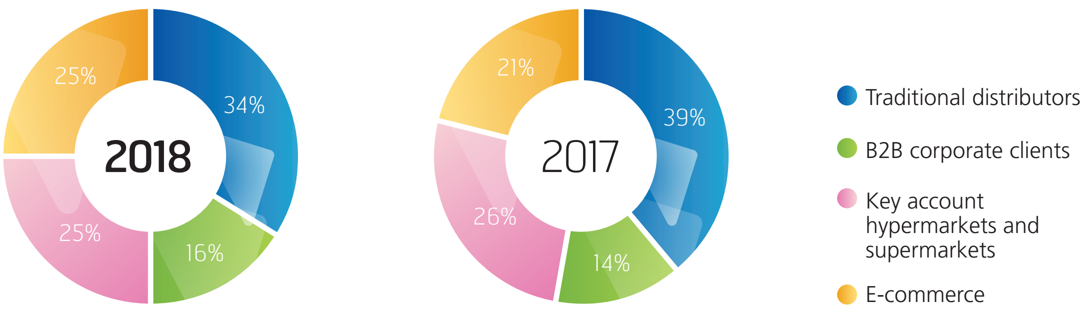
3. Calculation: multiplying 12-month average account payables by 360 days, and dividing the result by the cost of sales for the 12 months ended 31 December for the relevant year.

4. Calculation: the amount of total borrowings less cash and cash equivalents and restricted bank deposits as a percentage of the total shareholders' equity.

Revenue by Business Segment



Revenue by Sales Channels



Gross Profit Margin

	Tissue	Personal Care	Total
2018	27.6%	30.4%	28.1%
2017	29.6%	29.9%	29.7%

Segment Result Margin

	Tissue	Personal Care	Total
2018	8.1%	8.0%	8.1%
2017	8.5%	6.1%	8.1%

Chairman's Statement

We must put extra efforts on product innovation and technological innovation, particularly in times of competition and high operating cost environment

2018 was an exceptional year. China's exports and economic growth were threatened by the ongoing Sino-US trade conflicts and active deleveraging by the Chinese government. Renminbi depreciation and soaring pulp cost combined to pose unprecedented challenges to Tissue industry.

To cope with such difficult situations, Vinda adhered to innovation, brand strategy and portfolio optimisation. Our focus on high-margin products and product differentiation enabled us to minimise the impact from price competition and maintain steady growth in revenue. The "Best Brand of Health Care and Hygiene Products in China Award 2018" accredited by Global Brands Magazine was the best testament to Vinda's strength in product innovation and brand power. Meanwhile, to mitigate the pressure brought by the high pulp cost, we were determined to "increase revenue and cut expenditure". By doing so, we raised our product price and operational efficiency as well as implementing a stringent cost-saving plan. All these measures were adopted to protect our profitability.

China's fast-moving consumer goods industry has entered a new era. Against the backdrop of an ever changing consumers' behavior and rapidly evolving retail channels, we can no longer be conventional. I uphold my belief that "Innovation" is the key for corporate development, as consumers do crave for quality purchase instead of quantity purchase nowadays. We must put extra efforts on product innovation and technological innovation, particularly in times of competition and high operating cost environment. Only then can we stand out from the competition, and only then can we take ourselves to the next level. Premiumisation is the only direction for our Tissue business development. Similarly, our Personal Care business also target high-end segment. Capitalising on the success of Southeast Asia's Personal Care and the cost advantage of localisation of production in China, we will provide quality incontinent products and feminine products to Chinese consumers. In addition, albeit the rapid growth of new-retail and e-commerce, our strategy is to win the hearts of consumers, tighten the cooperation with all customers and leverage our competitive edge in all channels.

The prospect of 2019 might be clouded by the uncertainties of the Sino-US trade negotiations, exchange rate of Renminbi and pulp price. Nevertheless, tax reduction and supply-side reform are believed to stimulate the consumption and facilitate the consumption upgrade. Moreover, Chinese government has resolved to build a low-carbon economy. Local authorities' stringent enforcement over environmental regulation will benefit companies like Vinda who adheres to innovation, quality and green supply chain.

Consumption upgrade is irreversible. Chance favours only the prepared mind. We will gear up for innovation, strike a balance between growth and profitability, as well as striving to be a sustainable and risk-resilient company.

LI Chao Wang
Chairman

30 January 2019

Chief Executive Officer's Report

The key to Vinda's success has been a longstanding commitment to sustainability and innovation

There were significant challenges that Vinda had to overcome in 2018, and the biggest of all was the surge in wood pulp cost affecting Vinda and the whole industry. To alleviate the cost pressure, we raised prices for our products, optimized portfolio mix, and continued to implement cost-saving initiative against a backdrop of strong competition. The double-digit growth in the top-line has proven our strength in innovation, marketing, price & channel management and execution capabilities. We also limited our margin contraction to a small extent, which demonstrated the strength of our brands and our discipline in cost-control. Moreover, we effectively managed our gearing level, foreign exchange risk and working capital.

In respect of the development in various product categories, I am glad that our team enriched the portfolio of tissue products with new, value added products such as *Vinda Deluxe* and *Tempo Cotton*. They will be able to play an important role in mitigating the cost pressure and consolidating our profitability in the future. *Tork* and the whole business of away-from-home hygiene products also saw solid growth in sales and business development. Our operations in Southeast Asia as the biggest contributor to the revenue of our Personal Care business continued to achieve steady growth, thanks to its effective brand activation and product upgrade. Our business of incontinence care in China also made significant progress in developing distribution channel and achieved satisfactory growth in sales of pants.

Sales channel in China is undergoing a revolution. The booming e-commerce and "O2O New Retail" seem to have altered the practices and even the markets of traditional trade. In the past couple of years, e-commerce has been our fastest growing distribution channel, 2018 was no exception. A good example to show our leading advantage in e-commerce is that Vinda had topped the chart in sales at various major e-commerce platforms during Double-11 Festival. Down the road, we will continue to fortify our online leadership. We will as well continue to cultivate the penetration of offline trade.

As to the supply chain, we continued a disciplined capital expenditure spending. Our factory in Yangjiang City, which is our 10th factory in mainland China, has been put into operation since July 2018. Strategically located in the Guangdong-Hong Kong-Macau Greater Bay Area, this new, state-of-the-art factory greatly bolsters our capability to meet the growing Tissue demand in southern China and to export to Southeast Asia. Additionally, we are equipping production facilities for feminine and incontinence care in China to meet Chinese consumers' needs.

The key to Vinda's success has been a longstanding commitment to sustainability and innovation. In 2018, we continued to go beyond the environmental compliance when reducing emissions, water consumption and non-recyclable waste. We ensured ethical and sustainable business practices in our supply chain when sourcing raw materials. Currently, we are running various innovation projects covering product benefit enhancement, development of new product assortments, and international patent registration. They will all add impetus to our development.

Facing high raw material cost and uncertain economic growth impacted by trade tension between major economies, deleverage situation in China and exchange rate uncertainties, we believe that 2019 will be another challenging year for Vinda and the industry. Yet, I am optimistic about Vinda's development. Even if macroeconomic headwinds might affect the consumption growth momentum in the short run, we do not see any systemic disruption of consumer sentiment. Meanwhile, we are encouraged by the growth in per capita demand for tissue and personal care products, consumption upgrade and the tax reform in China. In 2019, we aim to maintain the sales growth momentum and improve margins through product portfolio enhancement and stringent cost control at all business functions and units. We also strive to improve our return on capital employed, working capital management and cashflow.

Christoph MICHALSKI
Chief Executive Officer
30 January 2019

Management Discussion and Analysis

Overview

Against the backdrop of increased raw material cost, currency pressure and various global headwinds, we were able to deliver double-digit revenue growth and modest profit growth in 2018. This is the result of a series of actions. Firstly, we have scrutinized our cost structure thoroughly and relentlessly implemented our cost-saving programme across the board. Secondly, we initiated price-increase over a broad range of products. Thirdly, we prioritised to invest in higher-gross margin products, i.e. to strengthen our product portfolio. Furthermore, we continued our innovation programmes across all categories and markets. Finally, our balance sheet remained strong with improved cash flow compared to 2017.

Financial Highlights

Total revenue was HK$14,879 million, up by 10.3% (growth at constant exchange rate: 7.8%).

In respect of business segment, Tissue and Personal Care contributed to 81% and 19% of total revenue, respectively. In respect of sales channels, traditional distributors, key account managed supermarkets and hypermarkets, B2B corporate customers and e-commerce accounted for 34%, 25%, 16% and 25% respectively. E-commerce and B2B continued to record double-digit growth in revenue.

Gross profit rose by 4.7% to HK$4,187 million. Despite significant increase in pulp cost (denominated in USD) and RMB depreciation, we were able to deliver 28.1% of gross margin and limited the year-on-year contraction to 1.6 ppts, thanks to our effective price increase initiative, favourable mix enhancement and solid cost-saving efforts.

EBITDA grew by 8.8% to HK$1,962 million. EBITDA margin was stable at 13.2%, reflecting a sustainable cash generation ability.

RMB volatiled against USD and HKD during the Year, especially in the second half. Total foreign exchange loss for the Year increased to HK$80.5 million (2017: HK$27.4 million loss), of which HK$74.3 million loss was from operating activities (2017: HK$0.5 million loss), and HK$6.2 million loss was from financing activities (2017: HK$26.9 million loss).

Operating profit increased by 3.7% to HK$1,020 million. Notwithstanding the strong market competition, selling & marketing cost as a percentage of sales declined by 1.4 ppts over last year. General & administrative expenditure as a percentage of sales also decreased by 0.3 ppt. Operating margin therefore only slightly decreased by 0.4 ppt to 6.9%. If excluding the foreign exchange loss from operating activities, operating margin would have been 7.4%.

Interest expense on borrowings increased by 15.6% to HK$227 million, which was mainly due to increased borrowings. Effective interest rate was 4.2%, down by 5 basis points compared to last year. Net gearing ratio stood at 54%[1].

Effective tax rate decreased by 0.7 ppt to 18.6%.

Net profit increased by 4.6% to HK$649 million. Net margin was 4.4%, slightly down by 0.2 ppt compared to last year.

Basic earnings per share was 54.4 HK cents (2017: 52.6 HK cents).

The board (the "**Board**") of directors (the "**Directors**") of the Vinda International Holdings Limited (the "**Company**" and together with its subsidiaries as the "**Group**") recommends the payment of a final dividend per share of 14.0 HK cents. Together with the interim dividend, total dividends per share for the year ended 31 December 2018 (the "**Year**") would be 20.0 HK cents (2017: 19.0 HK cents).

Business Review

Tissue Segment

Revenue from the Tissue segment amounted to HK$12,111 million, representing a reported growth of 11.0% and accounting for 81% of the Group's total revenue (2017: 81%).

During the Year, we had raised our product price across a broad spectrum of Tissue products so as to pass on the cost pressure. We also actively managed our Tissue portfolio by focusing on high-margin product series such as *Vinda Deluxe*, *Vinda Ultra Strong* and *Tempo*. Softpack, wet wipes and kitchen towel respectively recorded double-digit growth in revenue. Gross margin and segment result margin of the Tissue segment were 27.6% and 8.1% respectively.

In terms of market share position, *Vinda* brand regained market leadership[2] in China at the end of 2018 after some challenges in the middle of the Year. *Tork* made good progress in broadening the premium away-from-home clientele. In Malaysia, we continued to roll out *Vinda Deluxe* to develop our Tissue business. Softpack category is well received by the market.

Personal Care Segment

Revenue from the Personal Care segment reached HK$2,767 million, representing a reported growth of 7.3% and accounting for 19% of the Group's total revenue (2017: 19%).

Gross profit margin and segment result margin of the Personal Care segment were 30.4% and 8.0% respectively.

Our incontinence care recorded satisfactory growth in mainland China due to its extended reach in e-commerce and institutional channels. Pant-type of products also saw good development in market penetration in all regions outside China.

As to feminine care, *Libresse* has consolidated the No.1[3] position and increased its share leadership[3] in Malaysia. In China, our focus was on the preparation of product localisation starting from 2019.

The majority of our baby care business is conducted in Southeast Asia. In Malaysia, *Drypers* strengthened its strong No. 1[3] position with increasing recognition of pants product.

Production Capacity Plan

During the Year, we added 60,000 tons of capacity respectively in our new Yangjiang and Hubei factory, bringing the total annual designed production capacity for tissue paper to 1,220,000 tons as at 31 December 2018.

In 2019, we plan to add another 60,000 tons of capacity in Hubei by second quarter. We also plan to discontinue the operation of one of the oldest and high energy-consuming paper-making machineries at Guangdong factory, which is equivalent to 30,000 tons of designed capacity. The annual designed production capacity for tissue paper therefore is expected to be 1,250,000 tons by the end of 2019.

In order to better satisfy Chinese consumers' preference in sanitary napkins and incontinence products, and shorten the response time to market, we will expand local production for feminine and incontinent products in 2019.

Sustainability

Human Resources Management

Employees are the most valuable asset. We provide equal opportunities for employment to candidates regardless of their age, ethnic origin, nationality, race, religion, sexual orientation, gender, marital status, disability or political stance. We offer fair and competitive remunerations, performance incentives and a career advancement mechanism to our employees, as well as enhancing their skills and capabilities with a series of continuous training programmes. We run talent management cycle to identify a talent pool. We also have a long-term incentive scheme for retaining key senior executives. During the Year, we had conducted an Employee Engagement Survey (with 98% of response rate) to review employees' satisfaction over 20 dimensions including benefits, career opportunities, company reputation etc. We are encouraged to score over 80% of engagement degree, which is higher than the market and industry average, indicating that our employees are highly dedicated to Vinda. Additionally, Vinda in China was selected as "Guangdong Outstanding Enterprise for Celebrating the 40th Anniversary of Reform and Opening Up". Vinda in Malaysia also won the prestigious "M100 Leading Graduate Employers Awards".

As at 31 December 2018, we had a total of 11,250 employees.

Internal Control

We are committed to maintaining high standard of corporate governance. All employees are required to comply with Vinda's codes of conduct. We regularly review and update our internal control policies, handling procedures and guidelines to align with the latest external regulatory and internal control requirements. While the heads of all functional departments and business units are responsible for identifying, handling and reporting major risks and inadequacies in internal control, the internal audit department is responsible for conducting internal audits, receiving reports on misconduct, reporting cases to the senior management and advising solutions for cases. The head of the internal audit department reports to the chairman of the Audit Committee of the Company.

Green Production

We always make great effort in reducing carbon footprints, 2018 was no exception. In China, average overall energy consumption per ton of paper (ton of standard coal) was 0.31 (2017: 0.32), far below the national standard upper limit of 0.42. Carbon dioxide emissions per 10,000 tons of product was 10,726 tons (2017: 11,189 tons). Water recycling rate was over 95% (2017: over 95%). Additionally, we aim to source all wood pulp certified by forest certification system such as the Forest Stewardship Council™ ("**FSC™**"), the Programme for the Endorsement of Forest Certification ("**PEFC**") or China Forest Certification Council ("**CFCC**").

Health & Safety Performance

We attach great importance to occupational safety and health with our goal "zero accidents". In mainland China, 1,505 (2017: 698) safety seminars were held for a total of 71,446 (2017: 40,742) participants during the Year. The number of production safety accidents dropped to 14 (2017: 20). The Lost Time Accidents ("**LTA**") was 14,952 (2017: 22,576) hours. The Lost Days from above Accident ("**DLA**") was 1,869 (2017: 2,822) days. In Malaysia, LTA remained 1 (2017: 1) case and the DLA was 90 (2017: 37) days. In Taiwan, both LTA and DLA are zero (2017: zero).

*For details, please refer to our Environmental, Social and Governance ("**ESG**") report 2018.*

Outlook

Our short-term outlook remains carefully optimistic. While the lingering Sino-US trade tension, the nation-wide deleveraging situation, the uncertain RMB movement or even the slowdown of property market in China will possibly impede the consumers' confidence and economic growth, we still see promising growth opportunities both in Tissue and Personal Care with likely stabilising pulp price. We also believe that government-led stimulus such as tax cut and other structural changes of the Chinese economy are beneficial to domestic consumption.

In medium-to-long run, we see a lot of positive catalysts that will also benefit the market growth as well as our business development. Quality-driven type of consumption, per capita increase in usage, evolution of new-retail and more stringent regulated environmental rules, etc., to name a few.

To secure the sales growth and recovery of profit margins amid all the above-mentioned challenges and opportunities, we will stay focused on the following plans:

a. We will always put innovation in place to differentiate ourselves from competitors instead of joining the price competition;

b. We will continue to enhance our product portfolio in a bid to broaden our margin profile;

c. We will be cautious on every dollar spent on all functions, projects and business units;

d. We will keep up our high efficiency of production and operation;

e. We will maintain a healthy financial position, improve the management of working capital and cash generating ability; and

f. We will deliver this in a sustainable and mindful way as well as respecting our code of conduct.

Remarks

1 *Net gearing ratio: Total borrowings less bank balances and cash and restricted deposits divided by total shareholders' equity*

2 *Source: Nielsen, sales value for the full year in 2018*

3 *Source: Kantar Worldpanel, sales value year-to-date at 2 December 2018*

Foreign Exchange and Fair Value Interest Rate Risk

The majority of the Group's assets and sales business are located in mainland China, Hong Kong, Malaysia, Taiwan and Korea. Our significant transactions are denominated and settled in RMB, HK$, Malaysia Ringgit, New Taiwan dollar and Korean Won while most of the key raw materials are imported from overseas and denominated and paid in USD. The Group also borrows most of the long term loans and the short term loans denominated in RMB, HK$ or USD.

Liquidity, Financial Resources and Borrowings

The Group's financial position remained healthy. As at 31 December 2018, the Group's bank and cash balances amounted to HK$574,465,154 (31 December 2017: HK$534,589,786), and short-term and long-term loans amounted to HK$5,245,496,240 (31 December 2017: HK$5,236,274,370), including the loans from a related party amounting to HK$1,218,116,846 (31 December 2017: HK$1,236,403,002). 80.5% of the borrowings are medium-to long-term (31 December 2017: 86.8%). The annual interest rates of bank loans ranged from 0.8% to 6.6%.

As at 31 December 2018, the net gearing ratio, which was calculated on the basis of the amount of total borrowings less cash and cash equivalents and restricted bank deposits as a percentage of the total shareholders' equity, was 54% (31 December 2017: 54%).

As at 31 December 2018, unutilized credit facilities amounted to approximately HK$6.79 billion (31 December 2017: HK$2.94 billion).

Charges on Group Assets

As at 31 December 2018, the Group did not have any charges on assets (31 December 2017: nil).

Contingent Liabilities

As at 31 December 2018, the Group had no material contingent liabilities (31 December 2017: nil).

Final Dividend

The Board has resolved to propose to shareholders of the Company the distribution of a final dividend for the Year at 14.0 HK cents (2017: 14.0 HK cents) per share totaling HK$167,279,332, subject to approval by shareholders at the annual general meeting of the Company to be held on 10 April 2019 (the "**AGM**"). If so approved by shareholders, it is expected that the final dividend will be paid on or about 16 May 2019 to shareholders of the Company whose names appear on the register of member of the Company on 29 April 2019.

Material Acquisition and Disposal of Subsidiaries and Associated Companies

The Group had no material acquisition and disposals of subsidiaries and associated companies during the Year.

Significant Investment

Save as those disclosed under the section headed "Management Discussion and Analysis" and Notes 6, 7 and 8 to the consolidated financial statements, the Group did not have any significant investment during the Year.

Closure of Register of Members

The register of members of the Company will be closed from 4 April 2019 to 10 April 2019, both dates inclusive, during which period no transfer of shares will be registered. In order to ascertain shareholders' eligibility to attend and vote at the AGM, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited (the "**Share Registrar**"), at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 3 April 2019. In addition, the register of members of the Company will be closed from 25 April 2019 to 29 April 2019, both dates inclusive, during which period no transfer of shares will be registered. In order to ascertain shareholders' entitlement to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 24 April 2019.

Sustainability
is one of Vinda's core principles.

All Vinda employees are required to follow the Code of Conduct and act on the principle of Sustainability. We endeavour to operate our business in a responsible manner and also expect other business partners including customers, suppliers, consultants and independent contractors to meet our standards as reflected in the Code of Conduct or similar standards.

About the Report

Scope of the Report

Vinda's majority revenue is generated by Tissue segment in mainland China and Personal Care segment in South East Asia and Taiwan.

The scope of 2018 Environmental, Social and Governance Report (the "ESG Report" or the "Report") covers the initiatives and the performance of the nine factories (in seven legal entities[1]) in mainland China, two factories in Malaysia and one in Taiwan for the year ended 31 December 2018 (the "Year"). The data of our tenth factory in Yangjiang and the new factory in Hubei in mainland China are not included in the Report because they have been put into operation only since July and December 2018, respectively. The full year data of these two new factories will be included in the Report starting from 2019.

1 The seven legal entities are Vinda Paper (China) Company Limited (including three subsidiaries in Guangdong, Jiangmen and Xinhui), Vinda Paper (Zhejiang) Company Limited, Vinda Paper (Sichuan) Company Limited, Vinda Paper (Shandong) Company Limited, Vinda Paper (Liaoning) Company Limited, Vinda North Paper (Beijing) Company Limited and Vinda Personal Care (China) Company Limited.

Reporting Guideline

Vinda has been publishing the performance regarding environment, health and safety, human resources, corporate governance and social responsibility since 2014.

The preparation of the Report was with reference to the ESG Reporting Guide (Appendix 27 of the Listing Rules). The Report has complied with the "comply or explain" provisions in the ESG Reporting Guide.

Working Group and Review

A working group was formed to collect data and information for the preparation of the Report. The working group comprises of various departments including quality management, human resources, purchasing, administration, corporate affairs and internal control from **mainland China, Taiwan and Malaysia**.

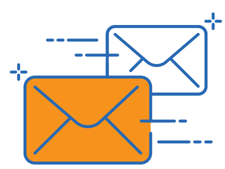
All data and information disclosed in the Report was from our internal records. In order to ensure the accuracy of the disclosure on greenhouse gas emission, we have engaged Intertek Testing Services Ltd., Shanghai, an independent and professional third-party, to perform independent audit.

The Board of Vinda and its six Board Committees (Audit Committee, Remuneration Committee, Nomination Committee, Risk Management Committee, Executive Committee and Strategic Development Committee) regularly monitor and review the Company's overall strategy, risk control, financial position, corporate governance, and sustainability initiatives, etc.

The Report was reviewed and approved by the Board of Vinda.

Stakeholders

We value the opinions and respect the relationship with our stakeholders including business partners, suppliers, consumers, customers, investors, regulators, employees and communities. We welcome any questions and feedback on the Report via email (ir@vinda.com).



Eco-friendly Operations

As a responsible hygiene products manufacturer, Vinda continuously evaluates the environmental impact caused by our entire value-chain and strives to reduce carbon footprints from sourcing, production, packaging and distribution.

Energy consumption and carbon emissions

Mainland China

Vinda adopts a comprehensive and systemic approach to monitor energy usage and carbon emission.

Prior to the Standard GB31825-2015 "The Norm of Energy Consumption per Unit Product of Pulp and Paper" which came into effect in July 2016 in China, we have already put in place energy-savings and carbon emissions management systems, waste water discharge monitoring system as well as paper-making water re-use projects in each factory. We also conduct statistical analyses and evaluation on a regular basis.

Natural gas and coal are our main sources of energy to supply heat. Source of energy for each factory depends on the availability and feasibility of the natural resources and infrastructure. Our factories in Sichuan, Beijing and Guangdong have been using natural gas where the infrastructure makes it feasible. Leveraging the economies of scale of the local industrial parks, our factories in Jiangmen, Zhejiang and Liaoning use central heating systems. Our factories in Hubei, Shandong and Xiuhui use coal.

We are committed to enhancing the energy consumption efficiency of our equipment. During the Year, we implemented steam saving project and effectively reduced energy consumption by means of upgrading the condensate system, hot air system of paper machines. In 2018, the average overall energy consumption for ton of paper in all factories decreased by 3.1% to 0.31 ton of standard coal, which is lower than the upper limit of the national benchmark of 0.42 ton of standard coal for every ton of paper under "The Norm of Energy Consumption per Unit Product of Pulp and Paper".

We implemented strict control over waste gas emissions. All factories are equipped with advanced de-sulfurisation and de-nitrification technologies, which effectively reduced the amount of sulfur and nitrogen compounds in waste gas. Our three-tier monitoring management system is able to ensure that waste gas emissions level is lower than the national standards set in GB1327-2001 "Emission Standard of Air Pollutants for Coal-burning Oil-burning Gas-fired Boilers" and GB3095-2012 "Ambient Air Quality Standards".

In 2018, sulfur dioxide emissions per 10,000 tons of product decreased by 13.1% to 0.73 ton. Carbon dioxide emissions per 10,000 tons of product decreased by 4.1% to 10,726 tons. Both are lower than the standard levels set by local environmental authorities.

SO_2

-13.1%

SO_2 Emission

(emission per 10,000 tons products (ton))

CO_2

-4.1%

CO_2 Emission

(emission per 10,000 tons products (ton))

-3.1%

Average overall energy consumption per ton of paper

(ton of standard coal)

-1.3%

Steam

(ton/ton of paper)

-10.3%

Natural gas

(cubic metre/ton of paper)

Energy consumption and carbon emissions	2018	2017	Change	Upper Limit
Average overall energy consumption per ton of paper (ton of standard coal)	0.31	0.32	–3.1%	National standard: 0.42
Steam (ton/ton of paper)	0.78	0.79	–1.3%	N/A
Coal (ton of standard coal/ton of paper)	0.13	0.13	–	N/A
Electricity (kilowatt-hour/ton of paper)	611.19	629.39	–2.9%	N/A
Natural gas (cubic metre/ton of paper)	24.97	27.83	–10.3%	N/A
Sulfur dioxide (SO_2) (emission per 10,000 tons products (ton))	0.73	0.84	–13.1%	Set by local environmental authorities
Carbon dioxide (CO_2) (emission per 10,000 tons products (ton))	10,726	11,189	–4.1%	Set by local environmental authorities

Malaysia and Taiwan

We strictly comply with "Environmental Quality Act 1974", "Environmental Quality (Clean Air) Regulation 2014" and "Environmental Quality (Amendment) Act 2012" in Malaysia. We also strictly comply with "Air Pollution Control Act 2012" in Taiwan.

We mainly consumed electricity. We have replaced fluorescent lights with LED lights in our factories and offices in Malaysia which is more energy efficient as compared to fluorescent lights. We have replaced the LPG-material handling equipment with electric-material handling equipment at our warehouse. As a result, fuel consumption decreased by 3.1% in 2018 in Malaysia.

In Taiwan, total operating hours of machineries was longer than that of previous year due to longer production hours and certain impact from warehousing revamp project. As a result, consumption of electricity and fuels as well as the related emissions had increased year on year. We are gradually replacing capacitors so as to reduce the electricity consumption and carbon dioxide emissions.

MALAYSIA

-14.3% NO_x as NO_2 (ton)

-3.1% Energy – Fuels (terajoule)

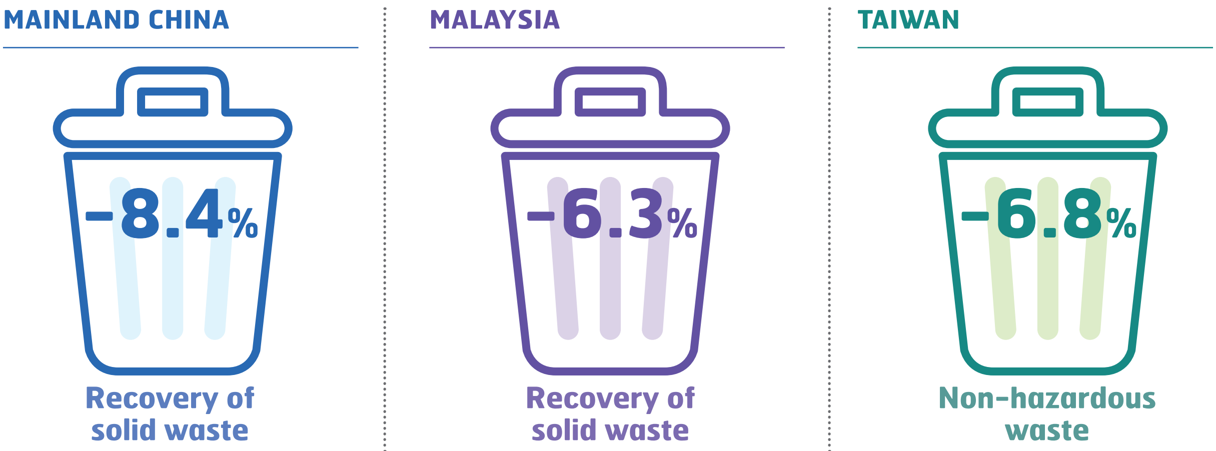
Energy consumption and carbon emissions	Malaysia 2018	Malaysia 2017	Malaysia Change	Taiwan 2018	Taiwan 2017	Taiwan Change
Energy – Electricity (GWh)	48.06	47.21	+1.8%	13.61	12.8	+6.3%
Energy – Fuels (terajoule)	0.63	0.65	–3.1%	1.32	1.27	+3.9%
NO_x as NO_2 (ton)	0.06	0.07	–14.3%	0.13	0.13	–
CO_2 fossil (kton)	0.04	0.04	–	0.1	0.09	+11.1%
CO_2 electricity (kton)	33.02	32.44	+1.8%	7.94	7.44	+6.7%

Solid Waste Treatment

Mainland China

All factories strictly followed set handling procedures for both hazardous and non-hazardous waste. All hazardous waste is handled by professional contractors licensed by environmental authorities while non-hazardous waste is sorted, classified and recycled to the largest extents by eligible contractors selected through a tendering process.

In 2018, solid waste recovery was 44,759 tons (2017: 48,864 tons). Non-hazardous waste was 53,006 tons (2017: 48,576 tons). Scheduled hazardous waste was 90 tons (2017: 76 tons). Such increase was mainly due to disposal of a batch of forklift batteries during the Year.



(tons)	Mainland China 2018	Mainland China 2017	Mainland China Change	Malaysia 2018	Malaysia 2017	Malaysia Change	Taiwan 2018	Taiwan 2017	Taiwan Change
Solid waste recovery	44,759	48,864	–8.4%	1,957	2,088	–6.3%	1,027	1,020	+0.7%
Non-hazardous waste	53,006	48,576	+9.1%	3,104	2,958	+4.9%	626	672	–6.8%
Scheduled hazardous waste	90	76	+18.4%	97	68	+42.6%	0	0	–

Malaysia and Taiwan

In Malaysia, we strictly comply with "Environmental Quality Act 1974", "Environmental Quality (Scheduled Wastes) Regulation 2005" and "Solid Waste and Public Cleansing Management Act 2007". All scheduled waste is handled by licensed contractors which are approved by government-environmental body. Non-hazardous waste is handled by appointed contractors. In 2018, solid waste recovery was 1,957 tons (2017: 2,088 tons). Non-hazardous waste was 3,104 tons (2017: 2,958 tons). Scheduled waste was 97 tons (2017: 68 tons). The increase in scheduled waste was mainly due to the operation of a new production line.

In Taiwan, we comply with "Waste Disposal Act (2017)". During the Year, we implemented waste sorting and assessed the recyclability of waste generated in the production process, and designated personnel to handle waste management. The engaged licensed vendor treats waste on a regular basis. In 2018, solid waste recovery was 1,027 tons (2017: 1,020 tons). Non-hazardous waste was 626 tons (2017: 672 tons). Scheduled waste was zero (2017: zero).

Save Water

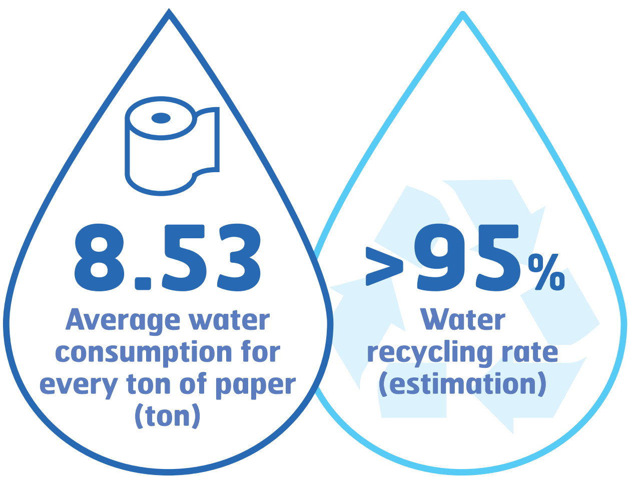
We aim to reduce water use in the production process and minimise the sewage discharge.

Mainland China

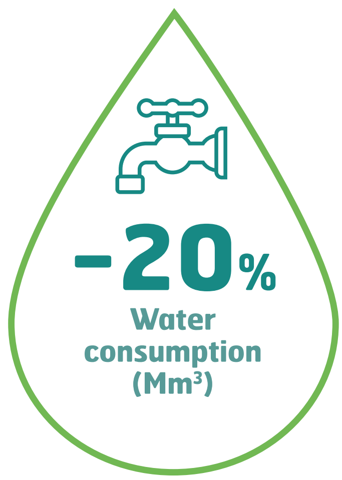
All our production bases are equipped with advanced water recycling systems for watering plant or cleaning purpose. During the Year, sewage discharge system in each production base was upgraded in order to enhance the waste water recycling rate.

In 2018, our water recycling rate remained above 95%. The average water consumption for every ton of paper was 8.53 tons, which was significantly lower than the national upper limit of 30 tons of water consumption for every ton of product as stipulated in GB/T18916.5 "Norm of Water Intake – Part 5: Pulp, Paper and Paper Board Production".

MAINLAND CHINA



TAIWAN



	2018	2017	Change	Upper Limit
Average water consumption for every ton of paper (ton)	8.53	8.48	+0.6%	National standard: 30
Water recycling rate (estimation)	> 95%	> 95%	–	N/A

We impose strict control over sewage discharge. All production bases are equipped with three-tier effluent treatment facilities. The rigorous monitoring and management systems have been implemented to monitor discharge data on a real-time basis.

Government encouraged using centralised sewage discharge system running by local industrial parks. Jiangmen factory connected its sewage discharge system to local industrial park in 2016. In 2018, Hubei factory also adopted the same practice. So far, factories in Zhejiang, Liaoning, Jiangmen, Hubei, Shandong and Sichuan have connected their sewage discharge systems to local industrial parks.

1st stage

We monitor and upload real-time discharge data through a round-the-clock system installed at discharge points to which local eco-authorities have access

2nd stage

We establish environmental protection division in each production base to collect data such as SS, BOD and pH and examine the water and gas effluent emissions on a daily basis

3rd stage

Local eco-authorities conduct regular inspections on the condition of production bases on quarterly basis

Malaysia and Taiwan

In 2018, water consumption in Malaysia slightly increased to 0.098Mm^3. Such increase was from operation of two chiller plants concurrently (site 2) due to a new production line. Water consumption in Taiwan decreased by 20%. It was mainly due to the improved cooling tower for air-conditioning during the Year.

	Malaysia			Taiwan		
	2018	2017	Change	2018	2017	Change
Water consumption (Mm^3)	0.098	0.09	+8.9%	0.04	0.05	–20%

Responsible Production

Wood Pulp Procurement

Wood pulp, primarily sourced from South and North America as well as northern Europe, is the major raw material for our tissue products.

We aim to source all wood pulp certified by forest certification system such as the Forest Stewardship Council™ (FSC™), the Programme for the Endorsement of Forest Certification (PEFC) or China Forest Certification Council (CFCC). In 2018, over 99% of wood pulp we procured were certified by forest certification systems or came from responsible sources. In addition, our production supply chains in mainland China, Malaysia and Taiwan are all qualified to manufacture FSC™ -certified products which are internationally accredited.

All of our chemical suppliers obtained

MSDS / SDS certificates 2018

Chemicals Procurement

Mainland China

We prefer chemical suppliers certified with a Material Safety Data Sheet (MSDS). MSDS primarily contains 16 items covering the features of chemicals, properties of blasting, hazards to health, safe use and storage, disposal of spills, emergency measures as well as all relevant laws and regulations. With MSDS, we are able to ensure that all chemical additives provided by our suppliers are in compliance with the GB9685 "Hygienic Standards for Uses of Additives in Food Containers and Packaging Materials" in order to safeguard product quality. During the Year, we formulated "Chemical Safety Assessment Policy" to set out consistent chemical adoption and audit standards. In 2018, all of our chemical suppliers obtained MSDS certificates.

Malaysia and Taiwan

We require chemical suppliers to provide a Safety Data Sheet (SDS) for safety, health and environmental impact assessment. Chemical suppliers are required to comply with "Occupational Safety and Health (Classification, Packaging and SDS of Hazardous Chemicals) 2013" and "Regulations for the Labeling and Hazard Communication of Hazardous Chemicals". New chemical suppliers are assessed before listed as approved chemical suppliers. In Taiwan, chemical suppliers are required to comply with "Regulations for the Labeling and Hazard Communication of Hazardous Chemicals". In 2018, all our chemical suppliers obtained SDS.

Material Suppliers

Mainland China

When choosing material supplier, we strictly follow the "Materials Purchasing Management System" and "Supplier Management Standards". We only select suppliers that meet our development philosophy. In 2018, we released the "Supplier Incentive and Elimination Mechanism" to introduce competition through bidding, which helps continuously enhancing the overall level of suppliers and improving our supplier cost and service. We released the "Scheme on Strengthening On-site Management of Local Suppliers" in 2017 and the "Pest Management Requirements for Suppliers" in 2018 to continuously strengthen the management capabilities of suppliers.

During the Year, we adjusted the thickness and size of plastic packaging materials to effectively reduce the consumption of plastic packaging materials. In 2018, large size plastic wrap was 1,031 tons (2017: 1,247 tons).

Malaysia and Taiwan

We strictly select materials suppliers in accordance with the "Supplier Management Procedures" and perform quarterly performance ratings on suppliers to ensure the suppliers meeting quality and services criteria. Our suppliers are required to sign a Supplier Standard, covering the code of conduct, quality, product safety, environment, chemicals and cleanness management and control of suppliers. Suppliers shall adopt internationally recognized standards and management systems. In 2018, all suppliers signed the Supplier Standard.

Quality First

We place strong emphasis on production and product quality as well as continuously improving the production test items of all regions.

Mainland China

All production bases have obtained the ISO14001 Environmental Management System, ISO9001 Quality Management System and ISO22000 Food Safety Management System certifications. Our subsidiaries, Vinda Paper (China) Company Limited, Vinda Paper (Shandong) Company Limited and Vinda North Paper (Beijing) Company Limited, have secured ISO50001 Energy Management System certifications, while the remaining factories will apply for energy management system certifications in steps.

Each factory has strictly enforced the 6S management measures, which cover sorting, straightening, shining, sanitising, sustaining and safety, and complied with a three-tier quality monitoring mechanism, covering the "Procedures for Managing the Inspection of Incoming Goods", the "Procedures for Managing Process Inspections" and the "Procedures for Managing Final Checks". We comply with the pulp inspection standard which strictly regulates technical requirements, testing procedures, inspection rules as well as signs, packaging, transportation and storage for pulp. During the production process, the quantity, stiffness, softness and whiteness of the rolled paper are measured. Finally, the external packaging quality, microbiological content and fluorescence level are tested before the finished products are stored in warehouses.

In 2018, we passed product sampling inspections carried out by local and national authorities, maintaining a 100% passing rate for 16 consecutive years.

Malaysia and Taiwan

Malaysia and Taiwan factories have been certified with ISO9001 Quality Management System and ISO14001 Environmental Management System.

Malaysia factories implemented 5S workplace management, Foreign Contaminants Control Policy and Foreign Contaminant Control Procedure covering personal hygiene, production and warehouse storage zoning, contamination control (glass, plastic, metals, wood), cleaning and lubricants used, equipment maintenance, material and products handling, pest control as well as metal detection. Taiwan factory adopted 6S management measures and pest elimination.

During the Year, the Malaysia factories implemented quality plan as per Quality Management Systems. In Taiwan, we also passed the sampling inspection carried out by local authorities, achieving a 100% passing rate.

Passed the sampling inspection carried out by local authorities, achieving a

100% passing rate

Product Recall and Complaint Handling

We value customer response. We have a set of procedure to handle customers' complaints, product refund, product return and product recall. In 2018, no product recall actions due to safety and health issues.

In mainland China, complaint rate for dry tissue paper products, calculated on the number of complaints received for every 1,000 tons of tissue products sold, was 0.58 (2017: 0.55). The slight increase in complaint rate was mainly because sales of e-commerce increased and it became more convenient for customers to provide feedback on the quality of product packaging through e-commerce channel.

In Malaysia, complaint rate for personal care products was 0.34 (2017: 0.52).

In Taiwan, complaint rate for personal care products was 0.39 (2017: 0.21). The complaints were mainly about purchases of the wrong products and the poor use experience of consumers.

Safety First

We attach great importance to occupational safety and health. Our goal is "zero accident".

Mainland China

To comply with applicable national safety laws and regulations, we continuously improve our internal safety management system, such as "Fire Safety Management System", "Identification and Evaluation Management System for Dangerous Points" and "Operations Safety Management System in Limited Spaces". During the Year, we formulated the "Occupational Injury and Safety Accident Management System".

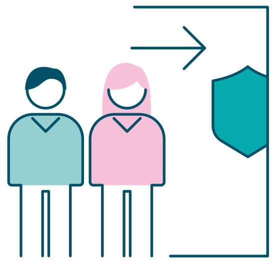
In 2018, we identified high-risk operations and conducted related hazard analysis. We also conducted 357 times of specific factory safety checks (2017: 286 times). Moreover, we formed a safety management team at each factory and provided safety trainings titled "Present Future Independent Series Safety Training".

We provided staff with safety equipment, e.g. anti-noise earplugs, dust-proof masks, work uniforms, gloves and other professional protection equipment. During the Year, we renewed the filter and dust removal equipment of paper making machines. In addition, in order to improve the efficiency of identifying and handling potential safety hazards, staff can report potential safety risk through mobile application in a timely way.

To improve the emergency management and response capacity for factory accidents, we organised emergency drills at factories including fire evacuation, simulated chemical leakage, gas leakage in boiler room, and equipment anomalies. In 2018, we conducted 228 times of emergency drills (2017: 152 times).

In 2018, 1,505 safety seminars (2017: 698) were held for a total of 71,446 participants (2017: 40,742 participants). Lost Time Accidents ("LTA") was 14 cases and the Lost Days from above Accident ("DLA") was 1,869 days.

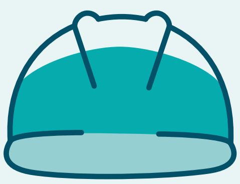
1,505
Safety seminars



71,446
Participants

	2018	2017
LTA (case)	14	20
DLA (day)	1,869	2,822
Number of work-related fatalities	0	0

	MAINLAND CHINA	MALAYSIA	TAIWAN
NUMBER OF WORK-RELATED FATALITIES	0	0	0
LTA (case)	14	1	0



Malaysia and Taiwan

In Malaysia, we comply with local safety, health law and regulations, such as "Occupational Safety Health Act 1994" and "Factories and Machineries Act 1967".

We conducted a series of safety training programs such as Basic Occupation First Aid, CPR and AED and have requirements on authorized entry and standby personnel for confined space entry to ensure safety of working in confined space. Besides, we provided audiometry screening for all employees and regularly held emergency drills, firefighting training with Malaysia's Fire Brigade and targeted training for employees' first aid capability. We installed safety belts for forklifts and set safety T signals and intersection warning systems to prevent accidents involving personnel and material handling. We also implemented behavioral safety and unsafe condition reporting through mobile application to enhance employees' involvement and engagement in safety and health. Safety and Health Committee meetings were held quarterly with representatives from both the management and employees providing proper platform for safety and health discussions. Factories in Malaysia passed the inspection by the Department of Occupational Safety and Health Malaysia and have been rated as the best Grade A by the local department of occupational safety and health for two consecutive years. In 2018, LTA was 1 case and DLA was 90 days.

In Taiwan, our Safety and Health Committee tracked and reviewed the effectiveness of safety and health on a regular basis. During the Year, we launched a mobile application to encourage employees to report potential safety risk. There was no LTA in 2018.

	Malaysia		Taiwan	
	2018	2017	2018	2017
LTA (case)	1	1	0	0
DLA (day)	90	37	0	0
Number of work-related fatalities	0	0	0	0

Factories in Malaysia and Taiwan are certified by the OHSAS18001 Occupational Health and Safety Management System. Malaysia factory (site 2) was awarded MSOSH (Malaysian Society for Occupational Safety & Health) Gold Award for two consecutive years.

High Standard of Corporate Governance

Vinda has "zero tolerance" towards corruption and misconduct. Our Internal Control Department is responsible for conducting internal audits on a regular basis and directly reports to the Audit Committee of the Board.

To combat fraud, corruption, breach of confidentiality, insider trading as well as violation of laws including unfair competition, Internal Control Department formulates and implements various internal control polices and guidelines by referencing to national and local laws, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, guidelines issued by the Securities and Futures Commission and other regulatory rules. Examples of internal control policies include "Code of Conduct", "Guidelines on Internal Control", "Measures on Business Transactions and Cost Approval Authorities", "Measures Governing Contracts", "Management System on Confidentiality", "Measures Governing Tender Invitations", "Money Laundering Control Act", "Anti-Corruption Act" etc.

In 2018, we formulated "Conflict of Interest Reporting System" and "Anti-fraud Work Management Measures", and implemented a total of 29 internal audit programs according to the internal audit plan. A total of 272 staff participated in the internal audit training. In addition, pursuant to the administrative procedures of the Company, internal investigation was conducted into whistle-blowing issues under our authorization and 2 cases of malpractice were found (2017: 3 cases), which were mainly about conflict of interest among staff.

Privacy Protection

All our employees are required to strictly comply with the "Code of Conduct", collecting and handling personal information of our consumers, employees and business partners by fair and lawful means to ensure that they are not accidentally accessed, processed, erased, lost or used without authorisation. The confidential information of our employees is protected and may not be, under any circumstances, revealed to any personnel unless required by law.

People Oriented

During the Year, we won various human resources awards. In mainland China, we were recognized as "High-skilled Talent Training Demonstration Site of Longyou County, Zhejiang Province", "Excellent Enterprise of Guangdong Province for the 40th Anniversary of Reform and Opening-up", "The Best Employer Enterprise in Guangdong Province for 2018", "JOBS 2019 Top Human Resources Management Awards" and "Dajie.com Best Employer of the Year 2018". In Malaysia, we won the "M 100 Leading Graduate Employers Award" and "Diamond Award" of INTI University in Malaysia. We also received the "Caring Company Logo" by The Hong Kong Council of Social Service for six consecutive years.

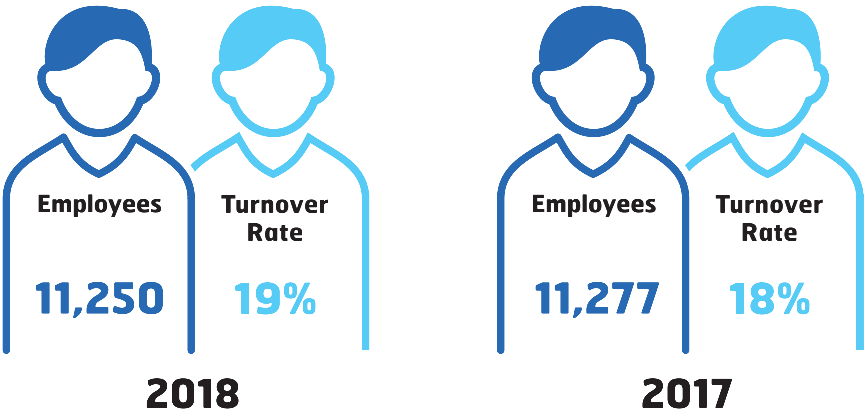
During the Year, we conducted employee engagement survey across the Group, and learned about employee satisfaction from twenty aspects including benefits, career development opportunities and company reputation with the response rate of 98%. In particular, the employee engagement score was over 80%, higher than the average level of the market and manufacturing consumer retail industry, reflecting employees' high level of engagement with the Group.

As at 31 December 2018, we had a total of 11,250 employees with a similar turnover rate compared to last year.

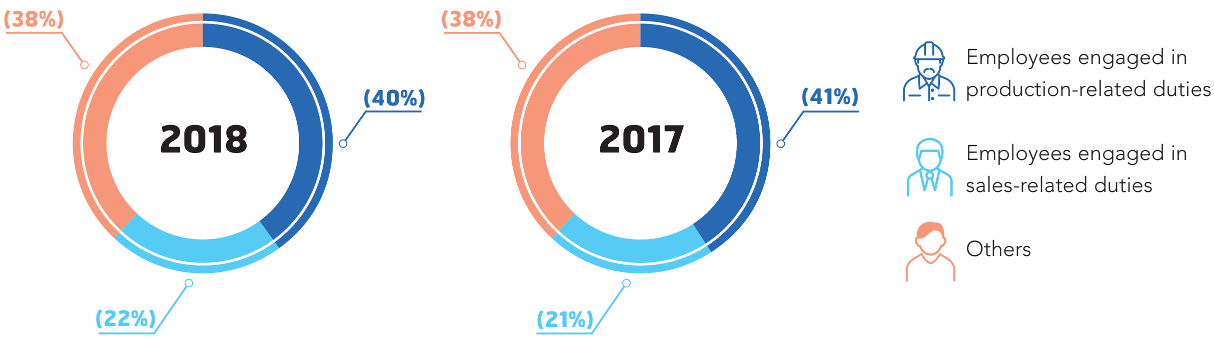
Fair Recruitment

Vinda adopts a fair, open and transparent recruitment principle and offers equal employment opportunities to all candidates. Our recruitment follows standard procedure as specified in our "Recruitment Management System". We only consider an individual's work experience, competence and educational background, but not the age (no recruitment of minors under the age of 16, in mainland China), nationality, race, religion, gender, sexual orientation, marital status, pregnancy, disability or political stance.

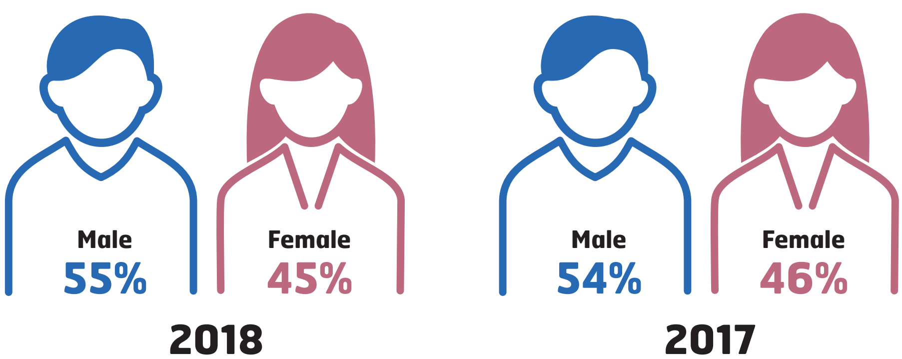
Vinda Group



Employee Composition by Nature of Work



Employee Composition by Gender



Employment and Benefits

Mainland China

We strictly comply with national and local laws, such as the "Labour Law", "Labour Contract Law", "Labour Union Law" and "Employment Promotion Law of the People's Republic of China". We also legally abide by labour policies and establish labour unions in accordance with laws. We do not allow any malpractice issues such as the use of child labour or forced-labour workers in accordance with the Law of the People's Republic of China on the Protection of Minors.

We set rules and regulations to regulate staff benefits. For example, "Remuneration Management System", "Benefit Management System", "Performance Management System", "Leave and Business Trip Management System", and "Benefit System for Dispatched Employees". These set a standard for the payment of remuneration, paid leave, and the payment of statutory social insurance such as pensions, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing provident funds, personal accident insurance and other benefits including allowance for high temperature as required by local government.

Meanwhile, we protect the legal interests of female employees in strict compliance with applicable laws and regulations such as the "Law on the Protection of Women's Rights" and the "Rules on the Labour Protection of Female Employees". Along with prenatal leave, breast-feeding leave, annual gynecological examinations and the Mutual Aid Safety and Health Protection Programme for Female Employees, we also organise activities such as outings or dinner gatherings on International Women's Day and Mother's Day, and provide breast-feeding area.

Malaysia and Taiwan

In Malaysia, we strictly comply with the "Child and Young Persons (Employment) Act 1966" that employer can only hire workforce aged 19 or above. In addition to the mandatory employment benefits stipulated in "Employment Act", we offered more benefits including longer maternity and paternity leaves, flexible work during algomenorrhea for female staff, dental care as well as inpatient and outpatient services for spouses and children during the Year.

In Taiwan, we abide by "Labour Standards Act" and the "Employment Service Act". We strictly comply with the "Act of Gender Equality in Employment" and formulated "Employee Working Rules" and the "Measures of Prevention, Correction, Complaint and Punishment of Sexual Harassment", to strengthen the protection of female employees' working rights, and prevent from gender discrimination and sexual harassment in the workplace. Furthermore, we also provide staff with subsidies for marriage, children's education, emergency relief, continuous study etc.

Comprehensive Training

We are committed to providing comprehensive trainings to enhance the professionalism and competitiveness of our staff. The training covers workshops, project practices, experience sharing, online courses, lectures, etc.

Mainland China

We have built a platform for staff to share experiences and exchange ideas through the "Innovative Talent Development Forum". Our "Talent Scheme" and "Leading Scheme" help enhance the leadership of managers. Through the "Cocoon-break Scheme", we tap the potential of younger staff. We offer mentoring program to frontline technicians. In 2018, a total of 137,967 hours (2017: 85,753 hours) of trainings were provided to 117,582 participants (2017: 83,271 participants). Average training hours for each employee was 14 hours (2017: 13 hours).

Malaysia and Taiwan

In 2018, we launched a three-year training programme named "The 7 Habits of Highly Effective People" and "Maintenance of the Core Principles of Vinda" in Malaysia to help staff improve their work efficiency and skills. In 2018, a total of 8,665 hours (2017: 8,016 hours) of trainings were provided to 725 participants (2017: 566 participants). Average training hours for each employee was 30.1 hours (2017: 25.1 hours).

In Taiwan, we organised discipline and management related courses in accordance with the "Training Management Measures". In 2018, we organised sales persuasion courses to strengthen the competence of the sales team. We also organised courses on quality, occupation, legal system, safety education base on individual occupation and departmental development needs. In 2018, a total of 5,025 hours (2017: 3,536 hours) of trainings were provided to 1,237 participants (2017: 328 participants). Average training hours for each employee was 19 hours (2017: 13 hours).

Retain Talent

We have established various incentive schemes, including long-term incentive schemes, short-term incentive bonuses, share option incentives, etc., to attract, retain and reward talents.

In 2018, we further implemented the "Talent Management Cycle Initiative" to expand the more targeted and systematic ways of trainings and enhance staff's working ability through comprehensive assessment of and tapping the advantages and potential of staff.

	MAINLAND CHINA	MALAYSIA	TAIWAN
Training hours	137,967	8,665	5,025
Participants	117,582	725	1,237

Giving Back to the Society

Volunteer Service

We are committed to fulfilling our responsibilities as a corporate citizen and encourage staff to participate in volunteer activities in their spare time.

Vinda Volunteer Team in mainland China was set up in 2008. Activities included keeping Xinhui urban rail station in good order, visiting the poor elderly, supporting them with gift-in-kind, organising Mid-Autumn Festival party and birthday party for the elderly together with Sunflower Social Work Center in Xinhui, participating in rural construction of the Linbu Village and improving the public space environment. We also organised blood donation and provided support to welfare homes. In 2018, 1,954 hours of community service were provided by the Vinda Volunteer Team. A total of 528 participants attended the activities.

In Hong Kong, our employees participated in the Lifeline Express Charity Run & Walk fundraising activities for the fourth year in a row. The fund is used to offer free surgeries for cataract patients in impoverished areas of mainland China.

In Malaysia, we organised "Drypers Share A Little Comfort", a charity campaign to improve the living conditions of underprivileged children. Since the launch of the campaign in 2016, we have refurbished 12 Children Homes. For young adults, we prepared them for the future workplace by holding career talks at various universities (Sunway University, Asia Pacific University and University Tunku Abdul Rahman) and

participating in career expos (e.g. Sunway Career Carnival, INTI Nilai Career Exhibition) as well as other career and study exchanges.

In Taiwan, we donated diapers to social welfare institutions (e.g. United Way of Taiwan, Disabled Welfare Service Center, Taiwan Fund for Children and Families). In addition, we donated rice to the elderly in Wei-Sin Village Community, donated diapers to newborns, and offered souvenirs to graduates of Wei-Sin Elementary School. We also assisted in the repairing project of Juridical Person Kaohsiung Private Cide Sweet Home.

Vinda Charity Foundation

We offered assistance to underprivileged students, the elderly and critically ill patients through the Vinda Charity Foundation (the "Foundation") for years. The first "Vinda Elderly Home", a service center that provides free meals to the elderly who are protected under the Five-Guarantees System or with low guarantees as well as other underprivileged elderly, was built in 2013. As of 2018, there are 11 Vinda Elderly Home and approximately 120,000 free meals were served.

The "Warmth to Home" is a home-visit activity to underprivileged elderly and those with severe illness. In 2018, the Foundation paid visit and provided consolation money to 356 elderly aged above 60 under the Five-Guarantees System as well as 10 people with severe illness.

In 2018, "You Are the Best Education Fund" provided financial assistance to 37 underprivileged students, including 10 new university students. "Vinda Love Care Fund" continued to provide assistance to autism students at the Qizhi School in Jiangmen. "Save the Heart Foundation" also offered assistance to the critically ill or heart disease patients from families with financial difficulties.

Study on Family Relationships

It has been the fifth year for Vinda to conduct study on Chinese family situations. The "Parent-child Relationship of National Families Report 2018" analysed the multi-faceted role of modern Chinese mothers and how the Chinese working mothers strive a balance between work, parenting and daily life.

Our Promise

We are committed to continuing our efforts to achieve sustainable development. We will enhance our capability to protect the environment through implementation of various measures to attain both economic benefits and environmental protection. In terms of corporate governance, we will ensure that all internal policies, code of conducts and working procedures are legally complied and implemented. We also promise to do our best to fulfil our social responsibilities.

A. Environmental

Aspect A1: Emission	Chapter	KPI	
Types of emissions and respective emissions data Greenhouse gas emissions in total	Eco-friendly Operations >Energy consumption and carbon emissions	A1.1 A1.2	✓
Total hazardous and non-hazardous waste produced and intensity	Eco-friendly Operations >Solid Waste Treatment	A1.3 A1.4	✓
Measures to mitigate emissions and results achieved	Eco-friendly Operations >Energy consumption and carbon emissions	A1.5	✓
Description of how hazardous and nonhazardous wastes are handled, reduction initiatives and results achieved	Eco-friendly Operations >Solid Waste Treatment Save Water	A1.6	✓
Aspect A2: Use of Resources			
Direct and indirect energy consumption by type	Eco-friendly Operations >Energy consumption and carbon emissions	A2.1	✓
Total water consumption	Save Water	A2.2	✓
Energy use efficiency initiatives and results achieved Water efficiency improving initiatives and results achieved	Eco-friendly Operations >Energy consumption and carbon emissions Save Water	A2.3 A2.4	✓
Total packaging material used for finished products	Responsible Production >Material Suppliers	A2.5	✓
Aspect A3: The Environment and Natural Resources			
The significant impacts of activities on the environment and natural resources and the actions taken to manage them	The Group has no significant impact on the environment and natural resources during the Year	A3.1	✓

B. Social

Employment and Labour Practices

Aspect B1: Employment	Chapter	KPI	
Total workforce by gender, employment type and age group	People Oriented	B1.1	✓
Employee turnover rate	People Oriented	B1.2	✓
Aspect B2: Health and Safety			
Number and rate of work-related fatalities	There was no occupational fatality during the year	B2.1	✓
Lost days due to work injury Description of occupational health adopted	Safety First	B2.2 B2.3	✓
Aspect B3: Development and Training			
Policies on improving employees' knowledge and skills for discharging duties at work and description of training activities	Safety First People Oriented >Comprehensive Training	B3	✓
Aspect B4: Labour Standards			
Employment practices to avoid child and forced labour	People Oriented >Fair Recruitment People Oriented >Employment and Benefits	B4.1	✓
Steps taken to eliminate such practices when discovered	During the year, there was no non-compliance with regulations in the Group	B4.2	✓
Aspect B5: Supply Chain Management			
Policies on managing environmental and social risks of the supply chain	Responsible Production	B5	✓
Aspect B6: Product Responsibility			
Percentage of total products sold or shipped subject to recalls for safety or health reasons	Quality First	B6.1	✓
Number of products and service related complaints received and how they are dealt with	Product Recall and Complaint Handling	B6.2	✓
Practices relating to observing and protecting intellectual property rights	The Group did not receive any intellectual property-related cases during the year	B6.3	✓
Quality assurance process and recall procedures	Product Recall and Complaint Handling	B6.4	✓
Consumer data protection and privacy policies, how they are implemented and monitored	Privacy Protection	B6.5	✓
Aspect B7: Anti-corruption			
Policies relating to bribery, extortion, fraud and money laundering prevention and compliance with relevant laws and regulations	High Standard of Corporate Governance	B7	✓
Aspect B8: Community			
Focus areas of contribution Resources contributed	Giving Back to the Society	B8.1 B8.2	✓

Biographies of Directors and Senior Management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Biographies of Directors

Executive Directors

1. Mr. LI Chao Wang (李朝旺), aged 60, is a founder of the Group. He was appointed as an Executive Director on 17 August 1999 and has become the Chairman of the Board since 28 April 2000. In his current capacity, he spearheads overall corporate development and strategic planning of the Company. Formerly, until January 2010, he also acted as the Chief Executive Officer of the Group. Mr. LI has almost 30 years of experience in the household paper industry and executive business management. He was honoured with the "Ernst and Young Entrepreneur of the Year 2011 China". Mr. LI is currently the Vice President of the Household Paper Professional Committee of the China Paper Association, Consultant to China Paper Industry Chamber of Commerce, a member of Jiangmen Political Consultative Committee and Honorary President of Jiangmen Federation of Industry and Commerce. Mr. LI graduated from the Business Administration program of Guangdong Radio and Television University. Mr. LI is the father of Ms. LI Jielin.

2. Ms. YU Yi Fang (余毅昉), aged 63, is a co-founder of the Group. Ms. YU was appointed as an Executive Director on 1 February 2000 and further appointed as the Vice Chairman of the Board in January 2010 responsible for strategic development. Ms. YU was formerly the Chief Operating Officer of the Group. She has almost 30 years of corporate administration and financial management experience in China's household paper industry. Ms. YU graduated from the Accounting Program of Guangdong Radio and Television University.

3. Mr. Johann Christoph MICHALSKI, aged 52, was appointed as Executive Director and Chief Executive Officer of the Group on 1 October 2015. Before acting as an Executive Director and Chief Executive Officer of the Group, Mr. MICHALSKI had acted as a Non-Executive Director of the Group since 2008. He has over 20 years of experience in leadership roles in business development and strategy, consumer marketing and product innovation in the consumer goods industry. Mr. MICHALSKI had been the President of SCA Global Hygiene Category overseeing the global marketing and Research and Development and the President of SCA's Asia Pacific business unit based in Shanghai, China. Prior to joining SCA, he had held a number of senior management positions in a New Zealand dairy group, Fonterra, as well as a global FMCG company, Unilever. Mr. MICHALSKI has a master's degree in Economics from Kiel University, Germany.

4. Ms. LI Jielin (李潔琳), aged 32, was appointed as Executive Director and Deputy Chief Executive Officer of the Group on 1 October 2015. Currently, Ms. LI is also the Chief Human Resources Officer and President, North Asia. Ms. LI joined the Company in 2012 as the Managing Director of Vinda Household Paper (Australia) Limited and the Business Development Manager of the Company, and she has been responsible for overseas business development. She was the Group's Chief Strategy Officer and the Managing Director of Vinda Household Paper (Australia) Limited since November 2014. Prior to joining the Group, she worked in Orient Capital in Australia as a Client Relations Manager of Southeast Asia Division and subsequently as a Client Relations Manager of Asia Division. Ms. LI graduated from Macquarie University in 2008 with combined bachelor degrees in Accounting and Business Administration. Ms. LI is the daughter of Mr. LI Chao Wang.

5. Mr. DONG Yi Ping (董義平), aged 55, was appointed as an Executive Director on 1 February 2000. Currently, Mr. DONG is also Chief Technology Officer – mainland China. Mr. DONG joined Vinda Paper (Guangdong) Company Limited in 1992. Mr. DONG has over 20 years of experience in equipment operations and safety, quality control, and research and development. Prior to joining the Group, he held several positions in two other paper manufacturing companies. Mr. DONG graduated from the Paper Manufacturing program of Tianjin University of Science and Technology (previously Tianjin Institute of Light Industry) in 1991 with a master's degree in Engineering.

Non-Executive Directors

6. Mr. Jan Christer JOHANSSON, aged 64, was appointed as a Non-Executive Director on 1 January 2014 and as the Vice Chairman of the Board on 1 January 2015. Mr. JOHANSSON was the President and Chief Executive Officer of SCA, from 2007 to February 2015. Prior to joining SCA, from 2001 to 2007, Mr. JOHANSSON was the President and Chief Executive Officer of Boliden AB, a metals company with core competence in the fields of exploration, mining, smelting and metals recycling. In 2001, Mr. JOHANSSON served as the President of Network Operations in Telia AB. From 1994 to 2000, Mr. JOHANSSON was the Executive Vice President of Vattenfall and, before that from 1990, the Business Area President of Svenska Shell. Mr. JOHANSSON has taken up professional roles like General Counsel in Shell International Petroleum, Svenska Shell and Lycksele and Sunne district courts from 1983 to 1990. Mr. JOHANSSON is the Chairman of Suominen Oy and Organoclick AB and director of Optigroup AB and Kahrs AB. Mr. JOHANSSON has a master's degree in Laws from Stockholm University, Sweden.

7. Mr. Carl Magnus GROTH, aged 55, was appointed as a Non-Executive Director on 1 July 2015. Mr. GROTH is the President and Chief Executive Officer of Essity Aktiebolag (publ) ("**Essity**"), a leading global hygiene and health company, dedicated to improving well-being through leading hygiene and health solutions. Essity is the Company's controlling shareholder and is a company listed on NASDAQ OMX Stockholm. Before that Mr. GROTH was the President and Chief Executive Officer of SCA. Mr. GROTH joined SCA in 2011 as President, SCA Consumer Goods Europe (a business unit of SCA). Mr. GROTH also has extensive experience among other things as Chief Executive Officer of Studsvik AB, a company listed on the Stockholm Stock Exchange, Senior Vice President of Vattenfall AB. Mr. GROTH received a master of Science in Economics and Business from the Stockholm School of Economics and a master of Science in Avionics and Naval Technology from Royal Institute of Technology in Stockholm.

8. Mr. Carl Fredrik Stenson RYSTEDT, aged 55, was appointed as a Non-Executive Director on 1 March 2017. He had been the alternate director to Mr. Ulf Olof Lennart SODERSTROM from 18 April 2016 to 28 February 2017. Mr. RYSTEDT is the Executive Vice President and Chief Financial Officer of Essity, a leading global hygiene and health company, which dedicated to improving well-being through leading hygiene and health solutions. Before that Mr. RYSTEDT was the Executive Vice President and Chief Financial Officer of SCA from 2014 to 2017. Prior to joining SCA, from 2008 to 2012, Mr. RYSTEDT was the Executive Vice President and Chief Financial Officer of Nordea Bank AB (publ) and the Country Senior Executive of Nordea Sweden. From 2001 to 2008, Mr. RYSTEDT was the Senior Vice President and Chief Financial Officer of Electrolux Group. Mr. RYSTEDT was the Chief Financial Officer of Sapa Group from 2000 to 2001 and was the head of business development of Sapa Group from 1998 to 1999. He is a Director (ined) in Vattenfall AB since 2017. Mr. RYSTEDT has a master of Science in Business and Economics from the Stockholm School of Economics.

Alternate Directors

9. Mr. Gert Mikael SCHMIDT, aged 58, was appointed as the Alternate Director to Mr. JOHANSSON and Mr. GROTH on 1 January 2014. Mr. SCHMIDT is the Senior Vice President and General Counsel of Essity. Before that, Mr. SCHMIDT was the Senior Vice President and General Counsel of SCA. He has extensive experience from being Director of the Board in companies around the world. Mr. SCHMIDT joined SCA in 1992 as Assistant General Counsel and has experience among other things as Vice President and General Counsel of SCA Packaging in Belgium and SCA Forest Products in Sweden respectively from 1994 to 2012. From 1986 to 1992, Mr. SCHMIDT held different positions in the legal profession. He has a master's degree in Laws from Uppsala University, Sweden.

10. Mr. Herve Stephane ROSE, aged 57, was appointed as an Alternate Director to Mr. RYSTEDT on 26 October 2017. Mr. ROSE is the Vice President of Business Development of Global Hygiene Supply Personal Care in Essity. He has over 32 years of experience in supply chain and management. Prior to his role in Essity, Mr. ROSE held various positions in the global and regional supply chain as well as in commercial regional management areas in SCA. Mr. ROSE also gained experience by working in Renault and Nestle. Mr. ROSE holds two engineering degrees in mechanical and automation processes from ParisTech University and an MBA from ISG Paris University. He is the president and founder of the management development association in Munich Germany.

Independent Non-Executive Directors

11. Mr. CHIA Yen On (謝鉉安), aged 68, was appointed as an Independent Non-Executive Director on 12 October 2015. Mr. CHIA was a Director of the Company from January 2001 to June 2007 and is the Chairman of STS Limited since 1992. He served as a Committee Member of the Hong Kong Exchanges and Clearing Limited, Gold User Committee in 2017. In 2018, Mr. CHIA was appointed as a member of the University of Sydney's Alumni Council. Mr. CHIA was the Investment Commissioner, Greater China to the Australian Consulate, Hong Kong from 1992 to 2003. Mr. CHIA has over 30 years of experience in management and sales with major multinational corporations. He provided consulting service for the Australian Federal Government for 12 years and has experience in over 100 merger and acquisition deals. Mr. CHIA graduated from University of Sydney with Bachelor of Science degree and has a Master of Science degree from University of New South Wales.

12. Ms. LEE Hsiao-yun Ann (李曉芸), aged 62, was appointed as an Independent Non-Executive Director on 31 March 2018. Ms. LEE is currently the Partner of Triumph Capital International Pte. Ltd., a private company incorporated in Singapore, which is principally engaged in Family Office type of activities, including assets management, family wealth planning and succession. Ms. LEE was Managing Director and Head of Relationship Management for Greater China of Standard Chartered Bank (HK) from 2015 to 2016. Ms. LEE has extensive experience in private banking and wealth management. She joined Société Générale Group in 1997 as Head for Private Banking – Greater China of Société Générale Bank & Trust (HK). From 2007 to 2008, she was Head of Private Banking and from 2008 to 2013, CEO Private Banking of Société Générale (China) Limited. From 2013 to 2014, Ms. LEE was CEO Wealth Management and Board Executive Director of Société Générale (China) Limited. Before joining Société Générale Group, Ms. LEE worked for various banks. She was Director, Heading Taiwan Marketing of Credit Lyonnais, Private Banking (HK) from 1994 to 1997. Ms. LEE graduated from University of West Florida, USA with a bachelor degree in Science – Management and has obtained a Master of Business Administration degree from University of Hartford, USA.

13. Mr. TSUI King Fai (徐景輝), aged 69, was appointed as an Independent Non-Executive Director on 19 June 2007. Mr. TSUI has over 30 years of experience in accounting, finance and investment management, particularly in investments in the PRC. He worked for two of the Big Four audit firms in the United States and Hong Kong and served in various public listed companies in Hong Kong in a senior capacity. Mr. TSUI is currently acting as an Independent Non-Executive Director of Lippo Limited, Lippo China Resources Limited, Hongkong Chinese Limited, China Aoyuan Property Group Limited and Newton Resources Ltd, all listed on the Main Board of The Stock Exchange of Hong Kong Limited. He was a Director and Senior Consultant of WAG Worldsec Corporate Finance Limited, a registered financial services company in Hong Kong. He graduated from the University of Houston, Texas, the United States and holds a master of Science in Accountancy degree and a bachelor of Business Administration degree with first class honors. Mr. TSUI is a fellow of the Hong Kong Institute of Certified Public Accountants, a member of the Chartered Accountants Australia and New Zealand and a member of the American Institute of Certified Public Accountants.

14. Mr. WONG Kwai Huen, Albert (王桂壎), aged 67, BBS, JP., was appointed as an Independent Non-executive Director on 1 September 2014. Mr. WONG holds a bachelor of arts degree from The Chinese University of Hong Kong and a bachelor of laws degree from the University of London. He is admitted as a solicitor in Hong Kong, the United Kingdom, Australia and Singapore. He is a China-Appointed Attesting Officer. Mr. WONG is currently the independent non-executive director of China International Marine Containers (Group) Co., Ltd., Hua Hong Semiconductor Limited, China Oilfield Services Limited and NWS Holdings Limited, all listed on the Main Board of The Stock Exchange of Hong Kong Limited. He has been the managing partner of the China region for 15 years in two international law firms. Prior to that he worked for the Lands Department, Department of Justice and Legislative Council of the Hong Kong SAR Government for 10 years in total. Since 2011 Mr. WONG has been appointed as board member of the Airport Authority Hong Kong, Hospital Authority, Hong Kong Mortgage Corporation and the Competition Committee. He is the Honorary Chairman of Hong Kong International Arbitration Centre. He is currently one of the deputy chairman of Hong Kong Inland Revenue Board of Review, chairman of Hong Kong Copyright Tribunal, former president of the Law Society of Hong Kong and Inter Pacific Bar Association and council member of Hong Kong Institute of Director. He is the Honorary Adviser of the Financial Reporting Council and Hong Kong Business Accountants Association. Mr. WONG holds the posts of honorary lecturer, external examiner, Adjunct Professor and Professor of Practice in the University of Hong Kong, The Chinese University of Hong Kong, City University of Hong Kong, Hang Seng Management College and Hong Kong Shue Yan University.

Biographies of Senior Management

15. Mr. ZHANG Jian (張健), aged 46, is the Deputy CEO of the Group. He joined the Group in 1992. He has served as a Manager in the production, marketing, and procurement departments, and Deputy General Manager, General Manager, Chief Operating Officer and President, mainland China. Mr. ZHANG is the Vice President of Guangdong Paper Association. He graduated from Wuyi University in Electronic Technology.

16. Ms. TAN Yi Yi (譚奕怡), aged 37, is the Chief Financial Officer of the Group. Ms. TAN was appointed as the Deputy Financial Officer on 15 September 2014 and was appointed as the Company Secretary on 11 September 2013. Ms. TAN began her career in audit in one of the Big Four international accountancy firms. After that, Ms. TAN pursued her career in various public enterprises and gained extensive experience in finance and listing work. She joined the Company in 2012 and has served as the Director of Corporate Finance, Acting Chief Financial Officer and Company Secretary. Ms. TAN holds a bachelor's degree from the University of Auckland, New Zealand and an MBA from the University of Hong Kong. Ms. TAN is also a fellow member of the Association of Chartered Certified Accountants in the United Kingdom.

17. Ms. WANG Bo (王波), aged 45, is the Chief Operating Officer - mainland China of the Group. Ms. WANG previously held the position of Chief Operating Officer of the Group. Ms. WANG joined the Group in 1997 and has served as the General Manager of the quality control and development division, Plant Manager and Regional Chief Operating Officer. She has extensive experience in production management. Ms. WANG is the Executive Vice President of Guangdong Technical Association of Paper Industry. Ms. WANG holds a bachelor's degree in Chemical Processing of Forest Products from the Beijing Forestry University and a master's degree in Engineering from the South China University of Technology.

18. Mr. Richard SU (蘇洛夫), aged 62, is the Chief Procurement Officer of the Group, responsible for the centralized material procurement of the Group. Mr. SU obtained his bachelor's degree in Trade Economics from Renmin University of China in 1983. He joined the Group in 1999 as assistant to the CEO, the Director of Purchase and the Deputy Chief Operating Officer sequentially. He has over 25 years of experience in sourcing and trade management.

19. Mr. HU Yong Jin (胡永進), aged 45, is the President -mainland China of the Group. Mr. HU previously held the position of Chief Sales Officer of the Group and President, Sales-mainland China. He joined the Group in October 1998 and served sequentially as a branch Manager as well as the Deputy General Manager and General Manager of the Group and the Executive Vice President (sales of southern region) and Senior Vice President of Sales & Marketing of the Group. Mr. HU graduated from Anhui Institute of Technology in 1996 as a bachelor majoring in Automobile Design and Manufacturing.

20. Mr. TANG Hai Tang (湯海棠), aged 47, is the President, Marketing- mainland China of the Group. Mr. TANG previously held the position of Chief Marketing Officer of the Group, responsible for the marketing management of the four major product categories, namely tissue, incontinence care, feminine care and baby care, as well as e-commerce divisions in mainland China. He joined the Group in August 1995 and served as branch Deputy General Manager, Sales Director, Marketing Director and Executive Vice President (marketing & media) and Senior Vice President of Sales & Marketing of the Group etc. Mr. TANG graduated from South China University of Technology in Biochemistry in 1994.

21. Ms. SU Ting Nee (徐珍妮), aged 48, is President - South East Asia of the Group. Ms. SU joined SCA in 1999 and has assumed numerous senior management roles in extensive areas across the company. Ms. SU was initially responsible for quality and R&D management, and later took on the regional role of Business Strategy Director in 2006. From 2010, she served as Commercial Director for markets including Malaysia, Singapore, Philippines and Indonesia. Ms. SU was appointed to Vice President of South East Asia in 2014, and has been instrumental in shaping the continued growth and development of the company's business in South East Asia over the last 16 years. Prior to SCA, Ms. SU worked for several years in production management. Ms. SU holds a master's degree in Industrial Engineering & Management, and bachelor's degree in Management Information Systems, both from the Oklahoma State University, United States.

22. Ms. ZHAO Xiao Yu (趙小妤), aged 42, is the Vice President of Human Resources of the Group. Ms. ZHAO graduated from Jinan University in Guangzhou in Statistics in 1999 and joined the Group in November of the same year. She has served as EVP of Human Resources and Deputy Head of Administration Department of the Group.

23. Ms. ZHANG Cui Ling (張翠玲), aged 50, is the Director of Internal Control of the Group. Ms. ZHANG graduated from Guangdong Mechanical College in industrial management engineering with a bachelor's degree in Engineering, and holds an MBA degree of Wuhan University of Technology. She is also a Certified Internal Auditor (CIA) and holds a Certification in Risk Management Assurance (CRMA) of the Institute of Internal Auditors (IIA). She joined the Group in July 1991 and has served as the branch Manager of finance, purchasing logistics, quality control, and administration departments.

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance practices by emphasizing a quality board of directors, sound internal control, transparency and accountability to all of the shareholders of the Company. For the year ended 31 December 2018, the Company has complied with all the code provisions set out in the Corporate Governance Code (the "**CG Code**"), as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' Securities Transactions

The Company has adopted a code for securities transactions by directors of the Company (the "**Code of Conduct**") on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry with all the Directors, all of them confirmed that they have complied with the required standard set out in the Model Code and the Code of Conduct regarding securities transactions by the Directors during the Year.

Board of Directors

Composition

The Board comprises twelve Directors, five of which are Executive Directors, three are Non-Executive Directors and four are Independent Non-Executive Directors. The members of the Board as at the date of this annual report (i.e. 30 January 2019) are as follows:

Executive Directors
Mr. LI Chao Wang (Chairman)
Ms. YU Yi Fang (Vice Chairman)
Mr. Johann Christoph MICHALSKI (Chief Executive Officer)
Ms. LI Jielin (Deputy Chief Executive Officer)
Mr. DONG Yi Ping (Chief Technology Officer)

Non-Executive Directors
Mr. Jan Christer JOHANSSON (Vice Chairman)
Mr. Carl Magnus GROTH
Mr. Carl Fredrik Stenson RYSTEDT

Independent Non-Executive Directors
Mr. CHIA Yen On
Ms. LEE Hsiao-yun Ann (appointed on 31 March 2018)
Mr. TSUI King Fai
Mr. WONG Kwai Huen, Albert

Alternate Directors
Mr. Gert Mikael SCHMIDT (alternate to Mr. JOHANSSON and Mr. GROTH)
Mr. Herve Stephane ROSE (alternate to Mr. RYSTEDT)

The Board formulates overall strategies and policies of the Company and its subsidiaries. It also ensures the availability of adequate capital and managerial resources to implement the strategies adopted, the adequacy of systems of financial and internal control and the conduct of business in conformity with applicable laws and regulations. The Board members are fully committed to their roles and have always acted in the best interests of the Group and its shareholders at all times. There is no financial, business, family or other material/relevant relationship amongst Directors, except for the fact that Ms. LI Jielin is the daughter of Mr. LI Chao Wang. The Directors' biographical information is set out on pages 46 to 52 under the section headed "Biographies of Directors and Senior Management" of this annual report.

Board meetings are held regularly at approximately quarterly intervals and also held on ad hoc basis as required by business needs. Regular and ad hoc Board meetings are attended by a majority of the Directors in person or through other electronic means of communication. During the Year, other than resolutions passed in writing by all the Directors, the Board held a total of 8 regular and ad hoc Board meetings.

During the Year, the Company convened an annual general meeting.

The attendance of each member at the Board meetings and general meeting is set out below. Figures in brackets indicate maximum number of meetings held in the period in which the individual was a Board member.

Directors	Number of regular and ad hoc Board meetings attended	Number of general meeting attended
Executive Directors		
Mr. LI Chao Wang (Chairman)	8 (8)	1 (1)
Ms. YU Yi Fang (Vice Chairman)	8 (8)	1 (1)
Mr. Johann Christoph MICHALSKI (Chief Executive Officer)	8 (8)	1 (1)
Ms. LI Jielin (Deputy Chief Executive Officer)	8 (8)	1 (1)
Mr. DONG Yi Ping (Chief Technology Officer)	3 (8)	0 (1)
Non-Executive Directors		
Mr. Jan Christer JOHANSSON (Vice Chairman)	7 (8)	1 (1)
Mr. Carl Magnus GROTH	8 (8)	1 (1)
Mr. Carl Fredrik Stenson RYSTEDT	7 (8)	1 (1)
Mr. Gert Mikael SCHMIDT (alternate to Mr. JOHANSSON and Mr. GROTH)	7 (8)	1 (1)
Mr. Herve Stephane ROSE (alternate to Mr. RYSTEDT)	8 (8)	1 (1)
Independent Non-Executive Directors		
Mr. KAM Robert (resigned on 31 March 2018)	1 (2)	0 (0)
Mr. TSUI King Fai	7 (8)	1 (1)
Mr. WONG Kwai Huen, Albert	8 (8)	1 (1)
Mr. CHIA Yen On	8 (8)	1 (1)
Ms. LEE Hsiao-yun Ann (appointed on 31 March 2018)	5 (6)	1 (1)

Chairman of the Board and Chief Executive Officer ("CEO")

The Chairman of the Board is Mr. LI Chao Wang and the CEO of the Company is Mr. Johann Christoph MICHALSKI. The roles of the Chairman of the Board and the CEO of the Company are segregated to ensure their respective independence, accountability and responsibility. The major duties of the Chairman are to provide leadership to the Board and spearhead overall corporate development and strategic planning whilst the CEO is responsible for implementing the decisions and strategy approved by the Board and managing day-to-day operations of the Group with the support of the Executive Directors.

Executive Directors

The Executive Directors are responsible for running the Group and executing the strategies adopted by the Board. They lead the Group's management team in accordance with the directions set by the Board and are responsible for ensuring that proper internal control system is in place and the Group's business conforms to applicable laws and regulations.

Non-Executive Directors

The Non-Executive Directors provide a wide range of expertise and experience and bring independent judgement on issues relating to the Group's strategies, development, performance and risk management through their contribution at the Board and committee meetings.

Independent Non-Executive Directors

The Independent Non-Executive Directors serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. Their participation provides adequate checks and balances to safeguard the interests of the Group and its shareholders including the review of connected transactions and continuing connected transactions described below. The Board consists of four Independent Non-Executive Directors and two of them have appropriate professional qualifications or accounting or related financial management expertise. The Board confirms that the Company has received from each of the Independent Non-Executive Directors a confirmation of independence for the Year pursuant to Rule 3.13 of the Listing Rules and considers such Directors to be independent.

Appointments, Re-election and Removal of Directors

Each of the Executive Directors, Non-Executive Directors and Independent Non-Executive Directors has entered into a service contract or letter of appointment with the Company for a specific term. The Non-Executive Directors and Independent Non-Executive Directors have been appointed for a term of 3 years and may be extended for such period as the Company and the respective Director agree in writing. The term of appointment of each Director is subject to retirement by rotation and re-election at each annual general meeting in accordance with the articles of association of the Company (the "**Articles**") and the Listing Rules.

Under the Articles, one-third of all Directors (whether Executive or Non-Executive) is subject to retirement by rotation and re-election at each annual general meeting provided that every Director shall be subject to retirement at least once every three years. A retiring Director is eligible for re-election and continues to act as a Director throughout the meeting at which he/she retires.

The Articles provide that any Director appointed by the Board, either to fill a casual vacancy in the Board or as an addition to the existing Board, shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Shareholders of the Company may, at any general meeting convened and held in accordance with the Articles, remove a Director at any time before the expiration of his period of office notwithstanding anything to the contrary in the Articles or in any agreement between the Company and such Director.

Delegation by the Board

The Board reserves for its decision on all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the Executive Committee and the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Company Secretary

Ms. TAN Yi Yi was appointed as the Company Secretary of the Company on 11 September 2013. The biographical details of Ms. TAN are set out under the section headed "Biographies of Directors and Senior Management".

In accordance with Rule 3.29 of the Listing Rules, Ms. TAN has taken no less than 15 hours of relevant professional training during the Year.

Corporate Governance Functions

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies and practices on corporate governance and code of conduct applicable to employees and Directors, reviewing and monitoring training and continuous professional development of Directors and senior management and the Company's policies and practices on compliance with legal and regulatory requirements, as well as reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Continuous Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of his/her responsibilities and duties under the relevant statues, laws, rules and regulations.

During the Year, the Company Secretary provided all the Directors with the latest information on the Listing Rules and other applicable requirements, so as to update and strengthen the Directors' awareness of the development of corporate governance, and maintained records of training participated by the Directors. The means of such training are as follows:

Name of Directors	Reading Materials	Induction Training	Seminars/talks/ training courses
Executive Directors			
Mr. LI Chao Wang	✓		✓
Ms. YU Yi Fang	✓		✓
Mr. Johann Christoph MICHALSKI	✓		✓
Mr. DONG Yi Ping	✓		
Ms. LI Jielin	✓		✓
Non-Executive Directors			
Mr. Jan Christer JOHANSSON	✓		✓
Mr. Carl Magnus GROTH	✓		✓
Mr. Carl Fredrik Stenson RYSTEDT	✓		✓
Independent Non-Executive Directors			
Mr. CHIA Yen On	✓		✓
Mr. KAM Robert (resigned on 31 March 2018)	✓		
Mr. TSUI King Fai	✓		✓
Mr. WONG Kwai Huen, Albert	✓		✓
Ms. LEE Hsiao-yun Ann (appointed on 31 March 2018)	✓	✓	✓
Alternate Directors			
Mr. Gert Mikael SCHMIDT (alternate to Mr. JOHANSSON and Mr. GROTH)	✓		✓
Mr. Herve Stephane ROSE (alternate to Mr. RYSTEDT)	✓		✓

All the Directors read materials relevant to the Company's business or to their duties and responsibilities.

All the Directors understand the importance of continuous professional development and are committed to participating in any suitable training to develop and refresh their knowledge and skills.

Directors' Liability Insurance

Appropriate insurance cover has been arranged by the Company in respect of legal action against its Directors.

The Board Committees

Remuneration Committee

The Company established a remuneration committee (the "**Remuneration Committee**") on 19 June 2007. The Board has adopted the terms of reference for the Remuneration Committee which are in line with the code provisions set out in the CG Code. As at the date of this annual report, the Remuneration Committee has five members comprising three Independent Non-Executive Directors, namely Mr. TSUI King Fai, Mr. CHIA Yen On and Ms. LEE Hsiao-yun Ann (appointed on 31 March 2018), an Executive Director, Ms. LI Jielin and a Non-Executive Director, Mr. Jan Christer JOHANSSON. The chairman of the Remuneration Committee is Mr. TSUI King Fai.

The Remuneration Committee is responsible for formulating and making recommendation to the Board on the Group's remuneration policy, the determination of specific remuneration packages of all Executive Directors and senior management and making recommendations to the Board the remuneration of Non-Executive Directors. It takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of Directors and senior management, employment conditions elsewhere in the Group and desirability of performance-based remuneration. Details of remuneration of the Directors and senior management for the Year are set out in Note 34(b)(9) and Note 36 to the consolidated financial statements.

During the Year, the Remuneration Committee held 3 meetings. The Remuneration Committee reviewed the remuneration policy of the Company and the remuneration of Directors and senior management and made recommendations to the Board on the remunerations of Directors and senior management.

The attendance of each member at the Remuneration Committee meetings during the Year are set out below. Figures in brackets indicate maximum number of meetings held in the period in which the individual was a member of the Remuneration Committee.

Members	Number of meetings attended
Mr. TSUI King Fai	3 (3)
Ms. LI Jielin	3 (3)
Mr. KAM Robert (resigned on 31 March 2018)	1 (2)
Mr. CHIA Yen On	3 (3)
Mr. Jan Christer JOHANSSON	3 (3)
Ms. LEE Hsiao-yun Ann (appointed on 31 March 2018)	0 (1)

Nomination Committee

The Company established a nomination committee (the "**Nomination Committee**") on 19 June 2007. The Board has adopted the terms of reference for the Nomination Committee which are in line with the code provisions set out in the CG Code. As at the date of this annual report, the Nomination Committee has five members comprising three Independent Non-Executive Directors, namely, Mr. WONG Kwai Huen, Albert, Mr. CHIA Yen On and Ms. LEE Hsiao-yun Ann (appointed on 31 March 2018), an Executive Director, Mr. LI Chao Wang and a Non-Executive Director, Mr. Jan Christer JOHANSSON. The chairman of the Nomination Committee is Mr. LI Chao Wang.

The principal duties of the Nomination Committee are to consider and recommend to the Board suitably qualified persons to become Directors and to be responsible for reviewing the structure, size, diversity and composition of the Board on a regular basis.

During the Year, the Nomination Committee held 1 meeting. The Nomination Committee reviewed the current structure, size, diversity and composition of the Board.

The attendance of each member at the Nomination Committee meeting during the Year are set out below. Figures in brackets indicate maximum number of meetings held in the period in which the individual was a member of the Nomination Committee.

Members	Number of meeting attended
Mr. LI Chao Wang	1 (1)
Mr. Jan Christer JOHANSSON	1 (1)
Mr. KAM Robert (resigned on 31 March 2018)	0 (1)
Mr. WONG Kwai Huen, Albert	1 (1)
Mr. CHIA Yen On	1 (1)
Ms. LEE Hsiao-yun Ann (appointed on 31 March 2018)	0 (0)

The Board has adopted a policy on board diversity ("**Board Diversity Policy**"). Pursuant to the Board Diversity Policy, the Board shall consider the benefits of diversity when it reviews the Board composition. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience and qualifications, skills, knowledge, length of service and industry and regional experience. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Nomination Policy

The Board has adopted a nomination policy (the "**Nomination Policy**") which sets out the selection criteria and nomination procedures to identify, select and recommend candidates for Directors.

Selection Criteria
When evaluating and selecting candidates for directorships, the members of the Nomination Committee or the Board shall consider the following criteria:

(a) Character and integrity;

(b) Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategies;

(c) The Board Diversity Policy and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board;

(d) Willingness to devote adequate time to discharge duties as a Board member and other directorships and significant commitments;

(e) In case of independent non-executive Directors, whether the candidates would be considered independent in accordance with the Listing Rules;

(f) In case of re-election, the overall contribution and service to the Company of the Director to be re-elected and the level of participation and performance on the Board and the other criteria set out in this section; and

(g) Such other perspectives appropriate to the Company's business.

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

Nomination Procedures

(a) The Nomination Committee and/or the Board identifies potential candidates including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agencies and/or advisors. The Nomination Committee then develops a short list of candidates and agrees on proposed candidate(s);

(b) Proposed candidate(s) will be asked to submit the necessary personal information, biographical details, together with their written consent to be appointed as a director. The Nomination Committee may request candidates to provide additional information and documents, if considered necessary;

(c) The Nomination Committee shall, upon receipt of the proposal on appointment of new director and the personal information (or relevant details) of the proposed candidate(s), evaluate such candidate(s) based on the criteria as set out above to determine whether such candidate(s) is qualified for directorship;

(d) For any person that is nominated by a shareholder for election as a Director at the general meeting of the Company, the Nomination Committee shall evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship;

(e) If the process yields one or more desirable candidates, the Nomination Committee shall rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable);

(f) The secretary of the Nomination Committee shall convene a meeting of the Nomination Committee. For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for re-election or election at a general meeting, the Nomination Committee shall make nominations or recommendations for the Board's consideration and the Board shall make recommendations to shareholders in respect of the proposed re-election or election of Director(s) at the general meeting;

(g) In order to provide information of the candidates nominated by the Board to stand for election or re-election at a general meeting, a circular will be sent to shareholders. The circular will set out the names, brief biographies (including qualifications and relevant experience), independence, proposed remuneration and any other information, as required pursuant to the applicable laws, rules and regulations including the Listing Rules, of the proposed candidates; and

(h) The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election or re-election at any general meeting.

Monitor and Review

The Nomination Committee will monitor the implementation of the Nomination Policy and report to the Board when necessary. Also, the Nomination Committee will review the Nomination Policy, as appropriate, to ensure the effectiveness of the Nomination Policy and will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

Audit Committee

The Company established an audit committee (the "**Audit Committee**") on 19 June 2007. The Board has adopted the terms of reference for the Audit Committee which are in line with the code provisions set out in the CG Code. As at the date of this annual report, the Audit Committee has three members comprising two Independent Non-Executive Directors, namely, Mr. TSUI King Fai and Mr. WONG Kwai Huen, Albert and a Non-Executive Director, Mr. Carl Fredrik Stenson RYSTEDT. The chairman of the Audit Committee is Mr. TSUI King Fai (appointed as chairman on 31 March 2018). The Audit Committee is accountable to the Board and the principal duties of the Audit Committee include the review and supervision of the financial reporting process. It also reviews the effectiveness of internal audit, internal controls and risk evaluation.

During the Year, the Audit Committee held 4 meetings. The Audit Committee reviewed with the senior management and auditors of the Company the accounting policies and practices adopted by the Group and discussed auditing, the risk management system, internal control system and financial reporting matters. It also reviewed the financial statements of the Company and the Company's annual and interim reports, the engagement letter from the auditors of the Company and the audit scope and fees for the Year.

The attendance of each member at the Audit Committee meetings during the Year are set out below. Figures in brackets indicate maximum number of meetings held in the period in which the individual was a member of the Audit Committee.

Members	Number of meetings attended
Mr. KAM Robert (resigned on 31 March 2018)	1 (1)
Mr. TSUI King Fai (appointed as chairman on 31 March 2018)	4 (4)
Mr. WONG Kwai Huen, Albert	4 (4)
Mr. Carl Fredrik Stenson RYSTEDT	2 (4)

Risk Management Committee

The Company established a risk management committee ("**RMC**") on 8 November 2013. The Board has adopted the terms of reference for the RMC. As at the date of this annual report, the RMC has five members comprising two Executive Directors, Mr. Johann Christoph MICHALSKI and Ms. YU Yi Fang; two Non-Executive Directors, namely, Mr. Jan Christer JOHANSSON and Mr. Carl Fredrik Stenson RYSTEDT; and an Independent Non-Executive Director, Mr. TSUI King Fai. The chairman of the RMC is Mr. Jan Christer JOHANSSON. The principal duties of the RMC are to assist the Board in deciding the Group's risk level and risk appetite, advising on major decisions affecting the Group's risk profile or exposure and to give directions where appropriate, and reviewing and reporting to the Board the identified key risks, risk register and related risk mitigating actions including crisis management.

During the Year, the RMC held 3 meetings. The attendance of each member at the RMC meetings during the Year are set out below. Figures in brackets indicate maximum number of meetings held in the period in which the individual was a member of the RMC.

Members	Number of meetings attended
Mr. Jan Christer JOHANSSON	3 (3)
Ms. YU Yi Fang	3 (3)
Mr. Johann Christoph MICHALSKI	3 (3)
Mr. TSUI King Fai	3 (3)
Mr. Carl Fredrik Stenson RYSTEDT	3 (3)

Executive Committee

The Company established an executive committee (the "**Executive Committee**") on 16 October 2015. The Board has adopted the terms of reference for the Executive Committee. As at the date of this annual report, the Executive Committee comprises five members and is chaired by Mr. LI Chao Wang, an Executive Director. The other members are Executive Directors, namely Ms. YU Yi Fang, Mr. Johann Christoph MICHALSKI, Mr. DONG Yi Ping and Ms. LI Jielin.

The duties of the Executive Committee include to develop and make recommendations to the Board the Company's annual budgets, CAPEX budget, material business plans, and to review and approve proposals for restructuring and major asset disposal as well as annual salaries for senior management and senior executives of the Group within the annual budget approved by the Remuneration Committee.

During the Year, the Executive Committee held 12 meetings. The attendance of each member at the Executive Committee meetings are set out below. Figures in brackets indicate maximum number of meetings held in the period in which the individual was a member of the Executive Committee.

Members	Number of meetings attended
Mr. LI Chao Wang	12 (12)
Ms. YU Yi Fang	12 (12)
Mr. Johann Christoph MICHALSKI	12 (12)
Mr. DONG Yi Ping	7 (12)
Ms. LI Jielin	12 (12)

Strategic Development Committee

The Company established a strategic development committee (the "**SDC**") on 16 October 2015. The Board has adopted the terms of reference for the SDC. As at the date of this annual report, the SDC comprises five members and is chaired by Mr. Jan Christer JOHANSSON, a Non-Executive Director. The other members are three Executive Directors, namely Mr. DONG Yi Ping, Mr. Johann Christoph MICHALSKI, and Ms. LI Jielin and an Independent Non-Executive Director, Mr. CHIA Yen On. The principal duties of the SDC are (a) to advise on strategy of the Group, namely to review and advise the mid to long term strategic positioning, business plans, brand strategies, investment decisions and mergers and acquisitions of the Group and make recommendations to the Board/Executive Committee; and (b) to monitor, review and advise the implementations of strategic plans.

During the Year, the SDC held 1 meeting. The members of the SDC during the Year and up to date of this annual report and the attendance of each member at the SDC meeting are set out below. Figures in brackets indicate maximum number of meetings held in the period in which the individual was a member of the SDC.

Members	Number of meeting attended
Mr. Jan Christer JOHANSSON	1 (1)
Mr. DONG Yi Ping	0 (1)
Mr. Johann Christoph MICHALSKI	1 (1)
Ms. LI Jielin	1 (1)
Mr. CHIA Yen On	1 (1)

Accountability and Audit

Financial Reporting

The Directors acknowledge their responsibility for preparing all information and representations contained in the financial statements for the Year as disclosed in this annual report. The Directors consider that the financial statements have been prepared in conformity 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 reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and management with an appropriate consideration to materiality. As at 31 December 2018, the Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's and the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements on a going concern basis. The statement of the auditors of the Company regarding their responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 90 to 94 of this annual report.

Internal Controls

The Board is responsible for overseeing the Company's system of internal control. To facilitate the effectiveness and efficient operations and to ensure compliance with relevant laws and regulations, the Group emphasizes the importance of a sound internal control system which is also indispensable for mitigating the Group's risk exposures. The Group's system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of the business objectives. The internal control system is reviewed on an on-going basis by the Board in order to make it practical and effective in providing reasonable assurance in relation to protection of material assets and identification of business risks. The Board is satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory. The Group is committed to the identification, monitoring and management of risks associated with its business activities and has implemented a practical and effective control system which includes a defined management structure with limits of authority, a sound cash management system and periodic review of the Group's performance by the Audit Committee and the Board. The Board has conducted review of the effectiveness of the system of internal control and is of the view that the system of internal control adopted for the Year is sound and is effective to safeguard the interests of the shareholders' investment and the Company's assets.

The Internal Audit Function ("**IAF**") reports to the Audit Committee and has unrestricted access to the Group's records and personnel. To ensure systematic coverage of all auditable areas and effective deployment of resources, annual internal audit plan has been formulated addressing high risk business processes. This annual internal audit plan reflects organizational changes and new business development, is submitted for the Audit Committee's approval after consulting management. The IAF reviews internal controls by (i) evaluating the control environment; (ii) assessing the adequacy of internal controls; and (iii) testing the functioning of key controls through audit sampling. An audit report incorporating control deficiencies and management's rectification plans is issued for each internal audit.

The IAF reports quarterly to the Audit Committee on the results of its internal control systems and status of implementation of follow-up actions on control deficiencies. In addition, the Head of IAF attends Audit Committee meetings held during the year to report its progress in achieving the audit plan and to give a summary of the results of audit activities during the Year.

Board Responsibilities

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems.

Risk Management

The Group established the RMC on 8 November 2013. The Board has adopted the terms of reference for the RMC. For further information of the RMC, please refer to the section headed "Risk Management Committee" in the Corporate Governance Report on pages 63 to 64 of this annual report. The Corporate Leadership Team ("**CLT**") which consisting of senior management members has facilitated the RMC in reporting significant risks, material changes and the associated mitigating actions to enhance the accountability and quality of the risk management process.

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

Review of Risk Management and Internal Control Effectiveness

Through the RMC and Audit Committee, the Board has conducted annual review of the effectiveness of the Group's risk management and internal control systems for the Year, covering the material financial, operational and compliance controls, and considered the Group's risk management and internal control systems effective and adequate. The Audit Committee has also annually reviewed the adequacy of resources, qualifications, experience and training programs and budget of the Group's internal audit, accounting and financial reporting functions and considered that the staffing is adequate and the staffs are competent to carry out their roles and responsibilities.

For the Year, the Board considers that the risk management and internal control systems of the Group are adequate and effective and the Group has complied with the relevant code provisions in the CG Code on internal control.

Handling and Dissemination of Inside Information

The Company has in place a policy on handling and dissemination of inside information ("**Policy**") which sets out the procedures and internal controls for handling and dissemination of inside information in a timely manner in such a way so as not to place any person in a privileged dealing position and to allow time for the market to price the listed securities of the Company with the latest available information. This Policy also provides guidelines to staff of the Company to ensure proper safeguards exist to prevent the Company from breaching the statutory disclosure requirements. It also includes appropriate internal control and reporting systems to identify and assess potential inside information. Dissemination of inside information of the Company shall be conducted by publishing the relevant information on the websites of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Company, according to the requirements of the Listing Rules.

Auditors' Remuneration

An analysis of the remuneration of the Company's auditors, Messrs. PricewaterhouseCoopers, for the Year is set out as follows:

Services rendered	Fee paid/payable HK$'000
Audit services	8,666
Non-audit services	688

Shareholders' rights

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("**EGM**").

Right to convene extraordinary general meeting

Any one or more members holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, shall at all times have the right, by written requisition sent to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition.

The written requisition must state the purposes of the meeting, signed by the requisitionist(s) and deposit it to the Board or the Company Secretary of the Company at the Company's principal place of business at Penthouse, East Ocean Centre, 98 Granville Road, Tsim Sha Tsui East, Kowloon, Hong Kong and such may consist of several documents in like form, each signed by one or more requisitionists.

The request will be verified with the Share Registrar and upon their confirmation that the request is proper and in order, the Company Secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the request has been verified is not in order, the shareholders will be advised of this outcome and accordingly, an EGM will not be convened as requested. If within twenty-one (21) days from the date of the deposit of the proper and orderly requisition the Board fails to proceed to convene such meeting, the requisitionist(s) may convene a meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company to the requisitionist(s).

The notice period to be given to all the registered members for consideration of the proposal raised by the requisitionist(s) concerned at the EGM varies according to the nature of the proposal, as follows:

— At least 14 clear days' notice in writing (and not less than 10 business days) if the proposal constitutes an ordinary resolution of the Company in EGM;

— At least 21 clear days' notice in writing (and not less than 10 business days) if the proposal constitutes a special resolution of the Company in EGM.

Right to put enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong for the attention of the Company Secretary.

Right to put forward proposals at general meetings

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2011 Revision). However, shareholders are requested to follow Article 58 of the Articles for including a resolution at an EGM. The requirements and procedures are set out above. Pursuant to Article 88 of the Articles, no person, other than a director retiring at a meeting, shall, unless recommended by the directors for election, be eligible for appointment as a director at any general meeting unless there shall have been lodged at the head office or at the registration office notice in writing signed by a shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose that person for election as a director and also notice in writing signed by that person of his willingness to be elected as a director. Unless otherwise determined by the directors and notified by the Company to the shareholders, the period for lodgment of the said notices shall be a seven day period commencing on the day after the dispatch of the notice of the general meeting for such election of director(s) and ending on the date falling seven days after the dispatch of the said notice of the general meeting. The written notice must state that person's biographical details as required by Rule 13.51(2) of the Listing Rules. The procedures for shareholders of the Company to propose a person for election as director is posted on the Company's website.

Communication with Shareholders

The Company endeavors to develop and maintain continuing relationships and effective communications with its shareholders and investors. In an effort to facilitate and enhance the relationships and communication, the Company has established the following various channels:

1. The annual general meeting provides a forum for shareholders of the Company to raise comments and exchange views with the Board. The Chairman and the Directors are available at the annual general meetings of the Company to address shareholders' queries;

2. Separate resolutions are proposed at the general meetings on each substantially separate issue and procedures for demanding a poll in general meetings are included in the circulars to the shareholders of the Company to facilitate the enforcement of shareholders' rights;

3. Interim and annual results are announced as early as possible, to keep shareholders of the Company informed of the Group's performance and operations; and

4. Updated key information of the Group is available on the Company's website to enable the shareholders of the Company and the investors to have timely access to information about the Group.

During the Year, there had been no significant change in the Company's constitutional documents.

The Directors have pleasure in presenting herewith the Directors' report together with the audited accounts for the Year.

Principal Activities and Geographical Analysis of Operations

The Company is principally engaged in investment holding. The principal activities of the subsidiaries of the Company and other related information are set out in Note 9 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the Year are set out in the consolidated statement of comprehensive income on page 97.

The Directors recommend the payment of a final dividend of 14.0 HK cents (2017: 14.0 HK cents) per ordinary share, totaling HK$167,279,332 on the 1,194,852,373 (31 December 2017: 1,194,167,373) issued shares as at 31 December 2018.

Business Review

The business review of the Group for the Year is set out in the section headed "Management Discussion and Analysis" on pages 10 to 19 of this annual report. An analysis of the Group's performance during the Year using financial key performance indicators is provided in the section "Management Discussion and Analysis" of this annual report.

Environmental Policies, Performance and Compliance with Laws and Regulations

The Group emphasises an effective and feasible energy management, and imposes stringent controls on procurement, production and distribution.

Natural gas and coal are our main sources of energy to supply heat in mainland China. We encourage our workers and frontline management to suggest any possible solution to enhance the energy efficiency of production equipment based on their experience. In 2018, the average overall energy consumption for every ton of paper of all factories in mainland China was 8.53 tons of standard coal, lower than the upper limit of the national benchmark, 30 tons of standard coal for every ton of paper under "The Norm of Energy Consumption per Unit Product of Pulp and Paper".

All production bases in mainland China are equipped with three-tier effluent treatment facilities. 1st Stage: we monitor and upload real-time discharge data through a round-the-clock system installed at discharge points to which local eco-authorities have access. 2nd Stage: we establish environmental division in each production base to collect data such as suspended solids (SS), biochemical oxygen demand (BOD) and pH and examine the water and gas effluent emissions on a daily basis. 3rd Stage: local eco-authorities conduct regular inspections on the condition of production bases on a quarterly basis.

We aim to source all wood pulp certified by forest certification system such as the Forest Stewardship Council™ (FSC™), the Programme for the Endorsement of Forest Certification (PEFC) or China Forest Certification Council (CFCC). In 2018, over 99% of wood pulp we procured were certified by forest certification systems or came from responsible sources.

For details, please refer to the section headed "Environmental, Social and Governance (ESG) Report" on pages 20 to 45 of this annual report.

During the Year, in addition to compliance with laws and regulations relating to environmental areas, the Group also complied with other relevant laws and regulations that have a significant impact on the Company.

Principal Risks and Uncertainties

The Directors are aware that the Group is exposed to various risks, including some which are specific to the Group or the industries in which the Group operates as well as others that are common to most businesses. The Directors have established a procedure to ensure that significant risks may adversely affect the Group's performance and ability to deliver on its strategies, as well as those which may present positive opportunities, are identified, reported, monitored, and managed on a continuous basis.

1) Significant competition and possible slowdown of macro economy in key Asian markets

The Group faces significant competition from both international and local players in each of the market it operates. As the number of competitors in each of the main markets is large, the Group faces intense competition. The Group's market position depends on its ability to anticipate and respond to products and services, pricing strategies adopted by competitors and changes in customer and consumer preferences. Increased competition may result in price adjustments and decreased profit margins. The possible slowdown of macro economy in key Asian markets may affect the growth of consumables sectors as a whole.

2) Pulp price fluctuation

Pulp is the major raw material the Group used in its production. Substantial part of the product costs comes from pulp cost. Fluctuation of pulp price may affect the Company's pricing strategy and profitability level.

3) Uncertainties in financial market

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

(a) Market Risk

(i) Foreign Exchange Risk

The Company's functional currency is RMB. Since the Group operates its business in different countries/regions, i.e Hong Kong, Malaysia, Taiwan, etc., the functional currency of its subsidiaries varies. Foreign exchange risk arises from the commercial transactions of sales to and purchases from overseas.

The Company's presentation currency is HK$. The depreciation/appreciation of RMB against HK$ may result in material impact to other comprehensive income.

(ii) *Cash Flow and Fair Value Interest Rate Risk*
The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk.

(b) Credit Risk
The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, restricted bank deposits, due from related parties, and trade and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

As at 31 December 2018 and 2017, all cash and cash equivalents were deposited in state owned banks and reputable financial institutions and were hence without significant credit risk. Management does not expect any losses from non-performance by these counterparties.

Credit sales are made to selected customers with good credit history. The Group has policies in place to ensure that outstanding trade receivables are collected on a timely basis.

(c) Liquidity Risk
Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group's objective is to maintain adequate committed credit lines to ensure sufficient and flexible funding is available to the Group. The Group also considers converting short-term borrowings into long-term borrowings to improve the Group's liquidity.

Details of the said risks under this sub-paragraph 3 are set out in Note 3 to the consolidated financial statements.

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by a central treasury department (group treasury) under policies approved by the Board. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The RMC, the CLT and the Audit Committee also assist in the Group's risk management, details of which are outlined on page 67 of the Corporate Governance Report in this annual report.

Key Relationships with Employees, Customers and Suppliers

Being people-oriented, the Group ensures all staff are reasonably remunerated and also continues to improve and regularly review and update its policies on remuneration and benefits, training, occupational health and safety.

The Group's major customers are divided into four categories: traditional distributors, B2B corporate clients, key account hypermarkets and supermarkets and e-commerce. As disclosed in Note 12 to the consolidated financial statements on pages 155 to 156 of this annual report, the credit terms granted to major customers are 60-90 days, which are in line with those granted to other customers.

The Group maintains a good relationship with its customers. A customer complaint handling mechanism is in place to receive, analyse and study complaints and make recommendations on remedies with the aim of improving service quality.

The Group is in good relationship with its suppliers and conducts a fair and strict appraisal of its suppliers on an annual basis.

Reserves

Details of the movements in the reserves of the Group and of the Company during the Year are set out in Note 16 to the consolidated financial statements.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in Note 7 to the consolidated financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in Note 14 to the consolidated financial statements.

Distributable Reserves

The Company's reserves available for distribution comprise the share premium account and retained profits. As at 31 December 2018, the reserves of the Company available for distribution to shareholders amounted to HK$4,525,366,874 (2017: HK$4,515,874,106), as stated in Note 35 to the consolidated financial statements.

Subsequent Events

Save as disclosed in the section "Continuing Connected Transactions", there is no other material event undertaken by the Company or the Group subsequent to 31 December 2018 and up to the date of this annual report.

Dividend Policy

The objective of the Company's dividend policy (the "**Dividend Policy**") is to allow shareholders of the Company (the "**Shareholders**") to participate in the Company's profits whilst retaining adequate reserves for the Group's future growth.

General Principle

As a general policy, not less than 25% of its profits available for distribution in each financial year will be distributed to the Shareholders.

The Board has the discretion to declare and distribute dividends to the Shareholders, subject to the Articles and all applicable laws and regulations and the factors set out below.

Factors to be considered

(i) The Board shall consider the following factors of the Group before declaring or recommending dividends:

- the Group's results of operations and cash flows;
- the Group's future prospects;
- general business conditions;
- the Group's capital requirements and surplus;
- contractual restrictions on the payment of dividends by the Company to its Shareholders or by subsidiaries to the Company;
- taxation considerations;
- possible effects on the Company's creditworthiness;
- statutory and regulatory restrictions; and
- any other factors the Board may deem relevant.

(ii) Depending on the financial conditions of the Group and the conditions and factors as set out above, dividends may be proposed and/or declared by the Board for a financial year or period:

- interim dividend;
- final dividend;
- special dividend; and
- any distribution of net profits that the Board may deem appropriate.

(iii) There can be no assurance that dividends will be paid in any particular amount for any given period.

(iv) Any final dividend for a financial year will be subject to the Shareholders' approval.

(v) The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate.

(vi) Any dividend unclaimed shall be forfeited and shall revert to the Company in accordance with the Articles.

Review of the Dividend Policy

The Board will review the Dividend Policy as appropriate from time to time.

Dividends

The Directors recommend the payment of 14.0 HK cents (2017: 14.0 HK cents) per ordinary share, totaling HK$167,279,332 on the 1,194,852,373 (31 December 2017: 1,194,167,373) issued shares as at 31 December 2018.

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 201 and 202 respectively.

Purchase, Sale or Redemption of Securities

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

Directors

The Directors during the Year were:

Executive Directors

Mr. LI Chao Wang *(Chairman)*
Ms. YU Yi Fang *(Vice Chairman)*
Mr. Johann Christoph MICHALSKI *(Chief Executive Officer)*
Ms. LI Jielin *(Deputy Chief Executive Officer)*
Mr. DONG Yi Ping *(Chief Technology Officer)*

Non-Executive Directors

Mr. Jan Christer JOHANSSON *(Vice Chairman)*
Mr. Carl Magnus GROTH
Mr. Carl Fredrik Stenson RYSTEDT

Independent Non-Executive Directors

Mr. CHIA Yen On
Mr. KAM Robert (resigned on 31 March 2018)
Mr. TSUI King Fai
Mr. WONG Kwai Huen, Albert
Ms. LEE Hsiao-yun Ann (appointed on 31 March 2018)

Alternate Directors

Mr. Gert Mikael SCHMIDT *(alternate to Mr. JOHANSSON and Mr. GROTH)*
Mr. Herve Stephane ROSE *(alternate to Mr. RYSTEDT)*

Biographical Details of Directors and Senior Management

Brief biographical details of Directors and senior management are set out on pages 46 to 52.

Confirmation of Independence of Independent Non-Executive Directors

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of the Independent Non-Executive Directors to be independent.

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.

None of the Directors have an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation (other than statutory compensation).

Directors' and Controlling Shareholders' Interests in Transactions, Arrangements or Contracts

Save as the agreements between the Group and the group of companies of which Essity (formerly known as SCA) is the ultimate holding company but excluding the Group ("**Essity Group**") and between the Group and Essity's associate (i.e. Asaleo Care Australia Pty Ltd) as set out in paragraphs (A) to (C) of the "Continuing Connected Transactions" section on pages 77 to 80 and the transactions between the Group and Essity Group mentioned in Note 34(b)(3), (4), (6), (7) and (8) to the consolidated financial statements, no transactions, arrangements or 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 or any entity connected with a Director or a controlling shareholder of the Company or any of its subsidiaries 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

(A) Vinda Master Procurement Agreement

On 31 March 2016, SCA Group Holding BV (currently known as Essity Group Holding BV, "**SCA Group Holding**"), a controlling shareholder of the Company, as vendor and the Company as purchaser entered into a master procurement agreement ("**Vinda Master Procurement Agreement**"). Pursuant to and on the terms set out in the Vinda Master Procurement Agreement, SCA Group Holding shall sell (or procure the relevant member(s) of Essity Group to sell) such quantities of the personal care products and raw materials as required by the Company for the personal care business of the Group in certain agreed countries (the "**SCA Products**") as the Company (or other relevant member(s) of the Group) may, from time to time, request pursuant to a purchase order given by the Company to SCA Group Holding in accordance with the Vinda Master Procurement Agreement.

The term of the Vinda Master Procurement Agreement commenced on 31 March 2016 and, unless the Vinda Master Procurement Agreement is otherwise terminated or discharged in accordance with its own terms, shall continue in force for a period of three (3) years thereafter.

The price at which the SCA Products will be sold shall be an amount equivalent to the sum of (i) the actual cost of the SCA Products, plus (ii) a margin of 10% and shall be determined at the time that the relevant purchase order for such SCA Products is placed by the Company (or any relevant member(s) of the Group), and shall be exclusive of any value added tax and business tax. The actual cost of the SCA Products shall be determined on a quarterly basis with reference to, without limitation, the nature of the relevant SCA Products and the cost of producing such SCA Products.

The terms of the Vinda Master Procurement Agreement were arrived at after arm's length negotiations between the Company and SCA Group Holding. They are based on normal commercial terms or on terms no less favourable to the relevant member(s) of the Group when compared to those offered to independent third parties.

(B) SCA Master Procurement Agreement

On 31 March 2016, the Company as vendor and SCA Group Holding as purchaser entered into a master procurement agreement ("**SCA Master Procurement Agreement**"). Pursuant to and on the terms set out in the SCA Master Procurement Agreement, the Company shall sell (or procure the relevant member(s) of the Group to sell) such quantities of the personal care products and raw materials as required by SCA Group Holding for the personal care business of the SCA Group (the "**Vinda Products**") which SCA Group Holding (or other relevant member(s) of the SCA Group) may, from time to time, request pursuant to a purchase order given by SCA Group Holding to the Company in accordance with the SCA Master Procurement Agreement.

The price at which the Vinda Products will be sold shall be an amount equivalent to the sum of (i) the actual cost of the Vinda Products, plus (ii) a margin of 10% and shall be determined at the time that the relevant purchase order for such Vinda Products is placed by SCA Group Holding (or any relevant member(s) of the Essity Group), and shall be exclusive of any value added tax and business tax. The actual cost of the Vinda Products shall be determined on a quarterly basis with reference to, without limitation, the nature of the relevant Vinda Products and the cost of producing such Vinda Products.

The term of the SCA Master Procurement Agreement commenced on 31 March 2016 and, unless the SCA Master Procurement Agreement is otherwise terminated or discharged in accordance with its own terms, shall continue in force for a period of three (3) year thereafter.

The terms of the SCA Master Procurement Agreement were arrived at after arm's length negotiations between the Company and SCA Group Holding. They are based on normal commercial terms or on terms no less favourable to the relevant member(s) of the Group when compared to those offered to independent third parties.

The Company considers that it would be beneficial for the Company to enter into the SCA Master Procurement Agreement and the Vinda Master Procurement Agreement as the transactions contemplated thereunder have facilitated, and would continue to facilitate, the overall operations and growth of the Group's business. As the Company had a history of business collaborations with the Essity Group, it was also expected that the transactions contemplated under the SCA Master Procurement Agreement and the Vinda Master Procurement Agreement would further deepen the strategic partnership, establish better collaboration and ensure efficient cooperation between the Company and the Essity Group.

(C) Asaleo Care Product Supply Agreement

On 22 December 2016, the Company as vendor and Asaleo Care Australia Pty Ltd ("**Asaleo Care**") as purchaser entered into a product supply agreement (the "**Asaleo Care Product Supply Agreement**"). Pursuant to and on the terms set out in the Asaleo Care Product Supply Agreement, the Company has agreed to sell (or to procure the relevant member(s) of the Group to sell), and Asaleo Care has agreed to purchase (or to procure the relevant member(s) of Asaleo Group (i.e. Asaleo Care Limited and its subsidiaries) to purchase), certain household consumable paper and/or personal care products (the "**Asaleo Care Personal Products**") pursuant to contract notes entered into from time to time in accordance with the Asaleo Care Product Supply Agreement.

The term of the Asaleo Care Product Supply Agreement shall take effect from 1 January 2016 and, unless it is otherwise terminated or discharged in accordance with its own terms, shall continue in force for a term of three (3) years and expire on 31 December 2018.

Upon purchasing Asaleo Care Personal Products, Asaleo Group may only sell and distribute the Asaleo Care Personal Products supplied by the Group within Australia, New Zealand and specified countries in the pacific region as set out under the Asaleo Care Product Supply Agreement.

The price of each order under the Asaleo Care Product Supply Agreement will be negotiated and agreed between the parties with reference to prevailing market rates of the specific products concerned, taking into account considerations such as the product cost structure, the price level of similar products which are sold to independent customers and the historical prices of same products, or at rates similar to (or better to the Group than) those offered by the Group to independent third parties, subject to an overarching principle of any pricing being on normal commercial terms or better and in any event on terms no less favourable to the Company than those available when dealing with an independent third party. The price that the Group would offer to independent third parties will be determined with reference to the overall profit margin of the Group and the average profit margin of identical or similar product. Almost all of the Group's sales are made to independent third parties and pricing for sales to Asaleo Group will be determined with reference to pricing for such sales. This enables the Company to effectively monitor and ensure that pricing for sales to Asaleo Group are on pricing (and others) terms no less favourable (or better) to the Group than those offered to independent third parties.

The Company considers that it would be beneficial for the Company to enter into the Asaleo Care Product Supply Agreement as the transactions contemplated thereunder facilitate the overall operations and growth of the Group's business. As the Company has had a history of business collaboration with the Asaleo Group, it is also expected that the transactions contemplated under the Asaleo Care Product Supply Agreement will further deepen the strategic partnership, establish better collaboration and ensure efficient cooperation between the Company and the Asaleo Group.

Aggregation of transactions and Annual caps

SCA Group Holding is a controlling shareholder of the Company and therefore a connected person of the Company. Since SCA Group Holding is entitled to exercise or control the exercise of approximately 35.98% of the voting power at the general meeting of Asaleo Care Limited, Asaleo Care Limited is also a connected person of the Company. Further, as Asaleo Care is a wholly-owned subsidiary of Asaleo Care Limited, Asaleo Care is also a connected person of the Company. Therefore, the transactions contemplated under the Asaleo Care Product Supply Agreement, the Vinda Master Procurement Agreement and the SCA Master Procurement Agreement, which are of a continuing nature, will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and will be aggregated as a series of transactions pursuant to Rule 14A.81 of the Listing Rules.

The aggregate annual caps of the Company under the Asaleo Care Product Supply Agreement, the SCA Master Procurement Agreement and the Vinda Master Procurement Agreement (which are aggregated under Rule 14A.81 of the Listing Rules) for each of the years ended 31 December 2016, 2017 and 2018 are as follows:

Year	**2016** HK$	**2017** HK$	**2018** HK$
(i) Annual caps under Asaleo Care Product Supply Agreement	40,000,000	60,000,000	60,000,000
(ii) Annual caps under SCA Master Procurement Agreement	150,000,000	200,000,000	200,000,000
(iii) Annual caps under Vinda Master Procurement Agreement	200,000,000	300,000,000	300,000,000
Total:	390,000,000	560,000,000	560,000,000

As the applicable percentage ratios (as defined under the Listing Rules) calculated based on the above aggregated annual caps are, on an aggregated basis, more than 0.1% but less than 5%, the transactions contemplated under the Asaleo Care Product Supply Agreement, the Vinda Master Procurement Agreement and the SCA Master Procurement Agreement were subject to the reporting, announcement and annual review requirements, but were exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Details of the transactions under the Asaleo Care Product Supply Agreement, the SCA Master Procurement Agreement and Vinda Master Procurement Agreement for the Year are as follows:

Continuing connected transactions	Annual cap for the Year HK$	Actual transaction amount for the Year HK$
Transactions under Asaleo Care Product Supply Agreement	60,000,000	34,361,869
Transactions under Vinda Master Procurement Agreement	300,000,000	198,952,007
Transactions under SCA Master Procurement Agreement	200,000,000	155,590,303
Total:	560,000,000	388,904,179

The aforesaid continuing connected transactions have been reviewed by Independent Non-Executive Directors of the Company.

The Independent Non-Executive Directors confirmed that the aforesaid continuing connected transactions were entered into:

(a) in the ordinary and usual course of business of the Group;

(b) either on normal commercial terms or better to the Group than terms available to or from independent third parties; and

(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 its unqualified letter containing its findings and conclusions in respect of the aforesaid continuing connected transactions disclosed by the Group in the annual report confirming the matters set out in Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Renewal of the Vinda Master Procurement Agreement, SCA Master Procurement Agreement and the Asaleo Care Product Supply Agreement

As the Vinda Master Procurement Agreement and the SCA Master Procurement Agreement will both expire on 30 March 2019, and the Asaleo Care Product Supply Agreement expired on 31 December 2018, on 21 December 2018,

(i) the Company and Essity Group Holding BV entered into the new master procurement agreement to renew the Vinda Master Procurement Agreement for a term of three (3) years commencing on 1 January 2019 in order to continue to regulate the purchase of the SCA Products by the Group from the Essity Group;

(ii) the Company and Essity Group Holding BV entered into the new master procurement agreement to renew the SCA Master Procurement Agreement for a term of three (3) years commencing on 1 January 2019 in order to continue to regulate the sale of the Vinda Products by the Group to the Essity Group; and

(iii) the Company and Asaleo Care Pty Ltd, a wholly-owned subsidiary of Asaleo Care Limited, entered into the new product supply agreement for a term of three (3) years commencing on 1 January 2019 to continue to regulate the sale of the Asaleo Care Personal Products by the Group to the Asaleo Group.

For details, please refer to the announcement of the Company dated 21 December 2018.

Related Party Transactions

A summary of the significant related party transactions which were conducted in the ordinary course of business are set out in Note 34 to the consolidated financial statements.

The related party transactions mentioned in Note 34(b)(1) and (2) to the consolidated financial statements were continuing connected transactions contemplated under the SCA Master Procurement Agreement, the Asaleo Care Product Supply Agreement or the Vinda Master Procurement Agreement (as the case may be) mentioned in paragraphs (B), (C) and (A) of the "Continuing Connected Transactions" section, respectively.

The related party transactions mentioned in Note 34(b)(3), (4), (6), (7) and (8) to the consolidated financial statements were continuing connected transactions which were exempt from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Directors' and Chief Executives' Interests in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation

As at 31 December 2018, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance ("**SFO**")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long Positions in Shares, Underlying Shares and Debentures in the Company

		Number of shares and underlying shares held under equity derivatives			
Name		Personal interests (held as beneficial owner)	Corporate interests (interests of controlled corporations)	Total interests	Approximate percentage (%) of interests[3]
LI Chao Wang	Shares	300,000	271,341,581[2]	271,641,581	22.73
	Equity Derivatives – Share options	1,998,000[1]	–	1,998,000	0.17
				273,639,581	**22.90**
YU Yi Fang	Shares	50,000	–	50,000	0.004
	Equity Derivatives – Share options	240,000[1]	–	240,000	0.02
				290,000	**0.02**
DONG Yi Ping	Shares	–	–	–	–
	Equity Derivatives – Share options	240,000[1]	–	240,000	0.02
				240,000	**0.02**
LI Jielin	Shares	–	–	–	–
	Equity Derivatives – Share options	80,000[1]	–	80,000	0.01
				80,000	**0.01**
Johann Christoph MICHALSKI	Shares	83,000	–	83,000	0.007
	Equity Derivatives – Share options	220,000[1]	–	220,000	0.02
				303,000	**0.03**
TSUI King Fai	Shares	–	–	–	–
	Equity Derivatives – Share options	140,000[1]	–	140,000	0.01
				140,000	**0.01**

Notes:

1. The share options granted by the Company are regarded for the time being as unlisted physically settled equity derivatives. Details of share options held by the Directors are set out in the section headed "Share Option Scheme" of this annual report.

2. LI Chao Wang is deemed to be interested in the 271,341,581 shares in the Company held by Fu An International Company Limited for the purpose of Part XV of the SFO. Fu An International Company Limited is held as to 74.21% by Sentential Holdings Limited, 15.79% by Join Pride International Limited and 10.00% by Daminos Management Limited. The entire issued share capital of each of Sentential Holdings Limited, Join Pride International Limited and Daminos Management Limited is held by LI Chao Wang, YU Yi Fang and DONG Yi Ping, respectively.

3. Actual percentages may not equal to the stated figures due to rounding.

Long Positions in Shares, Underlying Shares and Debentures of Associated Corporations of the Company

			Number of shares held			
Name	Associated corporation	Class of shares in associated corporation	Personal interests (held as beneficial owner)	Corporate interests (interests of controlled corporations)	Total interests	Approximate percentage (%) of interests[1&2]
Johann Christoph MICHALSKI	Essity Aktiebolag (publ)	Class B shares	70	–	70	0.00001
Jan Christer JOHANSSON	Essity Aktiebolag (publ)	Class B shares	1,000	–	1,000	0.0001
Carl Magnus GROTH	Essity Aktiebolag (publ)	Class B shares	43,500	–	43,500	0.0062
Carl Fredrik Stenson RYSTEDT	Essity Aktiebolag (publ)	Class B shares	16,200	–	16,200	0.0023
Gert Mikael SCHMIDT	Essity Aktiebolag (publ)	Class B shares	24,000	–	24,000	0.0034
Herve Stephane ROSE	Essity Aktiebolag (publ)	Class B shares	3,625	–	3,625	0.0005

Notes:

1. As at 31 December 2018, the total number of registered shares in the share capital of Essity Aktiebolag (publ) was 702,342,489, of which 63,992,771 are Class A shares and 638,349,718 are Class B shares.

2. Actual percentages may not equal to the stated figures due to rounding.

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executives of the Company are, under Divisions 7 and 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations, that are required to be entered in the register kept by the Company pursuant to Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Option Scheme

A long term incentive scheme (the "**Scheme**") was conditionally adopted and approved by a written resolution of the shareholders of the Company passed on 19 June 2007. The terms of the Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules, where appropriate.

The purpose of the Scheme is to attract and retain the best available personnel, to provide additional incentive to employees, directors, shareholders of any member of the Group or any holder of any securities issued by any member of the Group, and to promote the success of the Group.

The Scheme enables the Company to grant options (the "**Options**") to subscribe for shares of the Company (the "**Shares**") to employees of the Company or any member of the Group (including any executive, non-executive and independent non-executive directors), advisors and consultants of the Group as incentives or rewards for their contributions to the Group.

The Scheme shall be valid and effective for a period of 10 years commencing from the date of adoption and expired on 18 June 2017, after which period no further Options may be offered or granted. The Board shall, subject to the rules of the Scheme and the Listing Rules, have the right to determine, among others, the exercise price of an Option, the minimum period for which the Option must be held before its vesting, performance, operating and financial targets and other criteria to be satisfied before the vesting of an Option and other terms and conditions of an Option, provided that the exercise price of an Option shall be a price determined by the Board at its absolute discretion but shall be the highest of (i) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer; (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five trading days immediately preceding the date of the offer; or (iii) the nominal value of a Share.

An Option shall be deemed to have been granted and accepted when the duplicate letter comprising acceptance of the Option duly signed by the participant with the number of Shares in respect of which the offer is accepted clearly stated therein, together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof, is received by the Company within 28 days from the date of the offer.

Subject to the Listing Rules, the overall limit on the number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Scheme and any other share option schemes adopted by the Company ("**Other Schemes**") must not, in aggregate, exceed 30% of the Shares in issue from time to time. The total number of Shares issued and to be issued upon exercise of Options granted and to be granted to each participant or grantee (including exercised, cancelled and outstanding Options) in any 12-month period shall not exceed 1% of the Shares in issue at the offer date. Any further grant of Options in excess of the above limit must be subject to shareholders' approval by ordinary resolution in general meeting. Where any offer proposed to be made to a substantial shareholder or an Independent Non-Executive Director of the Company or any of their associates would result in the total number of the Shares issued and to be issued upon exercise of the Options granted and to be granted (including Options exercised, cancelled and outstanding) to such person under the Scheme or Other Schemes in any 12-month period up to and including the date of offer: (i) representing in aggregate over 0.1% of the Shares in issue at the date of offer; and (ii) having an aggregate value, based on the closing price of the Shares at the date of offer, in excess of HK$5 million, then such proposed grant of Options must be subject to approval of the shareholders in general meeting taken on a poll.

An Option may be exercised in accordance with the terms of the Scheme and such other terms and conditions upon which an Option was granted, at any time during the option period after the Option has been granted by the Board but in any event, not longer than ten (10) years from the date upon which the Option is accepted or deemed to be accepted in accordance with the terms of the Scheme. An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the expiry of the option period.

As at the date of this annual report, the total number of Shares available for issue under the Scheme considering the Options already granted under the Scheme was 8,583,000, representing approximately 0.72% of the issued Shares as at the date of this annual report.

Details of movements of the Options granted under the Share Option Scheme for the Year are as follows:

				Number of Shares issuable under the Options						
	Date of Grant	Exercise price per Share HK$	as at 01/01/2018	granted during the Year	exercised during the Year	lapsed during the Year	cancelled during the Year	as at 31/12/2018	Exercise period	Weighted average closing price of the Share immediately before the exercise date HK$
Directors										
LI Chao Wang	02/05/2012	14.06	999,000	–	–	–	–	999,000	(Note 2)	–
	02/05/2013	10.34	999,000	–	–	–	–	999,000	02/05/2013 to 01/05/2023	–
YU Yi Fang	02/05/2012	14.06	240,000	–	–	–	–	240,000	(Note 2)	–
DONG Yi Ping	02/05/2012	14.06	240,000	–	–	–	–	240,000	(Note 2)	–
Johann Christoph MICHALSKI	15/04/2011	8.648	80,000	–	–	–	–	80,000	15/04/2011 to 14/04/2021	–
	02/05/2012	14.06	140,000	–	–	–	–	140,000	(Note 2)	–
LI Jielin	02/05/2012	14.06	80,000	–	–	–	–	80,000	(Note 2)	–
KAM Robert (resigned on 31 March 2018)	02/05/2012	14.06	140,000	–	–	(140,000)	–	–	(Note 2)	–
TSUI King Fai	02/05/2012	14.06	140,000	–	–	–	–	140,000	(Note 2)	–
Employees of the Group										
In aggregate	24/02/2009	2.98	460,000	–	(460,000)	–	–	–	(Note 1)	12.26
	15/04/2011	8.648	1,230,000	–	–	–	–	1,230,000	15/04/2011 to 14/04/2021	–
	02/05/2012	14.06	4,660,000	–	(225,000)	(120,000)	–	4,315,000	(Note 2)	15.39
	02/05/2013	10.34	120,000	–	–	–	–	120,000	(Note 3)	–
Total			9,528,000	–	(685,000)	(260,000)	–	8,583,000		–

Note 1: (i) 20% of the options granted are exercisable after the expiry of the first anniversary of the date of grant, i.e. on/after 25 February 2010.
(ii) 30% of the options granted are exercisable after the expiry of the second anniversary of the date of grant, i.e. on/after 25 February 2011.
(iii) 50% of the options granted are exercisable after the expiry of the third anniversary of the date of grant, i.e. on/after 25 February 2012.
and in each case, not later than 23 February 2019.

Note 2: (i) the first tranche of 5,313,000 options are exercisable from 2 May 2012 to 1 May 2022.
(ii) the second tranche of 5,729,000 options are exercisable from 2 May 2013 to 1 May 2022.
(iii) the third tranche of 5,729,000 options are exercisable from 2 May 2014 to 1 May 2022.

Vesting condition for (ii) — on condition that the Board has confirmed that the Company has met the 2012 (or combined 2012 and 2013) income and profit performance benchmarks as set by the Board and that the performance appraisal of the grantee has satisfied the requirements of the management of the Company.

Vesting condition for (iii) — on condition that the Board has confirmed that the Company has met the 2013 income and profit performance benchmarks as set by the Board and that the performance appraisal of the grantee has satisfied the requirements of the management of the Company.

Note 3: (i) The first tranche of 135,000 options are exercisable from 2 May 2013 to 1 May 2023.
(ii) The second tranche of 225,000 options are exercisable from 2 May 2014 to 1 May 2023 on the condition that the Board has confirmed that the Company has met the 2013 income and profit performance benchmarks as set by the Board and that the performance appraisal of the grantee has satisfied the requirements of the management of the Company. As vesting condition was not met, options for this tranche were forfeited.

Arrangement to Purchase Shares or Debentures

Save as disclosed above, at no time during the Year were there any rights to acquire benefits by means of the acquisition of securities of the Company granted to any Director or their respective spouse or children under 18 years of age, or were there any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

As at 31 December 2018, to the best of the Directors' knowledge, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interests and/or short position in the shares or the underlying shares which fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept pursuant to Section 336 of the SFO, or which are notified to the Company:

Long Positions in Shares and Underlying Shares in the Company

Name of substantial Shareholder		Number of shares and underlying shares held under equity derivatives: Personal interests (held as beneficial owner)	Corporate interests (interests of controlled corporations)	Total interests	Approximate percentage (%) of issued share capital[1]
Essity Group Holding BV	Shares	620,737,112[2]	–	620,737,112	51.95
Essity Aktiebolag (publ)	Shares	–	620,737,112[2]	620,737,112	51.95
Fu An International Company Limited	Shares	271,341,581[3] & [4]	–	271,341,581	22.71
Sentential Holdings Limited	Shares	–	271,341,581[3]	271,341,581	22.71

Notes:

1. Actual percentages may not equal to the stated figures due to rounding.

2. Essity Group Holding BV is wholly-owned by Essity Aktiebolag (publ), a company whose shares are quoted and traded on NASDAQ OMX Stockholm, and as American Depository Receipts (ADR level 1) in the United States through Deutsche Bank. Essity Aktiebolag (publ) is deemed to be interested in the 620,737,112 shares in the Company held by Essity Group Holding BV for the purpose of Part XV of the SFO.

3. Fu An International Company Limited is held as to 74.21% by Sentential Holdings Limited, 15.79% by Join Pride International Limited and 10.00% by Daminos Management Limited. The entire issued share capital of Sentential Holdings Limited, Join Pride International Limited and Daminos Management Limited are held by each of LI Chao Wang, YU Yi Fang and DONG Yi Ping, respectively. Sentential Holdings Limited is deemed to be interested in the 271,341,581 shares in the Company held by Fu An International Company Limited for the purpose of Part XV of the SFO.

4. Such 271,341,581 shares are the same shares in the Company referred to in Note 2 of LI Chao Wang as disclosed in the table under the sub-section headed "Long Positions In Shares, Underlying Shares and Debentures in the Company" under the section headed "Directors' and Chief Executives' Interests in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" above.

Save as disclosed above, as at 31 December 2018, there are no other persons (other than Directors or chief executives of the Company) who had or are taken to have interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which are recorded in the register required to be kept by the Company under Section 336 of the SFO, or which are notified to the Company.

Directors' Interests in Competing Business

In 2018, none of the Directors, the controlling shareholders of the Company and their respective associates (as defined in the Listing Rules) had an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

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 percentage of sales of goods attributable to the Group's five largest customers combined are 22.5%.

During the Year, the percentages of purchases of goods attributable to the Group's major suppliers are approximately as follows:

– the largest supplier	21.8%
– five largest suppliers combined	46.9%

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

Likely Future Development of the Company's Business

Please refer to the "Outlook" section under the "Management Discussion and Analysis" on page 17 of this annual report.

Issue of Shares

During the Year, the Company issued shares as follows:

685,000 ordinary shares of the Company were issued for cash of HK$4,534,300 on the exercise of options granted under the Share Option Scheme.

Equity-linked Agreements

Share Option Scheme

Details of the share option scheme of the Company are set out in the section headed "Share Option Scheme" above and Note 15 to the consolidated financial statements.

Save as disclosed above, no equity-linked agreement will or may result in the Company issuing Shares or that require the Company to enter into any agreements that will or may result in the Company issuing Shares, were entered into by the Company during the Year or subsisted at the end of the Year.

Sufficiency of Public Float

Based on the information that is publicly available and within the knowledge of the Directors, as at the date of this annual report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Articles and there is no restriction against such rights under the laws of the Cayman Islands.

Permitted Indemnity Provision

Under the Articles, every Director or other officers of the Company acting in relation to any of the affairs of the Company shall be entitled to be indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she may incur or sustain in or about the execution of his/her duties in his/her office. The Company has arranged appropriate insurance cover in respect of legal action against its Directors and officers.

Auditors

The accounts have been audited by PricewaterhouseCoopers who will retire and, being eligible, will offer themselves for reappointment.

On behalf of the Board
LI Chao Wang
Chairman

Hong Kong, 30 January 2019

羅兵咸永道

To the shareholders of Vinda International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Vinda International Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 95 to 200, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis of Opinion

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

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

Independence

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

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Key Audit Matters

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

Key audit matters identified in our audit are summarised as follows:

- Goodwill and intangible assets with indefinite useful lives impairment assessments
- Revenue recognition

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill and intangible assets with indefinite useful lives impairment assessments *Refer to note 4 (a) and note 8 to the consolidated financial statements.* The Group recognised goodwill and certain intangible assets with indefinite useful lives from the acquisitions of personal care and household paper businesses in recent years. We focused on this area due to the size of goodwill balance (HK$1,591 million as at 31 December 2018) and intangible assets with indefinite useful lives including trademarks and licensing agreement (HK$577 million as at 31 December 2018). Furthermore, the Directors' assessment of the 'value in use' of the Group's Cash Generating Units (CGU's) involves judgements and estimates about the future results of the businesses, key assumptions including sales growth rate and gross profit margin, long-term growth rate and the discount rates applied to future cash flow forecast.	We evaluated and challenged the composition of the Group's future cash flow forecasts in each CGU, and the process by which they were drawn up, including testing the underlying value in use calculations and comparing them to the latest Board approved budgets. We noted that management had followed their clearly documented process for drawing up future cash flow forecasts, which was subject to timely review by the Directors and which was consistent with the Board approved budgets. We challenged the key assumptions including sales growth rate and gross profit margin by comparing the current year actual results with the 2018 figures included in the prior year forecast, by reference to future plans and by performing independent market analysis. We noted the assumptions are consistent with expectations. We utilised our own valuation specialists' work when considering the appropriateness of the long term growth rate and discount rate. We also challenged management on the adequacy of their sensitivity calculations over all their CGUs. We determined that the calculations were most sensitive to assumptions for gross margin. For all CGUs, we calculated the degree to which these assumptions would need to increase or decrease before an impairment conclusion was triggered. We discussed the likelihood of such change with management and agreed with their conclusion that it was unlikely.

Key Audit Matters *(continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition *Refer to Note 2.23 and Note 5 to the consolidated financial statements.* Revenue is recognised when the Group satisfies a performance obligation by transferring the control of promised goods or services to a customer in an amount that reflects the consideration to which the Group expects to be entitled in exchange for that goods or services. We focused on this area due to the huge volume of revenue transactions generated in many different locations and mainly through numerous distributors, corporate customers, supermarkets and E-commerce customers. The return of goods receipt notes from supermarkets takes time in some remote locations. There is potential misstatement on occurrence and cut-off of the revenue transactions.	We understood, evaluated and tested management's controls in respect of the Group's sales transactions from contract approval, recording of sales based on contract terms, through reconciliations with cash receipts and customers' records. In addition, we tested the general IT control environment of the Group's system used to record revenue followed by testing of the processes to assess the revenue entries generated by the system. Furthermore, we conducted testing of revenue recorded covering different locations and customers, using sampling techniques, by examining the relevant customer orders, goods delivery notes and customer's receipt notes. In addition, we sent confirmations to certain customers to confirm their balance with the Group. One of our focuses was on sales transactions that took place shortly before and after the balance sheet date, including inspection of credit notes issued after that date, to assess whether revenue was recognised in the correct reporting periods. No exception was noted from our testing.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the management discussion and analysis (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the chairman's statement, chief executive officer's report ("CEO report"), environmental, social and governance (ESG) report, corporate governance report and report of the directors which are expected to be made available to us after that date.

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

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

Other Information *(continued)*

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

When we read the chairman's statement, CEO report, ESG report, corporate governance report and report of the directors, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate action considering our legal rights and obligations.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(continued)*

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is CHAN Chiu Kong, Edmond.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 January 2019

Consolidated Balance Sheet

As at 31 December 2018

	Note	As at 31 December 2018 HK$	2017 HK$
ASSETS			
Non-current assets			
Property, plant and equipment	7	**8,997,273,418**	8,739,887,326
Leasehold land and land use rights	6	**1,050,718,413**	1,042,127,885
Intangible assets	8	**2,823,114,342**	2,913,888,055
Deferred income tax assets	19	**403,828,940**	348,762,906
Investment properties		**7,217,853**	7,660,539
		13,282,152,966	13,052,326,711
Current assets			
Inventories	10	**2,745,883,730**	3,048,179,318
Trade receivables, other receivables and prepayments	12	**–**	2,309,863,202
Trade and notes receivables	12	**1,888,459,707**	–
Other receivables	12	**449,515,451**	–
Prepayments	12	**90,514,885**	–
Due from related parties	34(c)	**36,609,005**	28,949,331
Cash and cash equivalents	13	**574,465,154**	534,589,786
		5,785,447,932	5,921,581,637
Total assets		**19,067,600,898**	18,973,908,348
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	**119,485,237**	119,416,737
Share premium	14	**4,351,781,230**	4,345,689,034
Other reserves	16	**4,258,649,944**	4,271,362,605
Total equity		**8,729,916,411**	8,736,468,376

	Note	As at 31 December 2018 HK$	2017 HK$
LIABILITIES			
Non-current liabilities			
Borrowings	18	**3,004,812,188**	3,310,130,427
Loans from a related party	18,34(c)	**1,218,116,846**	1,236,403,002
Deferred government grants	20	**215,070,111**	142,848,544
Deferred income tax liabilities	19	**208,522,060**	211,437,204
Post-employment benefits	21	**31,124,829**	33,214,008
Other non-current liabilities	22	**10,709,487**	17,675,709
		4,688,355,521	4,951,708,894
Current liabilities			
Trade payables, other payables and accrued expenses	17	**4,436,032,657**	4,493,818,093
Contract liabilities		**72,527,241**	–
Borrowings	18	**1,022,567,206**	689,740,941
Due to related parties	34(c)	**18,406,558**	37,687,965
Current income tax liabilities		**99,795,304**	64,484,079
		5,649,328,966	5,285,731,078
Total liabilities		**10,337,684,487**	10,237,439,972
Total equity and liabilities		**19,067,600,898**	18,973,908,348

The financial statements were approved by the Board of Directors on 30 January 2019 and were signed on its behalf

LI Chao Wang
Director

Johann Christoph MICHALSKI
Director

The notes on pages 101 to 200 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	For the year ended 31 December 2018 HK$	2017 HK$
Revenue	5	**14,878,547,902**	13,485,960,780
Cost of sales	24	**(10,691,953,432)**	(9,486,047,682)
Gross profit		**4,186,594,470**	3,999,913,098
Selling and marketing costs	24	**(2,379,803,125)**	(2,351,849,995)
Administrative expenses	24	**(758,565,392)**	(727,035,386)
Net impairment losses on financial assets	3.1(b), 24	**(1,829,013)**	–
Other income and losses – net	23	**(26,772,076)**	62,498,407
Operating profit		**1,019,624,864**	983,526,124
Finance income and costs – net	26	**(221,951,496)**	(214,027,686)
Profit before income tax		**797,673,368**	769,498,438
Income tax expense	27(a)	**(148,368,679)**	(148,541,984)
Profit attributable to equity holders of the Company		**649,304,689**	620,956,454
Other comprehensive income:			
Item that may be reclassified to profit or loss			
Currency translation differences		**(421,842,655)**	692,642,246
Item that will not be reclassified subsequently to profit or loss			
Remeasurements of post-employment benefit obligations		**396,637**	2,491,047
Total comprehensive income attributable to equity holders of the Company		**227,858,671**	1,316,089,747
Earnings per share for profit attributable to equity holders of the Company for the year (expressed in HK$ per share)			
– basic earnings per share	29	**0.544**	0.526
– diluted earnings per share	29	**0.543**	0.525

The notes on pages 101 to 200 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

		Attributable to equity holders of the Company			
	Note	Share capital HK$	Share premium HK$	Other reserves HK$	Total HK$
Balance at 1 January 2017		113,741,237	3,498,754,174	3,167,068,811	6,779,564,222
Profit for the year		–	–	620,956,454	620,956,454
Other comprehensive income					
– Currency translation differences		–	–	692,642,246	692,642,246
– Remeasurements of post-employment benefit obligations		–	–	2,491,047	2,491,047
Total comprehensive income for 2017		–	–	1,316,089,747	1,316,089,747
Transaction with owners					
Employees share option scheme					
– Exercise of share options	15,16	175,500	32,934,860	(8,868,020)	24,242,340
Allotment of shares	14	5,500,000	814,000,000	–	819,500,000
Dividends	30	–	–	(202,927,933)	(202,927,933)
Transaction with owners		5,675,500	846,934,860	(211,795,953)	640,814,407
Balance at 31 December 2017		119,416,737	4,345,689,034	4,271,362,605	8,736,468,376
Change in accounting policy – HKFRS 9		–	–	(66,461)	(66,461)
Balance at 1 January 2018 (Restated)		119,416,737	4,345,689,034	4,271,296,144	8,736,401,915
Profit for the year		–	–	649,304,689	649,304,689
Other comprehensive income					
– Currency translation differences		–	–	(421,842,655)	(421,842,655)
– Remeasurements of post-employment benefit obligations		–	–	396,637	396,637
Total comprehensive income for 2018		–	–	227,858,671	227,858,671
Transaction with owners					
Employees share option scheme					
– Exercise of share options	15,16	68,500	6,092,196	(1,626,396)	4,534,300
Dividends	30	–	–	(238,878,475)	(238,878,475)
Transaction with owners		68,500	6,092,196	(240,504,871)	(234,344,175)
Balance at 31 December 2018		119,485,237	4,351,781,230	4,258,649,944	8,729,916,411

The notes on pages 101 to 200 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	For the year ended 31 December 2018 HK$	2017 HK$
Cash flows generated from operating activities			
Cash generated from operations	31(a)	**1,759,556,384**	1,450,394,542
Interest paid		**(242,194,613)**	(231,198,820)
Income tax paid		**(185,331,154)**	(232,802,650)
Net cash generated from operating activities		**1,332,030,617**	986,393,072
Cash flows used in investing activities			
Purchase of property, plant and equipment		**(1,173,196,843)**	(1,243,552,114)
Proceeds from disposal of property, plant and equipment	31(b)	**27,378,233**	31,807,475
Proceeds from government grants	20	**94,574,263**	53,157,005
Payment for leasehold land and land use rights	6	**(84,172,134)**	(6,880,281)
Purchase of intangible assets	8	**(59,959,927)**	(38,907,355)
Interest received	26	**11,196,309**	9,170,849
Cash used in acquisition of a subsidiary	33	**–**	(81,716,451)
Net cash used in investing activities		**(1,184,180,099)**	(1,276,920,872)
Cash flows used in financing activities			
Proceeds from shares issued		**4,534,300**	24,242,340
Proceeds from borrowings		**6,752,247,360**	5,080,559,653
Proceeds from loans from a related party		**331,118,453**	300,000,000
Repayments of borrowings		**(6,546,622,208)**	(5,502,116,055)
Repayments of loans from a related party		**(359,151,000)**	–
Dividends paid	30	**(238,878,475)**	(202,927,933)
Net cash used in financing activities		**(56,751,570)**	(300,241,995)
Net increase/(decrease) in cash and cash equivalents		**91,098,948**	(590,769,795)
Effect of foreign exchange rate changes		**(51,223,580)**	110,105,304
Cash and cash equivalents, beginning of the year	13	**534,589,786**	1,015,254,277
Cash and cash equivalents, end of the year	13	**574,465,154**	534,589,786

Non-cash transactions

The principal non-cash transaction for 2017 was the issue of shares as consideration for the acquisitions disclosed in Note 33.

The notes on pages 101 to 200 are an integral part of these consolidated financial statements.

The reconciliation of liabilities arising from financing activities is as follows:

	Borrowings (Non-Current) HK$	Borrowings (Current) HK$	Loans from a related party (Non-current) HK$	Total HK$
As at 1 January 2017	2,879,551,662	1,221,694,623	915,499,741	5,016,746,026
Cash flows				
– Inflow from financing activities	971,101,614	4,109,458,039	300,000,000	5,380,559,653
– Outflow from financing activities	(547,156,081)	(4,954,959,974)	–	(5,502,116,055)
Non-cash changes				
– Reclassification	(236,008,014)	236,008,014	–	–
– Addition to loans through acquisition of a subsidiary (i)	47,572,933	–	–	47,572,933
Currency translations	195,068,313	77,540,239	20,903,261	293,511,813
As at 31 December 2017	3,310,130,427	689,740,941	1,236,403,002	5,236,274,370
As at 1 January 2018	**3,310,130,427**	**689,740,941**	**1,236,403,002**	**5,236,274,370**
Cash flows				
– Inflow from financing activities	**1,568,180,366**	**5,184,066,994**	**331,118,453**	**7,083,365,813**
– Outflow from financing activities	**(306,583,583)**	**(6,240,038,625)**	**(359,151,000)**	**(6,905,773,208)**
Non-cash changes				
– Reclassification	**(1,420,060,052)**	**1,420,060,052**	**–**	**–**
Currency translations	**(146,854,970)**	**(31,262,156)**	**9,746,391**	**(168,370,735)**
As at 31 December 2018	**3,004,812,188**	**1,022,567,206**	**1,218,116,846**	**5,245,496,240**

(i) On 31 March 2017, the Group completed the acquisition of 100% equity interest of Jiangmen Dynasty Fortune Paper Limited. As a result, loans amounting to HK$47,572,933 were carried into the Group.

1 General Information

Vinda International Holdings Limited (the "Company") was incorporated on 17 August 1999 in the Cayman Islands with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company acts as an investment holding company and provides management as well as financial support services to its subsidiaries. The principal activities of the subsidiaries are set out in Note 9. The Company and its subsidiaries are collectively referred to as the "Group".

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited ("HKSE") since 10 July 2007.

Svenska Cellulosa Aktiebolaget ("SCA") was the ultimate holding company of the Group. SCA spun off its hygiene unit into a new listed company, namely Essity Aktiebolag (publ) ("Essity") in June 2017. Essity has become Vinda's ultimate controlling shareholder in place of SCA from 14 June 2017.

The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

These consolidated financial statements are presented in Hong Kong dollar ("HK$") unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 30 January 2019.

2 Summary of Significant Accounting Policies

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

2.1 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of other non-current liabilities and plan assets of defined benefit pension plans measured at fair value.

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

2 Summary of Significant Accounting Policies *(continued)*

2.1 Basis of Preparation *(continued)*

2.1.1 Changes in Accounting Policy and Disclosures

(a) *New and Amended Standards Adopted by the Group*

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

		Effective for annual periods beginning on or after	
HKFRS 2 (Amendments)	Classification and measurement of share-based payment transactions	1 January 2018	
HKFRS 4 (Amendments)	Insurance contracts	1 January 2018	
HKFRS 9	Financial Instruments	1 January 2018	(i)
HKFRS 15	Revenue from contracts with customers	1 January 2018	(ii)
HK (IFRIC) 22	Foreign currency transactions and advance consideration	1 January 2018	
HKAS 40 (Amendments)	Transfers of investment property	1 January 2018	
Annual Improvements 2014-2016 Cycle		1 January 2018	

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

HKFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The Group used modified retrospective approach while adopting HKFRS 9. The reclassification and adjustments arising from the new impairment rules are therefore not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

The following tables show the adjustments recognised for each individual line item. The adjustments are explained in more details below.

2 Summary of Significant Accounting Policies *(continued)*

2.1 Basis of Preparation *(continued)*

2.1.1 Changes in Accounting Policy and Disclosures *(continued)*

(a) New and Amended Standards Adopted by the Group (continued)

	31 December 2017 As originally presented HK$	HKFRS 9 HK$	HKFRS 15 HK$	1 January 2018 Restated HK$
ASSETS				
Non-current assets				
Property, plant and equipment	8,739,887,326	–	–	8,739,887,326
Leasehold land and land use rights	1,042,127,885	–	–	1,042,127,885
Intangible assets	2,913,888,055	–	–	2,913,888,055
Deferred income tax assets	348,762,906	–	–	348,762,906
Investment properties	7,660,539	–	–	7,660,539
Total non-current assets	13,052,326,711	–	–	13,052,326,711
Current assets				
Inventories	3,048,179,318	–	–	3,048,179,318
Trade receivables, other receivables and prepayments	2,309,863,202	(2,309,863,202)	–	–
Trade and notes receivables	–	1,857,419,753	–	1,857,419,753
Other receivables	–	416,583,907	–	416,583,907
Prepayments	–	35,793,081	–	35,793,081
Due from related parties	28,949,331	–	–	28,949,331
Cash and cash equivalents	534,589,786	–	–	534,589,786
Total current assets	5,921,581,637	(66,461)	–	5,921,515,176
Total assets	18,973,908,348	(66,461)	–	18,973,841,887
EQUITY				
Share capital	119,416,737	–	–	119,416,737
Share premium	4,345,689,034	–	–	4,345,689,034
Other reserves	4,271,362,605	(66,461)	–	4,271,296,144
Total equity	8,736,468,376	(66,461)	–	8,736,401,915

2 Summary of Significant Accounting Policies *(continued)*

2.1 Basis of Preparation *(continued)*

2.1.1 Changes in Accounting Policy and Disclosures *(continued)*

(a) New and Amended Standards Adopted by the Group (continued)

	31 December 2017 As originally presented HK$	HKFRS 9 HK$	HKFRS 15 HK$	1 January 2018 Restated HK$
LIABILITIES				
Non-current liabilities				
Borrowings	3,310,130,427	–	–	3,310,130,427
Loans from a related party	1,236,403,002	–	–	1,236,403,002
Deferred government grants	142,848,544	–	–	142,848,544
Deferred income tax liabilities	211,437,204	–	–	211,437,204
Post-employment benefits	33,214,008	–	–	33,214,008
Other non-current liabilities	17,675,709	–	–	17,675,709
Total non-current liabilities	4,951,708,894	–	–	4,951,708,894
Current liabilities				
Trade payables, other payables and accrued expenses	4,493,818,093	–	(86,890,937)	4,406,927,156
Contract liabilities	–	–	86,890,937	86,890,937
Borrowings	689,740,941	–	–	689,740,941
Due to related parties	37,687,965	–	–	37,687,965
Current income tax liabilities	64,484,079	–	–	64,484,079
Total current liabilities	5,285,731,078	–	–	5,285,731,078
Total liabilities	10,237,439,972	–	–	10,237,439,972

There is no impact on the statement of profit or loss and other comprehensive income (OCI) by adopting HKFRS 9 and HKFRS 15.

2 Summary of Significant Accounting Policies *(continued)*

2.1 Basis of Preparation *(continued)*

2.1.1 Changes in Accounting Policy and Disclosures *(continued)*

(a) New and Amended Standards Adopted by the Group (continued)

(i) HKFRS 9, *Financial Instruments*

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

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

The adoption of HKFRS 9 *Financial Instruments* from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated as the Group does not have any hedge instrument. As a result, the adjustments arising from the new impairment rules are not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet as at 1 January 2018.

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

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. This resulted in an increase of the loss allowance on 1 January 2018 by HK$66,461 for trade receivables. Note 3.1(b) provides for details about the calculation of the allowance.

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

Other receivables and prepayments were previously presented together with trade receivables but are now presented as separate line items in the balance sheet, to reflect their different nature.

	HKAS 39 carrying amount 31 December 2017 HK$	**Reclassification** HK$	**HKFRS 9 carrying amount 1 January 2018 HK$**
Trade receivables, other receivables and prepayments	2,309,863,202	(2,309,863,202)	**–**
Trade and notes receivables	–	1,857,486,214	**1,857,486,214**
Other receivables	–	416,583,907	**416,583,907**
Prepayments	–	35,793,081	**35,793,081**

2 Summary of Significant Accounting Policies *(continued)*

2.1 Basis of Preparation *(continued)*

2.1.1 Changes in Accounting Policy and Disclosures *(continued)*

(a) New and Amended Standards Adopted by the Group (continued)

(ii) HKFRS 15, *Revenue from Contracts with Customers*

The Group has adopted HKFRS 15 *Revenue from Contracts with Customers* from 1 January 2018 which resulted in changes in accounting policies. The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated. Following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

	HKAS 18 carrying amount 31 December 2017 HK$	**Reclassification** HK$	**HKFRS 15 carrying amount 1 January 2018 HK$**
Trade payables,other payables and accrued expenses	4,493,818,093	(86,890,937)	**4,406,927,156**
Contract liabilities	–	86,890,937	**86,890,937**

The Group didn't introduce any customer loyalty programme which is likely to be affected by HKFRS 15.

The Group does not expect to have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

No additional cost occurs to fulfil the contract was identified.

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

As a result, other than certain reclassifications of contract liabilities, the adoption of HKFRS 15 did not result in any impact to the financial statements as the timing of revenue recognition on sales of products is not changed.

2 Summary of Significant Accounting Policies *(continued)*

2.1 Basis of Preparation *(continued)*

2.1.1 Changes in Accounting Policy and Disclosures *(continued)*

(b) Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

		Effective for annual periods beginning on or after	
HKFRS 16	Leases	1 January 2019	(i)
HKFRS 17	Insurance contracts	1 January 2021	
HK (IFRIC) 23	Uncertainty over income tax treatments	1 January 2019	
HKFRS 9 (Amendments)	Prepayment features with negative compensation	1 January 2019	
HKAS 28 (Amendments)	Long-term interests in associates and joint venture	1 January 2019	
HKAS 19 (Amendments)	Plan amendment, curtailment or settlement	1 January 2019	
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined	

(i) HKFRS 16, *Leases*

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

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$229,221,932 (note 32). Of these commitments, approximately HK$14 million relate to short-term leases and HK$0.9 million to low value leases which will be both recognised on a straight-line basis as expense in profit or loss.

2 Summary of Significant Accounting Policies *(continued)*

2.1 Basis of Preparation *(continued)*

2.1.1 Changes in Accounting Policy and Disclosures *(continued)*

(b) Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the group. The group's assessment of the impact of these new standards and interpretations is set out below. (continued)

(i) HKFRS 16, *Leases (continued)*

For the remaining lease commitments, the Group expects to recognise right-of-use assets of approximately HK$204 million on 1 January 2019, lease liabilities of HK$202 million (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018).

The Group expects that profit before income tax will decrease by approximately HK$4 million for 2019 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows will decrease by approximately HK$69 million as repayment of the lease liabilities will be classified as cash flows from financing activities.

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

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

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

2 Summary of Significant Accounting Policies *(continued)*

2.2 Principles of Consolidation and Equity Accounting

2.2.1 Subsidiaries

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

The acquisition method of accounting is used to account for business combinations by the Group.

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

2.2.2 Associates

Associates are all entities (including structured entities) over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the comprehensive income of the investee after the date of acquisition. The Group's investment in an associate includes goodwill identified on acquisition.

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 is reclassified to consolidated statement of comprehensive income where appropriate.

The Group's share of post-acquisition comprehensive income is recognised in consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

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

2 Summary of Significant Accounting Policies *(continued)*

2.2 Principles of Consolidation and Equity Accounting *(continued)*

2.2.2 Associates *(continued)*

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associate. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognised in the income statement.

2.2.3 Business combination

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

Acquisitions failed to meet the definition of business combination are treated as acquisitions of assets and liabilities instead of business combination.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement (Note 2.8).

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

2 Summary of Significant Accounting Policies *(continued)*

2.3 Separate financial statements

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

Impairment testing of the investments in subsidiaries is required upon receiving 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.

2.4 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 executive committee that makes strategic decisions.

2.5 Foreign currency translation

(a) 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 Renminbi ("RMB"). The consolidated financial statements are presented in HK$.

(b) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'Finance income and costs – net'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other income and losses – net'.

2 Summary of Significant Accounting Policies *(continued)*

2.5 Foreign currency translation *(continued)*

(c) Group companies

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

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

(ii) income and expenses for each statement of comprehensive income 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 rate on the dates of the transactions); and

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

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. Currency translation differences arising are recognised in other comprehensive income.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2 Summary of Significant Accounting Policies *(continued)*

2.6 Property, plant and equipment

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

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

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

Land and buildings	20 to 50 years
Leasehold improvements	3 to 5 years
Machinery	3 to 25 years
Furniture, fittings and equipment	3 to 5 years
Vehicles	3 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other income and losses – net' in the consolidated statement of comprehensive income.

Construction-in-progress ("CIP") represents buildings, plant, machinery and software under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, costs of plant and machinery, and interest charges and foreign exchange gain/loss arising from borrowings used to finance these assets during the period of construction or installation and testing. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for the intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

2 Summary of Significant Accounting Policies *(continued)*

2.7 Leasehold land and land use rights

All land in the People's Republic of China (the "PRC") is state-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as leasehold land and land use rights, which are amortised over the lease periods using the straight-line method. The leasehold land and land use rights are stated at historical cost less accumulated amortisation and impairment losses.

2.8 Intangible assets

(a) Goodwill

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

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

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

(b) Trademarks and licences

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Certain trademarks and licences that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Other trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 3 to 15 years.

2 Summary of Significant Accounting Policies *(continued)*

2.8 Intangible assets *(continued)*

(c) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method from 8 to 15 years over the expected life of the customer relationship.

(d) Computer software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (5 years).

2.9 Investment property

Investment property, principally comprising leasehold warehouses, is held for long-term rental yields, and that is not occupied by the Group. Investment property is measured at cost, including related transaction costs and, where applicable, borrowing costs.

2.10 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2 Summary of Significant Accounting Policies *(continued)*

2.11 Financial assets

2.11.1 Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

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

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

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

2.11.2 Recognition and derecognition

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

2.11.3 Measurement

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

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

2 Summary of Significant Accounting Policies *(continued)*

2.11 Financial assets *(continued)*

2.11.3 Measurement *(continued)*

Debt instruments

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

Financial assets measured at amortised cost

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

2.11.4 Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 3.1(b) for further details.

2.11.5 Accounting policies applied until 31 December 2017

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

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

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also 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.

2 Summary of Significant Accounting Policies *(continued)*

2.11 Financial assets *(continued)*

2.11.5 Accounting policies applied until 31 December 2017 *(continued)*

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'restricted bank deposits', 'due from related parties' and 'cash and cash equivalents' in the balance sheet (notes 2.13 and 2.14).

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. Loans and receivables are initially recognised at fair value plus transaction costs and are subsequently carried at amortised cost using the effective interest method. Financial assets carried at fair value through profit or losses are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income. 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.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category other than those related to financing activities are present in the consolidated statement of comprehensive income within 'other gains/(losses)-net' in the period in which they arise.

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

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

2 Summary of Significant Accounting Policies *(continued)*

2.11 Financial assets *(continued)*

2.11.5 Accounting policies applied until 31 December 2017 *(continued)*

(b) Loans and receivables (continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in consolidated statement of comprehensive income. 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 was recognised in profit or loss.

2.12 Inventories

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

2.13 Trade and other receivables

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

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 2.11.2 for further information about the Group's accounting for trade receivables and note 2.11.4 and 3.1 (b) for a description of the Group's impairment policies.

2 Summary of Significant Accounting Policies *(continued)*

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary shares are classified as equity.

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

2.16 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other 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 other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings and borrowing costs

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

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

Borrowings at nil or low interest rates from government recognised initially at fair value of consideration received.

2 Summary of Significant Accounting Policies *(continued)*

2.17 Borrowings and borrowing costs *(continued)*

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.

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

All other borrowing costs are recognised in consolidated statement of comprehensive income in the period in which they are incurred.

Borrowing costs include interest expense, finance charges and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

2.18 Current and deferred income tax

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

(a) Current income tax

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

2 Summary of Significant Accounting Policies *(continued)*

2.18 Current and deferred income tax *(continued)*

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also 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 substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

(c) Offsetting

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

2 Summary of Significant Accounting Policies *(continued)*

2.19 Employee benefits

(a) Post-employment benefits

The group operates various post-employment schemes.

The liability or asset recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of profit or loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in other reserves in the statement of changes in equity and in the balance sheet.

(b) Defined contribution plan

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF"), a defined contribution plan. Under the MPF, each of the Group and its Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of HK$1,500 per person per month and any excess contributions are voluntary.

In accordance with the rules and regulations in the PRC, the Group has arranged for its PRC employees to join a defined contribution retirement benefit plan organised by the PRC government. The PRC government undertakes to assume the retirement benefit obligations of all existing and future retired employees payable under this plan. The assets of this plan are held separately from those of the Group in an independent fund managed by the PRC government.

2 Summary of Significant Accounting Policies *(continued)*

2.19 Employee Benefits *(continued)*

(b) Defined contribution plan *(continued)*

The Group also operates three defined contribution schemes which are available to the employees in Australia, the United States and Malaysia. Contributions are made based on certain percentage of the employees' compensation or a fixed sum.

The Group has no further payment obligations once the contributions have been paid. The Group's contributions to these plans are charged to the consolidated statement of comprehensive income as incurred.

(c) Other employee benefits

In addition to pension obligation, all PRC employees of the Group participate in various employee social security plans, including medical, housing and other welfare benefits, organised and administered by the governmental authorities. According to the relevant regulations, the premiums and welfare benefit contributions that should be borne by the Group are calculated based on percentages of the total salary of employees (or on other basis), subject to a certain ceiling, and are paid to the labour and social welfare authorities.

The Group has no further payment obligations once the contributions have been paid. The Group's contributions to these plans are charged to the consolidated statement of comprehensive income as incurred.

(d) Bonus plans

The Group recognises a liability and an expense for bonuses after taking into consideration of the profit attributable to the Company's shareholders and certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

The Group operates 2 cash settled share-based long term incentive plans. The liabilities for these long term incentive plans are measured at fair value which was determined by corresponding valuation model with relevant inputs. The obligations will be presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

2 Summary of Significant Accounting Policies *(continued)*

2.20 Share-based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and an employee remaining on service of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purpose of recognising the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

The cash subscribed for the shares issued when the options are exercised is credited to share capital (nominal value) and share premium, net of any directly attributable transaction costs.

2 Summary of Significant Accounting Policies *(continued)*

2.20 Share-based payments *(continued)*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

Liabilities for the Group's long term incentive plans are recognised as employee benefit expense over the relevant service period. The liabilities are remeasured to fair value at each reporting date and are presented as other non-current liabilities in the balance sheet.

For equity-settled share-based payment transactions, the Group measures the assets or services received, and the corresponding increase in equity, directly, at the fair value of the assets or services received, unless that fair value cannot be estimated reliably. If the Group cannot estimate reliably the fair value of the assets or services received, the Group will measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

2.21 Provisions

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

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

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

2 Summary of Significant Accounting Policies *(continued)*

2.22 Government assistance and grants

Government assistance is the action by government designed to provide an economic benefit specific to an entity. The government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity are not recognised.

Grants from the government are recognised at their fair values where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the acquisition of land use rights and property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

2.23 Revenue recognition

The Group manufactures and sells a range of tissue paper and personal care products in the market.

For the distributor customers and corporate customers, sales are recognised when control of the products has transferred, being when the products are delivered and the customers has inspected and accepted the products. Distributors have full discretion over the channel and price to sell the products, and there is no more unfulfilled obligation that could affect the acceptance of the products. Delivery occurs when the products have been shipped to the specific location. The risks of obsolescence and loss have been transferred to the customers when either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

For supermarkets and e-commerce customers, revenue from the sale of products is recognised when the products are delivered and the Group received sales and acceptance confirmations from supermarkets and e-commerce clients. The risks of obsolescence and loss are not transferred to the customers until the Group received those confirmations.

The products are often sold with volume discounts based on aggregate sales over a period of time. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognised for expected volume discounts payable to customers in relation to sales made. No element of financing is deemed present as the sales are made with a credit term of 60-90 days, which is consistent with market practice. A receivable is recognized when the goods are delivered and the customers has inspected and accepted the products as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. The accounting treatments are the same before and after adopting HKFRS 15.

2 Summary of Significant Accounting Policies *(continued)*

2.23 Revenue recognition *(continued)*

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

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

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

2.24 Operating leases

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

2.25 Interest income

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

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see note 26 below.

2.26 Dividend distribution

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

2.27 Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3 Financial Risk Management

3.1 Financial risk factors

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

Risk management is carried out by a central treasury department (group treasury) under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

(a) Market risk

(i) Foreign exchange risk

The Company's functional currency is RMB. Since the Group operates its business in different countries/regions, i.e Hong Kong, Malaysia, Taiwan, etc., the functional currency of its subsidiaries varies. Foreign exchange risk arises from the commercial transactions of sales to and purchases from overseas.

The Company's presentation currency is HK$. The depreciation/appreciation of RMB against HK$ may result in material impact to currency translation differences in other comprehensive income.

Exposure

The Group's major exposure to foreign currency risk at the end of the reporting period, expressed in Hong Kong dollar, was as follows. Due to the US$/HK$ exchange rates remains stable, such impact is not included below:

	31 December 2018		
	US$	**HK$**	**RMB**
	HK$	**HK$**	**HK$**
Cash	**25,259,426**	**986,526**	**148,978**
Trade receivables	**21,900,741**	**–**	**495,144,594**
Bank loans	**–**	**168,000,000**	**221,410,637**
Trade payables	**125,511,870**	**–**	**21,724,574**

	31 December 2017		
	US$	HK$	RMB
	HK$	HK$	HK$
Cash	11,138,566	1,858,004	7,404,684
Trade receivables	27,960,143	–	345,151,767
Bank loans	–	–	411,527,557
Trade payables	131,442,355	–	452,049,753

3 Financial Risk Management *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(i) Foreign exchange risk (continued)

As shown in the table above, the Group is primarily exposed to changes in RMB/US$, Malaysia Ringgit ("MYR")/US$, HK$/RMB and RMB/HK$ exchange rates. As at 31 December 2018 and 2017, for the RMB subsidiaries, if RMB had strengthened/weakened by 10% against US$ with all other variables held constant, the post-tax profit for each year would have changed mainly as a result of foreign exchange gains/losses on translation of US$ denominated cash and cash equivalents, trade and other receivables, trade and other payables, borrowings and due from/due to related parties. Details of the changes are as follows:

	2018 **HK$**	2017 HK$
For the year ended:		
Post-tax profit increase/(decrease)		
– Strengthened by 10%	**1,984,104**	1,742,577
– Weakened by 10%	**(1,984,104)**	(1,742,577)
As at:		
Owners' equity increase/(decrease)		
– Strengthened by 10%	**1,984,104**	1,742,577
– Weakened by 10%	**(1,984,104)**	(1,742,577)

3 Financial Risk Management *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(i) Foreign exchange risk (continued)

As at 31 December 2018 and 2017, for the MYR subsidiaries, if MYR had strengthened/weakened by 10% against US$ with all other variables held constant, the post-tax profit for each year would have changed mainly as a result of foreign exchange gains/losses on translation of US$ denominated cash and cash equivalents, trade and other receivables, trade and other payables, borrowings and due from/to related parties. Details of the changes are as follows:

	2018 HK$	2017 HK$
For the year ended:		
Post-tax profit increase/(decrease)		
– Strengthened by 10%	**4,485,976**	6,599,899
– Weakened by 10%	**(4,485,976)**	(6,599,899)
As at:		
Owners' equity increase/(decrease)		
– Strengthened by 10%	**4,485,976**	6,599,899
– Weakened by 10%	**(4,485,976)**	(6,599,899)

As at 31 December 2018 and 2017, for the HK$ subsidiaries, if HK$ had strengthened/weakened by 10% against RMB with all other variables held constant, the post-tax profit for each year would have changed mainly as a result of foreign exchange gains/losses on translation of RMB denominated cash and cash equivalents, trade and other receivables, trade and other payables, borrowings and due from/to related parties. Details of the changes are as follows:

	2018 HK$	2017 HK$
For the year ended:		
Post-tax profit (decrease)/increase		
– Strengthened by 10%	**(21,055,223)**	42,668,310
– Weakened by 10%	**21,055,223**	(42,668,310)
As at:		
Owners' equity (decrease)/increase		
– Strengthened by 10%	**(21,055,223)**	42,668,310
– Weakened by 10%	**21,055,223**	(42,668,310)

3 Financial Risk Management *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(i) Foreign exchange risk (continued)

As at 31 December 2018 and 2017, for the RMB subsidiaries, if RMB had strengthened/weakened by 10% against HK$ with all other variables held constant, the post-tax profit for each year would have changed mainly as a result of foreign exchange gains/losses on translation of HK$ denominated cash and cash equivalents, trade and other receivables, trade and other payables, borrowings and due from/to related parties. Details of the changes are as follows:

	2018 HK$	2017 HK$
For the year ended:		
Post-tax profit increase/(decrease)		
– Strengthened by 10%	**12,571,850**	(139,350)
– Weakened by 10%	**(12,571,850)**	139,350
As at:		
Owners' equity increase/(decrease)		
– Strengthened by 10%	**12,571,850**	(139,350)
– Weakened by 10%	**(12,571,850)**	139,350

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. Details of the Group's borrowings have been disclosed in Note 18.

As at 31 December 2018 and 2017, if interest rates on borrowings had been 10 basis points higher/lower with all other variables held constant, the post-tax profit for each year would have changed mainly as a result of higher/lower interest expense on floating rate borrowings. Details of the changes are as follows:

	2018 HK$	2017 HK$
For the year ended:		
Post-tax profit (decrease)/increase		
– 10 basis points higher	**(3,067,318)**	(3,024,202)
– 10 basis points lower	**3,067,318**	3,024,202
As at:		
Owners' equity (decrease)/increase		
– 10 basis points higher	**(3,067,318)**	(3,024,202)
– 10 basis points lower	**3,067,318**	3,024,202

3 Financial Risk Management *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, restricted bank deposits, due from related parties, and trade and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

As at 31 December 2018 and 2017, all cash and cash equivalents were deposited in state-owned banks and reputable financial institutions and were hence without significant credit risk. Management does not expect any losses from non-performance by these counterparties.

Credit sales are made to selected customers with good credit history. The Group has policies in place to ensure that outstanding trade receivables are collected on a timely basis. Trade and notes receivables, and other receivables are subject to the expected credit loss model.

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

The expected loss rates are based on the payment profiles of sales over a period of 3 years before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of HKFRS 9) was determined as follows for trade receivables:

	Within 6 months	7 months to 12 months	Over 1 year	Total
31 December 2018				
Gross carrying amount (in HK$)	1,874,037,101	15,950,020	19,775,156	1,909,762,277
Expected loss rate	0.004%	40.793%	98.168%	1.361%
Loss allowance (in HK$)	68,146	6,506,469	19,412,893	25,987,508
1 January 2018				
Gross carrying amount (in HK$)	1,845,725,060	13,958,877	19,931,056	1,879,614,993
Expected loss rate	0.004%	42.394%	99.405%	1.372%
Loss allowance (in HK$)	66,461	5,917,756	19,812,559	25,796,776

3 Financial Risk Management *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

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

	HK$
As at 31 December 2017 – calculated under HKAS 39	25,730,315
Amounts restated through opening retained earnings	66,461
Opening loss allowance as at 1 January 2018	
– calculated under HKFRS 9	25,796,776
Increase in loss allowance recognised	
in profit or loss during the year	1,829,013
Receivables written off during the year as uncollectible	(363,667)
Exchange differences	(1,274,614)
As at 31 December 2018	**25,987,508**

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

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

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

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

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

3 Financial Risk Management *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group's objective is to maintain adequate committed credit lines to ensure sufficient and flexible funding is available to the Group. The Group also considers converting short-term borrowings into long-term borrowings to improve the Group's liquidity.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. For term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

	Less than 1 year HK$	Between 1 and 2 years HK$	Between 2 and 5 years HK$
As at 31 December 2018			
Bank loans (i)	**1,123,834,969**	**1,880,560,856**	**1,346,532,757**
Loans from a related party (i)	**40,231,985**	**374,985,990**	**890,310,287**
Other borrowings	**57,064,597**	**–**	**–**
Trade payables	**2,071,567,933**	**–**	**–**
Other payables	**1,049,791,672**	**–**	**–**
As at 31 December 2017			
Bank loans (i)	799,442,304	1,861,278,298	1,642,951,706
Loans from a related party (i)	35,538,875	1,247,554,540	–
Other borrowings	59,815,052	–	–
Trade payables	2,358,159,286	–	–
Other payables	771,339,647	–	–

(i) The interest on borrowings is calculated based on borrowings held as at 31 December 2018 and 2017 without taking account of future issues. Floating-rate interest is estimated using interest rate prevailing as at 31 December 2018 and 2017 respectively.

The Group had access to the following undrawn borrowing facilities at the end of:

	2018 HK$	2017 HK$
Expiring within one year	**2,791,306,717**	2,365,016,932
Expiring beyond one year (i)	**4,002,850,018**	569,816,782
Total	**6,794,156,735**	2,934,833,714

(i) As at 31 December 2018, unutilized credit facilities from related party amounted to HK$3 billion (31 December 2017: nil).

3 Financial Risk Management *(continued)*

3.2 Capital risk management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the net gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents.

The net gearing ratios at 31 December 2018 and 2017 were as follows:

	As at 31 December	
	2018	2017
	HK$	HK$
Total borrowings (Note 18)	**5,245,496,240**	5,236,274,370
Less: Cash and cash equivalents (Note 13)	**(574,465,154)**	(534,589,786)
Net debt	**4,671,031,086**	4,701,684,584
Total equity	**8,729,916,411**	8,736,468,376
Net gearing ratio	**53.51%**	53.82%

3.3 Fair value estimation

As at 31 December 2018 and 2017, the carrying amounts of the Group's current assets and current liabilities approximate their fair values.

4 Critical Accounting Estimates and Judgments

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to 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 discussed below.

(a) Estimated impairment of goodwill and intangible assets with indefinite useful life

The Group tests annually whether goodwill and intangible assets with indefinite useful life have suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 8).

(b) Useful lives of property, plant and equipments

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 reassesses the useful lives on a regular basis. Management will increase the depreciation charge where useful lives are shorter than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Current tax and deferred tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

4 Critical Accounting Estimates and Judgments *(continued)*

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to industry cycles. Management reassesses the estimates at each balance sheet date.

(e) Provision for impairment of trade receivables

The Group's management determines the provision for impairment of trade and other receivables based on the expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Management reassesses the provision at each balance sheet date.

(f) Estimated impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgments and estimates.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related assets values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated statement of comprehensive income.

5 Segment Information

The chief operating decision-maker has been identified as the executive committee, which comprises all executive directors. The executive committee reviews the Group's internal reporting in order to assess performance and allocate resources.

The executive committee has determined that no geographical segment information is presented as management reviews the business performance primarily based on type of business, not geographically. Instead, the executive committee assesses the performance of household paper products and personal care products.

The executive committee assesses the performance of the operating segments based on a measure of segment results without considering amortisation of trademarks, licences and contractual customer relationships, unallocated costs, finance income/(costs) and income tax expense which is consistent with that in the annual consolidated financial statements. Unallocated costs are mainly the central expenses (including acquisition cost).

Sales between segments are carried out on terms equivalent to those that prevail in arm's length transactions. The revenue from external parties reported to the executive committee is measured in a manner consistent with that in the annual consolidated income statement.

The Company is domiciled in Hong Kong. The amount of its revenue from external customers by country or city are analysed as follows:

	For the year ended 31 December	
	2018	2017
	HK$	HK$
Mainland China	**11,110,206,971**	10,047,416,565
Hong Kong	**1,100,949,517**	1,063,419,125
Malaysia	**1,375,158,017**	1,211,443,501
Taiwan	**324,613,387**	320,877,450
Others	**967,620,010**	842,804,139
Total revenue	**14,878,547,902**	13,485,960,780

The total non-current assets are analysed as follows:

	As at 31 December	
	2018	2017
	HK$	HK$
Total non-current assets other than deferred income tax assets		
– Mainland China	**9,641,915,154**	9,335,005,596
– Hong Kong and overseas	**3,236,408,872**	3,368,558,209
Deferred income tax assets	**403,828,940**	348,762,906
Total non-current assets	**13,282,152,966**	13,052,326,711

Additions to non-current assets comprise additions to property, plant and equipment, leasehold land and land use rights and intangible assets.

5 Segment Information *(continued)*

The segment information for the years ended 31 December 2018 and 2017 are as follows:

Year ended 31 December 2018	For the year ended 31 December 2018 Household paper products HK$	Personal care products HK$	Total HK$
Segment revenue	12,111,465,853	2,767,082,049	14,878,547,902
Segment results	976,948,655	222,231,370	1,199,180,025
Amortisation of trademarks, licences and contractual customer relationships	(10,918,563)	(58,722,422)	(69,640,985)
Segment profit	966,030,092	163,508,948	1,129,539,040
Other income and losses – net			(26,772,076)
Unallocated costs			(83,142,100)
Operating profit			1,019,624,864
Finance income and costs – net			(221,951,496)
Profit before income tax			797,673,368
Income tax expense			(148,368,679)
Profit for the year			649,304,689
Other segment items included in the income statement			
Depreciation of property, plant and equipment	(707,039,831)	(111,836,088)	(818,875,919)
Amortisation of leasehold land and land use rights, investment property and intangible assets other than trademarks, licences and contractual customer relationships	(51,289,542)	(2,762,916)	(54,052,458)
Additions to non-current assets	1,418,465,122	230,182,742	1,648,647,864

5 Segment Information *(continued)*

Year ended 31 December 2017	For the year ended 31 December 2017 Household paper products HK$	Personal care products HK$	Total HK$
Segment revenue	10,907,902,750	2,578,058,030	13,485,960,780
Segment results	928,437,053	158,081,228	1,086,518,281
Amortisation of trademarks, licences and contractual customer relationships	(18,880,595)	(56,754,440)	(75,635,035)
Segment profit	909,556,458	101,326,788	1,010,883,246
Other income and losses – net			62,498,407
Unallocated costs			(89,855,529)
Operating profit			983,526,124
Finance income and costs – net			(214,027,686)
Profit before income tax			769,498,438
Income tax expense			(148,541,984)
Profit for the year			620,956,454
Other segment items included in the income statement			
Depreciation of property, plant and equipment	(597,211,117)	(105,139,534)	(702,350,651)
Amortisation of leasehold land and land use rights, investment property and intangible assets other than trademarks, licences and contractual customer relationships	(39,256,171)	(2,606,409)	(41,862,580)
Additions to non-current assets	2,111,408,797	134,404,334	2,245,813,131

5 Segment Information *(continued)*

As at 31 December 2018	As at 31 December 2018 Household paper products HK$	 Personal care products HK$	 Total HK$
Segment assets	**14,798,339,760**	**3,850,103,102**	**18,648,442,862**
Deferred income tax assets			**403,828,940**
Prepaid income tax recoverable			**15,329,096**
Total assets			**19,067,600,898**
Segment liabilities	**9,123,781,804**	**905,585,319**	**10,029,367,123**
Deferred income tax liabilities			**208,522,060**
Current income tax liabilities			**99,795,304**
Total liabilities			**10,337,684,487**

As at 31 December 2017	As at 31 December 2017 Household paper products HK$	 Personal care products HK$	 Total HK$
Segment assets	14,647,757,242	3,965,254,881	18,613,012,123
Deferred income tax assets			348,762,906
Prepaid income tax recoverable			12,133,319
Total assets			18,973,908,348
Segment liabilities	8,843,848,525	1,117,670,164	9,961,518,689
Deferred income tax liabilities			211,437,204
Current income tax liabilities			64,484,079
Total liabilities			10,237,439,972

5 Segment Information *(continued)*

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

	As at 31 December 2018 HK$	As at 1 January 2018 HK$
Contract liabilities – Household paper products	**71,968,908**	86,263,223
Contract liabilities – Personal care products	**558,333**	627,714
Total contract liabilities	**72,527,241**	86,890,937

The following table shows how much of the revenue recognised for the year ended 31 December 2018 related to carried-forward contract liabilities that were satisfied in prior year.

	2018 HK$
Household paper products	86,263,223
Personal care products	627,714
	86,890,937

6 Leasehold Land and Land Use Rights

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

	For the year ended 31 December	
	2018 HK$	2017 HK$
At 1 January	**1,042,127,885**	432,130,671
Acquisition of a subsidiary (Note 33)	**–**	578,105,752
Additions	**84,172,134**	6,880,281
Amortisation (Note 24)	**(25,685,870)**	(20,290,589)
Disposal	**–**	(19,719,890)
Exchange differences	**(49,895,736)**	65,021,660
	1,050,718,413	1,042,127,885

7 Property, Plant and Equipment

	Land and buildings HK$	Leasehold improvements HK$	Machinery HK$	Furniture, fittings and equipment HK$	Vehicles HK$	Construction in progress HK$	Total HK$
Year ended 31 December 2017							
Opening net book amount	1,743,089,520	29,126,706	4,594,615,665	99,908,327	40,610,575	774,523,011	7,281,873,804
Acquisition of a subsidiary (Note 33)	339,668,524	–	5,677,986	–	–	–	345,346,510
Additions	16,965,229	1,483,542	59,668,970	19,542,274	3,753,923	1,175,159,295	1,276,573,233
Disposals	(7,562,464)	–	(5,783,834)	(361,479)	(711,713)	–	(14,419,490)
Reclassification	309,893,640	(22,716,491)	981,570,101	11,080,498	11,536,685	(1,291,364,433)	–
Transfers	(3,010,867)	–	–	–	–	–	(3,010,867)
Depreciation (Note 24)	(93,366,181)	(5,292,738)	(555,490,386)	(39,366,007)	(8,835,339)	–	(702,350,651)
Impairment charges (Note 24)	–	–	(9,165,525)	–	–	–	(9,165,525)
Exchange differences	155,346,413	1,118,009	353,937,526	7,248,792	2,865,474	44,524,098	565,040,312
Closing net book amount	2,461,023,814	3,719,028	5,425,030,503	98,052,405	49,219,605	702,841,971	8,739,887,326
At 31 December 2017							
Cost	3,119,209,184	8,478,992	8,313,767,462	230,419,783	85,722,266	703,515,268	12,461,112,955
Accumulated depreciation and impairment	(658,185,370)	(4,759,964)	(2,888,736,959)	(132,367,378)	(36,502,661)	(673,297)	(3,721,225,629)
Net book amount	2,461,023,814	3,719,028	5,425,030,503	98,052,405	49,219,605	702,841,971	8,739,887,326
Year ended 31 December 2018							
Opening net book amount	2,461,023,814	3,719,028	5,425,030,503	98,052,405	49,219,605	702,841,971	8,739,887,326
Additions	22,167,187	–	79,361,940	20,848,268	1,674,150	1,380,464,258	1,504,515,803
Disposals	(1,219,291)	–	(14,634,411)	(424,600)	(106,307)	–	(16,384,609)
Reclassification	521,987,351	–	611,806,166	22,943,098	12,759,564	(1,169,496,179)	–
Depreciation (Note 24)	(111,238,375)	(2,480,196)	(636,616,557)	(58,653,133)	(9,887,658)	–	(818,875,919)
Impairment charges (Note 24)	–	–	–	–	–	(2,709,040)	(2,709,040)
Exchange differences	(123,943,206)	(87,216)	(242,549,347)	(3,381,395)	(2,332,928)	(36,866,051)	(409,160,143)
Closing net book amount	2,768,777,480	1,151,616	5,222,398,294	79,384,643	51,326,426	874,234,959	8,997,273,418
At 31 December 2018							
Cost	3,499,055,255	7,894,140	8,550,586,797	260,353,410	94,785,209	876,860,593	13,289,535,404
Accumulated depreciation and impairment	(730,277,775)	(6,742,524)	(3,328,188,503)	(180,968,767)	(43,458,783)	(2,625,634)	(4,292,261,986)
Net book amount	2,768,777,480	1,151,616	5,222,398,294	79,384,643	51,326,426	874,234,959	8,997,273,418

7 Property, Plant and Equipment *(continued)*

During the year, the Group has capitalised borrowing costs amounting to HK$21,747,236 (2017:HK$37,519,675) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 4.38% (2017: 4.90%).

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

	For the year ended 31 December	
	2018	2017
	HK$	HK$
Cost of sales	**696,106,075**	599,041,778
Administrative expenses	**122,769,844**	103,308,873
	818,875,919	702,350,651

8 Intangible Assets

	Goodwill HK$	Trademarks and licences HK$	Contractual customer relationships HK$	Computer software HK$	Total HK$
At 1 January 2017					
Cost	1,527,103,999	884,641,790	440,640,265	100,253,842	2,952,639,896
Accumulated amortisation and impairment	(2,466,414)	(60,083,629)	(41,522,403)	(52,566,288)	(156,638,734)
Net book amount	1,524,637,585	824,558,161	399,117,862	47,687,554	2,796,001,162
Year ended 31 December 2017					
Opening net book amount	1,524,637,585	824,558,161	399,117,862	47,687,554	2,796,001,162
Additions	–	–	–	38,907,355	38,907,355
Disposal	–	–	–	(353,921)	(353,921)
Amortisation expense (Note 24)	–	(39,809,305)	(35,825,730)	(21,262,804)	(96,897,839)
Impairment charge (i) (Note 23)	–	(3,323,091)	–	–	(3,323,091)
Exchange differences	96,408,365	51,374,283	27,745,570	4,026,171	179,554,389
Closing net book amount	1,621,045,950	832,800,048	391,037,702	69,004,355	2,913,888,055
At 31 December 2017					
Cost	1,623,685,238	941,439,552	471,706,056	146,626,484	3,183,457,330
Accumulated amortisation and impairment	(2,639,288)	(108,639,504)	(80,668,354)	(77,622,129)	(269,569,275)
Net book amount	1,621,045,950	832,800,048	391,037,702	69,004,355	2,913,888,055
Year ended 31 December 2018					
Opening net book amount	**1,621,045,950**	**832,800,048**	**391,037,702**	**69,004,355**	**2,913,888,055**
Additions	**–**	**–**	**–**	**59,959,927**	**59,959,927**
Amortisation expense (Note 24)	**–**	**(32,613,826)**	**(37,027,159)**	**(28,055,319)**	**(97,696,304)**
Exchange differences	**(30,079,050)**	**(12,609,947)**	**(6,242,016)**	**(4,106,323)**	**(53,037,336)**
Closing net book amount	**1,590,966,900**	**787,576,275**	**347,768,527**	**96,802,640**	**2,823,114,342**
At 31 December 2018					
Cost	**1,593,484,826**	**925,267,993**	**463,360,669**	**197,848,858**	**3,179,962,346**
Accumulated amortisation and impairment	**(2,517,926)**	**(137,691,718)**	**(115,592,142)**	**(101,046,218)**	**(356,848,004)**
Net book amount	**1,590,966,900**	**787,576,275**	**347,768,527**	**96,802,640**	**2,823,114,342**

(i) The carrying amount of certain trademarks and licences has been fully impaired after reviewing the personal care business strategy of the Group.

8 Intangible Assets *(continued)*

During the year ended 31 December 2018, amortisation of intangible assets charged to the consolidated statement of comprehensive income is as follows:

	For the year ended 31 December	
	2018	2017
	HK$	HK$
Administrative expenses	**58,375,338**	61,072,109
Selling expenses	**37,027,159**	35,825,730
Cost of sales	**2,293,807**	–
	97,696,304	96,897,839

(a) Impairment assessments for goodwill

Management reviews the business performance based on type of business. There are two business segments identified – household paper products and personal care products segments. Goodwill is monitored by the management at the operating segment level. The following is a summary of goodwill allocation for each operating segment:

2018	**Opening HK$**	**Addition HK$**	**Exchange differences HK$**	**Closing HK$**
Personal care products	**1,053,639,015**	**–**	**(29,883,106)**	**1,023,755,909**
Household paper products	**567,406,935**	**–**	**(195,944)**	**567,210,991**
	1,621,045,950	**–**	**(30,079,050)**	**1,590,966,900**

2017	Opening HK$	Addition HK$	Exchange differences HK$	Closing HK$
Personal care products	957,509,763	–	96,129,252	1,053,639,015
Household paper products	567,127,822	–	279,113	567,406,935
	1,524,637,585	–	96,408,365	1,621,045,950

8 Intangible Assets *(continued)*

(a) Impairment assessments for goodwill *(continued)*

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial plans approved by management covering a forecast period of 10 years. Cash flows beyond the forecast period are extrapolated using the estimated growth rates stated below. The long-term growth rate of the CGU does not exceed the long-term average growth rate for the household paper business and personal care business in which the CGU operates.

For each of the CGUs with a significant amount of goodwill, the key assumptions, long term growth rate and discount rate used in the value-in-use calculations in 2018 are as follows:

	Personal care products	**Household paper products**
Sales amount (% annual growth rate)	8.0%~13.4%	5%~11%
Gross margin (% of revenue)	32%~37%	30.8%~32%
Long term growth rate	3.00%	3.00%
Pre-tax discount rate	12.50%	12.00%

For each of the CGUs with a significant amount of goodwill, the key assumptions, long term growth rate and discount rate used in the value-in-use calculations in 2017 were as follows:

	Personal care products	**Household paper products**
Sales amount (% annual growth rate)	9.3%~16.3%	5%~11%
Gross margin (% of revenue)	32%~40%	30.8%~32%
Long term growth rate	3.00%	3.00%
Pre-tax discount rate	12.50%	12.00%

These assumptions have been used for the analysis of each CGU within the operating segment.

8 Intangible Assets *(continued)*

(a) Impairment assessments for goodwill *(continued)*

Management has determined the values assigned to each of the above key assumptions as follows:

Assumption	Approach used to determining values
Sales amount	Average annual growth rate over the ten-year forecast period; based on current industry trends, past performance and management's expectations for the future.
Gross margin	Based on past performance and management's expectations for the future.
Long term growth rate	This is the weighted average growth rate used to extrapolate cash flows beyond the budget period.
Pre-tax discount rate	Reflect specific risks relating to the relevant segments and the countries in which they operate.

(b) Impairment assessments for trademarks and licences with indefinite useful life

Management assesses the value of trademarks and licences with indefinite useful life annually by using the value-in-use method calculated based on cash flow projections approved by management. Cash flows beyond the forecast period are extrapolated using the estimated growth rates stated below. The following is current year movement of trademarks and licences with indefinite useful life:

2018	Opening HK$	Addition HK$	Exchange differences HK$	Closing HK$
Personal care products	247,580,109	–	(5,615,678)	241,964,431
Household paper products	336,536,703	–	(1,611,081)	334,925,622
	584,116,812	–	(7,226,759)	576,890,053

8 Intangible Assets *(continued)*

(b) Impairment assessments for trademarks and licences with indefinite useful life *(continued)*

2017	Opening HK$	Addition HK$	Exchange differences HK$	Closing HK$
Personal care products	223,829,284	–	23,750,825	247,580,109
Household paper products	334,241,789	–	2,294,914	336,536,703
	558,071,073	–	26,045,739	584,116,812

The key assumptions, long term growth rate and discount rate used in the annual impairment assessments for trademarks and licences with indefinite useful life in 2018 are as follows:

	Personal care products trademark and licence	**Household paper products trademark and licence**
Sales amount (% annual growth rate)	8.0%~13.4%	5%~11%
Gross margin (% of revenue)	32%~37%	30.8%~32%
Long term growth rate	3.00%	3.00%
Pre-tax discount rate	12.50%	12.00%

The key assumptions, long term growth rate and discount rate used in the annual impairment assessments for trademarks and licences with indefinite useful life in 2017 are as follows:

	Personal care products trademark and licence	**Household paper products trademark and licence**
Sales amount (% annual growth rate)	9.3%~16.3%	5%~11%
Gross margin (% of revenue)	32%~40%	30.8%~32%
Long term growth rate	3.00%	3.00%
Pre-tax discount rate	12.50%	12.00%

Sales amount is the average annual growth rate over the forecast period. It is based on past performance and management's expectations of market development of the trademarks and licences.

The changes in growth rate assumption was in line with the updated business plan, taking consideration of the Group's business strategy and the latest competitive landscape of the industry.

9 Subsidiaries

As at 31 December 2018, the Company had direct and indirect interests in the following subsidiaries:

Name	Place of incorporation/ operation and kind of legal entity	Principal activities	Issued and fully paid capital	Interest held (directly)	Interest held (indirectly)
Vinda Household Paper (China) Limited	British Virgin Islands, limited liability company	Investment holding and trading of wood pulp and machinery	US$1	100%	–
Vinda Household Paper (Hong Kong) Limited	British Virgin Islands, limited liability company	Investment holding	US$10,002	100%	–
Vinda Household Paper (U.S.A.) Limited	British Virgin Islands, limited liability company	Investment holding	US$1	100%	–
Vinda Household Paper (Australia) Limited	British Virgin Islands, limited liability company	Investment holding	US$1	100%	–
Vinda Paper (U.S.A.) Inc.	United States of America, limited liability company	Service for import & export	US$1	–	100%
Vinda Paper (Australia) Pty Limited	Australia, limited liability company	Manufacturing and sale of household paper products	Australian dollar 100,000	–	100%
Forton Enterprises Limited ("Forton Enterprises")	Hong Kong, limited liability company	Investment holding and trading of household paper products	HK$10,100	–	100%
Vinda Paper Industrial (H.K.) Company Limited ("Vinda Industrial HK")	Hong Kong, limited liability company	Property investments and trading of household paper products	HK$10,000	–	100%
Vinda Investment (China) Limited ("Vinda Investment")	Hong Kong, limited liability company	Investment holding	HK$1	–	100%
Vinda Paper (Sichuan) Company Limited ("Vinda Paper (Sichuan)")	The PRC, limited liability company	Manufacturing and sale of household paper products	HK$183,900,000	–	100%
Vinda Paper (Beijing) Company Limited ("Vinda Paper (Beijing)")	The PRC, limited liability company	Trading of household paper products	US$350,000	–	100%
Vinda North Paper (Beijing) Company Limited ("Vinda Northern Paper")	The PRC, limited liability company	Manufacturing and sale of household paper products	HK$75,000,000	–	100%
Vinda Paper (Zhejiang) Company Limited ("Vinda Paper (Zhejiang)")	The PRC, limited liability company	Manufacturing and sale of household paper and personal care products	HK$850,000,000	–	100%
Vinda Personal Care Limited ("Vinda Personal Care")	Hong Kong, limited liability company	Investment holding and trading of personal care products	HK$1	100%	–
Vinda Trading Company Limited ("Vinda Trading")	The PRC, limited liability company	Trading of household paper and personal care products	RMB50,000,000	–	100%
Vinda Paper (Liaoning) Company Limited ("Vinda Paper (Liaoning)")	The PRC, limited liability company	Manufacturing and sale of household paper products	HK$200,000,000	–	100%
Vinda Investment Group Limited ("Vinda Investment Group")	Hong Kong, limited liability company	Investment holding	HK$1	–	100%

9 Subsidiaries *(continued)*

Name	Place of incorporation/ operation and kind of legal entity	Principal activities	Issued and fully paid capital	Interest held (directly)	Interest held (indirectly)
Vinda Paper (Shandong) Company Limited ("Vinda Paper (Shandong)")	The PRC, limited liability company	Manufacturing and sale of household paper products	HK$200,000,000	–	100%
Vinda Paper (China) Company Limited ("Vinda Paper (China)")	The PRC, limited liability company	Manufacturing and sale of household paper products	US$150,000,000	–	100%
Sparkle Sunshine Limited	British Virgin Islands, limited liability company	Investment holding company	US$1	–	100%
Vinda Personal Care Holdings Limited	British Virgin Islands, limited liability company	Investment holding company	HK$250,000,000	–	100%
Vinda Hygiene Care (Hong Kong) Limited ("VHC")	Hong Kong, limited liability company	Investment holding company	HK$1	–	100%
China Euro Healthcare Management Limited ("CEHM", formerly known as Vinda Personal Care (Hong Kong) Limited)	Hong Kong, limited liability company	Investment holding company	HK$1	–	100%
Vinda Personal Care (China) Limited ("VPC (China)")	The PRC, limited liability company	Manufacturing and sale of household paper and personal care products	RMB508,998,487	–	100%
Vinda (Shanghai) Healthcare Management Company Limited	The PRC, limited liability company	Providing home health care services and health management consulting	RMB4,531,039	–	100%
SCA Tissue Hong Kong Limited	Hong Kong, limited liability company	Trading of household paper and personal care products	HK$1	–	100%
Guangdong Xinjiang Energy Company Limited ("Xinjiang Energy")	The PRC, limited liability company	Manufacturing and sale of steam	RMB30,000,000	–	100%
Vinda Personal Care (Guangdong) Company Limited ("VPC (Guangdong)")	The PRC, limited liability company	Manufacturing and sale of household paper and personal care products	HK$178,000,000 (Note(i))	–	100%
PT SCA Hygiene Indonesia ("SCA Indonesia")	Indonesia, limited liability company	Trading of personal care products	Indonesian Rupiah 12,499,033,100	–	100%
Vinda Malaysia Sdn Bhd ("Vinda Malaysia", formerly known as "SCA Hygiene Malaysia Sdn Bhd")	Malaysia, limited liability company	Manufacturing and sale of personal care products	MYR23,800,000	–	100%
Vinda Korea Co., Ltd. ("Vinda Korea", formerly known as "SCA Hygiene Korea Co., Ltd.")	Korea, limited liability company	Trading of household paper and personal care products	Korea Won ("KRW") 310,000,000	–	100%
Vinda Taiwan Ltd. ("Vinda Taiwan", formerly known as "SCA Taiwan Ltd.")	Taiwan, limited liability company	Manufacturing and sale of personal care products	New Taiwan Dollar ("NT$") 560,879,450	–	100%

9 Subsidiaries *(continued)*

Name	Place of incorporation/ operation and kind of legal entity	Principal activities	Issued and fully paid capital	Interest held (directly)	Interest held (indirectly)
Vinda Marketing (M) Sdn. Bhd. ("Vinda Marketing", formerly known as "SCA Hygiene Marketing (M) Sdn. Bhd.")	Malaysia, limited liability company	Trading of personal care products	MYR10,000	–	100%
Vinda Singapore Pte. Ltd. ("Vinda Singapore", formerly known as "SCA Hygiene Singapore Pte. Ltd.")	Singapore, limited liability company	Trading of personal care products	Singapore Dollar ("SG$") 852,850	–	100%
SCA Hygiene Thailand Limited ("SCA Thailand")	Thailand, limited liability company	Trading of personal care products	Thai Baht 790,000,000	–	100%
Jiangmen Dynasty Fortune Paper Limited ("Dynasty Fortune")	The PRC, limited liability company	Providing property management services	RMB315,380,000	–	100%

(i) The paid in capital of VPC (Guangdong) was increased from HK$150,000,000 to HK$178,000,000 during the current year.

10 Inventories

	As at 31 December	
	2018	2017
	HK$	HK$
Raw materials	**1,316,014,835**	1,793,658,353
Finished goods	**1,429,868,895**	1,254,520,965
	2,745,883,730	3,048,179,318

The cost of inventories recognised as expenses and included in cost of sales amounted to HK$8,607,022,513 (2017: HK$7,638,838,146) for the year ended 31 December 2018.

Write-downs of inventories to net realisable value amounted to HK$13,652,538 (2017: HK$4,762,242).

11 Financial Instruments by Category

	As at 31 December	
	2018	2017
	HK$	HK$
Financial assets		
Trade and other receivables	**–**	2,274,070,121
Trade and notes receivables	**1,888,459,707**	–
Other receivables	**449,515,451**	–
Due from related parties	**36,609,005**	28,949,331
Cash and cash equivalents	**574,465,154**	534,589,786
Total	**2,949,049,317**	2,837,609,238

	As at 31 December	
	2018	2017
	HK$	HK$
Financial liabilities		
Loans from a related party	**1,218,116,846**	1,236,403,002
Borrowings	**4,027,379,394**	3,999,871,368
Trade and other payables excluding non-financial liabilities	**3,121,359,605**	3,129,498,933
Due to related parties	**18,406,558**	37,687,965
Total	**8,385,262,403**	8,403,461,268

The Group's exposure to various risks associated with the financial instruments is discussed in note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

12 Trade, Notes and Other Receivables and Prepayments

	As at 31 December	
	2018 HK$	2017 HK$
Trade receivables	1,909,762,277	1,879,614,993
Less: Provision for impairment of trade receivables	(25,987,508)	(25,730,315)
	1,883,774,769	1,853,884,678
Notes receivable	4,684,938	3,601,536
Trade and note receivables	1,888,459,707	1,857,486,214
Other receivables		
– creditable input VAT	304,850,539	264,291,894
– prepaid income tax recoverable	15,329,096	12,133,319
– purchase rebates	26,576,733	25,321,575
– subsidy income receivable	–	17,020,533
– sales of investment property receivable	–	10,731,420
– deposits and others	102,759,083	87,085,166
	449,515,451	416,583,907
Prepayments		
– purchase of raw materials	30,494,115	4,925,274
– prepaid expenses	21,492,411	9,082,290
– prepayments of utility fee	3,368,579	6,829,921
– others	35,159,780	14,955,596
	90,514,885	35,793,081
	2,428,490,043	2,309,863,202

Customers who are given credit are generally granted with credit terms ranging from 60 to 90 days. Ageing analysis of trade receivables of the Group based on invoice date as at 31 December 2018 and 2017 is as below:

	As at 31 December	
	2018 HK$	2017 HK$
Within 3 months	1,784,440,966	1,758,571,667
4 months to 6 months	89,596,135	87,153,393
7 months to 12 months	15,950,020	13,958,877
Over 1 year	19,775,156	19,931,056
	1,909,762,277	1,879,614,993

12 Trade, Notes and Other Receivables and Prepayments *(continued)*

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

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and notes receivables. This resulted in an increase of the loss allowance on 1 January 2018 by HK$66,461 for trade and notes receivables. Note 3.1(b) provides for details about the calculation of the allowance.

Information about the impairment of trade and notes receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in note 3.1.

13 Cash and Cash Equivalents

	As at 31 December	
	2018	2017
	HK$	HK$
Cash in hand	**89,583**	120,799
Cash at bank	**574,375,571**	534,468,987
	574,465,154	534,589,786

The effective weighted average annual interest rate on cash at bank was 1.64% (2017: 1.02%) for the year ended 31 December 2018.

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

	As at 31 December	
	2018	2017
	HK$	HK$
RMB	**418,754,763**	267,694,159
NT$	**84,496,948**	153,895,504
HK$	**15,628,951**	15,539,355
MYR	**11,461,746**	33,226,388
US$	**27,136,755**	21,626,022
Other currencies	**16,985,991**	42,608,358
	574,465,154	534,589,786

14 Share Capital and Share Premium

	Number of authorised shares	Number of issued and fully paid shares	Amount		
			Ordinary shares HK$	Share premium HK$	Total HK$
At 1 January 2017	80,000,000,000	1,137,412,373	113,741,237	3,498,754,174	3,612,495,411
Employee share option scheme (Note 15)					
– Exercise of share options	–	1,755,000	175,500	32,934,860	33,110,360
Allotment of shares (i)	–	55,000,000	5,500,000	814,000,000	819,500,000
At 31 December 2017	80,000,000,000	1,194,167,373	119,416,737	4,345,689,034	4,465,105,771
Employee share option scheme (Note 15)					
– Exercise of share options	–	685,000	68,500	6,092,196	6,160,696
At 31 December 2018	**80,000,000,000**	**1,194,852,373**	**119,485,237**	**4,351,781,230**	**4,471,266,467**

(i) On 31 March 2017, the Group completed the acquisition of 100% equity interest of Jiangmen Dynasty Fortune Paper Limited at a consideration of HK$924,275,889 by way of allotment of 55,000,000 shares at the price of HK$14.90 per share and cash of HK$104,775,889.

15 Share-based Payment

As approved by the Board meeting on 24 February 2009, 27,546,000 share options were granted to the directors and certain employees at an exercise price of HK$2.98 per share. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The options are exercisable during the following periods:

(i) in respect of the options granted to directors, on or after 24 February 2009;

(ii) in respect of the options granted to employees,

  (a) up to 20% on or after 25 February 2010;

  (b) up to 50% on or after 25 February 2011;

  (c) all the remaining options on or after 25 February 2012;

and in each case, not later than 23 February 2019.

In February 2009, all the directors and employees accepted the share options.

15 Share-based Payment *(continued)*

On 15 April 2011, 4,837,000 share options were granted to the directors and certain employees at an exercise price of HK$8.648 per share. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The options are exercisable on or after 15 April 2011 and no later than 14 April 2021.

On 2 May 2012, 16,771,000 share options were granted to the directors and certain employees at an exercise price of HK$14.06 per share. The Group has no legal or constructive obligation to repurchase or settle the options in cash. All the directors and employees accepted the share options.

The options are exercisable during the following periods if the Company meets certain performance conditions as set by the board of directors:

(a) The first tranche of 5,313,000 options are exercisable during the period from 2 May 2012 to 1 May 2022.

(b) The second tranche of 5,729,000 options are exercisable during the period from 2 May 2013 to 1 May 2022.

(c) The third tranche of 5,729,000 options are exercisable during the period from 2 May 2014 to 1 May 2022.

On 2 May 2013, 1,359,000 share options were granted to a director and certain employees at an exercise price of HK$10.34 per share. The Group has no legal or constructive obligation to repurchase or settle the options in cash. All the director and employees accepted the share options.

The options are exercisable during the following periods if the Company meets certain performance conditions as set by the board of directors:

(a) The first tranche of 1,134,000 options are exercisable during the period from 2 May 2013 to 1 May 2023.

(b) The second tranche of 225,000 options are exercisable during the period from 2 May 2014 to 1 May 2023.

15 Share-based Payment *(continued)*

Movements in the number of share options outstanding and their related weighted average exercise prices for the years ended 31 December 2018 and 2017 were as follows:

	For the year ended 31 December			
	2018		2017	
	Weighted average exercise price in HK$	Number of options	Weighted average exercise price in HK$	Number of options
At 1 January	12.34	9,528,000	12.57	11,283,000
Exercised (Note (a))	6.62	(685,000)	13.81	(1,755,000)
Lapsed (Note (b))	14.06	(260,000)	–	–
At 31 December	12.75	8,583,000	12.34	9,528,000

(a) All of the outstanding options are exercisable. Options exercised during the year ended 31 December 2018 resulted in 685,000 shares (2017: 1,755,000 shares) being issued with net proceeds of HK$4,534,300 (2017: HK$24,242,340). The related weighted average share price at the time of exercise was HK$13.29 (2017: HK$15.35) per share.

(b) Option lapsed during the year ended 31 December 2018 was 260,000 (2017:Nil) due to employee resignation.

Share options outstanding as at 31 December 2018 have the following expiry dates and exercise prices:

Expiry date	Exercise price HK$ per share	Number of options
14 April 2021	8.648	1,310,000
01 May 2022	14.06	6,154,000
01 May 2023	10.34	1,119,000

16 Other Reserves

	Statutory reserves (Note (a)) HK$	Retained earnings HK$	Translation reserve HK$	Other reserves HK$	Total HK$
At 1 January 2017	600,645,936	2,787,801,307	(277,641,966)	56,263,534	3,167,068,811
Employee share options scheme:					
– Exercise of options	–	–	–	(8,868,020)	(8,868,020)
Profit for the year	–	620,956,454	–	–	620,956,454
Appropriation of reserves	47,291,256	(47,291,256)	–	–	–
Dividends	–	(202,927,933)	–	–	(202,927,933)
Currency translation differences	–	–	692,642,246	–	692,642,246
Remeasurement on post-employment benefit obligation	–	–	–	2,491,047	2,491,047
At 31 December 2017	647,937,192	3,158,538,572	415,000,280	49,886,561	4,271,362,605
Change in accounting policy – HKFRS 9	**–**	**(66,461)**	**–**	**–**	**(66,461)**
At 1 January 2018 (Restated)	**647,937,192**	**3,158,472,111**	**415,000,280**	**49,886,561**	**4,271,296,144**
Employee share options scheme:					
– Exercise of options	**–**	**–**	**–**	**(1,626,396)**	**(1,626,396)**
Profit for the year	**–**	**649,304,689**	**–**	**–**	**649,304,689**
Appropriation of reserves	**27,991,928**	**(27,991,928)**	**–**	**–**	**–**
Dividend distribution through statutory reserves	**(57,630,762)**	**57,630,762**	**–**	**–**	**–**
Dividends	**–**	**(238,878,475)**	**–**	**–**	**(238,878,475)**
Currency translation differences	**–**	**–**	**(421,842,655)**	**–**	**(421,842,655)**
Remeasurement on post-employment benefit obligation	**–**	**–**	**–**	**396,637**	**396,637**
At 31 December 2018	**618,298,358**	**3,598,537,159**	**(6,842,375)**	**48,656,802**	**4,258,649,944**

16 Other Reserves *(continued)*

(a) Statutory Reserves

In accordance with the "Law of the PRC on Enterprises Operated Exclusively with Foreign Capital" and the Articles of Association of those subsidiaries of the Group, which are wholly foreign owned enterprises in the PRC, an appropriation to the Statutory Reserve from the statutory net profit after offsetting accumulated losses of previous years should be made prior to profit distribution to the shareholders. The appropriation for the Reserve Fund is no less than 10% of the statutory net profit and it can cease to accrue when the accumulated appropriation exceeds 50% of the registered capital. For the year ended 31 December 2018, the appropriation for the Reserve Fund is 15% (2017:15%) of the statutory net profits of the year for the subsidiaries in the PRC.

In accordance with the "Taiwan Company Law", Vinda Taiwan should appropriate 10% of its statutory net profit after offsetting accumulated losses of previous years to Statutory Reserve before distribution retained earnings to shareholders unless Statutory Reserve reached equal amount of paid in capital. Such reserve fund can be distributed to shareholders with a quantitative limitation of 25% of the Company's paid in capital. According to the Board resolution dated 21 May 2018, Vinda Taiwan distributed Statutory Reserve amounting to NT$221,983,000 (equivalent to HK$57,630,762) to its shareholder.

17 Trade Payables, Other Payables and Accrued Expenses

	As at 31 December	
	2018	2017
	HK$	HK$
Trade payables	**2,071,567,933**	2,358,159,286
Notes payable	**322,676,392**	323,445,538
Other payables		
– salaries payable	**255,123,590**	240,097,903
– taxes payable other than income tax	**37,303,747**	58,751,689
– advances from customers	**–**	86,890,937
– payables for property, plant and equipment	**570,967,807**	278,657,250
– others	**156,147,473**	169,236,859
Accrued expenses		
– promotion fees	**672,901,394**	612,314,989
– utility charges	**39,906,095**	41,243,258
– transportation fees	**138,032,415**	140,666,083
– advertising fee	**47,685,432**	61,642,389
– accrued interest	**8,651,491**	6,258,278
– professional services	**3,424,060**	2,734,323
– others	**111,644,828**	113,719,311
	4,436,032,657	4,493,818,093

As at 31 December 2018 and 2017, the carrying amounts of the Group's trade payables, notes payable and other payables approximated their fair values.

17 Trade Payables, Other Payables and Accrued Expenses *(continued)*

The credit period granted by the creditors generally ranged from 30 to 90 days. Ageing analysis of trade and notes payable as at 31 December 2018 and 2017 is as follows:

	As at 31 December	
	2018	2017
	HK$	HK$
Within 3 months	**1,829,550,803**	2,147,550,537
4 months to 6 months	**562,254,130**	528,324,145
7 months to 12 months	**522,231**	2,374,856
Over 1 year	**1,917,161**	3,355,286
	2,394,244,325	2,681,604,824

18 Borrowings

	As at 31 December	
	2018	2017
	HK$	HK$
Non-current		
Unsecured bank borrowings	**3,004,812,188**	3,310,130,427
Loans from a related party (Note 34(c))	**1,218,116,846**	1,236,403,002
Total non-current borrowings	**4,222,929,034**	4,546,533,429
Current		
Portion of loans from banks due for repayment within one year		
– Unsecured	**965,502,609**	629,925,889
Other borrowings due for repayment within one year		
– Unsecured (Note (a))	**57,064,597**	59,815,052
Total current borrowings	**1,022,567,206**	689,740,941
Total borrowings	**5,245,496,240**	5,236,274,370

(a) Other borrowings of RMB50,000,000 were granted by PRC local governments and are unsecured and interest-free.

18 Borrowings *(continued)*

(b) The maturity of borrowings is as follows:

	Bank borrowings As at 31 December		Loans from a related party As at 31 December		Other borrowings As at 31 December	
	2018	2017	**2018**	2017	**2018**	2017
	HK$	HK$	**HK$**	HK$	**HK$**	HK$
Portion of loans due for repayment within 1 year	**965,502,609**	629,925,889	**–**	–	**57,064,597**	59,815,052
Loans due for repayment after 1 year (Note i):						
Between 1 and 2 years	**1,762,277,535**	1,739,621,026	**338,000,000**	1,236,403,002	**–**	–
Between 2 and 5 years	**1,242,534,653**	1,570,509,401	**880,116,846**	–	**–**	–
	3,970,314,797	3,940,056,316	**1,218,116,846**	1,236,403,002	**57,064,597**	59,815,052

(i) Loan amounts due for repayment after 1 year are based on the scheduled repayment dates set out in the agreements ignoring effect of any repayment on demand clause.

(c) The effective interest rates during the year were as follows:

	Bank borrowings		Loans from a related party	
	2018	2017	**2018**	2017
HK$	**1.76%~3.15%**	1.80%~2.43%	**2.22%~3.52%**	2.16%~2.68%
US$	**2.20%-3.40%**	1.57%~2.04%	**–**	–
RMB	**3.65%~6.60%**	3.70%~9.80%	**5.85%**	4.97%~8.12%
EUR	**0.80%**	0.80%	**–**	–
KRW	**2.20%~2.75%**	2.20%~2.65%	**–**	–
MYR	**3.84%~4.34%**	3.13%~4.16%	**–**	–

18 Borrowings *(continued)*

(d) The carrying values of the borrowings approximate their fair values, as the market interest rates are relatively stable. The effective interest rates (per annum) at the balance sheet date were as follows:

	Borrowings As at 31 December	
	2018	2017
HK$	**2.81%**	2.40%
US$	**2.81%**	1.87%
RMB	**4.88%**	4.88%
EUR	**0.80%**	0.80%
KRW	**2.56%**	2.36%
MYR	**4.01%**	4.03%

(e) The carrying amounts of the borrowings are denominated in the following currencies:

	As at 31 December	
	2018 HK$	2017 HK$
RMB	**3,692,235,150**	3,792,287,598
HK$	**1,304,116,847**	1,056,957,846
MYR	**131,275,302**	343,179,708
KRW	**41,942,479**	43,849,218
US$	**75,926,462**	–
	5,245,496,240	5,236,274,370

19 Deferred Income Tax

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

	As at 31 December	
	2018	2017
	HK$	HK$
Deferred tax assets		
– Deferred income tax assets to be recovered after 12 months	**78,626,367**	54,824,556
– Deferred income tax assets to be recovered within 12 months	**325,202,573**	293,938,350
	403,828,940	348,762,906
Deferred tax liabilities		
– Deferred income tax liability to be settled after 12 months	**(191,944,402)**	(193,923,743)
– Deferred income tax liability to be settled within 12 months	**(16,577,658)**	(17,513,461)
	(208,522,060)	(211,437,204)
Deferred income tax assets, net	**195,306,880**	137,325,702

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

	For the year ended 31 December	
	2018	2017
	HK$	HK$
Beginning of the year	**137,325,702**	65,090,213
Credited to the consolidated statement of comprehensive income	**71,359,359**	63,252,995
Exchange differences	**(13,378,181)**	8,982,494
End of the year	**195,306,880**	137,325,702

19 Deferred Income Tax *(continued)*

The movement of the deferred tax assets is as follows:

	Impairment of assets HK$	Deferred government grants HK$	Unrealised profits – sales of inventories HK$	Unrealised profits – sales of property, plant and equipment HK$	Accrued expenses HK$	Taxable loss carried forward HK$	Share option expenses HK$	Reinvestment allowance HK$	Retirement benefit obligation HK$	Accelerated depreciation HK$	Others HK$	Total HK$
At 31 December 2016 and 1 January 2017	10,730,200	22,268,369	32,127,834	23,113,909	112,920,337	54,756,094	2,925,403	3,959,335	2,109,548	2,542,708	771,593	268,225,330
Credited/(charged) to the consolidated statement of comprehensive income	5,944,710	11,153,188	(7,525,718)	(232,471)	59,913,855	(6,617,504)	521,597	(4,159,545)	2,364,911	(930,906)	(1,169,323)	59,262,794
Exchange differences	597,951	1,949,128	1,989,867	1,611,990	10,336,414	3,877,606	(79,279)	200,210	240,643	152,522	397,730	21,274,782
At 31 December 2017	17,272,861	35,370,685	26,591,983	24,493,428	183,170,606	52,016,196	3,367,721	–	4,715,102	1,764,324	–	348,762,906
At 31 December 2017 and 1 January 2018	**17,272,861**	**35,370,685**	**26,591,983**	**24,493,428**	**183,170,606**	**52,016,196**	**3,367,721**	**–**	**4,715,102**	**1,764,324**	**–**	**348,762,906**
Credited/(charged) to the consolidated statement of comprehensive income	**1,224,378**	**19,542,840**	**(4,400,642)**	**403,347**	**13,094,302**	**35,793,947**	**(848,570)**	**–**	**552,927**	**7,659,424**	**–**	**73,021,953**
Exchange differences	**(825,607)**	**(2,286,675)**	**(1,074,096)**	**(1,139,899)**	**(8,460,860)**	**(3,689,940)**	**–**	**–**	**(155,127)**	**(323,715)**	**–**	**(17,955,919)**
At 31 December 2018	**17,671,632**	**52,626,850**	**21,117,245**	**23,756,876**	**187,804,048**	**84,120,203**	**2,519,151**	**–**	**5,112,902**	**9,100,033**	**–**	**403,828,940**

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$12,606,015 (2017: HK$14,639,137) in respect of losses amounting to HK$56,047,666 (2017: HK$65,737,881), which are not subject to expiration, that can be carried forward against future taxable income.

19 Deferred Income Tax *(continued)*

The movement of the deferred tax liabilities is as follows:

	Depreciation difference from tax allowance HK$	Interest capitalised HK$	Fair value gains through business combination HK$	Capital allowance HK$	Actuarial gains on defined benefit plans HK$	Unrealized foreign exchange loss HK$	Total HK$
At 31 December 2016 and 1 January 2017	1,444,188	20,850,001	141,827,950	34,988,669	2,660,451	1,363,858	203,135,117
(Credited)/charged to the consolidated statement of comprehensive income	(5,811)	7,920,705	(6,589,399)	(4,920,166)	–	(395,530)	(3,990,201)
Exchange differences	(165,722)	1,737,171	6,860,556	3,497,146	237,877	125,260	12,292,288
At 31 December 2017	1,272,655	30,507,877	142,099,107	33,565,649	2,898,328	1,093,588	211,437,204
At 31 December 2017 and 1 January 2018	**1,272,655**	**30,507,877**	**142,099,107**	**33,565,649**	**2,898,328**	**1,093,588**	**211,437,204**
Charged/(credited) to the consolidated statement of comprehensive income	**203,487**	**2,222,778**	**2,451,507**	**(666,782)**	**(2,650,931)**	**102,535**	**1,662,594**
Exchange differences	**(70,155)**	**(1,477,930)**	**(2,250,996)**	**(709,955)**	**(41,750)**	**(26,952)**	**(4,577,738)**
At 31 December 2018	**1,405,987**	**31,252,725**	**142,299,618**	**32,188,912**	**205,647**	**1,169,171**	**208,522,060**

Deferred income tax liabilities of HK$181,789,172 (2017: HK$196,317,443) have not been recognised for the withholding tax that would otherwise be payable on the unremitted earnings of certain subsidiaries. Management currently has no intention to remit those earnings in the foreseeable future. Such unremitted earnings totalled HK$3,520,271,979 as at 31 December 2018 (2017: HK$3,576,273,874).

20 Deferred Government Grants

	HK$
At 1 January 2017	
Cost	123,262,132
Accumulated amortisation	(32,775,836)
Net book amount	90,486,296
Year ended 31 December 2017	
Opening net book amount	90,486,296
Additions	53,157,005
Amortisation (Note 23)	(8,685,378)
Exchange differences	7,890,621
Closing net book amount	142,848,544
At 31 December 2017	
Cost	186,909,448
Accumulated amortisation	(44,060,904)
Net book amount	142,848,544
Year ended 31 December 2018	
Opening net book amount	**142,848,544**
Additions	**94,574,263**
Amortisation (Note 23)	**(13,029,179)**
Exchange differences	**(9,323,517)**
Closing net book amount	**215,070,111**
At 31 December 2018	
Cost	**269,693,973**
Accumulated amortisation	**(54,623,862)**
Net book amount	**215,070,111**

In 2018, certain subsidiaries of the Group received government grants with total amount of RMB80,066,382(equivalent to HK$94,574,263)(2017: RMB45,981,500 (equivalent to HK$53,157,005)). The government grant was recorded as deferred government grants and credited to the consolidated statement of comprehensive income on a straight-line basis over the expected useful lives of the corresponding property, plant and equipment or land use rights.

21 Post-employment Benefits

The table below outlines where the Group's post-employment amounts and activity are included in the financial statements.

	2018 HK$	2017 HK$
Balance sheet obligations for:		
– Defined pension benefits	31,124,829	33,214,008
Liability in the balance sheet	31,124,829	33,214,008
Statement of profit or loss charge included in operating profit for:		
– Defined pension benefits (Note 25)	1,869,905	721,511
	1,869,905	721,511
Remeasurements for:		
– Defined pension benefits	(606,038)	(2,999,723)
	(606,038)	(2,999,723)

The income statement charge included within operating profit includes current service cost, interest cost, past service costs and gains and losses on settlement and curtailment.

21 Post-employment Benefits *(continued)*

(a) Defined Benefit Pension Plans

The Group operates defined benefit pension plans in Taiwan and Korea. The Group engaged independent valuer to carry out a valuation on post-employment benefits. Projected unit credit cost method was applied in the valuation.

In the Taiwan plan, net periodic pension costs are recognized in accordance with the actuarial calculations. Net periodic pension costs include service cost, interest cost, expected return on plan assets, and amortization of unrecognized net transition obligation and gains or losses on plan assets. Unrecognized net transition obligation is amortized on a straight-line basis over 17 years.

In the Korean plan, according to the payment provision of the employees and directors' severance benefit, employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment with Vinda Korea based on their length of service and rate of pay at the time of termination.

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

	2018 HK$	2017 HK$
Present value of obligations	43,337,876	47,257,288
Fair value of plan assets	(18,801,602)	(19,521,391)
Deficit of funded plans	24,536,274	27,735,897
Present value of unfunded obligations	6,588,555	5,478,111
Liability in the balance sheet	31,124,829	33,214,008

21 Post-employment Benefits *(continued)*

	Present value of obligation HK$	Fair value of plan assets HK$	Total HK$
At 1 January 2018	52,735,399	(19,521,391)	33,214,008
Current service cost	1,411,992	–	1,411,992
Interest expense/(income)	706,392	(248,479)	457,913
	54,853,783	(19,769,870)	35,083,913
Remeasurements:			
– Return on plan assets, excluding amounts included in interest income	–	(548,635)	(548,635)
– Loss from change in demographic assumptions	236,222	–	236,222
– Loss from change in financial assumptions	1,631,265	–	1,631,265
– Experience gains	(1,924,890)	–	(1,924,890)
	(57,403)	(548,635)	(606,038)
Contributions:			
– Employers	–	(1,989,478)	(1,989,478)
Payments from plans:			
– Benefit payments	(3,197,585)	2,907,321	(290,264)
Currency translation differences	(1,672,364)	599,060	(1,073,304)
At 31 December 2018	**49,926,431**	**(18,801,602)**	**31,124,829**

21 Post-employment Benefits *(continued)*

	Present value of obligation HK$	Fair value of plan assets HK$	Total HK$
At 1 January 2017	52,008,310	(15,406,829)	36,601,481
Current service cost	1,542,798	–	1,542,798
Past service cost	(1,335,654)	–	(1,335,654)
Interest expense/(income)	717,927	(203,560)	514,367
	52,933,381	(15,610,389)	37,322,992
Remeasurements:			
– Return on plan assets, excluding amounts included in interest income	–	31,170	31,170
– Loss from change in demographic assumptions	219,812	–	219,812
– Loss from change in financial assumptions	(311,065)	–	(311,065)
– Experience gains	(2,939,640)	–	(2,939,640)
	(3,030,893)	31,170	(2,999,723)
Contributions:			
– Employers	–	(4,361,504)	(4,361,504)
Payments from plans:			
– Benefit payments	(2,422,637)	1,861,105	(561,532)
Currency translation differences	5,255,548	(1,441,773)	3,813,775
At 31 December 2017	52,735,399	(19,521,391)	33,214,008

21 Post-employment Benefits *(continued)*

The defined benefit obligation and plan assets are composed by country/region as follows:

	2018			2017		
	Taiwan HK$	Korea HK$	Total HK$	Taiwan HK$	Korea HK$	Total HK$
Present value of obligation	43,337,876	6,588,555	49,926,431	47,257,288	5,478,111	52,735,399
Fair value of plan assets	(18,801,602)	–	(18,801,602)	(19,521,391)	–	(19,521,391)
Total	24,536,274	6,588,555	31,124,829	27,735,897	5,478,111	33,214,008

The significant actuarial assumptions were as follows:

	2018		2017	
	Taiwan	Korea	Taiwan	Korea
Discount rate	1.00%	2.00%	1.25%	2.50%
Salary growth rate	3.00%	5.00%	3.00%	5.00%

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.25%	Decrease in fair value by 2.90% for Taiwan 3.07% for Korea	Increase in fair value by 3.02% for Taiwan 3.22% for Korea
Salary growth rate	0.25%	Increase in fair value by 2.95% for Taiwan 3.12% for Korea	Decrease in fair value by 2.85% for Taiwan 2.99% for Korea
Life expectancy	1 year	Increase in fair value by 0.07% for Korea 0.10% for Taiwan	Decrease in fair value by 0.07% for Korea 0.10% for Taiwan

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the statement of financial position.

21 Post-employment Benefits *(continued)*

The plan assets are cash and cash equivalents as at 31 December 2018 and 2017.

Through its defined benefit pension plans, the Group is exposed to a number of risks, the most significant of which is detailed below:

Life expectancy — The majority of the plans' obligations are to provide benefits for the life of the member. Increases in life expectancy will result in an increase in the plans' liabilities.

The weighted average duration of the defined benefit obligation for Taiwan and Korea are 11 and 12 years respectively.

Expected maturity analysis of undiscounted pension and post-employments benefits:

At 31 December 2018	**Less than a year** HK$	**Between 1-2 years** HK$	**Between 2-5 years** HK$	**Over 5 years** HK$	**Total** HK$
Pension benefits	**1,226,134**	**1,750,913**	**4,701,115**	**48,239,953**	**55,918,115**

At 31 December 2017	Less than a year HK$	Between 1-2 years HK$	Between 2-5 years HK$	Over 5 years HK$	Total HK$
Pension benefits	1,193,232	1,928,492	4,982,784	52,403,333	60,507,841

22 Other Non-current Liabilities

	As at 31 December	
	2018 **HK$**	2017 HK$
Long term incentive plans (i) (Note 25)	**10,709,487**	17,675,709

(i) On 7 April 2017, in order to provide a more competitive salary structure to employees and to increase the retention rate of key talents, the Board of Directors approved two cash settled share-based long term incentive plans for the Executive Directors and CFO and the selected senior managements.

22 Other Non-current Liabilities *(continued)*

Long Term Incentive Plan for Executive Directors and CFO

Compensation unit ("CU") can be granted under the plan to Executive Directors and CFO to reward for their future services during the vesting period. A total of 6,840,000 CUs were granted to Executive Directors and CFO at a nominal price of HK$15.31 under the plan. The exercise price of a CU is capped at HK$30. The vesting period is from 1 January 2017 to 1 July 2020. A CU can be realised at the exercise price after the vesting period until 31 December 2025, subject to the provisions of the plan.

As at 31 December 2018, the fair value of each CU granted determined by using the Binomial Model was HK$2.74. The significant inputs into the model were share price at the valuation date, the grant price, volatility of 30%, dividend yield of 1.21%, and annual risk-free interest rate of 1.92%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices of the Company over relevant period matching the life of the incentive plan.

Long Term Incentive Program for Selected Senior Management

Program participants will receive a bonus up to 100% of their annual salary based on a payout ratio depending on the total shareholder return ("TSR") of the Company versus peer group companies and 2 indexes. The TSR is calculated based on the future share price and the potential dividend yield. There will be two measurement periods for this program, from 2017 to 2019 and from 2019 to 2021.

As at 31 December 2018, the TSR is determined by using the Monte Carlo Simulation Model. The significant inputs into the model were annualized drift rate of 7.59% of the Company and 8.54% of the peer group, dividend yield of 1.10% of the Company and 2.54% of the peer group and annualized asset price volatility of 25% of the Company and 15% of the peer group matching the life of the incentive program.

23 Other Income and Losses – net

	For the year ended 31 December	
	2018	2017
	HK$	HK$
Subsidy income received from local government (Note (a))	**29,915,118**	48,926,004
Amortisation of deferred government grants (Note 20)	**13,029,179**	8,685,378
Loss on disposal of land use rights	**–**	(310,329)
Gain/(loss) on disposal of property, plant and equipment	**262,204**	(3,567,877)
Gain on disposal of investment property	**–**	11,923,800
Foreign exchange loss – net (Note 28)	**(74,291,587)**	(498,139)
Rental income	**1,850,469**	2,655,407
Depreciation of investment property	**(311,269)**	(309,187)
Impairment charge of trademark (Note 8)	**–**	(3,323,091)
Others	**2,773,810**	(1,683,559)
	(26,772,076)	62,498,407

(a) In 2018, certain subsidiaries of the Group, which were mainly in the PRC have received subsidy income from government authorities amounting to RMB25,326,079(equivalent to HK$29,915,118) (2017: RMB42,321,630 (equivalent to HK$48,926,004)).

24 Expenses by Nature

	For the year ended 31 December 2018 HK$	2017 HK$
Raw materials and trading merchandise consumed	**8,159,442,250**	7,105,711,376
Staff costs (Note 25)	**1,572,967,168**	1,480,996,899
Utilities	**855,926,505**	849,739,006
Transportation expenses	**671,057,141**	642,270,308
Promotion expenses	**731,142,480**	787,081,564
Depreciation of property, plant and equipment (Note 7)	**818,875,919**	702,350,651
Operating lease rent	**185,378,391**	174,753,171
Advertising costs	**124,754,266**	132,571,325
Travel and office expenses	**75,049,083**	72,523,957
Real estate tax, stamp duty and other taxes	**47,198,907**	40,754,911
Bank charges	**4,660,859**	5,964,877
Provision for impairment of receivables (note 3.1(b))	**1,829,013**	8,581,128
Auditor's remuneration	**8,666,277**	8,785,995
Amortisation of leasehold land and land use rights (Note 6)	**25,685,870**	20,290,589
Amortisation of intangible assets (Note 8)	**97,696,304**	96,897,839
Provision for write-down of inventories	**13,652,538**	4,762,242
Impairment charge on property, plant and equipment (Note 7)	**2,709,040**	9,165,525
Other expenses	**435,458,951**	421,731,700
Total cost of sales, selling and marketing costs, administrative expenses and net impairment losses on financial assets	**13,832,150,962**	12,564,933,063

25 Employee Benefit Expenses

The aggregate amounts of staff costs including directors' emoluments are as follows:

	For the year ended 31 December	
	2018	2017
	HK$	HK$
Defined contribution for Hong Kong employees		
– MPF	**1,294,560**	1,181,908
Defined contribution for overseas employees	**32,632,676**	31,526,929
Defined benefits for overseas employees (Note 21)	**1,869,905**	721,511
Long-term incentive plan (Note 22)	**(6,966,222)**	17,675,709
Social security and benefits for the PRC employees	**186,972,704**	166,510,274
	215,803,623	217,616,331
Wages, salaries and bonus	**1,272,418,012**	1,181,692,023
Staff welfare	**84,745,533**	81,688,545
	1,572,967,168	1,480,996,899

(a) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2018 include three directors (2017: three directors) whose emoluments are reflected in the analysis disclosed in Note 36. The emoluments payable to the remaining two individuals (2017: two individuals) for the year ended 31 December 2018 is as follows:

	For the year ended 31 December	
	2018	2017
	HK$	HK$
– Basic salaries, housing allowances, other allowances and benefits-in-kind	**11,819,448**	10,514,707
– Long-term incentive plans	**–**	2,317,955
– Others	**42,608**	25,902
	11,862,056	12,858,564

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the years ended 31 December 2018 and 2017.

26 Finance Income and Costs – net

	For the year ended 31 December	
	2018	2017
	HK$	HK$
Interest expense		
– borrowings(a)	**(226,972,410)**	(196,317,004)
Foreign exchange loss – net (a) (Note 28)	**(6,175,395)**	(26,881,531)
Interest income		
– bank deposits	**11,196,309**	9,170,849
Net finance costs	**(221,951,496)**	(214,027,686)

(a) During the year, the Group has capitalised borrowing costs amounting to HK$21,747,236 (2017: HK$37,519,675) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 4.38% (2017: 4.90%).

27 Taxation

(a) Income Tax Expense

The applicable corporate income tax rate for Mainland China subsidiaries is 25% except for subsidiaries which are qualified as High and New Technology Enterprises ("HNTE") and would be entitled to enjoy a beneficial tax rate of 15%. The subsidiaries may additionally deduct 75% of qualified research and development expenses when calculating the taxable income.

Hong Kong and overseas profits tax has been provided at the rates of taxation prevailing in the countries or regions in which the Group operates respectively.

	For the year ended 31 December	
	2018	2017
	HK$	HK$
Current income tax		
– Hong Kong and overseas profits tax	**143,008,161**	114,544,242
– Mainland China income tax	**67,394,237**	98,885,211
– Tax filing difference for prior year	**(2,356,036)**	(4,839,166)
Deferred income tax (Note 19)	**(71,568,760)**	(63,252,995)
Withholding tax	**11,891,077**	3,204,692
	148,368,679	148,541,984

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

	For the year ended 31 December	
	2018	2017
	HK$	HK$
Profit before income tax	**797,673,368**	769,498,438
Applicable tax rates	**19.16%**	21.23%
Tax calculated at weighted average tax rate	**152,862,750**	163,402,288
Income not subject to tax	**(4,414,020)**	(4,975,732)
Changes in the applicable tax rate	**5,344,137**	–
Expenses not deductible for tax purposes	**27,836,897**	28,641,029
Unrecognised tax losses	**615,205**	2,276,724
Utilisation of previously unrecognised tax losses	**(2,059,895)**	(2,402,260)
Tax filing difference for prior year	**(2,356,036)**	(4,839,166)
Tax benefit from HNTE qualification	**(29,355,548)**	(34,502,824)
Capital reinvestment	**(11,995,888)**	(2,262,767)
Withholding tax	**11,891,077**	3,204,692
Income tax expense	**148,368,679**	148,541,984

27 Taxation *(continued)*

(b) VAT

Sales of self-manufactured products of the Company's PRC and Malaysia subsidiaries are subject to VAT. The applicable tax rate for PRC domestic sales has changed from 17% to 16% since May 2018. The applicable tax rate for Malaysia subsidiaries is 6%.

Input VAT on purchases of raw materials, fuel, utilities, certain fixed assets and other production materials (merchandise, transportation costs) are creditable against output VAT. VAT payable is the net difference between output VAT and creditable input VAT.

28 Net Foreign Exchange Losses

	For the year ended 31 December	
Included in –	**2018**	2017
	HK$	HK$
Other income and losses – net (Note 23)	**(74,291,587)**	(498,139)
Finance income – exchange loss (Note 26)	**(6,175,395)**	(26,881,531)
	(80,466,982)	(27,379,670)

29 Earnings per Share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average numbers of ordinary shares in issue during the year.

	For the year ended 31 December	
	2018	2017
Profit attributable to equity holders of the Company (HK$)	**649,304,689**	620,956,454
Weighted average number of ordinary shares issued	**1,194,413,726**	1,180,225,239
Basic earnings per share (HK$ per share)	**0.544**	0.526

29 Earnings per Share *(continued)*

(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 potentially dilutive ordinary shares comprised of share options.

	For the year ended 31 December	
	2018	2017
Profit attributable to equity holders of the Company (HK$)	**649,304,689**	620,956,454
Weighted average number of ordinary shares issued	**1,194,413,726**	1,180,225,239
Adjustments for share options	**1,010,558**	1,427,087
Weighted average number of ordinary shares for diluted earnings per share	**1,195,424,284**	1,181,652,326
Diluted earnings per share (HK$ per share)	**0.543**	0.525

30 Dividends

	2018	2017
	HK$	HK$
Interim dividend paid of HK$0.060 (2017: HK$0.050) per ordinary share	**71,663,542**	59,707,169
Proposed final dividend of HK$0.140 (2017: HK$0.140) per ordinary share	**167,279,332**	167,183,432
	238,942,874	226,890,601

On 30 January 2019, the Board of Directors proposed a final dividend in respect of the year ended 31 December 2018 of HK$167,279,332, representing HK$0.140 per ordinary share. Such dividend is to be approved by the shareholders at the Annual General Meeting of the Company. These financial statements do not reflect this dividend payable.

The actual final dividends paid for the year ended 31 December 2017 was HK$167,214,933 based on the 1,194,392,373 issued shares outstanding at that time.

The interim dividends actually paid in 2018 and 2017 were HK$71,663,542 and HK$59,707,169 respectively based on the number of issued shares outstanding at relevant time.

31 Cash Generated from Operations

(a) Reconciliation of Profit Before Income Tax to Cash Generated from Operations

	For the year ended 31 December	
	2018	2017
	HK$	HK$
Profit before income tax	**797,673,368**	769,498,438
Adjustments for:		
– Depreciation of property, plant and equipment (Note 7)	**818,875,919**	702,350,651
– Depreciation of investment property	**311,269**	309,187
– Amortisation of intangible assets (Note 8)	**97,696,304**	96,897,839
– Amortisation of leasehold land and land use rights (Note 6)	**25,685,870**	20,290,589
– Amortisation of deferred government grants (Note 20)	**(13,029,179)**	(8,685,378)
– (Gain)/Loss on disposals of property, plant and equipment (Note 23)	**(262,204)**	3,567,877
– Loss on disposal of land use rights (Note 23)	**–**	310,329
– Gain on disposal of investment property (Note 23)	**–**	(11,923,800)
– Provision for impairment of receivables (Note 3.1(b))	**1,829,013**	8,581,128
– Provision for inventory impairment	**13,652,538**	4,762,242
– Impairment charge on property, plant and equipment (Note 7)	**2,709,040**	9,165,525
– Impairment charges of trademark (Note 8)	**–**	3,323,091
– Net finance costs (Note 26, Note 28)	**296,243,083**	214,525,825
	2,041,385,021	1,812,973,543
Changes in working capital (excluding the effect of exchange differences on consolidation):		
– Decrease/(Increase) in inventories	**154,148,768**	(1,104,391,435)
– Increase in trade, note and other receivables and prepayments	**(245,262,643)**	(160,489,458)
– (Increase)/Decrease in due from related parties	**(9,305,213)**	81,842,040
– (Decrease)/Increase in trade payables, other payables and accrued expenses and contract liability	**(157,287,888)**	811,993,823
– (Decrease)/Increase in due to related parties	**(24,121,661)**	8,466,029
Cash generated from operations	**1,759,556,384**	1,450,394,542

31 Cash Generated from Operations *(continued)*

(b) Reconciliation of Proceeds from Disposal of Property, Plant and Equipment

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	For the year ended 31 December	
	2018	2017
	HK$	HK$
Net book amount of property, plant and equipment (Note 7)	**16,384,609**	14,419,490
Gain/(loss) on disposal of property, plant and equipment	**262,204**	(3,567,877)
Decrease/(Increase) in trade receivables, other receivables and prepayments	**10,731,420**	(10,731,420)
Net book amount of leasehold land and land use rights (Note 6)	**–**	19,719,890
Net book amount of intangible assets (Note 8)	**–**	353,921
Loss on disposal of land use rights	**–**	(310,329)
Gain on disposal of investment property	**–**	11,923,800
Proceeds from disposal of property, plant and equipment	**27,378,233**	31,807,475

32 Commitments

(a) Capital Commitments

	As at 31 December	
	2018	2017
	HK$	HK$
Property, plant and equipment and intangible assets	**539,727,141**	948,727,954
Investment in an associate (i)	**2,739,101**	2,871,122
	542,466,242	951,599,076

(i) On 1 December 2017, CEHM, a subsidiary of the Company entered into an investment agreement with Wu Yi Charity Federation, an independent third party, pursuant to which, CEHM and Wu Yi Charity Federation agreed to invest RMB2,400,000 and RMB9,600,000 respectively to set up China-Euro Healthcare Management(Guangdong) Limited, a limited liability company. Upon completion, CEHM will hold 20% of the equity interest of China-Euro Healthcare Management(Guangdong) Limited.

32 Commitments *(continued)*

(b) Commitments Under Operating Leases

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

	As at 31 December	
	2018	2017
	HK$	HK$
Within one year	**78,753,171**	66,220,097
Later than one year but not later than two years	**48,033,996**	47,469,621
Later than two years but not later than five years	**40,493,815**	37,249,679
Later than five years	**61,940,950**	347,223
	229,221,932	151,286,620

33 Acquisition of a Subsidiary

On 31 March 2017, the Group completed the acquisition of 100% equity interest of Jiangmen Dynasty Fortune Paper Limited at a consideration of HK$924,275,889 by way of allotment of 55,000,000 shares at the price of HK$14.90 per share and cash of HK$104,775,889. Jiangmen Dynasty Fortune Paper Limited was established on 12 October 2015 from a spin-off of Jiangmen Taiyuan Paper Limited ("Taiyuan Paper"). Taiyuan Paper is principally engaged in wholesale and retail of household paper products in the PRC. Jiangmen Dynasty Fortune Paper Limited's major properties including two land use rights, together with all of the factories, buildings and the ancillary infrastructures and facilities thereon were leased to the Group under the three lease agreements signed on 22 November 2011, 27 March 2012 and 10 April 2014 between Vinda Paper (China) Company Limited ("Vinda Paper (China)") and Taiyuan Paper.

The Group acquired Jiangmen Dynasty Fortune Paper Limited in order to obtain the ownership of the aforesaid leasing properties. As a result, the accounting treatment for this acquisition is acquisition of assets and liabilities instead of business combination.

33 Acquisition of a Subsidiary *(continued)*

The fair value of assets acquired and liabilities assumed at the acquisition date are analysed as follows:

	HK$
Consideration as at 31 March 2017:	
– Allotment of shares	819,500,000
– Cash	104,775,889
Total consideration	**924,275,889**
Assets and liabilities	
Property, plant and equipment (Note 7)	345,346,510
Land use rights (Note 6)	578,105,752
Due from related parties	62,930,074
Prepayments, deposits and other receivables	238,692
Cash and cash equivalents	23,059,438
Trade and other payables	(1,244,866)
Due to related parties	(34,917,774)
Current income tax liabilities	(1,669,004)
Borrowings	(47,572,933)
Total identifiable net assets acquired	**924,275,889**
Cash consideration	104,775,889
Less: cash and cash equivalents acquired	(23,059,438)
Net cash outflow	**81,716,451**

34 Related Party Transactions

The immediate holding company of the Group is Essity BV (formerly known as SCA Group Holding BV) (incorporated in Netherlands). SCA spun off its hygiene unit into a new listed company, namely Essity in June 2017. Essity has become Vinda's ultimate controlling shareholder in place of SCA from 14 June 2017.

(a) Information on Related Parties and their Relationships with the Group are as Follows:

Name of related party	Relationship
Uni-Charm Mölnlycke KK ("Uni-Charm")	Subsidiary of Essity Aktiebolag (publ)
Asaleo Care Australia Pty Ltd.	Associate of Essity Aktiebolag (publ)
Productos Familia, S.A., Colombia	Subsidiary of Essity Aktiebolag (publ)
Essity Higiene y Salud Mexico, S.A. de C.V. ("Essity Mexico",formerly known as SCA Consumidor Mexico S.A. de C.V.)	Subsidiary of Essity Aktiebolag (publ)
Asaleo Care (Fiji) Limited	Associate of Essity Aktiebolag (publ)
Essity Hygiene and Health AB ("Essity HH", formerly known as SCA Hygiene Products AB)	Subsidiary of Essity Aktiebolag (publ)
Essity Canada Inc. (formerly known as SCA North America-Canada, Inc.)	Subsidiary of Essity Aktiebolag (publ)
Essity Operations Hoogezand B.V. ("Essity Hoogezand B.V.", formerly known as SCA Hygiene Products Hoogezand B.V.)	Subsidiary of Essity Aktiebolag (publ)
Asaleo Care New Zealand Ltd.	Associate of Essity Aktiebolag (publ)
SCA Yildiz Kagit ve Kisise ("SCA YKK")	Subsidiary of Essity Aktiebolag (publ)
SCA Hygiene Products India Pvt. Ltd. ("SCA HP India")	Subsidiary of Essity Aktiebolag (publ)
Essity Poland Sp.z o.o. (formerly known as SCA Hygien Sp. Z o.o)	Subsidiary of Essity Aktiebolag (publ)
Essity Operations Gennep B.V. ("Essity OG B.V.", formerly known as SCA Hygiene Products Gennep B.V.)	Subsidiary of Essity Aktiebolag (publ)
Essity Operations Mainz-Kostheim GmbH ("Essity Kostheim", formerly known as SCA Hygiene Products GmbH, Mainz – Kostheim)	Subsidiary of Essity Aktiebolag (publ)
Essity Operations Neuss GmbH ("Essity ON GmbH", formerly known as SCA Hygiene Products GmbH Neuss)	Subsidiary of Essity Aktiebolag (publ)

34 Related Party Transactions *(continued)*

(a) Information on Related Parties and their Relationships with the Group are as Follows: *(continued)*

Name of related party	Relationship
Essity Slovakia s.r.o. (formerly known as SCA Hygiene Products Slovakia, S.R.O.)	Subsidiary of Essity Aktiebolag (publ)
Essity Operations France (formerly known as SCA Tissue France SAS)	Subsidiary of Essity Aktiebolag (publ)
Essity Professional Hygiene North America LLC ("Essity NA", formerly known as SCA Tissue North America LLC)	Subsidiary of Essity Aktiebolag (publ)
Essity Operations Mannheim GmbH ("Essity OM", formerly known as SCA Hygiene Products GmbH, Mannheim)	Subsidiary of Essity Aktiebolag (publ)
Essity GMBH (formerly known as SCA GmbH)	Subsidiary of Essity Aktiebolag (publ)
SCA Graphic Sundsvall AB (" SCA GS AB") (i)	Subsidiary of Svenska Cellulosa Aktiebolaget
SCA Logistics AB (i)	Subsidiary of Svenska Cellulosa Aktiebolaget
Jiangmen Dynasty Fortune Paper Limited ("Taiyuan Paper", formerly known as Jiangmen Taiyuan Paper Limited)	Subsidiary of Fu An
Essity Treasury AB (formerly known as AB SCA Finans(publ))	Subsidiary of Essity Aktiebolag (publ)
Essity BV (formerly known as SCA Group Holding BV)	Shareholder
Essity HMS North America Inc ("Essity HMS", formerly know as SCA Personal Care Inc.)	Subsidiary of Essity Aktiebolag (publ)

(i) Due to the spin-off of SCA, these companies ceased to be related parties of the Company from 14 June 2017. The disclosed amount for 2017 represents the transactions between the Group and these companies during the period from 1 January 2017 to 14 June 2017.

34 Related Party Transactions *(continued)*

(b) Significant Related Party Transactions

In the opinion of the Company's directors, the related party transactions were conducted in the ordinary course of business and based on terms mutually agreed by the underlying parties. Significant related party transactions of the Group during the year ended 31 December 2018 include:

(1) Sales of products to related parties:

	For the year ended 31 December	
	2018	2017
	HK$	HK$
– Uni-Charm	**111,292,267**	104,440,673
– Asaleo Care Australia Pty Ltd	**23,204,462**	23,987,243
– Productos Familia, S.A., Colombia	**22,196,855**	–
– Essity Mexico	**9,212,997**	–
– Asaleo Care Fiji Ltd	**9,135,772**	7,825,243
– Essity HH	**5,569,341**	3,514,001
– Essity Canada Inc.	**3,856,269**	4,442,341
– Essity Hoogezand B.V.	**2,666,340**	1,475,334
– Asaleo Care New Zealand Ltd	**2,021,635**	3,480,839
– SCA YKK	**796,234**	2,621,169
– SCA HP India	**–**	1,193,359
	189,952,172	152,980,202

34 Related Party Transactions *(continued)*

(b) Significant Related Party Transactions *(continued)*

(2) Purchase of products from related parties:

	For the year ended 31 December	
	2018	2017
	HK$	HK$
– Essity Poland Sp.z o.o.	**50,648,503**	41,018,009
– Essity OG B.V.	**48,516,683**	42,925,452
– Essity HH	**42,870,084**	54,151,528
– Essity Hoogezand B.V.	**28,089,708**	28,989,516
– Essity Kostheim	**25,763,032**	21,533,984
– Essity ON GmbH	**1,397,860**	1,118,443
– Essity Slovakia s.r.o.	**990,360**	3,983,632
– Essity Operations France	**367,880**	559,114
– Essity NA	**250,964**	4,982
– Essity OM	**56,933**	4,035,516
– SCA GS AB (Note (a))	**–**	4,767,544
– SCA Logistics AB (Note (a))	**–**	4,630,345
	198,952,007	207,718,065

(a) Due to the spin-off of SCA, these companies ceased to be related parties of the Company from 14 June 2017. The disclosed amount for 2017 included the transactions between the Group and these companies during the period from 1 January 2017 to 14 June 2017.

34 Related Party Transactions *(continued)*

(b) Significant Related Party Transactions *(continued)*

(3) Research and development expenses charge to a related party:

	For the year ended 31 December	
	2018	2017
	HK$	HK$
– Essity HH	**17,626,511**	10,837,990

(4) IT costs charged to the Group by a related party:

	For the year ended 31 December	
	2018	2017
	HK$	HK$
– Essity HH	**10,569,891**	11,313,761

(5) Rental expenses paid to a related party:

	For the year ended 31 December	
	2018	2017
	HK$	HK$
– Taiyuan Paper	**–**	17,859,200

(6) Loans borrowed from a related party:

	For the year ended 31 December	
	2018	2017
	HK$	HK$
– Essity Treasury AB (Note (b))	**331,118,453**	300,000,000

(7) Loans repaid to a related party:

	For the year ended 31 December	
	2018	2017
	HK$	HK$
– Essity Treasury AB (Note (b))	**359,151,000**	–

34 Related Party Transactions *(continued)*

(b) Significant Related Party Transactions *(continued)*

(8) Interest expenses accrued to a related party:

	For the year ended 31 December	
	2018	2017
	HK$	HK$
– Essity Treasury AB (Note (b))	**39,024,331**	39,657,279

(b) On 19 December 2014, 1 April 2016, 8 June 2017, 9 May 2018 and 5 December 2018, the Group entered into five term facility agreements with Essity Treasury AB, in relation to term loans of an aggregate amount not exceeding HK$3,000,000,000, HK$1,140,116,846, HK$400,000,000, HK$200,000,000 and HK$170,000,000 (or an equivalent amount) respectively.

On 19 January 2015 and 11 March 2015, the Group made two loan drawdowns under the term facility agreement dated 19 December 2014 with principal amounts of RMB150,000,000 and RMB150,000,000 respectively. The loans' maturity dates were 18 January 2019 and 11 March 2019 respectively. On 11 December 2017 and 19 January 2018, the Group agreed with Essity Treasury AB to shift the loan currency from RMB to HK$. The new principal amounts were HK$176,841,000 and HK$182,310,000 respectively. The maturity dates shall be on 11 December 2019 and 18 January 2019 respectively. The interest rate of the agreement was 2.37%. These loans have been repaid on 11 December 2018 and 19 December 2018 respectively.

On 1 April 2016, the Group made one loan drawdown under the term facility agreements dated 1 April 2016 with principal amount of HK$1,140,116,846. The loan's maturity date was 31 March 2019. On 30 December 2016, the Group repaid HK$560,000,000. On 26 March 2018, the Group entered a new facility agreement with Essity Treasury AB to extend the maturity date to 7 April 2021 with principal amount of HK$580,116,846. The interest rate of the agreement was 2.59%.

On 20 June 2017, the Group made one loan drawdown under the term facility agreement dated 8 June 2017 with principal amount of HK$300,000,000 and the loan's maturity date was 20 June 2019. On 20 June 2018, the Group entered a new facility agreement with Essity Treasury AB to extend the maturity date to 21 June 2021 with principal amount of HK$300,000,000. The interest rate of the agreement was 2.57%.

On 9 May 2018, the Group made one loan drawdown under the term facility agreement dated 9 May 2018 with principal amount of HK$168,000,000 and the loan's maturity date is 11 May 2020. The interest rate of the agreement was 2.75%.

On 5 December 2018, the Group made one loan drawdown under the term facility agreement dated 5 December 2018 with principal amounts of HK$170,000,000 and the loan's maturity date is 11 December 2020. The interest rate of the agreement was 3.20%.

34 Related Party Transactions *(continued)*

(b) Significant Related Party Transactions *(continued)*

(9) Key management compensation:

	For the year ended 31 December	
	2018	2017
	HK$	HK$
Directors		
– Basic salaries, housing allowances, other allowances, benefits-in-kind, pensions and other benefits	**35,691,069**	31,160,807
– Long-term incentive plans	**1,676,465**	7,576,906
Senior management		
– Basic salaries, housing allowances, other allowances, benefits-in-kind, pensions and other benefits	**28,349,668**	25,685,835
– Long-term incentive plans	**(4,230,330)**	5,686,444
	61,486,872	70,109,992

The emoluments of senior management (excluding directors) fell within the following bands:

	Number of individuals	
	2018	2017
– HK$1,000,000 to HK$1,500,000	**3**	3
– HK$1,500,000 to HK$2,000,000	**–**	1
– Above HK$2,000,000	**6**	6

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the year ended 31 December 2018 and 2017.

34 Related Party Transactions *(continued)*

(c) Year-end Balances with Related Parties

	As at 31 December 2018 HK$	As at 31 December 2017 HK$
(1) Trade and other receivables from related parties:		
– Uni-Charm	**11,310,986**	10,038,967
– Essity HH	**6,829,578**	6,818,032
– Productos Familia, S.A., Colombia	**4,667,659**	–
– Asaleo Care Australia Pty Ltd	**4,323,334**	6,350,770
– Essity Mexico	**3,830,112**	–
– Essity BV	**1,992,592**	2,055,910
– Asaleo Care Fiji Ltd	**1,922,768**	1,123,733
– Asaleo Care New Zealand Ltd	**499,200**	876,272
– Essity Canada Inc.	**409,222**	685,875
– Essity	**330,000**	300,000
– Essity Hoogezand B.V.	**277,278**	370,646
– Essity GmbH	**173,353**	–
– Essity HMS	**42,923**	40,266
– SCA YKK	**–**	288,860
	36,609,005	28,949,331

All the above receivables are aged within 3 months based on invoice date as at 31 December 2018 and 31 December 2017.

34 Related Party Transactions *(continued)*

(c) Year-end Balances with Related Parties *(continued)*

	As at 31 December 2018 HK$	As at 31 December 2017 HK$
(2) Trade and other payables to related parties:		
– Essity OG B.V.	**4,096,997**	7,744,202
– Essity HH	**3,199,428**	9,463,573
– Essity Hoogezand B.V.	**2,252,429**	3,764,979
– Essity Poland Sp.z o.o.	**1,841,251**	6,203,225
– Essity Kostheim	**831,625**	2,946,795
– Essity OM	**47,773**	–
– Essity Mexico	**7,149**	–
– Uni-Charm	**243**	316
– Essity Slovakia s.r.o.	**–**	826,903
– Essity ON GmbH	**–**	612,184
– Essity Operations France	**–**	69,997
	12,276,895	31,632,174

34 Related Party Transactions *(continued)*

(c) Year-end Balances with Related Parties *(continued)*

All the above payables are aged within 3 months based on invoice date as at 31 December 2018 and 31 December 2017.

	As at	
	31 December 2018 HK$	31 December 2017 HK$
(3) Loans from a related party – Essity Treasury AB (Note (c))	**1,218,116,846**	1,236,403,002
(4) Interest payable to a related party – Essity Treasury AB (Note (c))	**6,129,663**	6,055,791

(c) As at 31 December 2017, loans from a related party represents long term loans with principal of RMB150,000,000, HK$580,116,846, HK$300,000,000 and HK$176,841,000 respectively. The weighted average interest rate is 3.66%. These loans are due on 19 January 2019, 31 March 2019, 20 June 2019 and 11 December 2019.

As at 31 December 2018, loans from a related party represents long term loans with principal of HK$170,000,000, HK$300,000,000, HK$580,116,846 and HK$168,000,000 respectively. The weighted average interest rate is 2.84%. These loans are due on 11 December 2020, 21 June 2021, 7 April 2021 and 11 May 2020.

35 Balance Sheet and Reserve Movement of the Company

	As at 31 December	
	2018	2017
	HK$	HK$
ASSETS		
Non-current assets		
Investments in and balances with subsidiaries	**3,752,457,889**	3,933,322,490
Current assets		
Prepayment	**2,501,612**	3,460,309
Dividends receivable	**328,767,471**	171,800,000
Due from subsidiaries	**78,183,532**	50,813,845
Cash and cash equivalents	**709,699**	1,883,274
	410,162,314	227,957,428
Total assets	**4,162,620,203**	4,161,279,918
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	**119,485,237**	119,416,737
Share premium	**4,351,781,230**	4,345,689,034
Other reserves (Note (a))	**(545,727,653)**	(355,720,928)
Total equity	**3,925,538,814**	4,109,384,843
LIABILITIES		
Non-current liabilities		
Loan from a related party	**168,000,000**	–
Current liabilities		
Other payables and accrued expenses	**18,080,485**	14,695,321
Due to subsidiaries	**51,000,904**	37,199,754
	69,081,389	51,895,075
Total liabilities	**237,081,389**	51,895,075
Total equity and liabilities	**4,162,620,203**	4,161,279,918

The balance sheet of the Company was approved by the Board of Directors on 30 January 2019 and were signed on its behalf

LI Chao Wang	**Johann Christoph MICHALSKI**
Director	*Director*

35 Balance Sheet and Reserve Movement of the Company *(continued)*

Note(a) Reserve movement of the Company

	Translation reserve HK$	Retained earnings HK$	Employee option reserve HK$	Total HK$
At 1 January 2017	(103,742,661)	161,191,516	56,537,500	113,986,355
Employee share options scheme:				
– Exercise of options	–	–	(8,868,020)	(8,868,020)
Dividends	–	(202,927,933)	–	(202,927,933)
Profit for the year	–	211,921,489	–	211,921,489
Currency translation differences	(469,832,819)	–	–	(469,832,819)
At 31 December 2017	(573,575,480)	170,185,072	47,669,480	(355,720,928)
At 1 January 2018	**(573,575,480)**	**170,185,072**	**47,669,480**	**(355,720,928)**
Employee share options scheme:				
– Exercise of options	**–**	**–**	**(1,626,396)**	**(1,626,396)**
Dividends	**–**	**(238,878,475)**	**–**	**(238,878,475)**
Profit for the year	**–**	**242,279,047**	**–**	**242,279,047**
Currency translation differences	**(191,780,901)**	**–**	**–**	**(191,780,901)**
At 31 December 2018	**(765,356,381)**	**173,585,644**	**46,043,084**	**(545,727,653)**

36 Benefits and Interests of Directors

(a) Directors' Emoluments

	For the year ended 31 December	
	2018 HK$	2017 HK$
Directors		
– Basic salaries, housing allowances, other allowances and benefits-in-kind	**35,619,069**	31,088,807
– Long-term incentive plans	**1,676,465**	7,576,906
– Others	**72,000**	72,000
	37,367,534	38,737,713

36 Benefits and Interests of Directors *(continued)*

(a) Directors' Emoluments *(continued)*

The remuneration of every director is set out below:

(i) For the year ended 31 December 2018:

	Fees HK$	Salaries (Note(a)) HK$	Discretionary bonuses HK$	Allowances and benefits in kind (Note(b)) HK$	Employer's contribution to a retirement benefit scheme HK$	Long-term incentive plans HK$	Total HK$
Chairman							
– Mr. LI Chao Wang	–	4,387,890	3,164,273	14,875	18,000	411,316	7,996,354
Executive directors							
– Ms. YU Yi Fang	–	2,847,130	2,053,175	14,875	18,000	263,809	5,196,989
– Mr. Johann Christoph MICHALSKI	–	5,213,520	3,688,800	–	–	473,722	9,376,042
– Ms. LI Jielin	–	2,841,930	1,937,648	374,875	18,000	263,809	5,436,262
– Mr. DONG Yi Ping	–	2,847,130	2,053,175	14,875	18,000	263,809	5,196,989
Non-executive directors							
– Mr. Jan Christer JOHANSSON	2,721,680	–	–	–	–	–	2,721,680
– Mr. Carl Magnus GROTH	–	–	–	–	–	–	–
– Mr. Carl Fredrik Stenson RYSTEDT	–	–	–	–	–	–	–
Independent non-executive directors							
– Mr. KAM Robert (c)	102,800	–	–	–	–	–	102,800
– Ms. LEE Hsiao-yun Ann (d)	234,237	–	–	–	–	–	234,237
– Mr. CHIA Yen On	321,200	–	–	–	–	–	321,200
– Mr. WONG Kwai Huen, Albert	371,200	–	–	–	–	–	371,200
– Mr. TSUI King Fai	413,781	–	–	–	–	–	413,781
Alternate directors							
– Mr. Herve Stephane ROSE	–	–	–	–	–	–	–
– Mr. Gert Mikael SCHMIDT	–	–	–	–	–	–	–
	4,164,898	18,137,600	12,897,071	419,500	72,000	1,676,465	37,367,534

Notes:

(a) Salaries paid to a director is generally an emolument paid or receivable in respect of that person's services in connection with the management of the affairs of the company or its subsidiary undertakings.

(b) Includes housing allowances, medical and life insurance premium.

(c) Mr. KAM Robert resigned from independent non-executive director on 31 March 2018.

(d) Ms. LEE Hsiao-yun Ann was appointed as an independent non-executive director on 31 March 2018.

36 Benefits and Interests of Directors *(continued)*

(a) Directors' Emoluments *(continued)*

(ii) For the year ended 31 December 2017:

	Fees HK$	Salaries (Note(a)) HK$	Discretionary bonuses HK$	Allowances and benefits in kind (Note(b)) HK$	Employer's contribution to a retirement benefit scheme HK$	Long-term incentive plans HK$	Total HK$
Chairman							
– Mr. LI Chao Wang	–	4,219,031	1,869,540	14,645	18,000	1,858,970	7,980,186
Executive directors							
– Ms. YU Yi Fang	–	2,737,567	1,458,020	14,645	18,000	1,192,305	5,420,537
– Mr. Johann Christoph MICHALSKI	–	4,918,400	2,570,100	–	–	2,141,021	9,629,521
– Ms. LI Jielin	–	2,583,531	2,002,383	374,721	18,000	1,192,305	6,170,940
– Mr. DONG Yi Ping	–	2,737,567	1,458,020	14,645	18,000	1,192,305	5,420,537
Non-executive directors							
–Mr. Jan Christer JOHANSSON	2,617,001	–	–	–	–	–	2,617,001
–Mr. Carl Magnus GROTH	26,945	–	–	–	–	–	26,945
–Mr. Ulf Olof Lennart SODERSTROM	22,046	–	–	–	–	–	22,046
–Mr. Carl Fredrik Stenson RYSTEDT	–	–	–	–	–	–	–
Independent non-executive directors							
–Mr. KAM Robert	400,000	–	–	–	–	–	400,000
–Mr. CHIA Yen On	310,000	–	–	–	–	–	310,000
–Mr. WONG Kwai Huen, Albert	360,000	–	–	–	–	–	360,000
–Mr. TSUI King Fai	380,000	–	–	–	–	–	380,000
Alternate directors							
–Mr. Herve Stephane ROSE	–	–	–	–	–	–	–
–Mr. Gert Mikael SCHMIDT	–	–	–	–	–	–	–
	4,115,992	17,196,096	9,358,063	418,656	72,000	7,576,906	38,737,713

36 Benefits and Interests of Directors *(continued)*

(a) Directors' Emoluments *(continued)*

Aggregate emoluments paid to or receivable by directors in respect of their services as directors, whether of the company or its subsidiary undertaking		Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of the affairs of the company or its subsidiary undertaking		Total	Total
2018	2017	**2018**	2017	**2018**	2017
HK$	HK$	**HK$**	HK$	**HK$**	HK$
37,367,534	38,737,713	**–**	–	**37,367,534**	38,737,713

Notes:

For the year ended 31 December 2018 and 2017, no directors of the Company waived any emoluments and no emoluments were paid by the Company to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

(b) Directors' termination benefits

There were no termination benefits paid to any director during or at any time for the year ended December 31 2018 and 2017.

(c) Consideration provided to third parties for making available directors' services

During the year ended December 31 2018 and 2017, the Group provided no consideration to third parties for making available director's services.

(d) Information about loans, quasi-loans and other dealings in favour of directors

There were no loans, quasi-loans and other dealings entered into between the Group and the directors and in favour of the directors as at the end of the year or at any time during the year.

(e) Directors' Material Interests in Transactions, Arrangements or Contracts

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

Consolidated Statement of Comprehensive Income

	For the year ended 31 December				
	2014 HK$	2015 HK$	2016 HK$	2017 HK$	**2018** **HK$**
Revenue	7,985,222,304	9,695,997,657	12,056,548,935	13,485,960,780	**14,878,547,902**
Cost of sales	(5,576,508,718)	(6,737,327,688)	(8,239,615,131)	(9,486,047,682)	**(10,691,953,432)**
Gross profit	2,408,713,586	2,958,669,969	3,816,933,804	3,999,913,098	**4,186,594,470**
Selling and marketing costs	(1,188,369,898)	(1,565,457,775)	(2,074,739,697)	(2,351,849,995)	**(2,379,803,125)**
Administrative expenses	(472,403,420)	(577,688,065)	(728,394,604)	(727,035,386)	**(758,565,392)**
Net impairment losses on financial assets	–	–	–	–	**(1,829,013)**
Other income and losses – net	74,371,838	(62,896,404)	(6,226,887)	62,498,407	**(26,772,076)**
Operating profit	822,312,106	752,627,725	1,007,572,616	983,526,124	**1,019,624,864**
Finance income and costs – net	(80,503,475)	(303,751,333)	(199,265,704)	(214,027,686)	**(221,951,496)**
Share of post-tax loss of an associate	(4,805,242)	–	–	–	**–**
Profit before income tax	737,003,389	448,876,392	808,306,912	769,498,438	**797,673,368**
Income tax expense	(143,536,257)	(134,435,280)	(154,772,358)	(148,541,984)	**(148,368,679)**
Profit attributable to equity holders of the Company	593,467,132	314,441,112	653,534,554	620,956,454	**649,304,689**
Other comprehensive income:					
Items that may be reclassified to profit or loss					
Currency translation differences	(13,756,533)	(285,983,288)	(531,450,105)	692,642,246	**(421,842,655)**
Hedging reserve	1,805,786	–	–	–	**–**
Item that will not be reclassified subsequently to profit or loss					
Remeasurements of post-employment benefit obligations	–	–	(273,967)	2,491,047	**396,637**
Total comprehensive income attributable to equity holders of the Company	581,516,385	28,457,824	121,810,482	1,316,089,747	**227,858,671**

Consolidated Balance Sheet

	As at 31 December				
	2014	2015	2016	2017	2018
	HK$	HK$	HK$	HK$	HK$
ASSETS					
Property, plant and equipment	5,901,730,851	6,261,216,698	7,281,873,804	8,739,887,326	**8,997,273,418**
Leasehold land and land use rights	297,758,758	387,818,653	432,130,671	1,042,127,885	**1,050,718,413**
Intangible assets	1,400,041,901	1,306,968,419	2,796,001,162	2,913,888,055	**2,823,114,342**
Deferred income tax assets	267,405,812	259,511,539	268,225,330	348,762,906	**403,828,940**
Investment properties	–	–	4,859,059	7,660,539	**7,217,853**
Inventories	2,029,115,081	2,367,407,631	1,785,142,568	3,048,179,318	**2,745,883,730**
Trade receivable, other receivables and prepayments	1,523,602,317	1,463,321,731	1,938,829,069	2,309,863,202	**–**
Trade and notes receivables	–	–	–	–	**1,888,459,707**
Other receivables	–	–	–	–	**449,515,451**
Prepayment	–	–	–	–	**90,514,885**
Due from related parties	61,753,224	64,444,039	106,197,276	28,949,331	**36,609,005**
Restricted bank deposits	1,301,535	–	–	–	**–**
Cash and cash equivalents	720,283,714	393,247,986	1,015,254,277	534,589,786	**574,465,154**
Total Assets	12,202,993,193	12,503,936,696	15,628,513,216	18,973,908,348	**19,067,600,898**
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	99,840,269	99,908,769	113,741,237	119,416,737	**119,485,237**
Share premium	1,677,023,606	1,688,013,706	3,498,754,174	4,345,689,034	**4,351,781,230**
Other reserves	3,304,140,930	3,159,837,388	3,167,068,811	4,271,362,605	**4,258,649,944**
Total equity	5,081,004,805	4,947,759,863	6,779,564,222	8,736,468,376	**8,729,916,411**
LIABILITIES					
Long-term borrowings	878,667,606	2,177,485,991	2,879,551,662	3,310,130,427	**3,004,812,188**
Loans from a related party	2,030,138,167	1,308,080,688	915,499,741	1,236,403,002	**1,218,116,846**
Deferred government grants	98,726,406	92,493,668	90,486,296	142,848,544	**215,070,111**
Deferred income tax liabilities	94,787,849	96,248,856	203,135,117	211,437,204	**208,522,060**
Post-employment benefits	–	–	36,601,481	33,214,008	**31,124,829**
Other non-current liabilities	–	–	–	17,675,709	**10,709,487**
Other current liabilities	4,019,668,360	3,881,867,630	4,723,674,697	5,285,731,078	**5,649,328,966**
Total Liabilities	7,121,988,388	7,556,176,833	8,848,948,994	10,237,439,972	**10,337,684,487**
Total equity and liabilities	12,202,993,193	12,503,936,696	15,628,513,216	18,973,908,348	**19,067,600,898**