

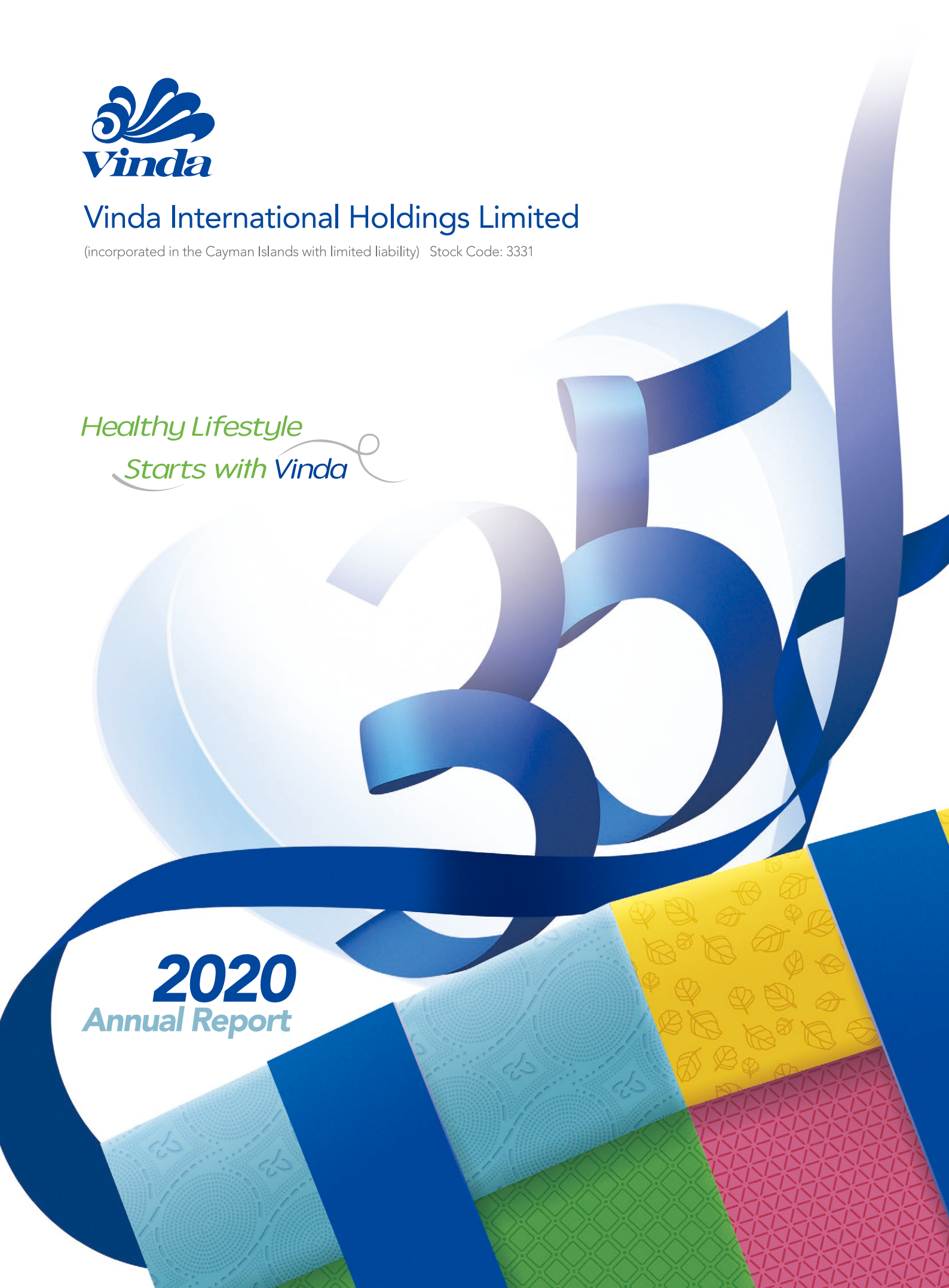


Vinda International Holdings Limited

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

*Healthy Lifestyle
Starts with Vinda*

2020
Annual Report



To Become
A **Leading** **HYGIENE**
Company
in **Asia**



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Corporate Information

Directors

Executive Directors

Mr. LI Chao Wang (Chairman)
Ms. YU Yi Fang (Vice Chairman)
Ms. LI Jielin (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
Mr. Johann Christoph MICHALSKI
(appointed on 1 October 2020)

Independent Non-Executive Directors

Ms. LEE Hsiao-yun Ann
Mr. TSUI King Fai
Mr. WONG Kwai Huen, Albert
Mr. LAW Hong Ping, Lawrence
(appointed on 1 November 2020)

Alternate Directors

Mr. Gert Mikael SCHMIDT (alternate to
Mr. JOHANSSON and Mr. GROTH)
Mr. Dominique Michel Jean DESCHAMPS
(alternate to Mr. RYSTEDT)

Audit Committee

Mr. TSUI King Fai (Committee Chairman)
Mr. Carl Fredrik Stenson RYSTEDT
Mr. WONG Kwai Huen, Albert
Mr. LAW Hong Ping, Lawrence
(appointed on 1 November 2020)

Remuneration Committee

Mr. TSUI King Fai (Committee Chairman)
Mr. Jan Christer JOHANSSON
Mr. Johann Christoph MICHALSKI
(appointed on 1 October 2020)
Ms. LEE Hsiao-yun Ann
Mr. LAW Hong Ping, Lawrence
(appointed on 1 November 2020)

Nomination Committee

Mr. LI Chao Wang (Committee Chairman)
Mr. Jan Christer JOHANSSON
Ms. LEE Hsiao-yun Ann
Mr. WONG Kwai Huen, Albert
Mr. LAW Hong Ping, Lawrence
(appointed on 1 November 2020)

Risk Management Committee

Mr. Jan Christer JOHANSSON (Committee Chairman)
Ms. LI Jielin
(appointed on 1 October 2020)
Ms. YU Yi Fang
Mr. Carl Fredrik Stenson RYSTEDT
Mr. TSUI King Fai

Executive Committee

Mr. LI Chao Wang (Committee Chairman)
Ms. YU Yi Fang
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

Authorised Representatives

Ms. LI Jielin
Ms. TAN Yi Yi

Company Secretary

Ms. TAN Yi Yi, FCCA

Auditors

PricewaterhouseCoopers

Legal Advisers to the Company

Ashurst 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
BNP Paribas
China Construction Bank Corporation
Citibank
DBS Bank Limited
Industrial and Commercial Bank of China Limited
Standard Chartered Bank (Hong Kong) Limited
Skandinaviska Enskilda Banken AB

Company Website

<http://www.vinda.com>

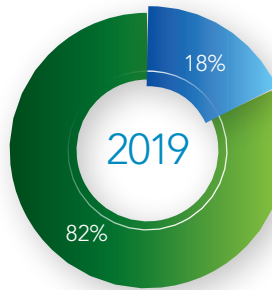
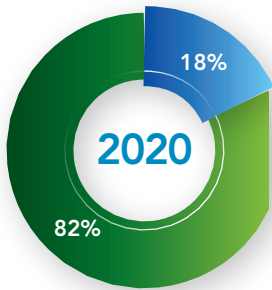
Financial Highlights

	2020	2019
Revenue (HK\$ million)	16,512	16,074
Gross profit (HK\$ million)	6,223	4,985
EBITDA (HK\$ million)	3,601	2,678
Operating profit (HK\$ million)	2,453	1,570
Gross margin (%)	37.7%	31.0%
Operating margin (%)	14.9%	9.8%
EBITDA margin (%)	21.8%	16.7%
Earnings per share (HK\$) – basic	156.5 cents	95.3 cents
Dividend per share (HK\$)	47.0 cents	28.0 cents
– interim dividend (paid) (HK\$)	10.0 cents	7.0 cents
– final dividend (proposed) (HK\$)	37.0 cents	21.0 cents
Finished goods turnover ¹	49 days	46 days
Debtors turnover ²	44 days	42 days
Creditors turnover ³	93 days	90 days
Current ratio (times)	1.1	1.1
Net debt to EBITDA ratio (times)	1.2	1.4
Net gearing ratio (%) ⁴	35.9%	41.0%

Notes:

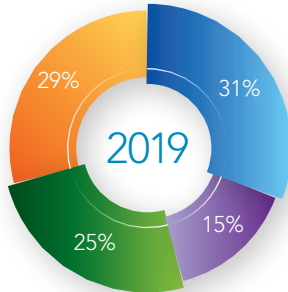
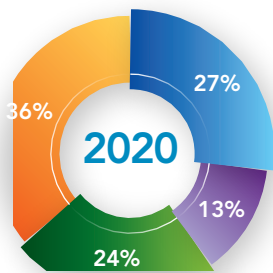
1. Calculation: multiplying 12-month average finished goods by 360 days, and dividing the result by the cost of sales for the 12 months ended 31 December for the relevant year.
2. Calculation: multiplying 12-month average account receivables by 360 days, and dividing the result by the revenue for the 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: net debt divided by total shareholders' equity.

Net debt: total debt including lease liabilities less cash and cash equivalents and restricted bank deposits.



Revenue by Business Segment

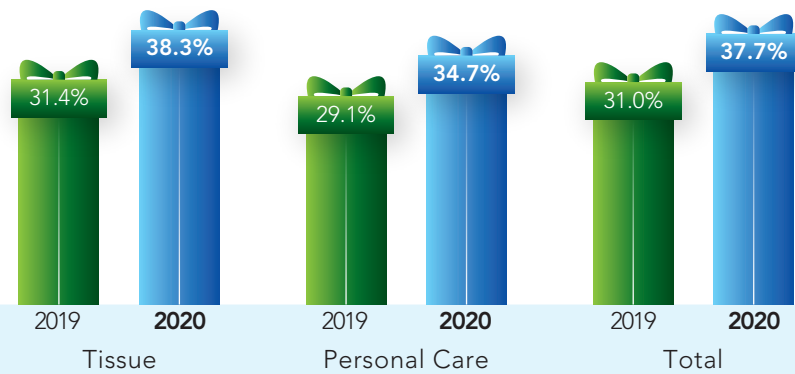
- Tissue
- Personal care



Revenue by Sales Channels

- Traditional distributors
- B2B corporate clients
- Key account (hypermarkets and supermarkets)
- E-commerce

Gross Margin



Segment Result Margin



CHAIRMAN'S STATEMENT

The year of 2020 marked the 35th anniversary of Vinda since its founding. That's 35 years of devoting ourselves to the field, developing products with the spirit of innovation and craftsmanship, and building Vinda brand based on integrity has ultimately made us one of the most respected enterprises in the industry. This year, we have had to deal with an unprecedented global pandemic, which has caused economies around the world to grind to a halt or even contract. On top of this, political relations between many countries remain tense, and both of these factors have made the business environment very challenging. However, the situation has also highlighted the importance of Vinda's constant pursuit of innovation. Throughout the years, Vinda has successfully expanded its business from household paper business to personal care business by maintaining



high quality standards, optimal positioning in the high-end market as well as continuous product enhancements. Geographical coverage of our business has also widened further, extending from mainland China to Southeast Asia and North Asia markets. Moreover, the Group has capitalised on business opportunities arising from e-commerce channels in today's new retail era. Bolstered by our resilient business practices, the Group continued to sustain our market leading position and increase profitability amidst such a complex and ever-changing operating environment in this year.

During the year, the Group's management staff and all employees were fully committed and united to actively respond to the pandemic. To this end, we ensured that our employees resumed their work and carrying production in a safe manner. During this pandemic outbreak, the good and long-standing relationships with suppliers, logistics providers and distributors, allowed the Group to quickly return to normal operations in order to satisfy the sudden surge in consumer demand for household paper items and other hygiene products. By guaranteeing a stable supply to the market, we successfully fulfilled our corporate social responsibility.

During this pandemic, consumer demand for wet wipes, kitchen towels and soft packs has remained strong due to increased public awareness of personal hygiene, and the on-going trend of upscaling of household paper consumption. Vinda always strives for innovation, focusing on the development and sale of high-quality premium products. This has resulted in an increase in the contribution of our premium product portfolio. The B2B tissue market faced greater pressure due to various COVID-19 lockdown measures implemented by a host of countries. However, now with the pandemic gradually coming under greater control, with heightened awareness of hygiene and epidemic prevention measures, it is expected that the B2B tissue market will return to growth once people assume their pre-pandemic lifestyles, and the Group is optimistic about the future development of the B2B tissue market.

In addition, our feminine business has a strong growing momentum in mainland China and the Group has responded by localizing our product production to better meet the needs of mainland female consumers, our products have been well received by the market, a testament to the fact that our strategies are beginning to bear fruit. The satisfactory development of our feminine hygiene business will not only help boost the Group's overall gross margin, but will also serve as another important revenue stream in the future.

Chairman's Statement

The market for incontinence care products across mainland China is still in the early stage of development in spite of the aggravating ageing population. The number of people in mainland China aged over 65 is expected to increase dramatically from 13% in 2019 to 28% by 2050. Therefore, the demand for incontinence care products is expected to increase rapidly, making mainland China a truly promising market. While the pandemic has continued, consumers have gained greater awareness about incontinence care products and these items are providing crucial assistance to frontline medical workers. Vinda believes that effective consumer and social education and active promotion will help our incontinence care business flourish and we are well prepared for a future dramatic expansion of the market.

Over the past decade, technology has been developing by leaps and bounds while sales channels have also undergone rapid changes due to increased internet penetration cross the globe. This has led to the widespread popularity and expansion of online purchases. In 2020, many countries adopted quarantine measures to help fight the pandemic, reducing consumers' expenditures at brick and mortar outlets, which helped accelerate the development of e-commerce. During the pandemic, Vinda's e-commerce business has benefitted from early adopter advantages in seizing new business opportunities brought about by e-commerce promotions at local festivals. For example, during the Double-11 Festival this year, Vinda's online household paper sales ranked first for the eighth consecutive year while our feminine and incontinence care products recorded impressive growth. In fact, Vinda's overall sales during the Double-11 Festival hit a record high.

With improved hygiene awareness among consumers during the pandemic, the demand for personal care products is expected to continue after the pandemic has passed. Apart from our production expansion plans in mainland China, Vinda has also established a new Southeast Asia regional headquarters in Malaysia, which will allow us to continue expanding our production and research capabilities for the personal care segment. This will satisfy consumers' long-term demands for our products and will facilitate the Group's future business growth.

While focusing on business development, the Group will always recognize the importance of upholding its social responsibility. In 2020, the Group donated multiple batches of household paper, wet wipes, feminine items as well as incontinence care products to frontline medical staff and their families to support them while they faced the hardships of pandemic prevention.

With regard to the capital markets, the Group's outstanding business performance has led to our inclusion as a constituent stock on a host of leading bourses in 2020. These include the MSCI Global Standard Indexes, the MSCI China All Shares Index, Hang Seng Composite Index, and Hang Seng Stock Connect Greater Bay Area Composite Index. Our presence reflects the recognition we have received from international capital markets, which will also help to further expand our shareholder base and increase share liquidity.

As we head toward 2021, competition in the household paper market will remain. Despite facing a number of challenges, the Group will continue to grow, relying on its distinctive brand image and positioning, consistent and well-established product reputation, large production capacity, extensive sales network and well-developed e-commerce business. Moreover, we will integrate both online and offline sales channels to offer consumers a greater variety of high-quality products and services while also exploring the ever-expanding potential in the hygiene products market that will both create advantages and maximize value. 2021 will usher in the beginning of a new decade during which consumption patterns, technology application, hygiene awareness and lifestyle habits will see rapid enhancements. That's why business like ours must seek innovation and embrace changes to ensure continuous development.

On behalf of the Board, I would like to thank our management team and staff members, whose professionalism and dedication are critical to our success during this past challenging year. The Board would also like to take this opportunity to express its gratitude to the former chief executive officer, Mr. Johann Christoph MICHALSKI for the valuable contributions he made to Vinda during his tenure in office. Ms. LI Jielin, who succeed him in the role of chief executive officer is uniquely poised and qualified to successfully move Vinda forward to seek greater innovation and prudent changes to meet the challenges of today's market circumstances. Ultimately, leading the Group to meet the goals of the new five-year plan and move ever closer toward our vision of becoming the leading hygiene company across Asia.

LI Chao Wang

Chairman

26 January 2021

CHIEF EXECUTIVE OFFICER'S REPORT

2020 was an extraordinary year for businesses worldwide and Vinda was no exception. Increased public hygiene awareness due to the COVID-19 pandemic led to a solid demand for wet tissues, kitchen towels and soft packs, and consumers continued to upgrade to high quality premium products. Nonetheless, this positive trend was not without its challenges, especially in a retail environment that was negatively affected overall.



In mainland China, which is our key revenue driver, the temporary lockdown in the early part of the year brought logistical disruptions that impacted our offline sales performance. However, due to the Group's strong relationships with our business partners, Vinda was one of the first companies in the industry to efficiently resume operations after the lockdown and successfully supply sufficient hygiene products to meet growing market demands. Within mainland China, the coronavirus situation is now largely under control and the economy is recovering growth.

Most countries in Southeast Asia went into sudden lockdown in response to the epidemic threat. Although lockdown measures in North Asia¹ remained relatively modest, the tourism sector was inevitably affected. However, we were able to maintain a steady business performance in these markets even in the face of this challenging operating environment.

Despite the unprecedented economic disruption and extremely fierce market competition, Vinda stayed focused on its strategy of premiumization and innovation to successfully deliver an outstanding result in 2020. The Group significantly improved its profitability, driven by an enhanced product mix, continued low prices for wood pulp and strong growth in our e-commerce business. As a result, the Group's operating profit rose by 56.3% to HK\$2,453 million while net profit surged by 64.7% to HK\$1,874 million. The gross margin increased by 6.7 percentage points from 31.0% in 2019 to 37.7% in 2020.

Tissue business

Vinda maintained its tissue market leadership in mainland China and Hong Kong², with new premium tissue innovations launched in 2020 to strengthen our market leading positions. Our *Tempo* brand enjoyed stellar growth of more than 40% in mainland China, while other premium offerings such as *Vinda 4D Deluxe* and wet wipes achieved double-digit growth. Our premium portfolio³ contributed 30.6% of the Group's total tissue revenue in 2020, up from 24.4% in 2019. In addition to a higher margin contribution, the focus on driving our premium portfolio delivers greater competitive resilience and helps mitigate the impact of potential raw material price fluctuations going forward. The consumer trend of upgrading to premium products, coupled with increased public attention to personal hygiene and health due to COVID-19, are additional factors that favor the sustainable growth of our premium portfolio.

Personal care business

Vinda's feminine care business benefitted from product innovation and the successful launch of next-generation feminine hygiene products to deliver a strong performance in mainland China. This achievement was reflected in the rapid sales growth of the newly launched *Libresse V-Comfort* range of sanitary pads. The premium feminine care segment continues to grow faster than the total feminine care market, creating opportunities for the Group's growth with premium products. Vinda also focused on product differentiation to further enhance its category competitiveness. In Malaysia, we continued to be the market leader⁴ in the feminine care business.

Chief Executive Officer's Report

New pant innovations in the incontinence care business were well received in mainland China. The launch of the superior *TENA ProSkin* range – protective products that effectively keep the skin dry through fast absorption while promoting better skin health with breathable features – also performed well in the Chinese market. Moreover, Vinda continued to retain our market leading positions in Malaysia⁵ and Singapore⁶ by fully leveraging consumer insights and driving compelling brand activations. The Group is in a stronger position than ever to fully capitalize on the growth of aging populations in mainland China, Southeast Asia and North Asia.

The baby care business in Southeast Asia was another key revenue driver for Vinda within the personal care segment. Strong, integrated marketing activations, both online and offline, supported the rollout of new product innovations and continued to boost brand awareness and affinity. The launch of the new *Skinature* by *Drypers* range – open baby diapers that are gentle on even the most sensitive skin to keep babies protected from rashes and irritations – successfully attracted new, young parent consumers in the premium segment. In Malaysia, we continued to fortify our market leading position⁷ through quality product enhancements and differentiated marketing.

Production capacity expansion in mainland China and efficiency enhancement project in Southeast Asia

In 2020, Vinda's total annual tissue paper production capacity remained at 1,250,000 tonnes. We expanded the production capacity of wet wipes in southern and northern China, and target to complete our tissue production capacity expansion in southern, eastern and central China in 2021.

In Southeast Asia, progress on the construction of Vinda's regional headquarters in Malaysia is on track. This project will allow us to consolidate all our regional operations under one roof. The first phase is expected to be completed in 2021, when new warehousing facilities will become operational. The second phase of construction will focus on manufacturing facilities and our innovation center. This new regional hub will improve our overall operational efficiency while also supporting long term business development in emerging markets.

Strong e-commerce business

Vinda has long been a leading player in online sales channels, with well-established relationships across major e-commerce platforms, unique set of digital capabilities and robust supply chain management. The continuous shift of consumers from traditional to digital channels has further accelerated our competitive advantage in e-commerce: online sales contributions for the Group expanded to 36% of total sales in 2020, up from 29% in 2019. The importance of e-commerce sales continues to grow in mainland China, which contributed 46% of total sales in 2020, up 9 percentage points compared to 2019.

Recognition for our commitment to sustainable development

During the year under review, Vinda became the first company in Asia to utilize Standard Chartered Bank's loan facility to address the unique challenges of the COVID-19 pandemic. The Group used this financing to establish manufacturing lines for the production of disposable face masks at existing Vinda factories in Zhejiang and Guangdong provinces. Vinda was also the first Fast Moving Consumer Goods (FMCG) company in Hong Kong to secure a green loan in accordance with the Green Finance Pre-Issuance Stage Certificate issued by the Hong Kong Quality Assurance Agency (HKQAA). In further recognition of our commitment to environmental protection and sustainable development, Vinda was named Outstanding Green Loan Recipient for the largest single green loan awarded in the FMCG industry at the HKQAA's Hong Kong Sustainable Finance Awards 2020.

In addition, Vinda received the Gold Award in the Environmental, Social and Governance (ESG) Corporate Awards 2020 organized by the internationally renowned financial magazine, *The Asset*. This award recognizes the Group's outstanding performance in areas of corporate governance, social responsibility and environmental protection.

In Malaysia, Vinda was the national winner for the United Nations (UN) Women 2020 Malaysia Women's Empowerment Principles (WEPs) Awards in the Gender-Responsive Marketplace category. This prestigious award recognizes the Group for its efforts in empowering women in the marketplace and community through impactful communication and taboo-breaking activations via our *Libresse* feminine care brand.

Outlook

The COVID-19 pandemic in mainland China has been largely controlled, the Chinese economy has shown stable growth post pandemic and it is expected that a steady local demand recovery will continue into 2021. Despite regional economy is expected to continue to recover, certain risks remain. The development of COVID-19 pandemic in the region, possible further lock-downs, geopolitical volatilities, possibility of rise of raw material prices, and exchange rate fluctuations of the Chinese Yuan, remain near-term uncertainties for Vinda's operating environment.

Although competition is expected to remain fierce across the hygiene products market in general, Vinda is confident that through its adoption of effective strategies to drive growth through premiumization, innovation and excellence in sales execution, the Group will continue to consolidate and build on its market leading position in the tissue segment while also driving growth in the personal care segment.

Leveraging our numerous strengths – such as our well-loved premium product brands, compelling marketing executions, well-established distribution channels and our strong position as a leading player on e-commerce platforms – will allow us to capture growth opportunities across premium segments in our tissue and personal care businesses, as well as in online retail channels.

All of us at Vinda are committed to contributing our strongest efforts and fulfilling our ambition of becoming the leading hygiene products company across Asia.

Remarks

- 1 North Asia includes HKSAR, Taiwan China and South Korea
- 2 Source: Kantar Worldpanel, sales value year-to-date at 4 December 2020 & Nielsen, sales value full year 2020
- 3 Premium portfolio (*Tempo*, *Vinda Deluxe*, *Tork* and wet wipes)
- 4 Source: Kantar Worldpanel, sales value year-to-date at 6 December 2020
- 5 Source: Internal estimates, sales value, year-to-date at 30 November 2020
- 6 Source: Internal estimates, sales value full year 2020
- 7 Source: Kantar Worldpanel, sales value year-to-date at 6 December 2020

LI Jielin

Chief Executive Officer

26 January 2021

Management Discussion and Analysis

Overview

The outbreak of the COVID-19 pandemic in 2020 created an abnormally volatile operating environment along with increasingly fierce market competition. Vinda's Hubei manufacturing site was temporarily closed down in the first quarter of 2020. The Hubei site represents 24% of our Group's total production capacity, therefore led to a temporary shortage in supply of our products in the first quarter of 2020. Other than the Hubei site, our other factories' operation was only slightly disrupted during such time. Although we encountered challenges, the resilient nature of our business, coupled with continuous innovation, optimized portfolio mix, and softening wood pulp price, resulted in the Group's significantly improved profitability in terms of both gross margin and net margin, which recorded strong growth.

Financial Highlights

Total revenue increased by 2.7% (growth at a constant exchange rate: 3.7%) to HK\$16,512 million.

In terms of business segments, our tissue and personal care segments contributed 82% and 18% of total revenue respectively. Looking at sales channels, our traditional distributors, key account managed supermarkets and hypermarkets, B2B corporate customers, and e-commerce business accounted for 27%, 24%, 13% and 36%, respectively. With the outbreak of the pandemic, channel sales gradually shifted from offline to online platforms with e-commerce continuing to achieve outstanding performance, recording 29.0% organic growth¹.

Gross profit rose by 24.8% to HK\$6,223 million. Industry competition remained intense, but continued low wood pulp price and an enhanced portfolio mix helped increase the gross margin by 6.7 ppts to 37.7%.

EBITDA grew by 34.5% to HK\$3,601 million. EBITDA margin increased by 5.1 ppts to 21.8%, reflecting the Group's sustainable ability to generate cash.

RMB against the USD and HKD continued to fluctuate during the year ended 31 December 2020 (the "Year"). Total foreign exchange gain for the Year was HK\$52.8 million (2019: HK\$34.7 million loss), of which HK\$51.1 million gain came from operating activities (2019: HK\$37.2 million loss), and HK\$1.7 million gain was due to financing activities (2019: HK\$2.5 million gain).





Operating profit surged by 56.3% to HK\$2,453 million. Faced with increasingly fierce industry competition, our selling and marketing cost and administrative costs as a percentage of sales increased by 1.9 pts and 0.4 ppt, respectively. The operating margin expanded by 5.1 pts to 14.9%.

Interest expenses fell by 31.8% to HK\$145 million due primarily to lower cost of borrowings during the Year. The effective interest rate was 3.2%, down by 0.9 ppt compared to last year. Net gearing ratio² declined by 5.1 pts to 35.9%.

The effective tax rate increased by 2.4 pts to 19.4%.

Net profit grew significantly by 64.7% to HK\$1,874 million. The net margin was 11.4%, increased by 4.3 pts compared to last year.

Basic earnings per share was 156.5 HK cents (2019: 95.3 HK cents).

The Board recommends the payment of a final dividend per share of 37 HK cents. Together with the interim dividend, total dividends per share for the Year come to 47 HK cents (2019: 28 HK cents).



Business Review

Tissue Segment

Revenue from the tissue segment increased by 2.7% to HK\$13,608 million, representing growth of 3.6% at a constant exchange rate. This accounted for 82% of the Group's total revenue (2019: 82%).

During the Year, our growing momentum of premium portfolio continued, which helped us maintain a leading market position³ in the mainland China tissue segment. The gross margin and segment result margin⁴ of the tissue segment of the Group successfully expanded by 6.9 ppts and 4.9 ppts to 38.3% and 16.5%, respectively.

In order to provide consumers with various product experiences, *Vinda* initiated a dual spokesperson strategy, launching promotions that feature the "Tough Mom" Sun Li, and the "New Sunshine Generation" Song Weilong, in order to expand communication channels between our brand and various target consumer groups while building a premium, quality and young brand image. Both the online live streaming and offline interactive promotions became the talk of the town and successfully drove sales. During the Year, *Vinda's Natural Soft Tissue* produced with an innovative and unique 4D embossing technology that results in a soft, skin-friendly texture, was widely hailed by consumers.

Moreover, *Tempo* invited Kris Wu, a famous artist in mainland China, to serve as the new spokesperson to further enhance the brand's modern image among consumers. A series of online and offline activities as well as hankies were launched in collaboration with Kris Wu, which effectively drove strong consumer sales. In order to enhance consumer loyalty toward the *Tempo* brand and increase market share, a new soft pack line was unveiled during the Year, available in three scents: sakura limited edition, peach limited edition and regular neutral edition. Comprehensive marketing activities, including online video, outdoor advertising, print advertising and social media, coupled with *Tempo*'s well established "high quality and premium" image, successfully won over new customer groups while also receiving very positive feedback. Consumer demand for hygiene and virus prevention products increased as a result of the COVID-19 pandemic. In order to satisfy the needs of different consumers, we introduced wet wipes in mini pack as well as family pack sizes, together with new wet toilet tissue products. *Tempo* has been essential in helping to maintain proper safeguards for consumers everywhere during the pandemic, providing the strongest protection.



Management Discussion and Analysis

Despite the unique circumstance of the pandemic, which put B2B channels under pressure, *Tork* cooperated with several airports and hotels in mainland China to provide washroom hygiene solutions throughout the Year. We expect that consumers will soon return to their pre-pandemic lifestyles when the pandemic is under further control. This will provide enormous growth opportunities for B2B channels, driving our medium-to-long term development.

We succeeded in introducing *Vinda Deluxe* into the Malaysian market, generating encouraging market response and a significant increase in market share, which has laid a solid foundation for the Group's tissue business expansion plans throughout the country.

Personal Care Segment

Revenue from the personal care segment increased by 3.0% to HK\$2,904 million, representing a growth of 4.3% at a constant exchange rate, accounting for 18% of the Group's total revenue (2019: 18%).





Gross margin and segment result margin for the personal care segment were 34.7% and 10.6%, respectively. The segment result margin reflected that the personal care business in mainland China has been improving.

Our incontinence care business maintained growth momentum across mainland China, driven primarily by continuous improvements in our brand image and brand awareness as well as a greater recognition of *TENA*. Moreover, our ongoing dissemination of professional content via live streaming and other social media platforms has attracted a wide array of new consumers. Furthermore, our newly launched *ProSkin* product series, which incorporates a unique *FeelDry* Advanced technology that quickly absorbs liquid away from the skin surface, offers triple protection against dryness, providing incontinence sufferers and their family caregivers a much better nursing care experience. In addition, we also helped to raise the industry standard for incontinence care, urging more people to pay greater attention to people with incontinence problems as well as their skin health and we received positive market response.

Management Discussion and Analysis

With regard to feminine care, renowned Chinese actress Zhou Dongyu was named *Libresse* brand ambassador for mainland China, which greatly improved overall brand recognition and helped us build a distinctive brand image. Marketed under the theme of “Menstruation is Nothing to Hide”, *Libresse* has gained continued attention from mainland China’s consumers resulting in strong growth momentum there. Moreover, *Libresse* has maintained its leading market position⁵ in Malaysia with the new brand campaign – “Know Your V”, which has been warmly received in the market for successfully associating the brand with modern women, thus facilitating continuous business development.

Southeast Asia has always been the key market for developing our baby care business. In the Malaysian market, *Drypers* continued to drive business growth and solidify its leading market position⁶. *Drypers* and Pink Fong, the creative team behind the children song “Baby Shark”, cooperated closely, which attracted parents’ attention through the new marketing strategies in social media and other e-commerce platforms.



Production Capacity Plan

During the Year, the total annual designed production capacity for tissue paper remained at 1,250,000 tons. We expanded the production capacity of wet wipes in southern and northern China, and expected to complete our tissue production capacity expansion plan in southern, eastern and central China in 2021. In addition, the first phase of our regional headquarters in Malaysia is expected to be completed in 2021, when the warehouse will also be operational. The second phase of our manufacturing facilities and innovation center are progressing apace as planned. Upon completion, we are confident that these facilities will further improve our overall efficiency and productivity while lowering costs. This will help to drive long-term business development for the Group in emerging markets.

Sustainability

Human Resources Management

Employees are the most valuable contributors to Vinda's sustainable development. With this in mind, we strive to offer equal opportunities to all qualified candidates regardless of age, nationality, race, religion, sexual orientation and gender. We also offer fair and reasonable remunerations and a performance incentive mechanism along with on-going career advancement training programs for our staff. In addition to basic salary, our staff is entitled to discretionary bonus and other benefits with reference to their respective duties and responsibilities in the Group, the prevailing market situation and the performance of the Group and the individuals. The Group has also implemented long-term incentive plans for its staff. For details, please refer to note 21 to the consolidated financial statements on pages 141 to 142 of this annual report. For our human resource efforts, Vinda was awarded the "2020 Human Resources Management Excellence Award" (二零二零年人力資源管理傑出獎) by JOBS (前程無憂) in mainland China.

During the Year, a total of 858,087 hours of training were conducted for a total of 10,243 participants.

As of 31 December 2020, we had a total of 11,347 employees.

Health & Safety Performance

We attach great importance to occupational health and safety with our goal of achieving "zero accidents". Lost-time accidents ("LTA") before 2020 that had an impact in 2020 totaled 10 cases (2019: 7 cases). Lost days due to related accidents ("DLA") reached 1,560 days (2019: 869 days).

In 2020, LTA was 14 cases (2019: 17 cases), and DLA was 808 days (2019: 1,613 days).

Green Production

We continued to devote unstinting efforts to reduce our carbon footprint in 2020. In mainland China, the average overall energy consumption (ton of standard coal) per ton of paper was 0.32, far below the strictest level for household paper of 0.42 ton of standard coal for every ton of paper, based on the GB31825-2015 The Norm of Energy Consumption per Unit Product of Pulp and Paper (《製漿造紙單位產品能源消耗限額》). The water recycling rate was over 95% while the Group's total carbon dioxide emissions totaled 1,146,394 tons with total emission intensity reaching 0.69 ton/HK\$10,000 of sales. Additionally, we aim to source all wood pulp certified by the forest certification system (including the Forest Stewardship Council ("FSC™"), the Program for the Endorsement of Forest Certification ("PEFC"), or the China Forest Certification Council ("CFCC")).

Management Discussion and Analysis

Vinda is honored to be the first company in Asia to receive a loan from Standard Chartered Bank to combat the COVID-19 pandemic in an attempt to meet the demand for pandemic-prevention products in mainland China and other regions. We are also the first fast-moving consumer goods company in Hong Kong to obtain the “Green Finance Pre-Issuance Stage Certificate” issued by the Hong Kong Quality Assurance Agency to raise a green loan, which is used for eligible green projects, including those for raising energy efficiency, as well as the prevention and control of pollution, resource conservation and recycling. In addition, Vinda was awarded the “Outstanding Award for Green Loan Issuer — Largest Single Green Loan (Fast Moving Consumer Goods Industry)” at the Hong Kong Sustainable Finance Awards 2020 organized by the Hong Kong Quality Assurance Agency in recognition of our commitment to environmental protection and contributions to sustainable development.

Meanwhile, the Group received the Gold Award in “The Asset ESG Corporate Awards 2020” organized by the internationally renowned financial magazine, The Asset. It is a recognition to the Group’s outstanding performance in the areas of corporate governance, social responsibility and environmental protection.

For details, please refer to the Environmental, Social and Governance (ESG) Report 2020 to be published by the Company in due course.

Inclusion in Indices

The Group has been included in a number of leading market reference indices in 2020 for outstanding business performance, including the MSCI Global Standard Indexes and the China All Shares Index, the Hang Seng Composite Index and Hang Seng Stock Connect Greater Bay Area Composite Index. This is a testament to the recognition the Group has received from international capital markets, which will further broaden our shareholder base and enhance the Group’s share liquidity.

Outlook

Market expects that the pandemic will gradually be brought under control and economic activities will eventually recover, but uncertainties still remain for the near-term business environment. We will continue to focus on implementing our premiumization strategy while promoting innovation and expanding market share amidst the complex and volatile economic environment.

Heightened hygiene awareness due to the pandemic has stimulated public demand for hygiene products. At the same time, we expect to see a growing trend of seeking premium product mix driven by rising customer demands. Reaping the benefits from consumers’ desire for quality and tapping the promising growth potential of mainland China’s household paper market, we will continue to seize the opportunities to upgrade our portfolio mix, increase market penetration of our premium portfolio, and consolidate our market-leading position in order to further enhance the Group’s profitability.

We see tremendous opportunities in the elderly market in mainland China. While the silver economy drives the incontinence care business expansion, enhanced consumers’ awareness of incontinence care products due to the pandemic also further accelerates the development of the incontinence care business. The increasing female purchasing power across mainland China in recent years has sparked the launch of premium feminine care products there. In addition, pandemic has also changed consumption patterns and habits, highlighting the rising importance of e-commerce channels. In response, the Group capitalizes on the leading advantages in e-commerce platforms to promote our business development. We strongly believe that the tissue and personal care product industry is moving towards healthy and prosperous development.

We will maintain our focus on the following development strategies:

1. We will continue to focus on product innovation and strive to distinguish ourselves from our peers by optimizing the Group's portfolio mix to enhance our brand competitiveness and profit margin;
2. We will continue to develop our sizable personal care business in mainland China;
3. We will leverage a comprehensive network of channels and our competitive edge in e-commerce to secure every potential opportunity through our superior sales execution capabilities;
4. We will rigorously control costs and make the best use of our resources to optimize cost-effectiveness;
5. We will continue to improve the efficiency of our production and operations in order to support sustainable business growth; and
6. We will bolster our financial position with a 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*

³ *Source: Kantar Worldpanel, sales value year-to-date at 4 December 2020*

⁴ *Segment profit before amortisation of trademarks, licenses and contractual customer relationship*

⁵ *Source: Kantar Worldpanel, sales value year-to-date at 6 December 2020*

⁶ *Source: Kantar Worldpanel, sales value year-to-date at 6 December 2020*

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 2020, the Group's bank and cash balances amounted to HK\$749,399,329 (31 December 2019: HK\$460,387,446), and short-term and long-term loans amounted to HK\$4,731,890,823 (31 December 2019: HK\$4,156,187,795), including the loans from a related party amounting to HK\$396,080,272 (31 December 2019: HK\$1,274,928,072). 63.1% of the borrowings are medium- to long-term (31 December 2019: 85.9%). The annual interest rates of bank loans ranged from 0.8% to 6.8%.

Management Discussion and Analysis

As at 31 December 2020, 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 35.9% (31 December 2019: 41.0%).

As at 31 December 2020, unutilized credit facilities amounted to approximately HK\$7.45 billion (31 December 2019: HK\$7.66 billion).

Charges on Group Assets

As at 31 December 2020, the Group did not have any charges on assets (31 December 2019: nil).

Contingent Liabilities

As at 31 December 2020, the Group had no material contingent liabilities (31 December 2019: nil).

Final Dividend

The Board has resolved to propose to shareholders of the Company the distribution of a final dividend for the Year at 37 HK cents (2019: 21 HK cents) per share totaling HK\$443,805,518 subject to approval by shareholders at the annual general meeting of the Company (the "AGM") to be held on 12 May 2021. If so approved by shareholders, it is expected that the final dividend will be paid on or about 31 May 2021 to shareholders of the Company whose names appear on the register of member of the Company on 21 May 2021.

Biographies of Directors and Senior Management



Biographies of Directors and Senior Management

Biographies Of Directors

Executive Directors

1. Mr. LI Chao Wang (李朝旺), aged 62, 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 over 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 65, 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 over 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. Ms. LI Jielin (李潔琳), aged 34, was appointed as Executive Director on 1 October 2015 and as Chief Executive Officer on 1 October 2020. She was the Deputy Chief Executive Officer between 1 October 2015 and 30 September 2020. Ms. LI had been the Chief Human Resources Officer from 10 July 2015 to 30 September 2020 and President, North Asia from 1 April 2016 to 30 September 2020. Ms. LI joined the Group 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 from November 2014 to September 2015 and the Managing Director of Vinda Household Paper (Australia) Limited from March 2012 to September 2015. 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.

4. Mr. DONG Yi Ping (董義平), aged 57, 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 30 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

5. Mr. Jan Christer JOHANSSON, aged 66, 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 Svenska Cellulosa Aktiebolaget ("**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 Oyj, Serneke Group AB (publ) and Organoclick AB and director of Optigroup AB and Kahrs AB. Mr. JOHANSSON has a master's degree in Laws from Stockholm University, Sweden.

6. Mr. Carl Magnus GROTH, aged 57, 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.

7. Mr. Carl Fredrik Stenson RYSTEDT, aged 57, 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, 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 in Vattenfall AB since 2017. Mr. RYSTEDT has a master of Science in Business and Economics from the Stockholm School of Economics.

Biographies of Directors and Senior Management

8. Mr. Johann Christoph MICHALSKI, aged 54, was appointed as a Non-Executive Director on 1 October 2020. Mr. MICHALSKI was appointed as a Non-Executive Director of the Group in 2008 and was subsequently appointed as Executive Director and Chief Executive Officer of the Group between 1 October 2015 and 30 September 2020. Since 1 November 2020, Mr. MICHALSKI has been the President and CEO of BillerudKorsnäs, a company listed on Nasdaq Stockholm. 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. From January 2020 to November 2020, Mr. MICHALSKI was nominated as Honorary Representative of the Free and Hanseatic City of Hamburg for Pearl River Delta/South China under the HamburgAmbassador programme.

Alternate Directors

9. Mr. Gert Mikael SCHMIDT, aged 60, 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. Dominique Michel Jean DESCHAMPS, aged 57, was appointed as the Alternate Director to Mr. RYSTEDT on 25 October 2019. Mr. DESCHAMPS is the Vice President of Consumer Tissue Global Hygiene Category in Essity. Mr. DESCHAMPS has over 20 years of experience in management. Prior to his role in Essity, Mr. DESCHAMPS was the Vice President of Market and Business Development (Away from Home) at SCA. Before this, he was President of the Europe Middle-East Africa Away From Home Division of Georgia-Pacific (acquired by SCA in 2012). He also held various positions in general management, supply chain, manufacturing planning as well as strategic planning at Georgia-Pacific LLC. Mr. DESCHAMPS also gained experience by working as Product Manager, Financial Controller and Management Accountant at Lafarge S.A.. Mr. DESCHAMPS holds a bachelor degree in Business Administration from ESC Saint-Etienne in France.

Independent Non-Executive Directors

11. Ms. LEE Hsiao-yun Ann (李曉芸), aged 65, 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, she was 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.

12. Mr. TSUI King Fai (徐景輝), aged 71, was appointed as an Independent Non-Executive Director on 19 June 2007. Mr. TSUI has over 40 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 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.

Biographies of Directors and Senior Management

13. Mr. WONG Kwai Huen, Albert (王桂壘), aged 69, 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 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 Limited and the Competition Commission. He is the Honorary Chairman of Hong Kong International Arbitration Centre. He is currently the Chairman of Hong Kong Inland Revenue Board of Review, past 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 Directors. 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, The Hang Seng University of Hong Kong and Hong Kong Shue Yan University.

14. Mr. LAW Hong Ping, Lawrence (羅康平), aged 66, was appointed as an Independent Non-Executive Director on 1 November 2020. Mr. LAW has over 30 years of management experience in banking and property leasing. Mr. LAW has been a non-executive director of HKMC Insurance Limited, a company principally engaged in mortgage insurance and loan guarantee business, since June 2019. Mr. LAW started his career as a planner in China Light and Power Co. Ltd. (now CLP Power Hong Kong Limited) and was involved in tariff and long term planning on electricity power in Hong Kong. He then worked for 23 years with HSBC and held various management positions covering a spectrum of activities of the bank. Mr. LAW's last position with HSBC was head of banking services, being the business and products head for key banking products, from June 2003 to March 2006. Mr. LAW subsequently joined Bank of China (Hong Kong) Limited as general manager for retail banking from April 2006 to December 2009 and later joined Sino Land Company Limited as an associate director for leasing matters from October 2010 to June 2012. Mr. LAW was an external supervisor of Ping An Bank between 2010 and early 2014. He was an independent non-executive director of China Oilfield Services Limited (Hong Kong stock code: 2883; Shanghai stock code: 601808) from May 2014 to May 2020. Mr. LAW graduated from the Middlesex Polytechnic University, UK with a Bachelor's degree in Social Science, major in Economics, and obtained a Master's degree in Econometrics from Queen Mary College of the University of London, UK in 1980. He is also the honorary treasurer and financial adviser of the Hong Kong Girl Guides Association.



Biographies of Senior Management

15. Mr. ZHANG Jian (張健), aged 48, 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 39, 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.

Biographies of Directors and Senior Management

17. Ms. WANG Bo (王波), aged 47, is the 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 and a committee member of the 5th session of the China Standardization Technical Committee of Papermaking Industry (SAC/TC141). Ms. WANG holds a bachelor's degree in Chemical Processing of Forest Products from the Beijing Forestry University and a doctoral degree in Engineering from the South China University of Technology.

18. Mr. HU Yong Jin (胡永進), aged 47, 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 with a bachelor majoring in Automobile Design and Manufacturing.

19. Mr. TANG Hai Tang (湯海棠), aged 49, is the President, Marketing 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.

20. Mr. HE Huixian Alfred (何惠獻), aged 46, is President – North Asia of the Group. Mr. HE joined the Group in January 1997 and has taken various managerial roles including the Executive Vice President (Domestic Sales) and Vice President Sales, Hong Kong & Export, North Asia. He graduated from Anhui Finance and Trade College (currently named Anhui University of Finance and Economics) with a major in Trade and Economics in 1996.

21. Ms. SU Ting Nee (徐珍妮), aged 50, is President - Southeast Asia of the Group who joined the Group in April 2016. 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 Southeast Asia in 2014, and has been instrumental in shaping the continued growth and development of the company's business in Southeast 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. Mr. OU YANG He Ping Michael (歐陽和平), aged 55, is President - Human Resources of the Group. Mr. OU YANG re-joined the Group in October 2020. He has rich experience in human resources management in his previous careers. He holds a MBA degree from Murdoch University of Australia and a Bachelor of Arts degree from Xiangtan University. He served as Chief Human Resources Officer of the Group from 2011 to 2015.

23. Ms. ZHANG Cui Ling (張翠玲), aged 52, 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. As disclosed in the announcement of the Company dated 12 September 2020, following the resignation of Mr. CHIA Yen On, the Company had only three Independent Non-Executive Directors, which resulted in (i) the number of Independent Non-executive Directors falling below the minimum number as required under Rule 3.10A of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”); (ii) the Company did not meet the composition requirement for the nomination committee of the Company (the “**Nomination Committee**”) as required under Code Provision A.5.1 of the Corporate Governance Code set out in Appendix 14 of the Listing Rules (the “**CG Code**”) and the terms of reference of the Nomination Committee; and (iii) the Company did not meet the composition requirement for the remuneration committee of the Company (the “**Remuneration Committee**”) as required under Rule 3.25 of the Listing Rules and the terms of reference of the Remuneration Committee. Following the appointment of Mr. LAW Hong Ping, Lawrence on 1 November 2020, the Company has fulfilled (i) the requirement of the Independent Non-executive Directors representing at least one-third of the Board under Rule 3.10A of the Listing Rules; (ii) the requirement that the Nomination Committee shall comprise a majority of Independent Non-executive Directors under Code Provision A.5.1 of the CG Code and the terms of reference of the Nomination Committee; and (iii) the requirement that the Remuneration Committee shall comprise a majority of Independent Non-executive Directors under Rule 3.25 of the Listing Rules and the terms of reference of the Remuneration Committee. Save for the above, for the year ended 31 December 2020, the Company has complied with all the code provisions set out in the CG Code.

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 of the Company (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, four of which are Executive Directors, four 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. 26 January 2021) are as follows:

Executive Directors

Mr. LI Chao Wang (Chairman)
Ms. YU Yi Fang (Vice Chairman)
Ms. LI Jielin (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
Mr. Johann Christoph MICHALSKI (appointed on 1 October 2020)

Independent Non-Executive Directors

Ms. LEE Hsiao-yun Ann
Mr. TSUI King Fai
Mr. WONG Kwai Huen, Albert
Mr. LAW Hong Ping, Lawrence (appointed on 1 November 2020)

Alternate Directors

Mr. Gert Mikael SCHMIDT (alternate to Mr. JOHANSSON and Mr. GROTH)
Mr. Dominique Michel Jean DESCHAMPS (alternate to Mr. RYSTEDT)

The Board formulates overall strategies and policies of the Group. 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 25 to 30 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, the Board held a total of 6 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)	6 (6)	1 (1)
Ms. YU Yi Fang (Vice Chairman)	6 (6)	1 (1)
Ms. LI Jielin (Chief Executive Officer)	6 (6)	1 (1)
Mr. DONG Yi Ping (Chief Technology Officer)	6 (6)	1 (1)
Non-Executive Directors		
Mr. Jan Christer JOHANSSON (Vice Chairman)	6 (6)	0 (1) ^{Note (2)}
Mr. Carl Magnus GROTH	6 (6)	0 (1) ^{Note (2)}
Mr. Carl Fredrik Stenson RYSTEDT	6 (6)	0 (1) ^{Note (2)}
Mr. Johann Christoph MICHALSKI (appointed on 1 October 2020) ^{Note (1)}	6 (6)	1 (1)
Mr. Gert Mikael SCHMIDT (alternate to Mr. JOHANSSON and Mr. GROTH)	6 (6)	0 (1) ^{Note (2)}
Mr. Dominique Michel Jean DESCHAMPS (alternate to Mr. RYSTEDT)	6 (6)	0 (1) ^{Note (2)}
Independent Non-Executive Directors		
Mr. TSUI King Fai	6 (6)	1 (1)
Mr. WONG Kwai Huen, Albert	6 (6)	1 (1)
Mr. CHIA Yen On (resigned on 12 September 2020)	3 (3)	1 (1)
Ms. LEE Hsiao-yun Ann	6 (6)	0 (1)
Mr. LAW Hong Ping, Lawrence (appointed 1 November 2020)	1 (1)	0 (0)

Notes:

- (1) Mr. Johann Christoph MICHALSKI resigned as an Executive Director with effect from 1 October 2020 and was reappointed as a Non-executive Director with effect from 1 October 2020. He was a Director throughout the Year.
- (2) Absent due to travel restrictions during the COVID-19 pandemic.

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 Ms. LI Jielin. 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.

Corporate Governance Report

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 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/her 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 by the Company 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 statutes, laws, rules and regulations.

Corporate Governance Report

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. DONG Yi Ping	✓		✓
Ms. LI Jielin	✓		✓
Non-Executive Directors			
Mr. Jan Christer JOHANSSON	✓		✓
Mr. Carl Magnus GROTH	✓		✓
Mr. Carl Fredrik Stenson RYSTEDT	✓		✓
Mr. Johann Christoph MICHALSKI (appointed on 1 October 2020)	✓		
Independent Non-Executive Directors			
Mr. CHIA Yen On (resigned on 12 September 2020)	✓		
Mr. TSUI King Fai	✓		✓
Mr. WONG Kwai Huen, Albert	✓		✓
Ms. LEE Hsiao-yun Ann	✓		✓
Mr. LAW Hong Ping, Lawrence (appointed on 1 November 2020)	✓	✓	
Alternate Directors			
Mr. Gert Mikael SCHMIDT (alternate to Mr. JOHANSSON and Mr. GROTH)	✓		✓
Mr. Dominique Michel Jean DESCHAMPS (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 its 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, Ms. LEE Hsiao-yun Ann and Mr. LAW Hong Ping, Lawrence (appointed on 1 November 2020), and two Non-Executive Directors, namely Mr. Johann Christoph MICHALSKI (appointed on 1 October 2020) and 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 31(b)(9) and Note 33 to the consolidated financial statements.

During the Year, the Remuneration Committee held 5 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, taking into account factors, among other things, their performance and responsibilities.

The attendance of each member at the Remuneration Committee meetings during the Year is 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	5 (5)
Ms. LI Jielin (resigned on 1 October 2020)	4 (4)
Mr. CHIA Yen On (resigned on 12 September 2020)	3 (3)
Mr. Jan Christer JOHANSSON	3 (5)
Ms. LEE Hsiao-yun Ann	5 (5)
Mr. Johann Christoph MICHALSKI (appointed on 1 October 2020)	1 (1)
Mr. LAW Hong Ping, Lawrence (appointed on 1 November 2020)	0 (0)

Corporate Governance Report

Nomination Committee

The Company established its 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, Ms. LEE Hsiao-yun Ann and Mr. LAW Hong Ping, Lawrence (appointed on 1 November 2020), 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 6 meetings. The Nomination Committee (i) reviewed the current structure, size, diversity and composition of the Board; (ii) assessed the independence of Independent Non-Executive Directors; and (iii) made recommendations to the Board on the appointment and re-appointment of Directors.

The attendance of each member at the Nomination Committee meeting during the Year is 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 meetings attended
Mr. LI Chao Wang	6 (6)
Mr. Jan Christer JOHANSSON	6 (6)
Mr. WONG Kwai Huen, Albert	6 (6)
Mr. CHIA Yen On (resigned on 12 September 2020)	3 (3)
Ms. LEE Hsiao-yun Ann	6 (6)
Mr. LAW Hong Ping, Lawrence (appointed on 1 November 2020)	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.

The Nomination Committee will monitor the implementation of the Board Diversity Policy and review the Board composition under diversified perspectives annually to ensure the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the businesses of the Company. As at the date of this annual report, the Board comprises twelve Directors. Three of them are women. Four of them are Independent Non-Executive Directors, thereby promoting critical review and control of the management process. The Board is also characterized by significant diversity, whether considered in terms of gender, nationality, length of service, professional background and skills.

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.

Corporate Governance Report

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 four members comprising three Independent Non-Executive Directors, namely, Mr. TSUI King Fai, Mr. WONG Kwai Huen, Albert and Mr. LAW Hong Ping, Lawrence (appointed on 1 November 2020) 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.

During the Year, the Audit Committee held 3 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 is 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. TSUI King Fai	3 (3)
Mr. WONG Kwai Huen, Albert	3 (3)
Mr. Carl Fredrik Stenson RYSTEDT	2 (3)
Mr. LAW Hong Ping, Lawrence (appointed on 1 November 2020)	1 (1)
Mr. Dominique Michel Jean DESCHAMPS (alternate to Mr. RYSTEDT)	1 (3)

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, Ms. LI Jieli (appointed on 1 October 2020) 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.

Corporate Governance Report

During the Year, the RMC held 1 meeting. The attendance of each member at the RMC meetings during the Year is 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	1 (1)
Ms. YU Yi Fang	1 (1)
Mr. Johann Christoph MICHALSKI (resigned on 1 October 2020)	1 (1)
Mr. TSUI King Fai	1 (1)
Mr. Carl Fredrik Stenson RYSTEDT	1 (1)
Ms. LI Jielin (appointed on 1 October 2020)	0 (0)

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 four members and is chaired by Mr. LI Chao Wang, an Executive Director. The other three members are all Executive Directors, namely Ms. YU Yi Fang, 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.

During the Year, the Executive Committee held 13 meetings. The attendance of each member at the Executive Committee meetings is 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	13 (13)
Ms. YU Yi Fang	13 (13)
Mr. Johann Christoph MICHALSKI (resigned on 1 October 2020)	10 (10)
Mr. DONG Yi Ping	13 (13)
Ms. LI Jielin	13 (13)

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 four members and is chaired by Mr. Jan Christer JOHANSSON, a Non-Executive Director. The other three members are two Executive Directors, namely Mr. DONG Yi Ping and Ms. LI Jielin and a Non-Executive Director, Mr. Johann Christoph MICHALSKI. 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 did not hold any meeting.

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 2020, 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 69 to 75 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.

Corporate Governance Report

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, which 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 43 to 44 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 staff 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 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	8,331
Non-audit services	2,856

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 EGM

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 requisitioner(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 requisitioner(s) may convene a meeting in the same manner, and all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the Board shall be reimbursed by the Company to the requisitioner(s).

The notice period to be given to all the registered members for consideration of the proposal raised by the requisitioner(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 (2020 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.

Report of the Directors

The Directors are pleased to present 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 78.

The Directors recommend the payment of a final dividend of 37.0 HK cents (2019: 21.0 HK cents) per ordinary share, totaling HK\$443,805,518 on the 1,199,474,373 (31 December 2019: 1,195,103,373) issued shares as at 31 December 2020.

Business Review

The business review of the Group for the Year is set out in the section headed "Management Discussion and Analysis" on pages 14 to 24 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 2020, the average overall energy consumption for every ton of paper of all factories in mainland China was 0.32 ton of standard coal, lower than the upper limit of the national benchmark, 0.42 ton 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 2020, 100% of wood pulp we procured were certified by forest certification systems (FSC™/PEFC/CFCC).

For details, please refer to the Environmental, Social and Governance (ESG) Report 2020 to be published by the Company in due course.

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) Outbreak of transmissible disease

The Group's business may be materially and adversely affected by outbreak of transmissible disease. The global outbreak of COVID-19 pandemic has caused changes in the macro-economic environment and had led to the suspension of production facilities in mainland China and other parts of the world. Although the COVID-19 pandemic in mainland China in which the Group has operations has been largely controlled, depending on the development of the COVID-19 pandemic, there may be possible further lock-downs, geopolitical volatilities and disruption of international trade and logistics, which may cause uncertainties for Vinda's operating environment.

4) 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.

Report of the Directors

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.

(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 2020 and 2019, 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 4 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 pages 46 to 47 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 129 to 130 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 and Note 32 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 6 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 2020, the reserves of the Company available for distribution to shareholders amounted to HK\$4,891,520,707 (2019: HK\$4,611,246,619), as stated in Note 32 to the consolidated financial statements.

Subsequent Events

There is no material event undertaken by the Company or the Group subsequent to 31 December 2020 and up to the date of this annual report.

Report of the Directors

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 37.0 HK cents (2019: 21.0 HK cents) per ordinary share, totaling HK\$443,805,518 on the 1,199,474,373 (31 December 2019: 1,195,103,373) issued shares as at 31 December 2020.

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 163 and 164 respectively.

Purchase, Sale or Redemption of Securities

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 (*resigned as Executive Director and Chief Executive Officer on 1 October 2020*)

Ms. LI Jielin (*Chief Executive Officer*) (*re-designated from Deputy Chief Executive Officer to Chief Executive Officer with effect from 1 October 2020*)

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

Mr. Johann Christoph MICHALSKI (*appointed as Non-Executive Director on 1 October 2020*)

Report of the Directors

Independent Non-Executive Directors

Mr. CHIA Yen On (*resigned on 12 September 2020*)
Ms. LEE Hsiao-yun Ann
Mr. TSUI King Fai
Mr. WONG Kwai Huen, Albert
Mr. LAW Hong Ping, Lawrence (*appointed on 1 November 2020*)

Alternate Directors

Mr. Gert Mikael SCHMIDT (*alternate to Mr. JOHANSSON and Mr. GROTH*)
Mr. Dominique Michel Jean DESCHAMPS (*alternate to Mr. RYSTEDT*)

Biographical Details of Directors and Senior Management

Brief biographical details of Directors and senior management are set out on pages 25 to 32.

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

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 transactions between the Group and the group of companies of which Essity is the ultimate holding company but excluding the Group ("**Essity Group**") and between the Group and Essity's associate, Asaleo Care Limited, and its subsidiaries (collectively, "**Asaleo Group**") as set out in paragraphs (A) to (C) of the "Continuing Connected Transactions" section on pages 57 to 60 and the transactions under the Licence Agreement as set out in the paragraph headed "Exempted Continuing Connected Transactions" on page 61, and the transactions between the Group and Essity Group mentioned in Note 31(b)(3), (4), (5), (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 21 December 2018, Essity Group Holding BV ("**Essity 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, Essity 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 "**Essity 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 Essity Group Holding in accordance with the Vinda Master Procurement Agreement.

The term of the Vinda Master Procurement Agreement commenced on 1 January 2019 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 Essity Products will be sold shall be an amount equivalent to the sum of (i) the actual cost of the Essity Products, plus (ii) a margin of 10% and shall be determined at the time that the relevant purchase order for such Essity 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 Essity Products shall be determined on a quarterly basis with reference to, without limitation, the nature of the relevant Essity Products and the cost of producing such Essity Products.

The pricing of the Essity Products shall be based on normal commercial terms or better and on terms no less favourable to the Group when compared to those offered to independent third parties.

(B) Essity Master Procurement Agreement

On 21 December 2018, the Company as vendor and Essity Group Holding as purchaser entered into a master procurement agreement ("**Essity Master Procurement Agreement**"). Pursuant to and on the terms set out in the Essity 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 Essity Group Holding for the personal care business of the Essity Group (the "**Vinda Products**") which Essity Group Holding (or other relevant member(s) of the Essity Group) may, from time to time, request pursuant to a purchase order given by Essity Group Holding to the Company in accordance with the Essity Master Procurement Agreement.

The term of the Essity Master Procurement Agreement commenced on 1 January 2019 and, unless the Essity 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 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 Essity 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.

Report of the Directors

The pricing or profit margin of Vinda Products shall be based on normal commercial terms or better and on terms no less favourable to 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 Essity Master Procurement Agreement and the Vinda Master Procurement Agreement as the transactions contemplated thereunder are expected 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 is also expected that the transactions contemplated under the Essity Master Procurement Agreement and the Vinda Master Procurement Agreement will further deepen the strategic partnership, establish better collaboration and ensure efficient cooperation between the Group and the Essity Group.

(C) Asaleo Care Product Supply Agreement

On 21 December 2018, the Company as vendor and Asaleo Personal Care 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 to purchase), certain household consumable paper and/or personal care products (the "**Asaleo Care Personal Products**") pursuant to contract notes and/or order forms to be entered into from time to time in accordance with the Asaleo Care Product Supply Agreement.

The term of the Asaleo Care Product Supply Agreement took effect from 1 January 2019 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 2021.

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 factors 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. More than 95% 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 other terms) no less favourable 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 Group 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 Group and the Asaleo Group.

Aggregation of transactions and Annual caps

Essity Group Holding is a controlling shareholder of the Company and therefore a connected person of the Company. Since Essity Group Holding is entitled to exercise or control the exercise of approximately 36.16% 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 Essity 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 Essity 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/ending 31 December 2019, 2020 and 2021 are as follows:

Year	2019 HK\$	2020 HK\$	2021 HK\$
(i) Annual caps under Asaleo Care Product Supply Agreement	100,000,000	100,000,000	100,000,000
(ii) Annual caps under Vinda Master Procurement Agreement	250,000,000	250,000,000	250,000,000
(iii) Annual caps under Essity Master Procurement Agreement	300,000,000	300,000,000	300,000,000
Total:	650,000,000	650,000,000	650,000,000

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 Essity 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.

Report of the Directors

Details of the transactions under the Asaleo Care Product Supply Agreement, the Essity Master Procurement Agreement and the 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	100,000,000	52,471,982
Transactions under Vinda Master Procurement Agreement	250,000,000	187,960,283
Transactions under Essity Master Procurement Agreement	300,000,000	123,145,685
Total:	650,000,000	363,577,950

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.

Exempted Continuing Connected Transactions

Licence Agreement

On 28 October 2015, Essity Hygiene and Health AB (formerly known as SCA Hygiene Products AB, "**Essity HH**"), a wholly-owned subsidiary of Essity Group Holding, and the Company entered into an intellectual property and technology licence agreement (the "**Licence Agreement**"), pursuant to which Essity HH granted to the Company a licence to use in certain territories (i) certain brands used by Essity HH in relation to its personal care and tissue product business such as *Tempo* and *Tena*; and (ii) certain patents and technology and related intellectual property relating to the manufacture of personal care and tissue products.

The Licence Agreement became effective on 1 April 2016 (the "**Licence Agreement Effective Date**") and shall continue until it is terminated in accordance with the terms thereof. Pursuant to the terms of the Licence Agreement, no royalties or licence fee will be payable by the Company to Essity HH for the first nine years after the Licence Agreement Effective Date. As such, the continuing connected transactions contemplated under the Licence Agreement during such period are fully exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will comply with the relevant requirements of Chapter 14A of the Listing Rules, including, if applicable, the requirement to issue an announcement and/or seek the approval from its independent Shareholders, as and when appropriate in respect of any renewal or continuation of the Licence Agreement upon the expiry of the royalty-free and licence fee-free period.

For further details of the Licence Agreement and the transactions contemplated thereunder, please refer to the announcements of the Company dated 29 October 2015, 27 December 2015 and 1 April 2016 and the circular of the Company dated 28 December 2015.

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 31 to the consolidated financial statements.

The related party transactions mentioned in Note 31(b)(1) and (2) to the consolidated financial statements were continuing connected transactions contemplated under the Essity 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 31(b) from (3) to (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.

Other Information

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

As at 31 December 2020, 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

Name		Number of shares and underlying shares held under equity derivatives			Approximate percentage (%) of interests ⁽³⁾
		Personal interests (held as beneficial owner)	Corporate interests (interests of controlled corporations)	Total interests	
LI Chao Wang	Shares	300,000	272,341,581 ^{(2)(i)&(ii)}	272,641,581	22.73
	Equity Derivatives – Share options	646,000 ⁽¹⁾	–	646,000	0.05
				273,287,581	22.78
YU Yi Fang	Shares	350,000	–	350,000	0.03
LI Jielin	Shares	200,000	–	200,000	0.02
Johann Christoph MICHALSKI	Shares	242,000	–	242,000	0.02

Notes:

- 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.
- 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.
 - Li Song Foundation Company Limited directly holds 1,000,000 Shares and it is held as to 50.00% by LI Chao Wang. As such, LI Chao Wang is also deemed to be interested in 1,000,000 Shares held by Li Song Foundation Company Limited for the purpose of Part XV of the SFO.
- 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

Name	Associated corporation	Class of shares in associated corporation	Number of shares held		Total interests	Approximate percentage (%) of interests ^(1&2)
			Personal interests (held as beneficial owner)	Corporate interests (interests of controlled corporations)		
Johann Christoph MICHALSKI	Essity Aktiebolag (publ)	Class B shares	5,276	–	5,276	0.0008
Jan Christer JOHANSSON	Essity Aktiebolag (publ)	Class B shares	1,000	–	1,000	0.0001
Carl Magnus GROTH	Essity Aktiebolag (publ)	Class B shares	57,700	–	57,700	0.0082
Carl Fredrik Stenson RYSTEDT	Essity Aktiebolag (publ)	Class B shares	22,700	–	22,700	0.0032
Gert Mikael SCHMIDT	Essity Aktiebolag (publ)	Class B shares	31,000	–	31,000	0.0044
Dominique Michel Jean DESCHAMPS	Essity Aktiebolag (publ)	Class B shares	3,587	–	3,587	0.0005

Notes:

- As at 31 December 2020, the total number of registered shares in the share capital of Essity Aktiebolag (publ) was 702,342,489, of which 61,735,172 are Class A shares and 640,607,317 are Class B shares.
- Actual percentages may not equal to the stated figures due to rounding.

Save as disclosed above, as at 31 December 2020, 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.

Other Information

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 3,961,000, representing approximately 0.33% 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:

	Date of Grant	Exercise price per Share HK\$	as at 01/01/2020	Number of Shares issuable under the Options				as at 31/12/2020	Exercise period	Weighted average closing price of the Share immediately before the exercise date HK\$
				granted during the Year	exercised during the Year	lapsed during the Year	cancelled during the Year			
Directors										
LI Chao Wang	02/05/2012	14.06	999,000	-	(353,000)	-	-	646,000	02/05/2012 to 01/05/2022	26.96
	02/05/2013	10.34	999,000	-	(999,000)	-	-	-	-	20.59
YU Yi Fang	02/05/2012	14.06	240,000	-	(240,000)	-	-	-	-	26.96
DONG Yi Ping	02/05/2012	14.06	240,000	-	(240,000)	-	-	-	-	26.96
Johann Christoph MICHALSKI	15/04/2011	8.648	80,000	-	(80,000)	-	-	-	-	20.45
	02/05/2012	14.06	140,000	-	(140,000)	-	-	-	-	26.96
LI Jielin	02/05/2012	14.06	80,000	-	(80,000)	-	-	-	-	26.96
TSUI King Fai	02/05/2012	14.06	140,000	-	(140,000)	-	-	-	-	26.96
Employees of the Group										
In aggregate	15/04/2011	8.648	1,185,000	-	(720,000)	-	-	465,000	15/04/2011 to 14/04/2021	20.45
	02/05/2012	14.06	4,109,000	-	(1,299,000)	-	-	2,810,000	(Note)	26.96
	02/05/2013	10.34	120,000	-	(80,000)	-	-	40,000	02/05/2013 to 01/05/2023	20.59
Total			8,332,000	-	(4,371,000)	-	-	3,961,000		-

Note: 1,121,000 Options out of the total 2,810,000 Options are subject to the exercise period from 2 May 2012 to 1 May 2022.

1,689,000 Options out of the total 2,810,000 Options are subject to the exercise period from 2 May 2013 to 1 May 2022. These Options are subject to the vesting period from 2 May 2012 to 1 May 2013 and the vesting 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.

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.

Other Information

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

As at 31 December 2020, 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 interests and/or short positions 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			Approximate percentage (%) of issued share capital ⁽¹⁾
		Personal interests (held as beneficial owner)	Corporate interests (interests of controlled corporations)	Total interests	
Essity Group Holding BV	Shares	620,737,112 ⁽²⁾	–	620,737,112	51.75
Essity Aktiebolag (publ)	Shares	–	620,737,112 ⁽²⁾	620,737,112	51.75
Fu An International Company Limited	Shares	271,341,581 ^{(3) & (4)}	–	271,341,581	22.62
Sentential Holdings Limited	Shares	–	271,341,581 ^{(3) & (4)}	271,341,581	22.62

Notes:

- Actual percentages may not equal to the stated figures due to rounding.
- 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.
- 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.
- Such 271,341,581 shares are the same shares in the Company referred to in Note 2(i) 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 2020, 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 2020, 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 26.0%.

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

– the largest supplier	24.0%
– five largest suppliers combined	37.8%

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 pages 22 to 23 of this annual report.

Issue of Shares

During the Year, the Company issued shares as follows:

4,371,000 ordinary shares of the Company were issued for cash of HK\$53,112,780 on the exercise of options granted under the Share Option Scheme.

Other Information

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.

Professional Tax Advice Recommended

If the shareholders of the Company are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the shares of the Company, they are advised to consult an expert.

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, 26 January 2021



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 76 to 162, which comprise:

- the consolidated balance sheet as at 31 December 2020;
- 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 2020, 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 ("HKSA") 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.

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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

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 previous years.

We focused on this area due to the value of goodwill balance (HK\$1,617 million as at 31 December 2020) and intangible assets with indefinite useful lives including trademarks and licensing agreement (HK\$584 million as at 31 December 2020). 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.

How our audit addressed the Key Audit Matter

We obtained an understanding of the management's internal control and assessment process of estimation of recoverable amount of goodwill and intangible assets with indefinite useful lives. We evaluated and tested the key controls over the impairment of goodwill and intangible assets with indefinite useful lives. We assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty, complexity, subjectivity and level of other inherent risk factors, including changes and susceptibility to management bias or fraud.

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.

Key Audit Matters *(continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
	<p>We challenged the key assumptions including sales growth rate and gross profit margin by comparing the current year actual results with the 2020 figures included in the prior year forecast, by reference to future plans. We noted the assumptions are consistent with expectations.</p> <p>We utilised our own valuation specialists' work when considering the appropriateness of the long term growth rate and discount rate.</p> <p>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.</p> <p>Based on the procedures we performed, nothing came to our attention that would lead to impairment of goodwill and intangible assets with indefinite useful lives.</p>

Independent Auditor's Report

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Revenue recognition</p> <p><i>Refer to Note 2.22 and Note 5 to the consolidated financial statements.</i></p> <p>Revenue is recognised when the Group satisfies a performance obligation by transferring the control of promised good or service to a customer in an amount that reflects the consideration to which the Group expects to be entitled in exchange for that good or service.</p> <p>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 good receipt notes takes time in some remote locations. There is potential misstatement on occurrence and cut-off of the revenue transactions.</p>	<p>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.</p> <p>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 year end 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. Based on the procedures we performed, no material misstatement was noted.</p>

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"), corporate governance report, report of the directors and other information 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, corporate governance report, report of the directors, and other information, 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 HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Audit Committee 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.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with 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.

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

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, actions taken to eliminate threats or safeguards applied.

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, 26 January 2021

Consolidated Balance Sheet

As at 31 December 2020

	Note	As at 31 December	
		2020 HK\$	2019 HK\$
ASSETS			
Non-current assets			
Property, plant and equipment	6	10,117,404,823	8,858,171,961
Right-of-use assets	7	1,366,419,837	1,250,456,963
Intangible assets	8	2,746,074,511	2,780,086,369
Deferred income tax assets	19	515,206,860	456,674,351
Investment property		3,167,484	4,039,119
Investment in an associate		2,347,777	2,525,619
		14,750,621,292	13,351,954,382
Current assets			
Inventories	10	4,773,880,408	3,223,321,363
Trade and notes receivables	12	2,435,038,930	1,916,318,675
Other receivables	12	302,577,542	237,999,919
Prepayments	12	71,020,270	59,439,391
Due from related parties	31(c)	39,063,829	32,065,779
Cash and cash equivalents	13	749,399,329	460,387,446
		8,370,980,308	5,929,532,573
Total assets		23,121,601,600	19,281,486,955
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	119,947,437	119,510,337
Share premium	14	4,428,374,681	4,356,240,018
Other reserves	16	7,119,034,916	4,987,460,947
Total equity		11,667,357,034	9,463,211,302

Consolidated Balance Sheet

As at 31 December 2020

	Note	As at 31 December	
		2020 HK\$	2019 HK\$
LIABILITIES			
Non-current liabilities			
Borrowings	18	2,890,391,162	2,297,063,820
Loans from a related party	18,31(c)	96,080,272	1,274,928,072
Lease liabilities	7	129,563,570	119,942,991
Deferred government grants	20	284,876,449	266,342,534
Deferred income tax liabilities	19	200,344,900	193,616,342
Post-employment benefits		15,983,243	26,952,299
Other non-current liabilities	21	2,253,625	29,214,726
		3,619,493,221	4,208,060,784
Current liabilities			
Trade payables, other payables and accrued expenses	17, 21	5,639,927,445	4,603,848,772
Contract liabilities	5	147,155,300	122,842,206
Borrowings	18	1,445,419,389	584,195,903
Loans from a related party	18,31(c)	300,000,000	–
Lease liabilities	7	72,363,875	62,796,875
Due to related parties	31(c)	14,669,217	15,813,259
Current income tax liabilities		215,216,119	220,717,854
		7,834,751,345	5,610,214,869
Total liabilities		11,454,244,566	9,818,275,653
Total equity and liabilities		23,121,601,600	19,281,486,955

The financial statements were approved by the Board of Directors on 26 January 2021 and were signed on its behalf

LI Chao Wang
Director

LI Jielin
Director

The notes on pages 81 to 162 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Note	For the year ended 31 December	
		2020 HK\$	2019 HK\$
Revenue	5	16,511,676,772	16,074,288,277
Cost of sales	23	(10,288,905,938)	(11,089,036,453)
Gross profit		6,222,770,834	4,985,251,824
Selling and marketing costs	23	(2,960,719,996)	(2,575,268,219)
Administrative expenses	23	(952,159,970)	(856,145,835)
Net impairment losses on financial assets	3.1(b),23	1,032,625	(1,540,148)
Other income and losses – net	22	141,770,328	17,291,041
Operating profit		2,452,693,821	1,569,588,663
Finance income and costs – net	25	(126,180,098)	(198,620,467)
Share of post-tax loss of an associate		(177,842)	(208,240)
Profit before income tax		2,326,335,881	1,370,759,956
Income tax expense	26(a)	(452,006,637)	(232,443,563)
Profit attributable to equity holders of the Company		1,874,329,244	1,138,316,393
Other comprehensive income:			
<i>Item that may be reclassified to profit or loss</i>			
Currency translation differences		647,626,892	(157,128,714)
<i>Item that will not be reclassified subsequently to profit or loss</i>			
Remeasurements of post-employment benefit obligations		679,492	(222,560)
Total comprehensive income attributable to equity holders of the Company		2,522,635,628	980,965,119
Earnings per share for profit attributable to equity holders of the Company for the year			
– basic earnings per share	27	1.565	0.953
– diluted earnings per share	27	1.562	0.952

The notes on pages 81 to 162 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Note	Attributable to equity holders of the Company			Total HK\$
		Share capital HK\$	Share premium HK\$	Other reserves HK\$	
Balance at 1 January 2019		119,485,237	4,351,781,230	4,258,649,944	8,729,916,411
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		–	–	980,965,119	980,965,119
Transaction with owners					
Employees share option scheme					
– Exercise of share options	15,16	25,100	4,458,788	(1,198,368)	3,285,520
Dividends	28	–	–	(250,955,748)	(250,955,748)
Transaction with owners		25,100	4,458,788	(252,154,116)	(247,670,228)
Balance at 31 December 2019		119,510,337	4,356,240,018	4,987,460,947	9,463,211,302
Balance at 1 January 2020		119,510,337	4,356,240,018	4,987,460,947	9,463,211,302
Profit for the year		–	–	1,874,329,244	1,874,329,244
Other comprehensive income					
– Currency translation differences		–	–	647,626,892	647,626,892
– Remeasurements of post-employment benefit obligations		–	–	679,492	679,492
Total comprehensive income for 2020		–	–	2,522,635,628	2,522,635,628
Transaction with owners					
Employees share option scheme					
– Exercise of share options	15,16	437,100	72,134,663	(19,458,983)	53,112,780
Dividends	28	–	–	(371,602,676)	(371,602,676)
Transaction with owners		437,100	72,134,663	(391,061,659)	(318,489,896)
Balance at 31 December 2020		119,947,437	4,428,374,681	7,119,034,916	11,667,357,034

The notes on pages 81 to 162 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Note	For the year ended 31 December	
		2020 HK\$	2019 HK\$
Cash flows generated from operating activities			
Cash generated from operations	29(a)	2,660,011,591	2,895,611,722
Interest paid		(157,994,209)	(209,313,343)
Income tax paid		(497,950,753)	(172,660,522)
Net cash generated from operating activities		2,004,066,629	2,513,637,857
Cash flows used in investing activities			
Purchase of property, plant and equipment		(1,696,960,144)	(1,247,300,455)
Proceeds from disposal of property, plant and equipment and investment property	29(b)	20,115,253	23,366,422
Proceeds from government grants	20	23,898,265	75,991,232
Payment for land use rights		(55,812,366)	(68,370,529)
Purchase of intangible assets		(33,743,898)	(65,177,411)
Interest received	25	17,254,406	11,548,073
Payment for investment in an associate		–	(2,727,301)
Net cash used in investing activities		(1,725,248,484)	(1,272,669,969)
Cash flows used in financing activities			
Proceeds from shares issued		53,112,780	3,285,520
Proceeds from borrowings		3,825,330,674	5,906,787,752
Proceeds from loans from a related party		–	394,643,979
Repayments of borrowings		(2,581,214,577)	(6,991,933,690)
Repayments of loans from a related party		(880,116,846)	(337,782,170)
Dividends paid	28	(371,602,676)	(250,955,748)
Lease payments for right-of-use assets excluding land use rights		(76,598,409)	(71,341,650)
Net cash used in financing activities		(31,089,054)	(1,347,296,007)
Net increase/(decrease) in cash and cash equivalents		247,729,091	(106,328,119)
Effect of foreign exchange rate changes		41,282,792	(7,749,589)
Cash and cash equivalents, beginning of the year	13	460,387,446	574,465,154
Cash and cash equivalents, end of the year	13	749,399,329	460,387,446

The notes on pages 81 to 162 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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.

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 26 January 2021.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

A number of new or amended standards became applicable for the current reporting period. The Group did not change its accounting policies or make retrospective adjustments as a result of adopting these standards.

		Effective for annual periods beginning on or after
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	1 January 2020
HKFRS 3 (Amendments)	Definition of a Business	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Interest Rate Benchmark Reform	1 January 2020
HKFRS 16 (Amendments)	Covid-19-related Rent Concessions	1 June 2020

(b) Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 31 December 2020 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 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2022
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
AG 5 (Revised)	Merger Accounting for Common Control Combinations	1 January 2022
HK Int 5 (2020)	Presentation of Financial Statements- Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
HKFRS 17	Insurance contracts	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Annual Improvements to HKFRS Standards 2018–2020		1 January 2022

2 Summary of significant accounting policies (*continued*)

2.2 Principles of consolidation and equity accounting

2.2.1 Subsidiaries

Subsidiaries are all 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.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the 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 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.

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 post-tax profit/(loss) of an associate' in consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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 (Note 2.7). 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.

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 remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement 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 remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated 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'.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

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.

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

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 2.9).

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 Summary of significant accounting policies (*continued*)

2.7 Intangible assets

(a) Goodwill

Goodwill arising 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.

(c) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relationships 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 Summary of significant accounting policies (*continued*)

2.8 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.

2.9 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.

2.10 Financial assets

2.10.1 Classification

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 Summary of significant accounting policies (*continued*)

2.10 Financial assets (*continued*)

2.10.2 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.

2.10.3 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.

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, 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.

The Group's financial assets are all measured at amortised cost.

2.10.4 Impairment

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

For trade 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 Summary of significant accounting policies (*continued*)

2.11 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) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 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 2.10 for further information about the Group's accounting for trade receivables and impairment policies.

2.13 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.

2.14 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 Summary of significant accounting policies (*continued*)

2.15 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.

2.16 Borrowings and borrowing costs

Borrowings are initially recognised 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 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 Summary of significant accounting policies (*continued*)

2.17 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the 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 and associates 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.

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

Deferred income 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 Summary of significant accounting policies (*continued*)

2.18 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 consolidated statement of comprehensive income.

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*)

2.18 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 cash settled 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 Summary of significant accounting policies (*continued*)

2.19 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 unit 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.

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 Summary of significant accounting policies (*continued*)

2.20 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.

2.21 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 Summary of significant accounting policies (*continued*)

2.22 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 have 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 have inspected and accepted the products as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The Group's obligations to provide a refund for faulty products are under the standard warranty terms. Accumulated experience is used to estimate such returns at the time of sale. Because of the large size and low value of each individual product, the amount of products returned were immaterial. It is highly probable that a significant reversal in the cumulative revenue recognised will not occur. Therefore, no refund liability for goods return was 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 to have any contract containing financing components. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

2 Summary of significant accounting policies (*continued*)

2.23 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

The Group leases various offices, warehouses, equipment and vehicles. Rental contracts are typically made for fixed periods over 12 months, but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

The lease payments are discounted using incremental borrowing rate of the Group which the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

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

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date

Depreciation of right-of-use assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated lease period.

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 at cost as right-of-use assets, which are depreciated over the lease periods using the straight-line method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2 Summary of significant accounting policies (*continued*)

2.23 Leases (*continued*)

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise small items of office furniture.

Extension options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension options held are exercisable only by the Group and not by the respective lessor.

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

2.24 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in 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 25 below.

2.25 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.

2.26 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 aggregate net foreign exchange gains/losses recognised in profit or loss were:

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
Net foreign exchange gain/(loss) included in other income and losses (Note 22)	51,145,823	(37,231,217)
Exchange gain in finance costs (Note 25)	1,679,485	2,520,600
Total net foreign exchange gain/(loss) recognised in profit before income tax for the period	52,825,308	(34,710,617)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3 Financial risk management (*continued*)

3.1 Financial risk factors (*continued*)

(a) Market risk (*continued*)

(i) Foreign exchange risk (*continued*)

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:

Assets and liabilities denominated in foreign currencies held by the subsidiaries of the Group, expressed in Hong Kong dollar:

	31 December 2020		
	US\$	HK\$	RMB
Cash	29,524,767	912,392	193,048
Trade receivables	24,451,351	–	344,464,283
Trade payables	98,309,572	–	372,763,944

Assets and liabilities denominated in foreign currencies held by the subsidiaries of the Group, expressed in Hong Kong dollar:

	31 December 2019		
	US\$	HK\$	RMB
Cash	4,060,783	994,296	668,508
Trade receivables	29,397,022	–	564,070,071
Trade payables	130,663,423	–	14,614,792

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 2020 and 2019, 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:

	2020 HK\$	2019 HK\$
For the year ended:		
Post-tax profit increase/(decrease)		
– Strengthened by 10%	1,695,142	1,752,617
– Weakened by 10%	(1,695,142)	(1,752,617)
As at 31 December:		
Owners' equity increase/(decrease)		
– Strengthened by 10%	1,695,142	1,752,617
– Weakened by 10%	(1,695,142)	(1,752,617)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3 Financial risk management (*continued*)

3.1 Financial risk factors (*continued*)

(a) Market risk (*continued*)

(i) Foreign exchange risk (*continued*)

As at 31 December 2020 and 2019, 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:

	2020 HK\$	2019 HK\$
For the year ended:		
Post-tax profit increase/(decrease)		
– Strengthened by 10%	3,524,000	5,090,923
– Weakened by 10%	(3,524,000)	(5,090,923)
As at 31 December:		
Owners' equity increase/(decrease)		
– Strengthened by 10%	3,524,000	5,090,923
– Weakened by 10%	(3,524,000)	(5,090,923)

As at 31 December 2020 and 2019, 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:

	2020 HK\$	2019 HK\$
For the year ended:		
Post-tax profit increase/(decrease)		
– Strengthened by 10%	2,346,902	(45,935,336)
– Weakened by 10%	(2,346,902)	45,935,336
As at 31 December:		
Owners' equity increase/(decrease)		
– Strengthened by 10%	2,346,902	(45,935,336)
– Weakened by 10%	(2,346,902)	45,935,336

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(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 2020 and 2019, if interest rates on borrowings at variable rates 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:

	2020 HK\$	2019 HK\$
For the year ended:		
Post-tax profit (decrease)/increase		
– 10 basis points higher	(2,462,448)	(2,519,049)
– 10 basis points lower	2,462,448	2,519,049
As at 31 December:		
Owners' equity (decrease)/increase		
– 10 basis points higher	(2,462,448)	(2,519,049)
– 10 basis points lower	2,462,448	2,519,049

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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, 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 2020 and 2019, 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 past 3 years 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 2020 and 31 December 2019 was determined as follows for trade receivables:

	Within 6 months	7 months to 12 months	Over 1 year	Total
31 December 2020				
Gross carrying amount	2,414,986,159	18,447,948	17,632,826	2,451,066,933
Expected loss rate	0.004%	42.076%	99.975%	1.040%
Loss allowance	104,567	7,762,067	17,628,454	25,495,088
31 December 2019				
Gross carrying amount	1,904,046,249	13,779,084	20,042,396	1,937,867,729
Expected loss rate	0.004%	44.377%	97.741%	1.330%
Loss allowance	69,395	6,114,771	19,589,693	25,773,859

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 reconcile to the opening loss allowances as follows:

	2020 HK\$	2019 HK\$
Opening loss allowance as at 1 January	25,773,859	25,987,508
(Reversal)/recognition of loss allowance in profit or loss during the year	(1,032,625)	1,540,148
Receivables written off during the year as uncollectible	(772,749)	(1,187,694)
Exchange differences	1,526,603	(566,103)
Closing loss allowance at 31 December	25,495,088	25,773,859

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 reasonable 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.

As at 31 December 2020 and 2019, other receivables mainly included creditable input VAT and deposits due from government agency or property owners. Management considered the credit risk from these receivables was low. And thus, no loss allowance provision was recognised.

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3 Financial risk management (*continued*)

3.1 Financial risk factors (*continued*)

(c) Liquidity risk (*continued*)

	Less than 1 year HK\$	Between 1 and 2 years HK\$	Between 2 and 5 years HK\$	More than 5 Years HK\$
As at 31 December 2020				
Bank loans and interest payables (i)	1,551,562,531	1,841,354,534	1,195,609,462	–
Loans from a related party and interest payables (i)	304,586,360	2,920,841	101,833,927	–
Lease liabilities	73,535,442	43,831,986	64,347,921	43,460,566
Trade payables	2,644,138,756	–	–	–
Notes payables	327,554,663	–	–	–
Other payables	499,244,071	–	–	–
As at 31 December 2019				
Bank loans and interest payables (i)	703,227,289	833,500,346	1,641,971,899	–
Loans from a related party and interest payables (i)	43,552,262	1,198,685,816	107,313,216	–
Lease liabilities	63,977,549	40,019,700	52,665,216	52,243,593
Trade payables	2,323,041,560	–	–	–
Notes payables	298,347,336	–	–	–
Other payables	439,718,801	–	–	–

- (i) The interest on borrowings is calculated based on borrowings held as at 31 December 2020 and 2019 without taking account of future issues. Floating-rate interest is estimated using interest rate prevailing as at 31 December 2020 and 2019 respectively.

3.2 Capital risk management

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

	2020 HK\$	2019 HK\$
Expiring within one year	4,331,280,019	4,001,038,446
Expiring beyond one year (i)	3,118,815,646	3,656,192,369
Total	7,450,095,665	7,657,230,815

- (i) As at 31 December 2020, unutilized credit facilities from related party amounted to HK\$3 billion (31 December 2019: HK\$3 billion).

3 Financial risk management (continued)

3.2 Capital risk management (continued)

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern 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) add lease liabilities less cash and cash equivalents.

The net gearing ratios at 31 December 2020 and 2019 were as follows:

	As at 31 December	
	2020 HK\$	2019 HK\$
Total borrowings (Note 18)	4,731,890,823	4,156,187,795
Total lease liabilities (Note 7)	201,927,445	182,739,866
Less: Cash and cash equivalents (Note 13)	(749,399,329)	(460,387,446)
Net debt	4,184,418,939	3,878,540,215
Total equity	11,667,357,034	9,463,211,302
Net gearing ratio	35.9%	41.0%

3.3 Fair value estimation

As at 31 December 2020 and 2019, the carrying amounts of the Group's current assets and current liabilities approximate their fair values.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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) Impairment assessments 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 2.9. 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.

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5 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, other income and losses, 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.

The Company is domiciled in Hong Kong. The amount of Group's external revenue based on delivery destination are analysed as follows:

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
Mainland China	12,416,201,513	12,037,794,851
Malaysia	1,475,010,423	1,426,006,347
Hong Kong	1,155,914,331	1,197,793,686
Japan	383,899,986	378,891,263
Taiwan	326,492,953	304,939,287
Others	754,157,566	728,862,843
Total revenue	16,511,676,772	16,074,288,277

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

5 Segment information *(continued)*

(a) Description of segments and principal activities *(continued)*

The total non-current assets are analysed as follows:

	As at 31 December	
	2020 HK\$	2019 HK\$
Total non-current assets other than deferred income tax assets and investment in an associate		
– Mainland China	10,262,988,103	9,333,219,863
– Hong Kong and overseas	3,970,078,552	3,559,534,549
Deferred income tax assets	515,206,860	456,674,351
Investment in an associate	2,347,777	2,525,619
Total non-current assets	14,750,621,292	13,351,954,382

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

5 Segment information (*continued*)

(b) Segment profit and loss

Year ended 31 December 2020	For the year ended 31 December 2020		
	Household paper products HK\$	Personal care products HK\$	Total HK\$
Segment revenue	13,608,165,710	2,903,511,062	16,511,676,772
Segment results	2,245,662,719	308,875,706	2,554,538,425
Amortisation of trademarks, licences and contractual customer relationships	(10,862,821)	(56,328,537)	(67,191,358)
Segment profit	2,234,799,898	252,547,169	2,487,347,067
Other income and losses – net			141,770,328
Unallocated costs			(176,423,574)
Operating profit			2,452,693,821
Finance income and costs – net			(126,180,098)
Share of post-tax loss of an associate			(177,842)
Profit before income tax			2,326,335,881
Income tax expense			(452,006,637)
Profit for the year			1,874,329,244
Other segment items included in the income statement			
Depreciation of property, plant and equipment	(808,646,143)	(125,843,725)	(934,489,868)
Depreciation of right-of-use assets	(68,221,345)	(30,343,873)	(98,565,218)
Amortisation of investment property and intangible assets other than trademarks, licences and contractual customer relationships	(41,944,123)	(6,247,045)	(48,191,168)
Additions to non-current assets	1,463,932,264	418,600,831	1,882,533,095

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

5 Segment information (*continued*)

(b) Segment profit and loss (*continued*)

Year ended 31 December 2019	For the year ended 31 December 2019		Total HK\$
	Household paper products HK\$	Personal care products HK\$	
Segment revenue	13,254,016,770	2,820,271,507	16,074,288,277
Segment results	1,536,784,453	185,698,921	1,722,483,374
Amortisation of trademarks, licences and contractual customer relationships	(10,874,093)	(57,154,408)	(68,028,501)
Segment profit	1,525,910,360	128,544,513	1,654,454,873
Other income and losses – net			17,291,041
Unallocated costs			(102,157,251)
Operating profit			1,569,588,663
Finance income and costs – net			(198,620,467)
Share of post-tax loss of an associate			(208,240)
Profit before income tax			1,370,759,956
Income tax expense			(232,443,563)
Profit for the year			1,138,316,393
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	(36,056,384)	(3,725,982)	(39,782,366)
Additions to non-current assets	841,152,200	336,227,490	1,177,379,690

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For the year ended 31 December 2020

5 Segment information (*continued*)

(c) Segment assets and liabilities

As at 31 December 2020	As at 31 December 2020		
	Household paper products HK\$	Personal care products HK\$	Total HK\$
Segment assets	18,057,332,014	4,542,129,604	22,599,461,618
Deferred income tax assets			515,206,860
Investment in an associate			2,347,777
Prepaid income tax recoverable			4,585,345
Total assets			23,121,601,600
Segment liabilities	9,903,485,454	1,135,198,093	11,038,683,547
Deferred income tax liabilities			200,344,900
Current income tax liabilities			215,216,119
Total liabilities			11,454,244,566

As at 31 December 2019	As at 31 December 2019		
	Household paper products HK\$	Personal care products HK\$	Total HK\$
Segment assets	14,766,367,163	4,053,847,319	18,820,214,482
Deferred income tax assets			456,674,351
Investment in an associate			2,525,619
Prepaid income tax recoverable			2,072,503
Total assets			19,281,486,955
Segment liabilities	8,404,133,627	999,807,830	9,403,941,457
Deferred income tax liabilities			193,616,342
Current income tax liabilities			220,717,854
Total liabilities			9,818,275,653

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

5 Segment information *(continued)*

(d) Liabilities related to contracts with customers

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

	As at 31 December	
	2020 HK\$	2019 HK\$
Household paper products	142,422,164	119,953,883
Personal care products	4,733,136	2,888,323
Total contract liabilities	147,155,300	122,842,206

The following table shows how much of the revenue recognised for the year ended 31 December 2020 related to carried-forward contract liabilities that were satisfied in a prior year.

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
Household paper products	119,953,883	71,968,908
Personal care products	2,888,323	558,333
	122,842,206	72,527,241

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For the year ended 31 December 2020

6 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 2019							
Opening 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
Additions	339,969	–	35,023,555	52,517,795	2,145,186	910,963,048	1,000,989,553
Disposals	(230,305)	–	(1,128,357)	(280,720)	(1,371,336)	–	(3,010,718)
Reclassification	150,377,232	–	1,078,197,981	10,211,305	1,221,712	(1,240,008,230)	–
Depreciation (Note 23)	(123,287,852)	(491,202)	(734,726,814)	(40,629,846)	(9,512,509)	–	(908,648,223)
Impairment charges (Note 23)	(868,652)	–	(59,139,571)	(408,134)	–	–	(60,416,357)
Exchange differences	(51,387,860)	(16,514)	(108,488,084)	(1,529,469)	(948,430)	(5,645,355)	(168,015,712)
Closing net book amount	2,743,720,012	643,900	5,432,137,004	99,265,574	42,861,049	539,544,422	8,858,171,961
At 31 December 2019							
Cost	3,577,758,094	7,721,589	9,461,121,129	312,588,139	87,085,086	542,191,681	13,988,465,718
Accumulated depreciation and impairment	(834,038,082)	(7,077,689)	(4,028,984,125)	(213,322,565)	(44,224,037)	(2,647,259)	(5,130,293,757)
Net book amount	2,743,720,012	643,900	5,432,137,004	99,265,574	42,861,049	539,544,422	8,858,171,961
Year ended 31 December 2020							
Opening net book amount	2,743,720,012	643,900	5,432,137,004	99,265,574	42,861,049	539,544,422	8,858,171,961
Additions	7,839,735	861,030	31,925,063	28,998,380	1,863,784	1,636,599,680	1,708,087,672
Disposals	(1,350,297)	–	(2,218,275)	(232,939)	(308,212)	(300,862)	(4,410,585)
Reclassification	42,953,908	–	504,024,135	17,061,287	661,954	(564,701,284)	–
Depreciation (Note 23)	(120,235,944)	(491,710)	(770,162,038)	(35,384,167)	(8,216,009)	–	(934,489,868)
Impairment charges (Note 23)	(1,303,740)	–	(68,889,695)	–	–	–	(70,193,435)
Exchange differences	171,939,963	62,148	314,127,476	6,312,115	2,381,863	65,415,513	560,239,078
Closing net book amount	2,843,563,637	1,075,368	5,440,943,670	116,020,250	39,244,429	1,676,557,469	10,117,404,823
At 31 December 2020							
Cost	3,857,174,127	9,127,651	10,536,614,073	376,455,791	91,820,947	1,679,240,180	16,550,432,769
Accumulated depreciation and impairment	(1,013,610,490)	(8,052,283)	(5,095,670,403)	(260,435,541)	(52,576,518)	(2,682,711)	(6,433,027,946)
Net book amount	2,843,563,637	1,075,368	5,440,943,670	116,020,250	39,244,429	1,676,557,469	10,117,404,823

During the year, the Group has capitalised borrowing costs amounting to HK\$15,801,296 (2019: HK\$5,419,428) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 3.46% (2019: 4.27%).

During the year ended 31 December 2020, the Group assessed the value in use and estimated market value of certain idle machineries with impairment indicators. Management then provided impairment amounting to HK\$70,193,435 (2019: HK\$60,416,357) to these assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

6 Property, plant and equipment (continued)

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

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
Cost of sales	797,373,563	768,371,525
Administrative expenses	137,116,305	140,276,698
	934,489,868	908,648,223

7 Leases

	As at 31 December	
	2020 HK\$	2019 HK\$
Right-of-use assets		
– Land use rights	1,170,098,019	1,070,176,115
– Buildings	194,343,371	177,110,717
– Equipment and others	1,978,447	3,170,131
Total right-of-use assets	1,366,419,837	1,250,456,963
Lease liabilities		
– Current	72,363,875	62,796,875
– Non-current	129,563,570	119,942,991
Total lease liabilities	201,927,445	182,739,866

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

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
Depreciation of right-of-use assets (Note 23)		
– Land use rights	26,383,198	25,184,989
– Buildings	70,620,374	66,008,325
– Equipment and others	1,561,646	1,357,698
	98,565,218	92,551,012
Interest expense (Note 25)	7,429,390	8,249,058
Expense relating to short-term leases	68,273,794	58,058,839
Expense relating to leases of low-value assets	976,244	1,892,262

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

7 Leases (continued)

The cash payments for land use rights, short-term leases, leases of low-value assets and right-of-use assets excluding land use rights were HK\$55,812,366, HK\$68,273,794, HK\$976,244 and HK\$76,598,409 respectively, totaling HK\$201,660,813 for the year ended 31 December 2020 (2019: HK\$199,663,280).

8 Intangible assets

	Goodwill HK\$	Trademarks and licences HK\$	Contractual customer relationships HK\$	Computer software HK\$	Total HK\$
Year ended 31 December 2019					
Opening net book amount	1,590,966,900	787,576,275	347,768,527	96,802,640	2,823,114,342
Additions	–	–	–	64,403,500	64,403,500
Amortisation expense (Note 23)	–	(31,752,577)	(36,275,924)	(39,526,964)	(107,555,465)
Exchange differences	(1,031,886)	2,328,931	1,237,626	(2,410,679)	123,992
Closing net book amount	1,589,935,014	758,152,629	312,730,229	119,268,497	2,780,086,369
At 31 December 2019					
Cost	1,592,397,903	927,736,182	464,937,718	256,771,831	3,241,843,634
Accumulated amortisation and impairment	(2,462,889)	(169,583,553)	(152,207,489)	(137,503,334)	(461,757,265)
Net book amount	1,589,935,014	758,152,629	312,730,229	119,268,497	2,780,086,369
Year ended 31 December 2020					
Opening net book amount	1,589,935,014	758,152,629	312,730,229	119,268,497	2,780,086,369
Additions	–	–	–	33,743,898	33,743,898
Amortisation expense (Note 23)	–	(31,284,772)	(35,906,586)	(48,010,577)	(115,201,935)
Exchange differences	27,502,107	9,324,542	4,027,932	6,591,598	47,446,179
Closing net book amount	1,617,437,121	736,192,399	280,851,575	111,593,416	2,746,074,511
At 31 December 2020					
Cost	1,620,058,440	942,971,517	473,036,666	308,249,032	3,344,315,655
Accumulated amortisation and impairment	(2,621,319)	(206,779,118)	(192,185,091)	(196,655,616)	(598,241,144)
Net book amount	1,617,437,121	736,192,399	280,851,575	111,593,416	2,746,074,511

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

8 Intangible assets (continued)

During the year ended 31 December 2020, amortisation of intangible assets charged to the consolidated statement of comprehensive income is as follows:

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
Administrative expenses	75,532,998	68,857,559
Selling expenses	35,906,587	36,275,924
Cost of sales	3,762,350	2,421,982
	115,201,935	107,555,465

(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:

2020	Opening HK\$	Addition HK\$	Exchange differences HK\$	Closing HK\$
Personal care products	1,022,812,881	–	27,246,316	1,050,059,197
Household paper products	567,122,133	–	255,791	567,377,924
	1,589,935,014	–	27,502,107	1,617,437,121

2019	Opening HK\$	Addition HK\$	Exchange differences HK\$	Closing HK\$
Personal care products	1,023,755,909	–	(943,028)	1,022,812,881
Household paper products	567,210,991	–	(88,858)	567,122,133
	1,590,966,900	–	(1,031,886)	1,589,935,014

The recoverable amount of a CGU is determined based on value-in-use calculations.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

8 Intangible assets (continued)

(a) Impairment assessments for goodwill (continued)

Considering it usually takes several years to complete the capital expenditure investment and takes even longer to educate the market and enhance the brand image. Management believes that,

- the personal care business is at the early stage and requires continued investment in brand building as well as enlarging the sales network to achieve long term profit growth;
- the household paper business is at the developing stage of its product lifecycle. Business fluctuation is foreseeable during the business expansion and integration. The business needs extra period of time to demonstrate its real potentials;

To adopt financial forecasts covering forecast periods of 10 years in determining the recoverable amount of the CGUs would offset the volatility of business and better reflect the market conditions, business potentials and products lifecycle.

Therefore, the 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 2020 are as follows:

	Personal care products	Household paper products
Sales amount (% annual growth rate)	8.2%~13.7%	5%~10%
Gross margin (% of revenue)	33%~35%	32%~38%
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 2019 are as follows:

	Personal care products	Household paper products
Sales amount (% annual growth rate)	8.2%~13.7%	5%~10%
Gross margin (% of revenue)	29%~35%	31.6%~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.

The changes in gross margin assumption was in line with the latest business performance of the Group, taking consideration of the Group's business strategy and the latest competitive landscape of the industry.

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

The indefinite useful lives trademarks and licence were acquired through acquisitions completed in 2016. The Group obtained perpetual, exclusive and royalty-free licence to use the *Tempo* brand, and owns *Dr. P* and *Drypers*. After considering the brands and licence's leading positions, competitive advantages, strong growth and continuous support, management deemed that it is proper to recognise these brands and licence as indefinite useful lives.

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:

2020	Opening HK\$	Addition HK\$	Exchange differences HK\$	Closing HK\$
Personal care products	243,687,345	–	3,708,602	247,395,947
Household paper products	334,195,003	–	2,103,165	336,298,168
	577,882,348	–	5,811,767	583,694,115

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8 Intangible assets (continued)

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

2019	Opening HK\$	Addition HK\$	Exchange differences HK\$	Closing HK\$
Personal care products	241,964,431	–	1,722,914	243,687,345
Household paper products	334,925,622	–	(730,619)	334,195,003
	576,890,053	–	992,295	577,882,348

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 2020 are as follows:

	Personal care products trademark and licence	Household paper products trademark and licence
Sales amount (% annual growth rate)	8.2%~13.7%	5%~10%
Gross margin (% of revenue)	33%~35%	32%~38%
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 2019 are as follows:

	Personal care products trademark and licence	Household paper products trademark and licence
Sales amount (% annual growth rate)	8.2%~13.7%	5%~10%
Gross margin (% of revenue)	29%~35%	31.6%~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 gross margin assumption was in line with the Group's latest financial performance, taking consideration of the Group's business strategy and the latest competitive landscape of the industry.

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9 Subsidiaries

As at 31 December 2020, 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)	(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	Investment holding and trading of household paper products and personal care products	HK\$10,001	–	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%

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9 Subsidiaries (continued)

Name	Place of incorporation/ operation and kind of legal entity	Principal activities	Issued and fully paid capital	Interest held	
				(directly)	(indirectly)
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%
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\$197,279,136 (Note(i))	–	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")	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%
Guangdong Xinjiang Energy Company Limited ("Xinjiang Energy")	The PRC, limited liability company	Manufacturing and sale of steam	RMB34,000,000 (Note(ii))	–	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\$250,000,000 (Note(iii))	–	100%
PT Vinda International Indonesia ("Vinda Indonesia")	Indonesia, limited liability company	Trading of personal care products	Indonesian Rupiah 4,928,213,200	–	100%
Vinda Malaysia Sdn Bhd ("Vinda Malaysia")	Malaysia, limited liability company	Manufacturing and sale of personal care products	MYR23,800,000	–	100%

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9 Subsidiaries (continued)

Name	Place of incorporation/ operation and kind of legal entity	Principal activities	Issued and fully paid capital	Interest held	
				(directly)	(indirectly)
Vinda Korea Co., Ltd. ("Vinda Korea")	Korea, limited liability company	Trading of household paper and personal care products	Korea Won ("KRW") 310,000,000	-	100%
Vinda Taiwan Ltd. ("Vinda Taiwan")	Taiwan, limited liability company	Manufacturing and sale of personal care products	New Taiwan Dollar ("NT\$") 560,879,450	-	100%
Vinda Marketing (M) Sdn. Bhd. ("Vinda Marketing")	Malaysia, limited liability company	Trading of personal care products	MYR10,000	-	100%
Vinda Singapore Pte. Ltd. ("Vinda Singapore")	Singapore, limited liability company	Trading of personal care products	Singapore Dollar ("SG\$") 852,850	-	100%

- (i) On 30 September 2020, Jiangmen Dynasty Fortune Paper Limited was approved to be merged into Vinda Paper (China) by Jiangmen Municipal Bureau of Commerce. The registered capital of Vinda Paper (China) was changed from US\$150,000,000 to US\$197,279,136.
- (ii) In 2020, the paid in capital of Xinjiang Energy was increased from RMB30,000,000 to RMB34,000,000.
- (iii) In 2020, the paid in capital of VPC (Guangdong) was increased from HK\$178,000,000 to HK\$250,000,000.

10 Inventories

	As at 31 December	
	2020 HK\$	2019 HK\$
Raw materials	3,371,623,189	1,904,501,206
Finished goods	1,402,257,219	1,318,820,157
	4,773,880,408	3,223,321,363

The cost of inventories recognised as expenses and included in cost of sales amounted to HK\$7,973,902,102(2019: HK\$8,704,893,616) for the year ended 31 December 2020.

The Group reversed HK\$25,513,626 of a previous inventory write-down in 2020, as the Group sold the relevant goods at original cost. Write-downs of inventories to net realisable value amounted to HK\$788,804 in 2019.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

11 Financial instruments by category

	As at 31 December	
	2020 HK\$	2019 HK\$
Financial assets		
Trade and notes receivables	2,435,038,930	1,916,318,675
Other receivables	302,577,542	237,999,919
Due from related parties	39,063,829	32,065,779
Cash and cash equivalents	749,399,329	460,387,446
Total	3,526,079,630	2,646,771,819

	As at 31 December	
	2020 HK\$	2019 HK\$
Financial liabilities		
Loans from a related party	396,080,272	1,274,928,072
Borrowings	4,335,810,551	2,881,259,723
Trade and other payables excluding non-financial liabilities	3,470,937,490	3,061,107,697
Due to related parties	14,669,217	15,813,259
Lease Liabilities	201,927,445	182,739,866
Total	8,419,424,975	7,415,848,617

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.

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For the year ended 31 December 2020

12 Trade, notes and other receivables and prepayments

	As at 31 December	
	2020 HK\$	2019 HK\$
Trade receivables	2,451,066,933	1,937,867,729
Less: Provision for impairment of trade receivables	(25,495,088)	(25,773,859)
	2,425,571,845	1,912,093,870
Notes receivable	9,467,085	4,224,805
Trade and note receivables	2,435,038,930	1,916,318,675
Other receivables		
– creditable input VAT	215,439,637	137,516,178
– prepaid income tax recoverable	4,585,345	2,072,503
– purchase rebates	2,286,851	9,964,231
– deposits and others	80,265,709	88,447,007
	302,577,542	237,999,919
Prepayments		
– purchase of raw materials	1,063,545	1,894,150
– prepaid expenses	28,969,526	20,214,628
– prepayments of utility fee	5,301,126	6,913,902
– others	35,686,073	30,416,711
	71,020,270	59,439,391
	2,808,636,742	2,213,757,985

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 2020 and 2019 is as below:

	As at 31 December	
	2020 HK\$	2019 HK\$
Within 3 months	2,342,880,739	1,839,881,135
4 months to 6 months	72,105,420	64,165,114
7 months to 12 months	18,447,948	13,779,084
Over 1 year	17,632,826	20,042,396
	2,451,066,933	1,937,867,729

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For the year ended 31 December 2020

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.

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	
	2020 HK\$	2019 HK\$
Cash in hand	93,097	141,609
Cash at bank	749,306,232	236,976,731
Deposits at call	–	223,269,106
	749,399,329	460,387,446

The effective weighted average annual interest rate on cash at bank and deposits was 2.00% (2019: 1.90%) for the year ended 31 December 2020.

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

	As at 31 December	
	2020 HK\$	2019 HK\$
RMB	569,131,744	331,406,904
NT\$	93,986,246	74,721,894
HK\$	17,590,101	6,584,385
MYR	27,208,421	16,396,879
US\$	33,830,270	8,766,217
Other currencies	7,652,547	22,511,167
	749,399,329	460,387,446

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 31 December 2018	80,000,000,000	1,194,852,373	119,485,237	4,351,781,230	4,471,266,467
Employee share option scheme (Note 15)					
– Exercise of share options	–	251,000	25,100	4,458,788	4,483,888
At 31 December 2019	80,000,000,000	1,195,103,373	119,510,337	4,356,240,018	4,475,750,355
Employee share option scheme (Note 15)					
– Exercise of share options	–	4,371,000	437,100	72,134,663	72,571,763
At 31 December 2020	80,000,000,000	1,199,474,373	119,947,437	4,428,374,681	4,548,322,118

15 Share-based payment

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:

- The first tranche of 5,313,000 options are exercisable during the period from 2 May 2012 to 1 May 2022.
- The second tranche of 5,729,000 options are exercisable during the period from 2 May 2013 to 1 May 2022.
- The third tranche of 5,729,000 options are exercisable during the period from 2 May 2014 to 1 May 2022.

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For the year ended 31 December 2020

15 Share-based payment (*continued*)

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.

Movements in the number of share options outstanding and their related weighted average exercise prices for the years ended 31 December 2020 and 2019 were as follows:

	For the year ended 31 December			
	2020		2019	
	Weighted average exercise price in HK\$	Number of options	Weighted average exercise price in HK\$	Number of options
At 1 January	12.74	8,332,000	12.75	8,583,000
Exercised (Note (a))	12.15	(4,371,000)	13.09	(251,000)
Lapsed (Note (b))	-	-	-	-
At 31 December	13.39	3,961,000	12.74	8,332,000

- (a) All of the outstanding options are exercisable. Options exercised during the year ended 31 December 2020 resulted in 4,371,000 shares (2019: 251,000 shares) being issued with proceeds of HK\$53,112,780 (2019: HK\$3,285,520). The related weighted average share price at the time of exercise was HK\$24.19 (2019: HK\$15.52) per share.

- (b) Option lapsed during the year ended 31 December 2020 was nil (2019: nil).

Share options outstanding as at 31 December 2020 have the following expiry dates and exercise prices:

Expiry date	Exercise price HK\$ per share	Number of options
14 April 2021	8.648	465,000
01 May 2022	14.06	3,456,000
01 May 2023	10.34	40,000

Notes to the Consolidated Financial Statements

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16 Other reserves

	Statutory reserves (Note (a)) HK\$	Retained earnings HK\$	Translation reserve HK\$	Other reserves HK\$	Total HK\$
At 1 January 2019	618,298,358	3,598,537,159	(6,842,375)	48,656,802	4,258,649,944
Employee share options scheme:					
– Exercise of options	–	–	–	(1,198,368)	(1,198,368)
Profit for the year	–	1,138,316,393	–	–	1,138,316,393
Appropriation of reserves	83,086,477	(83,086,477)	–	–	–
Dividends	–	(250,955,748)	–	–	(250,955,748)
Currency translation differences	–	–	(157,128,714)	–	(157,128,714)
Remeasurement on post-employment benefit obligation	–	–	–	(222,560)	(222,560)
At 31 December 2019	701,384,835	4,402,811,327	(163,971,089)	47,235,874	4,987,460,947
At 1 January 2020	701,384,835	4,402,811,327	(163,971,089)	47,235,874	4,987,460,947
Employee share options scheme:					
– Exercise of options	–	–	–	(19,458,983)	(19,458,983)
Profit for the year	–	1,874,329,244	–	–	1,874,329,244
Appropriation of reserves	190,314,649	(190,314,649)	–	–	–
Dividends	–	(371,602,676)	–	–	(371,602,676)
Currency translation differences	–	–	647,626,892	–	647,626,892
Remeasurement on post-employment benefit obligation	–	–	–	679,492	679,492
At 31 December 2020	891,699,484	5,715,223,246	483,655,803	28,456,383	7,119,034,916

(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 2020, the appropriation for the Reserve Fund is 15% (2019:15%) 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 of 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.

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17 Trade payables, other payables and accrued expenses

	As at 31 December	
	2020 HK\$	2019 HK\$
Trade payables	2,644,138,756	2,323,041,560
Notes payable	327,554,663	298,347,336
Other payables		
– salaries payable	376,170,393	295,730,649
– taxes payable other than income tax	100,376,721	77,563,577
– payables for property, plant and equipment	298,051,881	286,186,841
– long term incentive plans – current portion	19,148,310	–
– others	201,192,190	153,531,960
Accrued expenses		
– promotion fees	1,146,590,974	760,067,036
– utility charges	54,789,857	43,934,440
– transportation fees	235,600,904	179,169,147
– advertising fee	63,470,086	52,053,644
– accrued interest	7,639,064	6,307,114
– professional services	7,358,637	3,234,654
– others	157,845,009	124,680,814
	5,639,927,445	4,603,848,772

As at 31 December 2020 and 2019, 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 2020 and 2019 based on invoice date is as follows:

	As at 31 December	
	2020 HK\$	2019 HK\$
Within 3 months	2,000,184,795	1,944,893,219
4 months to 6 months	967,550,442	675,345,534
7 months to 12 months	3,796,354	918,340
Over 1 year	161,828	231,803
	2,971,693,419	2,621,388,896

Notes to the Consolidated Financial Statements

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18 Borrowings

	As at 31 December	
	2020 HK\$	2019 HK\$
Non-current		
Unsecured bank borrowings	2,890,391,162	2,297,063,820
Loans from a related party (Note 31(c))	96,080,272	1,274,928,072
Total non-current borrowings	2,986,471,434	3,571,991,892
Current		
Portion of loans from banks due for repayment within one year		
– Unsecured	1,445,419,389	584,195,903
Portion of loans from a related party due for repayment within one year (Note 31(c))		
– Unsecured	300,000,000	–
Total current borrowings	1,745,419,389	584,195,903
Total borrowings	4,731,890,823	4,156,187,795

The Company issued corporate guarantee for bank facilities used by certain subsidiaries.

(a) The maturity of borrowings is as follows:

	Bank borrowings		Loans from a related party	
	As at 31 December		As at 31 December	
	2020 HK\$	2019 HK\$	2020 HK\$	2019 HK\$
Portion of loans due for repayment within 1 year	1,445,419,389	584,195,903	300,000,000	–
Loans due for repayment after 1 year:				
Between 1 and 2 years	1,755,149,835	744,701,210	–	1,180,116,846
Between 2 and 5 years	1,135,241,327	1,552,362,610	96,080,272	94,811,226
	4,335,810,551	2,881,259,723	396,080,272	1,274,928,072

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For the year ended 31 December 2020

18 Borrowings (continued)

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

	Bank borrowings		Loans from a related party	
	2020	2019	2020	2019
HK\$	0.81%~6.83%	1.32%~6.83%	1.26%~3.51%	2.63%~3.54%
US\$	0.96%~2.53%	2.31%~3.40%	–	–
RMB	1.85%~4.95%	3.81%~6.60%	–	–
KRW	1.20%~2.65%	1.88%~2.98%	–	–
MYR	3.10%~4.65%	3.57%~4.65%	3.04%~4.44%	4.44%

(c) 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	
	2020	2019
HK\$	2.54%	3.19%
US\$	1.35%	2.99%
RMB	3.56%	4.55%
KRW	1.79%	2.51%
MYR	3.67%	3.91%

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

	As at 31 December	
	2020 HK\$	2019 HK\$
RMB	3,481,635,663	2,494,121,870
HK\$	600,000,000	1,488,927,432
US\$	383,604,450	–
MYR	230,592,652	132,735,716
KRW	36,058,058	40,402,777
	4,731,890,823	4,156,187,795

Notes to the Consolidated Financial Statements

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19 Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December	
	2020 HK\$	2019 HK\$
Deferred tax assets		
– Deferred income tax assets to be recovered after 12 months	99,959,295	86,421,437
– Deferred income tax assets to be recovered within 12 months	415,247,565	370,252,914
	515,206,860	456,674,351
Deferred tax liabilities		
– Deferred income tax liability to be settled after 12 months	(181,139,817)	(176,751,799)
– Deferred income tax liability to be settled within 12 months	(19,205,083)	(16,864,543)
	(200,344,900)	(193,616,342)
Deferred income tax assets, net	314,861,960	263,058,009

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

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
Beginning of the year	263,058,009	195,306,880
Credited to the consolidated statement of comprehensive income	27,660,614	76,769,684
Exchange differences	24,143,337	(9,018,555)
End of the year	314,861,960	263,058,009

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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 – inter- company sales of inventories HK\$	Unrealised profits – inter- company sales of property, plant and equipment HK\$	Accrued expenses HK\$	Taxable loss carried forward HK\$	Share option expenses HK\$	Retirement benefit obligation HK\$	Accelerated depreciation HK\$	Total HK\$
At 31 December 2018 and 1 January 2019	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
Credited/(charged) to the consolidated statement of comprehensive income	15,693,613	15,125,212	11,778,145	(1,415,651)	26,667,339	(3,068,533)	(76,447)	(1,033,249)	(1,021,598)	62,648,831
Exchange differences	(613,491)	(1,416,917)	(669,183)	(494,326)	(3,783,115)	(1,754,765)	-	72,577	(1,144,200)	(9,803,420)
At 31 December 2019	32,751,754	66,335,145	32,226,207	21,846,899	210,688,272	79,296,905	2,442,704	4,152,230	6,934,235	456,674,351
At 31 December 2019 and 1 January 2020	32,751,754	66,335,145	32,226,207	21,846,899	210,688,272	79,296,905	2,442,704	4,152,230	6,934,235	456,674,351
Credited/(charged) to the consolidated statement of comprehensive income	7,637,200	(2,887,591)	14,270,637	(2,599,694)	43,694,595	(40,646,499)	(775,520)	(2,217,718)	12,391,887	28,867,297
Exchange differences	2,503,210	4,105,056	2,873,964	1,259,428	14,779,760	2,842,577	-	159,646	1,141,571	29,665,212
At 31 December 2020	42,892,164	67,552,610	49,370,808	20,506,633	269,162,627	41,492,983	1,667,184	2,094,158	20,467,693	515,206,860

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\$16,918,890 (2019: HK\$11,450,404) in respect of losses amounting to HK\$65,507,989 (2019: HK\$50,916,062), which are not subject to expiration, that can be carried forward against future taxable income.

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19 Deferred income tax (continued)

The movement of the deferred tax liabilities is as follows:

	Interest capitalised HK\$	Fair value gains through business combination HK\$	Decelerated capital expenditure HK\$	Actuarial gains on defined benefit plans HK\$	Unrealized foreign exchange loss HK\$	Total HK\$
At 31 December 2018 and 1 January 2019	31,252,725	142,299,618	33,594,899	205,647	1,169,171	208,522,060
(Credited)/charged to the consolidated statement of comprehensive income	(2,193,409)	(4,688,476)	(7,747,564)	329,544	179,052	(14,120,853)
Exchange differences	(644,462)	(407,806)	246,773	10,685	9,945	(784,865)
At 31 December 2019	28,414,854	137,203,336	26,094,108	545,876	1,358,168	193,616,342
At 31 December 2019 and 1 January 2020	28,414,854	137,203,336	26,094,108	545,876	1,358,168	193,616,342
Charged/(credited) to the consolidated statement of comprehensive income	567,695	(8,154,063)	9,010,682	(52,724)	(164,907)	1,206,683
Exchange differences	1,845,354	2,906,465	727,044	31,537	11,475	5,521,875
At 31 December 2020	30,827,903	131,955,738	35,831,834	524,689	1,204,736	200,344,900

Deferred income tax liabilities of HK\$270,449,852 (2019: HK\$198,161,707) 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\$5,305,909,463 as at 31 December 2020 (2019: HK\$3,862,451,820).

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20 Deferred government grants

	HK\$
At 1 January 2019	
Cost	269,693,973
Accumulated amortisation	(54,623,862)
Net book amount	215,070,111
Year ended 31 December 2019	
Opening net book amount	215,070,111
Additions	75,991,232
Amortisation (Note 22)	(19,013,508)
Exchange differences	(5,705,301)
Closing net book amount	266,342,534
At 31 December 2019	
Cost	338,450,801
Accumulated amortisation	(72,108,267)
Net book amount	266,342,534
Year ended 31 December 2020	
Opening net book amount	266,342,534
Additions	23,898,265
Amortisation (Note 22)	(22,563,611)
Exchange differences	17,199,261
Closing net book amount	284,876,449
At 31 December 2020	
Cost	385,453,230
Accumulated amortisation	(100,576,781)
Net book amount	284,876,449

In 2020, certain subsidiaries of the Group received government grants with total amount of RMB20,766,500 (2019: RMB66,871,600). 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 right.

21 Long term incentive plans

	As at 31 December	
	2020 HK\$	2019 HK\$
Other non-current liabilities		
Long term incentive plans	2,253,625	29,214,726
Current liabilities		
Long term incentive plans – current portion	19,148,310	–
Total long term incentive plans (i)(ii)	21,401,935	29,214,726

- (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 management and employees.

Long term incentive plan for Executive Directors and CFO

Option Equivalent Unit (“OEU”) 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 OEUs were granted to Executive Directors and CFO at a nominal price of HK\$15.31 under the plan. The exercise price of an OEU is capped at HK\$30. The vesting period was from 1 January 2017 to 1 July 2020. An OEU can be realised at the exercise price after the vesting period until 31 December 2025, subject to the provisions of the plan. All OEUs were exercised before 31 December 2020 with an aggregate payment of HK\$100,479,600.

Long term incentive program for selected senior management and specific employees

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.

The TSR is determined by using the Monte Carlo Simulation Model. The significant inputs into the model were annualized drift rate of 6.62% of the Company and 8.00% of the peer group, dividend yield of 1.04% of the Company and 2.54% of the peer group and annualized asset price volatility of 45% of the Company and 20% of the peer group matching the life of the incentive program.

As at 31 December 2020, the payables for selected senior management and specific employees amounting to HK\$19,148,310 were reclassified to “other payables” for due within one year.

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For the year ended 31 December 2020

21 Long term incentive plans (continued)

- (ii) On 17 September 2020, the Board of Directors approved a cash settled long term incentive plan for specific employees.

A total of 12,624,000 OEU's were granted to selected management, senior management and Directors at a nominal price of HK\$21.83. The exercise price of an OEU will be the stock price at the time of exercise. The exercise price of an OEU is capped at HK\$43.66. The vesting period is from 30 October 2020 to 30 October 2023.

As at 31 December 2020, the fair value of OEU granted was determined by using the Binomial Model. The fair value of OEU in management's plan was HK\$3.1085 and the fair value of OEU in Directors and senior managements' plan was HK\$3.2225.

The significant inputs into the model were share price at the valuation date, the grant price, volatility of 35.74%, dividend yield of 1.15%, and annual risk-free interest rate of 0.34%. 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. The related employee benefit expenses of HK\$2.3 million for the 2 months vesting period have been recorded for the year.

22 Other income and losses – net

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
Subsidy income received from local government	46,143,345	9,764,916
Amortisation of deferred government grants (Note 20)	22,563,611	19,013,508
Loss on disposal of property, plant and equipment	(3,295,332)	(1,444,296)
Gain on disposal of investment property	18,092,808	18,849,910
Foreign exchange gain/(loss) – net	51,145,823	(37,231,217)
Rental income	1,507,647	2,441,894
Depreciation of investment property	(180,591)	(255,402)
Others	5,793,017	6,151,728
	141,770,328	17,291,041

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For the year ended 31 December 2020

23 Expenses by nature

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
Raw materials and trading merchandise consumed	7,443,506,707	8,337,067,269
Staff costs (Note 24)	1,827,946,573	1,664,144,387
Promotion expenses	1,058,175,666	814,727,940
Depreciation of property, plant and equipment (Note 6)	934,489,868	908,648,223
Utilities	885,322,610	966,813,383
Transportation expenses	841,663,431	714,948,860
Spareparts, repair and maintenance	282,137,014	215,408,001
Advertising costs	147,406,222	136,630,105
Amortisation of intangible assets (Note 8)	115,201,935	107,555,465
Depreciation of right-of-use assets (Note 7)	98,565,218	92,551,012
Impairment charge on property, plant and equipment (Note 6)	70,193,435	60,416,357
Short-term and low-value lease expenses (Note 7)	69,250,038	59,951,101
Contracted processing expense	65,293,522	34,953,559
Travel and office expenses	59,897,517	75,322,351
Real estate tax, stamp duty and other taxes	47,945,970	48,420,801
Auditor's remuneration	8,330,727	8,355,683
Bank charges	4,833,798	4,792,638
(Reversal of)/provision for impairment of receivables (Note 3.1(b))	(1,032,625)	1,540,148
(Reversal of)/provision for write-down of inventories	(25,513,626)	788,804
Other expenses	267,139,279	268,954,568
Total cost of sales, selling and marketing costs, administrative expenses and net impairment losses on financial assets	14,200,753,279	14,521,990,655

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

24 Employee benefit expenses

The aggregate amounts of staff costs including directors' emoluments are as follows:

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
Defined contribution for Hong Kong employees		
– MPF	1,604,996	2,067,156
Defined contribution for overseas employees	31,314,551	32,675,238
Defined benefits for overseas employees	(6,488,450)	1,036,466
Long-term incentive plans	93,579,585	18,505,239
Social security and benefits for the PRC employees	175,115,433	196,008,732
	295,126,115	250,292,831
Wages, salaries and bonus	1,442,038,798	1,328,810,751
Staff welfare	90,781,660	85,040,805
	1,827,946,573	1,664,144,387

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2020 include five directors (2019: three directors) whose emoluments are reflected in the analysis disclosed in Notes 31 and 33. The emoluments payable to non-director individuals amongst five highest paid individuals during the year are as follows:

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
– Basic salaries, housing allowances, other allowances and benefits-in-kind	–	12,292,042
– Long-term incentive plans	–	2,481,485
– Others	–	48,028
	–	14,821,555

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

25 Finance income and costs – net

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
Interest expense		
– borrowings (a)	(137,684,599)	(204,440,082)
– lease liabilities (Note 7)	(7,429,390)	(8,249,058)
Foreign exchange gain – net	1,679,485	2,520,600
Interest income		
– bank deposits	17,254,406	11,548,073
Net finance costs	(126,180,098)	(198,620,467)

- (a) During the year, the Group has capitalised borrowing costs amounting to HK\$15,801,296 (2019: HK\$5,419,428) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 3.46% (2019: 4.27%).

26 Taxation

(a) 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.

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
Current income tax		
– Hong Kong and overseas profits tax	170,100,577	175,834,960
– Mainland China income tax	302,656,655	138,306,491
– Tax filing difference for prior year	1,784,324	(8,841,110)
Deferred income tax	(27,607,890)	(77,099,228)
Withholding tax	5,072,971	4,242,450
	452,006,637	232,443,563

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

26 Taxation (continued)

(a) Income tax expense (continued)

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	
	2020 HK\$	2019 HK\$
Profit before income tax	2,326,335,881	1,370,759,956
Tax calculated at applicable tax rate	536,239,918	293,128,722
Tax benefit from HNTE qualification	(107,242,333)	(69,160,515)
Income not subject to tax	(5,585,506)	(4,997,508)
Expenses not deductible for tax purposes	20,743,420	18,703,861
Unrecognised tax losses	2,148,808	496,389
Utilisation of previously unrecognised tax losses	(1,154,965)	(1,128,726)
Tax filing difference for prior year	1,784,324	(8,841,110)
Withholding tax	5,072,971	4,242,450
Income tax expense	452,006,637	232,443,563

(b) VAT

Sales of self-manufactured products of the Company's PRC subsidiaries are subject to VAT. The applicable tax rate for PRC domestic sales is 13%.

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.

27 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	
	2020	2019
Profit attributable to equity holders of the Company (HK\$)	1,874,329,244	1,138,316,393
Weighted average number of ordinary shares issued	1,197,868,874	1,195,019,702
Basic earnings per share (HK\$ per share)	1.565	0.953

(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	
	2020	2019
Profit attributable to equity holders of the Company (HK\$)	1,874,329,244	1,138,316,393
Weighted average number of ordinary shares issued	1,197,868,874	1,195,019,702
Adjustments for share options	2,370,139	897,964
Weighted average number of ordinary shares for diluted earnings per share	1,200,239,013	1,195,917,666
Diluted earnings per share (HK\$ per share)	1.562	0.952

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

28 Dividends

	2020 HK\$	2019 HK\$
Interim dividend paid of HK\$0.10 (2019: HK\$0.07) per ordinary share	119,918,437	83,656,116
Proposed final dividend of HK\$0.37 (2019: HK\$0.21) per ordinary share	443,805,518	250,971,708
	563,723,955	334,627,824

On 26 January 2021, the Board of Directors proposed a final dividend in respect of the year ended 31 December 2020 of HK\$443,805,518, representing HK\$0.37 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 2019 was HK\$251,684,239 based on the 1,198,496,373 issued shares outstanding at that time.

The interim dividends actually paid in 2020 were HK\$119,918,437 based on the number of issued shares outstanding at that time.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

29 Cash flow information

(a) Reconciliation of profit before income tax to cash generated from operations

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
Profit before income tax	2,326,335,881	1,370,759,956
Adjustments for:		
– Depreciation of property, plant and equipment (Note 6)	934,489,868	908,648,223
– Depreciation of investment property	180,591	255,402
– Amortisation of intangible assets (Note 8)	115,201,935	107,555,465
– Depreciation of right-of-use assets (Note 7)	98,565,218	92,551,012
– Amortisation of deferred government grants (Note 20)	(22,563,611)	(19,013,508)
– Loss on disposals of property, plant and equipment (Note 22)	3,295,332	1,444,296
– Loss on disposal of right-of-use assets	20,955	5,766
– Gain on disposal of investment property (Note 22)	(18,092,808)	(18,849,910)
– (Reversal of)/provision for impairment of receivables (Note 23)	(1,032,625)	1,540,148
– (Reversal of)/provision for inventory impairment (Note 23)	(25,513,626)	788,804
– Impairment charge on property, plant and equipment (Note 6)	70,193,435	60,416,357
– Share of post-tax loss of an associate	177,842	208,240
– Net finance costs and exchange losses	75,034,275	235,851,684
	3,556,292,662	2,742,161,935
Changes in working capital (excluding the effect of exchange differences on consolidation):		
– Increase in inventories	(1,318,592,267)	(547,889,270)
– (Increase)/decrease in trade, notes, other receivables and prepayments	(453,961,746)	122,628,022
– (Increase)/decrease in due from related parties	(6,375,684)	3,810,183
– Increase in trade payables, other payables and accrued expenses and contract liabilities	878,902,335	576,889,379
– Increase/(decrease) in due to related parties	3,746,291	(1,988,527)
Cash generated from operations	2,660,011,591	2,895,611,722

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

29 Cash flow information (continued)

(b) Reconciliation of proceeds from disposal of property, plant and equipment and investment property

In the cash flow statement, proceeds from disposal of property, plant and equipment and investment property comprise:

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
Net book amount of property, plant and equipment (Note 6)	4,410,585	3,010,718
Loss on disposal of property, plant and equipment (Note 22)	(3,295,332)	(1,444,296)
Net book amount of investment property	907,192	2,950,090
Gain on disposal of investment property (Note 22)	18,092,808	18,849,910
Proceeds from disposal of property, plant and equipment and investment property	20,115,253	23,366,422

(c) Reconciliation of liabilities arising from financing activities

	Leases HK\$	Borrowings HK\$	Loans from related party HK\$	Total HK\$
As at 31 December 2018	–	4,027,379,394	1,218,116,846	5,245,496,240
Recognised on adoption of HKFRS 16	202,032,067	–	–	202,032,067
As at 1 January 2019	202,032,067	4,027,379,394	1,218,116,846	5,447,528,307
Cash flows				
– Inflow from financing activities	–	5,906,787,752	394,643,979	6,301,431,731
– Outflow from financing activities	(71,341,650)	(6,991,933,690)	(337,782,170)	(7,401,057,510)
Recognition of right-of-use assets	51,806,602	–	–	51,806,602
Currency translations	242,847	(60,973,733)	(50,583)	(60,781,469)
As at 31 December 2019	182,739,866	2,881,259,723	1,274,928,072	4,338,927,661
Cash flows				
– Inflow from financing activities	–	3,825,330,674	–	3,825,330,674
– Outflow from financing activities	(76,598,409)	(2,581,214,577)	(880,116,846)	(3,537,929,832)
Recognition of right-of-use assets	91,180,525	–	–	91,180,525
Currency translations	4,605,463	210,434,731	1,269,046	216,309,240
As at 31 December 2020	201,927,445	4,335,810,551	396,080,272	4,933,818,268

30 Capital commitments

	As at 31 December	
	2020 HK\$	2019 HK\$
Property, plant and equipment and intangible assets	1,048,498,885	1,192,504,572

31 Related party transactions

The immediate holding company of the Group is Essity BV (formerly known as SCA Group Holding BV) (incorporated in Netherlands).

(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 Fiji Limited	Associate of Essity Aktiebolag (publ)
Asaleo Personal Care Pty Ltd	Associate of Essity Aktiebolag (publ)
Productos Familia, S.A., Colombia	Subsidiary of Essity Aktiebolag (publ)
Asaleo Care New Zealand Ltd.	Associate of Essity Aktiebolag (publ)
Essity Higiene y Salud Mexico, S.A. de C.V. ("Essity Mexico")	Subsidiary of Essity Aktiebolag (publ)
Essity Canada Inc.	Subsidiary of Essity Aktiebolag (publ)
Essity Higiene and Health AB ("Essity HH")	Subsidiary of Essity Aktiebolag (publ)
Essity Operations Hoogezand B.V. ("Essity Hoogezand B.V.")	Subsidiary of Essity Aktiebolag (publ)
Essity Operations Gennep B.V. ("Essity OG B.V.")	Subsidiary of Essity Aktiebolag (publ)
Essity Do Brasil Industria E Comercio Ltda ("Essity Brasil")	Subsidiary of Essity Aktiebolag (publ)
Essity Netherlands B.V.	Subsidiary of Essity Aktiebolag (publ)
Essity Operations Mainz-Kostheim GmbH ("Essity Kostheim")	Subsidiary of Essity Aktiebolag (publ)
Essity Poland Sp.z o.o.	Subsidiary of Essity Aktiebolag (publ)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

31 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.	Subsidiary of Essity Aktiebolag (publ)
Essity Operations Mannheim GmbH ("Essity OM")	Subsidiary of Essity Aktiebolag (publ)
Essity Operations Neuss GmbH ("Essity ON GmbH")	Subsidiary of Essity Aktiebolag (publ)
Essity Treasury AB	Subsidiary of Essity Aktiebolag (publ)
Essity HMS North America Inc ("Essity HMS")	Subsidiary of Essity Aktiebolag (publ)
Essity (China) Holding Co Ltd ("Essity China")	Subsidiary of Essity Aktiebolag (publ)
BSN Medical Shanghai ("BSN Shanghai")	Subsidiary of Essity Aktiebolag (publ)

(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 2020 include:

(1) Sales of products to related parties:

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
– Uni-Charm	98,827,921	109,323,113
– Asaleo Care Fiji Ltd	29,862,771	19,860,023
– Asaleo Personal Care Pty Ltd	11,847,187	22,153,821
– Productos Familia, S.A., Colombia	11,598,501	14,637,977
– Asaleo Care New Zealand Ltd	10,762,024	3,407,237
– Essity Mexico	4,007,675	949,200
– Essity Canada Inc.	3,445,629	4,513,732
– Essity HH	2,919,196	7,780,288
– Essity Hoogezand B.V.	1,782,170	2,149,402
– Essity OG B.V.	485,297	–
– Essity Brasil	79,296	–
	175,617,667	184,774,793

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

31 Related party transactions (*continued*)

(b) Significant related party transactions (*continued*)

(2) Purchase of products from related parties:

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
– Essity Netherlands B.V.	53,260,806	4,172,451
– Essity HH	37,159,413	34,197,154
– Essity Kostheim	33,601,331	34,051,612
– Essity Poland Sp.z o.o.	31,330,754	26,652,542
– Essity OG B.V.	23,024,494	42,739,361
– Essity Mexico	4,506,057	–
– Essity Hoogezand B.V.	3,507,061	33,138,480
– Essity Slovakia s.r.o.	1,023,960	1,660,357
– Essity OM	546,407	–
– Essity ON GmbH	–	1,289,288
– Uni-Charm	–	22,109
	187,960,283	177,923,354

(3) Research and development expenses charged to a related party:

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
– Essity HH	18,602,892	19,046,379

(4) IT costs charged by a related party:

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
– Essity HH	976,170	3,484,964

Notes to the Consolidated Financial Statements

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31 Related party transactions (*continued*)

(b) Significant related party transactions (*continued*)

(5) Loans borrowed from a related party:

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
– Essity Treasury AB	–	394,643,979

(6) Loans repaid to a related party:

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
– Essity Treasury AB	880,116,846	337,782,170

(7) Interest expenses accrued to a related party:

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
– Essity Treasury AB	18,433,299	41,213,841

(8) Interest expenses paid to a related party:

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
– Essity Treasury AB	23,869,173	41,585,314

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

31 Related party transactions (*continued*)

(b) Significant related party transactions (*continued*)

(9) Key management compensation:

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
Directors		
– Basic salaries, housing allowances, other allowances, benefits-in-kind, pensions and other benefits	41,753,971	37,107,300
– Long-term incentive plans	70,699,928	7,716,773
Senior management		
– Basic salaries, housing allowances, other allowances, benefits-in-kind, pensions and other benefits	40,855,920	30,477,489
– Long-term incentive plans	16,916,649	10,788,470
	170,226,468	86,090,032

The emoluments of senior management (excluding directors) fell within the following bands:

	Number of individuals	
	2020	2019
– Below HK\$1,000,000	1	–
– HK\$1,000,000 to HK\$1,500,000	1	2
– HK\$1,500,000 to HK\$2,000,000	–	1
– Above HK\$2,000,000	8	6

No emoluments have been paid to directors and senior management as an inducement to join or upon joining the Group or as compensation for loss of office for the years ended 31 December 2020 and 2019.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

31 Related party transactions (*continued*)

(c) Year-end balances with related parties

	As at 31 December	
	2020 HK\$	2019 HK\$
(1) Trade and other receivables from related parties:		
– Asaleo Care Fiji Ltd	12,843,667	4,796,900
– Uni-Charm	10,236,983	10,940,760
– Essity HH	6,133,645	6,601,490
– Asaleo Care New Zealand Ltd	3,151,463	873,247
– Asaleo Personal Care Pty Ltd	2,615,819	5,060,142
– Productos Familia, S.A., Colombia	2,498,171	2,178,534
– Essity Canada Inc.	515,305	503,511
– Essity OG B.V.	485,340	–
– Essity Mexico	407,192	134,909
– Essity Hoogezand B.V.	128,561	277,892
– Essity HMS	47,683	–
– Essity	–	330,000
– Essity China	–	267,923
– BSN Shanghai	–	100,471
	39,063,829	32,065,779

All the above receivables are aged within 3 months based on invoice date as at 31 December 2020 and 31 December 2019.

All receivables were arose from sales of products to related parties or expenses paid on behalf of related parties. Management used lifetime expected loss allowance for these receivables from initial recognition. Management considered the credit risk for these receivables was low as they are all from related parties and within credit term granted. And thus, no loss allowance provision was recognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

31 Related party transactions (*continued*)

(c) Year-end balances with related parties (*continued*)

	As at 31 December	
	2020 HK\$	2019 HK\$
(2) Trade and other payables to related parties		
– Essity Netherlands B.V.	4,677,549	1,456,959
– Essity Kostheim	2,927,897	1,420,831
– Essity Poland Sp.z o.o.	2,424,947	807,811
– Essity HH	2,105,972	2,101,478
– Essity OG B.V.	1,691,084	1,379,590
– Essity OM	225,613	–
– Essity Slovakia s.r.o.	215,401	–
– Essity Mexico	65,003	–
– Uni-Charm	13,435	21,697
– Essity Hoogezand B.V.	–	2,866,703
	14,346,901	10,055,069

All the above payables are aged within 3 months based on invoice date as at 31 December 2020 and 31 December 2019.

	As at 31 December	
	2020 HK\$	2019 HK\$
(3) Loans from a related party		
– Essity Treasury AB (Note (a))	396,080,272	1,274,928,072
(4) Interest payable to a related party		
– Essity Treasury AB	322,316	5,758,190

(a) As at 31 December 2019, loans from a related party represented long term loans with principal of HK\$300,000,000, HK\$300,000,000, HK\$580,116,846 and MYR50,000,000 (HK\$94,811,226) respectively. The weighted average interest rate is 3.21%. These loans are due on 21 June 2021, 10 June 2021, 7 April 2021 and 18 December 2024 respectively.

Due to early repayment of these loans in 2020, loans from a related party as at 31 December 2020 represented the remaining long term loans with principal of HK\$300,000,000 and MYR50,000,000 (HK\$96,080,272). The weighted average interest rate is 2.78%. These loans are due on 10 June 2021 and 18 December 2024 respectively.

Notes to the Consolidated Financial Statements

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32 Balance sheet and reserve movement of the Company

	As at 31 December	
	2020 HK\$	2019 HK\$
ASSETS		
Non-current assets		
Investments in and balances with subsidiaries	3,906,543,893	3,670,436,494
Current assets		
Prepayment	18,277,268	4,005,602
Dividends receivable	640,548,380	257,934,043
Due from subsidiaries	89,590,349	89,590,349
Cash and cash equivalents	740,559	1,016,269
	749,156,556	352,546,263
Total assets	4,655,700,449	4,022,982,757
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	119,947,437	119,510,337
Share premium	4,428,374,681	4,356,240,018
Other reserves (Note (a))	(124,852,550)	(546,077,718)
Total equity	4,423,469,568	3,929,672,637
LIABILITIES		
Current liabilities		
Other payables and accrued expenses	6,570,981	26,974,595
Due to subsidiaries	225,659,900	66,335,525
	232,230,881	93,310,120
Total liabilities	232,230,881	93,310,120
Total equity and liabilities	4,655,700,449	4,022,982,757

The balance sheet of the Company was approved by the Board of Directors on 26 January 2021 and were signed on its behalf.

LI Chao Wang
Director

LI Jielin
Director

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

32 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 2019	(765,356,381)	173,585,644	46,043,084	(545,727,653)
Employee share options scheme:				
– Exercise of options	–	–	(1,198,368)	(1,198,368)
Dividends	–	(250,955,748)	–	(250,955,748)
Profit for the year	–	332,376,705	–	332,376,705
Currency translation differences	(80,572,654)	–	–	(80,572,654)
At 31 December 2019	(845,929,035)	255,006,601	44,844,716	(546,077,718)
At 1 January 2020	(845,929,035)	255,006,601	44,844,716	(546,077,718)
Employee share options scheme:				
– Exercise of options	–	–	(19,458,983)	(19,458,983)
Dividends	–	(371,602,676)	–	(371,602,676)
Profit for the year	–	579,742,101	–	579,742,101
Currency translation differences	232,544,726	–	–	232,544,726
At 31 December 2020	(613,384,309)	463,146,026	25,385,733	(124,852,550)

33 Benefits and interests of directors

(a) Directors' emoluments

	For the year ended 31 December	
	2020 HK\$	2019 HK\$
Directors		
– Basic salaries, housing allowances, other allowances and benefits-in-kind	41,698,471	37,035,300
– Long-term incentive plans	70,699,928	7,716,773
– Others	55,500	72,000
	112,453,899	44,824,073

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

33 Benefits and interests of directors (*continued*)

(a) Directors' emoluments (*continued*)

The remuneration of every director is set out below:

For the year ended 31 December 2020:

Aggregate emoluments paid to or receivable by directors in respect of their services in connection with the management of the affairs of the Company or its subsidiary undertaking						
Directors' fees HK\$	Salaries (Note(ii)) HK\$	Discretionary bonuses HK\$	Allowances and benefits in kind (Note(ii)) HK\$	Employer's contribution to a retirement benefit scheme HK\$	Long-term incentive plans HK\$	Total HK\$
<i>Chairman</i>						
-	4,651,140	4,387,890	16,158	18,000	17,396,519	26,469,707
<i>Executive directors</i>						
-	3,017,950	2,847,130	16,158	1,500	11,157,767	17,040,505
-	3,829,727	2,841,930	376,158	18,000	11,250,861	18,316,676
-	3,017,950	2,847,130	16,158	18,000	11,157,767	17,057,005
<i>Non-executive directors</i>						
2,884,981	-	-	-	-	-	2,884,981
-	-	-	-	-	-	-
-	-	-	-	-	-	-
450,000	3,825,900	5,213,520	-	-	19,737,014	29,226,434
<i>Independent non-executive directors</i>						
328,672	-	-	-	-	-	328,672
236,130	-	-	-	-	-	236,130
388,672	-	-	-	-	-	388,672
438,672	-	-	-	-	-	438,672
66,445	-	-	-	-	-	66,445
<i>Alternate directors</i>						
-	-	-	-	-	-	-
-	-	-	-	-	-	-
4,793,572	18,342,667	18,137,600	424,632	55,500	70,699,928	112,453,899

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

33 Benefits and interests of directors (*continued*)

(a) Directors' emoluments (*continued*)

For the year ended 31 December 2019:

Aggregate emoluments paid to or receivable by directors in respect of their services in connection with the management of the affairs of the Company or its subsidiary undertaking							
	Directors' fees HK\$	Salaries (Note(ii)) HK\$	Discretionary bonuses HK\$	Allowances and benefits in kind (Note(ii)) HK\$	Employer's contribution to a retirement benefit scheme HK\$	Long-term incentive plans HK\$	Total HK\$
<i>Chairman</i>							
- Mr. LI Chao Wang	-	4,387,890	3,485,223	15,765	18,000	1,893,285	9,800,163
<i>Executive directors</i>							
- Ms. YU Yi Fang	-	2,740,400	2,261,427	15,765	18,000	1,214,315	6,249,907
- Mr. Johann Christoph MICHALSKI	-	5,213,520	4,141,086	-	-	2,180,543	11,535,149
- Ms. LI Jielin	-	2,841,930	2,285,727	375,765	18,000	1,214,315	6,735,737
- Mr. DONG Yi Ping	-	2,847,130	2,261,427	15,765	18,000	1,214,315	6,356,637
<i>Non-executive directors</i>							
- Mr. Jan Christer JOHANSSON	2,721,680	-	-	-	-	-	2,721,680
- Mr. Carl Magnus GROTH	-	-	-	-	-	-	-
- Mr. Carl Fredrik Stenson RYSTEDT	-	-	-	-	-	-	-
<i>Independent non-executive directors</i>							
- Ms. LEE Hsiao-yun Ann	311,200	-	-	-	-	-	311,200
- Mr. CHIA Yen On	321,200	-	-	-	-	-	321,200
- Mr. WONG Kwai Huen, Albert	371,200	-	-	-	-	-	371,200
- Mr. TSUI King Fai	421,200	-	-	-	-	-	421,200
<i>Alternate directors</i>							
- Mr. Herve Stephane ROSE (vi)	-	-	-	-	-	-	-
- Mr. Gert Mikael SCHMIDT	-	-	-	-	-	-	-
- Mr. Dominique Michel Jean DESCHAMPS (vii)	-	-	-	-	-	-	-
	4,146,480	18,030,870	14,434,890	423,060	72,000	7,716,773	44,824,073

Notes:

- (i) Salaries paid to a director relate to emolument paid or payable in respect of that person's services in connection with the management of the affairs of the company or its subsidiary undertakings.
- (ii) Includes housing allowances, medical and life insurance premium.
- (iii) Mr. Johann Christoph MICHALSKI resigned from executive director and was appointed as non-executive director on 1 October 2020.
- (iv) Mr. CHIA Yen On resigned from independent non-executive director on 12 September 2020.
- (v) Mr. LAW Hong Ping, Lawrence was appointed as independent non-executive director on 1 November 2020.
- (vi) Mr. Herve Stephane ROSE resigned from alternative director on 6 September 2019.
- (vii) Mr. Dominique Michel Jean DESCHAMPS was appointed as alternative director on 25 October 2019.
- (viii) For the year ended 31 December 2020 and 2019, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

33 Benefits and interests of directors (*continued*)

(b) Directors' termination benefits

There were no termination benefits paid to any director during or at any time for the year ended 31 December 2020 and 2019.

(c) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2020 and 2019, 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.

Five-Year Financial Summary

Consolidated Statement of Comprehensive Income

	For the year ended 31 December				2020 HK\$
	2016 HK\$	2017 HK\$	2018 HK\$	2019 HK\$	
Revenue	12,056,548,935	13,485,960,780	14,878,547,902	16,074,288,277	16,511,676,772
Cost of sales	(8,239,615,131)	(9,486,047,682)	(10,691,953,432)	(11,089,036,453)	(10,288,905,938)
Gross profit	3,816,933,804	3,999,913,098	4,186,594,470	4,985,251,824	6,222,770,834
Selling and marketing costs	(2,074,739,697)	(2,351,849,995)	(2,379,803,125)	(2,575,268,219)	(2,960,719,996)
Administrative expenses	(728,394,604)	(727,035,386)	(758,565,392)	(856,145,835)	(952,159,970)
Net impairment losses on financial assets	–	–	(1,829,013)	(1,540,148)	1,032,625
Other income and losses – net	(6,226,887)	62,498,407	(26,772,076)	17,291,041	141,770,328
Operating profit	1,007,572,616	983,526,124	1,019,624,864	1,569,588,663	2,452,693,821
Finance income and costs – net	(199,265,704)	(214,027,686)	(221,951,496)	(198,620,467)	(126,180,098)
Share of post-tax loss of an associate	–	–	–	(208,240)	(177,842)
Profit before income tax	808,306,912	769,498,438	797,673,368	1,370,759,956	2,326,335,881
Income tax expense	(154,772,358)	(148,541,984)	(148,368,679)	(232,443,563)	(452,006,637)
Profit attributable to equity holders of the Company	653,534,554	620,956,454	649,304,689	1,138,316,393	1,874,329,244
Other comprehensive income:					
<i>Item that may be reclassified to profit or loss</i>					
Currency translation differences	(531,450,105)	692,642,246	(421,842,655)	(157,128,714)	647,626,892
<i>Item that will not be reclassified subsequently to profit or loss</i>					
Remeasurements of post-employment benefit obligations	(273,967)	2,491,047	396,637	(222,560)	679,492
Total comprehensive income attributable to equity holders of the Company	121,810,482	1,316,089,747	227,858,671	980,965,119	2,522,635,628

Five-Year Financial Summary

Consolidated Balance Sheet

	As at 31 December				2020 HK\$
	2016 HK\$	2017 HK\$	2018 HK\$	2019 HK\$	
ASSETS					
Property, plant and equipment	7,281,873,804	8,739,887,326	8,997,273,418	8,858,171,961	10,117,404,823
Right-of-use assets	–	–	–	1,250,456,963	1,366,419,837
Leasehold land and land use rights	432,130,671	1,042,127,885	1,050,718,413	–	–
Intangible assets	2,796,001,162	2,913,888,055	2,823,114,342	2,780,086,369	2,746,074,511
Deferred income tax assets	268,225,330	348,762,906	403,828,940	456,674,351	515,206,860
Investment properties	4,859,059	7,660,539	7,217,853	4,039,119	3,167,484
Investment in an associate	–	–	–	2,525,619	2,347,777
Inventories	1,785,142,568	3,048,179,318	2,745,883,730	3,223,321,363	4,773,880,408
Trade receivable, other receivables and prepayments	1,938,829,069	2,309,863,202	–	–	–
Trade and notes receivables	–	–	1,888,459,707	1,916,318,675	2,435,038,930
Other receivables	–	–	449,515,451	237,999,919	302,577,542
Prepayments	–	–	90,514,885	59,439,391	71,020,270
Due from related parties	106,197,276	28,949,331	36,609,005	32,065,779	39,063,829
Cash and cash equivalents	1,015,254,277	534,589,786	574,465,154	460,387,446	749,399,329
Total Assets	15,628,513,216	18,973,908,348	19,067,600,898	19,281,486,955	23,121,601,600
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	113,741,237	119,416,737	119,485,237	119,510,337	119,947,437
Share premium	3,498,754,174	4,345,689,034	4,351,781,230	4,356,240,018	4,428,374,681
Other reserves	3,167,068,811	4,271,362,605	4,258,649,944	4,987,460,947	7,119,034,916
Total equity	6,779,564,222	8,736,468,376	8,729,916,411	9,463,211,302	11,667,357,034
LIABILITIES					
Long-term borrowings	2,879,551,662	3,310,130,427	3,004,812,188	2,297,063,820	2,890,391,162
Long-term loans from a related party	915,499,741	1,236,403,002	1,218,116,846	1,274,928,072	96,080,272
Long-term lease liabilities	–	–	–	119,942,991	129,563,570
Deferred government grants	90,486,296	142,848,544	215,070,111	266,342,534	284,876,449
Deferred income tax liabilities	203,135,117	211,437,204	208,522,060	193,616,342	200,344,900
Post-employment benefits	36,601,481	33,214,008	31,124,829	26,952,299	15,983,243
Other non-current liabilities	–	17,675,709	10,709,487	29,214,726	2,253,625
Other current liabilities	4,723,674,697	5,285,731,078	5,649,328,966	5,610,214,869	7,834,751,345
Total Liabilities	8,848,948,994	10,237,439,972	10,337,684,487	9,818,275,653	11,454,244,566
Total equity and liabilities	15,628,513,216	18,973,908,348	19,067,600,898	19,281,486,955	23,121,601,600