恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044

Annual Report 2014

Corporate Mission

"GROWING WITH YOU FOR A BETTER LIFE"

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

Contents

Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Henry
Wang Ming Fu
Ada Ying Kay Wong
Ho Kwai Ching Mark
Zhou Fang Sheng

COMPANY SECRETARY

Loo Hong Shing Vincent *FCCA, AHKSA*

AUTHORISED REPRESENTATIVES

Hui Lin Chit
Loo Hong Shing Vincent

LEGAL ADVISERS

Hong Kong
Reed Smith Richards Butler

PRC
Global Law Office

Cayman Islands
Maples and Calder Asia

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
British West Indies

HEAD OFFICE

Hengan Industrial City
Anhai Town
Jinjiang City
Fujian Province
PRC

PLACE OF BUSINESS IN HONG KONG

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

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock Code: 1044

WEBSITES

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

PRINCIPAL BANKERS

Bank of China (Hong Kong)
China Merchants Bank
Industrial and Commercial Bank of China
Hua Xia Bank

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

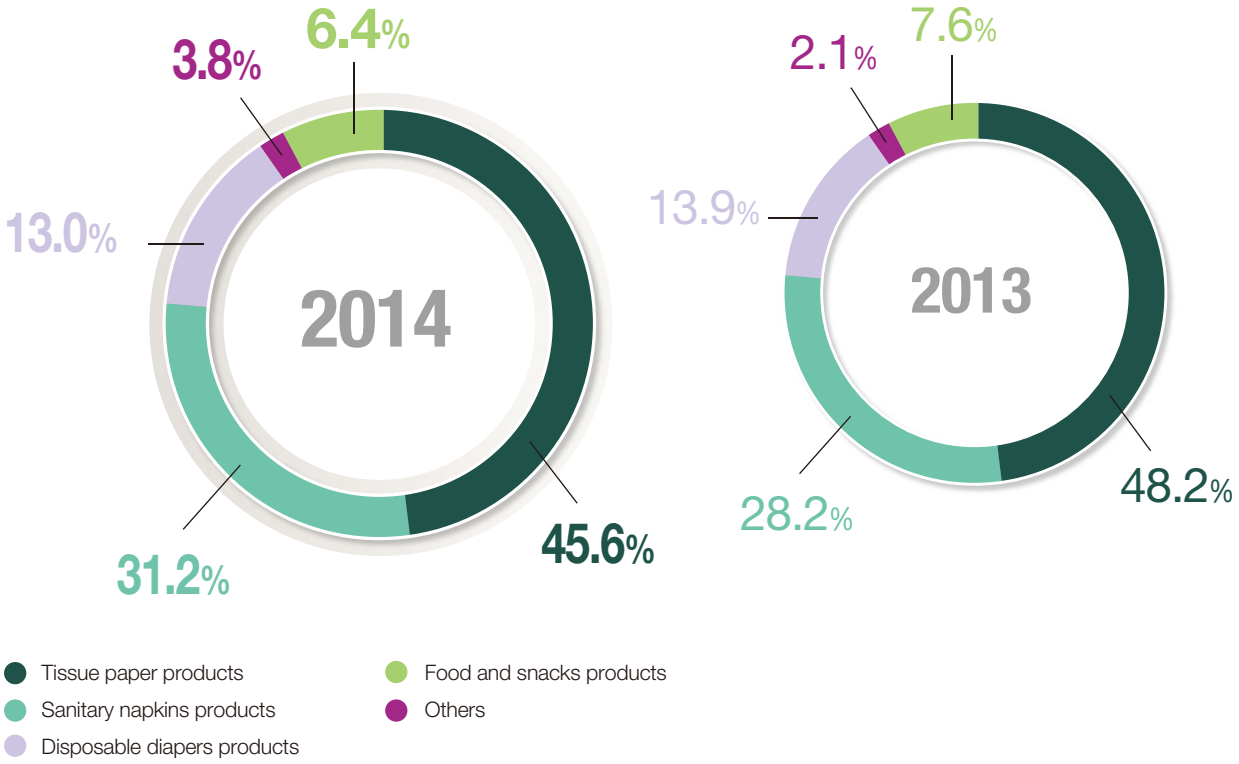
INVESTORS AND MEDIA RELATIONS

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

Financial Highlights

	2014	2013	2012	2011	2010
Net profit margin — based on profit attributable to shareholders of the Company (%)	**16.4**	17.6	19.0	15.5	18.2
Earnings per share (HK$)	**3.188**	3.024	2.863	2.160	1.996
Finished goods turnover (days)	**49**	55	47	44	54
Trade receivables turnover (days)	**36**	35	37	35	31
Current ratio (times)	**1.5**	1.6	1.5	1.4	1.8
Gross gearing ratio (%)	**116.5**	117.5	79.8	58.5	50.6
Net gearing ratio (%)	**(10.4)**	(5.8)	(1.1)	(10.8)	(13.9)

ANALYSIS OF REVENUE BY PRODUCT

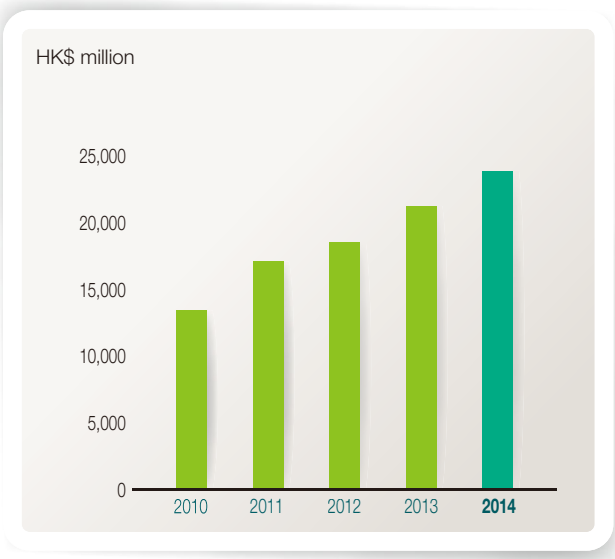


Five-Year Financial Summary

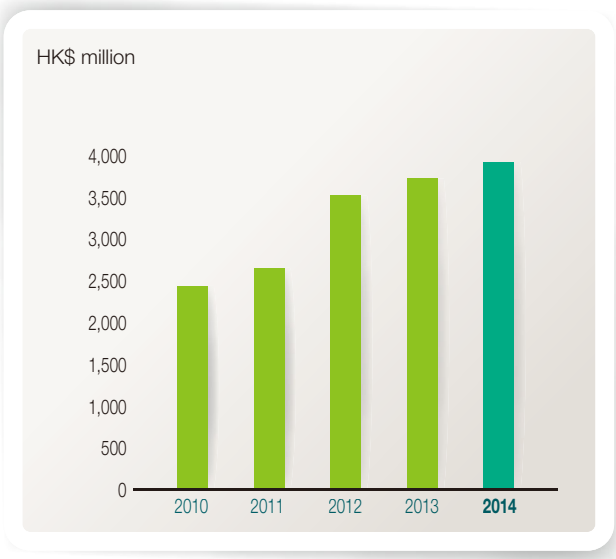
CONSOLIDATED RESULTS — FOR THE YEAR ENDED 31 DECEMBER

	2014 HK$'000	2013 HK$'000	2012 HK$'000	2011 HK$'000	2010 HK$'000
Revenue	**23,830,778**	21,186,368	18,524,233	17,050,557	13,431,688
Profit before income tax	**5,342,886**	5,015,471	4,538,954	3,255,375	3,038,367
Income tax expense	**(1,368,716)**	(1,244,889)	(1,001,235)	(569,929)	(551,950)
Profit for the year	**3,974,170**	3,770,582	3,537,719	2,685,446	2,486,417
Non-controlling interests	**(58,352)**	(49,551)	(19,014)	(36,607)	(48,089)
Profit attributable to shareholders of the Company	**3,915,818**	3,721,031	3,518,705	2,648,839	2,438,328
Earnings per share (HK$)	**3.188**	3.024	2.863	2.160	1.996

REVENUE



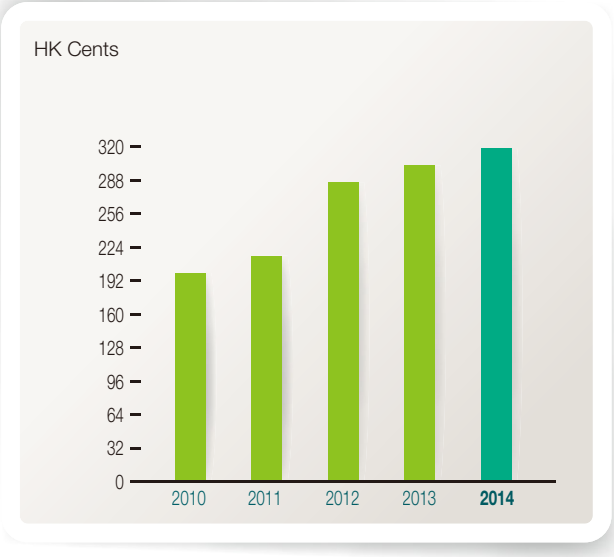
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY



CONSOLIDATED ASSETS AND LIABILITIES — AS AT 31 DECEMBER

	2014 HK$'000	2013 HK$'000	2012 HK$'000	2011 HK$'000	2010 HK$'000
Assets					
Property, plant and equipment	**8,861,823**	8,627,200	7,815,553	5,203,336	4,519,090
Construction-in-progress	**1,383,631**	1,204,372	1,301,331	2,053,903	665,130
Investment properties	**238,994**	–	–	–	–
Land use rights	**1,112,353**	1,105,298	1,032,792	850,365	613,982
Intangible assets	**603,522**	581,150	590,822	601,212	606,508
Prepayments for non-current assets	**356,534**	379,463	275,625	439,325	537,714
Deferred income tax assets	**217,229**	157,511	152,116	131,110	98,213
Cash and bank balances	**21,296,676**	19,563,983	9,544,379	8,258,202	5,989,024
Long-term bank deposits	**1,096,463**	814,042	1,845,231	296,040	786,274
Other current assets	**7,409,371**	7,757,468	6,646,967	5,485,587	4,761,445
Total assets	**42,576,596**	40,190,487	29,204,816	23,319,080	18,577,380
Liabilities					
Long-term bank borrowings	**–**	959,643	3,787,218	403,735	1,497,050
Convertible bonds	**5,390,267**	5,227,130	–	–	–
Deferred income tax liabilities	**136,855**	169,146	185,801	180,903	172,637
Deferred income on government grants	**–**	929	2,070	3,807	5,281
Current liabilities	**18,986,415**	16,914,973	10,821,487	10,011,888	6,076,880
Total liabilities	**24,513,537**	23,271,821	14,796,576	10,600,333	7,751,848
Non-controlling interest	**425,419**	385,070	330,048	377,334	322,345
Net assets attributable to shareholders of the Company	**17,637,640**	16,533,596	14,078,192	12,341,413	10,503,187

EARNINGS PER SHARE



"HEARTTEX" AND "PINO" BOX TISSUE PAPER

"ANERLE" AND "Q-MO" BABY DIAPERS

"JUNICHI" BABY SKIN CARE PRODUCTS AND "MISSMAY" SKIN CARE AND CLEANSING PRODUCTS

"HEARTTEX" WET TISSUES

"HEARTTEX" PRESERVATION BAGS/ PAPER

"HEARTTEX" AND "PINO" POCKET HANDKERCHIEFS

"HEARTTEX" AND "PINO" TOILET ROLLS

"HEARTTEX" KITCHEN TOWELS

"ANERLE", "ANLE" AND "DORIA" SANITARY NAPKINS AND PANTILINERS

"ELDERJOY" ADULT DIAPERS

"QINQIN" SNACK FOOD PRODUCTS

"BANITORE" FIRST-AID PRODUCTS AND "BENDI" ENEMA

Chairman's Statement

Dear Shareholders,

On behalf of Hengan International Group Company Limited ("Hengan International" or the "Group"), I present its annual results for the year ended 31 December 2014. During the year under review, the economy of eurozone remained weak, but that of the United States gradually recovered, which supported the world's moderate economic growth. The Chinese government also launched a number of targeted easing policies to prolong the consistent growth of its economy. The steady pace of growth in the country's gross domestic product and the Chinese people's rising living standard and awareness of hygiene continued to add an impetus to the expansion of the markets for high-quality personal and household hygiene products. As a leading company in the market for personal care and family hygiene products in mainland China, Hengan leverages its brand equity and outstanding corporate governance to grasp market opportunities and drive its consistent business growth.

SZE MAN BOK
Chairman

For the year ended 31 December 2014, the Group's revenue rose by about 12.5% to approximately HK$23,830,778,000 (2013: HK$21,186,368,000). Profit attributable to shareholders increased by about 5.2% to approximately HK$3,915,818,000 (2013: HK$3,721,031,000). Basic earnings per share were approximately HK$3.188 (2013: HK$3.024). The Board of Directors recommended the payment of a final dividend of HK$1.15 per share (2013: HK$1.00), which together with the interim dividend of HK$0.85 per share (2013 1H: HK$0.85), brings the annual dividend to HK$2.00 per share (2012: HK$1.85).

During the year, the Group proactively responded to intense market competition, thus making satisfactory progress in its major business. The tissue paper business continued to be the Group's major revenue source, accounting for approximately 45.6% of its total revenue. The businesses of sanitary napkin and disposable diaper maintained growth, and accounted for approximately 31.2% and 13.0% respectively of the Group's total revenue. The business of food and snacks accounted for 6.4% of the Group's total revenue. Benefitting from the optimized product portfolio which proved to be effective, as well as the drop in prices of such major raw materials as tissue wood pulp and petrochemical products since the second half of 2014, the Group's businesses of tissue paper, sanitary napkin and disposable diapers saw their gross profit margins increase.

Hengan International upholds its corporate spirit of integrity, diligence, innovation and dedication. In face of market consolidation and the challenges of ever-changing demand of consumers, the Group is committed to enhancing product quality and optimizing the product mix, thus successfully achieving business growth. In 2014, the Group was named by *Forbes Magazine* as one of "the World's Most Innovative Companies". The Group was also selected as one of the "Top 100 Hong Kong Stocks for 2014". It also won "The Excellence of Listed Enterprise Awards 2014" and the title of the "Model Enterprise for Sustainable Development Leadership 2014" in recognition of its outstanding performance and market position.

In 2015, the United States' gradual economic recovery will drive the growth of the global economy, but the uncertain outlook of the Europe's economy continues to cast a shadow over the global economic prospect. China is still facing the pressure of an economic slowdown. Nevertheless, the country's rising personal income and accelerating urbanization have laid the solid foundations for the development of its market for personal hygiene products. In addition, the Group will be able to benefit from the decline in the cost of raw materials, which began in the second half of 2014 and is expected to continue well into 2015, and thus the Group's overall revenue and gross profit margins are expected to improve in 2015. The Group will continue to optimize its product mix and grasp the opportunities to tap the ever-increasing demand with a view to improving its profitability. With its solid business and nationwide distribution network, the Group is confident of maintaining its leading position in mainland China's personal hygiene product market and will strive for consistent growth in its business on the back of the country's steady economic growth.

I would like to express my gratitude to every member of staff for their continuous effort that contributed to the growth of Hengan International in the year under review. I would also like to thank the shareholders for their enduring support of the Group's development aspirations and strategies. In return, the entire staff of Hengan International will continue to work hard to create higher values for the shareholders.

REVENUE BY REGIONS IN MAINLAND CHINA

	2014	2013
NORTH-WESTERN		
Sales Value: (HK$ million)	**1,346**	1,247
Percentage of Total Sales:	**5.7%**	5.9%
NORTHERN		
Sales Value: (HK$ million)	**2,513**	2,496
Percentage of Total Sales:	**10.5%**	11.8%
NORTH-EASTERN		
Sales Value: (HK$ million)	**1,471**	1,445
Percentage of Total Sales:	**6.2%**	6.8%
SHANDONG		
Sales Value: (HK$ million)	**2,438**	2,143
Percentage of Total Sales:	**10.2%**	10.1%

	2014	2013
EASTERN		
Sales Value: (HK$ million)	**3,542**	3,248
Percentage of Total Sales:	**14.9%**	15.3%
CENTRAL		
Sales Value: (HK$ million)	**2,940**	2,618
Percentage of Total Sales:	**12.3%**	12.4%
FUJIAN AND GUANGDONG		
Sales Value: (HK$ million)	**4,404**	3,629
Percentage of Total Sales:	**18.5%**	17.1%
SOUTH-WESTERN		
Sales Value: (HK$ million)	**1,269**	1,086
Percentage of Total Sales:	**5.3%**	5.1%
SICHUAN		
Sales Value: (HK$ million)	**2,013**	1,898
Percentage of Total Sales:	**8.4%**	9.0%

Sze Man Bok
Chairman

Hong Kong, 24 March 2015

Chief Executive Officer's Report

Dear Shareholders,

In 2014, the global economy sustained moderate growth. The United States' economic recovery was on track, but the eurozone's economy failed to pick up despite several interest rate cuts and governments' bond purchases. The Chinese economy maintained steady growth on the back of the People's Bank of China's loose monetary and fiscal policies in the year. According to data from the National Bureau of Statistics of China, the country's gross domestic product increased by approximately 7.4% to approximately RMB63,646.3 billion.

HUI LIN CHIT
Chief Executive Officer

BUSINESS REVIEW

As a leading company in the market for personal care and family hygiene products in mainland China, the Group draws on its economies of scale and adopts effective cost control measures to seize market opportunities arising from the booming market, which was driven by the steady economic growth, and achieved steady growth in business.

For the year ended 31 December 2014, the Group's revenue increased by about 12.5% to approximately HK$23,830,778,000 (2013: HK$21,186,368,000). Operating profit rose by about 13.0% to around HK$5,750,058,000 (2013: HK$5,087,848,000). An exchange loss of about HK$132,264,000 was booked because of the depreciation of Renminbi against the Hong Kong dollar and the U.S. dollar during the year while a foreign exchange gain of around HK$279,186,000 was recorded last year. Profit attributable to shareholders grew by about 5.2% to approximately HK$3,915,818,000 (2013: HK$3,721,031,000). The Board of Directors declared a final dividend of HK$1.15 (2013: HK$1.00).

During the year, the negative impact of intensified market competition was offset by optimized product portfolio, enhanced economies of scale and decrease in raw material prices since the second half of the year. As a result, gross profit margin of the Group increased to approximately 46.1% (2013: 45.1%). Distribution costs and administrative expenses increased and accounted for approximately 26.9% (2013: 24.8%) of the Group's total revenue, mainly due to the increase in expenses on marketing and brand promotion, development of new specialty sales channels, research and development as well as enhancement of information system during the year.

SANITARY NAPKINS

Accelerating urbanization and rising living standard continue to boost demand for high-grade sanitary napkins, triggering market consolidation. The Group continued to improve product quality, optimize product portfolio and increase the proportion of mid-to-high-end products in sales in order to enhance the overall sales growth of the sanitary napkin business. During the year, the Group launched various new products, which were well received by the market, and hence successfully expanded the Group's market share.

The revenue of the sanitary napkin business grew by approximately 24.4% to approximately HK$7,427,740,000, which accounted for around 31.2% of the total revenue (2013: 28.2%). Optimized product portfolio and a decline in the prices of major raw materials, petrochemical products, since the fourth quarter boosted the gross profit margin of sanitary napkin business to approximately 68.5% (2013: 66.3%). Looking ahead, the Group will continue to focus on product innovation, optimize the product mix and increase the sales of mid-to-high-end products in order to satisfy the changing demand of the market.

TISSUE PAPER

Mainland China's market for high-quality tissue paper was expanding on the back of rising living standard and increasing awareness of health and hygiene of the Chinese people. China's tissue paper consumption per capita still lags behind that of developed countries, implying enormous market potential. However, overall overcapacity in the industry and fierce competition continued to affect the growth rate of the Group's tissue paper business. In order to ensure that the tissue paper business could maintain a reasonable profit margin, the Group did not step up efforts in marketing and brand promotion in the second half of the year, thus making it more challenging for the sales in the second half of the year. The Group's tissue paper sales increased by approximately 6.4% to approximately HK$10,857,293,000, accounting for approximately 45.6% (2013: 48.2%) of the Group's total revenue.

Gross profit margin remained fairly stable at approximately 34.5% (2013: 34.1%) because the decrease in price of tissue wood pulp, a major raw material, from second half of 2014 offset the impact of such unfavourable factors as intense market competition and overcapacity which led to a decrease in average selling price.

The Group's current annualized production capacity is 1,020,000 tons. The Group will increase production capacity according to market conditions and sales performance in the future.

DISPOSABLE DIAPERS

China's urbanization and the people's increasing awareness of personal hygiene continue to boost the demand for diaper products. The market penetration rate of disposable diaper products is still low, implying potential for further growth in the market for such products. However, China's economic slowdown and intense competition caused by the entry of a large number of manufacturers into the market affected the sales growth of the Group.

During the year, the Group stepped up marketing and brand promotion, and proactively expanded its business presence by gaining footholds in maternity stores and e-commerce sales channels. The Group continued to focus on and launched new mid-end and mid-to-high-end diaper products. The sales of mid-end and mid-to-high-end disposable diapers increased by approximately 11.9%, reflecting an increase in market demand for these products. However, due to persistent market competition, sales of low-end diapers (i.e. simplified diapers) decreased by approximately 15.4%. Overall, revenue from the sales of disposable diapers for the year ended 31 December 2014 increased only by approximately 5.3% to approximately HK$3,094,573,000, accounting for approximately 13.0% (2013: 13.9%) of the Group's total revenue.

The optimized product portfolio proved to be effective. This, coupled with the drop in prices of major raw materials, petrochemical products, since the fourth quarter of 2014, boosted the gross profit margin to approximately 45.3% (2013: 44.5%).

The Group will continue to enhance the promotion of brand and products, expand its business presence in maternity stores and e-commerce sales channels in 2015 in the hope of increasing sales for the long term.

FOOD AND SNACKS PRODUCTS

As the snack products of the Group are not daily necessities, their sales are affected by the economic slowdown. During the year, sales of food and snacks products decreased slightly by about 4.4% to approximately HK$1,534,749,000, accounting for approximately 6.4% (2013: 7.6%) of the Group's total revenue. The decline in the costs of major raw materials such as sugar and palm oil offset the negative impact of intense market competition. As such, gross profit margin remained fairly stable at approximately 42.4% (2013: 42.3%).

As quality of living in China improves, the Group believes that the snack business will keep booming in the long term. In 2015, the Group will continue to commit resources to enriching its product portfolio in order to cater to the different tastes of consumers, and hence boost the revenue growth of the business.

FIRST AID PRODUCTS

First-aid product sales under the brands of "Banitore" and "Bandi" amounted to approximately HK$41,334,000 (2013: HK$44,391,000). The business only accounted for approximately 0.2% (2013: 0.2%) of the Group's total revenue, and did not have significant impact on the Group's overall results.

APPOINTMENT OF PROFESSIONAL CONSULTANTS

To further optimize the operation process of the Group's supply chain, logistics networks, inventory management and information technology planning, the Group appointed IBM (China) Co., Ltd. in March 2014 to give professional advice on the above aspects. In addition, the Group signed a contract with SAP (Beijing) Software Systems Co., Ltd. in November 2014 to use the latter's software, and engaged IBM (China) Co., Ltd. to update this software in order to support the evolving business in the future.

PRODUCT RESEARCH AND DEVELOPMENT

As the first enterprise in the mainland's tissue paper industry to have been awarded the title of the Enterprise Technology Centre with State Accreditation, the Group continued to allocate more resources to product research and development during the year with the aim of enhancing efficiency and of developing more value-added products to meet consumers' higher requirements. The move will strengthen the Group's leading position in the personal hygiene product industry.

LIQUIDITY, FINANCIAL RESOURCES AND BANK LOANS

The Group maintained a solid financial position. As at 31 December 2014, the Group's cash and bank balances, long-term bank deposits and restricted bank deposits amounted to approximately HK$22,432,839,000 in total (31 December 2013: HK$20,438,069,000); the liability component of convertible bonds amounted to approximately HK$5,390,267,000 (31 December 2013: HK$5,227,130,000), and bank borrowings amounted to approximately HK$15,164,387,000 (31 December 2013: HK$14,192,557,000).

The net proceed from the issuance of convertible bonds in June 2013 was approximately HK$5,324 million, of which approximately HK$3,510 million was used for repayment of bank borrowings, approximately HK$442 million was invested in subsidiaries, approximately HK$302 million was used for share repurchases, approximately HK$551 million was used to pay dividends, approximately HK$358 million was placed as fixed deposits and approximately HK$161 million was used for general working capital purposes.

The convertible bonds were subject to a fixed interest rate of 2.7% while the bank borrowings were subject to floating annual interest rates ranging from approximately 1.1% to 5.2% (2013: from 1.0% to 5.0%).

As at 31 December 2014, the Group's gross gearing ratio was approximately 116.5% (2013: 117.5%), which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including non-controlling interests). The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term time deposits as a percentage of the shareholders' equity (not including non-controlling interests), was approximately negative 10.4% (2013: negative 5.8%) as the Group was in a net cash position.

During 2014, the Group's capital expenditure amounted to approximately HK$1,754,669,000. As at 31 December 2014, the Group had no material contingent liabilities.

HUMAN RESOURCES AND MANAGEMENT

As at 31 December 2014, the Group employed approximately 31,000 staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and career opportunities according to their needs.

LATEST AWARDS

During the year, the Group was named by Forbes Magazine as one of the "World's Most Innovative Companies". In addition, the Group was also named as one of the "Top 100 – Hong Kong Listed Companies Selection 2014", and won a number of awards such as "The Excellence of Listed Enterprise Awards 2014" and "2014 Sustainability Leadership Model Enterprise". These awards reaffirm recognitions from all sectors of society of the Group's outstanding performance and leading position in the market. The Group will continue to do its best and enhance the values of its brands.

FOREIGN CURRENCY RISKS

Most of the Group's income is denominated in Renminbi while part of the raw materials is imported and settled in US dollars. The Group has never had any difficulties in obtaining sufficient foreign currencies for settlement of the purchases or repatriation of profits declared by the subsidiaries in mainland China to the overseas holding companies.

As at 31 December 2014, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

OUTLOOK

In 2015, although the United States will speed up its pace of economic recovery, Europe's economy is expected to remain weak, which will affect the speed of China's economic growth. Although the overcapacity in the tissue paper market has intensified the competition in the short term, China's rising per capita income, accelerating urbanization and consumers' increasing awareness of health and hygiene will continue to provide support for the development of the market for personal hygiene products. All these factors, coupled with the benefits from the decline in the cost of raw materials since the second half of 2014 are expected to persist well into 2015, will help to improve the Group's income and gross profit margins.

In order to fit itself better for market consolidation, the Group will continue to enhance product portfolio and increase the market penetration of its products. Meanwhile, the Group is committed to improving product quality in order to strengthen its brand values, overall competitiveness and profit margins. The Group will continue to monitor closely the price trends of raw materials and optimize its product mix to match the changes in the market with a view to improving its gross profit margin.

With its solid business, outstanding corporate governance and nationwide distribution network, the Group is confident of maintaining its leading position in mainland China's personal hygiene product market. It will strive for consistent growth in its business and create greater shareholder value.

Hui Lin Chit
Chief Executive Officer

Hong Kong, 24 March 2015

Directors and Senior Management Profiles

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

DIRECTORS

Executive Directors

Mr. Sze Man Bok, aged 65, is the Chairman of the Group. He is responsible for the Group's overall corporate direction and business strategy. Mr. Sze is one of the founding shareholders and a member of the Nomination Committee of the Company. He is the father of Mr. Sze Wong Kim, a Director of the Company.

Mr. Hui Lin Chit, aged 61, is the Deputy Chairman and Chief Executive Officer of the Group. He is responsible for strategic planning, human resources and the overall management of the Group. Mr. Hui is one of the founding shareholders of the Company, and is also a member of Nomination Committee and Remuneration Committee. Mr. Hui has the title of senior economist in the People's Republic of China ("PRC") and is a deputy chairman of All-China General Chamber of Industry and Commerce and also Political Consultative Conference in Quanzhou City. He is also the deputy chairman of Fujian Province Industry and Trade Association and the chairman of Quanzhou City Trade Association. During 1998 to 2012, Mr. Hui was a member of the Ninth, Tenth and Eleventh National Committee of the Chinese People's Political Consultative Conference. During 1997 to 2011, he was also a member of the Executive Committee (the Eighth) and Standing Committee (the Ninth), and deputy chairman (the Tenth) of All-China Federation of Industry and commerce. He is the father of Mr. Hui Ching Chi, a Director of the Company.

Mr. Hung Ching Shan, aged 65, is responsible for supervising the Group's purchasing tender assignments. He has over 36 years of experience in raw materials procurement as well as in import and export trading. Mr. Hung is one of the founding shareholders of the Company.

Mr. Xu Shui Shen, aged 45, was appointed as Deputy Chief Executive Officer of the Group on 26 March 2013. He is also the Chief Operating Officer of the Group. He is responsible for the development and implementation of the Group's sales strategy, operation and business management. He joined the Group in 1985 and has over 30 years of experience in operation management and business development. He graduated from business administration department in the HuaQiao University and holds the title of economist in the PRC. Mr. Xu is a younger brother of Mr. Xu Da Zuo and Mr. Xu Lian Pi, a Director and a senior officer of the Company respectively.

Mr. Xu Da Zuo, aged 48, is the Group's Deputy Director of Finance and is responsible for overseeing and monitoring the accounting and finance functions of the Group. Joining the Group in 1985, Mr. Xu has over 30 years of experience in accounting and internal audit. He has the title of senior accountant in the PRC. He is a brother of Mr. Xu Lian Pi and Mr. Xu Shui Shen, senior management of the Group and a Director of the Company respectively.

Mr. Xu Chun Man, aged 40, is responsible for the Group's overall business development strategy. He joined the Group after graduating from Fujian Jinjiang Vocational Institute in 1991. Mr. Xu has over 24 years of experience in business development and customer service management.

Mr. Hui Ching Chi | Mr. Loo Hong Shing Vincent | Mr. Chan Henry | Ms. Ada Ying Kay Wong | Mr. Wang Ming Fu | Mr. Ho Kwai Ching Mark | Mr. Zhou Fang Sheng

Mr. Sze Wong Kim, aged 39, is responsible for overall strategy of the Group. Before joining the Group, Mr. Sze worked in two accountancy firms in Australia and gained extensive experience in assurance and business advisory work. He started his own business in 2005 on wholesale and distribution of branded electronic components and computer accessories products in Hong Kong and overseas markets. Mr. Sze graduated from the University of Technology, Sydney with a Bachelor Degree of Business majoring in accounting and obtained a Master Degree of Commerce in finance from the University of New South Wales, Australia. He is a member of CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants. He is the son of Mr. Sze Man Bok, the Chairman and a Director of the Company.

Mr. Hui Ching Chi, aged 30. He was appointed as Deputy Director of Supply Chain Management of the Group. He is responsible for the overall strategy relating to the Group's planning and purchasing of raw materials and logistic management. Mr. Hui worked in a major international bank in London prior to joining the Group in February 2008. Mr. Hui holds a Law Degree from the London University. He is a son of Mr. Hui Lin Chit, the Chief Executive Officer and a Director of the Company.

Mr. Loo Hong Shing Vincent, aged 49, is the Chief Financial Officer, the Company Secretary and authorised representative of the Company. Before joining the Company in 2004, Mr. Loo worked in an international firm of accountants in Hong Kong. He has substantial experience in assurance and business advisory work, company listing and merger and acquisition work in both Hong Kong and the PRC. He graduated from the Hong Kong Polytechnic University and is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He is an independent non-executive director of Goldenmars Technology (HK) Limited, a company listed on the GEM Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Independent Non-Executive Directors

Mr. Chan Henry, aged 49, is an Independent Non-Executive Director of the Company appointed in 1998. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee.

Mr. Chan has over 28 years of experience in the financial market and is the Managing Director of Sanfull Securities Limited. He was a Director of the Stock Exchange and was also a member of the Advisory Committee of the Securities and Futures Commission. Mr. Chan is currently the Permanent Honorary President of Hong Kong Stockbrokers Association Limited, a supervisory committee member of The Chinese Gold & Silver Exchange Society, an independent non-executive director of Luen Thai Holdings Limited, a company listed on the Main Board of the Stock Exchange, which engages in the manufacturing and trading of garment and textile products. Mr. Chan is also a committee member of the Chinese People's Political Consultative Conference in Xiamen, Fujian Province, China. Mr. Chan holds a Master degree in Business Administration.

Ms. Ada Ying Kay Wong, JP, aged 55, is an independent Non-executive Director of the Company appointed in 1998. She is also a member of the Audit Committee, Nomination Committee and Remuneration Committee.

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

Mr. Wang Ming Fu, aged 49, is an Independent Non-executive Director of the Company appointed on 1 January 2010. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee. Currently, he is the chairman of the HeJun Consulting Co., Ltd. He was a managing director of Security Research Institute and a general manager of merger and acquisition department of Junan Securities Co., Ltd. from 1993 to 1998, and was an executive director of Institute of Finance and Security, Renmin University of China from 1999 to 2003. He is a director of New Oriental Education Fund from 2007. In addition, he was an independent non-executive director of Shenzhen Airport Co., Ltd. and Hainan Minsheng Gas Corporation. He has been appointed as an independent non-executive director of Beiqi Foton Motor Co., Ltd. since April 2010.

He obtained a bachelor degree in political education from the East China Normal University, a master of law degree from the Nanjing University and a doctorate degree in economic from the Renmin University of China. He was a senior visiting scholar of University of Illinois. Mr. Wang is a reputable strategist and investment banker in China providing long-term strategy, corporate culture, corporate governance, merger and acquisition professional consulting services for government, corporations, listed companies and institutional investors, and has over 20 years of working experience. His articles with original ideas and theories on various Chinese industries, corporate governance and capital markets amount to millions of words.

Mr. Ho Kwai Ching Mark, aged 53, is an Independent Non-executive Director of the Company appointed on 1 January 2013. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee. He is currently a consultant in the securities and futures industry and an independent non-executive director of Lee Kee Holdings Limited, a company listed on the Main Board of the Stock Exchange. He was the Chief Operating Officer of Oriental Patron Securities Limited, the Chief Compliance Officer of Hong Kong Mercantile Exchange Limited, the Director of Business Development of Sun Hung Kai Securities Limited and a Director of Phillip Securities (HK) Limited. He was also previously Vice President of Corporate Strategy of Hong Kong Exchanges and Clearing Limited and Head of Compliance of Hong Kong Futures Exchange Limited. He has more than 20 years of experience in the securities and futures industry.

Mr. Ho received a Bachelor Degree in Social Sciences from the University of Hong Kong in 1984 and is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. Zhou Fang Sheng, aged 65, is an Independent Non-executive Director of the Company appointed 2013. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee. He has more than 21 years of management experience. From 1991 to 1997, Mr. Zhou served as deputy division director and division director in State-owned Assets Administration Bureau, and deputy director in Stated-owned Assets Administration Research Institute. From 1997 to 2001, Mr. Zhou worked as deputy director in difficulty relief working office for state-owned enterprises of State Economic and Trade Commission. From 2001 to 2003, Mr. Zhou served as director in State-owned Assets Administration Research Section of Research Institute for Fiscal Science of Ministry of Finance. From 2003 to 2009, Mr. Zhou worked as Vice Counsel in charge of state-owned enterprise restructuring and business management in Enterprise Reform Bureau of State-owned Assets Supervision and Administration Commission of the State Council. Mr. Zhou was appointed as a supervisor of Sinotrans Limited, a company listed on the Main Board of the Stock Exchange on 19 November 2011. He has been also appointed an independent non-executive director of Beijing BDStar Navigation Co., Ltd and China Aviation Optical-Electrical Technology Co., Ltd, companies listed on Shenzhen Stock Exchange, since 16 January 2012 and 13 June 2013 respectively.

Senior Management

Mr. Cheng Yong, aged 50, is the Chief Executive Officer of Qin Qin Incorporated Co. Ltd (Fujian), a non-wholly owned subsidiary of the Group. He is responsible for the overall management, business development and operation of the said subsidiary. Before transferring to that subsidiary, he was the Chief Operating Officer responsible for the Group's daily operation management. Prior to joining the Group in 2001, he worked in some well-known corporations in the PRC and has over 25 years of experience in operation management and specialise in production management and quality control. Mr. Cheng graduated with a bachelor degree in automation-control from the Harbin Engineering University and received a MBA from the Xiamen University. He has the title of electrical engineer in the PRC.

Mr. Xu Lian Pi, aged 54, is the General Manager of Product Operation Department and is responsible for the Group's daily operation management. Mr. Xu joined the Group in 1985 and has over 29 years of experience in human resources management, administration, marketing and sales of fast moving consumer products. He has the title of senior economist in the PRC. He is an elder brother of Mr. Xu Da Zuo and Mr. Xu Shui Shen, Directors of the Company.

Mr. Xu Wen Mo, aged 49, is the Director of Tissue Paper Products Development Department of the Group and is responsible for the overall management and business development of paper products of the Group. Mr. Xu joined the Group in 1985 and has accumulated over 26 years of experience in management, marketing and sales of consumer products. He has the title of senior economist in the PRC.

Mr. Xu Zi Dan, aged 47, is the Director of Napkin Products Development Department of the Group and is responsible for the overall management and business development of napkin products of the Group. Mr. Xu joined the Group in 1985 and has accumulated over 29 years of experience in management, marketing and sales of consumer products. He obtained his MBA from University of North Virginia in US and has the title of financial economist in the PRC.

Ms. Liu Ying, aged 46, is the Deputy Director of the Human Resources Department and is responsible for the Group's human resources management. Joining the Group in 1995, she has accumulated over 28 years of experience in human resources management and administration. Ms. Liu is a graduate from Peking University with a degree in administration management. She has the title of senior economist in the PRC.

Mr. Zhu Jian Shui, aged 40, is the General Manager of Internal Audit Department. He joined the Group in 1998 and has over 19 years of experience in finance and auditing areas. He is a graduate from Tianjin University of Commerce with a degree in international accounting and also holds a bachelor degree in law from law school of Southwest University in China. He also has the title of China certified tax agent, certified auditor, senior economist and corporate legal consulate.

Mr. Pan Jia Hong, aged 41, is the Director of Trade Development Department and is responsible for sales management and development. He joined the Group in 1996 and has over 19 years of experience in sales and operation management. Mr. Pan graduated from the Huaqiao University specialized in accounting.

Mr. Wang Gui Zhong, aged 41, is the Deputy Director of Diaper Products Development Department of the Group and is responsible for the overall management and business development of diaper products of the Group. Before taking up this position, he held the position of sales and marketing general manager of Tissue Paper Products Development Department of the Group, responsible for marketing and brand management of Tissue Paper Products Development Department of the Group. Mr. Wang joined the Group in 1999 and has over 16 years of experience in sales and marketing of consumer products. Mr. Wang graduated from HuaQiao University with a degree in electronic engineering and Liming Vocational University with a degree in corporate management.

Mr. Zhu Hong Bo, aged 52, is the Director of the Strategic Development Department of the Group and is responsible for corporate development and investment. Before re-joining the Group in 2010, he worked as senior management in some listed companies and has over 31 years of experience in marketing promotion and corporate management. Mr. Zhu graduated from the Tianjin Normal University in 1984.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with the applicable code provisions in the Corporate Governance Code (the "Code") set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2014.

BOARD OF DIRECTORS

The Board comprises fourteen members, including Chairman, Deputy Chairman (who is also the Chief Executive Officer), seven Executive Directors and five Independent Non-executive Directors. Biographical details of the Directors are set out in the section of Directors and Senior Management Profiles on pages 16 to 19.

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

According to the Articles of Association of the Company, every director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. At each annual general meeting, one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest but not less than one-third, shall retire from office by rotation and shall be eligible for re-election. In addition, any director so appointed shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board), and shall then be eligible for re-election at the meeting.

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

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

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT PROGRAMME

Each newly appointed director is provided with necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under the relevant statues, laws, rules and regulations.

Pursuant to the Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that they are well equipped to make contributions to the Board.

During the year ended 31 December 2014, all directors of the Company were updated regularly on the Group's business, operations, risk management and corporate governance matters. Materials on new or changes to salient laws and regulations applicable to the Group were provided to the directors. A briefing session was organised for Directors to update them on the new amendments to the inside information provisions of part XIVA of the Securities and Futures (Amendment) Ordinance. All directors are requested to provide the Company with their respective training record.

During the year 2014, the Directors also participated in the following trainings:

Members	Types of training
EXECUTIVE DIRECTORS	
Mr. Sze Man Bok *(Chairman)*	A/C
Mr. Hui Lin Chit *(Deputy Chairman and Chief Executive Officer)*	A/B/C
Mr. Hung Ching Shan	A/C
Mr. Xu Shui Shen	A/C
Mr. Xu Da Zuo	A/C
Mr. Xu Chun Man	A/B/C
Mr. Sze Wong Kim	A/C
Mr. Hui Ching Chi	A/C
Mr. Loo Hong Shing Vincent	A/C
INDEPENDENT NON-EXECUTIVE DIRECTORS	
Mr. Chan Henry	A/C
Mr. Wang Ming Fu	A/B/C
Ms. Ada Ying Kay Wong	A/B/C
Mr. Ho Kwai Ching Mark	A/C
Mr. Zhou Fang Sheng	A/B/C

A: attending seminars and/or conferences and/or forums
B: giving talks at seminars and/or conferences and/or forums
C: reading newspapers, journals and updates relating to the economy, general business, retails or director's duties and responsibilities, etc.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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

REMUNERATION COMMITTEE

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

Mr. Hui Lin Chit *(Chief Executive Officer)*
Mr. Chan Henry *(Independent Non-executive Director) — Chairman of the Committee*
Mr. Wang Ming Fu *(Independent Non-executive Director)*
Ms. Ada Ying Kay Wong *(Independent Non-executive Director)*
Mr. Ho Kwai Ching Mark *(Independent Non-executive Director)*
Mr. Zhou Fang Sheng *(Independent Non-executive Director)*

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

No Directors can determine their own remuneration package. The Committee will meet at least once a year to discharge its responsibilities in accordance with its terms of reference which are set out in accordance with the requirements of the Listing Rules. During the year ended 31 December 2014, two remuneration committee meetings were held.

Directors' emoluments comprise payments to Directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The amounts paid to each Director of the Company for 2014 are showed in Note 13 to the accounts.

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

— reviewed the Group's remuneration policy and made recommendations to the Board; and

— reviewed and approved the proposed 2014 overall salary increment of the Group.

AUDIT COMMITTEE

The Audit Committee was formed to review and supervise the financial reporting process and internal controls of the Company. The Audit Committee comprises five Independent Non-executive Directors and one of whom possesses the appropriate business and financial experience and skills to understand the accounts of the Group. The Committee is chaired by Ms. Ada Ying Kay Wong and other members are Mr. Wang Ming Fu, Mr. Chan Henry, Mr. Ho Kwai Ching Mark and Mr. Zhou Fang Sheng.

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

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

— met with the external auditor to discuss the general scope and findings of their annual audit and interim review work;

— reviewed and recommended to the Board for approval of the external auditor's remuneration;

— made recommendations to the Board on the re-appointment of the external auditor;

— reviewed the external auditor's independence, objectivity and the effectiveness of the audit process;

— reviewed the annual and interim reports and annual and interim announcements of the Company;

— discussed on auditing, internal control, risk management and financial reporting matters before recommending them to the Board for approval; and

— reviewed the connected transactions entered into by the Group.

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

NOMINATION COMMITTEE

The principal role of nomination committee of the Company ("Nomination Committee") is to make recommendations to the Board on the appointment of board member, the structure, size and composition of the Board, and to review the independence of the independent non-executive directors and the suitability of directors who will stand for re-election.

The Nomination Committee consists of a majority of Independent Non-executive Directors and its members are Mr. Sze Man Bok (Chairman of the Board), Mr. Hui Lin Chit (Chief Executive Officer), and all Independent Non-executive Directors, Mr. Wang Ming Fu (Chairman of the Nomination Committee), Mr. Chan Henry, Ms. Ada Ying Kay Wong, Mr. Ho Kwai Ching Mark and Mr. Zhou Fang Sheng.

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

(i) reviewed the structure, size and composition of the Board, considering *inter alia* the skills, knowledge, the breadth of expertise of the Board as a whole, and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(ii) assess the independence of Independent Non-executive Directors and confirmed that all independent non-executive directors are considered independent; and

(iii) made recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

In accordance with Article 116 of the Articles of Association of the Company, Mr. Hung Ching Shan, Mr. Xu Shui Shen, Mr. Xu Da Zuo, Mr. Sze Wong Kim and Mr. Loo Hong Shing, Vincent will retire office at the Company's annual general meeting, and being eligible, offer themselves for reelection.

Directors' attendance at the Board, Remuneration Committee, Nomination Committee, Audit Committee and general meetings in 2014:

	Attendance/Number of Meetings Held				
Directors	**Full Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee Meeting**	**Nomination Committee Meeting**	**Annual General Meeting**
Executive Directors					
Mr. Sze Man Bok *(Chairman)*	4/4	N/A	N/A	1/1	1/1
Mr. Hui Lin Chit *(Vice-chairman and Chief Executive Officer)*	4/4	N/A	2/2	1/1	0/1
Mr. Hung Ching Shan	4/4	N/A	N/A	N/A	1/1
Mr. Xu Shui Shen	4/4	N/A	N/A	N/A	0/1
Mr. Xu Da Zuo	4/4	N/A	N/A	N/A	0/1
Mr. Xu Chun Man	4/4	N/A	N/A	N/A	1/1
Mr. Sze Wong Kim	4/4	N/A	N/A	N/A	1/1
Mr. Hui Ching Chi	4/4	N/A	N/A	N/A	0/1
Mr. Loo Hong Shing Vincent	4/4	2/2*	2/2*	1/1*	1/1
Independent Non-executive Directors					
Mr. Chan, Henry	4/4	2/2	2/2	1/1	1/1
Ms. Ada Ying Kay Wong	4/4	2/2	2/2	1/1	1/1
Mr. Wang Ming Fu	4/4	1/2	2/2	1/1	0/1
Mr. Ho Kwai Ching, Mark	4/4	2/2	2/2	1/1	1/1
Mr. Zhou Fang Sheng	4/4	2/2	2/2	1/1	0/1

During the year, the Chairman of the Company has held a meeting with Independent Non-executive Directors without the presence of the Executive Directors.

The Company's external auditor also attended the annual general meeting.

* Being the secretary of the meetings.

AUDITOR'S REMUNERATION

The Group was charged approximately HK$6,562,000 and HK$666,000 by the Company's external auditor, PricewaterhouseCoopers, for auditing and non-auditing services respectively for the year ended 31 December 2014. Non-auditing services mainly included services provided for tax advisory services and professional services in accordance with the Hong Kong Standard on Related services 4400 "Engagement to Perform Agreed-Upon Procedures Regarding Financial Information" for continuing connected transaction on sample basis and preliminary announcements of results provided during the year. The Audit Committee is of the view that the auditors' independence is not affected by the services rendered.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

INTERNAL CONTROLS

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

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

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

In 2014, the internal audit department of the Group had performed a review to ensure that the recommendations made by the independent international accounting firm, Booz & Company and HMCT had been implemented accordingly and proper internal control policies, procedures and practices were in place.

INVESTOR RELATIONS

(i) Communication with Shareholders

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

Shareholders can make any query in respect of the Company or to make a request for the Company's information to the extent such information is publicly available. The designated contact details are as follows:

By post: Hengan International Group Company Limited
Unit 2101D, 21/F., Admiralty Centre,
Tower I, 18 Harcourt Road, Hong Kong
By fax: (852) 2799 7372

Shareholders' questions about their shareholdings should be directed to Tricor Abacus Limited, the Company's branch share registrar, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(ii) Procedures for Shareholders to Convene an Extraordinary General Meeting ("EGM")

Pursuant to the Article 72 of Articles of Association of the Company, the Board shall, on the requisition of the members of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the company of the Company, forthwith proceed duly to convene an EGM of the Company.

The requisition must state the objects of the meeting, and must be signed by the requisitionists and deposited at the Company's principal place of business in Hong Kong, and may consist of several documents in like form, each signed by one or more requisitionists.

If the Board do not within 21 days from the date of the deposit of the requisition proceed duly to convene the meeting, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of 3 months from the said date. A meeting convened under this Article by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Board. Any reasonable expenses incurred by the requisitionists by reason of the failure of the Board duly to convene a meeting shall be repaid to the requisitionists by the Company.

(iii) Procedures for Putting forward Proposals at a General Meeting

Shareholders are welcomed to suggest proposals to be discussed at shareholders' meeting. Proposal shall be sent to the Company Secretary of the Company by written requisition. Pursuant to the articles of association of the Company, Shareholders who wish to put forward a Proposal should convene an extraordinary general meeting by following the procedures set out in "Procedures for Shareholders to Convene an Extraordinary General Meeting".

(iv) Procedures for Proposing a Person for Election as a Director

As regards the Procedure for proposing a person for election as a Director, please refer to the Procedures made available under the "Corporate Governance" section of the Company's website at www.hengan.com.

CONSTITUTIONAL DOCUMENTS

An updated version of the Company's Memorandum of Association and Articles of Association are available on both the websites of the Company and the Stock Exchange.

EMPLOYEES

The Group has employees of different ethnic groups, genders, ages and religious beliefs, and insist on the employment principles of equality, justice and openness, to ensure all employees can enjoy equal opportunities and fair treatment. The Group provides attractive welfares and multi-channel remuneration and promotion opportunities to employees, and also launches share option schemes to let the employees grow together with the enterprise. Hengan Group was honored "National Employment Advanced Unit" by the State Council of China, which indicated the contributions made by the Group in this respect.

WORKING ENVIRONMENT, HEALTH AND SAFETY

The Group dedicates to providing a healthy, safe and comfortable working environment for all employees. Apart from following national policies and systems, the Group also formulates corresponding internal systems to ensure the health and safety of all employees. Safety teams are established in many operation companies to provide training in safety regulations, purchase suitable tools for employees and arrange employees to do health examinations.

EMPLOYEE CULTIVATION AND DEVELOPMENT

The Group has formulated comprehensive talent training mechanism, various career development paths, and established the talent cultivation system covering posts in marketing, operation, management technique and other areas. The cultivation system has established a career ladder model and a structured training course system targeting the qualification requirements at different levels and positions.

The Group attaches great importance to the cultivation of professional managers and nurturing of successors, and has pushed the management personnel to proactively cultivate subordinates and create a studying atmosphere through the professional manager cultivation system, hereby effectively cultivating the professional managers and their successors. In 2014, the Group has 447 part-time trainers, lecturing 38,177 hours in total.

ENVIRONMENT PROTECTION AND RESOURCE UTILIZATION

Hengan dedicates to clean production and its several major tissue production bases use clean energy natural gas.

Through recycling and treatment of production wastage water generated during production process with advanced equipment and technologies, the Group has realized the recycling of water resource and reduced the use of fresh water. The water consumption per ton of raw paper is about one-third lower than the domestic average standard in the same industry. The tissue production bases are open for visit by primary and secondary schools as environment protection bases.

On gas emission, overseas advanced equipment has been employed in various production procedures to recover part of the wastage particulates generated during production process and minimize the emission to the fullest extent.

On power consumption, the Group dedicates to improving equipment efficiency and quality management in order to reduce power consumption.

SOCIAL RESPONSIBILITIES

The Group actively participates in social public commonweal work. Hengan has established many companies in Central and Western China since 1990s, which provided employment opportunities to over ten thousand people. Moreover, during the past two decades, the Group and its major shareholders had donated a total of over RMB600 million to all kinds of commonweal works and charities. The Group has also donated about HK$1,783,000 in 2014. The Company set up a youth volunteer service team in 2011, which has 181 volunteers so far, and develops voluntary activities for long term.

Report of the Directors

The Directors have pleasure in presenting herewith their report together with the audited accounts of the Group for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

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

	2014		2013	
	Revenue HK$'000	**Contribution to operating profit HK$'000**	Revenue HK$'000	Contribution to operating profit HK$'000
Personal hygiene products				
— Sanitary napkins products	**7,427,740**	**3,132,616**	5,972,695	2,534,753
— Disposable diapers products	**3,094,573**	**540,592**	2,938,186	605,879
— Tissue paper products	**10,857,293**	**892,683**	10,204,020	1,142,008
Food and snacks products	**1,534,749**	**115,091**	1,604,655	116,841
Others	**916,423**	**815**	466,812	4,141
	23,830,778	**4,681,797**	21,186,368	4,403,622

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

	2014		2013	
	Revenue HK$ million	**Percentage of total revenue (%)**	Revenue HK$ million	Percentage of total revenue (%)
PRC				
Fujian and Guangdong	**4,404**	**18.5**	3,629	17.1
North-western	**1,346**	**5.7**	1,247	5.9
South-western	**1,269**	**5.3**	1,086	5.1
Sichuan	**2,013**	**8.4**	1,898	9.0
North-eastern	**1,471**	**6.2**	1,445	6.8
Northern	**2,513**	**10.5**	2,496	11.8
Shandong	**2,438**	**10.2**	2,143	10.1
Eastern	**3,542**	**14.9**	3,248	15.3
Central	**2,940**	**12.3**	2,618	12.4
Overseas	**1,895**	**8.0**	1,376	6.5
	23,831	**100**	21,186	100

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 41.

The Directors declared an interim dividend of HK$0.85 (2013: HK$0.85) per ordinary share, totalling HK$1,042,779,000 (2013: HK$1,046,677,000), which was paid on 14 October 2014.

The Directors recommend the payment of a final dividend of HK$1.15 (2013: HK$1.00) per ordinary share, totalling HK$1,408,042,000 (2013: HK$1,231,385,000). Such dividend is to be approved by shareholders of the Company at the annual general meeting to be held on 19 May 2015.

RESERVES

Details of the movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 47.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK$1,783,000 (2013: HK$15,261,000).

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution comprise the share premium account and retained earnings. At 31 December 2014, the reserves of the Company available for distribution to shareholders amounted to HK$1,554,039,000 (2013: HK$1,706,517,000), subject to the restrictions stated in Note 29 to the accounts.

FIVE-YEAR FINANCIAL SUMMARY

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

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2014, the Company repurchased a total of 7,000,000 ordinary shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of approximately HK$547,031,000 (excluding expenses) for enhancing its per share net asset value and earnings. All the repurchased shares were subsequently cancelled. Details of the repurchase of shares are summarized as follows:

Date of repurchase	Number of shares repurchased	Highest price paid HK$	Lowest price paid HK$
28 March 2014	500,000	79.95	78.35
31 March 2014	280,000	79.95	78.65
7 May 2014	100,000	79.95	79.60
8 May 2014	171,000	79.75	78.30
9 May 2014	2,100,000	79.50	78.05
16 June 2014	200,000	79.00	78.95
17 June 2014	500,000	78.95	78.70
18 June 2014	485,500	78.70	78.00
19 June 2014	200,000	78.95	78.80
23 June 2014	49,000	78.75	78.70
22 September 2014	150,000	78.65	77.80
23 September 2014	150,000	78.55	78.10
26 September 2014	450,000	78.00	77.15
29 September 2014	770,000	76.75	76.25
30 September 2014	260,000	76.55	75.00
3 October 2014	118,500	75.80	74.45
6 October 2014	162,000	76.80	75.75
7 October 2014	35,000	76.35	75.85
8 October 2014	200,000	77.00	76.65
10 October 2014	119,000	76.90	76.65
	7,000,000		

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2014.

DIRECTORS

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

Executive Directors
Mr. Sze Man Bok
Mr. Hui Lin Chit
Mr. Hung Ching Shan
Mr. Xu Shui Shen
Mr. Xu Da Zuo
Mr. Xu Chun Man
Mr. Sze Wong Kim
Mr. Hui Ching Chi
Mr. Loo Hong Shing Vincent

Independent Non-Executive Directors
Mr. Chan Henry
Mr. Wang Ming Fu
Ms. Ada Ying Kay Wong
Mr. Ho Kwai Ching Mark
Mr. Zhou Fang Sheng

In accordance with Article 116 of the Company's Articles of Association, Mr. Hung Ching Shan, Mr. Xu Shui Shen, Mr. Xu Da Zuo, Mr. Sze Wong Kim and Mr. Loo Hong Shing Vincent retire, and being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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

Independent Non-Executive Directors were appointed for a 3-year term. The letters of appointment of Mr. Chan Henry and Ms. Ada Ying Kay Wong shall expire on 15 December 2017, while Mr. Wang Ming Fu, Mr. Ho Kwai Ching Mark and Mr. Zhou Fang Sheng shall expiry on 31 December 2015.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and senior management are set out on pages 16 to 19.

DIRECTORS' INTERESTS IN CONTRACTS

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

CONTINUING CONNECTED TRANSACTIONS

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

	2014 **HK$'000**	2013 HK$'000
Purchases from Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power")		
— Electricity energy	**131,673**	158,589
— Heat energy	**83,839**	101,631

Pursuant to agreements entered between a wholly-owned subsidiary of the Company and Weifang Power, an electricity generation company, the Group purchased electricity and heat energy from Weifang Power at prices not less favorable than the prevailing market prices. Weifang Power is beneficially owned by Mr. Sze Wong Kim, an executive director of the Company, and a son of Mr. Hui Lin Chit, an executive director and a substantial shareholder of the Company.

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

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in page 104 of the Annual Report in accordance with paragraph 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

COMPANY OR ANY ASSOCIATED CORPORATION

At 31 December 2014, the interests of each Director in the shares, short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO and disclosed in accordance with the Listing Rules were as follows:

	Capacity/Nature of Interest Number of shares		Number of unlisted shares (Note (1))		
Name of Directors	Personal interests/ Beneficiary	Family interests	Personal interests/ Beneficiary	Total	Approximate percentage of shareholding
Mr. Sze Man Bok (Note (2))	228,804,599	–	20,000	228,824,599	18.69%
Mr. Hui Lin Chit (Note (3))	224,669,751	–	148,000	224,817,751	18.36%
Mr. Hung Ching Shan (Note (4))	7,000,000	–	20,000	7,020,000	0.57%
Mr. Xu Shui Shen	–	33,030	180,000	213,030	0.02%
Mr. Xu Da Zuo (Notes (5))	19,777,321	–	108,000	19,885,321	1.62%
Mr. Xu Chun Man (Note (6))	14,915,621	–	20,000	14,935,621	1.22%
Mr. Sze Wong Kim	151,700	–	20,000	171,700	0.01%
Mr. Hui Ching Chi	40,000	–	20,000	60,000	0.01%
Mr. Loo Hong Shing Vincent	125,000	–	140,000	265,000	0.02%

Notes:

(1) Unlisted shares represent share options granted to Directors pursuant to share option scheme of the Company and details of which are set out on pages 34 to 37.

(2) Out of the 228,804,599 ordinary shares, Tin Lee Investments Limited ("Tin Lee") held 228,228,999 ordinary shares while Mr. Sze had personal interests in 575,600 ordinary shares in the Company. Tin Lee is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Tin Wing Holdings Limited ("Tin Wing"). Tin Wing is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse Trust Limited ("Credit Suisse"), the trustee of the Sze's Family Trust. Mr. Sze Man Bok is the settlor and beneficiary of the Sze's Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Sze's Family Trust in the Company.

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

(4) Wan Li Company Limited held 7,000,000 shares in the Company. It is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Manley Investments Limited ("Manley"). Manley is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse, the trustee of the Wan Li Trust. Mr. Hung Ching Shan is the settlor and beneficiary of the Wan Li Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Wan Li Trust in the Company.

(5) Out of the 19,777,321 listed ordinary shares, Skyful Holdings Limited held 17,270,000 shares in the Company. It is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Charter Towers Limited ("Charter Towers"). Charter Towers is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse, the trustee of the Xu Family Trust. Mr. Xu Da Zuo is the settlor and beneficiary of the Xu Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Xu Family Trust in the Company. The remaining 2,507,321 shares were held by Hengan International Investments Limited ("HIIL"), a nominee company holding shares of the Company on behalf of certain Directors and senior management of the Group and their family members.

(6) Out of the 14,915,621 ordinary shares, Zhong Shen Holdings Limited holds 11,700,000 shares in the Company. It is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Zhong Shen Limited ("Zhong Shen"). Zhong Shen is a company incorporated in the British Virgin Islands and owned by HSBC International Trustee Limited as nominee and being the trustee of Zhong Shen Trust. Mr. Xu Chun Man is the settlor and beneficiary of Zhong Shen Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of Zhong Shen Trust in the Company. The remaining 3,215,621 shares are held by HIIL.

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

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

SHARE OPTION SCHEMES

(1) The terms of the share option scheme of the Company adopted on 26 May 2011 (the "Scheme") are summarised as follows:

(i) Purpose of the Scheme

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

(ii) Eligible Persons

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

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

(iii) Subscription Prices

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

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

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

(c) the nominal value of a share.

(iv) Maximum Number of Shares Available for Issue

The maximum number of shares available for issue after considering the share options already granted under the Scheme are 107,755,872, which are not more than 10% of the issued share capital of the Company as at the date of the approval of the Scheme.

(v) Maximum Entitlement of Each Participant

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

(vi) Time on Exercise of Options

An option may be exercised in accordance with the terms of the Scheme and the offer of the grant of an option at any time commencing on the date of grant and expiring on such date as determined by the Board provided that the option may not be exercised after the expiration of 10 years from the date of grant.

(vii) Acceptance of Offer

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

(viii) Remaining Life of the Scheme

The Scheme will remain in force before 26 May 2021.

(2) Details of movements in the share options as at 31 December 2014 which have been granted under the Scheme are as follows:

Eligible person	Number of share options						Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
	Balance as at 01/01/2014	Granted during the year	Exercised during the year	Reclassified during the year	Cancelled or lapsed during the year	Balance as at 31/12/2014			
Directors									
Mr. Sze Man Bok	10,000	–	–	–	–	10,000	72.75	27/07/2012	28/07/2015–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2016–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Hui Lin Chit	74,000	–	–	–	–	74,000	72.75	27/07/2012	28/07/2015–27/07/2022
	37,000	–	–	–	–	37,000	72.75	27/07/2012	28/07/2016–27/07/2022
	37,000	–	–	–	–	37,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Xu Shui Shen	10,000	–	–	–	–	10,000	68.30	28/07/2011	28/07/2014–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2015–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2016–27/07/2021
	80,000	–	–	–	–	80,000	72.75	27/07/2012	28/07/2015–27/07/2022
	40,000	–	–	–	–	40,000	72.75	27/07/2012	28/07/2016–27/07/2022
	40,000	–	–	–	–	40,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Hung Ching Shan	10,000	–	–	–	–	10,000	72.75	27/07/2012	28/07/2015–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2016–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2017–27/07/2022

Eligible person	Number of share options						Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
	Balance as at 01/01/2014	Granted during the year	Exercised during the year	Reclassified during the year	Cancelled or lapsed during the year	Balance as at 31/12/2014			
Directors									
Mr. Xu Da Zuo	54,000	–	–	–	–	54,000	72.75	27/07/2012	28/07/2015–27/07/2022
	27,000	–	–	–	–	27,000	72.75	27/07/2012	28/07/2016–27/07/2022
	27,000	–	–	–	–	27,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Xu Chun Man	10,000	–	–	–	–	10,000	72.75	27/07/2012	28/07/2015–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2016–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Sze Wong Kim	10,000	–	–	–	–	10,000	68.30	28/07/2011	28/07/2014–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2015–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2016–27/07/2021
Mr. Hui Ching Chi	10,000	–	–	–	–	10,000	68.30	28/07/2011	28/07/2014–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2015–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2016–27/07/2021
Mr. Loo Hong Shing Vincent	70,000	–	–	–	–	70,000	72.75	27/07/2012	28/ 07/2015–27/07/2022
	35,000	–	–	–	–	35,000	72.75	27/07/2012	28/07/2016–27/07/2022
	35,000	–	–	–	–	35,000	72.75	27/07/2012	28/07/2017–27/07/2022

Eligible person	Number of share options						Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
	Balance as at 01/01/2014	Granted during the year	Exercised during the year	Reclassified during the year	Cancelled or lapsed during the year	Balance as at 31/12/2014			
Participants	1,262,000	–	–	–	(24,000)	1,238,000	68.30	28/07/2011	28/07/2014–27/07/2021
	631,000	–	–	–	(12,000)	619,000	68.30	28/07/2011	28/07/2015–27/07/2021
	631,000	–	–	–	(12,000)	619,000	68.30	28/07/2011	28/07/2016–27/07/2021
	5,571,000	–	–	–	–	5,571,000	72.75	27/07/2012	28/07/2015–27/07/2022
	2,785,500	–	–	–	–	2,785,500	72.75	27/07/2012	28/07/2016–27/07/2022
	2,785,500	–	–	–	–	2,785,500	72.75	27/07/2012	28/07/2017–27/07/2022
	14,342,000	–	–	–	(48,000)	14,294,000			

No options lapsed during the year.

The Company has used the Binomial Model for assessing the fair value of the share options granted. It is an appropriate model to estimate the fair value of an option that can be exercised before the expiry of the option period. The assumptions adopted in the calculation are:

	Options granted in 2011 to Directors	Options granted in 2011 to employees	Options granted in 2012 to Directors	Options granted in 2012 to employees
Risk free rate	2.3% per annum	2.3% per annum	0.8% per annum	0.8% per annum
Expected volatility	33.3% per annum	33.3% per annum	32.5% per annum	32.5% per annum
Expected dividend yield	2.0% per annum	2.0% per annum	1.8% per annum	1.8% per annum
Trigger price multiple	2.2 times	1.6 times	2.2 times	1.6 times
Expected turnover rate	5.8% per annum	14.7% per annum	4.8% per annum	27.1% per annum

According to the Binomial Model, the fair value of the options granted, which had been charged to the profit and loss account for the year ended 31 December 2014, amounted to HK$77,212,000 (2013: HK$81,441,000) and the remaining unamortised fair value of approximately HK$83,636,000 will be charged to the consolidated income statement in the future years.

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

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

The register of substantial shareholders maintained under section 336 of part XV of the SFO shows that as at 31 December 2014, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

Name of Shareholder	*Note*	Capacity	Number of ordinary shares beneficially held	Approximate percentage of shareholding
Tin Lee Investments Limited	*(1)*	Beneficial owner	228,228,999 (L)	18.64%
Tin Wing Holdings Limited	*(1)*	Interests of controlled corporation	228,228,999 (L)	18.64%
An Ping Holdings Limited	*(2)*	Beneficial owner	224,669,751 (L)	18.35%
An Ping Investments Limited	*(2)*	Interests of controlled corporation	224,669,751 (L)	18.35%
Serangoon Limited	*(1), (2) & (3)*	Interests of controlled corporation	487,168,750 (L)	39.79%
Seletar Limited	*(1), (2) & (3)*	Interests of controlled corporation	487,168,750 (L)	39.79%
Credit Suisse Trust Limited	*(3)*	Trustee	487,168,750 (L)	39.79%

(L) denotes long position *(S) denotes short position*

Notes:

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

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

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

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

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

— the largest supplier	7.4%
— five largest suppliers combined	27.0%

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at 24 March 2015.

PRE-EMPTIVE RIGHTS

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

AUDITOR

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Sze Man Bok
Chairman

Hong Kong, 24 March 2015

Independent Auditor's Report

pwc 羅兵咸永道

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

We have audited the consolidated financial statements of Hengan International Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 41 to 112, which comprise the consolidated and company balance sheets as at 31 December 2014 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2015

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
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Consolidated Income Statement

For the year ended 31 December 2014

	Note	Year ended 31 December 2014 HK$'000	2013 HK$'000
Revenue	5	**23,830,778**	21,186,368
Cost of goods sold	7	**(12,842,802)**	(11,626,908)
Gross profit		**10,987,976**	9,559,460
Other income and other gains – net	6	**1,164,078**	776,472
Distribution costs	7	**(4,840,381)**	(3,886,428)
Administrative expenses	7	**(1,561,615)**	(1,361,656)
Operating profit		**5,750,058**	5,087,848
Finance income	8	**232,353**	291,615
Finance costs	8	**(639,525)**	(363,992)
Finance costs – net		**(407,172)**	(72,377)
Profit before income tax		**5,342,886**	5,015,471
Income tax expense	9	**(1,368,716)**	(1,244,889)
Profit for the year		**3,974,170**	3,770,582
Profit attributable to:			
Shareholders of the Company	30	**3,915,818**	3,721,031
Non-controlling interests		**58,352**	49,551
		3,974,170	3,770,582
Earnings per share for profit attributable to shareholders of the Company			
– Basic	11	**HK$3.188**	HK$3.024
– Diluted	11	**HK$3.184**	HK$3.021

The notes on pages 49 to 112 are an integral part of the consolidated financial statements.

	Note	Year ended 31 December 2014 HK$'000	2013 HK$'000
Dividends	12	**2,450,821**	2,278,062

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

	Year ended 31 December	
	2014	2013
	HK$'000	HK$'000
Profit for the year	**3,974,170**	3,770,582
Other comprehensive income		
Items that may be reclassified to profit or loss		
– Currency translation differences	**(72,150)**	600,526
Total comprehensive income for the year	**3,902,020**	4,371,108
Attributable to:		
Shareholders of the Company	**3,844,876**	4,311,186
Non-controlling interests	**57,144**	59,922
Total comprehensive income for the year	**3,902,020**	4,371,108

The notes on pages 49 to 112 are an integral part of the consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2014

	Note	As at 31 December 2014 HK$'000	2013 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**8,861,823**	8,627,200
Construction-in-progress	16	**1,383,631**	1,204,372
Investment properties	15	**238,994**	–
Land use rights	17	**1,112,353**	1,105,298
Intangible assets	18	**603,522**	581,150
Prepayments for non-current assets	19	**356,534**	379,463
Deferred income tax assets	33	**217,229**	157,511
Long-term bank deposits	26	**1,096,463**	814,042
		13,870,549	12,869,036
Current assets			
Inventories	22	**3,694,833**	4,385,909
Trade and bills receivables	23	**2,455,109**	2,184,484
Other receivables, prepayments and deposits	23	**1,219,729**	1,127,031
Restricted bank deposits		**39,700**	60,044
Cash and bank balances	26	**21,296,676**	19,563,983
		28,706,047	27,321,451
Total assets		**42,576,596**	40,190,487
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the company			
Share capital	27	**122,438**	123,138
Other reserves	29	**4,815,132**	4,521,293
Retained earnings	30		
– Proposed final dividend	12	**1,408,042**	1,231,385
– Unappropriated retained earnings		**11,292,028**	10,657,780
		17,637,640	16,533,596
Non-controlling interests		**425,419**	385,070
Total equity		**18,063,059**	16,918,666

The notes on pages 49 to 112 are an integral part of the consolidated financial statements.

As at 31 December 2014

	Note	As at 31 December 2014 HK$'000	2013 HK$'000
LIABILITIES			
Non-current liabilities			
Bank borrowings	*31*	**–**	959,643
Convertible bonds	*32*	**5,390,267**	5,227,130
Deferred income tax liabilities	*33*	**136,855**	169,146
Deferred income on government grants		**–**	929
		5,527,122	6,356,848
Current liabilities			
Trade payables	*34*	**2,299,705**	2,096,990
Other payables and accrued charges	*34*	**1,431,641**	1,271,912
Derivative financial instruments	*25*	**–**	39,727
Current income tax liabilities		**90,682**	273,430
Bank borrowings	*31*	**15,164,387**	13,232,914
		18,986,415	16,914,973
Total liabilities		**24,513,537**	23,271,821
Total equity and liabilities		**42,576,596**	40,190,487
Net current assets		**9,719,632**	10,406,478
Total assets less current liabilities		**23,590,181**	23,275,514

The notes on pages 49 to 112 are an integral part of the consolidated financial statements.

The financial statements on pages 41 to 112 were approved by the Board of Directors on 24 March 2015 and were signed on its behalf.

Director
Sze Man Bok

Director
Hui Lin Chit

Company Balance Sheet

As at 31 December 2014

	Note	As at 31 December 2014 HK$'000	2013 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	*20*	**6,433,639**	6,356,355
Current assets			
Amounts due from subsidiaries	*24*	**7,741,259**	5,911,261
Other receivables, prepayments and deposits	*23*	**338**	1,480
Inventories	*22*	**–**	11,695
Cash and bank balances	*26*	**21,172**	735,850
		7,762,769	6,660,286
Total assets		**14,196,408**	13,016,641
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the company			
Share capital	*27*	**122,438**	123,138
Other reserves	*29*	**457,788**	513,932
Retained earnings	*30*		
– Proposed final dividend	*12*	**1,408,042**	1,231,385
– Unappropriated retained earnings		**78,702**	274,481
Total equity		**2,066,970**	2,142,936

The notes on pages 49 to 112 are an integral part of the consolidated financial statements.

As at 31 December 2014

	Note	As at 31 December 2014 HK$'000	2013 HK$'000
LIABILITIES			
Non-current liabilities			
Bank borrowings	*31*	**–**	250,000
Convertible bonds	*32*	**5,390,267**	5,227,130
Amounts due to subsidiaries	*24*	**4,999,001**	3,417,334
		10,389,268	8,894,464
Current liabilities			
Trade payables	*34*	**11,966**	18,904
Other payables and accrued charges	*34*	**10,481**	4,063
Amounts due to subsidiaries	*24*	**1,323**	874
Bank borrowings	*31*	**1,716,400**	1,955,400
		1,740,170	1,979,241
Total liabilities		**12,129,438**	10,873,705
Total equity and liabilities		**14,196,408**	13,016,641
Net current assets		**6,022,599**	4,681,045
Total assets less current liabilities		**12,456,238**	11,037,400

The notes on pages 49 to 112 are an integral part of the financial statements.

The financial statements on pages 41 to 112 were approved by the Board of Directors on 24 March 2015 and were signed on its behalf.

Director
Sze Man Bok

Director
Hui Lin Chit

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Note	Attributable to the Company's shareholders					
		Share capital HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2013		122,903	3,220,065	10,735,224	14,078,192	330,048	14,408,240
Profit for the year		–	–	3,721,031	3,721,031	49,551	3,770,582
Currency translation differences	*29(c)*	–	590,155	–	590,155	10,371	600,526
Total comprehensive income		–	590,155	3,721,031	4,311,186	59,922	4,371,108
Transactions with owners:							
2012 final dividends paid	*12*	–	–	(1,169,815)	(1,169,815)	(4,900)	(1,174,715)
2013 interim dividends paid	*12*	–	–	(1,046,677)	(1,046,677)	–	(1,046,677)
Share-based compensation							
– value of employee services	*27,28*	–	81,441	–	81,441	–	81,441
– proceeds from shares issued	*27,28*	235	102,469	–	102,704	–	102,704
Convertible bonds							
– equity component	*32*	–	176,565	–	176,565	–	176,565
Total of transactions with owners		235	360,475	(2,216,492)	(1,855,782)	(4,900)	(1,860,682)
Appropriation to statutory reserves	*29(b)*	–	350,598	(350,598)	–	–	–
Balance at 31 December 2013		123,138	4,521,293	11,889,165	16,533,596	385,070	16,918,666
Balance at 1 January 2014		**123,138**	**4,521,293**	**11,889,165**	**16,533,596**	**385,070**	**16,918,666**
Profit for the year		**–**	**–**	**3,915,818**	**3,915,818**	**58,352**	**3,974,170**
Currency translation differences	*29(c)*	**–**	**(70,942)**	**–**	**(70,942)**	**(1,208)**	**(72,150)**
Total comprehensive income		**–**	**(70,942)**	**3,915,818**	**3,844,876**	**57,144**	**3,902,020**
Transactions with owners:							
2013 final dividends paid	*12*	**–**	**–**	**(1,228,234)**	**(1,228,234)**	**(19,135)**	**(1,247,369)**
2014 interim dividends paid	*12*	**–**	**–**	**(1,042,779)**	**(1,042,779)**	**–**	**(1,042,779)**
Share-based compensation							
– value of employee services	*27,28*	**–**	**77,212**	**–**	**77,212**	**–**	**77,212**
Buy-back of shares	*27*	**(700)**	**(133,356)**	**(412,975)**	**(547,031)**	**–**	**(547,031)**
Capital contribution by non-controlling interests		**–**	**–**	**–**	**–**	**2,340**	**2,340**
Total of transactions with owners		**(700)**	**(56,144)**	**(2,683,988)**	**(2,740,832)**	**(16,795)**	**(2,757,627)**
Appropriation to statutory reserves	*29(b)*	**–**	**420,925**	**(420,925)**	**–**	**–**	**–**
Balance at 31 December 2014		**122,438**	**4,815,132**	**12,700,070**	**17,637,640**	**425,419**	**18,063,059**

The notes on pages 49 to 112 are an integral part of the consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2014

	Note	Year ended 31 December 2014 HK$'000	2013 HK$'000
Cash flows from operating activities			
Cash generated from operations	*35(a)*	**6,669,241**	5,219,674
Income tax paid		**(1,641,230)**	(1,354,717)
Net cash generated from operating activities		**5,028,011**	3,864,957
Cash flows from investing activities			
Purchase of property, plant and equipment, including additions of construction-in-progress		**(1,577,532)**	(1,337,469)
Additions of land use rights		**(82,909)**	(69,682)
Purchase of intangible assets		**(35,260)**	(30)
Proceeds from disposal of property, plant and equipment and land use rights	*35(b)*	**257,444**	12,626
Decrease in restricted bank deposits		**20,050**	4,387
Increase in long-term and short-term bank deposits		**(1,689,470)**	(4,148,478)
Interest received		**772,513**	320,622
Net cash used in investing activities		**(2,335,164)**	(5,218,024)
Cash flows from financing activities			
Proceeds from capital contribution by non-controlling interests		**2,340**	–
Proceeds from bank borrowings		**15,767,251**	15,417,882
Repayment of bank borrowings		**(14,910,530)**	(12,409,891)
Proceeds from issuance of convertible bonds, net off issuing expenses		**–**	5,323,987
Buy-back of shares		**(547,031)**	–
Interest paid		**(341,306)**	(315,885)
Dividends paid		**(2,271,013)**	(2,216,492)
Dividends paid to non-controlling interests		**(30,717)**	(3,654)
Proceeds from shares issued under the employee share option scheme		**–**	102,704
Net cash (used in)/generated from financing activities		**(2,331,006)**	5,898,651
Net increase in cash and cash equivalents		**361,841**	4,545,584
Cash and cash equivalents at 1 January	*26*	**10,711,251**	6,098,604
Effect of foreign exchange rate changes		**(10,608)**	67,063
Cash and cash equivalents at 31 December	*26*	**11,062,484**	10,711,251

The notes on pages 49 to 112 are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

1 GENERAL INFORMATION

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

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, British West Indies.

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

These consolidated financial statements of the Group are presented in Hong Kong dollars ("HK$"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of Preparation

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

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

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

(i) New and amended standards adopted by the Group

The following new standards and amendments to standards relevant to the Group are mandatory adopted for the first time for the financial year beginning on 1 January 2014:

- Amendment to HKAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The Group assessed the adoption of this standard and concluded that it did not have a significant impact on the Group's results and financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of Preparation *(continued)*

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

- Amendments to HKAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in HKAS 36 by the issue of HKFRS 13. It also enhanced the disclosures of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The Group assessed the adoption of this standard and concluded that it did not have a significant impact on the Group's results and financial position, except that certain new disclosures are introduced.

- HK (IFRIC) 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of HKAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to the payment a levy and when a liability should be recognised. The Group assessed the adoption of this standard and concluded that it did not have a significant impact on the Group's results and financial position.

- Annual improvements 2012 include changes from the 2010-2012 cycle of the annual improvements project, that affect 7 standards, only the below are effective for relevant transactions on or after 1 July 2014:

  Amendment to HKFRS 2 clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition'.

  Amendments to HKFRS 3 'Business combinations', and consequential amendments to HKFRS 9 'Financial instruments', HKAS 37 'Provisions, contingent liabilities and contingent assets', and HKAS 39 'Financial instruments – Recognition and measurement' clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in HKAS 32 'Financial instruments: Presentation'. All non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss.

  The Group assessed the adoption of this standard and concluded that it did not have a significant impact on the Group's results and financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of Preparation *(continued)*

(ii) New and amended standards that might be relevant to the Group have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted

A number of new standards and amendments to standards and interpretations are not effective for annual periods beginning after 1 January 2014, and have not been early adopted in preparing these consolidated financial statements. The Group has started assessing the full impact of the amendments and standards and intents to adopt the amendments no later than the respective effective dates of the amendments. The new standards and amendments to standards and interpretations are set out below:

- Amendment to HKAS 19 regarding defined benefit plans, effective for annual periods beginning on or after 1 July 2014.
- Annual improvements 2012 that affect following standards: HKFRS 8 'Operating segments', HKAS 16 'Property, plant and equipment', HKAS 38 'Intangible assets' and HKAS 24 'Related Party Disclosures', effective for annual periods beginning on or after 1 July 2014.
- Annual improvements 2013 that affect following standards: HKFRS 3 ''Business combinations', HKFRS 13 'Fair value measurement' and HKAS 40 'Investment property', effective for annual periods beginning on or after 1 July 2014.
- Amendments to HKAS 16 and HKAS 38 on clarification of acceptable methods of depreciation and amortisation, effective for annual periods beginning on or after 1 January 2016.
- Amendment to HKAS 27 on equity method in separate financial statements, effective for annual periods beginning on or after 1 January 2016.
- Annual improvements 2014 that affect following standards: HKFRS 7 'Financial instruments: Disclosures', HKAS 19 'Employee benefits' and HKAS 34 'Interim financial reporting', effective for annual periods beginning on or after 1 January 2016.
- Amendments to HKAS 1 for the disclosure initiative, effective for annual periods beginning on or after 1 January 2016.
- HKFRS 15 'Revenue from Contracts with Customers', effective for annual periods beginning on or after 1 January 2017.
- HKFRS 9 'Financial Instruments', effective for annual periods beginning on or after 1 January 2018.

There are no other HKFRSs or HK (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of Preparation *(continued)*

(iii) New Hong Kong Companies Ordinance (Cap. 622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). It has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

(b) Subsidiaries

(i) Consolidation

A subsidiary is an entity (including a structured entity) 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.

(1) Business combinations

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.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

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 (Note2(h)). 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 consolidated income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Subsidiaries *(continued)*

(i) Consolidation (continued)

(2) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(3) Disposal of subsidiaries

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

(ii) Separate Financial Statements

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

(c) Segment Reporting

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

(d) Foreign Currency Translation

(i) Functional and Presentation Currency

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Foreign Currency Translation *(continued)*

(ii) Transactions and Balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income' and 'finance costs', where applicable. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other income and other gains – net'.

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

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

(iii) Group Companies

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

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

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

(3) all resulting currency translation 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Property, Plant and Equipment and Construction-in-Progress

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

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

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

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

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

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

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

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

(f) Investment Property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Investment Property *(continued)*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the period in which the item is derecognised.

(g) Land Use Rights

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

(h) Intangible Assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries represents 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 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 to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(ii) Patents and Trademarks

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

(iii) Customer Relationships

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

(iv) Computer Softwares

Computer softwares represent purchased softwares and are amortised over their estimated useful lives, which do not exceed 10 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Impairment of Investments in Subsidiaries and Non-Financial Assets

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

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

(j) Financial Assets

(i) Classification

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

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

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

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period and are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" (Note 23), "restricted bank deposits", "cash and bank balances" and "long-term bank deposits" (Note 26) in the balance sheet.

The Group's long-term bank deposits and short-term bank deposits are held as investments, hence the interest income arising from these long-term and short-term bank deposits is recognised within "other income and other gains – net" in the consolidated income statement. The interest income from cash and cash equivalents is recognised in "finance income" in the consolidated income statement.

(ii) Recognition and Measurement

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Financial Assets *(continued)*

(ii) Recognition and Measurement (continued)

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within 'other income and other gains – net', in the period in which they arise. Dividend income from 'financial assets at fair value through profit or loss' is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

(iii) Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(iv) Impairment of Financial Assets – Assets Carried at Amortised Cost

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Derivative Financial Instruments

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

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

(l) Inventories

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

(m) Trade, Bills and Other Receivables

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

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

(n) Cash and Cash Equivalents

In the consolidated cash flow statement, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments.

(o) 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.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Trade Payables

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

(q) Borrowings

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

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

(r) Borrowings Costs

General and specific borrowing costs 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.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(s) Compound Financial Instruments

Compound financial instruments issued by the Group comprise convertible bonds that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component, which is included in shareholders' equity in other reserves. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Liability component of a convertible instrument is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Compound Financial Instruments *(continued)*

When convertible bonds are early redeemed or repurchased in which the original conversion privileges are unchanged, the consideration paid and any transaction costs for the repurchase or redemption are allocated to the liability and equity components of the instrument at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the company when the convertible instrument was issued. The amount of gain or loss relating to the liability component is recognised in 'other income and other gains – net' in the consolidated income statement. The amount of consideration related to the equity component is recognised in equity.

(t) Current and Deferred Income Tax

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

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

(ii) Deferred Income Tax

(1) Inside Basis Differences

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

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

(2) Outside Basis Differences

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

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Current and Deferred Income Tax *(continued)*

(iii) 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.

(u) Employee Benefits

(i) Retirement Benefits

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

The Group also operates the mandatory provident fund scheme (the "MPF Scheme") for its Hong Kong staff. The MPF Scheme is a defined contribution retirement benefit scheme administered by independent trustees. Each of the employer and the employee has to contribute an amount equal to 5% of the relevant income of the employee to the MPF Scheme, subject to a cap of HK$1,500 per month. Contributions from the employer are vested in the employees as soon as they are paid to relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 subject to a few exceptions. The assets of the schemes are held separately from those of the Group in independently administered funds.

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

(ii) Share-based Compensation

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

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. 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. 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 vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) 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.

(w) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

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

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

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

(iv) Rental income from investment property is recognised in the consolidated income statement on a straight-line basis over the term of the lease.

(x) Government Grants

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) Leases

(i) Finance Leases by Lessor

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

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

(ii) Operating Leases

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

(z) Dividend Distribution

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

3 FINANCIAL RISK MANAGEMENT

(a) Financial Risk Factors

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

(i) Market Risk

(1) Foreign exchange risk

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

The Group considers the risk of movements in exchange rate between HK$ and US$ to be insignificant as HK$ and US$ are pegged. During the year ended 31 December 2014, the fluctuations in exchange rates between RMB (the functional currency of the majority of the Group's entities), US$ (the denomination currency of the majority of the Group's imports of raw materials and property, plant and equipment and bank borrowings) and HK$ (the denomination currency of bank borrowings) resulted in a total exchange loss of HK$132,264,000 (2013: total exchange gain of HK$279,186,000). The Group has never experienced any difficulties in getting sufficient foreign currencies for settlement of purchase obligations or repatriation of profits declared by the subsidiaries in the PRC to their overseas holding companies or repayment of bank loans.

At 31 December 2014, if HK$ and US$ had weakened/strengthened by 5% against the RMB with all other variables held constant, the net profit for the year would have been HK$217,856,000 (2013: HK$133,394,000) higher/lower.

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial Risk Factors *(continued)*

(i) Market Risk (continued)

(2) Price risk

The Group is exposed to raw material price risk because of the volatility of major raw materials such as wood pulp. To manage price risks, the Group enters into long term contracts and diversifies its suppliers to mitigate the risk of significant raw material price changes.

(3) Cash flow and fair value interest rate risk

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

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

At 31 December 2014, if interest rates on bank borrowings had been 100 basis points higher/lower with all other variables held constant, the net profit for the year would have been HK$72,185,000 (2013: HK$57,457,000) lower/higher as a result of higher/lower interest expenses on floating rate borrowings.

(ii) Credit Risk

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

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial Risk Factors *(continued)*

(ii) Credit Risk (continued)

At 31 December 2014, all restricted bank deposits, bank balances and derivative financial instruments were placed with or entered into with highly reputable and sizable banks and financial institutions without significant credit risk. The table below shows the balances with counterparties as at 31 December 2014 and 2013:

	2014 **HK$'000**	2013 HK$'000
Counterparties		
– Big 4 domestic banks *(Note)*	**3,221,350**	3,012,912
– Other reputable and sized domestic commercial banks	**16,567,749**	15,114,367
– Highly reputable and sized foreign owned banks	**2,637,139**	2,303,235
	22,426,238	20,430,514

Note:

Big 4 domestic banks comprise Industrial and Commercial Bank of China Limited, Agricultural Bank of China Limited, Bank of China Limited and China Construction Bank Corporation.

(iii) Liquidity Risk

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

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial Risk Factors *(continued)*

(iii) Liquidity Risk (continued)

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

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 3 and 5 years HK$'000
Group			
At 31 December 2014			
Bank borrowings	**15,164,387**	**–**	**–**
Convertible bonds	**–**	**–**	**6,002,396**
Interest payables of bank borrowings	**185,163**	**–**	**–**
Trade and other payables	**3,423,364**	**–**	**–**
At 31 December 2013			
Bank borrowings	13,232,914	959,643	–
Convertible bonds	–	–	6,002,396
Interest payables of bank borrowings	162,037	8,087	–
Net settled derivative financial instruments	39,727	–	–
Trade and other payables	2,926,386	–	–
Company			
At 31 December 2014			
Bank borrowings	**1,716,400**	**–**	**–**
Convertible bonds	**–**	**–**	**6,002,396**
Interest payables of bank borrowings	**8,836**	**–**	**–**
Trade and other payables	**21,464**	**–**	**–**
Amounts due to subsidiaries	**1,323**	**4,999,001**	**–**
Financial guarantee contracts	**11,928,712**	**–**	**–**
At 31 December 2013			
Bank borrowings	1,955,400	250,000	–
Convertible bonds	–	–	6,002,396
Interest payables of bank borrowings	19,589	1,865	–
Trade and other payables	22,241	–	–
Amounts due to subsidiaries	874	3,417,334	–
Financial guarantee contracts	10,182,474	742,843	–

At 31 December 2014, the Company provided financial guarantees for the bank loans of its subsidiaries amounting to HK$11,928,712,000 (2013: HK$10,925,317,000). Management of the Company anticipated that such guarantee arrangements would not lead to any losses for the Company.

3 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other 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, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The gross gearing ratio is calculated on the basis of the total borrowings as a percentage of the total shareholders' equity excluding non-controlling interests. The net gearing ratio is calculated on the basis of net debt as a percentage of the shareholders' equity excluding non-controlling interests. Net debt is calculated as total borrowings less long-term bank deposits and cash and bank balances.

During 2014, the Group's strategy was to maintain a net gearing ratio at or below 20%. The calculation of the gearing ratios at 31 December 2014 was as follows:

	2014 **HK$'000**	2013 HK$'000
Gross gearing ratio:		
Total bank borrowings and convertible bonds	**20,554,654**	19,419,687
Total equity excluding non-controlling interests	**17,637,640**	16,533,596
Gross gearing ratio	**116.5%**	117.5%
Net gearing ratio:		
Total bank borrowings and convertible bonds	**20,554,654**	19,419,687
Less: long-term bank deposits and cash and bank balances	**(22,393,139)**	(20,378,025)
Net debt	**(1,838,485)**	(958,338)
Total equity excluding non-controlling interests	**17,637,640**	16,533,596
Net gearing ratio	**(10.4%)**	(5.8%)

3 FINANCIAL RISK MANAGEMENT *(continued)*

(c) Fair Value Estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2014 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

	2014 **Level 2** **HK$'000**	2013 Level 2 HK$'000
Financial liabilities fair value through profit or loss		
– Derivative financial instruments *(Note 25)*	**–**	(39,727)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price is the current bid price. These instruments are included in level 1 which comprise primarily equity investments classified as trading securities or available for sale. The Group did not have such instrument as at 31 December 2014.

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The Group did not have such instrument as at 31 December 2014.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Useful Lives of Property, Plant and Equipment

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

(b) Current Tax and Deferred Tax

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

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

(c) Assessment of Impairment of Goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2(h)(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates (Note 18). These calculations require the use of estimates.

For the year ended 31 December 2014

5 SEGMENT INFORMATION

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

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

The Group is principally engaged in the manufacturing, distribution and sale of personal hygiene products (including sanitary napkins products, disposable diapers products and tissue papers products) and food and snacks products in the PRC. Sales between segments are carried out terms mutually agreed amongst these business segments. Revenue from external parties reported to the Executive Directors are measured in a manner consistent with that in the income statement. Revenues recognised during the year are as follows:

	2014 **HK$'000**	2013 HK$'000
Sales of goods:		
Personal hygiene products		
– Sanitary napkins products	**7,427,740**	5,972,695
– Disposable diapers products	**3,094,573**	2,938,186
– Tissue paper products	**10,857,293**	10,204,020
Food and snacks products	**1,534,749**	1,604,655
Others	**916,423**	466,812
	23,830,778	21,186,368

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

The total non-current assets (other than deferred income tax assets and long-term bank deposit) located in the PRC amounted to HK$11,986,539,000 (31 December 2013: HK$11,339,375,000) as at 31 December 2014 and the total non-current assets located in other places amounted to HK$570,318,000 (31 December 2013: HK$558,108,000).

During the year ended 31 December 2014, none of the customers of the Group from whom the revenue amounted to 10% or more of the Group's revenue (2013: None).

The amounts provided to the Executive Directors with respect to total assets and liabilities are measured in a manner consistent with that of the financial statements. These assets and liabilities are allocated based on the operations of the segment.

Additions to non-current assets comprise additions to property, plant and equipment (Note 14), investment properties (Note 15), construction-in-progress (Note 16), land use rights (Note 17), intangible assets (Note 18) and prepayments for non-current assets (Note 19).

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

For the year ended 31 December 2014

5 SEGMENT INFORMATION *(continued)*

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

	2014					
	Sanitary napkins products HK$'000	Disposable diapers products HK$'000	Tissue paper products HK$'000	Food and snacks products HK$'000	Others HK$'000	Group HK$'000
Consolidated income statement for the year ended 31 December 2014						
Segment revenue	7,486,151	3,111,730	11,305,616	1,534,749	1,527,515	24,965,761
Inter-segment sales	(58,411)	(17,157)	(448,323)	–	(611,092)	(1,134,983)
Revenue of the Group	7,427,740	3,094,573	10,857,293	1,534,749	916,423	23,830,778
Segment profit	3,132,616	540,592	892,683	115,091	815	4,681,797
Unallocated costs						(95,817)
Other income and other gains – net						1,164,078
Operating profit						5,750,058
Finance income						232,353
Finance costs						(639,525)
Profit before income tax						5,342,886
Income tax expense						(1,368,716)
Profit for the year						3,974,170
Non-controlling interests						(58,352)
Profit attributable to shareholders of the Company						3,915,818
Consolidated balance sheet as at 31 December 2014						
Segment assets	8,566,777	7,209,298	21,444,153	1,242,236	3,746,643	42,209,107
Deferred income tax assets						217,229
Unallocated assets						150,260
Total assets						42,576,596
Segment liabilities	1,601,323	846,965	7,584,570	239,103	81,645	10,353,606
Deferred income tax liabilities						136,855
Current income tax liabilities						90,682
Unallocated liabilities						13,932,394
Total liabilities						24,513,537
Other items for the year ended 31 December 2014						
Additions to non-current assets	357,325	175,502	1,011,305	36,338	174,199	1,754,669
Depreciation charge	131,967	39,295	470,469	53,024	18,169	712,924
Amortisation charge	8,523	1,831	17,929	12,470	935	41,688

For the year ended 31 December 2014

5 SEGMENT INFORMATION *(continued)*

	2013					
	Sanitary napkins products HK$'000	Disposable diapers products HK$'000	Tissue paper products HK$'000	Food and snacks products HK$'000	Others HK$'000	Group HK$'000
Consolidated income statement for the year ended 31 December 2013						
Segment revenue	6,602,275	3,196,636	10,351,271	1,604,655	556,675	22,311,512
Inter-segment sales	(629,580)	(258,450)	(147,251)	–	(89,863)	(1,125,144)
Revenue of the Group	5,972,695	2,938,186	10,204,020	1,604,655	466,812	21,186,368
Segment profit	2,534,753	605,879	1,142,008	116,841	4,141	4,403,622
Unallocated costs						(92,246)
Other income and other gains – net						776,472
Operating profit						5,087,848
Finance income						291,615
Finance costs						(363,992)
Profit before income tax						5,015,471
Income tax expense						(1,244,889)
Profit for the year						3,770,582
Non-controlling interests						(49,551)
Profit attributable to shareholders of the Company						3,721,031
Consolidated balance sheet as at 31 December 2013						
Segment assets	8,094,858	6,570,494	19,821,702	1,268,914	3,408,743	39,164,711
Deferred income tax assets						157,511
Unallocated assets						868,265
Total assets						40,190,487
Segment liabilities	1,444,725	503,411	6,680,134	346,232	89,173	9,063,675
Deferred income tax liabilities						169,146
Current income tax liabilities						273,430
Unallocated liabilities						13,765,570
Total liabilities						23,271,821
Other items for the year ended 31 December 2013						
Additions to non-current assets	232,375	136,085	627,150	55,175	149,796	1,200,581
Depreciation charge	75,242	59,615	464,748	51,608	13,690	664,903
Amortisation charge	4,642	1,496	17,256	14,043	578	38,015

For the year ended 31 December 2014

6 OTHER INCOME AND OTHER GAINS – NET

	2014 HK$'000	2013 HK$'000
Government grants income *(Note)*	**665,634**	404,044
Exchange (loss)/gain from operating activities – net	**(1,893)**	94,022
Losses on disposal of property, plant and equipment and land use rights	**(26,651)**	(27,058)
Realised fair value gains on derivative financial instruments	**39,727**	1,239
Unrealised fair value losses on derivative financial instruments	**–**	(36,682)
Interests income from long-term and short-term bank deposits	**474,319**	333,695
Others	**12,942**	7,212
	1,164,078	776,472

Note:

These mainly represented grants received from certain municipal governments of the PRC as an encouragement of the Group's contributions to the development of the local economy.

7 EXPENSES BY NATURE

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

	2014 HK$'000	2013 HK$'000
Raw materials and consumables used	**9,831,793**	9,665,558
Changes in inventories of work-in-progress and finished goods	**552,275**	(528,994)
Marketing and advertising expenses	**2,598,962**	1,861,319
Employees benefit expense, including directors' emoluments *(Note 13)*	**1,898,803**	1,843,519
Utilities and various office expenses	**1,112,288**	1,157,764
Transportation and packaging expenses	**1,008,844**	880,859
Depreciation of property, plant and equipment *(Note 14)*	**710,419**	664,903
Amortisation of land use rights *(Note 17)*	**28,676**	28,188
Amortisation of intangible assets *(Note 18)*	**13,012**	9,827
Research and development expenses	**433,050**	277,810
Repairs and maintenance expenses	**201,773**	206,166
Travelling expenses	**201,525**	194,288
Operating leases rentals	**107,347**	94,783
Provision for/(reversal of) inventories write-down *(Note 22)*	**5,634**	(26,433)
Provision for impairment of trade receivables *(Note 23)*	**1,700**	19,643
Auditor's remuneration		
– Audit services	**6,562**	6,768
– Non-audit services	**666**	2,729
Amortisation of deferred income on government grants	**(921)**	(1,188)
Others	**532,390**	517,483
Total cost of sales, distribution costs and administrative expenses	**19,244,798**	16,874,992

For the year ended 31 December 2014

8 FINANCE INCOME AND FINANCE COSTS

	2014 HK$'000	2013 HK$'000
Finance costs:		
Interest expenses		
– Bank borrowings wholly repayable within 5 years	**347,884**	275,925
– Convertible bonds	**163,137**	79,708
Exchange loss	**130,371**	–
Other finance charges	**16,782**	24,180
Total borrowing costs incurred	**658,174**	379,813
Less: Borrowing costs capitalised in buildings and machinery under construction-in-progress *(Note 16)*	**(18,649)**	(15,821)
	639,525	363,992
Finance income:		
Interest income from cash and cash equivalents	**(232,353)**	(106,451)
Exchange gain	**–**	(185,164)
	(232,353)	(291,615)
Finance costs, net	**407,172**	72,377

For the year ended 31 December 2014, the capitalisation rate applied to funds borrowed generally and used for the development of construction-in-progress is 1.82% (2013: 1.92%) per annum.

9 INCOME TAX EXPENSE

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

	2014 HK$'000	2013 HK$'000
Current income tax		
– Hong Kong profits tax	**240,166**	151,699
– PRC income tax	**1,219,984**	1,114,868
Deferred income tax, net *(Note 33)*	**(91,434)**	(21,678)
Income tax expense	**1,368,716**	1,244,889

9 INCOME TAX EXPENSE *(continued)*

Hong Kong profits tax has been provided for at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits for the year. Taxation on PRC income has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC in which the Group operates.

The Company's subsidiaries incorporated in the PRC are subject to Corporate Income Tax ("CIT") at the rate of 25%. Certain subsidiaries are entitled to exemptions or reductions from the standard income tax rate according to the CIT law approved by the National People's Congress on 16 March 2007.

Certain subsidiaries were approved to be new and high-technology enterprises and are entitled to the tax rate of 15%.

According to the Caishui (2011) No. 58 "The notice on the tax policies of further implementation of the western region development strategy issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs" (財税[2011]58號"關於深入實施西部大開發戰略有關税收政策問題的通知"), companies set up in the western region and falling into certain encouraged industry catalogue promulgated by the PRC government are entitled to a preferential tax rate of 15%. Some of the Group's subsidiaries in the PRC were set up in the western development region and fall into the encouraged industry catalogue, and therefore they are entitled to the above said preferential tax rate.

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

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

	2014 **HK$'000**	2013 HK$'000
Profit before income tax	**5,342,886**	5,015,471
Tax calculated at tax rates applicable to profits of the Group's companies	**1,293,761**	1,213,641
Tax exemption and concession on the profits of certain PRC subsidiaries	**(77,439)**	(95,090)
Tax losses in current year for which no deferred tax assets were recognised	**7,278**	26,830
Withholding tax on distributed profit and unremitted earnings	**182,407**	101,313
Others	**(37,291)**	(1,805)
Income tax expense	**1,368,716**	1,244,889

The weighted average applicable tax rate was 24.2% (2013: 24.2%).

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

10 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of HK$2,664,866,000 (2013: profit of HK$2,551,883,000) *(Note 30)*.

11 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the Group's profit attributable to the Company's shareholders of HK$3,915,818,000 (2013: HK$3,721,031,000) by the weighted average number of 1,228,106,600 (2013: 1,230,640,954) ordinary shares in issue during the year.

	2014	2013
Profit attributable to shareholders of the Company (HK$'000)	**3,915,818**	3,721,031
Weighted average number of ordinary shares in issue (thousands)	**1,228,107**	1,230,641
Basic earnings per share (HK$)	**HK$3.188**	HK$3.024

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The Company's share options are regarded as dilutive potential ordinary shares while convertible bonds have no dilutive effect on the earnings per share as at 31 December 2014. Calculations are done to determine the number of shares that could have been acquired at fair value (determined by using average market share price of the Company's shares for the year ended 31 December 2014) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2014	2013
Profit attributable to shareholders of the Company (HK$'000)	**3,915,818**	3,721,031
Weighted average number of ordinary shares in issue (thousands)	**1,228,107**	1,230,641
Adjusted for:		
– Share options (thousands)	**1,682**	1,054
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,229,789**	1,231,695
Diluted earnings per share (HK$)	**HK$3.184**	HK$3.021

12 DIVIDENDS

	2014 HK$'000	2013 HK$'000
Interim, paid, HK$0.85 (2013: HK$0.85) per ordinary share	**1,042,779**	1,046,677
Final, proposed, HK$1.15 (2013: HK$1.00) per ordinary share	**1,408,042**	1,231,385
	2,450,821	2,278,062

The dividends paid in 2014 amounted to HK$2,271,013,000 (2014 interim: HK$0.85 per share, 2013 final: HK$1.00 per share). The dividends paid in 2013 amounted to HK$2,216,492,000 (2013 interim: HK$0.85 per share, 2012 final: HK$0.95per share). A final dividend in respect of the year ended 31 December 2014 of HK$1.15 per share, amounting to a total dividend of HK$1,408,042,000, was proposed by the Board of Directors at a meeting held on 24 March 2015, subject to the final approval by the shareholders of the Company at the Annual General Meeting to be held on 19 May 2015. These financial statements do not reflect this dividend payable. The aggregate amounts of the dividends paid and proposed during 2014 and 2013 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

13 EMPLOYEE BENEFIT EXPENSE, INCLUDING DIRECTORS' EMOLUMENTS

	2014 HK$'000	2013 HK$'000
Wages and salaries	**1,590,700**	1,558,780
Retirement benefit cost	**230,891**	203,298
Equity-settled share-based payment *(Note 28)*	**77,212**	81,441
Total employee benefit expense	**1,898,803**	1,843,519

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13 EMPLOYEE BENEFIT EXPENSE, INCLUDING DIRECTORS' EMOLUMENTS *(continued)*

(a) Directors' and Senior Management's Emoluments

The remuneration of every director and the chief executive for the year ended 31 December 2014 is set out below:

Name of Director	Fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Share-based compensation HK$'000	Housing allowance and payment in lieu of annual leave HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Director							
Mr. Sze Man Bok	60	355	–	127	–	11	553
Mr. Hui Lin Chit	60	844	530	939	–	17	2,390
Mr. Xu Shui Shen	60	1,363	501	1,111	–	3	3,038
Mr. Hung Ching Shan	60	154	10	127	–	8	359
Mr. Xu Da Zuo	60	784	109	685	–	3	1,641
Mr. Xu Chun Man	60	–	–	127	–	3	190
Mr. Sze Wong Kim	60	–	–	96	–	3	159
Mr. Hui Ching Chi	60	78	22	96	–	7	263
Mr. Loo Hong Shing Vincent	60	1,100	500	888	453	21	3,022
Independent Non-executive Director							
Mr. Chan Henry	120	–	–	–	–	–	120
Mr. Wang Ming Fu	120	–	–	–	–	–	120
Ms. Ada Ying Kay Wong	120	–	–	–	–	–	120
Mr. Ho Kwai Ching, Mark	120	–	–	–	–	–	120
Mr. Zhou Fang Sheng	120	–	–	–	–	–	120

The remuneration of every director and the chief executive for the year ended 31 December 2013 is set out below:

Name of Director	Fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Share-based compensation HK$'000	Housing allowance and payment in lieu of annual leave HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Director							
Mr. Sze Man Bok	60	355	–	127	–	15	557
Mr. Hui Lin Chit	60	847	526	939	–	15	2,387
Mr. Xu Shui Shen	60	1,264	518	1,144	–	3	2,989
Mr. Hung Ching Shan	60	154	10	127	–	11	362
Mr. Xu Da Zuo	60	649	98	685	–	3	1,495
Mr. Xu Chun Man	60	–	–	127	–	3	190
Mr. Sze Wong Kim	60	–	–	129	–	3	192
Mr. Hui Ching Chi	60	–	–	129	–	3	192
Mr. Loo Hong Shing Vincent	60	1,056	500	888	336	15	2,855
Independent Non-executive Director							
Mr. Chan Henry	120	–	–	–	–	–	120
Mr. Wang Ming Fu	120	–	–	–	–	–	120
Ms. Ada Ying Kay Wong	120	–	–	–	–	–	120
Mr. Ho Kwai Ching, Mark	120	–	–	–	–	–	120
Mr. Zhou Fang Sheng	120	–	–	–	–	–	120

13 EMPLOYEE BENEFIT EXPENSE, INCLUDING DIRECTORS' EMOLUMENTS *(continued)*

(b) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2013: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2013: one) individual during the year are as follows:

	2014	2013
	HK$'000	HK$'000
Basic salaries, housing allowances, share-based compensation, other allowances and benefits-in-kind	**1,285**	1,209
Bonuses	**166**	149
	1,451	1,358

The emoluments fell within the following bands:

	Number of individuals	
	2014	2013
Emolument bands		
HK$1,000,001 to HK$1,500,000	**1**	1

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14 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Leasehold land and buildings HK$'000	Machinery HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2013					
Cost	3,500,348	7,169,205	212,964	49,130	10,931,647
Accumulated depreciation	(534,419)	(2,440,190)	(119,076)	(22,409)	(3,116,094)
Opening net book amount	2,965,929	4,729,015	93,888	26,721	7,815,553
Year ended 31 December 2013					
Opening net book amount	2,965,929	4,729,015	93,888	26,721	7,815,553
Currency translation differences	99,765	147,514	2,881	824	250,984
Additions	81,421	136,704	19,694	6,503	244,322
Transfer from construction-in-progress *(Note 16)*	672,327	336,657	11,584	–	1,020,568
Depreciation for the year *(Note 7)*	(183,050)	(448,728)	(25,657)	(7,468)	(664,903)
Disposals	(4,863)	(28,700)	(5,164)	(597)	(39,324)
Closing net book amount	3,631,529	4,872,462	97,226	25,983	8,627,200
At 31 December 2013					
Cost	4,364,397	7,649,449	224,607	52,996	12,291,449
Accumulated depreciation	(732,868)	(2,776,987)	(127,381)	(27,013)	(3,664,249)
Net book amount	3,631,529	4,872,462	97,226	25,983	8,627,200
Year ended 31 December 2014					
Opening net book amount	**3,631,529**	**4,872,462**	**97,226**	**25,983**	**8,627,200**
Currency translation differences	**(11,663)**	**(16,215)**	**(281)**	**(95)**	**(28,254)**
Additions	**22,270**	**102,440**	**30,976**	**7,299**	**162,985**
Transfer from construction-in-progress *(Note 16)*	**568,167**	**513,993**	**12,246**	**–**	**1,094,406**
Depreciation for the year *(Note 7)*	**(203,172)**	**(469,185)**	**(30,032)**	**(8,030)**	**(710,419)**
Disposals	**(243,396)**	**(38,623)**	**(1,238)**	**(838)**	**(284,095)**
Closing net book amount	**3,763,735**	**4,964,872**	**108,897**	**24,319**	**8,861,823**
At 31 December 2014					
Cost	**4,694,347**	**8,065,933**	**254,702**	**55,610**	**13,070,592**
Accumulated depreciation	**(930,612)**	**(3,101,061)**	**(145,805)**	**(31,291)**	**(4,208,769)**
Net book amount	**3,763,735**	**4,964,872**	**108,897**	**24,319**	**8,861,823**

14 PROPERTY, PLANT AND EQUIPMENT – GROUP *(continued)*

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

	2014 HK$'000	2013 HK$'000
Manufacturing overheads included under cost of goods sold	**540,939**	542,769
Distribution costs	**9,869**	9,151
Administrative expenses	**159,611**	112,983
	710,419	664,903

There was no pledge of property, plant and equipment of the Group as at 31 December 2014 and 2013.

15 INVESTMENT PROPERTIES

	Investment properties HK$'000
Year ended 31 December 2014	
Opening net book amount	**–**
Currency translation differences	**1,056**
Transfer from construction-in-progress *(Note 16)*	**196,832**
Transfer from land use rights *(Note 17)*	**43,611**
Depreciation for the year	**(2,505)**
Closing net book amount	**238,994**
At 31 December 2014	
Cost	**241,510**
Accumulated depreciation	**(2,516)**
Net book amount	**238,994**

The above investment properties are located in Xiamen, the PRC and depreciated on a straight-line basis over 40 years.

The Group's investment properties are stated at historical cost at the end of each reporting period.

	2014 HK$'000
Rental income	**4,592**
Direct operating expenses	**(3,418)**
Net book amount	**1,174**

15 INVESTMENT PROPERTIES *(continued)*

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

	2014 HK$'000
Other income and other gains – net	**2,505**

16 CONSTRUCTION-IN-PROGRESS – GROUP

	2014 HK$'000	2013 HK$'000
At 1 January	**1,204,372**	1,301,331
Currency translation differences	**(3,018)**	37,062
Additions	**1,508,226**	886,547
Transfer to property, plant and equipment *(Note 14)*	**(1,094,406)**	(1,020,568)
Transfer to Investment properties *(Note 15)*	**(196,832)**	–
Transfer to Intangible assets *(Note 18)*	**(34,711)**	–
At 31 December	**1,383,631**	1,204,372

During the year ended 31 December 2014, finance costs capitalised in construction-in-progress amounted to HK$18,649,000 (2013: HK$15,821,000) (Note 8).

17 LAND USE RIGHTS – GROUP

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

	2014 HK$'000	2013 HK$'000
Outside Hong Kong, held on:		
Leases between 10 to 50 years	**1,112,353**	1,105,298
At 1 January	**1,105,298**	1,032,792
Currency translation differences	**(3,567)**	31,372
Additions	**82,909**	69,682
Transfer to investment properties *(Note 15)*	**(43,611)**	–
Amortisation of prepaid operating leases payments *(Note 7)*	**(28,676)**	(28,188)
Disposals	**–**	(360)
At 31 December	**1,112,353**	1,105,298

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

For the year ended 31 December 2014

18 INTANGIBLE ASSETS – GROUP

	Goodwill HK$'000	Patents and trademarks HK$'000	Customer relationships HK$'000	Softwares HK$'000	Total HK$'000
At 1 January 2013					
Cost	495,300	81,802	57,850	–	634,952
Accumulated amortisation	–	(20,990)	(23,140)	–	(44,130)
Net book amount	495,300	60,812	34,710	–	590,822
Year ended 31 December 2013					
Opening net book amount	495,300	60,812	34,710	–	590,822
Additions	–	–	–	30	30
Currency translation differences	–	124	–	1	125
Amortisation charge *(Note 7)*	–	(4,041)	(5,786)	–	(9,827)
Closing net book amount	495,300	56,895	28,924	31	581,150
At 31 December 2013					
Cost	495,300	75,734	57,850	31	628,915
Accumulated amortisation	–	(18,839)	(28,926)	–	(47,765)
Net book amount	495,300	56,895	28,924	31	581,150
Year ended 31 December 2014					
Opening net book amount	**495,300**	**56,895**	**28,924**	**31**	**581,150**
Additions	**–**	**–**	**–**	**549**	**549**
Transfer from construction-in-progress *(Note 16)*	**–**	**–**	**–**	**34,711**	**34,711**
Currency translation differences	**–**	**(17)**	**–**	**141**	**124**
Amortisation charge *(Note 7)*	**–**	**(4,017)**	**(5,785)**	**(3,210)**	**(13,012)**
Closing net book amount	**495,300**	**52,861**	**23,139**	**32,222**	**603,522**
At 31 December 2014					
Cost	**495,300**	**75,718**	**57,850**	**35,447**	**664,315**
Accumulated amortisation	**–**	**(22,857)**	**(34,711)**	**(3,225)**	**(60,793)**
Net book amount	**495,300**	**52,861**	**23,139**	**32,222**	**603,522**

Amortisation of HK$13,012,000 (2013: HK$9,827,000) has been charged to administrative expenses in the consolidated income statement.

18 INTANGIBLE ASSETS – GROUP *(continued)*

Impairment Tests for Goodwill

The Directors have performed an impairment review of the carrying amount of goodwill as at 31 December 2014 and have concluded that no provision for impairment is required. For the purposes of impairment testing, goodwill acquired has been allocated to the smallest individual of CGUs identified by business segments, including goodwill on the tissue paper products segment of HK$452,030,000 and goodwill on the food and snacks products segment of HK$43,270,000 as at 31 December 2014. The recoverable amount of each of the CGUs is determined based on value-in-use calculations. The calculation of goodwill on the tissue paper product segment uses cash flow projections based on financial estimates made by the Directors, with reference to the prevailing market conditions, covering a period of nine years and assuming sales growth rate ranging from 2% to 6.4% and gross profit margins of 34.5%. The cash flows are extrapolated with reference to the production capacity of the cash generating units acquired. The cash flow projections are discounted at a pre-tax discount rate of 10.9% per annum. Based on management's assessment results, there was no impairment of goodwill as at 31 December 2014 and 2013 and any reasonable change to the key assumptions would not lead to an impairment.

19 PREPAYMENTS FOR NON-CURRENT ASSETS – GROUP

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

20 INVESTMENTS IN SUBSIDIARIES – COMPANY

	2014 **HK$'000**	2013 HK$'000
Unlisted shares, at cost	**1,893,782**	1,893,782
Capital contribution relating to share-based payment	**235,784**	158,572
Loans to subsidiaries	**4,304,073**	4,304,001
	6,433,639	6,356,355

The loans to subsidiaries are unsecured and non-interest bearing. These loans have no fixed terms of repayment and are regarded as equity contributions to the subsidiaries.

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

21 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

(a) Assets

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loans and receivables				
– Trade and other receivables, excluding advances to suppliers and prepayments	**2,845,017**	2,640,274	**139**	1,099
– Amounts due from subsidiaries *(Note 24)*	**–**	–	**7,741,259**	5,911,261
– Restricted bank deposits	**39,700**	60,044	**–**	–
– Long-term bank deposits *(Note 26)*	**1,096,463**	814,042	**–**	–
– Cash and bank balances *(Note 26)*	**21,296,676**	19,563,983	**21,172**	735,850
Total	**25,277,856**	23,078,343	**7,762,570**	6,648,210

(b) Liabilities

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities at amortised costs				
– Trade and other payables, excluding non-financial liabilities	**3,423,364**	2,926,386	**21,464**	22,241
– Amounts due to subsidiaries *(Note 24)*	**–**	–	**5,000,324**	3,418,208
– Bank borrowings *(Note 31)*	**15,164,387**	14,192,557	**1,716,400**	2,205,400
– Convertible bonds *(Note 32)*	**5,390,267**	5,227,130	**5,390,267**	5,227,130
	23,978,018	22,346,073	**12,128,455**	10,872,979
Liabilities at fair value through profit or loss				
– Derivative financial instruments *(Note 25)*	**–**	39,727	**–**	–
Total	**23,978,018**	22,385,800	**12,128,455**	10,872,979

22 INVENTORIES – GROUP AND COMPANY

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Finished goods	**1,451,120**	2,008,416	**–**	–
Work-in-progress	**38,047**	33,026	**–**	–
Raw materials	**1,988,267**	2,120,480	**–**	11,695
Spare parts and consumables	**217,399**	223,987	**–**	–
	3,694,833	4,385,909	**–**	11,695

The cost of inventories recognised as expenses and included in cost of goods sold amounted to HK$10,384,068,000 (2013: HK$9,136,564,000).

The Group provided for inventories write-down amounted to HK$5,634,000 (2013: reversed HK$26,433,000). These amounts have been included in cost of sales in the consolidated income statement (Note 7).

23 TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**2,426,291**	2,187,373	**–**	–
Bills receivable	**35,169**	3,590	**–**	–
	2,461,460	2,190,963	**–**	–
Less: provision for impairment	**(6,351)**	(6,479)	**–**	–
Trade and bills receivables	**2,455,109**	2,184,484	**–**	–
Other receivables, prepayments and deposits				
– Advance payments to suppliers	**405,317**	209,275	**199**	381
– Interest income receivables	**201,795**	267,635	**–**	960
– Prepayments for rental fee and utility fee	**34,671**	29,312	**–**	–
– Value added tax recoverable	**389,833**	432,654	**–**	–
– Others	**188,113**	188,155	**139**	139
	1,219,729	1,127,031	**338**	1,480
Trade and other receivables	**3,674,838**	3,311,515	**338**	1,480

23 TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY *(continued)*

The majority of the Group's sales are on open account with credit terms ranging from 30 days to 90 days. At 31 December 2014, the ageing analysis of the trade and bills receivables based on invoice date was as follows:

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 30 days	**1,163,679**	1,026,891	**–**	–
31–180 days	**1,212,946**	1,064,054	**–**	–
181–365 days	**54,309**	78,450	**–**	–
Over 365 days	**30,526**	21,568	**–**	–
	2,461,460	2,190,963	**–**	–

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

The credit quality of the trade receivables that are neither past due nor impaired totaled HK$2,138,599,000 (2013: HK$1,835,957,000) could be assessed by reference to their payment history and current financial position. These receivables relate to a whole range of customers for whom there was no recent history of default. Management believes that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are expected to be fully recoverable.

As at 31 December 2014, trade receivables of HK$316,510,000 (2013: HK$348,527,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. As at December 2014 and 2013, the ageing analysis of the trade receivables based on invoice date was as follows:

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 30 days	**168,511**	140,174	**–**	–
31–180 days	**114,992**	170,170	**–**	–
181–365 days	**22,465**	28,466	**–**	–
Over 365 days	**10,542**	9,717	**–**	–
	316,510	348,527	**–**	–

Trade receivables of HK$6,351,000 (2013: HK$6,479,000) were impaired and fully provided for. The aging of these receivables is over 365 days.

23 TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY *(continued)*

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

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**6,479**	8,463	**–**	–
Currency translation differences	**(23)**	232	**–**	–
Provision for impairment of trade receivables *(Note 7)*	**1,700**	19,643	**–**	–
Receivables written-off during the year as uncollectible	**(1,805)**	(21,859)	**–**	–
As 31 December	**6,351**	6,479	**–**	–

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

As at 31 December 2014, other receivables are neither past due nor impaired.

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

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

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
RMB	**2,187,701**	1,926,838	**–**	–
Other currencies	**273,759**	264,125	**–**	–
	2,461,460	2,190,963	**–**	–

24 AMOUNTS DUE FROM AND TO SUBSIDIARIES – COMPANY

The amounts due from subsidiaries were unsecured, interest-free, denominated in RMB and repayable on demand.

Apart from the amounts due to a subsidiary repayable within 12 months (Note 3), the amounts due to subsidiaries were unsecured, bore interest at a rate of 1.52% (2013: 1.67%) per annum, denominated in RMB and not repayable within 12 months from the balance sheet date.

25 DERIVATIVE FINANCIAL INSTRUMENTS – GROUP AND COMPANY

These represented the fair value of the currency swap contracts entered into with banks. These contracts are regarded as derivative financial instruments.

26 LONG-TERM BANK DEPOSITS AND CASH AND BANK BALANCES – GROUP AND COMPANY

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Long-term bank deposits	**1,096,463**	814,042	**–**	–
Cash and bank balances				
– Bank deposits	**10,234,192**	8,852,732	**–**	–
– Cash and cash equivalents	**11,062,484**	10,711,251	**21,172**	735,850
	21,296,676	19,563,983	**21,172**	735,850
Total	**22,393,139**	20,378,025	**21,172**	735,850

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

The effective interest rate on bank deposits as at 31 December 2014 was approximately 3.16% (31 December 2013: 2.72%) per annum.

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

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Long-term bank deposits				
RMB	**1,096,463**	814,042	**–**	–
Cash and bank balances				
RMB	**19,291,581**	17,248,929	**41**	728,577
US$	**1,958,021**	2,269,030	**2,187**	3,366
HK$	**42,538**	40,228	**18,929**	3,892
Others	**4,536**	5,796	**15**	15
Total	**21,296,676**	19,563,983	**21,172**	735,850

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

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27 SHARE CAPITAL – GROUP AND COMPANY

	Authorised share capital Ordinary shares of HK$0.1 each	
	Number of shares	HK$'000
At 31 December 2014 and 31 December 2013	**3,000,000,000**	300,000

	Issued and fully paid Ordinary shares of HK$0.1 each	
	Number of shares	HK$'000
At 1 January 2013	**1,229,027,721**	122,903
Employee share option schemes		
– Shares issued upon exercise of share options *(Note 28)*	**2,357,000**	235
At 31 December 2013	**1,231,384,721**	123,138
Buy-back of shares *(Note)*	**(7,000,000)**	(700)
At 31 December 2014	**1,224,384,721**	122,438

Note:

The Group acquired 7,000,000 its own ordinary shares through purchases on The Stock Exchange of Hong Kong Limited during the year ended 31 December 2014. The shares had been cancelled after buy-back. The total amount paid to acquire the shares was approximately HK$547,031,000 and has been deducted from shareholders' equity.

28 SHARE-BASED COMPENSATION – GROUP

The Company adopted two share option schemes on 6 May 2003 (2003 scheme) and 26 May 2011 (2011 scheme), respectively. Pursuant to the schemes, share options had been granted to the Directors and selected employees. The exercise prices of the options granted were equal to the market prices of the Company's shares on the grant dates. The options granted will be forfeited if the Directors and employees leave the Group before the options are exercisable. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	2014		2013	
	Average exercise price in HK$ per share	**Options (thousands)**	Average exercise price in HK$ per share	Options (thousands)
At 1 January	**71.95**	**14,342**	67.95	16,853
Forfeited	**68.30**	**(48)**	68.30	(154)
Exercised	**–**	**–**	25.05 to 44.30	(2,357)
At 31 December	**71.96**	**14,294**	71.95	14,342

Out of the 14,294,000 outstanding options (2013: 14,342,000), 1,268,000 options (2013: Nil) were exercisable.

Share options outstanding in thousand at the end of the year have the following expiry dates and exercise prices:

	Exercise price in HK$ per share option	**Options (thousands)**	
		2014	2013
Expiry date – 27 July 2021	68.30	**2,536**	2,584
Expiry date – 28 July 2022	72.75	**11,758**	11,758
		14,294	14,342

For the year ended 31 December 2014

28 SHARE-BASED COMPENSATION – GROUP *(continued)*

The total amount of the fair value of share options granted to Directors and selected employees is expensed over the vesting period. The share-based compensation expense for the year ended 31 December 2014 amounted to HK$77,212,000 (2013: HK$81,441,000) (Note 13), and the remaining unamortised fair value of approximately HK$83,636,000 will be charged to the consolidated income statement in the future years.

The maximum number of shares available for issue after considering the share options already granted under the 2003 Scheme and the 2011 Scheme are 85,638,200 and 107,758,872 respectively, which are not more than 10% of the issued share capital of the Company as at the date of the approval of the Schemes. The 2003 Scheme expired on 2 May 2013.

29 OTHER RESERVES – GROUP AND COMPANY

Group

	Share premium account HK$'000 *(Note(a))*	Capital redemption reserve HK$'000	Statutory reserves HK$'000 *(Note(b))*	Share-based compensation reserve HK$'000	Exchange reserve HK$'000 *(Note(c))*	Convertible bonds – equity component HK$'000	Total HK$'000
At 1 January 2013	–	1,807	1,269,549	84,355	1,864,354	–	3,220,065
Other comprehensive income							
– currency translation differences	–	–	–	–	590,155	–	590,155
Appropriation to statutory reserves	–	–	350,598	–	–	–	350,598
Share-based compensation							
– value of employee services	–	–	–	81,441	–	–	81,441
– proceeds from shares issued	102,469	–	–		–	–	102,469
– exercise of share options	30,887	–	–	(30,887)	–	–	–
Convertible bonds							
– equity component	–	–	–	–	–	176,565	176,565
At 31 December 2013	133,356	1,807	1,620,147	134,909	2,454,509	176,565	4,521,293
At 1 January 2014	**133,356**	**1,807**	**1,620,147**	**134,909**	**2,454,509**	**176,565**	**4,521,293**
Other comprehensive income							
– currency translation differences	**–**	**–**	**–**	**–**	**(70,942)**	**–**	**(70,942)**
Appropriation to statutory reserves	**–**	**–**	**420,925**	**–**	**–**	**–**	**420,925**
Share-based compensation							
– value of employee services	**–**	**–**	**–**	**77,212**	**–**	**–**	**77,212**
Buy-back of shares	**(133,356)**	**–**	**–**	**–**	**–**	**–**	**(133,356)**
At 31 December 2014	**–**	**1,807**	**2,041,072**	**212,121**	**2,383,567**	**176,565**	**4,815,132**

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29 OTHER RESERVES – GROUP AND COMPANY *(continued)*

Company

	Share premium account HK$'000 *(Note(a))*	Capital redemption reserve HK$'000	Share-based compensation reserve HK$'000	Convertible bonds – equity component HK$'000	Total HK$'000
At 1 January 2013	67,295	1,807	84,355	–	153,457
Share-based compensation					
– value of employee services	–	–	81,441	–	81,441
– proceeds from shares issued	102,469	–	–	–	102,469
– exercise of share options	30,887	–	(30,887)	–	–
Convertible bonds					
– equity component	–	–	–	176,565	176,565
At 31 December 2013	200,651	1,807	134,909	176,565	513,932
At 1 January 2014	**200,651**	**1,807**	**134,909**	**176,565**	**513,932**
Share-based compensation					
– value of employee services	**–**	**–**	**77,212**	**–**	**77,212**
Buy-back of shares	**(133,356)**	**–**	**–**	**–**	**(133,356)**
At 31 December 2014	**67,295**	**1,807**	**212,121**	**176,565**	**457,788**

Notes:

(a) Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company. No share premium was transferred to retained earnings during the year ended 31 December 2014 (2013: Nil).

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

(c) Exchange reserve of the Group represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from HK$, the presentation currency of the financial statements of the Company and the Group.

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30 RETAINED EARNINGS – GROUP AND COMPANY

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**11,889,165**	10,735,224	**1,505,866**	1,170,475
2013/2012 final dividends paid	**(1,228,234)**	(1,169,815)	**(1,228,234)**	(1,169,815)
2014/2013 interim dividends paid	**(1,042,779)**	(1,046,677)	**(1,042,779)**	(1,046,677)
Profit for the year	**3,915,818**	3,721,031	**2,664,866**	2,551,883
Appropriation to statutory reserves	**(420,925)**	(350,598)	**–**	–
Buy-back of shares	**(412,975)**	–	**(412,975)**	–
At 31 December	**12,700,070**	11,889,165	**1,486,744**	1,505,866

31 BANK BORROWINGS – GROUP AND COMPANY

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current				
Long-term bank loans – unsecured	**–**	959,643	**–**	250,000
Current				
Trust receipt bank loans	**1,290,496**	963,996	**–**	–
Current portion of long-term bank loans – unsecured	**1,069,784**	2,456,386	**250,000**	125,000
Short-term bank loans – unsecured	**12,804,107**	9,812,532	**1,466,400**	1,830,400
	15,164,387	13,232,914	**1,716,400**	1,955,400
Total bank borrowings	**15,164,387**	14,192,557	**1,716,400**	2,205,400

As at 31 December 2014, the effective interest rate of the Group's borrowings is approximately 1.82% (2013: 1.92%) per annum.

31 BANK BORROWINGS – GROUP AND COMPANY *(continued)*

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

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**4,055,338**	5,546,376	**250,000**	1,675,000
US$	**11,109,049**	8,394,049	**1,466,400**	530,400
RMB	**–**	16,750	**–**	–
AUD	**–**	235,382	**–**	–
	15,164,387	14,192,557	**1,716,400**	2,205,400

At 31 December 2014, the Group's long-term bank borrowings are repayable as follows:

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 1 year	**1,069,784**	2,456,386	**250,000**	125,000
Between 1 and 2 years	**–**	959,643	**–**	250,000
Wholly repayable within 5 years	**1,069,784**	3,416,029	**250,000**	375,000

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

The Group had the following undrawn bank borrowing facilities:

	Group	
	2014	2013
	HK$'000	HK$'000
Undrawn bank borrowing facilities	**17,022,679**	24,846,075

32 CONVERTIBLE BONDS – GROUP AND COMPANY

	2014 HK$'000	2013 HK$'000
Face value of convertible bonds issued on 27 June 2013	**5,434,000**	5,434,000
Issuing expenses	**(110,013)**	(110,013)
Equity component	**(176,565)**	(176,565)
Liability component on initial recognition on 27 June 2013	**5,147,422**	5,147,422
Accumulated finance costs	**242,845**	79,708
Liability component	**5,390,267**	5,227,130

On 27 June 2013, the Company issued zero-coupon convertible bonds which will be due on 27 June 2018 (the "maturity date"), in the aggregate principal amount of HK$5,434 million with an initial conversion price of HK$120.0825 per ordinary share of the Company (subject to adjustment). Unless previously redeemed, converted, purchased or cancelled (subject to redemption conditions), these bonds will be redeemed at 110.46 per cent of their principal amount on the maturity date.

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

The fair value of the liability component was calculated using a market interest rate of 2.7% for an equivalent non-convertible bond. The residual amount, representing the value of equity conversion component, is included in shareholders' equity in other reserves.

The fair value of the convertible bonds approximated its carrying amounts as at 31 December 2014.

From 27 June 2013 to 31 December 2014, no bond holders have converted their bonds into ordinary shares of the Company.

33 DEFERRED INCOME TAX – GROUP

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

	2014 HK$'000	2013 HK$'000
Deferred income tax assets		
– Deferred tax asset to be settled after more than 12 months	**96,027**	–
– Deferred tax asset to be recovered within 12 months	**121,202**	157,511
	217,229	157,511
Deferred income tax liabilities		
– Deferred tax liability to be settled after more than 12 months	**31,436**	34,872
– Deferred tax liability to be settled within 12 months	**105,419**	134,274
	136,855	169,146
Deferred income tax assets/(liabilities) – net	**80,374**	(11,635)

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

Deferred Income Tax Assets:

	Unrealised profit in inventories arising from intra-group transactions		Tax losses		Total	
	2014 HK$'000	2013 HK$'000	2014 HK$'000	2013 HK$'000	2014 HK$'000	2013 HK$'000
At 1 January	**157,511**	152,116	**–**	–	**157,511**	152,116
Currency translation differences	**(696)**	4,770	**423**	–	**(273)**	4,770
(Charged)/credited to consolidated income statement *(Note 9)*	**(35,613)**	625	**95,604**	–	**59,991**	625
At 31 December	**121,202**	157,511	**96,027**	–	**217,229**	157,511

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33 DEFERRED INCOME TAX – GROUP *(continued)*

Deferred Income Tax Liabilities:

	Withholding tax on unremitted earnings in PRC subsidiaries		Tax effect of fair value adjustments on assets recognised upon business combination		Total	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
At 1 January	**130,760**	142,992	**38,386**	42,809	**169,146**	185,801
Currency translation differences	**(848)**	4,398	**–**	–	**(848)**	4,398
Credited to consolidated income statement *(Note 9)*	**(28,007)**	(16,630)	**(3,436)**	(4,423)	**(31,443)**	(21,053)
At 31 December	**101,905**	130,760	**34,950**	38,386	**136,855**	169,146

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise cumulative deferred tax assets of HK$19,533,000 (2013: HK$42,869,000) in respect of losses amounted to HK$78,130,000 (2013: HK$171,474,000) that can be carried forward against future taxable income as at 31 December 2014. The unrecognised tax losses expire in the following years:

	2014 HK$'000	2013 HK$'000
Expire year		
2014	**–**	6,030
2015	**9,290**	9,225
2016	**13,969**	18,079
2017	**13,385**	30,821
2018	**12,373**	107,319
2019	**29,113**	–
	78,130	171,474

Deferred income tax liabilities of HK$349,500,000 (2013: HK$339,620,000) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. The unremitted earnings are permanently reinvested. Unremitted earnings totalled HK$6,990,000,000 at 31 December 2014 (2013: HK$6,792,400,000).

34 TRADE AND OTHER PAYABLES – GROUP AND COMPANY

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**2,299,705**	2,096,990	**11,966**	18,904
Other payables and accrued charges				
– Payables for purchase of property, plant and equipment	**512,906**	494,122	**–**	–
– Accrued expenses	**519,537**	240,631	**9,484**	3,328
– Advance receipts from customers	**144,506**	280,415	**983**	726
– Staff salaries payables	**137,359**	138,500	**–**	–
– Other taxes payables	**26,117**	23,601	**–**	–
– Dividend payables	**54,767**	66,305	**–**	–
– Others	**36,449**	28,338	**14**	9
	1,431,641	1,271,912	**10,481**	4,063
Trade and other payables	**3,731,346**	3,368,902	**22,447**	22,967

At 31 December 2014, the ageing analysis of trade payables was as follows:

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 30 days	**1,577,367**	1,527,717	**5,866**	18,904
31–180 days	**694,510**	544,042	**6,100**	–
181–365 days	**9,388**	9,112	**–**	–
Over 365 days	**18,440**	16,119	**–**	–
	2,299,705	2,096,990	**11,966**	18,904

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

34 TRADE AND OTHER PAYABLES – GROUP AND COMPANY *(continued)*

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

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
RMB	**1,143,662**	1,099,796	**–**	–
US$	**1,153,925**	995,542	**11,966**	18,904
Other currencies	**2,118**	1,652	**–**	–
	2,299,705	2,096,990	**11,966**	18,904

35 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Cash Generated from Operations

	2014	2013
	HK$'000	HK$'000
Profit before income tax	**5,342,886**	5,015,471
Depreciation of property, plant and equipment *(Note 14)*	**710,419**	664,903
Depreciation of investment properties *(Note 15)*	**2,505**	–
Amortisation of land use rights *(Note 17)*	**28,676**	28,188
Amortisation of intangible assets *(Note 18)*	**13,012**	9,827
Realised fair value gains on derivative financial instruments *(Note 6)*	**(39,727)**	(1,239)
Unrealised fair value losses on derivative financial instruments *(Note 6)*	**–**	36,682
Losses on disposal of property, plant and equipment and land use rights *(Note 6)*	**26,651**	27,058
Share-based compensation expenses *(Note 28)*	**77,212**	81,441
Amortisation of deferred income on government grants *(Note 7)*	**(921)**	(1,188)
Interest income and other finance income	**(706,672)**	(625,310)
Finance costs *(Note 8)*	**639,525**	363,992
Operating profit before working capital changes	**6,093,566**	5,599,825
Decrease/(Increase) in inventories	**673,079**	(429,166)
Increase in trade and bills receivables, other receivables, prepayments and deposits	**(438,843)**	(346,387)
Increase in trade payables, other payables and accrued charges	**341,439**	395,402
Cash generated from operations	**6,669,241**	5,219,674

35 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Proceeds from Disposal of Property, Plant and Equipment and Land Use Rights

	2014 **HK$'000**	2013 HK$'000
Net book value *(Note 14 and Note 17)*	**284,095**	39,684
Losses on disposal of property, plant and equipment and land use rights *(Note 6)*	**(26,651)**	(27,058)
Proceeds from disposal of property, plant and equipment and land use rights	**257,444**	12,626

36 CONTINGENT LIABILITIES

At 31 December 2014, the Group had no material contingent liabilities (2013: Nil).

37 COMMITMENTS

At 31 December 2014, the Group had the following commitments:

(a) Capital Commitments

	Group	
	2014 **HK$'000**	2013 HK$'000
Contracted but not provided for in respect of:		
Machinery and equipment	**786,841**	1,046,496
Leasehold land and buildings	**297,085**	493,556
	1,083,926	1,540,052
Authorised but not contracted for in respect of:		
Leasehold land and buildings	**27,887**	215,029
Total capital commitments	**1,111,813**	1,755,081

37 COMMITMENTS *(continued)*

(b) Commitments under operating leases

(i) The Group is the Lessee:

At 31 December 2014, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land use rights and buildings	
	2014	2013
	HK$'000	HK$'000
Not later than 1 year	**39,074**	39,953
Later than 1 year and not later than 5 years	**12,612**	11,656
	51,686	51,609

(ii) The Group is the Lessor:

The Group leases out certain office premises under non-cancellable operating lease agreements. The further aggregate minimum rental receivable under these leases is as follows:

	2014	2013
	HK$'000	HK$'000
Not later than 1 year	**14,893**	–
Later than 1 year and not later than 5 years	**47,274**	–
Later than 5 years	**11,266**	–
	73,433	–

38 SIGNIFICANT RELATED PARTY TRANSACTIONS – GROUP

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

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following significant related party transactions during the year ended 31 December 2014:

	2014 **HK$'000**	2013 HK$'000
Purchases from Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power")		
– Electricity energy	**131,673**	158,589
– Heat energy	**83,839**	101,631
	215,512	260,220
Key management compensation		
– Basic salaries, housing allowances, other allowances and benefits-in-kind	**13,108**	12,396
– Share-based compensation	**7,252**	7,351
– Contributions to pension schemes	**76**	71
	20,436	19,818

Pursuant to agreements entered between a wholly-owned subsidiary of the Company and Weifang Power, an electricity generation company, the Group purchased electricity and heat energy from Weifang Power at prices not less favorable than the prevailing market prices. Weifang Power is beneficially owned by Mr. Sze Wong Kim, an executive director, and a son of Mr. Hui Lin Chit, an executive director and a substantial shareholder of the Company.

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39 PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries of the Company at 31 December 2014 which, in the opinion of the Directors, are significant to the results of the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars +of issued share capital/ registered capital	Interest held 2014 %
Direct subsidiaries:				
Hengan Mega Jumbo Investments Ltd.	Hong Kong, limited liability company	Investment holding, trading and procurement in Hong Kong	9,000 ordinary shares of HK$1,367,302,854	100
Ever Town Investments Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100
Hengan International Holdings Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100
Indirect subsidiaries:				
Anhai (Macao Commercial Offshore) Limited	Macau, limited liability company	Trading and procurement in Macau	MOP100,000	100
Hengan (China) Investment Co., Ltd.*	PRC, wholly foreign-owned enterprise	Investment holding, trading and procurement in the PRC	RMB1,180,000,000	100
Hengan Industrial (Hong Kong) Limited	Hong Kong, limited liability company	Trading and procurement in Hong Kong	2 ordinary shares of HK$2	100
Hengan Pharmacare Company Limited	Hong Kong, limited liability company	Trading, procurement and distribution of hygiene products in Hong Kong	10,000 ordinary shares of HK$2,030,786	70
PT. Hengan Global	Indonisa, joint venture	Distribution and sale of personal hygiene products in Indonesia	US$2,000,000	70
Fujian Hengan Holding Xiamen Business Trade Co., Ltd.	PRC, sino-foreign equity joint venture	Trading in the PRC	RMB100,000,000	100
Fujian Hengan Holding Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB511,407,600	99.02
Guangzhou Xingshi Professional Equipments Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$18,000,000	100

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39 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars +of issued share capital/ registered capital	Interest held 2014 %
Indirect subsidiaries: *(continued)*				
Hengan (Jinjiang) Household Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$15,800,000	100
Hengan (Sichuan) Hygiene Products Co. Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$1,380,000	100
Hengan (Weifang) Hygiene Products Co., Ltd	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$3,410,000	100
Fujian Hengan Hygiene Material Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$40,000,000	100
Quanzhou Jinjiang Hengan Hygiene Science and Technology Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB11,100,000	90.1
Hengan (Sichuan) Family Products Co., Ltd.*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$3,000,000	100
Hengan (Weifang) Household Products Co., Ltd.*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	HK$10,000,000	100
Hengan (Xiaogan) Family Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB76,200,200	100
Hengan (Sichuan) Household Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$15,000,000	100

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39 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars +of issued share capital/ registered capital	Interest held 2014 %
Indirect subsidiaries: *(continued)*				
Hengan (Fushun) Household Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB24,000,000	100
Hengan (Jiangxi) Household Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	HK$26,958,000	100
Hengan (Hefei) Living Co., Ltd.*	PRC, sino-foreign foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB114,300,000	100
Hunan Hengan Paper Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$39,980,000	100
Hengan (Chongqing) Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	HK$2,500,000	100
Hengan (China) Paper Industry Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$98,880,000	100
Hengan (China) Hygiene Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$12,000,000	100
Hengan (Tianjin) Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB105,731,005	100
Hengan Guangxi Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB161,400,000	100

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39 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars +of issued share capital/ registered capital	Interest held 2014 %
Indirect subsidiaries: *(continued)*				
Hengan (Hunan) Hearttex Paper Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB159,000,000	100
Hunan Hengan Living Paper Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB552,280,000	100
Hengan (Chongqing) Living Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB559,200,000	100
Hengan (Shaanxi) Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$9,980,000	100
Jinjiang Hengan Hearttex Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$12,000,000	100
Jinjiang Hengan Household Tissue Product Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$12,000,000	100
Shandong Hengan Paper Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$55,800,000	100
Shandong Hengan Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$35,880,000	100
Chongqing Hengan Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$6,000,000	100
Fushun Hengan Tissue Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$6,000,000	100

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39 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars +of issued share capital/ registered capital	Interest held 2014 %
Indirect subsidiaries: *(continued)*				
Hengan Li Ren Tang (Jian) Cosmetics Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of skin care products and daily personal necessities in the PRC	RMB32,000,000	70
Hengan (Wuhu) Paper Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB324,000,000	100
Junichi (Xiamen) Maternal and Child Articles Co., Ltd.	PRC, wholly foreign-owned enterprise	Trading pregnant women, infants and kid's products in the PRC	HK$24,000,000	100
Junichi Co., Ltd.	Japan, limited liability company	Trading the products for ladies and babies in Japan	JPY100,000	100
Hengan (Henan) Hygiene Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB82,000,000	100
Hengan (Changji) Paper Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB82,000,000	100
Hengan (Zhejiang) Homecare Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Distribution and sale of packaged tissue paper and personal hygiene products in the PRC	USD 70,000,000	100
Xiamen Jinjiang Property Co., Ltd*	PRC, limited liability company	Property management in the PRC	RMB1,000,000	100
Fujian Hengan Homecare Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB310,000,000	100
Wuhu Hengan Hearttex Paper Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB105,000,000	100

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39 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars +of issued share capital/ registered capital	Interest held 2014 %
Indirect subsidiaries: *(continued)*				
QinQin Foodstuffs Group Company Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	135,946,900 ordinary shares of HK$0.001 each	51
QinQin Foodstuffs Group (Hong Kong) Company Limited	Hong Kong, limited liability company	Investment holding, distribution and sale of snack foods in Hong Kong	1 ordinary shares of HKD1	51
Fushun Nanfang Food Industry Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB10,000,000	51
Fushun QinQin Food Industry Development Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB22,000,000	51
Luohe Linying QinQin Food Industry Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB100,000,000	51
QinQin Incorporated Co., Ltd. (Fujian)	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB70,000,000	51
Quanzhou QinQin Foodstuff Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of snack foods in the PRC	RMB130,000,000	51
Taian QinQin Food Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB5,000,000	51
Xiantao QinQin Food Industry Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB10,000,000	51
Xianyang QinQin Foods Stuff Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of snack foods in the PRC	RMB5,000,000	51
QinQin Business Trade Co., Ltd.	PRC, limited liability company	Trading in the PRC	RMB5,000,000	51

* *For identification purpose only*

39 PRINCIPAL SUBSIDIARIES *(continued)*

The total non-controlling interest for the period is HK$425,419,000, of which HK$413,897,000 is attributable to QinQin Foodstuffs Group Company Limited and its subsidiaries. The non-controlling interests in respect of Hengan Pharmacare Company Limited, Fujian Hengan Holding Co., Ltd., Jinjiang Hengan Antimicrobial Science and Technology Development Co., Ltd., Hengan Li Ren Tang (Jian) Cosmetics Co., Ltd. and PT. Hengan Global are not material.

For the non-wholly owned subsidiaries, the non-controlling interests represent the remaining interests and the related voting rights other than those held by the Company.

Summarised Financial Information on Subsidiaries with Material Non-controlling Interests

Set out below are the summarised financial information for QinQin Foodstuffs Group Company Limited that has non-controlling interests that are material to the Group.

Summarised balance sheet

	2014 HK$'000	2013 HK$'000
Current		
Assets	**506,584**	499,367
Liabilities	**(325,283)**	(451,171)
Total current net assets	**181,301**	48,196
Non-current		
Assets	**702,913**	737,408
Liabilities	**(39,527)**	(44,062)
Total non-current net assets	**663,386**	693,346
Net assets	**844,687**	741,542

Summarised income statement

	2014 HK$'000	2013 HK$'000
Revenue	**1,534,749**	1,604,655
Profit before income tax	**145,626**	123,140
Income tax expense	**(40,312)**	(30,650)
Post-tax profit	**105,314**	92,490
Other comprehensive income	**(2,169)**	9,742
Total comprehensive income	**103,145**	102,232
Total comprehensive income allocated to non-controlling interests	**50,541**	50,094
Dividends paid to non-controlling interests	**22,248**	–

39 PRINCIPAL SUBSIDIARIES *(continued)*

Summarised Financial Information on Subsidiaries with Material Non-controlling Interests *(continued)*

Summarised cash flows

	2014 HK$'000	2013 HK$'000
Cash flows from operating activities		
Cash generated from operations	**232,452**	152,676
Income tax paid	**(36,352)**	(29,942)
Net cash generated from operating activities	**196,100**	122,734
Net cash used in investing activities	**(23,714)**	(13,027)
Net cash used in financing activities	**(48,050)**	(80)
Net increase in cash and cash equivalents	**124,336**	109,627
Cash and cash equivalents at beginning of year	**199,807**	85,863
Exchange (losses)/gain on cash and cash equivalents	**(6,011)**	4,317
Cash and cash equivalents at end of year	**318,132**	199,807

The information above is the amount before inter-company eliminations of transactions with the Group's other entities, if any.