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Vinda International Holdings Limited

維達國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3331)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS

- **Double-digit organic growth¹ in revenue and strong profitability improvement**
 - Total revenue increased by 11.6% at constant exchange rate, attributable to the strong sales growth momentum in all regions, particularly in mainland China
 - Mainland China's organic growth¹ in revenue achieved 12.5%
 - Remarkable performance of premium tissue portfolio
 - Feminine and incontinence care business regained growth momentum
 - Strengthening our leading position in e-commerce distribution channels
- **Gross profit grew by 19.1% to HK\$4,985 million while gross margin expanded by 2.9 percentage points ("ppts") to 31.0%**
- **Net profit surged by 75.3% to HK\$1,138 million (2018: HK\$649 million)**
- **Net gearing ratio² (excluding lease liabilities) dropped by 15 ppts to 39% (2018: 54%)**
- **Basic earnings per share rose by 75.2% to 95.3 HK cents (2018: 54.4 HK cents)**
- **Total dividend per share for the Year increased to 28 HK cents (2018: 20 HK cents)**

The Board of Directors (the “**Board**”) of Vinda International Holdings Limited (“**Vinda**” or the “**Company**”) is pleased to present the audited annual results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2019 (the “**Year**”).

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

In 2019, we managed to achieve a double-digit organic growth¹ in revenue and significant improvements in both gross profit margin and net profit margin due to lower wood pulp price, focus on premium brand portfolio, continuous product mix optimisation and strong innovations. Competition remained intense in particular in the Chinese tissue market.

Financial Highlights

Total revenue increased by 8.0% (growth at constant exchange rate: 11.6%) to HK\$16,074 million.

In respect of business segment, Tissue and Personal Care contributed to 82% and 18% 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 31%, 25%, 15% and 29% respectively. All sales channels recorded satisfactory growth, among which e-commerce recorded more than 30% organic growth¹ in revenue.

Gross profit rose by 19.1% to HK\$4,985 million. Thanks to the effective pricing strategy, lower wood pulp price and focus on premium segment, gross margin increased 2.9 ppts to 31.0% despite the fierce market competition and downward pressure on RMB.

EBITDA grew by 36.5% to HK\$2,678 million. EBITDA margin expanded 3.5 ppts to 16.7%, reflecting a sustainable cash generation ability.

RMB against USD and HKD remained fluctuated during the Year. Total foreign exchange loss for the Year decreased to HK\$34.7 million (2018: HK\$80.5 million loss), of which HK\$37.2 million loss was from operating activities (2018: HK\$74.3 million loss), and HK\$2.5 million gain was from financing activities (2018: HK\$6.2 million loss).

Operating profit grew by 53.9% to HK\$1,570 million. Notwithstanding the market competition, selling and marketing cost as a percentage of sales remained at 16.0%. Administrative costs as a percentage of sales slightly increased by 0.2 ppt. Operating margin increased by 2.9 ppts to 9.8%.

Interest expense decreased by 6.3% to HK\$213 million, which was mainly due to decreased borrowings. Effective interest rate was 4.1%, down by 0.1 ppt compared to last year. Net gearing ratio² (excluding lease liabilities) declined 15 ppts to 39%.

Effective tax rate decreased by 1.6 ppts to 17.0%.

Net profit grew by 75.3% to HK\$1,138 million. Net margin was 7.1%, increased by 2.7 ppts compared to last year.

Basic earnings per share was 95.3 HK cents (2018: 54.4 HK cents).

The Board recommends the payment of a final dividend per share of 21 HK cents. Together with the interim dividend, total dividends per share for the Year would be 28 HK cents (2018: 20 HK cents).

Business Review

Tissue Segment

Revenue from the Tissue segment increased by 9.4% to HK\$13,254 million, representing a growth of 13.3% at a constant exchange rate and accounted for 82% of the Group's total revenue (2018: 81%).

During the Year, we focused on the premium segment of our Tissue portfolio such as *Vinda Deluxe* and *Tempo*. The gross margin and segment result margin of the Tissue segment were 31.4% and 11.6% respectively.

Through a series of innovative and effective marketing campaigns, together with successful brand management strategies, the growth momentum of the Tissue segment carried on and the Group maintained its leading market share³ in the Chinese tissue segment. During the Year, Vinda successfully secured the joint cooperation or licensing of a number of well-known cartoon(s) or IP rights. The limited edition products received overwhelming response from the public and broadened the customer base. In particular, *Vinda* collaborated with “Summer Palace” on attractive tissue packaging designs through the beautifully illustrated scenes of the world-famous, classical Chinese garden to capture the consumers’ preference of national pride.

In addition, *Tempo* successfully invited William Chan (陳偉霆), a famous celebrity to be *Tempo* ambassador in China, which significantly enhanced the brand awareness and marked a significant growth in sales. Apart from the launch of limited editions of the Sakura series in Hong Kong and China, *Tempo* also cooperated with the internationally renowned Metropolitan Museum of Art and a famed British artist named Lucy Sparrow to co-launch an art edition series, which further raised the brand awareness and the number of customers.

Tork achieved outstanding performance, which became a business partner with Beijing Daxing International Airport and Singapore Changi Airport (Terminal 4), respectively. The brand had been greatly affirmed and recognised by the international market and it had successfully expanded the business into another high-end commercial customer market.

In Malaysia, we continued to roll out *Vinda Deluxe* to develop our Tissue business. Softpack category was well received by the market. We also launched kitchen towels and kitchen wet wipes to enrich the product portfolio.

Personal Care Segment

Revenue from the Personal Care segment increased by 1.9% to HK\$2,820 million, representing a growth of 4.4% at a constant exchange rate and accounted for 18% of the Group’s total revenue (2018: 19%).

Gross profit margin and segment result margin of the Personal Care segment were 29.1% and 6.6% respectively. The segment result margin reflected that the Personal Care business in China was still in the early stage of business development.

Our incontinence care recorded promising performance in mainland China due to the satisfactory growth in both e-commerce and traditional distributors channels. Pant-type products also saw good development in market penetration in all regions outside China.

With regard to the feminine care, *Libresse* maintained its leading position⁴ in Malaysia and the launch of *Libresse CurveFit* was warmly received in the market during the Year. Apart from the relaunch of *Libresse* in China, we have localised production which will not only reduce costs but also shorten the response time to the market.

Southeast Asia is the major market of our baby care business. Regarding the Malaysian market, *Drypers* has cooperated with Pink Fong, the creation team of the children song Baby Shark, to launch relevant baby diapers and baby care toiletries, which successfully enhanced the popularity. Sales volume of the brand thereby grew and we maintained our leading market position.

Production Capacity Plan

During the Year, 60,000 tons of new capacity have been added in Hubei, China. As planned, we discontinued the operation of one of the oldest and high energy-consuming paper-making machineries at Guangdong factory, which was equivalent to 30,000 tons of designed capacity, bringing the total annual designed production capacity for tissue paper to 1,250,000 tons as at 31 December 2019.

In the second half of 2019, we had a groundbreaking ceremony in Malaysia, where construction of the Group's Southeast Asia regional headquarters had officially started up. The state-of-the-art facility will comprise a double-storey manufacturing plant with raw material warehouse, a finished goods warehouse and the Vinda Innovation Centre. This facility will serve mainly the Southeast Asian market and support sales to more than 25 markets. This investment will increase our regional production capacity and support our long term growth in emerging markets.

Sustainability

Human Resources Management

Employees are the most valuable contributors to Vinda's sustainable development. We strive to offer equal opportunities to all qualified candidates regardless of age, nationality, race, religion, sexual orientation, gender and etc. We also offer fair and reasonable remunerations and performance incentives mechanism, and continuous career advancement training programmes to our employees. Vinda was recognised as "The National Model Enterprise of Harmonious Labour Relations" and awarded the "2019 Outstanding Human Resources Management Award" in China. Furthermore, Vinda was awarded the "Malaysia Employer Brand Awards 2019" by the World HRD Congress in Malaysia.

During the Year, a total of 135,607 hours of training were conducted in mainland China for a total of 88,350 participants. In Malaysia, a total of 9,404 hours of trainings were provided to a total of 768 participants. In Taiwan, a total of 4,840 hours of trainings were provided to a total of 1,827 participants.

As of 31 December 2019, we had a total of 10,918 employees.

Health & Safety Performance

We attach great importance to occupational health and safety with our goal "zero accident". In mainland China, 2,149 safety seminars were held for a total of 99,040 participants during the Year. The number of production safety accidents remained at 14. The lost time accidents ("LTA") was 12,642 (2018: 14,952) hours. The lost days from above Accident ("DLA") was 1,578 (2018: 1,869) days. In Malaysia, LTA was 3 cases (2018: 1) and DLA was 35 (2018: 90) days. In Taiwan, both LTA and DLA were zero (2018: zero).

Green Production

We continued to devote every effort in reducing carbon footprints in 2019. In China, average overall energy consumption (ton of standard coal) per ton of paper was 0.33, far below the national standard upper limit of 0.42. Carbon dioxide emissions per 10,000 tons of product was 10,694 tons. Water recycling rate was over 95%. Additionally, we aim to source all wood pulp certified by forest certification system (including Forest Stewardship Council ("FSC™"), the Programme for the Endorsement of Forest Certification ("PEFC") or China Forest Certification Council ("CFCC")).

We are honored to be the first fast moving consumer goods company to obtain the “Green Finance Pre-Issuance Stage Certificate” issued by Hong Kong Quality Assurance Agency and raised a HK\$300 million green loan. The loan is aimed at helping the Group to achieve eco-friendly operations and sustainable development. The green loan will be used for eligible green projects, including those for raising energy efficiency, prevention and control of pollution, resource conservation and recycling, etc., in order to further improve production efficiency and reduce production costs, thereby enhancing the overall competitive advantage and business performance of the Group and achieve the long-term goal of sustainable development.

For details, please refer to our Environmental, Social and Governance report 2019, which would be published on or around 10 March 2020 together with our annual report 2019.

Outlook

The business outlook remains good despite a number of uncertainties such as the lingering Sino-US trade conflicts, continuous intense market competition and the volatility of the Renminbi exchange rate.

We believe in the medium-to-long term, there are many business opportunities ahead in the household paper and personal care businesses of the Group. China’s fast-moving consumer goods continues to upgrade to premium consumption. The progressively rising household disposable income and the significant room for growth in the per capita consumption of household paper products will help the Group to expand further. The significant acceleration of aging population in China will also provide opportunities for our professional incontinence care business. In addition, Vinda’s well-established channel layout and its advantages as an e-commerce leader will enable it to capture the potential market opportunities arising from the retail model of online-to-offline integration. With increasingly stringent environmental protection regulations, our focus on the sustainability development will further enhance our competitiveness.

We will stay focused on the following development strategies:

1. We will continue to focus on product innovation and strive to stand out from the peers by optimising our product mix to enhance our brand competitiveness and profit margin;
2. We will continue to develop sizable Personal Care business in China;
3. We will leverage the comprehensive layout of channels and our edges in e-commerce channel to tap every potential opportunity through excellent sales execution capabilities;
4. We will rigorously control the costs and make the best use of our resources to optimise cost-effectiveness;
5. We will continue to improve the efficiency of production and operation in order to support sustainable business growth; and
6. We will strengthen our financial position with strong operating cash flow and careful management of working capital.

Remarks

¹ *Organic growth: Year on year growth at a constant exchange rate*

² *Net gearing ratio: Net debt divided by total shareholders' equity*
Net debt: Total debt including lease liabilities less cash and cash equivalents and restricted bank deposits
The net gearing ratio increased from 39% to 41% as a result of adoption of HKFRS 16 Leases, effective and adopted by the Group from 1 January 2019.

³ *Source: Kantar Worldpanel, 2019 full year sales value*

⁴ *Source: Kantar Worldpanel, sales value year-to-date at 3 November 2019*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the year ended 31 December	
		2019	2018
	<i>Note</i>	HK\$	HK\$
Revenue	4	16,074,288,277	14,878,547,902
Cost of sales	5	<u>(11,089,036,453)</u>	<u>(10,691,953,432)</u>
Gross profit		4,985,251,824	4,186,594,470
Selling and marketing costs	5	(2,575,268,219)	(2,379,803,125)
Administrative expenses	5	(856,145,835)	(758,565,392)
Net impairment losses on financial assets	5, 12	(1,540,148)	(1,829,013)
Other income and losses – net		<u>17,291,041</u>	<u>(26,772,076)</u>
Operating profit		1,569,588,663	1,019,624,864
Finance income and costs – net	6	(198,620,467)	(221,951,496)
Share of post-tax loss of an associate		<u>(208,240)</u>	–
Profit before income tax		1,370,759,956	797,673,368
Income tax expense	7	<u>(232,443,563)</u>	<u>(148,368,679)</u>
Profit attributable to equity holders of the Company		<u>1,138,316,393</u>	<u>649,304,689</u>
Other comprehensive income:			
<i>Item that may be reclassified to profit or loss</i>			
– Currency translation differences		(157,128,714)	(421,842,655)
<i>Item that will not be reclassified subsequently to profit or loss</i>			
– Remeasurements of post-employment benefit obligations		<u>(222,560)</u>	<u>396,637</u>
Total comprehensive income attributable to equity holders of the Company		<u>980,965,119</u>	<u>227,858,671</u>
Earnings per share for profit attributable to equity holders of the Company			
– basic	8(a)	<u>0.953</u>	<u>0.544</u>
– diluted	8(b)	<u>0.952</u>	<u>0.543</u>

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2019	2018
	Note	HK\$	HK\$
ASSETS			
Non-current assets			
Property, plant and equipment	10	8,858,171,961	8,997,273,418
Right-of-use assets	11	1,250,456,963	–
Land use rights	10	–	1,050,718,413
Intangible assets	10	2,780,086,369	2,823,114,342
Deferred income tax assets		456,674,351	403,828,940
Investment property		4,039,119	7,217,853
Investment in an associate		2,525,619	–
		<u>13,351,954,382</u>	<u>13,282,152,966</u>
Current assets			
Inventories		3,223,321,363	2,745,883,730
Trade and notes receivables	12	1,916,318,675	1,888,459,707
Other receivables	12	237,999,919	449,515,451
Prepayments	12	59,439,391	90,514,885
Due from related parties		32,065,779	36,609,005
Cash and cash equivalents		460,387,446	574,465,154
		<u>5,929,532,573</u>	<u>5,785,447,932</u>
Total assets		<u>19,281,486,955</u>	<u>19,067,600,898</u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	119,510,337	119,485,237
Share premium	14	4,356,240,018	4,351,781,230
Other reserves		4,987,460,947	4,258,649,944
Total equity		<u>9,463,211,302</u>	<u>8,729,916,411</u>

CONSOLIDATED BALANCE SHEET (CONTINUED)

		As at 31 December	
		2019	2018
	Note	HK\$	HK\$
LIABILITIES			
Non-current liabilities			
Borrowings	15	2,297,063,820	3,004,812,188
Loans from a related party	15	1,274,928,072	1,218,116,846
Lease liabilities	11	119,942,991	–
Deferred government grants		266,342,534	215,070,111
Deferred income tax liabilities		193,616,342	208,522,060
Post-employment benefits		26,952,299	31,124,829
Other non-current liabilities	16	29,214,726	10,709,487
		<u>4,208,060,784</u>	<u>4,688,355,521</u>
Current liabilities			
Trade payables, other payables and accrued expenses	13	4,603,848,772	4,436,032,657
Contract liabilities		122,842,206	72,527,241
Borrowings	15	584,195,903	1,022,567,206
Lease liabilities	11	62,796,875	–
Due to related parties		15,813,259	18,406,558
Current income tax liabilities		220,717,854	99,795,304
		<u>5,610,214,869</u>	<u>5,649,328,966</u>
Total liabilities		<u>9,818,275,653</u>	<u>10,337,684,487</u>
Total equity and liabilities		<u>19,281,486,955</u>	<u>19,067,600,898</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to equity holders of the Company			
		Share capital HK\$	Share premium HK\$	Other reserves HK\$	Total HK\$
Balance as 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 as 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	14	68,500	6,092,196	(1,626,396)	4,534,300
Dividends	9	–	–	(238,878,475)	(238,878,475)
Transaction with owners		<u>68,500</u>	<u>6,092,196</u>	<u>(240,504,871)</u>	<u>(234,344,175)</u>
Balance as at 31 December 2018		<u>119,485,237</u>	<u>4,351,781,230</u>	<u>4,258,649,944</u>	<u>8,729,916,411</u>
Balance as at 1 January 2019		<u>119,485,237</u>	<u>4,351,781,230</u>	<u>4,258,649,944</u>	<u>8,729,916,411</u>
Profit for the year		–	–	1,138,316,393	1,138,316,393
Other comprehensive income					
– Currency translation differences		–	–	(157,128,714)	(157,128,714)
– Remeasurements of post-employment benefit obligations		–	–	(222,560)	(222,560)
Total comprehensive income for 2019		–	–	<u>980,965,119</u>	<u>980,965,119</u>
Transaction with owners					
Employees share option scheme					
– Exercise of share options	14	25,100	4,458,788	(1,198,368)	3,285,520
Dividends	9	–	–	(250,955,748)	(250,955,748)
Transaction with owners		<u>25,100</u>	<u>4,458,788</u>	<u>(252,154,116)</u>	<u>(247,670,228)</u>
Balance as at 31 December 2019		<u>119,510,337</u>	<u>4,356,240,018</u>	<u>4,987,460,947</u>	<u>9,463,211,302</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended 31 December	
	2019	2018
Note	HK\$	HK\$
Cash flows generated from operating activities:		
– cash generated from operations	2,895,611,722	1,759,556,384
– interest paid	(209,313,343)	(242,194,613)
– income tax paid	(172,660,522)	(185,331,154)
	<u>2,513,637,857</u>	<u>1,332,030,617</u>
Cash flows used in investing activities:		
– purchase of property, plant and equipment	(1,247,300,455)	(1,173,196,843)
– proceeds from disposal of property, plant and equipment and investment property	23,366,422	27,378,233
– proceeds from government grants	75,991,232	94,574,263
– payment for land use rights	(68,370,529)	(84,172,134)
– purchase of intangible assets	(65,177,411)	(59,959,927)
– interest received	6 11,548,073	11,196,309
– payment for investment in an associate	(2,727,301)	–
	<u>(1,272,669,969)</u>	<u>(1,184,180,099)</u>
Cash flows used in financing activities:		
– proceeds from shares issued	3,285,520	4,534,300
– proceeds from borrowings	5,906,787,752	6,752,247,360
– proceeds from loans from a related party	394,643,979	331,118,453
– repayments of borrowings	(6,991,933,690)	(6,546,622,208)
– repayments of loans from a related party	(337,782,170)	(359,151,000)
– dividends paid	9 (250,955,748)	(238,878,475)
– lease payments for right-of-use assets excluding land use rights	(71,341,650)	–
	<u>(1,347,296,007)</u>	<u>(56,751,570)</u>
Net cash used in financing activities		
	<u>(1,347,296,007)</u>	<u>(56,751,570)</u>
Net (decrease)/increase in cash and cash equivalents		
	(106,328,119)	91,098,948
Effect of foreign exchange rate changes	(7,749,589)	(51,223,580)
Cash and cash equivalents, beginning of the year	<u>574,465,154</u>	<u>534,589,786</u>
Cash and cash equivalents, end of the year	<u><u>460,387,446</u></u>	<u><u>574,465,154</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 Company and its subsidiaries are collectively referred to as the “Group”. The principal activities of the Group are the manufacturing and sale of household paper products and personal care products.

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

Essity Aktiebolag (publ) (“Essity”) is the ultimate holding company of the Group.

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 21 January 2020.

2 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.

3 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 on 1 January 2019:

		Effective for annual periods beginning on or after	
HKFRS 16	Leases	1 January 2019	i)
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019	
HK (IFRIC) 23	Uncertainty over income tax treatments	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	
Annual Improvements 2015-2017 Cycle		1 January 2019	

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

i) Leases

The Group has adopted HKFRS 16 *Leases* from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard. The reclassifications and the adjustments arising from the new leasing standard are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019 in each territory or region where the lease assets are located. The weighted average discount rate applied to the lease liabilities on 1 January 2019 was 4.74%.

3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(a) New and amended standards adopted by the Group (Continued)

i) Leases (Continued)

(1) Measurement of lease liabilities

	<i>HK\$</i>
Operating lease commitments disclosed as at 31 December 2018	229,221,932
Lease liabilities recognised on extension option estimation	18,058,816
Less:	
Short-term leases recognised on a straight-line basis as expense	(14,050,113)
Low-value leases recognised on a straight-line basis as expense	<u>(878,575)</u>
	232,352,060
Discounted using the lessee's incremental borrowing rate at the date of initial application, lease liabilities recognised as at 1 January 2019	<u>202,032,067</u>
Add:	
Rental prepayments recognised as at 31 December 2018	1,844,109
Reclassification of land use rights	<u>1,050,718,413</u>
Right-of-use assets recognised as at 1 January 2019	<u><u>1,254,594,589</u></u>

(2) Measurement of right-of-use assets

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

3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(a) New and amended standards adopted by the Group (Continued)

i) Leases (Continued)

(3) Adjustments recognised in the balance sheet on 1 January 2019

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

- Right-of-use assets – increase by HK\$1,254,594,589
- Prepayments – decrease by HK\$1,844,109
- Land use rights – decrease by HK\$1,050,718,413
- Lease liabilities (current portion) – increase by HK\$61,063,540
- Lease liabilities (non-current portion) – increase by HK\$140,968,527

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

(4) Practical expedients applied

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

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and

3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

(a) New and amended standards adopted by the Group (Continued)

i) Leases (Continued)

(4) Practical expedients applied (Continued)

- the use of hindsight in determining the lease term where the contract contains options to extend the lease.

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

(5) Lessor accounting

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

- (b) Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

		Effective for annual periods beginning on or after
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	1 January 2020
HKFRS3 (Amendments)	Definition of a Business	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17	Insurance contracts	1 January 2021

4 SEGMENT INFORMATION

(a) Description of segments and principal activities

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.

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.

Additions to non-current assets comprise additions to property, plant and equipment, right-of-use assets and intangible assets.

4 SEGMENT INFORMATION (Continued)

(b) Segment profit and loss

	For the year ended 31 December 2019		
	Household paper products HK\$	Personal care products HK\$	Total HK\$
Year ended 31 December 2019			
Segment revenue	<u>13,254,016,770</u>	<u>2,820,271,507</u>	<u>16,074,288,277</u>
Segment results	1,536,784,453	185,698,921	1,722,483,374
Amortisation of trademarks, licences and contractual customer relationships	<u>(10,874,093)</u>	<u>(57,154,408)</u>	<u>(68,028,501)</u>
Segment profit	<u>1,525,910,360</u>	<u>128,544,513</u>	<u>1,654,454,873</u>
Other income and losses – net			17,291,041
Unallocated costs			<u>(102,157,251)</u>
Operating profit			<u>1,569,588,663</u>
Finance income and costs – net			(198,620,467)
Share of post-tax loss of an associate			<u>(208,240)</u>
Profit before income tax			1,370,759,956
Income tax expense			<u>(232,443,563)</u>
Profit for the year			<u>1,138,316,393</u>
Other segment items included in the income statement			
Depreciation of property, plant and equipment	(789,546,023)	(119,102,200)	(908,648,223)
Depreciation of right-of-use assets	(60,263,379)	(32,287,633)	(92,551,012)
Amortisation of investment property and intangible assets other than trademarks, licences and contractual customer relationships	<u>(36,056,384)</u>	<u>(3,725,982)</u>	<u>(39,782,366)</u>
Adoption of HKFRS 16	75,745,201	128,130,975	203,876,176
Additions to non-current assets	<u>841,152,200</u>	<u>336,227,490</u>	<u>1,177,379,690</u>

4 SEGMENT INFORMATION (Continued)

(b) Segment profit and loss (Continued)

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

4 SEGMENT INFORMATION (Continued)

(c) Segment assets and liabilities

	As at 31 December 2019		
	Household paper products <i>HK\$</i>	Personal care products <i>HK\$</i>	Total <i>HK\$</i>
As at 31 December 2019			
Segment assets	<u>14,766,367,163</u>	<u>4,053,847,319</u>	18,820,214,482
Deferred income tax assets			456,674,351
Investment in an associate			2,525,619
Prepaid income tax recoverable			<u>2,072,503</u>
Total assets			<u>19,281,486,955</u>
Segment liabilities	<u>8,404,133,627</u>	<u>999,807,830</u>	9,403,941,457
Deferred income tax liabilities			193,616,342
Current income tax liabilities			<u>220,717,854</u>
Total liabilities			<u>9,818,275,653</u>
	As at 31 December 2018		
	Household paper products <i>HK\$</i>	Personal care products <i>HK\$</i>	Total <i>HK\$</i>
As at 31 December 2018			
Segment assets	<u>14,798,339,760</u>	<u>3,850,103,102</u>	18,648,442,862
Deferred income tax assets			403,828,940
Prepaid income tax recoverable			<u>15,329,096</u>
Total assets			<u>19,067,600,898</u>
Segment liabilities	<u>9,123,781,804</u>	<u>905,585,319</u>	10,029,367,123
Deferred income tax liabilities			208,522,060
Current income tax liabilities			<u>99,795,304</u>
Total liabilities			<u>10,337,684,487</u>

4 SEGMENT INFORMATION (Continued)

(d) Changes in accounting policy

The adoption of the new leasing standard described in note 3(a)(i) had the following impact on the segment disclosures in the current year.

	For the year ended 31 December 2019		As at 31 December 2019	
	Segment profit <i>HK\$</i>	Segment depreciation <i>HK\$</i>	Segment assets <i>HK\$</i>	Segment liabilities <i>HK\$</i>
Household paper products	2,071,056	35,306,362	72,796,000	73,332,305
Personal care products	1,880,606	32,059,661	107,484,848	109,407,561
	<u>3,951,662</u>	<u>67,366,023</u>	<u>180,280,848</u>	<u>182,739,866</u>

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

5 EXPENSES BY NATURE

	For the year ended 31 December	
	2019	2018
	<i>HK\$</i>	<i>HK\$</i>
Raw materials and trading merchandise consumed	8,337,067,269	8,159,442,250
Staff costs	1,664,144,387	1,572,967,168
Utilities	966,813,383	855,926,505
Transportation expenses	714,948,860	671,057,141
Promotion expenses	814,727,940	731,142,480
Depreciation of property, plant and equipment (<i>Note 10</i>)	908,648,223	818,875,919
Depreciation of right-of-use assets (<i>Note 11</i>)	92,551,012	–
Short-term and low-value lease expenses (<i>Note 11</i>)	59,951,101	–
Operating lease expenses	–	185,378,391
Amortisation of intangible assets (<i>Note 10</i>)	107,555,465	97,696,304
Advertising costs	136,630,105	124,754,266
Travel and office expenses	75,322,351	75,049,083
Real estate tax, stamp duty and other taxes	48,420,801	47,198,907
Bank charges	4,792,638	4,660,859
Provision for impairment of receivables (<i>Note 12</i>)	1,540,148	1,829,013
Auditor's remuneration	8,355,683	8,666,277
Amortisation of land use rights (<i>Note 10</i>)	–	25,685,870
Provision for write-down of inventories	788,804	13,652,538
Impairment charge on property, plant and equipment (<i>Note 10</i>)	60,416,357	2,709,040
Other expenses	519,316,128	435,458,951
	<hr/>	<hr/>
Total cost of sales, selling and marketing costs, administrative expenses and net impairment losses on financial assets	<u>14,521,990,655</u>	<u>13,832,150,962</u>

6 FINANCE INCOME AND COSTS – NET

	For the year ended 31 December	
	2019	2018
	HK\$	HK\$
Interest expense		
– borrowings (a)	(204,440,082)	(226,972,410)
– lease liabilities (<i>Note 11</i>)	(8,249,058)	–
Foreign exchange gain/(loss) – net	2,520,600	(6,175,395)
Interest income		
– bank deposits	11,548,073	11,196,309
Net finance costs	<u>(198,620,467)</u>	<u>(221,951,496)</u>

- (a) During the year, the Group has capitalised borrowing costs amounting to HK\$5,419,428 (2018: HK\$21,747,236) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 4.27% (2018: 4.38%).

7 INCOME TAX EXPENSE

The applicable corporate income tax rates for Hong Kong, Malaysia and Taiwan subsidiaries are 16.5%, 24% and 20% respectively. 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	
	2019	2018
	HK\$	HK\$
Current income tax		
– Hong Kong and overseas profits tax	175,834,960	143,008,161
– Mainland China income tax	138,306,491	67,394,237
– Tax filing difference for prior year	(8,841,110)	(2,356,036)
Deferred income tax	(77,099,228)	(71,568,760)
Withholding tax	4,242,450	11,891,077
	<u>232,443,563</u>	<u>148,368,679</u>

8 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	
	2019	2018
Profit attributable to equity holders of the Company (<i>HK\$</i>)	<u>1,138,316,393</u>	<u>649,304,689</u>
Weighted average number of ordinary shares issued	<u>1,195,019,702</u>	<u>1,194,413,726</u>
Basic earnings per share (<i>HK\$ per share</i>)	<u><u>0.953</u></u>	<u><u>0.544</u></u>

(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	
	2019	2018
Profit attributable to equity holders of the Company (<i>HK\$</i>)	<u>1,138,316,393</u>	<u>649,304,689</u>
Weighted average number of ordinary shares issued	<u>1,195,019,702</u>	<u>1,194,413,726</u>
Adjustments for share options	<u>897,964</u>	<u>1,010,558</u>
Weighted average number of ordinary shares for diluted earnings per share	<u>1,195,917,666</u>	<u>1,195,424,284</u>
Diluted earnings per share (<i>HK\$ per share</i>)	<u><u>0.952</u></u>	<u><u>0.543</u></u>

9 DIVIDENDS

	2019	2018
	HK\$	HK\$
Interim dividend paid of HK\$0.07 (2018: HK\$0.06) per ordinary share	83,656,116	71,663,542
Proposed final dividend of HK\$0.21 (2018: HK\$0.14) per ordinary share	<u>250,971,708</u>	<u>167,279,332</u>
	<u>334,627,824</u>	<u>238,942,874</u>

On 21 January 2020, the Board of Directors proposed a final dividend in respect of the year ended 31 December 2019 of HK\$250,971,708, representing HK\$0.21 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 2018 was HK\$167,299,632 based on the 1,194,997,373 issued shares outstanding at that time.

10 PROPERTY, PLANT AND EQUIPMENT, LAND USE RIGHTS AND INTANGIBLE ASSETS

	Property, plant and equipment <i>HK\$</i>	Land use rights <i>HK\$</i>	Intangible assets <i>HK\$</i>
Year ended 31 December 2018			
Opening net book amount	8,739,887,326	1,042,127,885	2,913,888,055
Additions	1,504,515,803	84,172,134	59,959,927
Disposals	(16,384,609)	–	–
Depreciation and amortisation (<i>Note 5</i>)	(818,875,919)	(25,685,870)	(97,696,304)
Impairment charges (<i>Note 5</i>)	(2,709,040)	–	–
Exchange differences	(409,160,143)	(49,895,736)	(53,037,336)
	<u>8,997,273,418</u>	<u>1,050,718,413</u>	<u>2,823,114,342</u>
Closing net book amount	<u>8,997,273,418</u>	<u>1,050,718,413</u>	<u>2,823,114,342</u>
Year ended 31 December 2019			
Change in accounting policy – HKFRS 16 (<i>Note 3(a)(i)</i>)	–	(1,050,718,413)	–
Opening net book amount	8,997,273,418	–	2,823,114,342
Additions	1,000,989,553	–	64,403,500
Disposals	(3,010,718)	–	–
Depreciation and amortisation (<i>Note 5</i>)	(908,648,223)	–	(107,555,465)
Impairment charges (<i>Note 5</i>)	(60,416,357)	–	–
Exchange differences	(168,015,712)	–	123,992
	<u>8,858,171,961</u>	<u>–</u>	<u>2,780,086,369</u>
Closing net book amount	<u>8,858,171,961</u>	<u>–</u>	<u>2,780,086,369</u>

During the year, the Group has capitalised borrowing costs amounting to HK\$5,419,428 (2018: HK\$21,747,236) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 4.27% (2018: 4.38%).

During the year ended 31 December 2019, the Group assessed the value in use and estimated market value of certain idle or low-utilization machineries. Management then provided impairment amounting to HK\$60,416,357 (2018: HK\$2,709,040) to these assets.

11 LEASES

	As at	
	31 December 2019 <i>HK\$</i>	1 January 2019 <i>HK\$</i>
Right-of-use assets		
Land use rights	1,070,176,115	1,050,718,413
Buildings	177,110,717	201,018,771
Equipments and others	3,170,131	2,857,405
Total right-of-use assets	<u>1,250,456,963</u>	<u>1,254,594,589</u>
Lease liabilities		
– Current	62,796,875	61,063,540
– Non-current	119,942,991	140,968,527
Total lease liabilities	<u>182,739,866</u>	<u>202,032,067</u>

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

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

	For the year ended 31 December	
	2019 <i>HK\$</i>	2018 <i>HK\$</i>
Depreciation of right-of-use assets (Note 5)		
– Land use rights	25,184,989	25,685,870
– Buildings	66,008,325	–
– Equipment and others	1,357,698	–
	<u>92,551,012</u>	<u>25,685,870</u>
Interest expense (Note 6)	8,249,058	–
Expenses relating to short-term leases	58,058,839	–
Expenses relating to leases of low-value assets	1,892,262	–

The total cash payment for leases in 2019 was HK\$199,663,280.

12 TRADE, NOTES AND OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2019	2018
	<i>HK\$</i>	<i>HK\$</i>
Trade receivables	1,937,867,729	1,909,762,277
Less: Provision for impairment of trade receivables	<u>(25,773,859)</u>	<u>(25,987,508)</u>
	1,912,093,870	1,883,774,769
Notes receivable	<u>4,224,805</u>	<u>4,684,938</u>
Trade and note receivables	<u>1,916,318,675</u>	<u>1,888,459,707</u>
Other receivables		
– creditable input VAT	137,516,178	304,850,539
– prepaid income tax recoverable	2,072,503	15,329,096
– purchase rebates	9,964,231	26,576,733
– deposits and others	<u>88,447,007</u>	<u>102,759,083</u>
	<u>237,999,919</u>	<u>449,515,451</u>
Prepayments		
– purchase of raw materials	1,894,150	30,494,115
– prepaid expenses	20,214,628	21,492,411
– prepayments of utility fee	6,913,902	3,368,579
– others	<u>30,416,711</u>	<u>35,159,780</u>
	<u>59,439,391</u>	<u>90,514,885</u>
	<u>2,213,757,985</u>	<u>2,428,490,043</u>

12 TRADE, NOTES AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

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 2019 and 2018 is as below:

	As at 31 December	
	2019	2018
	HK\$	HK\$
Within 3 months	1,839,881,135	1,784,440,966
4 months to 6 months	64,165,114	89,596,135
7 months to 12 months	13,779,084	15,950,020
Over 1 year	20,042,396	19,775,156
	<u>1,937,867,729</u>	<u>1,909,762,277</u>

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

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

	2019	2018
	HK\$	HK\$
Opening loss allowance as at 1 January	25,987,508	25,796,776
Increase in loss allowance recognised in profit or loss during the year	1,540,148	1,829,013
Receivables written off during the year as uncollectible	(1,187,694)	(363,667)
Exchange differences	(566,103)	(1,274,614)
Closing loss allowance as at 31 December	<u>25,773,859</u>	<u>25,987,508</u>

13 TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES

	As at 31 December	
	2019	2018
	HK\$	HK\$
Trade payables	2,323,041,560	2,071,567,933
Notes payable	298,347,336	322,676,392
Other payables		
– salaries payable	295,730,649	255,123,590
– taxes payable other than income tax	77,563,577	37,303,747
– payables for property, plant and equipment	286,186,841	570,967,807
– others	153,531,960	156,147,473
Accrued expenses		
– promotion fees	760,067,036	672,901,394
– utility charges	43,934,440	39,906,095
– transportation fees	179,169,147	138,032,415
– advertising fee	52,053,644	47,685,432
– accrued interest	6,307,114	8,651,491
– professional services	3,234,654	3,424,060
– others	124,680,814	111,644,828
	<u>4,603,848,772</u>	<u>4,436,032,657</u>

As at 31 December 2019 and 2018, the carrying amounts of the Group's trade payables, notes payable and other payables approximated their fair values.

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 2019 and 2018 is as follows:

	As at 31 December	
	2019	2018
	HK\$	HK\$
Within 3 months	1,944,893,219	1,829,550,803
4 months to 6 months	675,345,534	562,254,130
7 months to 12 months	918,340	522,231
Over 1 year	231,803	1,917,161
	<u>2,621,388,896</u>	<u>2,394,244,325</u>

14 SHARE CAPITAL AND SHARE PREMIUM

	Number of authorized shares	Number of issued and fully paid shares	Amount		
			Ordinary shares <i>HK\$</i>	Share premium <i>HK\$</i>	Total <i>HK\$</i>
At 1 January 2018	80,000,000,000	1,194,167,373	119,416,737	4,345,689,034	4,465,105,771
Employee share option scheme – Exercise of share options	–	685,000	68,500	6,092,196	6,160,696
At 31 December 2018	<u>80,000,000,000</u>	<u>1,194,852,373</u>	<u>119,485,237</u>	<u>4,351,781,230</u>	<u>4,471,266,467</u>
Employee share option scheme – Exercise of share options	–	251,000	25,100	4,458,788	4,483,888
At 31 December 2019	<u>80,000,000,000</u>	<u>1,195,103,373</u>	<u>119,510,337</u>	<u>4,356,240,018</u>	<u>4,475,750,355</u>

15 BORROWINGS

	As at 31 December	
	2019 <i>HK\$</i>	2018 <i>HK\$</i>
Non-current		
Unsecured bank borrowings	2,297,063,820	3,004,812,188
Loans from a related party	1,274,928,072	1,218,116,846
Total non-current borrowings	3,571,991,892	4,222,929,034
Current		
Portion of loans from banks due for repayment within one year – Unsecured	584,195,903	965,502,609
Other borrowings due for repayment within one year – Unsecured (<i>Note (a)</i>)	–	57,064,597
Total current borrowings	584,195,903	1,022,567,206
Total borrowings	4,156,187,795	5,245,496,240

15 BORROWINGS (Continued)

(a) Other borrowings of RMB50,000,000 were repaid to PRC local governments in 2019.

(b) The maturity of borrowings is as follows:

	Bank borrowings		Loans from a related party		Other borrowings	
	As at 31 December		As at 31 December		As at 31 December	
	2019	2018	2019	2018	2019	2018
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Portion of loans due for repayment within 1 year	584,195,903	965,502,609	-	-	-	57,064,597
Loans due for repayment after 1 year:						
Between 1 and 2 years	744,701,210	1,762,277,535	1,180,116,846	338,000,000	-	-
Between 2 and 5 years	1,552,362,610	1,242,534,653	94,811,226	880,116,846	-	-
	<u>2,881,259,723</u>	<u>3,970,314,797</u>	<u>1,274,928,072</u>	<u>1,218,116,846</u>	<u>-</u>	<u>57,064,597</u>

(c) The effective interest rates during the year were as follows:

	Bank borrowings		Loans from a related party	
	2019	2018	2019	2018
HK\$	1.32%~6.83%	1.76%~3.15%	2.63%~3.54%	2.22%~3.52%
US\$	2.31%~3.40%	2.20%~3.40%	-	-
RMB	3.81%~6.60%	3.65%~6.60%	-	5.85%
EUR	-	0.80%	-	-
KRW	1.88%~2.98%	2.20%~2.75%	-	-
MYR	3.57%~4.65%	3.84%~4.34%	4.44%	-

15 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	
	2019	2018
HK\$	3.19%	2.81%
US\$	2.99%	2.81%
RMB	4.55%	4.88%
EUR	–	0.80%
KRW	2.51%	2.56%
MYR	3.91%	4.01%

- (e) The carrying amounts of the borrowings are denominated in the following currencies:

	As at 31 December	
	2019	2018
	HK\$	HK\$
RMB	2,494,121,870	3,692,235,150
HK\$	1,488,927,432	1,304,116,847
MYR	132,735,716	131,275,302
KRW	40,402,777	41,942,479
US\$	–	75,926,462
	<u>4,156,187,795</u>	<u>5,245,496,240</u>

16 OTHER NON-CURRENT LIABILITIES

	As at 31 December	
	2019	2018
	HK\$	HK\$
Long term incentive plans (i)	<u>29,214,726</u>	<u>10,709,487</u>

- (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.

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 2019, the fair value of each CU granted determined by using the Binomial Model was HK\$3.35. The significant inputs into the model were share price at the valuation date, the grant price, volatility of 30%, dividend yield of 1.22%, and annual risk-free interest rate of 1.70%. 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. Two measurement periods for this program are from 2017 to 2019 and from 2019 to 2021.

As at 31 December 2019, the TSR is determined by using the Monte Carlo Simulation Model. The significant inputs into the model were annualized drift rate of 10.92% of the Company and 8.88% of the peer group, dividend yield of 1.42% of the Company and 2.55% of the peer group and annualized asset price volatility of 30% of the Company and 15% of the peer group matching the life of the incentive program.

Foreign Exchange and Fair Value Interest Rate Risk

The majority of the Group's assets and sales business are located in the PRC, 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 2019, the Group's bank and cash balances amounted to HK\$460,387,446 (31 December 2018: HK\$574,465,154), and short-term and long-term loans amounted to HK\$4,156,187,795 (31 December 2018: HK\$5,245,496,240), including the loans from a related party amounting to HK\$1,274,928,072 (31 December 2018: HK\$1,218,116,846). 85.9% of the borrowings are medium- to long-term (31 December 2018: 80.5%). The annual interest rates of bank loans ranged from 1.3% to 6.8%.

As at 31 December 2019, the net gearing ratio, which was calculated on the basis of the amount of net debt which is total borrowings plus lease liabilities less cash and cash equivalents and restricted bank deposits as a percentage of the total shareholders' equity, was 41% (31 December 2018: 54%). The net gearing ratio increased from 39% to 41% as a result of adoption of HKFRS 16 *Leases*, effective and adopted by the Group from 1 January 2019.

As at 31 December 2019, unutilized credit facilities amounted to approximately HK\$7.66 billion (31 December 2018: HK\$6.79 billion).

Charges on Group Assets

As at 31 December 2019, the Group did not have any charges on assets (31 December 2018: nil).

Contingent Liabilities

As at 31 December 2019, the Group had no material contingent liabilities (31 December 2018: nil).

Final Dividend

The Board has resolved to propose to shareholders of the Company the distribution of a final dividend for the Year at 21 HK cents (2018: 14 HK cents) per share totaling HK\$250,971,708, subject to approval by shareholders at the annual general meeting of the Company (the “AGM”) to be held on 8 April 2020. If so approved by shareholders, it is expected that the final dividend will be paid on or about 15 May 2020 to shareholders of the Company whose names appear on the register of member of the Company on 29 April 2020.

Closure of Register of Members

The register of members of the Company will be closed from 3 April 2020 to 8 April 2020, 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 transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch 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 2 April 2020.

In addition, the register of members of the Company will be closed from 27 April 2020 to 29 April 2020, 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 2020.

Purchase, Sale or Redemption of the Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares during the Year.

Corporate Governance

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

Internal Control

Vinda is committed to maintaining high standards of corporate governance. All employees are required to comply with Vinda’s code 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. 99% of our employees have been trained on the code of conduct. 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 (“**Audit Committee**”).

Directors’ Securities Transactions

The Company has adopted a code for securities transactions by Directors (the “**Code of Conduct**”) on terms no less exacting than the required standard of the Model Code for Securities Transaction 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.

Audit Committee

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. 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 and the interim and annual results of the Group.

The annual results of the Group for the Year have been reviewed by the Audit Committee.

Remuneration Committee

The Company's remuneration committee (the "**Remuneration Committee**") has five members comprising three Independent Non-Executive Directors, namely Mr. TSUI King Fai, Ms. LEE Hsiao-yun Ann and Mr. CHIA Yen On, 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 on 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.

Nomination Committee

The Company's nomination committee (the "**Nomination Committee**") has five members comprising three Independent Non-Executive Directors, namely, Ms. LEE Hsiao-yun Ann, Mr. WONG Kwai Huen, Albert and Mr. CHIA Yen On, 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.

Risk Management Committee

The Company's risk management committee (the "**Risk Management Committee**") 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 Risk Management Committee is Mr. Jan Christer JOHANSSON. The principal duties of the Risk Management Committee 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.

Executive Committee

The Company's executive committee (the "**Executive Committee**") comprises five members and is chaired by Mr. LI Chao Wang, an Executive Director. The other four 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 on 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.

Strategic Development Committee

The Company's strategic development committee (the "**Strategic Development Committee**") comprises five members and is chaired by Mr. Jan Christer JOHANSSON, a Non-Executive Director. The other four 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 Strategic Development Committee 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.

Publication of Results Announcement and Annual Report

This announcement is published on the websites of the Company (www.vinda.com) and the Stock Exchange (www.hkexnews.hk). The 2019 annual report of the Company will be dispatched to the shareholders of the Company and available on the same websites in due course.

Acknowledgement

On behalf of the Board, I extend my gratitude to all our staff for their hard work and dedication.

By Order of the Board
Vinda International Holdings Limited
LI Chao Wang
Chairman

Hong Kong, 21 January 2020

As at the date of this announcement, the Board comprises:

Executive Directors

Mr. LI Chao Wang

Ms. YU Yi Fang

Mr. Johann Christoph MICHALSKI

Ms. LI Jielin

Mr. DONG Yi Ping

Non-Executive Directors

Mr. Jan Christer JOHANSSON

Mr. Carl Magnus GROTH

Mr. Carl Fredrik Stenson RYSTEDT

Independent Non-Executive Directors

Mr. CHIA Yen On

Ms. LEE Hsiao-yun Ann

Mr. TSUI King Fai

Mr. WONG Kwai Huen, Albert

Alternate Directors

Mr. Gert Mikael SCHMIDT (*alternate to Mr. JOHANSSON and Mr. GROTH*)

Mr. Dominique Michel Jean DESCHAMPS (*alternate to Mr. RYSTEDT*)