恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044

# ANNUAL REPORT 2016

# 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.**

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# 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
Li Wai Leung *(appointed on 21 March 2017)*

## INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## COMPANY SECRETARY

Li Wai Leung *FCPA*

## AUTHORISED REPRESENTATIVES

Hui Lin Chit
Li Wai Leung

## LEGAL ADVISERS

*Hong Kong*
ReedSmith Richards Butler

*PRC*
Global Law Office

*Cayman Islands*
Maples and Calder (Hong Kong) LLP

## 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

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

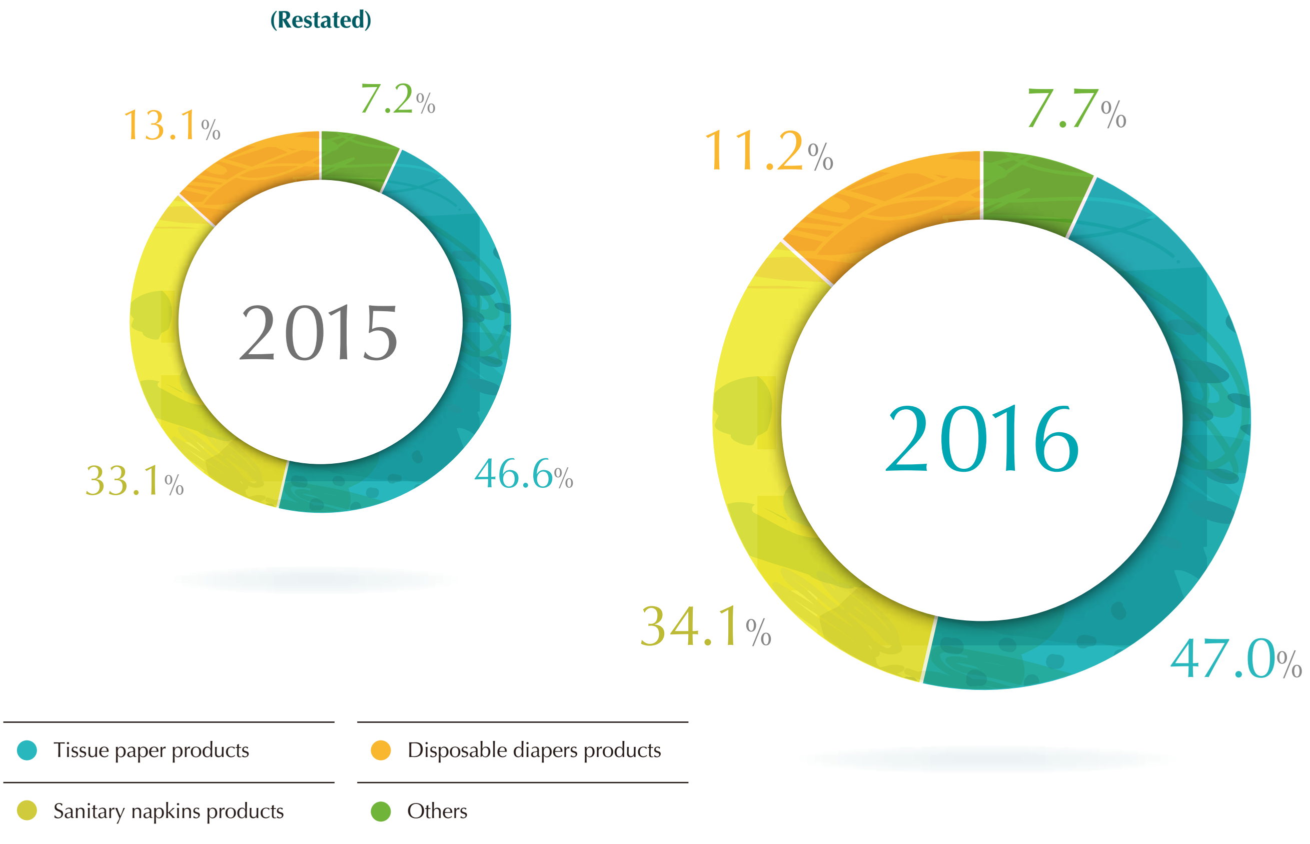
iPR Ogilvy Ltd.
Units 2008–12, 20/F, The Centre
99 Queen's Road
Central Hong Kong

# FINANCIAL HIGHLIGHTS

| | **2016** | 2015 (Restated) | 2014 (Restated) | 2013 (Restated) | 2012 (Restated) |
|---|---|---|---|---|---|
| **Continuing operations *(Note)*** | | | | | |
| Net profit margin — based on profit attributable to shareholders of the Company (%) | **18.0** | 17.3 | 16.4 | 17.6 | 19.0 |
| Earnings per share — basic (RMB) | **2.864** | 2.645 | 2.525 | 2.418 | 2.331 |
| Finished goods turnover (days) | **46** | 43 | 49 | 55 | 47 |
| Trade receivables turnover (days) | **47** | 40 | 35 | 35 | 37 |
| Current ratio (times) | **1.4** | 1.2 | 1.5 | 1.6 | 1.5 |
| Gross gearing ratio (%) | **108.1** | 98.8 | 115.3 | 116.1 | 78.9 |
| Net gearing ratio (%) | **(4.9)** | (7.9) | (10.3) | (5.7) | (1.1) |

*Note:* The financial highlights for the year ended 31 December 2016 were presented as continuing operations and comparatives for the year ended 31 December 2015 have been restated accordingly. The financial highlights prior to 2015 have not been restated for continuing operations.

## ANALYSIS OF REVENUE BY PRODUCT



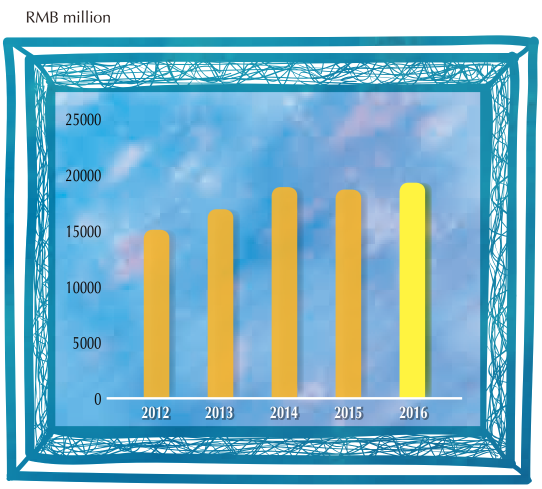
# FIVE-YEAR FINANCIAL SUMMARY

## CONSOLIDATED RESULTS — FOR THE YEAR ENDED 31 DECEMBER

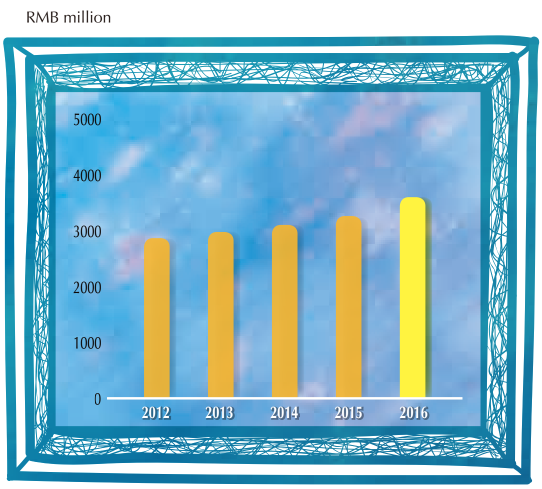
| | 2016 RMB'000 | 2015 RMB'000 (Restated) | 2014 RMB'000 (Restated) | 2013 RMB'000 (Restated) | 2012 RMB'000 (Restated) |
|---|---|---|---|---|---|
| Revenue *(Note)* | **19,277,397** | 18,662,576 | 18,883,508 | 16,904,603 | 15,071,315 |
| Profit before income tax *(Note)* | **4,559,011** | 4,548,674 | 4,231,297 | 4,011,520 | 3,692,203 |
| Income tax expense *(Note)* | **(1,079,445)** | (1,299,209) | (1,084,310) | (997,234) | (810,111) |
| Profit for the year from continuing operations *(Note)* | **3,479,566** | 3,249,465 | – | – | – |
| Profit for the year from discontinued operations *(Note)* | **281,896** | 52,272 | – | – | – |
| Profit for the year | **3,761,462** | 3,301,737 | 3,146,987 | 3,014,286 | 2,882,092 |
| Non-controlling interests | **(164,641)** | (41,874) | (45,788) | (38,992) | (17,008) |
| Profit attributable to shareholders of the Company | **3,596,821** | 3,259,863 | 3,101,199 | 2,975,294 | 2,865,084 |
| Earnings per share - basic (RMB) *(Note)* | **2.864** | 2.645 | 2.525 | 2.418 | 2.331 |

*Note:* The financial results for the year ended 31 December 2016 were presented as continuing operations and comparatives for the year ended 31 December 2015 have been restated according. The financial results prior to 2015 have not been restated.

## REVENUE




## PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

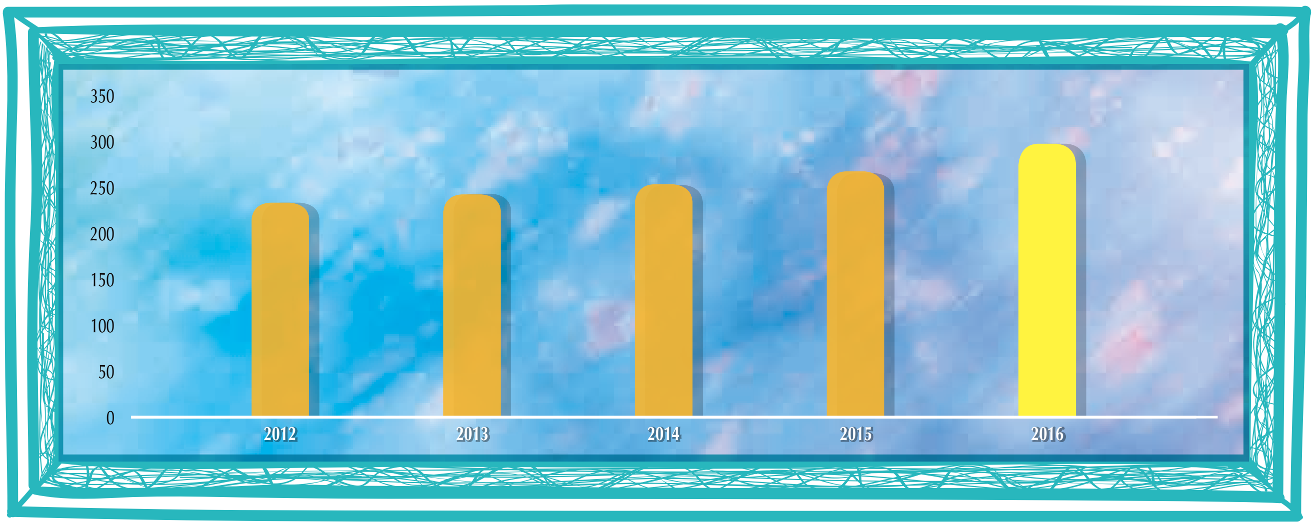


## CONSOLIDATED ASSETS AND LIABILITIES — AS AT 31 DECEMBER

| | 2016 RMB'000 | 2015 RMB'000 (Restated) | 2014 RMB'000 (Restated) | 2013 RMB'000 (Restated) | 2012 RMB'000 (Restated) |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Property, plant and equipment | **7,344,807** | 7,468,314 | 6,996,840 | 6,787,773 | 6,343,002 |
| Construction-in-progress | **1,094,145** | 1,089,602 | 1,091,711 | 949,240 | 1,056,359 |
| Investment properties | **194,848** | 185,886 | 188,542 | – | – |
| Land use rights | **751,308** | 858,708 | 881,855 | 873,563 | 841,038 |
| Intangible assets | **498,510** | 599,356 | 609,975 | 593,179 | 601,776 |
| Prepayments for non-current assets | **163,281** | 151,924 | 281,270 | 298,334 | 223,477 |
| Deferred income tax assets | **210,813** | 186,094 | 171,372 | 123,835 | 123,336 |
| Cash and bank balances | **14,874,877** | 14,866,085 | 16,800,949 | 15,381,201 | 7,738,581 |
| Long-term bank deposits | **1,760,000** | 850,000 | 865,000 | 640,000 | 1,496,113 |
| Other current assets | **7,252,139** | 6,708,384 | 5,853,258 | 6,106,992 | 5,387,970 |
| Total assets | **34,144,728** | 32,964,353 | 33,740,772 | 31,754,117 | 23,811,652 |
| **Liabilities** | | | | | |
| Long-term borrowings | **3,524,687** | – | – | 754,471 | 3,070,677 |
| Convertible bonds | **472,719** | 4,656,907 | 4,252,382 | 4,109,570 | – |
| Deferred income tax liabilities | **106,452** | 159,563 | 111,423 | 136,645 | 153,678 |
| Deferred income on government grants | **–** | – | – | 730 | 1,679 |
| Other current liabilities | **15,280,014** | 13,056,088 | 14,978,378 | 13,298,455 | 8,769,797 |
| Total liabilities | **19,383,872** | 17,872,558 | 19,342,183 | 18,299,871 | 11,995,831 |
| Non-controlling interest | **34,065** | 380,928 | 340,378 | 308,125 | 272,058 |
| **Net assets attributable to shareholders of the Company** | **14,726,791** | 14,710,867 | 14,058,211 | 13,146,121 | 11,543,763 |

## EARNINGS PER SHARE

RMB Cents



▲ "HEARTTEX" AND "PINO" BOX TISSUE PAPER

▲ "HEARTTEX" KITCHEN TOWELS

▲ "JUNICHI" BABY SKIN CARE PRODUCTS, "MISSMAY" SKIN CARE PRODUCTS AND "SUNREST" CLEANSING PRODUCTS

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

▲ "HEATTEX" PRESERVATION BAGS/PAPER

▲ "SPACE 7", "ANERLE", "ANLE" AND "DORIA" SANITARY NAPKINS AND PANTILINERS


◀ "HEARTTEX", "PINO" AND "ZHU PAI" POCKET HANDKERCHIEFS

▼ "HEARTTEX" AND "PINO" TOILET ROLLS



▲ "ELDERJOY" ADULT DIAPERS

"HEARTTEX" WET TISSUES ▶



▲ "ANERLE" AND "Q • MO" BABY DIAPERS

# 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 2016. During the year under review, the global political and economic environments were volatile with the occurrence of a few "black swan events" one after another, in particular, Britain's decision to leave the European Union through a referendum and Donald Trump's victory in the U.S presidential election surprised the world the most. Despite an economic slowdown in China during the year and the continuous depreciation of RMB, the Chinese government accelerated reforms and innovations to spur domestic consumption. China's "two-child" policy along with the country's ongoing urbanization process and rising income of Chinese citizens will bode well for the development of high-quality personal and household hygiene products market. As a leading company in the market for personal care and family hygiene products in mainland China, Hengan leverages its brand equity, economies of scale and the spirit of continuous innovation to grasp opportunities in the changing market and drive its consistent business growth.

**SZE MAN BOK**
*Chairman*

For the year ended 31 December 2016, the Group's revenue from continuing operations amounted to approximately RMB19,277,397,000 (2015: RMB18,662,576,000), representing an increase of about 3.3% over the prior year. Profit for continuing operations attributable to the shareholders of the Company was approximately RMB3,471,746,000 (2015: RMB3,233,204,000), an increase of approximately 7.4% compared with that of previous year. Overall profit attributable to shareholders increased by about 10.3% to approximately RMB3,596,821,000 (2015: RMB3,259,863,000). Overall basic earnings per share were approximately RMB2.967 (2015: RMB2.667). The Board of Directors recommended the payment of a final dividend of RMB1.10 per share (2015: RMB0.96), which together with the interim dividend of RMB0.85 per share (2015: RMB0.78), bringing the annual dividend to RMB1.95 per share (2015: RMB1.74).

During the year under review, despite the intense competition in the market, the Group flexibly adjusted its sales and marketing strategy, thus making steady progress in its major business and achieving continuous growth in the businesses of tissue paper and sanitary napkin. The tissue paper business continued to be the Group's major revenue source, accounting for approximately 47.0% of the Group's revenue from continuing operations. The businesses of sanitary napkin and disposable diaper accounted for approximately 34.1% and 11.2% respectively of the Group's total revenue from continuing operations. Benefitting from the optimized product portfolio, the launch of several upgraded products, as well as low prices of major raw materials such as tissue wood pulp and petrochemical products during the year, the Group's businesses of tissue paper and disposable diapers saw their gross profit margins increase.

Hengan International consistently upheld its corporate spirit of integrity, diligence, innovation and dedication. Over the years, the Group continued to learn, improve, transform and upgrade its products and operations to provide the public with high-quality personal and household hygiene products, attending to customers' needs as well as growing with them. In addition to product innovation, Hengan made continuous adjustments to its business structure to keep abreast of the changes in the market. Since 2013, the Group has been pushing forward its third management reform through collaborations with multiple professional third parties. Through optimization of supply chain management, implementation of a flattened sales team structure and establishment of an information platform, the Group will enhance its operational efficiencies and its sensitivity towards the market while reducing costs at the same time.

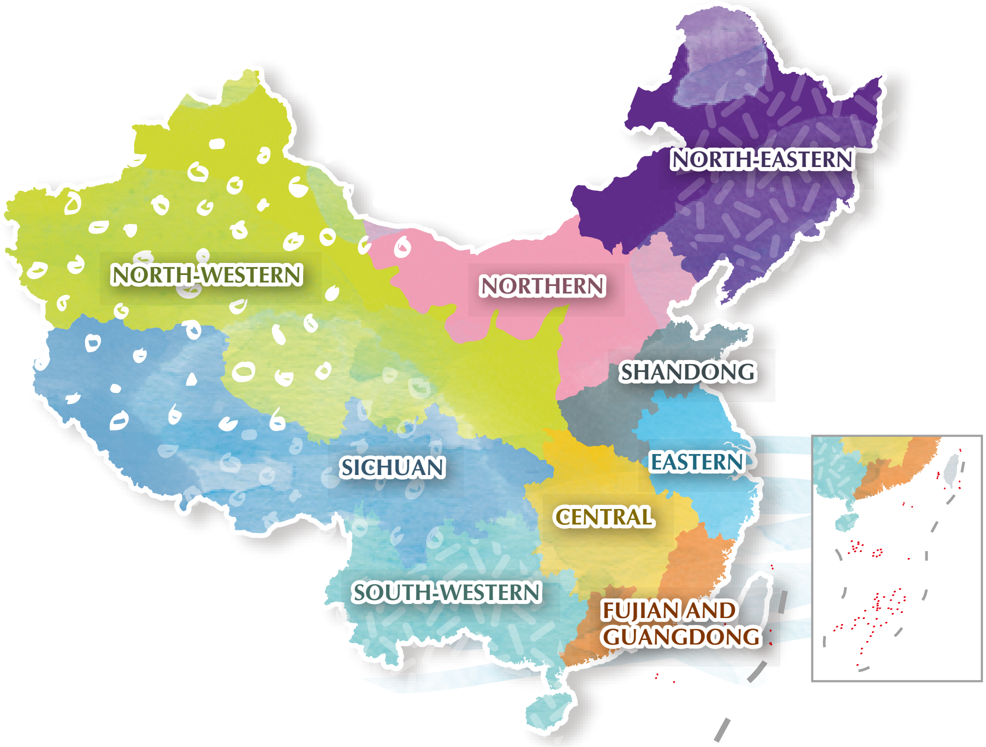
In 2016, the Group was ranked in the top 10 of "2016 China Brand Value Evaluation Information Conference" with brand value at RMB52.2 billion and was ranked 2nd in the light industry category. In addition, the Group was given a higher ranking in Fortune's "Top 500 Chinese Companies of 2016" in recognition the Group's outstanding performance and market position.

Looking ahead to 2017, uncertainties surrounding the global politics and economy will impact the consumer confidence and overall market sentiment. Nevertheless, higher living standards of Chinese residents, their growing awareness of health and hygiene and the two-child policy will continue to support the growth of the market of personal hygiene products. The Group's third management reform and implementation of flattened sales team structure are expected to be completed by 2017. By then, operational efficiencies from production to logistics, inventory and sales will be enhanced. In addition, the Group will stay committed to enhancing product quality,


optimizing the product mix and flexibly deploying marketing strategy to capture market opportunities and improve its profitability. These strategic plans will ensure the Group's long term and stable growth amid the evolving economic environment, while maintaining its leading position in the industry in mainland China.

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

## REVENUE FROM CONTINUING OPERATIONS BY REGIONS IN MAINLAND CHINA




| | **2016** | 2015 (Restated) |
|---|---|---|
| **NORTH-WESTERN** | | |
| Sales Value: (RMB million) | **932** | 979 |
| Percentage of Total Sales: | **4.8%** | 5.2% |
| **NORTHERN** | | |
| Sales Value: (RMB million) | **1,476** | 1,704 |
| Percentage of Total Sales: | **7.7%** | 9.1% |
| **NORTH-EASTERN** | | |
| Sales Value: (RMB million) | **830** | 912 |
| Percentage of Total Sales: | **4.3%** | 4.9% |
| **SHANDONG** | | |
| Sales Value: (RMB million) | **1,848** | 1,791 |
| Percentage of Total Sales: | **9.6%** | 9.6% |

| | **2016** | 2015 (Restated) |
|---|---|---|
| **EASTERN** | | |
| Sales Value: (RMB million) | **2,988** | 2,682 |
| Percentage of Total Sales: | **15.5%** | 14.4% |
| **CENTRAL** | | |
| Sales Value: (RMB million) | **2,425** | 2,371 |
| Percentage of Total Sales: | **12.6%** | 12.7% |
| **FUJIAN AND GUANGDONG** | | |
| Sales Value: (RMB million) | **4,897** | 4,265 |
| Percentage of Total Sales: | **25.4%** | 22.9% |
| **SOUTH-WESTERN** | | |
| Sales Value: (RMB million) | **1,021** | 890 |
| Percentage of Total Sales: | **5.3%** | 4.8% |
| **SICHUAN** | | |
| Sales Value: (RMB million) | **1,599** | 1,626 |
| Percentage of Total Sales: | **8.3%** | 8.7% |

**Sze Man Bok**
*Chairman*

Hong Kong, 21 March 2017

# CHIEF EXECUTIVE OFFICER'S REPORT

## BUSINESS REVIEW

For the year ended 31 December 2016, the Group recorded revenue from continuing operations of approximately RMB19,277,397,000 (2015: RMB18,662,576,000), an increase by about 3.3% compared with that of last year. Profit for continuing operations attributable to shareholders of the Company increased by about 7.4% to approximately RMB3,471,746,000 (2015: RMB3,233,204,000). Profit from discontinued operations attributable to the shareholders of the Company rose by about 369.2% approximately to RMB125,075,000 (2015: RMB26,659,000). Overall profit attributable to shareholders increased by about 10.3% to approximately RMB3,596,821,000 (2015: RMB3,259,863,000). The Board of Directors declared a final dividend of RMB1.10 per share for the year ended 31 December 2016 (2015: RMB0.96).

Despite intensifying market competition, the prices of major raw materials maintained at a low level for most of the year. Coupled with the Group's product optimization measures, gross profit margin for continuing operations rose to about 48.8% (2015: 47.9%). Distribution costs and administrative expenses for continuing operations increased to approximately 27.0% (2015: 24.6%) of the Group's revenue for continuing operations, which was attributable to increase in marketing and advertising expenses, as well as the rise in transportation costs as a result of the implementation of new regulations on road transport in September, which imposes strict limitations on the loading capacity of cargo vehicles.

The effective tax rate for continuing operations decreased to approximately 23.7% (2015: 28.6%). The Group provided a large amount of dividend withholding tax in the second half of 2015 for the dividend which would likely be remitted out of mainland China in the foreseeable future. As such, the provision for dividend withholding tax for 2016 became lower.

## SANITARY NAPKINS

Accelerating urbanization and rising national income have raised overall living standards and spurred consumption, thereby supporting the development of the sanitary napkins market. As the market penetration of the sanitary napkins market in China has been very high and the competition has been intense, which to a certain extent has limited the sales growth of the Group's sanitary napkin business. Still, the Group continued to optimize its product portfolio, actively promoted online sales and launched a series of online exclusive product lines such as Space 7 Wow + Miow series, Space 7 Candy series etc. These new products have enabled the Group to reach customers of different age and the online consumers, allowing the sanitary napkin business to maintain stable revenue growth, and consolidating the Group's leading position in the market.

During the year, revenue of the sanitary napkin business grew by approximately 6.2% to approximately RMB6,568,885,000, which accounted for around 34.1% (2015: 33.1%) of the revenue from continuing operations. Despite the fierce market competition, the gross profit margin remained stable at approximately 72.6% (2015: 72.6%), as a result of the persistently low prices of major raw materials and petrochemical products during the year and benefit from the optimized product portfolio.

**HUI LIN CHIT**
*Chief Executive Officer*


In response to intensifying market competition, the Group will continue to optimize its product portfolio and launch new and upgraded products with an aim of increasing the mid-to-high end and high-end market development and maintenance, developing new target customers and consolidating the existing consumer groups. In addition, the Group will continue to develop online sales channels. The Group will launch a series of new e-commerce and Wechat store exclusive series to meet the needs of the market. It is expected that sales performance will grow steadily in 2017.

## TISSUE PAPER

With increasing hygiene awareness in China, the addressable market of high-quality tissue paper has extended from first- and second-tier cities to third- and fourth-tier cities. Despite quality of life and consumer health awareness have continued to improve, China's tissue consumption per capita still lags behind that of developed countries, implying enormous market potential. Even though the industry still faces overcapacity, the Chinese government's implementation of environmentally friendly manufacturing regulations will help eliminate small and medium enterprises that fail to meet the standard, and is expected to further enhance the industry concentration and benefit the Group and other large-scale manufacturers in the long term.

During the year, revenue from the Group's tissue paper segment increased by about 4.3% to approximately RMB9,066,499,000, accounting for approximately 47.0%(2015: 46.6%) of the Group's total revenue from continuing operations. Gross profit margin increased to approximately 37.9% (2015: 35.6%) due to the persistent drop in price of wood pulp, a major raw material for tissue paper production and the optimized product portfolio.

The Group's annualized production capacity was approximately 1,140,000 tons during the year and it is expected to increase to approximately 1,430,000 tons by the fourth quarter of 2017 or the first half of 2018. The Group will expand its production capacity according to the market conditions and sales performance in the future. In addition, the Group will continue to launch new and upgraded products, the packaging and quality of which will be further enhanced. On the other hand, the Group will continue to strengthen its online sales channels, and introduce online exclusive products to cater for different types of consumer groups. The group will also step up its efforts in marketing and brand promotions. Sales performance in 2017 is expected to achieve steady growth.

## DISPOSABLE DIAPERS

In light of urbanization, coupled with increasing personal hygiene awareness and pursuit of higher living standards, the demand for disposable diapers continued to rise. However, the market penetration of disposable diapers is still low as many Chinese people still do not regard diapers as a necessity, which implies the Chinese diaper market still has massive growth potential.

During the year, competition in the diapers market intensified. The entrance of a large number of small and medium manufacturers into the market further intensified the price competition of low- and mid-end products. On the other hand, with the rise of cross-border e-commerce in recent years, foreign brands hit the Chinese market and affected the sales of the Group's mid-to-high-end diapers. As a result, revenue from the sales of diapers for the year ended 31 December 2016 decreased by approximately 12.3% to approximately RMB2,150,252,000, accounting for approximately 11.2% (2015: 13.1%) of the Group's revenue from continuing operations.

During the year, prices of major raw materials and petrochemical products continued to remain at a low level, together with the optimized product portfolio, gross profit margin rose to approximately 50.8% (2015: 49.3%). During the year, the Group's diaper brand Anerie was granted the "European Union's CE safety certification" and "China Health and Safety Product Certification". Anerie was the first Chinese diaper brand to be awarded the latter, which assured the quality of the brand's diaper products, strengthened the public's confidence in the Group's products and enhanced the competitiveness of its products.

China has fully implemented the "two-child" policy, a baby boom will gradually emerge in the long run, which in turn bringing huge development opportunities to the domestic diaper market and driving the long-term growth of the diaper market. Besides, the Chinese government has imposed tax on cross-border e-commerce transactions in 2016, which will enhance the competitiveness of the Group's products. The Group will continue to upgrade existing products, develop high-end products and further expand in maternity stores and online sales channels in order to outshine the competition with quality products.

## FOOD AND SNACKS PRODUCTS

On 8 July 2016, Qinqin Foodstuffs Group (Cayman) Company Limited (the "Qinqin Group") (SEHK stock code: 1583) was spun off from the Group and listed on the Main Board of the Stock Exchange. After spinning off the food and snacks business, the Group will focus on the production, distribution and sales of its personal hygiene products in the future.

In view of the above, the operation of Qinqin Group is regarded as "discontinued operations", and hence its profit for the year around RMB281,896,000 (2015: RMB52,272,000) was recorded separately as "profit for the year from discontinued operations" in the consolidated income statement. Included in the amount, the Group recorded a one-off gain of approximately RMB267,111,000 from the spin-off of Qinqin Group and net profit of the Qinqin Group for the period from 1 January 2016 to 7 July 2016 of around RMB14,785,000 (2015: 52,272,000). The decrease in the net profit of the Qinqin Group for the period was mainly due to the impact of slowdown in economic growth and intensified market competition, and was also dragged by the one-off listing expense of approximately RMB21,500,000 incurred in first half of 2016. For the operations and financial information of Qinqin Group, please refer to the annual report of Qinqin Group.

The Group's profit attributable to shareholders of the Company arising from discontinued operations in 2016 of about RMB125,075,000 (2015: RMB26,659,000).


## FIRST AID PRODUCTS

Sales of first-aid products under the brands of "Banitore" and "Bandi" amounted to approximately RMB25,668,000 (2015: RMB34,057,000). The business only accounted for approximately 0.1% (2015: 0.2%) of the Group's revenue for continuing operations, and did not have any significant impact on the Group's overall results.

## E-COMMERCE

Group observed the changes in the consumption habit of fast moving consumer goods in recent years, and planned its e-commerce business accordingly. In 2016, the Group's e-commerce business grew rapidly, revenue from e-commerce reached about RMB1.1 billion, up by more than 58% over the same period last year.

The Group plans to further expand its e-commerce business in 2017. The Group will precisely position its e-commerce products according to the preferences and needs of consumers, introduce e-commerce and Wechat store exclusive products and make good use of online promotion activities, with the aim of improving its market share in the field of fast moving consumer goods. At the same time, the e-commerce business will work in concert with the Group's sales channel reform and warehouse adjustment to deliver goods in an efficient manner and save distribution costs.

## 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 2016, apart from certain interest rate swap contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

## LIQUIDITY, FINANCIAL RESOURCES AND BANK LOANS

The Group maintained a solid financial position. As at 31 December 2016, the Group's cash and bank balances, long-term bank deposits and restricted bank deposits amounted to approximately RMB16,649,499,000 (31 December 2015: RMB15,737,217,000); the liability component of convertible bonds amounted to approximately RMB472,719,000 (31 December 2015: RMB4,656,907,000); medium-term notes (panda bonds) and domestic bonds of approximately RMB2,987,987,000 (31 December 2015: RMB Nil), and bank borrowings amounted to approximately RMB12,455,274,000 (31 December 2015: RMB9,696,293,000).

In the second half of 2016, the Group successfully registered for the proposed issue of RMB5 billion medium-term notes (panda bonds) and completed the issue of the first tranche RMB2 billion 3-year panda bonds, with a coupon rate of 3.24% per annum. The Group used the proceeds to repay the Group's bank loans during the year.

In addition, the Group successfully registered for the proposed issue of RMB5.75 billion domestic corporate bonds, and in September 2016 completed the issue of the first tranche of RMB1 billion 5-year domestic bonds with a coupon rate of 3.3% per annum. The Group plans to use the proceeds to repay the Group's debt and supplement its working capital requirements.

The principal amount of the convertible bonds issued in June 2013 was approximately RMB4,328 million, out of which part of the convertible bonds had been partly redeemed on 27 June 2016, and the remaining amount will be repaid on 27 June 2018. Please refer to annual report note 30 above for details.

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 0.3% to 4.6% (2015: from 0.3% to 5.2%).

As at 31 December 2016, the Group's gross gearing ratio of continuing operations was approximately 108.1% (31 December 2015: 98.8%), 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 4.9% (31 December 2015: negative 7.9%) as the Group was in a net cash position.

During the year, the Group's capital expenditure for continuing operations amounted to approximately RMB933,348,000. As at 31 December 2016, the Group had no material contingent liabilities.

## 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. to give professional advice on the above aspects. In addition, the Group signed a contract with SAP (Beijing) Software Systems Co., Ltd. to use its software to support the evolving business development in the future, the entire project is expected to be completed in the first half of 2017.

In addition, the company also hired PricewaterhouseCoopers Business Consulting (Shanghai) Co., Ltd. to provide advisory services regarding the preparation of "Environmental, Social and Governance Report" in 2016. The detail report is disclosed to the public. The Group also hired PricewaterhouseCoopers Management Consulting (Shanghai) Co., Ltd. to assist to set up a Services Sharing Centre to handle financial, administrative, human resources and logistics work of subsidiaries, branches and sales representatives' offices, in order to optimize the cost structure.

## ENVIRONMENTAL PROTECTION AND RESOURCES ALLOCATION

In 2016, the Group strictly abided by the China's environmental protection policy, for example, the energy consumption level met the advanced standard of "The norm of energy consumption per unit product of pulp and paper" (GB31825-2015) (≤420kgce/t), representing an industry-leading performance; the emission of sewage met the emission standard stated in "Discharge standard of water pollutants for pulp and paper industry" (GB3544-2008); the emission of fibrous dust particles met the standard of "Integrated emission standard of air pollutants" (GB16297-1996); and the emissions of SO2, NOx and smoke also met the "Emission standard of air pollutants for thermal power plants" (GB13223-2011).

The Group's dissipation of energy in paper manufacturing is 378kgce/t, which met the advanced requirement of "The norm of energy consumption per unit product of pulp and paper" (GB31825-2015) (≤420kgce/t). It has set a leading industry standard with its extraordinary energy utilization rate.

All paper manufacturing companies of the Group have sewage treatment plant, and waste water will be emitted only after the water treatment processes including oblique filter, dissolved air floatation, aerobic aeration, ensuring the waste water to meet the country's emission standard. Some of the paper manufacturing subsidiaries adopted advanced technology to recycle 50% of the waste water for production. Some of the paper manufacturing subsidiaries further applied sand filters after the water recycling process. The recycled water would be used for flushing, greening and washing the production facilities.

Some of the Company's subsidiaries installed waste heat boiler to recycle the waste gas heat arising from natural gas combustion, which could be used in generating steam, thus reducing the purchase of steam. Besides, the subsidiaries also used the insulated Yankee dryer cover to reduce loss of the steam which could save 2% of the steam consumption. In addition, they promoted the use of turbine as a substitute for water ring vacuum pump to reduce steam consumption as well as the variable frequency drivers to reduce electricity consumption.

The Group achieved harmless treatment of its solid wastes. The wet pulp was sold to other carton paper mills for recycling use, while sludge was used in incineration to produce electricity. Domestic wastes were collected by environmental sanitation department and then processed with professional harmless treatment. Meanwhile, gypsums were sold to cement plants for cement manufacturing. Fly ash was sold to other companies for refining rare metals, and cinder could be used for producing brick plate.

For the emission of gas, some of the production processes used advanced foreign equipment to recycle the gas particles generated during the production, in order to maximize the reduction in emissions.

## LATEST AWARDS

In 2016, the Group was one of the top 10 among the companies listed on "2016 China Brand Value Evaluation Information Conference", with brand value at RMB52.2 billion and was ranked 2nd in light industry. During the year, the Group was named "2016 Best Employer in China" and ranked among Fortune's "Top 500 Chinese Companies of 2016". In addition, the Group's Chief Executive Officer Mr. Hui Lin Chit ranked sixth among "Top 100 CEO in China" by Harvard Business Review, and was accredited "Cai Lun Leadership Award" by China Paper and Pulp Industry Chamber of Commerce. These awards are excellent recognition of the Group's outstanding performance and its position in China's personal hygiene products market.

On the other hand, the Group was notified that it would be awarded the "International Carbon-Value Gold Award" by the World Economic and Environmental Conference during the year and was formally accredited with such award in January 2017. The Group's Chief Executive Officer Mr. Hui Lin Chit was also granted "Low Carbon Leadership Award" by the World Economic and Environmental Conference, to commend his adherence to "green, low carbon and sustainable development" concepts in the Group's development for 32 years, setting the industry benchmark. The awards reaffirmed the Group's commitment to operate on the grounds of environmental protection, and its development of green, sustainable production technology. The Group will continue to foster the environmental management and reduce carbon emission for environment protection.

## 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 period 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.

## HUMAN RESOURCES AND MANAGEMENT

As at 31 December 2016, the Group's continuing operations employed approximately 25,000 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.

## OUTLOOK

Looking ahead to 2017, the economic outlook is clouded by uncertainties. The Chinese economy is still going through the adjustment period, slowdown in its growth is expected to continue in the short run. However, ongoing urbanization, continuous increase in national income, consumers' increasing pursuit of a quality life and improved awareness of hygiene will continue to boost the development of the market for personal hygiene product in the long term.

In the face of rising raw material prices since the fourth quarter of 2016, the Group will closely monitor changes in prices and respond accordingly, it is believed that the raw material prices will not impose pressure on the Group's gross margin in the short term. For product mix, the Group will cater for consumer preferences and market needs, and introduce new and upgraded products to enrich its product portfolio.

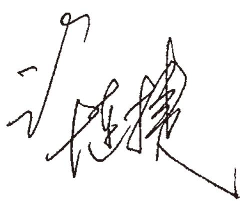
In response to the ever-changing business environment in recent years and to stay competitive in the current and future market landscape, the Group signed with renowned consulting companies like IBM and began its third management reform with end-to-end supply chain informatization and visualization since the end of 2013. With the use of big data, and connect end to end operation chain the Group will be able to monitor its front line operations and improve order fulfillment rate. Better coordination between the Group's production and sales teams will also be achieved to meet market demand more swiftly and create greater value for customers.

Based on the supply chain end to end reform, the Group consolidated its existing team structure by establishing an Operation Services Headquarters, and nine Regional Operation Services Centres. The Group has also integrated various local warehouses nationwide and set up Regional Distribution Centres ("RDC"), to enhance storage capacity and speed up the logistics and distribution processes. The Group has also built a Services Sharing Centre.

Riding on this reformed structure, the Group flattened the structure of sales team and established the "small sales team" model (also known as "Hengan's Amoeba model"). The "small sales teams" have sufficient autonomy and access to the Group's digitalized platforms.

From 2017 onwards, the Group will fully implement the aforementioned new strategies. With the use of the efficient and responsive information-based operations platform, synergies will be created between the online and offline systems, which will enable the Group to increase its core competitiveness. The Group will continue to provide our customers with good quality products at greater value and is confident to lead the sustainable development of the staples market.

With its strong corporate governance and brand equity in mainland China, the Group is confident of maintaining its leading position in China's personal hygiene product market. It will strive to achieve steady business growth and create greater value for shareholders.



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

Hong Kong, 21 March 2017

## DIRECTORS

### Executive Directors

**Mr. Sze Man Bok**, aged 67, 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. Sze is currently an non-executive director of Qinqin Foodstuffs Group (Cayman) Cayman Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

**Mr. Hui Lin Chit**, aged 63, 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"). He is also a deputy chairman of All-China General Chamber of Industry and Commerce, chairman of Fujian Province Industry and Trade Association, United Nations Maritime-Continental Silk Road Cities Alliance, and the Jinjiang City Charity Federation.

During the period from 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 the period from 1997 to 2011, he was also a member of the Executive Committee (at the Eighth) and Standing Committee (at the Ninth), and deputy chairman (at the Tenth) of All-China Federation of Industry and Commence. He was also a deputy chairman of the Ninth, Tenth and Eleventh Political Consultative Conference in Quanzhou City and the chairman of the Tenth, Eleventh, Twelfth and Thirteenth Quanzhou Federation of Industry and Commence.

He is the father of Mr. Hui Ching Chi, a Director of the Company. Mr. Hui is currently the Chairman and a non-executive director of Qinqin Foodstuffs Group (Cayman) Cayman Limited, a company listed on the Main Board of the Stock Exchange.

**Mr. Hung Ching Shan**, aged 67, is responsible for supervising the Group's purchasing tender assignments. He has over 38 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 47, was appointed as the Deputy Chief Executive Officer of the Group on 26 March 2013 and also the Chief Operating Officer of the Group. In September 2016, he was appointed as the Officer of Operations Services Centre. He is responsible for the development, implementation of the Group's sales strategy, operation, business management and supervision of the operations of the Operation Service Centre. He joined the Group in 1985 and has over 32 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, a Director of the Company.

**Mr. Xu Da Zuo**, aged 50, was appointed as the Chief Financial Officer of the Group on 30 November 2016 and appointed as Officer of Service Centre Services (in charge of Finance Department, Asset and Property Management Department and Information System Department) appointed in September 2016. Joining the Group in 1985, Mr. Xu has over 32 years of experience in accounting and internal audit. He has the title of senior accountant in the PRC. He is an elder brother of Mr. Xu Shui Shen, a Director of the Company.

**Mr. Xu Chun Man**, aged 42, 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 26 years of experience in business development and customer service management.

**Mr. Sze Wong Kim**, aged 41, is responsible for overall strategy of the Group. Before joining the Group on 1 June 2010, 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 was appointed as the Company Secretary and authorised representative of the Company on 30 November 2016 and resigned on 3 January 2017. 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 32. He was appointed as Director of Operation Management Department and also as the Deputy Officer of Operation Service Centre in September 2016, responsible for supervising and implementing the operations of the Operation Service Centre (including but not limited to sales services, procurement, production, logistic coordination management etc) and the Operations Service Centre business management. He was the Director of Supply Chain Management of the Group from 2015 to 2016, was 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 Substantial shareholder of the Company.

**Mr. Li Wai Leung**, aged 38, joined the Group on 3 January 2017 as the Deputy Chief Financial Officer, the Company Secretary and authorized representative of the Company. He was appointed as an executive director of the Company on 21 March 2017. He has over 16 years of experience in accounting, finance and business advisory work. Before joining the Group, Mr. Li was the chief financial officer, company secretary and authorized representative of Evergreen International Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 238). Prior to that, Mr. Li also worked as the chief financial officer of two sizable PRC-based manufacturing companies and as a senior manager in PricewaterhouseCoopers. Mr. Li obtained his bachelor's degree in Business Administration in Accounting and Finance from the University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants.

## Independent Non-Executive Directors

**Mr. Chan Henry**, aged 51, 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 30 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, and 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 57, 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 Museum Advisory Committee and Art Sub-committee, Museum Advisory Committee. 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 51, 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 22 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 55, 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 22 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 67, 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 has more than 23 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 a 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 (listed on Shenzhen Stock Exchange) since 16 January 2012.

## Senior Management

**Mr. Xu Wen Mo**, aged 51, 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 28 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 49, 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 31 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 senior economist in the PRC.

**Ms. Liu Ying**, aged 48, was appointed as the a Deputy Officer of Share Services Center appointed (in charge of Human Resources Department, Concentrated Operation Centre and Legal Department) in September 2016. She was 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 30 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 42, is the General Manager of Internal Audit Department. He joined the Group in 1998 and has over 21 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. Wang Gui Zhong**, aged 43, 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 18 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.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Following our enterprise vision of "becoming the top domestic necessities enterprise in China through sustainable innovation and high-quality products and services", Hengan International Group Company Limited (referred to as "Hengan" or the "Company") is committed to creating a harmonious enterprise by building a sustainable business model, continuously promoting the energy-saving and emission-reducing within the enterprise, and creating a stage for employees to realize their values of life, such that they grow with Hengan; meeting customers' needs by providing high-quality products and services; undertaking social responsibilities through practices, pursuing the common growth among enterprises and employees, partners, consumers and the society, and establishing a good corporate image.

Pursuant to the requirements of the Environmental, Social and Governance Reporting Guide in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "ESG Reporting Guide"), the Company has prepared the 2016 Environmental, Social and Governance Report ("ESG Report"), covering three major business segments of the Company, being paper production, post-processing of paper, and sanitary products (including sanitary napkins and diapers production). The reporting period was from 1 January 2016 to 31 December 2016. This report describes the sustainable development of the Company, and the concept and practice of social responsibilities from both environmental and social perspectives.

## A. ENVIRONMENTAL

Hengan adheres to the development concept of green and low-carbon, always takes environmental protection as one's responsibility, and integrates environmental protection with enterprise development. The Company strictly follows the national environmental laws and regulations, minimizes the impact of production and operating activities to the environment, strives to achieve the goals of recycling and harmlessness during production and operation process, and continuously builds a green and harmonious environment.


For environmental management, since 2003, Hengan has established and implemented the ISO 14001 environmental management system, and accepted the supervision and review by third-party certification institutions and regulatory departments every year. As of 2016, the Company has a total of 16 enterprises which have established and passed the ISO 14001 environmental management system certification.

### A1 Emission

Hengan is committed to clean production, complies with the requirements of the Environment Protection Law of the People's Republic of China (《中華人民共和國環境保護法》) and other laws and regulations to reduce the environmental impact caused by waste water, waste gas, greenhouse gases, harmful and harmless waste during the production and operation process of the Company. The Company has formulated the "Monitoring and Measurement Control Procedure of Environmental Safety and Sanitation" (《環境安衛監視與測量控制程序》) to monitor and measure key features identified by the Company that may have significant environmental impacts and mid-high risks in order to determine if they comply with environmental objectives, to judge if they comply with the laws and regulations, and to provide a basis for continuous improvement of the management system. Pursuant to the Identification Control Procedure of Environmental Factors (《環境因素識別控制程序》), the Company identifies and evaluates the environmental factors which are able to be controlled and affected, confirms essential environmental factors, and controls those essential factors identified by the Company in accordance with the Monitoring and Measurement Control Program of Environmental Safety and Sanitation, prevents or reduces the environmental impacts due to harmful environmental factors, in order to effectively implement the environmental management principles, objectives and targets of the Company.

The main waste gas emissions of Hengan is produced from the waste gas emission caused by fossil fuel combustion and the dust emission appeared in production workshop during production process. The Company strictly complies with the Law of People's Republic of China on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) and other laws and regulations. Each paper manufacturing base is promoting the use of clean natural gas, and parts of the production processes are using foreign advanced equipment, recovering some of the particles during the production process, in order to reduce the waste gas emission in the greatest degree. As for the waste gas emission during boiler combustion, the Company requires each base to install a waste gas disposal unit, which equips with desulfurization and denitrification dust removal equipment in the coal-fired power plant, and effectively disposing the SO2, NOx and smoke to reach the standard of emission concentration stipulated in the Emission Standards of Air Pollutants for Thermal Power Plants (《火電廠大氣污染排放標準》(GB13223-2011); equips with water film dust removal device in the paper manufacturing workshop to reach the emission standard of fiber dust particles emission concentration required by the Emission Standards of Air Pollutants (《大氣污染物排放標準》(GB16297-1996)).

The waste water discharged by Hengan is mainly the production waste water and domestic waste water during the production process, the Company strictly complies with the Law of People's Republic of China on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) and other laws and regulations, and has developed the Waste Water Treatment Approach (《廢水處理辦法》). All the paper-manufacturing companies under Hengan have built sewage treatment stations, the waste water is dealt through slanting, air floatation, aerobic aeration, etc., achieving the standard of emission concentration of Emission Standards of Paper-producing Industry Water Pollution (《造紙工業水污染排放標準》(GB3544-2008)) before emission. On this basis, Hengan adopted a variety of measures to reduce the generation of waste water: some of the paper-manufacturing subsidiaries are using advanced technology to recover 50% of the waste water back to production. The waste water of other subsidiaries is re-used for flushing, greening and cleaning the workshops after treatment and dealing with sand filter device. In addition, Hengan has also posted up water conservation logos in each workshop and living areas in order to improve the water conservation awareness among employees.

The major greenhouse gas emission of Hengan is the energy consumption during the production process, including coal, natural gas, electricity and steam. In order to reduce greenhouse gas emission, the Company strictly complies with the rules in respect to the Greenhouse Gas Emission Control Solution under "Thirteenth Five-Year" ( 《"十三五"控制溫室氣體排放工作方案》), committed to enhancing the efficiency of energy usage, reducing energy consumption, using clean energy, refining its management in production.

Hazardous waste is an environmental factor that Hengan has always concerned about. The Company strictly complies with the requirement in the Prevention and Control of Solid Waste Pollution Law of the People's Republic of China (《中華人民共和國固體廢物污染環境防治法》), commissioning qualified third party for detoxification treatment of the hazardous waste produced that falls into the List of National Hazardous Waste (《國家危險廢物名錄》), such as waste cleaning agent, to minimize the environmental pollution.

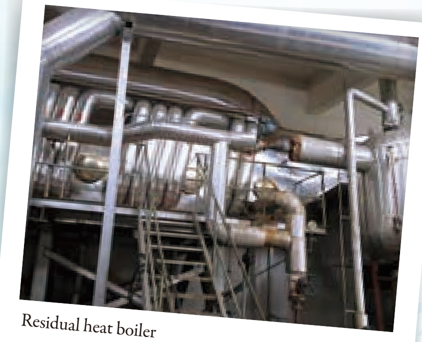
In respect to non-hazardous waste, Hengan strictly complies with the requirements in the Prevention and Control of Solid Waste Pollution Law of the People's Republic of China (《中華人民共和國固體廢物污染環境防治法》), to detoxify, sort and recycle hazardous waste in accordance to the Solid Waste Management Solution (《固體廢棄物管理辦法》) as follows:

- selling wet grouting to paper box paper mills for recycling;
- using sludge for combustion electricity generation;
- selling gypsum to cement factories as cement;
- selling fly ash to other companies for refining rare metals;
- selling blast furnace slag for brick tiles production;
- centralized recycling of domestic garbage by the Environment Protection Department for detoxification treatments;

Hengan has also adopted various measures to reduce waste production. In the production of hygienic products, through changing from the thickness control of 1-1.5cm to automatic connection control of 6m through technological enhancement, a decrease of over 60% in the overall tailings has been achieved. During the vacuuming process, through the enhancement of net filters, negative pressure, blowers, pipes and conveyor belts, the chance of cotton and polymer being sucked away is reduced, reducing the cost while significantly reducing the production of waste.

## A2 Use of resources

Hengan is committed to fully recycling resources as much as possible, and continuing to pursue in achieving energy conservation and emission reduction in the product life cycle (R&D, production and disposal) process. The Company has formulated the Hengan Group Energy Conservation and Consumption Reduction Management System《恒安集團節能降耗管理制度》, guiding the Company to ultilise various kinds of energy in a scientific and reasonable way. The relevant functional department of the Company has to collect, analyse and consolidate the data regularly, adopting selective energy and water conservation measures on this basis to increase the efficiency of resource usage.


Residual heat boiler


Dryer cap heat preservationr

The major energy consumption of Hengan is the electricity, steam, coal and natural gas consumption during the production process. Hengan strictly complied with the Law of the PRC on Energy Conservation《中華人民共和國節約能源法》, striving to enhance energy efficiency, continuing to improve energy performance. Through the efforts over the years, Hengan achieved the advanced value requirement (≤420kgce/t) in the Cap of Energy Consumption per Unit Product of Pulp and Paper (制漿造紙單位產品能源消耗限額) (GB31825-2015), placing us the leading level in the industry. Some of the energy conservation measures adopted by the Company are as followings:

- Installing residual heat boiler (餘熱鍋爐) in the production workshop to recycle the residual heat generated from the combustion of natural gas for producing steam which significantly reduce the amount of steam purchased.
- Significantly reducing energy consumption by the extensive promotion of replacing water circulation vacuum pump technology with turbine;
- By using dryer cap heat preservation technology (烘缸端蓋保溫技術), not only the heat loss of steam is reduced, but also the amount of steam purchased is reduced.
- Promotion of variable energy conservation technology in all factories to reduce electricity consumption.
- Hengan adopted an enhanced processing method on the basis of a series of technological improvements to increase the passing rate of one-time manufacturing, prevent re-manufacturing and conserve energy.

The major water consumption of Hengan is the water for production and domestic use. The Company strictly complies with the requirements in the laws and regulations of the Water Law of the People's Republic of China (《中華人民共和國水法》), continuing to assess and apply water conservation technology to reduce water usage.

For the manufacturing of paper, Hengan adopted various measures to reduce water usage. The Company has improved its technologies, increasing the recycling power of plain water and reducing replenishment of fresh water by adopting multi-disc plain water recycling technology (多圓盤回收白水技術) while using medium water recycling technology (中水回用技術), such as sand filter, to recycle waste water produced and causing the water usage for finished goods per tone to be only under 30% under the limits of the national standard, achieving the advanced international level. Wuhu base adopted condensed water recycling technology (冷凝水回收技術), circulating condensed water to the plain water system to achieve water conservation of 1.5 tones per ton of paper.

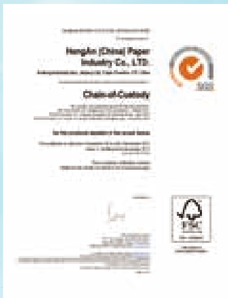
For post-processing, Hengan has formulated consumption standards for each unit and each unit product of the packaging materials and raw materials to reduce wastage, and to promote energy and raw material conservation, and to evaluate the major result performance on a monthly and annual basis. A merit or demerit system has been introduced, which is directly linked with bonuses based on the evaluation results. It significantly increased the motivation of all employees in participating in the energy conservation and emission reduction exercise and achieved good results.

For hygienic products production, Hengan has implemented materials consumption evaluation for managing director to employees of all positions. The salary of employees of different positions is directly related to whether their material consumption is over the standard. It guides the employee of different positions to control material consumption and reduce scrap emission on their own initiative by using assessment tools. The Company has adopted a series of measures to reduce the consumption of packaging materials.

- Fully import automatic packaging machines;
- Change of medium packaging bags from hand packaging bags to machine packaging bags to reduce the cutting edge length of medium packaging bags;
- Optimise the arrangement patterns of some paper box products to minimize the space used;
- Conduct a stock-taking of the existing paper boxes, and improve paper boxes of too tall and too wide to reduce wastage.

## A3 Environment and natural resources

Forest is one of the most important natural resources on the earth, and one of the most important assets for our future generations. According to the approach of "sustainable use of resources, strict control; environmental protection, and benefit the society", the raw paper products of the Company have passes the foresty certification of the Forest Stewardship Council ("FSC") in 2010, and have also passed the certified evaluation by a third party each year. By the end of 2016, a total of 7 subsidiaries of Hengan International had acquired FSC/COC certification.



The Company has prepared the FSC/COC Execution Manual (《FSC/COC執行手冊》) according to the certification requirements of FSC/COC, defining the responsibility, authority and mutual relationship of the organizations and departments and employees who have direct relationship with the FSC/COC, describing the requirements, processes and its principles of control necessary to be covered in the certification of the FSC/COC of the Company. According to the manual, the Company controls the product procurement, storage, and sales processes as well as the suppliers to meet the FSC's requirement on product procurement, storage and delivery. The Company controls the production process of the products to prevent the unexpected mixing of FSC materials and non-certificated materials.

## B SOCIETY

Hengan strongly believes that maintaining positive relationships with employees is one of the keys to success of an enterprise. To increase the happiness of employees, Hengan is committed to providing competitive salary, welfares and comprehensive training programmes to develop the full potential of the employees and bring out the best in them. In addition, the Company adopted various measures to improve the physical and mental health of the employees, holding various kinds of employee caring activities to increase the sense of belonging and create a harmonious working environment for the employees.

### B1 Employment

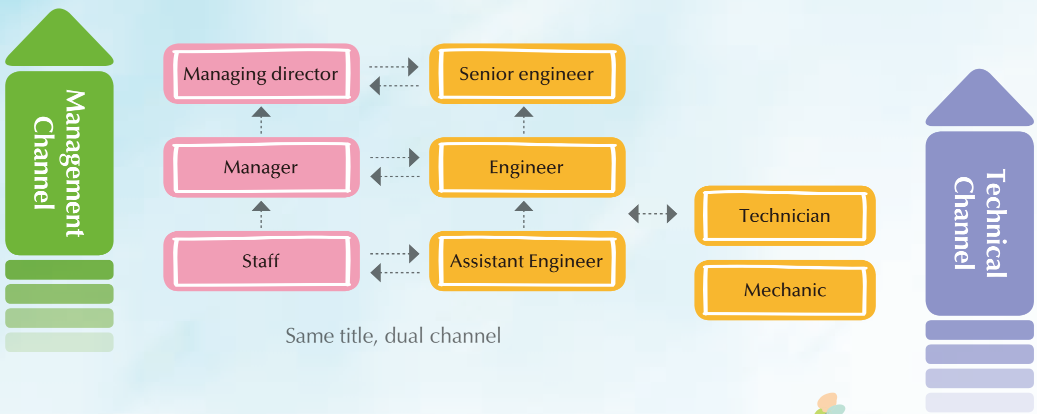
Hengan has formulated The Provisions on Personnel Management for Hengan Group (《恒安集團人事管理規定》) pursuant to the requirements of the laws and regulations of the Labour Law of the People's Republic of China (《中華人民共和國勞動法》) and the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》). Hengan adheres to the employment principles of equality, justice and openness, to provide all employees with equal opportunities and fair treatment. The Company provides attractive welfares and multi-channel promotion opportunities to employees, and also launches share option schemes so that the employees can grow together with the enterprise. Hengan strictly complies with the relevant requirements of the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), does not dismiss employees unreasonably, clearly explains the rights and responsibilities of both parties in the labour contract, protects the legal rights of the labour, maintains a harmonious and stable labour relationship. The recruitment should be based on the principles of openness and equality, opposing all forms of discrimination as clearly required in The Provisions on Personnel Management for Hengan Group (《恒安集團人事管理規定》). During the recruitment process, the Company only focuses on assessing the individual capacity of the candidates with no regards of their race, colour, gender, age and religious belief, all employees and candidates enjoy equal opportunities.

Pursuant to the Hengan Group Remuneration Management Regulation (《恒安集團薪酬管理規定》), the remuneration of the employees of the Company is not less than the local minimum wages, and takes into account factors such as responsibilities, capacity, knowledge and experience of the employees, to confirm a relevant grading of remuneration based on their relevant job titles or grading in the remuneration standard table, and on this basis, to further consider the internal balance of the remuneration and the overall performance.

*Dual-channel for career*

Hengan has stressed all along to achieve a win-win situation between employees and the enterprise, develop together towards the same vision. The mission of Hengan, "Growing with You for a Better Life", not only applies to consumers, but also to employees internally. Hengan Management College actively constructs multiple promotion channels in various technology areas, and is implemented through evaluation of professional titles. By large scale promotion of the career channels and evaluation of professional titles, the Company encourages all employees to sign up for the evaluation. Employees who have acquired professional titles will be recruited in a grand recruitment ceremony held by the Company and awarded with corresponding welfares and benefits.

**HENGAN'S CAREER PATH**



*Working hours and holidays*

The working hours of Hengan's employees strictly complies with the requirements of the Labour Law of the People's Republic of China (《中華人民共和國勞動法》) and the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), ensuring sufficient time for employees to rest and achieving a work-life balance. During the New Year's Day, Lunar New Year, Ching Ming Festival, International Labour Day, Dragon Boat Festival, Mid-Autumn Festival, National Day and other statutory holidays as required in the laws and regulations, Hengan arranges labour holidays according to the law.

*Other welfares and benefits*

- The Company will provide social assurance for employees with labour relationship with the Company; basis of social assurance, assurance participation items and payment ratio are implemented according to the relevant national requirements. If necessary, commercial insurance will be applied for certain employees.
- The Company gives away a payment for the hot weather from June to September every year.
- Production workers are entitled to an allowance for cleaning uniform, which is given once a month.
- Employees are provided with working uniform and the required labour protection gears in respect of their position when reporting for duty.
- Senior staff or above are entitled to family visit reimbursement.

## B2 Health and safety

Hengan is committed to providing a healthy, safe and comfortable working environment for all employees. Apart from following national policies and systems, Hengan has also formulated internal systems, such as the Regulation On Staff Occupational Health Management (《員工職業健康管理辦法》), to safeguard the health and safety of all employees. Hengan has established a safety team in many operating companies internally to provide training in safety regulations, purchase suitable tools for employees and arrange medical check-ups for them.

*Health and safety*


Each employee is a part of the Hengan family and a valuable asset of Hengan. Hengan has always valued the physical and mental health of its employees, apart from following the national labour law, the Company has also formulated corresponding safe production system to safeguard the health and safety of all employees, and established safe production office at the same time to cater for the local government department by providing trainings on safe production to each employee, so as to facilitate them to carry out duties.

The Company strictly complies with the relevant laws and regulations such as the Labour Law of the People's Republic of China (《中華人民共和國勞動法》), the Laws of Safe Production of the People's Republic of China (《中華人民共和國安全生產法》) and the Prevention and Control of Occupational Diseases Law of the People's Republic of China (《中華人民共和國職業病防治法》). The Company has obtained the OHSAS 18001 Occupational Health and Safety Management System accreditation.

As at the end of 2016, Hengan has established a total of 14 enterprises, and has obtained the OHSAS 18001 Occupational Health and Safety Management System accreditation.

Hengan enhances the safety prevention awareness and self protection abilities of all employees through safety trainings, providing various kinds of work protection gears on regular basis according to the working requirement of each position, and monitors and educates them to wear and use the gears in an appropriate manner; confirming the responsible persons of safe production for each department, implementing various safety education; installing dust removal and waste discharging units on facilities that produce dusts and exhaust gases; prioritising to consider the elimination and reduction of noise sources from plants which exceed the noise limit, and secondly considering to control noise transmission, and lastly considering to wear protection gears. Fire safety trainings and fire drills are held on regular basis.

*Medical check-ups*
Hengan provides medical check-ups for all employees once a year, and provides reimbursement according to different positions to ensure the health conscious of employees while working.

*Identify danger sources and control policies*
Hengan requires the existing danger factors in the current workplace of the Company to be identified, and conduct risk evaluation, so as to adopt necessary control measures to eliminate and reduce risks. Company identifies the equipments, facilities, working environment and hazardous matters in the workplace according to the classification of physical, chemical, biological and social psychological danger sources, and adopts different control policies accordingly:

- For unacceptable risks, the Company has formulated corresponding occupational safety targets and occupational safety management proposals;
- For higher ranking danger sources within the acceptable risks, each of the business centre and production sites shall provide regulations on safe production management and procedures of operation regulations as required by the Company, and to provide detailed control measures for various potential danger sources and risks, to ensure those danger sources and risks under control;
- For potential urgent situations, fire, leakage of flammables, typhoon, accidental injuries, for instances, the Company requires to formulate emergency preparations and corresponding control procedures to manage the situations mentioned according to the emergency procedures.

## B3 Development and training

Hengan promotes the"people-oriented" management philosophy, and is committed to nurture "a learning enterprise", creating an active learning atmosphere to continuously enhance the overall quality of the employees. According to the Regulation on Hengan Group Training Management (《恒安集團培訓管理規定》), the Company has formulated a unique talent training system. Through the assistance and coordination from each department, outstanding resources from external parties, and maximizing the strength of the internal teaching resources, utilizing and implementing various teaching methods throughout the Company. At the same time, the Company has also established Hengan Management College to further enhance the training system of the Company.


Hengan provides a continuous innovative employment system and environment, changing the single position management system in which achievements are earned only by promotions, and designs a career development path for professional talents to provide employees from different departments with clear career development target, and obtain resources and knowledge required in the career development quickly, so as to fulfill the needs for career development of employees from different departments.

Hengan emphasizes on the training of professional managers and the nurturing of successors, encouraging managers to proactively provide supervisory training from top to bottom through the establishment of the manager training system.

## B4 Labour standards

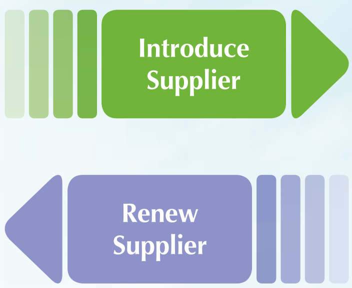
Hengan eradicates the use of child labour and forced labour pursuant to the requirements of the laws and regulations of the Labour Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and the Provisions on the Prohibition of Using Child Labor (《禁止使用童工規定》). According to the Regulation on Hengan Group Staff Management (《恒安集團人事管理規定》), during the talent recruitment and selection process, candidates under the age of 16 will absolutely not be recruited. In addition, the information system of the human resource department are set to reject any data entry for candidates under the age of 16. We respect the employees' resting time by strictly complying the relevant national laws and regulations. Holidays are granted in accordance with the regulations. Any necessary arrangements of overtime must be agreed by the employees voluntarily. Overtime payments are in line with the relevant regulations.

## B5 Supply chains management

The purpose of the sustainable development of Hengan is to formulate and implement a national and international suppliers participation plan to enhance and improve the sustainable development practice of the supply chains in the industry. Therefore, except for special situations, when considering a supplier or evaluating the relationship with a supplier, the Company will also consider the factors in terms of environment, society and moral. Specifically, it includes the areas of: management, environment, health and safety, labour and human rights, moral and govenance.

Hengan has formulated the Procurement Control Procedures (《採購控制程序》) which is used in the selection, evaluation, re-evaluation of the suppliers of the Company, the qualified supplier confirmed based on the evaluation results shall have the verified capacity to fulfill the product procurement quality as required by the Company. The Company controls the procurement process at the same time so that the products procured are in line with the requirements of the production technologies and product quality.

During the supplier selection process, investigation for the suppliers during the primary election is required by the Company, the investigation includes the production capacity, product quality, results on environment protection and occupational health and safety, service quality of the suppliers, and carry out on-site visits or testing of its raw materials when necessary. The Company arranges relevant departments to re-evaluate qualified suppliers each year, tracking their product quality, environmental awareness and safety, and urging suppliers whose evaluation results have deteriorated to improve and disqualifying suppliers who have failed to meet the requirements in the evaluation.




*Grow together with partners*

Hengan established a plan to grow together with its partner in the purpose of achieving a win-win situation. It defines various aspects such as confirmation of basic values, the settings in suppliers management, cooperation method.

- Basic values

**Integrity and cooperation:** cooperation of mutual trust and integrity, pursuing for a mutually beneficial cooperative relationship

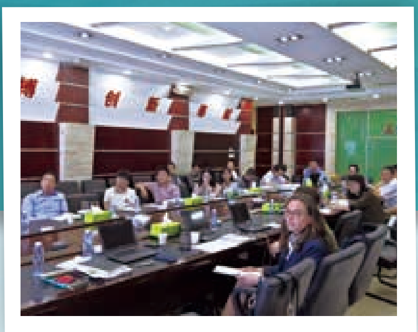
**Competition and innovation:** never be satisfied with current situation, continue to push forward the enhancement of the overall competitiveness

**Stability and development:** Safe, stable and flexible suppler network and platform, enhancement in the comprehensive procurement capacity

**Case 1:Seminar in respect of the sustainability of Hengan International & UPM Tissue Paper**

**Products**

A seminar on the sustainable development of Hengan International and UPM group was held on 11 May 2016. The UPM team gave a speech on implementing sustainable development in enterprise strategies and daily operations, they mentioned how sustainable development of sales has empowered Hengan International. Hengan strongly emphasized the importance of sustainable development to the Company, which is deemed to be an important part of the development strategies of the Company. Both parties have undergone proactive and in-depth discussion and information exchange on the strategies and promotions of sustainable development of Hengan.



**Case 2:On-site visit of a stable supplier in Hubei**

On 12 May 2016, a supplier on-site visit team formed by the department heads from each relevant departments, such as the procurement department, quality assurance department and research and development centre of the Company, arrived at 穩健醫療（黃岡）有限公司 for a on-site visit. Both parties communicated and conducted tests on the relevant indicator of the earlier abnormal delivery, and standardised the testing determination standard. The visiting team conducted an on-site visit to the supplier, and suggested to improve the monitoring of the production environment, as well as increased the supply quality of the products from the production source.

## B6 Product Liabilities

Hengan has a vision to "become the top daily product enterprise in China through continuous innovation and quality products and services"; a mission of "Growing with you for a better life"; adheres to the corporate spirit of "Integrity, Diligence, Innovation and Dedication"; sticks to the systematic management direction of "bearing a responsibility of pursuing the health and happiness as human beings, producing hygenic, comfortable and quality daily products", to achieve the goal of mutual advancement among related parties, including the society, enterprises, consumers, shareholders, staff and partners. We aim at making continuous improvement from outstanding to excellence, and to enhance the healthy and sustainability of Hengan's operations.

*(1) Green Product*

Hengan is committed in developing healthy and safe product to reduce the environmental impact from production and usage process. Examples are the "Space7 Princess Series Sanitary Napkins" and "Zero Sense Ultra-thin diapers".

- Space7 Princess Series Sanitary Napkins

  Thinking from the actual needs of consumers, the Company has reduced the use of wood pulp and petroleum products. To ensure product safety, the Company has carried out safety tests on hypersensitivity, stimulus, and vaginal mucosa, and there are pictures and wordings on the package to illustrate how to use the products. The Company is now committed to studying the products that can be disseminated and biodegradable, so as to reduce the impact on the environment.

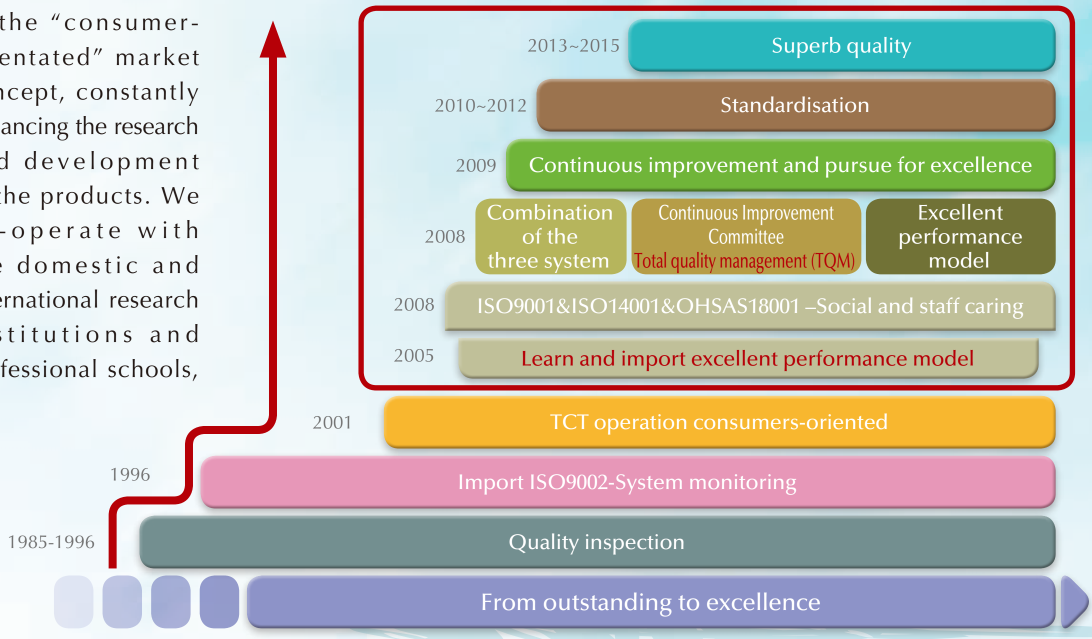
- Zero Sense Ultra-thin Diapers

  Thinking from the actual needs of consumers, the Company designs simple products of low costs, decreasing the expenses of consumers, while reduce the use of wood pulp and petroleum products. To ensure the product safety, the Company has carried out skin allergy tests, and there are pictures and words on the package to remind consumers to stop using the product if allergy occurs when they are being used.

*(2) Quality Assurance*

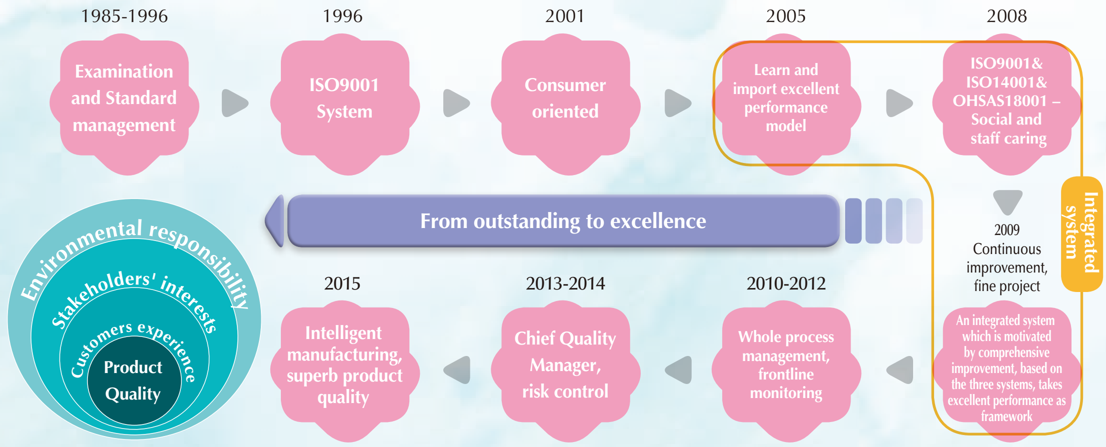
- Quality Protection Operation

  Hengan strictly follows the requirements under laws and regulations such as"Product Quality Law of the People's Republic of China"(《中華人民共和國產品質量法》). Capitalized on the qualitative approach of "bearing a responsibility of pursuing the health and happiness as human beings, producing hygenic, comfortable and quality daily products", the Company maintains momentum of pursuing technology innovation. We adhere to the "consumer-orientated" market concept, constantly enhancing the research and development of the products. We co-operate with the domestic and international research institutions and professional schools,



so as to increase the competitiveness of the new products by using technology and new processes. Hengan is the only exemplary enterprises of the National Trademark Strategy in the Fujian Province, and the Hengan Technology Center is also a national and provincial enterprise technology centre in Fujian.

## DEVELOPMENT PROCESS OF HENGAN'S QUALITY MANAGEMENT




In 1996, Hengan's sanitary napkin products passed the ISO9002 Quality Management System and Product Quality Certificate for the first time. We perform system verification and voluntary product verification every year, covering diapers, sanitary napkins, tissues, toilet paper, and wipes. Currently, Hengan has structured an integrated system with quality based on ISO 9001, ISO 14001 and OHSAS 18001. The Company is consumer-oriented, implementing comprehensive quality management. In addition, the Company passed the European Union CE Certificate for all categories in 2010, passed the FDA Certificate in 2014, and passed the MSDS Certificate in 2015.

The Company introduced Management by Objective, announces yearly qualitative target regularly, standardizes and tracks the attainment level, and analyzes the reasons for the failed items, formulates a reform resolution and actively implements it. The Company highly emphasizes education training and has built cross-departmental quality education training system. The Company provides corresponding quality trainings to new staff members before they enter the Company, as they change their positions and when they have a promotion. At the same time, the Company set up class such as quality young eagle class and quality diving dragon class, which are beginning and intermediate training classes for quality experts. In order to keep abreast with the actual situations and to tackle the high turnover rate of the staff, the Company has developed a "Hengan Group's quality management liberal platform", so as to facilitate the rapid growth of the staff members.

The Company has been complying to laws and regulations. Led by the chief quality officer, the team strictly complies with all laws, regulations and standards in processes including product design, contract formulation and production procedure. The Company set up "Knowing laws and regulations, identifying control procedures" (《法律法規的獲取、識別控制程序》), which collects and evaluates quality laws and regulations regularly. A quality compliance evaluation report will be formulated and evaluated on operation meetings.

As at 2016, there were 24 enterprises established under the Company, which have passed the GB/T19001/ ISO9001 quality management system certification. On July 2015, we were awarded with a rating of "5 star" for its maturity from China Quality Mark Certification Management System.

- Establishment of qualitative culture

  After a long-term quality management practicing activities, Hengan is good at learning from external parties, which incorporates scientific quality management methods and successful experience into its own management system, and make them of one's own. It has enriched the content of qualitative culture, which gradually turns into our own "123" quality culture.


| Principles of product design | Principles on production quality | Principles on handling complaints |
|---|---|---|
| Customers-oriented | Do not accept defect products | Fulfill the needs of customers since they are always right |
| Production-oriented | Do not manufacture defect products | Find out the root cause to prevent it from happening again |
| Suppliers-oriented | Do not export defect products | Use defect products as a base for further improvements and deem problems as opportunities |

- Quality risk management

**Comprehensive Quality Risk Education**

- Quality risk management awareness
- Law and regulations
- Ethical credibility
- Corporate regulation system

**Quality Risk Emergency Mechanism**

- Accident and incident that do not follow the control procedure
- Product recall management system

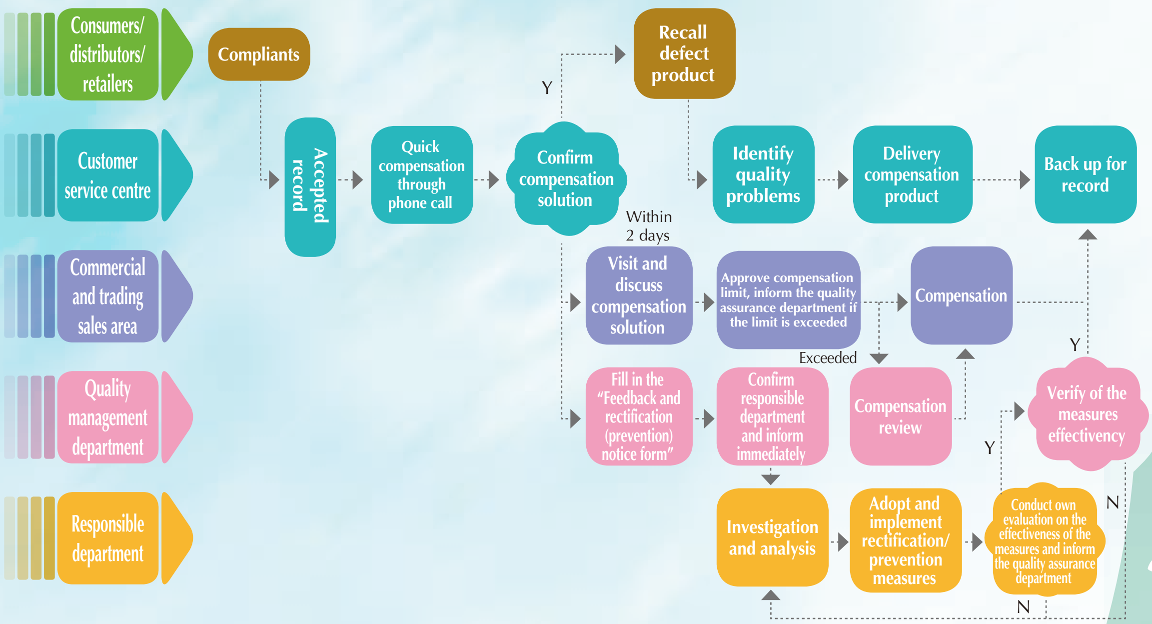

The Company implements an end-to-end and fully qualitative risk management, ultilising various tool for identification, analysing, controlling and monitoring.

(3) *Quality customer service*

Pursuant to the requirements of the laws and regulations in the Law of the People's Republic of China on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》), Hengan established the Accident, Incident, Incompatable Controlling Procedures (《事故、事件、不符合控制程序》), Product Recall Management System (《產品召回管理制度》) and the OA Handling Procedures (辦公自動化處理流程). In the event of products not meeting the safety standards or defected products, proactively and timely disclose information to relevant parties to inform them to cease the production and sales of such product, and recall defected products that have been distributed.

Hengan has established multi-channel customer communication methods, such as 800, 400, customer service e-mail, website of the Group, Weibo, regulating the handling procedures of accepted customer complaints through the Customer Complaint Controlling Procedure (《顧客投訴控制程序》); enabling quick and effective customer complaint handling though a series of system, such as the Service Standard of the Customer Service Position (《客服崗位服務標準》), Customer Complaint Handling Profile (《客訴處理履歷》), Customer Complaint Revise System (《客訴回訪制度》), Information Analyse (《信息分析》), Product Recall System (《產品召回制度》) and Quality Problems Responsible Implementation Person (《質量問題責任落實到人》), and pay for the damage caused by the products not meeting the safety standards or defected products. There is no substantial product complaint and product recall incident of the Company in the last three years.

In order to enhance the direct communication with the customers, Hengan has been increasing various channels of communication methods, adopted customer service waiting system to register voice messages of all incoming calls from customers and automatically export the statement by the system to facilitate reading and comparative analysis since 2011. The Company adopted a series of effective measures to enhance the satisfaction of the customer service, such as adding 400 on the basis of 800 in the customer service hotline to facilitate the communication with mobile users; launching the official Weibo customer service to facilitate pictures and texts communication; setting up customer service e-mail in the Group's website to facilitate customers to provide feedbacks; enabling live conversations in respect to the products with customers and provide product information through networks such as the Group's official website, brand of Weibo, Weibo customer services; collecting unsatisfactory of the customers through comprehensively listening to their comments, suggestions and complaints.



The Company established an internal customer mechanism and a market monitoring and sampling mechanism for products, conducting market sampling of the items sold by each production company of the Group by the marketing execution team of each region of each brand on regular basis, evaluating the appearance and quality feedbacks of its products, and provide feedbacks, in pictures and texts, of the first-hand marketing information to the Group, also send to the Group for evaluation and assessment. The quality management department of the Company continues to optimize its quality standards through regularly establishing a competitive product analysis mechanism which requires a qualitative engineer to address the customer market and analyse the evaluation standard and the product quality of major competitors.

The Company has specified the standard complaint handling procedures, to regular compile, analyse complaint messages, driving the improvement in products, services and management. The quality management department of the Company is responsible for collecting, compiling and providing feedbacks of customers' complaint, and inform the qualitative complaint problems to the production company for rectification and prevention, and verify the effectiveness of the rectification and prevention measures.

*(4) Advertisement and labeling*

Pursuant to the requirements of the laws and regulations in the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》), Hengan has established Labeling and Traceable Controlling Procedures (《標識和可追溯性控制程序》), labeling and identifying raw materials, semi-finished products, finished products and its status of examination and testing, so as to trace the entire formation process and the examination and testing process of the product quality, where necessary

In the FSC/COC Execution Manual, (《FSC/COC執行手冊》), the Company stipulates the product labeling and tracing procedures, in which the products inspected by batches shall be labeled and managed by batches in accordance to the required method where necessary during the receive, production, delivery and production process, so as to prevent confusion of products from different kinds, different specifications and different batches, and trace the formation process of the products where necessary to ensure the labeling process is effectively managed and monitored. According to the manual, the Company strictly regulates the use of FSC labeling, requiring effective control and monitoring of the FSC label used in the printing, promotion and product labeling process to ensure that the use of the label shall meet the FSC requirements.

*(5) Privacy protection*

Hengan highly emphasizes on consumers' information and privacy protection, strictly complies the relevant requirements in the Law of the People's Republic of China on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》), keeping the personal information collected from customers strictly confidential. No employees shall disclose any confidential commercial information such as operation, production formula, technology information and document of the Company as required in the Provisions on Personnel Management for Hengan Group (《恒安集團人事管理規定》). For those who intentionally disclose confidential operation, technology information of the Company, causing or to be causing damages to the Company, are deemed as significantly violation to the enterprise rule system, and their employment contract will be terminated.

## B7 Anti-corruption

Hengan adhered to the core value operation with integrity and complied strictly with the requirements of laws and regulations, including the Company Law of the People's Republic of China (《中華人民共和國公司法》), the Bidding Law of the People's Republic of China (《中華人民共和國招標投標法》), the Anti-Unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》), and the Interim Provisions on Banning Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》). The Provisions on Personnel Management for Hengan Group (《恒安集團人事管理規定》) has been formulated to govern various operation activities of the company. Corruptions and briberies are strictly prohibited in Hengan, which the Provisions on Personnel Management for Hengan Group (《恒安集團人民管理規定》) provided that employees of the Company are prohibited from bribery, embezzlement or seizure by taking advantage on their authorities or duties; or exploit their authorities to accept bribes or receive rebates. The Company, through various measures such as training and promotion, strengthens the communication with its staff in respect of internal control, anti-corruption and anti-commercial bribery, so as to enhance their awareness in this regard.

All employees of the Company are responsible for the supervision and reporting on other employees' breaches on national laws and regulation and rules and regulations of the Company. Where any illegal or undisciplined behaviors are found, employees may report the same to human source department anonymously. The human resource department will verify the reported issues and, upon confirmation, shall report to the relevant head of senior management to sign the addressed issue. Informers and reporting materials are strictly confidential.

Code of conduct for staff members during the tendering and bidding process, requirements of economic incentives during construction works, and code of conduct for procurement staff have also been stipulated by Hengan in documents, including the Regulatory Regimes for Tendering and Bidding of Hengan Group (《恒安集團招投標管理制度》), the Management Provisions on Construction of Engineering of Hengan Group (《恒安集團工程建設管理規定》) and the Procurement System of Hengan Group (《恒安集團採購制度》), for the prevention of bribery or corruption.

Based on the management philosophy of office integrity and collective learning and growth, Hengan has adopted various forms of measures, including rotation system, system of withdrawal of families, off-office auditing system, procurement pricing meetings, quality analysis meetings, competitive products analysis meetings, as well as President's mailbox, Auditing mailbox, and 800 service hotline, to safeguard and promote the level of integrity in operation of the Company.

## B8 Community Investment

With a passion to rewarding the motherland with industrial development, affections for students, concerns on poor areas, Hengan endeavored to improve economic environment and promote harmony and enlightenment in society. The Company has stipulated the Management System for Hengan Group's Charity and Voluntary Activities (《恒安集團慈善與公益活動管理制度》), which required the Company to engrave the corporate and social responsibilities and missions to positively and proactively serve and reward society with earnest efforts in charitable activities as possible. The Company assesses the relationship between business activities and community benefit on a regular basis and adopts effective measure proactively through different aspect, such as charitable donation, support to cultural and sporting activities, voluntary activities, and caring for elderly and children, so as to perform its social responsibility as a corporate civil in the meantime during corporate development.

Since the early 1990s, Hengan has invested in the Midwest areas and established dozens of branches to deal with the employment issue of thousands of people in mainland, while guard against the forefront of poverty alleviation with active engagement in social charitable and benevolent works. Since the establishment of the Company, Hengan Group together with its shareholders have donated over RMB1 billion. The youth voluntary service team of the Company, founded in 2011, with current volunteer members reaching 189 has been working in long-term voluntary service activity "Love, Changing Life (愛•改變生活)". The Company was successively awarded with numbers of national honors, including China Charity Award (中華慈善獎), National Advanced Unit of Employment and Labor Security (全國就業和勞動保障先進單位), National Advanced Unit of Employment (全國就業先進單位), and National Outstanding "Worker's House" (全國優秀「職工之家」). Mr. Hui Lin Chit, the Chief Executive Officer of the Group, was awarded "Guangcai Program Medal (光彩事業獎章)" by China Society for Promotion of Guangcai Program, and granted the "Award for Outstanding Contribution in China Charity (中華慈善突出貢獻獎)" by China Charity Federation for two consecutive sessions.

During 2016, Mr. Hui Lin Chit, the Chief Executive Officer of the Group, was ranked 6th of "The Best-Performing CEOs (中國百強CEO榜單)"by Harvard Business Review and awarded "Noble Prize of Cai Lun Award of China (中華蔡倫獎大家風範獎)" to commend the excellent contribution and accomplishment in paper manufacturing industry of Mr. Hui and Hengan Group under his leadership. In January 2017, Mr. Hui Lin Chit, the Chief Executive Officer of Hengan Group, was awarded "Carbon-Value Revolution Award (碳金變革者獎)" by World Economic and Environmental Conference to commend his perseverance in the motto of "green, low-carbon, sustainability" for 32 years, leading the Group's development and becoming the benchmark of the industry.

In January 2017, Hengan Group was granted the "International Carbon-Value Award (國際低碳金獎) by World Economic and Environmental Conference, which recognized the environmental-based operation of the Group by development of green and sustainable environmental manufacturing technology and modernization development with green footprints.

*(1) Charity Donations*

- In the morning on 27 June 2016, the unveiling ceremony of the bronze statue of Mr. Xu Shu Din was held in Jiangnan Care and Nursing House, Quanzhou, which was the first public professional nursing institute in Quanzhou, according to the introduction. During the construction, Mr. Hui Lin Chit, the Chief Executive Officer of Hengan Group, donated funds in the amount of RMB10 million. Building no. 5 in the area was named after Mr. Hui Shu Din, the father of Mr. Hui Lin Chit, and at which the bronze statue of Mr. Xu Shu Din was erected for memorial.

- The "Xu Shu Din Building" of Jiangnan Care and Nursing House, Quanzhou was officially launched for use on 17 November 2016.

- On 18 November 2016, Mr. Hui Lin Chit, the Chief Executive Officer of Hengan Group, donated RMB200,000 to Qihui Elementary School in Anhai Town, Jinjiang City on its 80th anniversary to support the education of the school.

(2) *Social Charity*

- On 24 June 2016, "Love to share, grow together" theme activity by the party committee of Hengan was visited a special education school in Jinjiang city, launching a caring donation activity. Children were given away Hearttex paper towel and wipes, small backpacks, Qinqin jelly, recreational and sport equipment, such as treadmill, basketball and football are also acquired with a value of over RMB30,000.

- On 17 June 2016, "2016 Strait (Xiamen) Silver Industry Expo" was held in Xiamen International Conference & Exhibition Center. Elderjoy, being a loving enterprise of the Expo, donated elderly nursing products of Elderjoy brand series of over RMB100,000 to 9 caring houses in Fujian Province, including Xiamen Aixin Nursing Home and Panshi Care House, Fuzhou.

(3) *Social Responsibility*

- On 9 November 2016, Mr. Hui Lin Chit, the Chief Executive Officer of Hengan Group, was invited to attend the second session of Fujian Integrity and Credit Forum to give keynote speech with his own stories of integrity, which was appealing to the public with tremendous influence;

- On 25 November 2016, classes of "Practical and Training Class on Lean Management by Hengan" were organized in Quanzhou by Hengan Group, providing practical training on lean management to more than 20 enterprises in Quanzhou for free;

(4) *Recreation and Sports*

- Hengan Hosts the Calligraphy Exhibition of "a Hundred of Calligraphists, a Hundred of Fortunes (百將百福)"

  The Calligraphy Exhibition themed "a Hundred of Calligraphists, a Hundred of Blessings to the New Year (百將百福迎新祝福)" was opened at 9 a.m. on 22 January 2016. The representatives from Hengan attended the ribbon-cutting ceremony and engaged in media interviews. Hengan's hosting of the Calligraphy Exhibition aimed to inherit the 50 centuries of Chinese history, as well as bringing out the connotation of "福" (blessing).

- Hengan Group Sponsored the "1st Jinjiang Half Marathon in 2016"

  On 3 December 2016, the Hearttex brand under Hengan Group sponsored the "1st Jinjiang Half Marathon in 2016", and formed a corporate team to participate in the event, showing a positive corporate image.

## 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 "Corporate Governance 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 2016, except that:

under Code Provision A.6.7 stipulates Independent non-executive directors and other non-executive directors, should also attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Chan Henry and Mr. Zhou Fang Sheng, the independent non-executive directors of the Company, were unable to attend the annual general meeting of the Company held on 18 May 2016 because they had other urgent business engagement.

## BOARD OF DIRECTORS

During the year ended 31 December 2016, the Board comprises thirteen members, including Chairman, Deputy Chairman (who is also the Chief Executive Officer), six 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 17 to 20.

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. It is mindful of the need to uphold the corporate governance principles set out in the Company's Code of Practice for the Board and responsible for performing corporate governance duties of the Company, including the duties specified in code provision D.3.1 of the Corporate Governance Code. The management is delegated with the authority and responsibility by the Board for the management of the Group.

During the year ended 31 December 2016, the Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code for Securities Transactions by directors of the Company (the "Model Code"), and the Company's compliances with the Corporate Governance Code and disclosures in the 2016 Corporate Governance Report.

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 Corporate Governance 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 2016, 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. All directors are requested to provide the Company with their respective training record.

During the year 2016, 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/B/C |
| Mr. Xu Chun Man | A/C |
| Mr. Sze Wong Kim | A/C |
| Mr. Hui Ching Chi | A/B/C |
| Mr. Loo Hong Shing Vincent (resigned on 29 November 2016) | A/C |
| **INDEPENDENT NON-EXECUTIVE DIRECTORS** | |
| Mr. Chan Henry | A/B/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 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 2016, one 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 2016 are showed in Note 39 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 2016 overall salary increment of the Group.

## AUDIT COMMITTEE

The Audit Committee was formed to review and supervise the financial reporting process, internal controls and risk management matters 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.

Its terms of reference are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Corporate Governance Code. 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 the risk management and internal controls systems 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;

— reviewed to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

— 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.

Mr. Li Wai Leung was recommended by the Nomination Committee as an executive director of the Company and was appointed by the Board with effect from 21 March 2017. In accordance with Articles 99 and 116 of the Articles of Association of the Company, Mr. Sze Man Bok, Mr. Hui Lin Chit, Mr. Hung Ching Shan, Mr. Xu Chun Man, Mr. Li Wai Leung and Mr. Chan, Henry will retire office at the Company's annual general meeting, and being eligible, offer themselves for re-election.

Directors' attendance at the Board, Remuneration Committee, Nomination Committee, Audit Committee and general meetings in 2016:

| Directors | Attendance/Number of Meetings Held<br>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 | 1/1 | 1/1 | 1/1 |
| 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 | 1/1 |
| Mr. Xu Da Zuo | 3/4 | N/A | N/A | N/A | 1/1 |
| Mr. Xu Chun Man | 4/4 | N/A | N/A | N/A | 1/1 |
| Mr. Sze Wong Kim | 4/4 | N/A | 1/1* | 1/1* | 1/1 |
| Mr. Hui Ching Chi | 4/4 | N/A | N/A | N/A | 1/1 |
| Mr. Loo Hong Shing Vincent (resigned on 29 November 2016) | 3/4 | 2/2* | N/A | N/A | 1/1 |
| **Independent Non-executive Directors** | | | | | |
| Mr. Chan, Henry | 3/4 | 1/2 | 1/1 | 1/1 | 0/1 |
| Ms. Ada Ying Kay Wong | 4/4 | 2/2 | 1/1 | 1/1 | 1/1 |
| Mr. Wang Ming Fu | 4/4 | 2/2 | 1/1 | 1/1 | 0/1 |
| Mr. Ho Kwai Ching, Mark | 4/4 | 2/2 | 1/1 | 1/1 | 1/1 |
| Mr. Zhou Fang Sheng | 2/4 | 0/2 | 1/1 | 1/1 | 1/1 |

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 RMB6,100,000 and RMB6,345,000 (RMB5,294,000 is capitalized in construction-in-progress) by the Company's external auditor, PricewaterhouseCoopers, for auditing and non-auditing services respectively for the year ended 31 December 2016. Non-auditing services mainly included services provided for tax advisory services, 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, preliminary announcements of results provided, assist to set up a Services Sharing Centre and SAP advisory services 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. The Audit Committee has also annually reviewed the adequacy of resources, qualifications, experience and training programs of the Group's internal audit staff and accounting and financial reporting staff and considered that the staffing is adequate and the staffs are competent to carry out their roles and responsibilities.

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 2016, 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.

Through the Audit Committee, the Board has conducted annual review of the effectiveness of the Group's internal control systems for the year ended 31 December 2016 and considered that the Group's internal control systems effective and adequate and is of the view that the system of internal control adopted for the year ended 31 December 2016 is sound and effective to safeguard the interests of the shareholders' investments and the Group's assets.

## RISK MANAGEMENT

In 2016, in order to set up a sound risk management system and to fulfil to the Listing Rules requirements, an independent international consulting firm was appointed by the Group to set up a risk management system and carry out risk management assessment for the Group. For this, a risk checklist with risk mitigation actions and risk owners was compiled by taking emerging risks into account for continuous risk assessment purpose. Risk owners are required to take mitigating actions to address the identified risks. Such actions are integrated in the day-to-day activities and their effectiveness is closely monitored. The risk checklist has been tabled for discussion by the Audit Committee, a summary of the identified key risks and related risk mitigating actions have also been reported to the Board through the Audit Committee members. The summary facilitates the Board in considering the changes in the nature and extent of significant risks, the Group's ability to respond to changes in its business and the external environment, as well the scope and quality of management's ongoing risk monitoring and related mitigating internal control measures.

Through the Audit Committee, the Board has conducted annual review of the effectiveness of the Group's risk management for the year ended 31 December 2016 and considered the Group's risk management effective and adequate.

## 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.

# 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 2016.

## 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, mainly in the PRC.

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

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Revenue RMB'000 | Contribution to operating profit RMB'000 | Revenue RMB'000 (Restate) | Contribution to operating profit RMB'000 (Restate) |
| Personal hygiene products | | | | |
| — Sanitary napkin products | **6,568,885** | **2,850,758** | 6,185,130 | 2,864,756 |
| — Disposable diaper products | **2,150,252** | **434,568** | 2,451,014 | 555,442 |
| — Tissue paper products | **9,066,499** | **987,023** | 8,694,154 | 915,041 |
| Others | **1,491,761** | **32,565** | 1,332,278 | 74,432 |
| | **19,277,397** | **4,304,914** | 18,662,576 | 4,409,671 |

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

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Revenue RMB'million | Percentage of total revenue (%) | Revenue RMB'million (Restate) | Percentage of total revenue (%) (Restate) |
| PRC | | | | |
| Fujian and Guangdong | **4,897** | **25.4** | 4,265 | 22.9 |
| North-western | **932** | **4.8** | 979 | 5.2 |
| South-western | **1,021** | **5.3** | 890 | 4.8 |
| Sichuan | **1,599** | **8.3** | 1,626 | 8.7 |
| North-eastern | **830** | **4.3** | 912 | 4.9 |
| Northern | **1,476** | **7.7** | 1,704 | 9.1 |
| Shandong | **1,848** | **9.6** | 1,791 | 9.6 |
| Eastern | **2,988** | **15.5** | 2,682 | 14.4 |
| Central | **2,425** | **12.6** | 2,371 | 12.7 |
| Overseas | **1,261** | **6.5** | 1,443 | 7.7 |
| | **19,277** | **100** | 18,663 | 100 |

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on pages 63 to 64.

The Directors declared an interim dividend of RMB0.85 (2015: RMB0.78) per ordinary share, totalling RMB1,031,079,000 (2015: RMB953,165,000), which was paid on 7 October 2016.

The Directors recommend the payment of/paid a final dividend of RMB1.10 (2015: RMB0.96) per ordinary share, totalling RMB1.95 (2015: RMB1.74). Such dividend is to be approved by shareholders of the Company at the annual general meeting to be held on 17 May 2017.

## 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 68.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately RMB25,892,000 (2015: RMB60,209,000).

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 13 to the accounts.

## SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 25 to the accounts.

## DISTRIBUTABLE RESERVES

The Company's reserves available for distribution comprise the share premium account and retained earnings. At 31 December 2016, the reserves of the Company available for distribution to shareholders amounted to RMB5,095,117,000 (2015: RMB3,509,050,000), subject to the restrictions stated in Note 27 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 2016, the Company repurchased a total of 13,228,500 ordinary shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of approximately RMB719,569,000 (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$ |
|---|---|---|---|
| 12 January 2016 | 750,000 | 65.75 | 65.45 |
| 14 January 2016 | 208,000 | 65.75 | 65.60 |
| 15 January 2016 | 846,500 | 65.90 | 65.50 |
| 18 January 2016 | 10,000 | 65.70 | 65.70 |
| 20 January 2016 | 1,298,500 | 65.90 | 65.50 |
| 21 January 2016 | 282,500 | 65.95 | 65.95 |
| 24 March 2016 | 1,687,500 | 63.00 | 62.10 |
| 11 October 2016 | 1,238,000 | 62.95 | 62.65 |
| 12 October 2016 | 887,000 | 62.75 | 62.00 |
| 13 October 2016 | 1,315,000 | 62.70 | 62.35 |
| 14 October 2016 | 219,000 | 62.50 | 62.20 |
| 17 October 2016 | 388,000 | 62.70 | 62.10 |
| 24 October 2016 | 209,000 | 62.30 | 62.10 |
| 26 October 2016 | 900,000 | 62.45 | 62.15 |
| 27 October 2016 | 864,500 | 62.20 | 61.10 |
| 28 October 2016 | 429,500 | 62.00 | 61.75 |
| 11 November 2016 | 337,500 | 60.05 | 60.00 |
| 14 November 2016 | 1,358,000 | 59.40 | 58.90 |
| | 13,228,500 | | |

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 2016.

## 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. Li Wai Leung (appointed on 21 March 2017)
Mr. Loo Hong Shing Vincent (resigned on 29 November 2016)

**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 Articles 99 and 116 of the Company's Articles of Association, Mr. Sze Man Bok, Mr. Hui Lin Chit, Mr. Hung Ching Shan, Mr. Xu Chun Man, Mr. Li Wai Leung and Mr. Chan, Henry 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 2018.

## BIOGRAPHICAL AND EMOLUMENT DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and senior management are set out on pages 17 to 20.

### Directors' and Senior Management Emoluments

Directors' emoluments are set out on pages 139-140. The emoluments payable to eight senior management (2015: nine senior management) during the year fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | **2016** | 2015 |
| Emolument bands | | |
| Below HK$500,000 (equivalent to below RMB428,601) | **2** *(Note)* | 3 |
| HK$500,001 to HK$1,000,000 (equivalent to RMB428,601 to RMB857,200) | **5** *(Note)* | 4 |
| HK$1,000,001 to HK$1,500,000 (equivalent to RMB857,200 to RMB1,285,800) | **1** | 2 |

*Note:* Out of which, three senior management had retired or left the Company during 2016.

## 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 36 to the accounts.

| | **2016 RMB'000** | 2015 RMB'000 (Restate) |
|---|---|---|
| Purchases from Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power") | | |
| — Electricity energy | **100,373** | 96,021 |
| — Heat energy | **61,130** | 58,422 |

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 determined according to the terms of the contract. Weifang Power is beneficially owned by Mr. Sze Wong Kim, an executive director of the Company, a son (the latter is a elder brother of Hui Ching Chi, an executive director of the Company) of Mr. Hui Lin Chit, an executive director and a substantial shareholder of the Company, and a son of Mr. Hung Ching Shan, an executive director 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 132 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.

## DIRECTOR'S INTERESTS IN THE SHARES AND SHARE OPTIONS IN THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31 December 2016, 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)) | 229,959,599 | – | 20,000 | 229,979,599 | 19.09% |
| Mr. Hui Lin Chit (Note (3)) | 236,530,251 | – | 148,000 | 236,678,251 | 19.64% |
| Mr. Hung Ching Shan (Note (4)) | 7,000,000 | – | 20,000 | 7,020,000 | 0.58% |
| 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 | 1.65% |
| Mr. Xu Chun Man (Note (6)) | 14,715,621 | – | 20,000 | 14,735,621 | 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 (Note (7)) | 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 52 to 54.

(2) Out of the 229,959,599 ordinary shares, Tin Lee Investments Limited ("Tin Lee") held 229,383,999 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 236,530,251 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 14,715,621 ordinary shares, Zhong Shen Holdings Limited holds 11,500,000 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) Resigned on 29 November 2016.

(8) 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 102,422,872, 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 2016 which have been granted under the Scheme are as follows:

| | Number of share options | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Eligible person | Balance as at 01/01/2016 | Granted during the year | Exercised during the year | Reclassified during the year | Cancelled or lapsed during the year | Balance as at 31/12/2016 | Exercise price per share HK$ | Date of grant (DD/MM/YYYY) | Exercisable period (DD/MM/YYYY) |
| **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 |

| Eligible person | Number of share options: Balance as at 01/01/2016 | Granted during the year | Exercised during the year | Reclassified during the year | Cancelled or lapsed during the year | Balance as at 31/12/2016 | Exercise price per share HK$ | Date of grant (DD/MM/YYYY) | Exercisable period (DD/MM/YYYY) |
|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | |
| 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 |
| 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 (resigned on 29 November 2016) | 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: Balance as at 01/01/2016 | Granted during the year | Exercised during the year | Reclassified during the year | Cancelled or lapsed during the year | Balance as at 31/12/2016 | Exercise price per share HK$ | Date of grant (DD/MM/YYYY) | Exercisable period (DD/MM/YYYY) |
|---|---|---|---|---|---|---|---|---|---|
| **Participants** | 1,193,500 | – | (17,500) | – | (106,000) | 1,070,000 | 68.30 | 28/07/2011 | 28/07/2014–27/07/2021 |
| | 616,000 | – | (5,000) | – | (72,750) | 538,250 | 68.30 | 28/07/2011 | 28/07/2015–27/07/2021 |
| | 619,000 | – | – | – | (95,250) | 523,750 | 68.30 | 28/07/2011 | 28/07/2016–27/07/2021 |
| | 5,569,000 | – | – | – | (1,166,000) | 4,403,000 | 72.75 | 27/07/2012 | 28/07/2015–27/07/2022 |
| | 2,785,500 | – | – | – | (616,500) | 2,169,000 | 72.75 | 27/07/2012 | 28/07/2016–27/07/2022 |
| | 2,785,500 | – | – | – | (616,500) | 2,169,000 | 72.75 | 27/07/2012 | 28/07/2017–27/07/2022 |
| | 2,666,500 | – | – | – | – | 2,666,500 | 79.20 | 05/10/2015 | 05/10/2018–05/10/2025 |
| | 1,333,250 | – | – | – | – | 1,333,250 | 79.20 | 05/10/2015 | 05/10/2019–05/10/2025 |
| | 1,333,250 | – | – | – | – | 1,333,250 | 79.20 | 05/10/2015 | 05/10/2020–05/10/2025 |
| | 19,577,500 | – | (22,500) | – | (2,813,000) | 16,742,000 | | | |

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 | Options granted in 2015 to employees |
|---|---|---|---|---|---|
| Risk free rate | 2.3% per annum | 2.3% per annum | 0.8% per annum | 0.8% per annum | 1.5% per annum |
| Expected volatility | 33.3% per annum | 33.3% per annum | 32.5% per annum | 32.5% per annum | 34.5% per annum |
| Expected dividend yield | 2.0% per annum | 2.0% per annum | 1.8% per annum | 1.8% per annum | 2.041% per annum |
| Trigger price multiple | 2.2 times | 1.6 times | 2.2 times | 1.6 times | 2.51 times |
| Expected turnover rate | 5.8% per annum | 14.7% per annum | 4.8% per annum | 27.1% per annum | 16.70% 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 2016, amounted to RMB51,029,000 (2015: RMB50,502,000) and the remaining unamortised fair value of approximately RMB80,307,000 (2015: RMB123,338,000) 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 2016, 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 | 229,383,999 (L) | 19.04% |
| Tin Wing Holdings Limited | *(1)* | Interests of controlled corporation | 229,383,999 (L) | 19.04% |
| An Ping Holdings Limited | *(2)* | Beneficial owner | 236,530,251 (L) | 19.63% |
| An Ping Investments Limited | *(2)* | Interests of controlled corporation | 236,530,251 (L) | 19.63% |
| Serangoon Limited | *(1), (2) & (3)* | Interests of controlled corporation | 506,298,654 (L) | 42.02% |
| Seletar Limited | *(1), (2) & (3)* | Interests of controlled corporation | 506,298,654 (L) | 42.02% |
| Credit Suisse Trust Limited | *(3)* | Trustee | 506,298,654 (L) | 42.02% |

*(L) denotes long position*

*Notes:*

(1) Tin Lee Investments Limited is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Tin Wing Holdings Limited. Tin Wing Holdings Limited is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse Trust Limited, the trustee of 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 | 9.6% |
| — five largest suppliers combined | 34.9% |

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the 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 21 March 2017.

## 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, 21 March 2017

羅兵咸永道

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

## OPINION

### What we have audited

The consolidated financial statements of Hengan International Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 63 to 140, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

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

### Independence

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

## KEY AUDIT MATTERS

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

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

- Revenue recognition – sales of goods
- Gain on disposal of the food and snacks operations

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Revenue recognition – sales of goods** | |
| *Refer to notes 2 (24) (Summary of significant accounting policies) and 5 (Revenue and segment information) to the Group's consolidated financial statements.*<br><br>Revenue from sales of goods from continuing operations amounted to RMB19,277 million for the year ended 31 December 2016. Revenue is recognised when the amount and the related costs are reliably measured, and the risks and rewards of the underlying products have been transferred to the customers.<br><br>We focused on this area due to the huge volume of revenue transactions generated from sales of numerous kinds of products to a large number of customers, including direct customers and distributors, in many different locations. | We understood, evaluated and validated management's key controls in respect of the Group's sales transactions from customer orders' approval, goods delivery, sales recording, obtaining customer's goods receipt notes, cash receipts, through to subsequent settlements of trade receivables. In addition, we tested the general IT control environment of the Group's systems and the specific automatic controls associated with revenue recording to assess the completeness and accuracy of the revenue entries being recorded in the general ledger accounting system.<br><br>We conducted testing of revenue recorded covering different locations and customers by examining the relevant supporting documents including customer orders, goods delivery notes and customer's receipt notes. In addition, we confirmed selected trade receivables balances as at the balance sheet date. The items tested were selected on a sample basis by considering the amount, nature and characteristics of the customers.<br><br>Furthermore, we tested sales transactions that took place shortly before and after the balance sheet date to assess whether revenue was recognised in the correct reporting periods.<br><br>Based on the work performed, we found the Group's revenue from sales of goods being tested were recognised in a manner consistent with the Group's revenue recognition accounting policy. |

## KEY AUDIT MATTERS *(continued)*

| Key Audit Matter *(continued)* | How our audit addressed the Key Audit Matter *(continued)* |
|---|---|
| **Gain on disposal of the food and snacks operations** | |
| *Refer to note 1 (General information) and note 24 (Discontinued operations) to the Group's consolidated financial statements.*<br><br>During the year ended 31 December 2016, the Group recognised a gain of RMB267 million (RMB117 million attributable to the shareholders of the Company) arising from the disposal of the food and snacks operations under Qinqin Foodstuffs Group (Cayman) Company Limited (the "Qinqin Group"), which was separately listed on the Stock Exchange of Hong Kong Limited in July 2016. The disposal gain was calculated based on the difference between the fair value and the carrying amount of the Qinqin Group as at the date of disposal.<br><br>The fair value of the Qinqin Group was determined by management using a discounted cash flow model, and with reference to a valuation conducted by an independent valuation expert. The key assumptions adopted in the discounted cash flow model included the revenue growth rates, profit margin and the discount rate used.<br><br>We focus on this area given the significance of the disposal gain recognised and because the projection of discounted cash flows involved a number of key assumptions that required complex judgements of the management. | We assessed the competence, capabilities and objectivity of the independent valuation expert who prepared the valuation report.<br><br>We evaluated the valuation methodology adopted in the discounted cash flow model, and tested the mathematical accuracy of the calculation.<br><br>We checked the input data used in the discounted cash flow model against the Group's historical figures, the latest budgets approved by management, and its projections for future years prepared by management.<br><br>We also tested the key assumptions adopted in the discounted cash flow model including (i) the revenue growth rates and profit margin by comparing them to the historical trend for the Qinqin Group and industry forecasts obtained from public sources; and (ii) the discount rate used by assessing the cost of capital of the Qinqin Group by reference to comparable companies in the similar industry.<br><br>We tested the calculation of the disposal gain by comparing the fair value and the carrying amount of the Qinqin Group as at the date of disposal.<br><br>Based on the work performed, we found the fair value of the Qinqin Group and the disposal gain recognised to be supported by the evidence that we gathered. |

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

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

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

## RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The audit committee are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

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

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

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

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

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

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

The engagement partner on the audit resulting in this independent auditor's report is Dou Wang, Angel.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 21 March 2017

# CONSOLIDATED INCOME STATEMENT

For the Year Ended 31 December 2016

| | Note | Year ended 31 December<br>2016<br>RMB'000 | 2015<br>RMB'000<br>(Restated) |
|---|---|---|---|
| **Continuing operations** | | | |
| **Revenue** | *5* | **19,277,397** | 18,662,576 |
| Cost of goods sold | *7* | **(9,873,445)** | (9,722,983) |
| **Gross profit** | | **9,403,952** | 8,939,593 |
| Other income and other gains – net | *6* | **542,971** | 546,192 |
| Distribution costs | *7* | **(3,720,725)** | (3,293,007) |
| Administrative expenses | *7* | **(1,483,329)** | (1,304,775) |
| **Operating profit** | | **4,742,869** | 4,888,003 |
| Finance income | *8* | **176,444** | 170,639 |
| Finance costs | *8* | **(360,302)** | (509,968) |
| Finance costs - net | | **(183,858)** | (339,329) |
| **Profit before income tax** | | **4,559,011** | 4,548,674 |
| Income tax expense | *9* | **(1,079,445)** | (1,299,209) |
| **Profit for the year from continuing operations** | | **3,479,566** | 3,249,465 |
| **Discontinued operations** | | | |
| Profit for the year from discontinued operations | *24* | **281,896** | 52,272 |
| **Profit for the year** | | **3,761,462** | 3,301,737 |
| **Profit attributable to:** | | | |
| Shareholders of the Company | *28* | **3,596,821** | 3,259,863 |
| Non-controlling interests | | **164,641** | 41,874 |
| | | **3,761,462** | 3,301,737 |
| **Profit attributable to shareholders of the Company arising from:** | | | |
| Continuing operations | | **3,471,746** | 3,233,204 |
| Discontinued operations | | **125,075** | 26,659 |
| | | **3,596,821** | 3,259,863 |

| | Note | Year ended 31 December 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|---|
| **Earnings per share from continuing operations and discontinued operations attributable to shareholders of the Company** | | | |
| **Basic earnings per share** | *10* | | |
| From continuing operations | | **RMB 2.864** | RMB 2.645 |
| From discontinued operations | | **RMB 0.103** | RMB 0.022 |
| From profit for the year | | **RMB 2.967** | RMB 2.667 |
| **Diluted earnings per share** | *10* | | |
| From continuing operations | | **RMB 2.864** | RMB 2.641 |
| From discontinued operations | | **RMB 0.103** | RMB 0.022 |
| From profit for the year | | **RMB 2.967** | RMB 2.663 |

The notes on pages 70 to 140 are an integral part of the consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2016

| | Year ended 31 December | |
|---|---|---|
| | **2016** **RMB'000** | 2015 RMB'000 (Restated) |
| **Profit for the year** | **3,761,462** | 3,301,737 |
| **Other comprehensive income** | | |
| *Items that may be reclassified to profit or loss* | | |
| – Currency translation differences | **(106,689)** | (204,791) |
| **Total comprehensive income for the year** | **3,654,773** | 3,096,946 |
| **Attributable to:** | | |
| Shareholders of the Company | **3,488,705** | 3,055,188 |
| Non-controlling interests | **166,068** | 41,758 |
| **Total comprehensive income for the year** | **3,654,773** | 3,096,946 |
| **Attributable to shareholders of the Company arising from:** | | |
| Continuing operations | **3,362,424** | 3,028,416 |
| Discontinued operations | **126,281** | 26,772 |
| | **3,488,705** | 3,055,188 |

The notes on pages 70 to 140 are an integral part of the consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

As at 31 December 2016

| | | As at 31 December | | As at 1 January |
|---|---|---|---|---|
| | *Note* | **2016 RMB'000** | 2015 RMB'000 (Restated) | 2015 RMB'000 (Restated) |
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | *13* | **7,344,807** | 7,468,314 | 6,996,840 |
| Construction-in-progress | *15* | **1,094,145** | 1,089,602 | 1,091,711 |
| Investment properties | *14* | **194,848** | 185,886 | 188,542 |
| Land use rights | *16* | **751,308** | 858,708 | 881,855 |
| Intangible assets | *17* | **498,510** | 599,356 | 609,975 |
| Prepayments for non-current assets | *18* | **163,281** | 151,924 | 281,270 |
| Deferred income tax assets | *31* | **210,813** | 186,094 | 171,372 |
| Long-term bank deposits | *23* | **1,760,000** | 850,000 | 865,000 |
| | | **12,017,712** | 11,389,884 | 11,086,565 |
| **Current assets** | | | | |
| Inventories | *20* | **3,194,641** | 3,296,015 | 2,914,853 |
| Trade and bills receivables | *21* | **2,743,500** | 2,216,559 | 1,936,837 |
| Other receivables, prepayments and deposits | *21* | **962,189** | 1,065,537 | 970,249 |
| Tax recoverable | | **337,187** | 109,141 | – |
| Restricted bank deposits | | **14,622** | 21,132 | 31,319 |
| Cash and bank balances | *23* | **14,874,877** | 14,866,085 | 16,800,949 |
| | | **22,127,016** | 21,574,469 | 22,654,207 |
| **Total assets** | | **34,144,728** | 32,964,353 | 33,740,772 |
| **Equity and liabilities** | | | | |
| **Equity attributable to shareholders of the company** | | | | |
| Share capital | *25* | **126,991** | 128,132 | 128,649 |
| Other reserves | *27* | **2,944,971** | 3,044,503 | 3,096,726 |
| Retained earnings | *28* | **11,654,829** | 11,538,232 | 10,832,836 |
| | | **14,726,791** | 14,710,867 | 14,058,211 |
| **Non-controlling interests** | | **34,065** | 380,928 | 340,378 |
| **Total equity** | | **14,760,856** | 15,091,795 | 14,398,589 |

The notes on pages 70 to 140 are an integral part of the consolidated financial statements.

| | Note | As at 31 December 2016 RMB'000 | 2015 RMB'000 (Restated) | As at 1 January 2015 RMB'000 (Restated) |
|---|---|---|---|---|
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Borrowings | 29 | **3,524,687** | – | – |
| Convertible bonds | 30 | **472,719** | – | 4,252,382 |
| Deferred income tax liabilities | 31 | **106,452** | 159,563 | 111,423 |
| | | **4,103,858** | 159,563 | 4,363,805 |
| **Current liabilities** | | | | |
| Trade payables | 32 | **2,078,591** | 2,277,890 | 1,814,238 |
| Other payables and accrued charges | 32 | **1,201,870** | 992,084 | 1,129,422 |
| Derivative financial instruments | 22 | **1,119** | 30,084 | – |
| Current income tax liabilities | | **79,860** | 59,737 | 71,534 |
| Borrowings | 29 | **11,918,574** | 9,696,293 | 11,963,184 |
| Convertible bonds | 30 | **–** | 4,656,907 | – |
| | | **15,280,014** | 17,712,995 | 14,978,378 |
| **Total liabilities** | | **19,383,872** | 17,872,558 | 19,342,183 |
| **Total equity and liabilities** | | **34,144,728** | 32,964,353 | 33,740,772 |

The notes on pages 70 to 140 are an integral part of the consolidated financial statements.

The financial statements on pages 63 to 140 were approved by the Board of Directors on 21 March 2017 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 2016

| | Note | Attributable to the Company's shareholders | | | | | |
|---|---|---|---|---|---|---|---|
| | | Share capital RMB'000 | Other reserves RMB'000 | Retained earnings RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **Balance at 1 January 2016 (Restated)** | | 128,132 | 3,044,503 | 11,538,232 | 14,710,867 | 380,928 | 15,091,795 |
| Profit for the year | | – | – | 3,596,821 | 3,596,821 | 164,641 | 3,761,462 |
| Currency translation differences | *27(c)* | – | (108,116) | – | (108,116) | 1,427 | (106,689) |
| Total comprehensive income | | – | (108,116) | 3,596,821 | 3,488,705 | 166,068 | 3,654,773 |
| **Transactions with owners:** | | | | | | | |
| 2015 final dividends paid | *11* | – | – | (1,166,057) | (1,166,057) | (8,313) | (1,174,370) |
| 2016 interim dividends paid | *11* | – | – | (1,031,079) | (1,031,079) | – | (1,031,079) |
| Distribution in specie | *11* | – | – | (536,010) | (536,010) | (514,990) | (1,051,000) |
| Share-based compensation | | | | | | | |
| – value of employee services | *26,27* | – | 51,029 | – | 51,029 | – | 51,029 |
| – proceeds from shares issued | *27* | 3 | 1,315 | – | 1,318 | – | 1,318 |
| Early redemption of convertible bonds | *30* | – | (127,668) | 55,827 | (71,841) | – | (71,841) |
| Change in ownership interests in subsidiaries without change of control | *27* | – | (572) | – | (572) | 572 | – |
| Capital contribution by non-controlling interests | | – | – | – | – | 9,800 | 9,800 |
| Buy-back of shares | *27,28* | (1,144) | (2,955) | (715,470) | (719,569) | – | (719,569) |
| Derecognition upon the spin-off | | – | (28,960) | 28,960 | – | – | – |
| **Total of transactions with owners** | | (1,141) | (107,811) | (3,363,829) | (3,472,781) | (512,931) | (3,985,712) |
| Appropriation to statutory reserves | *27(b)* | – | 116,395 | (116,395) | – | – | – |
| **Balance at 31 December 2016** | | 126,991 | 2,944,971 | 11,654,829 | 14,726,791 | 34,065 | 14,760,856 |
| **Balance at 1 January 2015 (Restated)** | | 128,649 | 3,096,726 | 10,832,836 | 14,058,211 | 340,378 | 14,398,589 |
| Profit for the year | | – | – | 3,259,863 | 3,259,863 | 41,874 | 3,301,737 |
| Currency translation differences | *27(c)* | – | (204,675) | – | (204,675) | (116) | (204,791) |
| Total comprehensive income | | – | (204,675) | 3,259,863 | 3,055,188 | 41,758 | 3,096,946 |
| **Transactions with owners:** | | | | | | | |
| 2014 final dividends paid | *11* | – | – | (1,115,477) | (1,115,477) | (1,208) | (1,116,685) |
| 2015 interim dividends paid | *11* | – | – | (953,165) | (953,165) | – | (953,165) |
| Share-based compensation | | | | | | | |
| – value of employee services | *26,27* | – | 50,502 | – | 50,502 | – | 50,502 |
| – proceeds from shares issued | *27* | 4 | 2,725 | – | 2,729 | – | 2,729 |
| Buy-back of shares | *27,28* | (521) | (2,338) | (384,262) | (387,121) | – | (387,121) |
| **Total of transactions with owners** | | (517) | 50,889 | (2,452,904) | (2,402,532) | (1,208) | (2,403,740) |
| Appropriation to statutory reserves | *27(b)* | – | 101,563 | (101,563) | – | – | – |
| **Balance at 31 December 2015 (Restated)** | | 128,132 | 3,044,503 | 11,538,232 | 14,710,867 | 380,928 | 15,091,795 |

The notes on pages 70 to 140 are an integral part of the consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the Year Ended 31 December 2016

| | Note | Year ended 31 December 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Continuing operations | *33(a)* | **5,298,106** | 4,757,487 |
| Income tax paid | | **(1,337,065)** | (1,379,961) |
| Discontinued operations | | **125,802** | 93,206 |
| Net cash generated from operating activities | | **4,086,843** | 3,470,732 |
| **Cash flows from investing activities** | | | |
| Continuing operations | | | |
| – Purchase of property, plant and equipment, including additions of construction-in-progress | | **(901,113)** | (858,597) |
| – Additions of land use rights | | **–** | (9,036) |
| – Proceeds from disposal of property, plant and equipment | *33(b)* | **7,433** | 3,638 |
| – Increase in long-term and short-term bank deposits | | **(1,249,690)** | (883,630) |
| – Interest received | | **369,574** | 524,394 |
| Discontinued operations | | **(6,399)** | (1,249) |
| Net cash used in investing activities | | **(1,780,195)** | (1,224,480) |
| **Cash flows from financing activities** | | | |
| Continuing operations | | | |
| – Proceeds from capital contribution by non-controlling interests | | **9,800** | – |
| – Proceeds from borrowings | | **20,445,426** | 12,240,649 |
| – Repayment of borrowings | | **(15,183,898)** | (14,592,748) |
| – Decrease in restricted bank deposits | | **6,510** | 10,187 |
| – Payment for early redemption of convertible bonds | | **(4,483,151)** | – |
| – Buy-back of shares | | **(719,569)** | (387,121) |
| – Interest paid | | **(261,095)** | (297,945) |
| – Dividends paid | | **(2,197,136)** | (2,068,642) |
| – Dividends paid to non-controlling interests | | **(6,074)** | (10,172) |
| – Proceeds from shares issued under the employee share option scheme | | **1,318** | 2,729 |
| Discontinued operations | | **(2,981)** | (31,572) |
| Net cash used in financing activities | | **(2,390,850)** | (5,134,635) |
| Decrease in cash and cash equivalents | | **(84,202)** | (2,888,383) |
| Cash and cash equivalents at 1 January | *23* | **5,893,700** | 8,727,194 |
| Effect of foreign exchange rate changes | | **89,593** | 54,889 |
| Distribution in specie | | **(336,289)** | – |
| Cash and cash equivalents at 31 December | *23* | **5,562,802** | 5,893,700 |

The notes on pages 70 to 140 are an integral part of the consolidated financial statements.

## 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 ("Stock Exchange") since December 1998.

These consolidated financial statements were approved for issue by the Board of Directors on 21 March 2017.

### Key events and discontinued operations

On 5 February 2016, the Company submitted a proposal to the Stock Exchange in accordance with Practice Note 15 of the Listing Rules for the spin-off of the food and snacks operations of the Group under Qinqin Foodstuffs Group (Caymen) Company Limited (the "Qinqin Group") by way of introduction achieved by distribution in specie of the entire shares of the Qinqin Group. On 31 March 2016, the Company submitted the listing application form (Form A1) to the Stock Exchange to apply for the listing of, and permission to deal in, the shares of the Qinqin Group on the Main Board of the Stock Exchange. On 17 June 2016, the Board of Directors declared a conditional distribution in specie of all of the issued share capital of the Qinqin Group. On 24 June 2016, the approval of the spin-off and separate listing of the Qinqin Group was granted by the Stock Exchange. On 8 July 2016, the shares of the Qinqin Group were listed on the Stock Exchange.

The consolidated results of the Qinqin Group were presented in the consolidated statement as discontinued operations. The consolidated income statement distinguished the discontinued operations from the continuing operations, and the comparative figures have been restated accordingly.

## 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.

### (1) Basis of preparation

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

During the year 31 December 2016, the Group changed the presentation currency for the financial statements of the Group from Hong Kong dollars ("HK$") to Renminbi ("RMB"). Having considered that the principal activities of the Group are mainly conducted in the PRC and the functional currency of the subsidiaries of the Group in the PRC is RMB, the directors of the Company considered that the change of presentation currency of the financial statements to RMB would result in a more appropriate and meaningful presentation of the Group's results, financial positions and cash flows in its financial statements. This constituted a change in accounting policy of the Group and accordingly retrospective application of the change was applied to the comparative figures for the year ended 31 December 2015 in these consolidated financial statements. The comparative figures were translated from HK$ to RMB using the applicable closing rate at the date of the balance sheet as at 31 December 2015 for the assets and liabilities in the consolidated balance sheet, and the applicable average rate during the twelve months then ended for income and expenses in the consolidated statement of income. The resulted currency translation differences were recognized in other comprehensive income.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

The following amendments to standards relevant to the Group are mandatory adopted for the first time for the financial year beginning on or after 1 January 2016:

- Annual improvements 2014 include changes from the 2012–2014 cycle of the annual improvements project, that affect 3 standards, only the below are effective for relevant transactions on or after 1 January 2016:

  – Amendment to HKFRS 5 'Non-current assets held for sale and discontinued operations' clarifies that when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution', or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as 'held for sale' or 'held for distribution' simply because the manner of disposal has changed. It also explains that the guidance on changes in a plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not classified as 'held for sale'.

  – Amendments to HKFRS 7 'Financial instruments: Disclosures condensed interim financial statements' clarifies that the additional disclosure required by the amendments to HKFRS 7, 'Disclosure – Offsetting financial assets and financial liabilities' is not specifically required for all interim periods, unless required by HKAS 34.

  – Amendments to HKAS 34 'Interim financial reporting' clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. It also amends HKAS 34 to require a cross-reference from the interim financial statements to the location of that information. This amendments is retrospective.

The following new standards and amendments of HKFRSs are effective for the first time for the financial year beginning on 1 January 2016 and not relevant to the Group's operations (although they may affect the accounting for future transactions and events):

– HKFRS 14 'Regulatory Deferral Accounts' describes regulatory deferral account balances as amounts of expense or income that would not be recognised as assets or liabilities in accordance with other standards, but that qualify to be deferred in accordance with HKFRS14 because the amount is included, or is expected to be included, by the rate regulator in establishing the price(s) that an entity can charge to customers for rate-regulated goods or services.

– Amendment to HKFRS 11 'Accounting for acquisitions of interests in joint operations' requires an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business' (as defined in HKFRS 3, Business combinations).

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

- Amendments to HKAS 16 and HKAS 38 'Clarification of acceptable methods of depreciation and amortisation' clarify when a method of depreciation or amortisation based on revenue may be appropriate. The amendment to HKAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate. The amendment to HKAS 38 establishes a rebuttable presumption that amortisation of an intangible asset based on revenue generated by using the asset is inappropriate.

- Amendments to HKAS 16 and HKAS 41 'Agriculture: bearer plants' change the reporting for bearer plants, such as grape vines, rubber trees and oil palms. Bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. The amendments include them in the scope of HKAS 16 rather than HKAS 41.

- Amendments to HKAS 19 'Employee benefits' clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used.

- Amendment to HKAS 27 'Equity method in separate financial statements' allows entities to use equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

- Amendments to HKFRS 10, HKFRS 12 and HKAS 28 'Investment entities: applying the consolidation exception' clarify the application of the consolidation exception for investment entities and their subsidiaries. The amendments also clarify that an investment entity should consolidate a subsidiary which is not an investment entity and which provides services in support of the investment entity's investment activities, such that it acts as an extension of the investment entity. However, the amendments also confirm that if the subsidiary is itself an investment entity, the investment entity parent should measure its investment in the subsidiary at fair value through profit or loss. This approach is required regardless of whether the subsidiary provides investment-related services to the parent or to third parties.

- Amendments to HKAS 1 'Disclosure initiative' clarify guidance in HKAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

The Group assessed the adoption of these standards and amendments, and concluded that they did not have a significant impact on the Group's results and financial position.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (1) 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 2016 and have not been early adopted by the Group*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 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 7 'Statement of cash flows', effective for annual periods beginning on or after 1 January 2017.
- Amendment to HKAS 12 'Income taxes', effective for annual periods beginning on or after 1 January 2017.
- Amendments to HKFRS 2 'Classification and Measurement of Share-based Payment Transactions', effective for annual periods beginning on or after 1 January 2018.
- HKFRS 9 'Financial instruments', effective for annual periods beginning on or after 1 January 2018.
- HKFRS 15 'Revenue from contracts with customers', effective for annual periods beginning on or after 1 January 2018.
- HKFRS 16 'Leases', effective for annual periods beginning on or after 1 January 2019.
- Amendment to HKFRS 10 and HKAS 28 'Sale or contribution of assets between an investor and its joint venture', effective date to be determined.

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) 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (2) Subsidiaries *(continued)*

#### *(i) Consolidation (continued)*

(1) Business combinations *(continued)*

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.

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

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (Note 2(8)). 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 unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (2) Subsidiaries *(continued)*

*(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.

### (3) 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.

### (4) 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 RMB. The consolidated financial statements are presented in RMB.

*(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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (4) Foreign currency translation *(continued)*

*(iii) Group companies*

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

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

(2) income and expenses for each 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.

### (5) 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 their 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 |

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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(9)).

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.

### (6) 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.

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.

### (7) 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.

### (8) 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (8) Intangible assets *(continued)*

*(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.

### (9) 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.

### (10) Non-current assets (or disposal groups) held-for-sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (except for certain assets as explained below), (or disposal groups) are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associates) and investment properties, which are classified as held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the consolidated income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (11) 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 21), "restricted bank deposits", "cash and bank balances" and "long-term bank deposits" (Note 23) 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.

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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (11) Financial assets *(continued)*

*(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.

### (12) 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.

### (13) 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (14) 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. See Note 2(11)(ii) for further information about the Group's accounting for trade receivables and Note 2(9) for a description of the Group's impairment policies.

### (15) 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 with original maturities of three months or less.

### (16) 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.

### (17) 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.

### (18) 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.

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (19) 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.

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined on a cumulative basis based on the cumulative amounts of interest expenses that would have been incurred had the entity borrowed in its functional currency. The total amount of foreign exchange differences capitalised cannot exceed the amount of total net foreign exchange differences incurred on a cumulative basis at the end of the reporting period.

### (20) 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.

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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (21) 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.

*(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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (22) 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, equivalent to RMB1,286 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 26). 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 account.

### (23) Provisions

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (24) 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, 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.

### (25) 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.

### (26) 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.

### (27) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (related to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(i) it is technically feasible to complete the intangible asset so that it will be available for use;

(ii) management intends to complete the intangible asset and use it;

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (27) Research and development *(continued)*

(iii) there is an ability to use the intangible asset;

(iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(v) adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and

(vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

### (28) 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 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 2016, 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 borrowings) and HK$ (the denomination currency of borrowings) from continuing operations resulted in a total exchange loss of RMB141,602,000 (2015 (restated): RMB339,600,000). 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 2016, if HK$ and US$ had weakened/strengthened by 5% against the RMB with all other variables held constant, the net profit from continuing operations for the year would have been RMB104,049,000 (2015 (restated): RMB129,175,000) higher/lower (2015: lower/higher).

## 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 23), 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 manages certain of its cash flow risk by purchasing interest swap contracts. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The interest rates and terms of repayments of borrowings are disclosed in Note 29.

At 31 December 2016, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, the net profit from continuing operations for the year would have been RMB42,803,000/RMB41,891,000 (2015 (restated): RMB36,008,000/RMB28,491,000) 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 deposits, 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 2016, all restricted bank deposits and bank balances 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 2016 and 2015:

| | 2016<br>RMB'000 | 2015<br>RMB'000<br>(Restated) |
|---|---|---|
| Counterparties | | |
| – Big 4 domestic banks *(Note)* | **1,614,177** | 4,068,710 |
| – Other reputable and sizeable domestic commercial banks | **8,266,262** | 9,324,808 |
| – Highly reputable and sizeable foreign-owned banks | **6,765,555** | 2,337,062 |
| | **16,645,994** | 15,730,580 |

*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 financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. For convertible bonds which contain an early redemption of bond holders, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the bond holders used their rights to require the Company to redeem all of the bonds. The maturity analysis for other liabilities is prepared based on the scheduled repayment dates.

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 3 years RMB'000 | Between 3 and 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 31 December 2016 | | | | | |
| Borrowings | **11,918,574** | **536,700** | **2,000,000** | **1,000,000** | **15,455,274** |
| Interest payables of borrowings | **197,401** | **105,129** | **77,028** | **55,693** | **435,251** |
| Convertible bonds | **–** | **495,020** | **–** | **–** | **495,020** |
| Net settled derivative financial instruments | **1,119** | **–** | **–** | **–** | **1,119** |
| Trade and other payables | **2,959,589** | **–** | **–** | **–** | **2,959,589** |
| Total | **15,076,683** | **1,136,849** | **2,077,028** | **1,055,693** | **19,346,253** |
| At 31 December 2015 (Restated) | | | | | |
| Borrowings | 9,696,293 | – | – | – | 9,696,293 |
| Interest payables of borrowings | 90,858 | – | – | – | 90,858 |
| Convertible bonds | 4,832,590 | – | – | – | 4,832,590 |
| Net settled derivative financial instruments | 30,084 | – | – | – | 30,084 |
| Trade and other payables | 3,006,774 | – | – | – | 3,006,774 |
| Total | 17,656,599 | – | – | – | 17,656,599 |

## 3 FINANCIAL RISK MANAGEMENT *(continued)*

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

*(iii) Liquidity risk (continued)*

The following table summarises the maturity analysis of convertible bonds and other liabilities based on agreed scheduled repayments set out in the agreement. The amounts include interest payments computed using contractual rates.

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 3 years RMB'000 | Between 3 and 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 31 December 2016 | | | | | |
| Borrowings | **11,918,574** | **536,700** | **2,000,000** | **1,000,000** | **15,455,274** |
| Interest payables of borrowings | **197,401** | **105,129** | **77,028** | **55,693** | **435,251** |
| Convertible bonds | **–** | **495,020** | **–** | **–** | **495,020** |
| Net settled derivative financial instruments | **1,119** | **–** | **–** | **–** | **1,119** |
| Trade and other payables | **2,959,589** | **–** | **–** | **–** | **2,959,589** |
| Total | **15,076,683** | **1,136,849** | **2,077,028** | **1,055,693** | **19,346,253** |
| At 31 December 2015 (Restated) | | | | | |
| Borrowings | 9,696,293 | – | – | – | 9,696,293 |
| Interest payables of borrowings | 90,858 | – | – | – | 90,858 |
| Convertible bonds | – | – | 5,028,808 | – | 5,028,808 |
| Net settled derivative financial instruments | 30,084 | – | – | – | 30,084 |
| Trade and other payables | 3,006,774 | – | – | – | 3,006,774 |
| Total | 12,824,009 | – | 5,028,808 | – | 17,852,817 |

## 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 2016, the Group's strategy was to maintain a net gearing ratio at or below 20%. The calculation of the gearing ratios at 31 December 2016 was as follows:

| | **2016 RMB'000** | 2015 RMB'000 (Restated) |
|---|---|---|
| Gross gearing ratio: | | |
| Total borrowings and convertible bonds | **15,915,980** | 14,353,200 |
| Total equity excluding non-controlling interests | **14,726,791** | 14,710,867 |
| Gross gearing ratio | **108.1%** | 97.6% |
| Net gearing ratio: | | |
| Total borrowings and convertible bonds | **15,915,980** | 14,353,200 |
| Less: long-term bank deposits and cash and bank balances | **(16,634,877)** | (15,716,085) |
| Net debt | **(718,897)** | (1,362,885) |
| Total equity excluding non-controlling interests | **14,726,791** | 14,710,867 |
| Net gearing ratio | **(4.9%)** | (9.3%) |

The increase in net gearing ratio during 2016 resulted primarily from the increase in borrowings.

## 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 2016 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).

| | **2016 Level 2 RMB'000** | 2015 Level 2 RMB'000 (Restated) |
|---|---|---|
| Financial liabilities fair value through profit or loss | | |
| – Derivative financial instruments *(Note 22)* | **1,119** | 30,084 |

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 2016.

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 2016.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal 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(8)(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates (Note 17). These calculations require the use of estimates.

## 5 REVENUE AND 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.

## 5 REVENUE AND SEGMENT INFORMATION *(continued)*

Refer to Note 1, the Group spun off its food and snacks business, named as Qinqin Group, via a distribution in specie on 7 July 2016. After the spin-off, the Group will continue to be engaged in the manufacturing, distribution and sale of personal hygiene products including sanitary napkin products, disposable diaper products and tissue paper products. The food and snack products segment was classified as discontinued operations of the Group. Prior year comparative segment information has been restated to conform with the current year presentation accordingly.

Sales between segments are carried out at 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 consolidated income statement. Revenues from sales of goods from continuing operations recognised during the year are as follows:

| | **2016 RMB'000** | 2015 RMB'000 (Restated) |
|---|---|---|
| Personal hygiene products | | |
| – Sanitary napkin products | **6,568,885** | 6,185,130 |
| – Disposable diaper products | **2,150,252** | 2,451,014 |
| – Tissue paper products | **9,066,499** | 8,694,154 |
| Others | **1,491,761** | 1,332,278 |
| | **19,277,397** | 18,662,576 |

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 RMB9,444,593,000 (31 December 2015 (restated): RMB9,757,607,000) as at 31 December 2016 and the total non-current assets located in other places amounted to RMB602,306,000 (31 December 2015 (restated): RMB596,183,000).

During the year ended 31 December 2016, there were no customers of the Group from whom revenue amounted to 10% or more of the Group's total revenue was derived (2015: 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 consolidated 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 13), investment properties (Note 14), construction-in-progress (Note 15), land use rights (Note 16) and intangible assets (Note 17).

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.

## 5 REVENUE AND SEGMENT INFORMATION *(continued)*

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

| | 2016 Continuing operations | | | | |
|---|---|---|---|---|---|
| | Sanitary napkins products RMB'000 | Disposable diapers products RMB'000 | Tissue paper products RMB'000 | Others RMB'000 | Group RMB'000 |
| **Consolidated income statement for the year ended 31 December 2016** | | | | | |
| Segment revenue | 6,656,143 | 2,169,653 | 9,397,479 | 2,027,066 | 20,250,341 |
| Inter-segment sales | (87,258) | (19,401) | (330,980) | (535,305) | (972,944) |
| Revenue of the Group | 6,568,885 | 2,150,252 | 9,066,499 | 1,491,761 | 19,277,397 |
| Segment profit | 2,850,758 | 434,568 | 987,023 | 32,565 | 4,304,914 |
| Unallocated costs | | | | | (105,016) |
| Other income and other gains – net | | | | | 542,971 |
| Operating profit | | | | | 4,742,869 |
| Finance income | | | | | 176,444 |
| Finance costs | | | | | (360,302) |
| Profit before income tax | | | | | 4,559,011 |
| Income tax expense | | | | | (1,079,445) |
| Profit for the year | | | | | 3,479,566 |
| Non-controlling interests | | | | | (7,820) |
| Profit attributable to shareholders of the Company | | | | | 3,471,746 |
| **Other items for the year ended 31 December 2016** | | | | | |
| Additions to non-current assets | 85,227 | 106,737 | 681,819 | 59,565 | 933,348 |
| Depreciation charge | 132,819 | 59,240 | 420,995 | 17,379 | 630,433 |
| Amortisation charge | 9,369 | 3,695 | 13,302 | 451 | 26,817 |
| **Consolidated balance sheet as at 31 December 2016** | | | | | |
| Segment assets | 3,968,651 | 3,927,610 | 12,320,067 | 4,247,544 | 24,463,872 |
| Deferred income tax assets | | | | | 210,813 |
| Tax recoverable | | | | | 337,187 |
| Unallocated assets | | | | | 9,132,856 |
| Total assets | | | | | 34,144,728 |
| Segment liabilities | 887,522 | 1,057,813 | 2,500,821 | 2,263,688 | 6,709,844 |
| Deferred income tax liabilities | | | | | 106,452 |
| Current income tax liabilities | | | | | 79,860 |
| Unallocated liabilities | | | | | 12,487,716 |
| Total liabilities | | | | | 19,383,872 |

## 5 REVENUE AND SEGMENT INFORMATION *(continued)*

| | 2015 Continuing operations | | | | |
|---|---|---|---|---|---|
| | Sanitary napkins products RMB'000 (Restated) | Disposable diapers products RMB'000 (Restated) | Tissue paper products RMB'000 (Restated) | Others RMB'000 (Restated) | Group RMB'000 (Restated) |
| **Consolidated income statement for the year ended 31 December 2015** | | | | | |
| Segment revenue | 6,277,988 | 2,523,116 | 8,992,927 | 1,789,802 | 19,583,833 |
| Inter-segment sales | (92,858) | (72,102) | (298,773) | (457,524) | (921,257) |
| Revenue of the Group | 6,185,130 | 2,451,014 | 8,694,154 | 1,332,278 | 18,662,576 |
| Segment profit | 2,864,756 | 555,442 | 915,041 | 74,432 | 4,409,671 |
| Unallocated costs | | | | | (67,860) |
| Other income and other gains – net | | | | | 546,192 |
| Operating profit | | | | | 4,888,003 |
| Finance income | | | | | 170,639 |
| Finance costs | | | | | (509,968) |
| Profit before income tax | | | | | 4,548,674 |
| Income tax expense | | | | | (1,299,209) |
| Profit for the year | | | | | 3,249,465 |
| Non-controlling interests | | | | | (16,261) |
| Profit attributable to shareholders of the Company | | | | | 3,233,204 |
| **Other items for the year ended 31 December 2015** | | | | | |
| Additions to non-current assets | 302,118 | 37,500 | 657,073 | 98,209 | 1,094,900 |
| Depreciation charge | 129,701 | 33,133 | 394,398 | 19,143 | 576,375 |
| Amortisation charge | 11,287 | 2,327 | 16,720 | 569 | 30,903 |

## 5 REVENUE AND SEGMENT INFORMATION *(continued)*

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Continuing operations | | | | Discontinued operations | |
| | Sanitary napkin products RMB'000 (Restated) | Disposable diaper products RMB'000 (Restated) | Tissue paper products RMB'000 (Restated) | Others RMB'000 (Restated) | Food and snack products RMB'000 (Restated) | Group RMB'000 (Restated) |
| **Consolidated balance sheet as at 31 December 2015** | | | | | | |
| Segment assets | 5,867,168 | 3,533,031 | 15,126,325 | 7,044,944 | 916,135 | 32,487,603 |
| Deferred income tax assets | | | | | | 186,094 |
| Tax recoverable | | | | | | 109,141 |
| Unallocated assets | | | | | | 181,515 |
| Total assets | | | | | | 32,964,353 |
| Segment liabilities | 1,931,377 | 682,313 | 3,518,686 | 1,887,402 | 118,176 | 8,137,954 |
| Deferred income tax liabilities | | | | | | 159,563 |
| Current income tax liabilities | | | | | | 59,737 |
| Unallocated liabilities | | | | | | 9,515,304 |
| Total liabilities | | | | | | 17,872,558 |

## 6 OTHER INCOME AND OTHER GAINS – NET FROM CONTINUING OPERATIONS

| | **2016 RMB'000** | 2015 RMB'000 (Restated) |
|---|---|---|
| Government grants income *(Note)* | **491,969** | 481,810 |
| Exchange loss from operating activities – net | **(196,701)** | (217,630) |
| Losses on disposal of property, plant and equipment | **(32,709)** | (15,568) |
| Realised fair value gains on derivative financial instruments | **28,906** | – |
| Unrealised fair value losses on derivative financial instruments | **(1,073)** | (28,906) |
| Interests income from long-term and short-term bank deposits | **242,425** | 313,131 |
| Loss on early redemption of convertible bonds *(Note 30)* | **(18,885)** | – |
| Others | **29,039** | 13,355 |
| | **542,971** | 546,192 |

*Note:*

These 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 FROM CONTINUING OPERATIONS

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

| | **2016 RMB'000** | 2015 RMB'000 (Restated) |
|---|---|---|
| Raw materials and consumables used | **8,277,728** | 7,975,150 |
| Changes in inventories of work-in-progress and finished goods | **(145,250)** | (48,892) |
| Marketing and advertising expenses | **2,082,303** | 1,832,422 |
| Employee benefit expense, including directors' emoluments *(Note 12)* | **1,458,475** | 1,351,153 |
| Utilities and various office expenses | **789,393** | 816,267 |
| Transportation and packaging expenses | **685,307** | 568,694 |
| Depreciation of property, plant and equipment *(Note 13)* | **626,162** | 571,082 |
| Amortisation of land use rights *(Note 16)* | **24,071** | 28,260 |
| Amortisation of intangible assets *(Note 17)* | **2,746** | 2,643 |
| Research and development expenses | **411,361** | 380,328 |
| Repairs and maintenance expenses | **148,227** | 147,372 |
| Travelling expenses | **143,476** | 138,857 |
| Operating leases rentals | **77,539** | 83,151 |
| (Reversal of)/provision for inventories write-down *(Note 20)* | **(7,701)** | 7,629 |
| Provision for impairment of trade receivables *(Note 21)* | **30,858** | 22,936 |
| Auditor's remuneration | | |
| – Audit services | **6,100** | 5,300 |
| – Non-audit services | **1,051** | 501 |
| Others | **465,653** | 437,912 |
| Total cost of sales, distribution costs and administrative expenses | **15,077,499** | 14,320,765 |

## 8 FINANCE INCOME AND FINANCE COSTS FROM CONTINUING OPERATIONS

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| Finance costs: | | |
| Interest expenses | | |
| – Borrowings | **278,304** | 262,719 |
| – Convertible bonds | **80,690** | 135,424 |
| Exchange loss | **–** | 121,970 |
| Other finance charges | **15,590** | 13,654 |
| Total borrowing costs incurred | **374,584** | 533,767 |
| Less: Borrowing costs capitalised in buildings and machinery under construction-in-progress *(Note 15)* | **(14,282)** | (23,799) |
| | **360,302** | 509,968 |
| Finance income: | | |
| Interest income from cash and cash equivalents | **(121,345)** | (170,639) |
| Exchange gain | **(55,099)** | – |
| | **(176,444)** | (170,639) |
| Finance costs, net | **183,858** | 339,329 |

For the year ended 31 December 2016, the capitalisation rate applied to funds borrowed generally and used for the development of construction-in-progress was 2.42% (2015: 2.32%) per annum.

## 9 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS

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

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| Current income tax | | |
| – Current tax on profits for the year | **921,857** | 1,072,730 |
| – PRC withholding income tax | **211,995** | 190,369 |
| Deferred income tax, net *(Note 31)* | **(54,407)** | 36,110 |
| Income tax expense | **1,079,445** | 1,299,209 |

## 9 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS *(continued)*

(a) Hong Kong profits tax has been provided for at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits for the year.

(b) 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's entities operate. The Company's subsidiaries incorporated in the PRC are subject to Corporate Income Tax ("CIT") at the rate of 25%.

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" (財稅[2011]58號"關於深入實施西部大開發戰略有關稅收政策問題的通知"), 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.

(c) The profits of the PRC subsidiaries of the Group derived since 1 January 2008 are subject to withholding tax at a rate of 5% upon 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.

(d) 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:

| | **2016 RMB'000** | 2015 RMB'000 (Restated) |
|---|---|---|
| Profit before income tax | **4,559,011** | 4,548,674 |
| Tax calculated at tax rates applicable to profits of the Group's companies | **1,062,252** | 1,102,311 |
| Tax exemption and concession on the profits of certain PRC subsidiaries | **(144,329)** | (36,068) |
| Tax losses in current year for which no deferred tax assets were recognized | **–** | (8,989) |
| Utilisation of previously unrecognized tax losses | **44** | 42 |
| Withholding tax on distributed profit and unremitted earnings | **190,461** | 241,355 |
| Others | **(28,983)** | 558 |
| Income tax expense | **1,079,445** | 1,299,209 |

The weighted average applicable tax rate was 23.3% (2015 (restated): 24.2%).

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

## 10 EARNINGS PER SHARE

### (a) Basic

Basic earnings per share is calculated by dividing the Group's profit attributable to the Company's shareholders by the weighted average number of ordinary shares in issue during the year.

| | 2016 | 2015 (Restated) |
|---|---|---|
| **From continuing operations:** | | |
| Profit attributable to shareholders of the Company (RMB'000) | **3,471,746** | 3,233,204 |
| Weighted average number of ordinary shares in issue (thousands) | **1,212,364** | 1,222,464 |
| Basic earnings per share (RMB) | **2.864** | 2.645 |
| **From discontinued operations:** | | |
| Profit attributable to shareholders of the Company (RMB'000) | **125,075** | 26,659 |
| Weighted average number of ordinary shares in issue (thousands) | **1,212,364** | 1,222,464 |
| Basic earnings per share (RMB) | **0.103** | 0.022 |

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversation of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The diluted earnings per share is the same as the basic earnings per share for the year ended 31 December 2016 as the potential ordinary shares in respect of outstanding share options and convertible bonds are anti-dilutive.

For the year ended 31 December 2015, the Company's share options are regarded as dilutive potential ordinary shares while convertible bonds have no dilutive effect on the earnings per share. 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 2015) 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.

## 10 EARNINGS PER SHARE *(continued)*

### (b) Diluted *(continued)*

| | **2016** | 2015 (Restated) |
|---|---|---|
| **From continuing operations:** | | |
| Profit attributable to shareholders of the Company (RMB'000) | **3,471,746** | 3,233,204 |
| Weighted average number of ordinary shares in issue (thousands) | **1,212,364** | 1,222,464 |
| Adjusted for share options (thousands) | **–** | 1,927 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | **1,212,364** | 1,224,391 |
| Diluted earnings per share (RMB) | **2.864** | 2.641 |
| **From discontinued operations:** | | |
| Profit attributable to shareholders of the Company (RMB'000) | **125,075** | 26,659 |
| Weighted average number of ordinary shares in issue (thousands) | **1,212,364** | 1,222,464 |
| Adjusted for share options (thousands): | **–** | 1,927 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | **1,212,364** | 1,224,391 |
| Diluted earnings per share (RMB) | **0.103** | 0.022 |

## 11 DIVIDENDS

| | 2016<br>RMB'000 | 2015<br>RMB'000<br>(Restated) |
|---|---|---|
| Distribution in specie *(Note (a))* | **1,051,000** | – |
| Interim, paid, RMB0.85 (equivalent to approximately HK$0.99) (2015 (restated): RMB0.78 (equivalent to HK$0.95)) per ordinary share *(Note (b)) (Note (c))* | **1,031,079** | 953,165 |
| Final, proposed/paid, RMB1.10 (equivalent to approximately HK$1.24) (2015 (restated): RMB0.96 (equivalent to HK$1.15)) per ordinary share *(Note (b)) (Note (c))* | **1,325,377** | 1,166,057 |
| | **3,407,456** | 2,119,222 |

(a) As mentioned in Note 1, the entire issued share capital of the Qinqin Group was spun-off via a distribution in specie completed on 7 July 2016. The transaction was recognized and measured in accordance with "HK(IFRIC) 17 – Distribution of Non-cash Assets to Owners". The fair value of the net assets attributable to the Qinqin Group, subject to the distribution in specie, amounted to approximately RMB1,051,000,000. The transaction resulted in a non-cash gain of approximately RMB267,111,000 (Note 24), of which RMB117,535,000 (Note 24) was attributable to the shareholders of the Group.

(b) The dividends paid in 2016 amounted to RMB2,197,136,000 (2016 interim: RMB0.85 per share, 2015 final (restated): RMB0.96 per share). The dividends paid in 2015 amounted to HK$2,565,250,000, equivalent to RMB2,068,642,000 (2015 interim (restated): RMB0.78 per share, 2014 final (restated): RMB0.91 per share). A final dividend in respect of the year ended 31 December 2016 of RMB1.10 per share, amounting to a total dividend of RMB1,325,377,000, was proposed by the Board of Directors at a meeting held on 21 March 2017, subject to the final approval by the shareholders of the Company at the Annual General Meeting to be held on 17 May 2017. These financial statements do not reflect this dividend payable.

(c) Dividends payable to shareholders will be paid in HK$. The exchange rate adopted by the Company for its dividend payable is the middle rate of HK$ to RMB announced by the People's Bank of China for the business day preceding the date of dividend declaration. The exchange rate of HK$ to RMB on 20 March 2017 is 0.88883.

## 12 EMPLOYEE BENEFIT EXPENSE FROM CONTINUING OPERATIONS

| | 2016<br>RMB'000 | 2015<br>RMB'000<br>(Restated) |
|---|---|---|
| Wages and salaries | **1,200,841** | 1,109,886 |
| Retirement benefit cost | **206,605** | 190,765 |
| Equity-settled share-based payment *(Note 26)* | **51,029** | 50,502 |
| Total employee benefit expense | **1,458,475** | 1,351,153 |

## 12 EMPLOYEE BENEFIT EXPENSE FROM CONTINUING OPERATIONS *(continued)*

### Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2015: four) directors whose emoluments are reflected in the analysis shown in Note 39. The emoluments payable to the remaining one (2015: one) individual during the year are as follows:

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| Basic salaries, housing allowances, share-based compensation, other allowances and benefits-in-kind | 763 | 936 |
| Bonuses | 138 | 116 |
| | 901 | 1,052 |

The emoluments fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | 2016 | 2015 |
| Emolument bands | | |
| HK$1,000,001 to HK$1,500,000 (equivalent to RMB857,200 to RMB1,285,800) | 1 | 1 |

## 13 PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings RMB'000 | Machinery RMB'000 | Office equipment, furniture and fixtures RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2016 | | | | | |
| Cost | 4,238,920 | 6,734,485 | 234,517 | 45,318 | 11,253,240 |
| Accumulated depreciation | (914,509) | (2,713,626) | (129,141) | (27,650) | (3,784,926) |
| Opening net book amount | 3,324,411 | 4,020,859 | 105,376 | 17,668 | 7,468,314 |
| Year ended 31 December 2016 | | | | | |
| Opening net book amount | 3,324,411 | 4,020,859 | 105,376 | 17,668 | 7,468,314 |
| **Continuing operations:** | | | | | |
| Additions | 6,687 | 52,531 | 26,930 | 1,339 | 87,487 |
| Transfer from construction-in-progress *(Note 15)* | 363,992 | 470,407 | 4,096 | 5 | 838,500 |
| Transfer to investment properties *(Note 14)* | (11,101) | – | – | – | (11,101) |
| Depreciation for the year *(Note 7)* | (187,376) | (409,036) | (25,664) | (4,086) | (626,162) |
| Disposals | (272) | (38,065) | (1,259) | (546) | (40,142) |
| Currency translation differences | 3,515 | – | 6 | – | 3,521 |
| **Discontinued operations:** | | | | | |
| Additions | 141 | 731 | 632 | 216 | 1,720 |
| Transfer from construction-in-progress *(Note 15)* | 480 | 98 | – | – | 578 |
| Depreciation for the year | (7,979) | (9,388) | (1,756) | (356) | (19,479) |
| Disposals | (33) | (21) | (205) | (24) | (283) |
| Distribution in specie | (219,931) | (131,214) | (5,377) | (1,624) | (358,146) |
| Closing net book amount | 3,272,534 | 3,956,902 | 102,779 | 12,592 | 7,344,807 |
| At 31 December 2016 | | | | | |
| Cost | 4,291,548 | 6,913,988 | 232,920 | 39,957 | 11,478,413 |
| Accumulated depreciation | (1,019,014) | (2,957,086) | (130,141) | (27,365) | (4,133,606) |
| Net book amount | 3,272,534 | 3,956,902 | 102,779 | 12,592 | 7,344,807 |

## 13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

| | Leasehold land and buildings RMB'000 (Restated) | Machinery RMB'000 (Restated) | Office equipment, furniture and fixtures RMB'000 (Restated) | Motor vehicles RMB'000 (Restated) | Total RMB'000 (Restated) |
|---|---|---|---|---|---|
| At 1 January 2015 | | | | | |
| Cost | 3,708,751 | 6,355,166 | 200,935 | 43,871 | 10,308,723 |
| Accumulated depreciation | (736,899) | (2,435,274) | (115,024) | (24,686) | (3,311,883) |
| Opening net book amount | 2,971,852 | 3,919,892 | 85,911 | 19,185 | 6,996,840 |
| Year ended 31 December 2015 | | | | | |
| Opening net book amount | 2,971,852 | 3,919,892 | 85,911 | 19,185 | 6,996,840 |
| **Continuing operations:** | | | | | |
| Additions | 19,267 | 56,144 | 40,517 | 5,087 | 121,015 |
| Transfer from construction-in-progress *(Note 15)* | 506,204 | 453,303 | 6,237 | – | 965,744 |
| Depreciation for the year *(Note 7)* | (162,972) | (379,187) | (23,640) | (5,283) | (571,082) |
| Disposals | (247) | (16,805) | (1,684) | (470) | (19,206) |
| Currency translation differences | 3,104 | – | – | 2 | 3,106 |
| **Discontinued operations:** | | | | | |
| Additions | 2,742 | 1,445 | 1,958 | – | 6,145 |
| Transfer from construction-in-progress *(Note 15)* | 709 | 5,848 | 13 | – | 6,570 |
| Depreciation for the year | (16,248) | (19,460) | (3,853) | (798) | (40,359) |
| Disposals | – | (321) | (83) | (55) | (459) |
| Closing net book amount | 3,324,411 | 4,020,859 | 105,376 | 17,668 | 7,468,314 |
| At 31 December 2015 | | | | | |
| Cost | 4,238,920 | 6,734,485 | 234,517 | 45,318 | 11,253,240 |
| Accumulated depreciation | (914,509) | (2,713,626) | (129,141) | (27,650) | (3,784,926) |
| Net book amount | 3,324,411 | 4,020,859 | 105,376 | 17,668 | 7,468,314 |

## 13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

| | 2016<br>RMB'000 | 2015<br>RMB'000<br>(Restated) |
|---|---|---|
| Manufacturing overheads included under cost of goods sold | 450,356 | 436,550 |
| Distribution costs | 6,811 | 7,816 |
| Administrative expenses | 168,995 | 126,716 |
| | 626,162 | 571,082 |

There was no pledge of property, plant and equipment of the Group as at 31 December 2016 and 2015.

## 14 INVESTMENT PROPERTIES

| | 2016<br>RMB'000 | 2015<br>RMB'000<br>(Restated) |
|---|---|---|
| **Continuing operations:** | | |
| At 1 January | | |
| Opening net book amount | 185,886 | 188,542 |
| Transfer from construction-in-progress *(Note 15)* | – | 888 |
| Transfer from land use rights *(Note 16)* | 2,132 | 1,749 |
| Transfer from property, plant and equipment *(Note 13)* | 11,101 | – |
| Depreciation for the year | (4,271) | (5,293) |
| Closing net book amount | 194,848 | 185,886 |
| At 31 December | | |
| Cost | 207,973 | 193,164 |
| Accumulated depreciation | (13,125) | (7,278) |
| Net book amount | 194,848 | 185,886 |

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.

## 14 INVESTMENT PROPERTIES *(continued)*

Amounts recognized in profit and loss for investment properties as follow:

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| Rental income | **15,771** | 15,138 |
| Direct operating expenses | **(4,271)** | (5,293) |
| Net book amount | **11,500** | 9,845 |

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

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| Other income and other gains – net | **(4,271)** | (5,293) |

## 15 CONSTRUCTION-IN-PROGRESS

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| At 1 January | **1,089,602** | 1,091,711 |
| **Continuing operations:** | | |
| Currency translation differences | **–** | 30 |
| Additions | **845,861** | 964,849 |
| Transfer to property, plant and equipment *(Note 13)* | **(838,500)** | (965,744) |
| Transfer to Investment properties *(Note 14)* | **–** | (888) |
| Transfer to Intangible assets *(Note 17)* | **(1,037)** | – |
| **Discontinued operations:** | | |
| Additions | **1,710** | 6,214 |
| Transfer to property, plant and equipment *(Note 13)* | **(578)** | (6,570) |
| Distribution in specie | **(2,913)** | – |
| At 31 December | **1,094,145** | 1,089,602 |

During the year ended 31 December 2016, finance costs capitalised in construction-in-progress from continuing operations amounted to RMB14,282,000 (2015 (restated): RMB23,799,000) (Note 8).

## 16 LAND USE RIGHTS

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

| | **2016 RMB'000** | 2015 RMB'000 (Restated) |
|---|---|---|
| At 1 January | **858,708** | 881,855 |
| **Continuing operations:** | | |
| Additions | **–** | 9,036 |
| Transfer to investment properties *(Note 14)* | **(2,132)** | (1,749) |
| Amortisation of prepaid operating leases payments *(Note 7)* | **(24,071)** | (28,260) |
| **Discontinued operations:** | | |
| Amortisation of prepaid operating leases payments | **(1,083)** | (2,174) |
| Distribution in specie | **(80,114)** | – |
| At 31 December | **751,308** | 858,708 |

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

## 17 INTANGIBLE ASSETS

| | Goodwill RMB'000 | Patents and trademarks RMB'000 | Customer relationships RMB'000 | Softwares RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2016 | | | | | |
| Cost | 517,860 | 66,296 | 51,000 | 28,784 | 663,940 |
| Accumulated amortisation | – | (23,520) | (35,700) | (5,364) | (64,584) |
| Net book amount | 517,860 | 42,776 | 15,300 | 23,420 | 599,356 |
| Year ended 31 December 2016 | | | | | |
| Opening net book amount | 517,860 | 42,776 | 15,300 | 23,420 | 599,356 |
| **Continuing operations:** | | | | | |
| Transfer from construction-in-progress *(Note 15)* | – | – | – | 1,037 | 1,037 |
| Amortisation charge *(Note 7)* | – | (379) | – | (2,367) | (2,746) |
| **Discontinued operations:** | | | | | |
| Amortisation charge | – | (1,560) | (2,550) | (306) | (4,416) |
| Distribution in specie | (38,147) | (39,000) | (12,750) | (4,824) | (94,721) |
| Closing net book amount | 479,713 | 1,837 | – | 16,960 | 498,510 |
| At 31 December 2016 | | | | | |
| Cost | 479,713 | 3,771 | – | 23,664 | 507,148 |
| Accumulated amortisation | – | (1,934) | – | (6,704) | (8,638) |
| Net book amount | 479,713 | 1,837 | – | 16,960 | 498,510 |

## 17 INTANGIBLE ASSETS (continued)

| | Goodwill RMB'000 (Restated) | Patents and trademarks RMB'000 (Restated) | Customer relationships RMB'000 (Restated) | Softwares RMB'000 (Restated) | Total RMB'000 (Restated) |
|---|---|---|---|---|---|
| At 1 January 2015 | | | | | |
| Cost | 517,860 | 66,296 | 51,000 | 27,964 | 663,120 |
| Accumulated amortisation | – | (20,001) | (30,600) | (2,544) | (53,145) |
| Net book amount | 517,860 | 46,295 | 20,400 | 25,420 | 609,975 |
| Year ended 31 December 2015 | | | | | |
| Opening net book amount | 517,860 | 46,295 | 20,400 | 25,420 | 609,975 |
| **Continuing operations:** | | | | | |
| Amortisation charge *(Note 7)* | – | (380) | – | (2,263) | (2,643) |
| **Discontinued operations:** | | | | | |
| Additions | – | – | – | 820 | 820 |
| Amortisation charge | – | (3,139) | (5,100) | (557) | (8,796) |
| Closing net book amount | 517,860 | 42,776 | 15,300 | 23,420 | 599,356 |
| At 31 December 2015 | | | | | |
| Cost | 517,860 | 66,296 | 51,000 | 28,784 | 663,940 |
| Accumulated amortisation | – | (23,520) | (35,700) | (5,364) | (64,584) |
| Net book amount | 517,860 | 42,776 | 15,300 | 23,420 | 599,356 |

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

## 17 INTANGIBLE ASSETS *(continued)*

### Impairment tests for goodwill

The Directors have performed an impairment review of the carrying amount of goodwill as at 31 December 2016 and have concluded that no provision for impairment is required. For the purposes of impairment testing, goodwill acquired has been allocated to the lowest level of CGUs identified by business segments.

A summary of goodwill by reporting segment is presented below:

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| Tissue paper products | **479,713** | 479,713 |
| Food and snacks products | **–** | 38,147 |
| | **479,713** | 517,860 |

The recoverable amount 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 five years and assuming revenue growth rate would be consistent with that in 2016 and gross profit margins of 37.9% (2015: revenue would be consistent with that in 2015 and gross profit margins of 35.6%). 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 10.8% per annum (2015: 10.8%). Based on management's assessment results, there was no impairment of goodwill as at 31 December 2016 and 2015 and any reasonable change to the key assumptions would not lead to an impairment.

## 18 PREPAYMENTS FOR NON-CURRENT ASSETS

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

## 19 FINANCIAL INSTRUMENTS BY CATEGORY

### (a) Assets

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| **Loans and receivables** | | |
| – Trade and other receivables, excluding advances to suppliers, prepayments and value added tax recoverable | **2,931,447** | 2,411,802 |
| – Restricted bank deposits | **14,622** | 21,132 |
| – Long-term bank deposits *(Note 23)* | **1,760,000** | 850,000 |
| – Cash and bank balances *(Note 23)* | **14,874,877** | 14,866,085 |
| Total | **19,580,946** | 18,149,019 |

## 19 FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

### (b) Liabilities

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| **Financial liabilities at amortised costs** | | |
| – Trade and other payables, excluding non-financial liabilities | **2,959,589** | 3,006,774 |
| – Borrowings *(Note 29)* | **15,443,261** | 9,696,293 |
| – Convertible bonds *(Note 30)* | **472,719** | 4,656,907 |
| | **18,875,569** | 17,359,974 |
| **Liabilities at fair value through profit or loss** | | |
| – Derivative financial instruments *(Note 22)* | **1,119** | 30,084 |
| Total | **18,876,688** | 17,390,058 |

## 20 INVENTORIES

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| Finished goods | **1,321,464** | 1,193,289 |
| Work-in-progress | **–** | 27,632 |
| Raw materials | **1,715,351** | 1,908,575 |
| Spare parts and consumables | **157,826** | 166,519 |
| | **3,194,641** | 3,296,015 |

The cost of inventories from continuing operations recognised as expenses and included in cost of goods sold amounted to RMB8,132,478,000 (2015: RMB7,926,258,000).

The Group reversed a provision for inventories write-down of RMB7,701,000 (2015: provided for RMB7,629,000) from continuing operations. These amounts have been included in cost of sales in the consolidated income statement (Note 7).

## 21 TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| Trade receivables | **2,731,403** | 2,152,090 |
| Bills receivable | **61,909** | 88,472 |
| | **2,793,312** | 2,240,562 |
| Less: provision for impairment | **(49,812)** | (24,003) |
| Trade and bills receivables | **2,743,500** | 2,216,559 |
| Other receivables, prepayments and deposits | | |
| – Advance payments to suppliers | **300,314** | 442,683 |
| – Interest income receivables | **110,824** | 116,628 |
| – Prepayments for rental fee and utility fee | **28,746** | 27,519 |
| – Value added tax recoverable | **445,182** | 400,092 |
| – Others | **77,123** | 78,615 |
| | **962,189** | 1,065,537 |
| Trade and other receivables, prepayments and deposits | **3,705,689** | 3,282,096 |

Part of the Group's sales are on open account with credit terms ranging from 30 days to 90 days. At 31 December 2016, the ageing analysis of the trade and bills receivables based on invoice date was as follows:

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| Within 30 days | **1,093,677** | 985,094 |
| 31–180 days | **1,438,602** | 1,172,913 |
| 181–365 days | **218,395** | 41,668 |
| Over 365 days | **42,638** | 40,887 |
| | **2,793,312** | 2,240,562 |

## 21 TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS *(continued)*

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 approximated their fair value at the balance sheet date.

The credit quality of the trade receivables that are neither past due nor impaired totaled RMB2,390,261,000 (2015 (restated): RMB1,861,914,000) 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 2016, trade receivables of RMB353,239,000 (2015 (restated): RMB354,645,000) 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 2016 and 2015, the ageing analysis of these trade receivables was as follows:

| | **2016 RMB'000** | 2015 RMB'000 (Restated) |
|---|---|---|
| Within 30 days | **155,627** | 192,769 |
| 31–180 days | **183,462** | 139,209 |
| 181–365 days | **14,150** | 14,914 |
| Over 365 days | **–** | 7,753 |
| | **353,239** | 354,645 |

Trade receivables of RMB49,812,000 (2015 (restated): RMB24,003,000) were impaired and fully provided for. The aging of these receivables was as follows:

| | **2016 RMB'000** | 2015 RMB'000 (Restated) |
|---|---|---|
| 181–365 days | **20,118** | – |
| Over 365 days | **29,694** | 24,003 |
| | **49,812** | 24,003 |

## 21 TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS *(continued)*

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

| | **2016 RMB'000** | 2015 RMB'000 (Restated) |
|---|---|---|
| At 1 January | **24,003** | 5,010 |
| **Continuing operations:** | | |
| Provision for impairment of trade receivables *(Note 7)* | **30,858** | 22,936 |
| Receivables written-off during the year as uncollectible | **(5,049)** | (3,943) |
| **Discontinued operations:** | | |
| Provision for impairment of trade receivables | **–** | 5 |
| Receivables written-off during the year as uncollectible | **–** | (5) |
| As 31 December | **49,812** | 24,003 |

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 2016, other receivables were 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 were denominated in the following currencies:

| | **2016 RMB'000** | 2015 RMB'000 (Restated) |
|---|---|---|
| RMB | **2,665,308** | 2,014,761 |
| Other currencies | **128,004** | 225,801 |
| | **2,793,312** | 2,240,562 |

## 22 DERIVATIVE FINANCIAL INSTRUMENTS

These represented the fair value of the exchange rate swap contracts and interest rate swap contracts entered into with banks. These contracts are regarded as derivative financial instruments.

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| Liabilities: | | |
| Interest rate swap contracts | 1,119 | 2,026 |
| Forward foreign exchange contract | – | 28,058 |
| | 1,119 | 30,084 |

Non-hedging derivatives are classified as a current asset or liability.

There was no forward foreign exchange contract as at 31 December 2016 (31 December 2015: one contract with notional principal amounted to US$193,237,000).

The interest rate swap contract as at 31 December 2016 comprised one (31 December 2015: two) contract with notional principal amounted to HK$1,000,000,000 (31 December 2015: US$154,808,000).

## 23 LONG-TERM BANK DEPOSITS AND CASH AND BANK BALANCES

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| **Long-term bank deposits** | 1,760,000 | 850,000 |
| **Cash and bank balances** | | |
| – Bank deposits | 9,312,075 | 8,972,385 |
| – Cash and cash equivalents | 5,562,802 | 5,893,700 |
| | 14,874,877 | 14,866,085 |
| **Total** | 16,634,877 | 15,716,085 |

The cash and cash equivalents represented cash deposits held at call with banks and in hand and other short-term highly liquid investments with original maturities of three months or less.

The effective interest rate on bank deposits from continuing operations as at 31 December 2016 was approximately 2.38% (31 December 2015: 3.09%) per annum.

## 23 LONG-TERM BANK DEPOSITS AND CASH AND BANK BALANCES *(continued)*

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

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| **Long-term bank deposits** | | |
| RMB | **1,760,000** | 850,000 |
| **Cash and bank balances** | | |
| RMB | **5,909,894** | 7,343,355 |
| US$ | **6,850,982** | 7,020,527 |
| HK$ | **2,111,953** | 496,716 |
| Others | **2,048** | 5,487 |
| **Total** | **14,874,877** | 14,866,085 |

The Group's bank deposits and cash denominated in US$, RMB and HK$ 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.

## 24 DISCONTINUED OPERATIONS

The consolidated results of the Qinqin Group were presented in the consolidated income statement as discontinued operations in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". The consolidated income statement distinguished the discontinued operations from the continuing operations, and the comparative figures have been restated accordingly.

The financial information of the discontinued operations is set out below:

**(a)** Results of the discontinued operations have been included in the consolidated statement of income as follows:

| | **For the period from 1 January 2016 to 7 July 2016 RMB'000** | For the year ended 31 December 2015 RMB'000 |
|---|---|---|
| Revenue | **617,746** | 1,020,051 |
| Cost of goods sold | **(336,921)** | (589,114) |
| Gross profit | **280,825** | 430,937 |
| Other income and other gains – net | **3,514** | 6,535 |
| Distribution costs | **(194,596)** | (294,300) |
| Administrative expenses | **(62,632)** | (81,519) |
| Operating profit | **27,111** | 61,653 |
| Finance income | **3,812** | 11,818 |
| Finance costs | **(113)** | (157) |
| Finance costs – net | **3,699** | 11,661 |
| Profit before income tax | **30,810** | 73,314 |
| Income tax expense | **(16,025)** | (21,042) |
| Net profit for the year | **14,785** | 52,272 |
| Net gain on distribution in specie | **267,111** | – |
| Profit for the year from discontinued operations | **281,896** | 52,272 |
| Profit attributable to: | | |
| Shareholders of the Company | **125,075** | 26,659 |
| Non-controlling interests | **156,821** | 25,613 |
| | **281,896** | 52,272 |

## 24 DISCONTINUED OPERATIONS *(continued)*

### (b) Net gain on distribution in specie

Details of net assets of discontinued operations at date of distribution in specie are set out below:

| | 2016<br>RMB'000 |
|---|---|
| Net assets distributed | |
| Property, plant and equipment | 361,059 |
| Intangible assets, including goodwill and land use rights | 174,835 |
| Inventories | 57,161 |
| Other current assets | 363,651 |
| Other non-current assets | 16,994 |
| Trade and other payables | (158,451) |
| Other current liabilities | (5,063) |
| Other non-current liabilities | (26,297) |
| Book value of net assets distributed | 783,889 |

Analysis of net gain on distribution in specie:

| | 2016<br>RMB'000 |
|---|---|
| Fair value of Qinqin Group *(Note)* | 1,051,000 |
| Less: Net assets value of Qinqin Group | (783,889) |
| Net gain on distribution in specie | 267,111 |
| Attributable to: | |
| Shareholders of the Company | 117,535 |
| Non-controlling interests | 149,576 |
| | 267,111 |

*Note:*

The fair value of the Qinqin Group was determined by the Group's management using a discounted cash flow model, and with reference to a valuation conducted by an independent valuation expert. The key assumptions adopted in the discounted cash flow model included the revenue growth rates, profit margin and the discount rate used.

## 24 DISCONTINUED OPERATIONS *(continued)*

### (c) Cumulative income recognized in other comprehensive income relating to the discontinued operations

| | For the period from 1 January 2016 to 7 July 2016 RMB'000 | For the year ended 31 December 2015 RMB'000 |
|---|---|---|
| Currency translation differences | **2,368** | 221 |

## 25 SHARE CAPITAL

Ordinary shares, issued and fully paid:

| | Number of shares | RMB'000 |
|---|---|---|
| At 1 January 2016 (Restated) | **1,218,094,221** | **128,132** |
| Buy-back of shares | **(13,228,500)** | **(1,144)** |
| Employee share option schemes | | |
| – Shares issued upon exercise of share options *(Note 26)* | **22,500** | **3** |
| At 31 December 2016 | **1,204,888,221** | **126,991** |
| At 1 January 2015 (Restated) | 1,224,384,721 | 128,649 |
| Buy-back of shares | (6,340,000) | (521) |
| Employee share option schemes | | |
| – Shares issued upon exercise of share options *(Note 26)* | 49,500 | 4 |
| At 31 December 2015 (Restated) | 1,218,094,221 | 128,132 |

The Group acquired 13,228,500 its own ordinary shares through purchases on the Stock Exchange during the year ended 31 December 2016. The shares had been cancelled after buy-back. The total amount paid to acquire the shares was approximately RMB719,569,000 and have been deducted from share capital, other reserves (Note 27) and retained earnings (Note 28) in the amounts of RMB1,144,000, RMB2,955,000 and RMB715,470,000, respectively.

## 26 SHARE-BASED COMPENSATION

The Company adopted a share option scheme on 26 May 2011 "2011 scheme". Pursuant to the scheme, share options had been granted to the Directors and selected employees. 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:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Average exercise price in HK$ per share** | **Options (thousands)** | Average exercise price in HK$ per share | Options (thousands) |
| At 1 January | **73.94** | **19,577** | 71.96 | 14,294 |
| Granted | **–** | **–** | 79.20 | 5,333 |
| Forfeited | **72.75** | **(2,538)** | – | – |
| Forfeited | **68.30** | **(274)** | – | – |
| Exercised | **68.30** | **(23)** | 68.30 | (48) |
| Exercised | **–** | **–** | 72.75 | (2) |
| At 31 December | **74.22** | **16,742** | 73.94 | 19,577 |

Out of the 16,742,000 outstanding options (2015: 19,577,000), 9,121,000 options (2015: 7,731,500) were exercisable as at 31 December 2016.

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)** 2016 | **Options (thousands)** 2015 |
|---|---|---|---|
| Expiry date – 27 July 2021 | 68.30 | **2,192** | 2,488 |
| Expiry date – 28 July 2022 | 72.75 | **9,217** | 11,756 |
| Expiry date – 5 Oct 2025 | 79.20 | **5,333** | 5,333 |
| | | **16,742** | 19,577 |

## 26 SHARE-BASED COMPENSATION *(continued)*

The total amount of the fair value of share options granted to Directors and selected employees is expensed over the vesting period. The share-based compensation expense for the year ended 31 December 2016 amounted to RMB51,029,000 (2015 (restated): RMB50,502,000) (Note 12), and the remaining unamortised fair value of approximately RMB80,307,000 (2015 (restated): RMB123,338,000) 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 2011 Scheme are 102,422,872, which are not more than 10% of the issued share capital of the Company as at the date of the approval of the Scheme.

## 27 OTHER RESERVES

| | Share premium account RMB'000 *(Note(a))* | Capital redemption reserve RMB'000 | Statutory reserves RMB'000 *(Note(b))* | Share-based compensation reserve RMB'000 | Exchange reserve RMB'000 *(Note(c))* | Convertible bonds – equity component RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2016 (Restated) | **525,098** | **1,922** | **1,842,972** | **225,730** | **308,147** | **140,634** | **3,044,503** |
| Other comprehensive income | | | | | | | |
| – currency translation differences | **–** | **–** | **–** | **–** | **(108,116)** | **–** | **(108,116)** |
| Appropriation to statutory reserves | **–** | **–** | **116,395** | **–** | **–** | **–** | **116,395** |
| Share-based compensation | | | | | | | |
| – value of employee services | **–** | **–** | **–** | **51,029** | **–** | **–** | **51,029** |
| – proceeds from shares issued | **1,315** | **–** | **–** | **–** | **–** | **–** | **1,315** |
| – exercise of share options | **398** | **–** | **–** | **(398)** | **–** | **–** | **–** |
| Buy-back of shares | **(2,955)** | **–** | **–** | **–** | **–** | **–** | **(2,955)** |
| Early redemption of convertible bonds | **–** | **–** | **–** | **–** | **–** | **(127,668)** | **(127,668)** |
| Change in ownership interests in subsidiaries without change of control | **(572)** | **–** | **–** | **–** | **–** | **–** | **(572)** |
| Derecognition upon the Spin-off | **–** | **–** | **(38,616)** | **–** | **9,656** | **–** | **(28,960)** |
| At 31 December 2016 | **523,284** | **1,922** | **1,920,751** | **276,361** | **209,687** | **12,966** | **2,944,971** |
| At 1 January 2015 (Restated) | 523,904 | 1,922 | 1,741,409 | 176,035 | 512,822 | 140,634 | 3,096,726 |
| Other comprehensive income | | | | | | | |
| – currency translation differences | – | – | – | – | (204,675) | – | (204,675) |
| Appropriation to statutory reserves | – | – | 101,563 | – | – | – | 101,563 |
| Share-based compensation | | | | | | | |
| – value of employee services | – | – | – | 50,502 | – | – | 50,502 |
| – proceeds from shares issued | 2,725 | – | – | – | – | – | 2,725 |
| – exercise of share options | 807 | – | – | (807) | – | – | – |
| Buy-back of shares | (2,338) | – | – | – | – | – | (2,338) |
| At 31 December 2015 (Restated) | 525,098 | 1,922 | 1,842,972 | 225,730 | 308,147 | 140,634 | 3,044,503 |

## 27 OTHER RESERVES *(continued)*

*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 years ended 31 December 2016 and 2015.

(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 RMB, the presentation currency of the financial statements of the Company and the Group.

## 28 RETAINED EARNINGS

| | **2016 RMB'000** | 2015 RMB'000 (Restated) |
|---|---|---|
| At 1 January | **11,538,232** | 10,832,836 |
| 2015/2014 final dividends paid | **(1,166,057)** | (1,115,477) |
| 2016/2015 interim dividends paid | **(1,031,079)** | (953,165) |
| Profit for the year | **3,596,821** | 3,259,863 |
| Appropriation to statutory reserves | **(116,395)** | (101,563) |
| Early redemption of convertible bonds | **55,827** | – |
| Derecognition upon the spin-off | **28,960** | – |
| Distribution in specie | **(536,010)** | – |
| Buy-back of shares | **(715,470)** | (384,262) |
| At 31 December | **11,654,829** | 11,538,232 |

## 29 BORROWINGS

| | **2016 RMB'000** | 2015 RMB'000 (Restated) |
|---|---|---|
| Non-current | | |
| Long-term bank loans – unsecured (a) | **536,700** | – |
| Medium-term notes (b) | **1,995,519** | – |
| Corporate bonds (c) | **992,468** | – |
| | **3,524,687** | – |
| Current | | |
| Trust receipt bank loans (a) | **627,870** | 718,960 |
| Short-term bank loans – unsecured (a) | **11,290,704** | 8,977,333 |
| | **11,918,574** | 9,696,293 |
| Total borrowings | **15,443,261** | 9,696,293 |

## 29 BORROWINGS *(continued)*

### (a) Bank loans

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

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| HK$ | **8,945,365** | 2,113,801 |
| US$ | **1,856,243** | 4,374,754 |
| RMB | **1,653,666** | 3,207,738 |
| | **12,455,274** | 9,696,293 |

At 31 December 2016, the Group's long-term bank borrowings are repayable as follows:

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| Between 1 and 2 years | **536,700** | – |

As at 31 December 2016, the effective interest rate of the Group's borrowings is approximately 2.16% (2015: 2.32%) per annum.

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:

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| Undrawn bank borrowing facilities | **21,361,800** | 19,314,756 |

### (b) Medium-term notes

In September 2016, the Company issued medium-term notes at a par value of RMB2,000,000,000, which was dominated in RMB with a fixed interest of 3.24% per annum. The notes will mature in three years from the issue date. The values of the liability, net of transaction costs of RMB5,000,000, were determined at issuance of the notes.

The fair value of the medium-term notes approximated its carrying amounts as at 31 December 2016.

### (c) Corporate bonds

In September 2016, a wholly-owned subsidiary of the Group issued corporate bonds at a par value of RMB1,000,000,000, which was dominated in RMB with a fixed interest of 3.30% per annum. The bonds will mature in five years from the issue date. The values of the liability, net of transaction costs of RMB8,000,000, were determined at issuance of the bonds.

The fair value of the corporate bonds approximated its carrying amounts as at 31 December 2016.

## 30 CONVERTIBLE BONDS

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| Face value of convertible bonds issued on 27 June 2013 | **4,328,181** | 4,328,181 |
| Issuing expenses | **(87,625)** | (87,625) |
| Equity component | **(140,634)** | (140,634) |
| Liability component on initial recognition on 27 June 2013 | **4,099,922** | 4,099,922 |
| Accumulated finance costs | **408,983** | 328,293 |
| Early redemption of convertible bonds | **(4,392,425)** | – |
| Currency translation difference | **356,239** | 228,692 |
| Liability component | | |
| – Current | **–** | 4,656,907 |
| – Non-current | **472,719** | – |
| | **472,719** | 4,656,907 |

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, equivalent to RMB4,328 million with an initial conversion price of HK$120.0825, equivalent to RMB95.6457 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.

During the year ended 31 December 2016, the Group early redeemed the convertible bonds with a principal amount of HK$4,933 million, equivalent to RMB3,929 million. Upon redemption, the redemption consideration of HK$5,236,380,000, equivalent to RMB4,483,151,000, was allocated as to RMB4,392,425,000 to the liability component and RMB71,841,000 to the equity component respectively. The difference between the redemption consideration allocated to the liability component and the carrying amount of the liability component of the bonds redeemed as at the redemption date of RMB18,885,000 is recognised in profit or loss as "loss on early redemption of convertible bonds" (Note 6). The difference between the redemption consideration and the carrying amount of the equity component amounting to RMB55,827,000 is recognised in retained earnings (Note 28).

## 31 DEFERRED INCOME TAX

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

| | 2016<br>RMB'000 | 2015<br>RMB'000<br>(Restated) |
|---|---|---|
| **Deferred income tax assets** | | |
| – Deferred tax asset to be settled after more than 12 months | 73,343 | 12,891 |
| – Deferred tax asset to be recovered within 12 months | 137,470 | 173,203 |
| | 210,813 | 186,094 |
| **Deferred income tax liabilities** | | |
| – Deferred tax liability to be settled after more than 12 months | – | 24,758 |
| – Deferred tax liability to be settled within 12 months | 106,452 | 134,805 |
| | 106,452 | 159,563 |
| **Deferred income tax assets – net** | 104,361 | 26,531 |

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

| | 2016<br>RMB'000 | 2015<br>RMB'000<br>(Restated) |
|---|---|---|
| At 1 January | 26,531 | 59,949 |
| **Continuing operations:** | | |
| Credited/(charged) to consolidated income statement *(Note 9)* | 54,407 | (36,110) |
| **Discontinued operations:** | | |
| Credited to consolidated income statement | 8,215 | 2,692 |
| Distribution in specie | 15,208 | – |
| At 31 December | 104,361 | 26,531 |

## 31 DEFERRED INCOME TAX *(continued)*

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

### Deferred income tax assets:

| | Unrealised profit in inventories arising from intra-group transactions | | Provisions | | Tax losses | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 (Restated) | **2016 RMB'000** | 2015 RMB'000 (Restated) | **2016 RMB'000** | 2015 RMB'000 (Restated) | **2016 RMB'000** | 2015 RMB'000 (Restated) |
| At 1 January | **108,489** | 95,616 | **64,714** | – | **12,891** | 75,756 | **186,094** | 171,372 |
| **Continuing operations:** | | | | | | | | |
| (Charged)/credited to consolidated income statement *(Note 9)* | **9,310** | 14,947 | **(39,640)** | 64,714 | **63,203** | (64,785) | **32,873** | 14,876 |
| **Discontinued operations:** | | | | | | | | |
| (Charged)/credited to consolidated income statement | **835** | (2,074) | **–** | – | **2,100** | 1,920 | **2,935** | (154) |
| Distribution in specie | **(6,238)** | – | **–** | – | **(4,851)** | – | **(11,089)** | – |
| At 31 December | **112,396** | 108,489 | **25,074** | 64,714 | **73,343** | 12,891 | **210,813** | 186,094 |

### Deferred income tax liabilities:

| | Withholding income tax on unremitted earnings in PRC subsidiaries | | Tax effect of fair value adjustments on assets recognised upon business combination | | Total | |
|---|---|---|---|---|---|---|
| | **2016 RMB'000** | 2015 RMB'000 (Restated) | **2016 RMB'000** | 2015 RMB'000 (Restated) | **2016 RMB'000** | 2015 RMB'000 (Restated) |
| At 1 January | **131,778** | 80,611 | **27,785** | 30,812 | **159,563** | 111,423 |
| **Continuing operations:** | | | | | | |
| Charged/(credited to) consolidated income statement *(Note 9)* | **(21,534)** | 50,986 | **–** | – | **(21,534)** | 50,986 |
| **Discontinued operations:** | | | | | | |
| Charged/(credited to) consolidated income statement | **(3,792)** | 181 | **(1,488)** | (3,027) | **(5,280)** | (2,846) |
| Distribution in specie | **–** | – | **(26,297)** | – | **(26,297)** | – |
| At 31 December | **106,452** | 131,778 | **–** | 27,785 | **106,452** | 159,563 |

## 31 DEFERRED INCOME TAX *(continued)*

### Deferred income tax liabilities: *(continued)*

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related income tax benefit through the future taxable profits is probable. The Group did not recognise cumulative deferred income tax assets of RMB155,000 (2015 (restated): RMB161,000) in respect of losses amounted to RMB618,000 (2015 (restated): RMB645,000) that can be carried forward against future taxable income as at 31 December 2016. The unrecognised tax losses expire in the following five years in the amounts of RMB103,000 (2015 (restated): RMB204,000), RMB55,000 (2015 (restated): RMB103,000), RMB118,000 (2015 (restated): RMB55,000), RMB165,000 (2015 (restated): RMB118,000) and RMB177,000 (2015 (restated): RMB165,000).

The Group has been providing deferred income tax liabilities on the withholding income tax on the unremitted earnings of certain PRC subsidiaries following the dividend distribution plan of the Company. As at 31 December 2016, deferred income tax liabilities of RMB204,367,000 (2015 (restated): RMB204,367,000) have not been recognised for the withholding income tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries in the PRC. The unremitted earnings will be permanently reinvested, amounting to RMB4,087,338,000 (2015 (restated): RMB4,087,338,000) as at 31 December 2016.

## 32 TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

| | **2016 RMB'000** | 2015 RMB'000 (Restated) |
|---|---|---|
| Trade payables | **2,078,591** | 2,277,890 |
| Other payables and accrued charges | | |
| – Payables for purchase of property, plant and equipment | **494,573** | 478,946 |
| – Accrued expenses and other payables | **540,170** | 344,442 |
| – Advance receipts from customers | **145,767** | 138,406 |
| – Other taxes payables | **21,360** | 30,290 |
| | **1,201,870** | 992,084 |
| Trade and other payables and accrued charges | **3,280,461** | 3,269,974 |

At 31 December 2016, the ageing analysis of trade payables based on invoice date was as follows:

| | **2016 RMB'000** | 2015 RMB'000 (Restated) |
|---|---|---|
| Within 30 days | **1,575,813** | 1,608,870 |
| 31–180 days | **470,621** | 654,270 |
| 181–365 days | **14,090** | 2,327 |
| Over 365 days | **18,067** | 12,423 |
| | **2,078,591** | 2,277,890 |

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

## 32 TRADE AND OTHER PAYABLES AND ACCRUED CHARGES *(continued)*

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

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| RMB | **1,185,564** | 1,165,835 |
| US$ | **891,468** | 1,110,805 |
| Other currencies | **1,559** | 1,250 |
| | **2,078,591** | 2,277,890 |

## 33 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Cash generated from continuing operations

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| Profit before income tax | **4,559,011** | 4,548,674 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment *(Note 13)* | **626,162** | 571,082 |
| Amortisation of land use rights *(Note 16)* | **24,071** | 28,260 |
| Depreciation of investment properties *(Note 14)* | **4,271** | 5,293 |
| Amortisation of intangible assets *(Note 17)* | **2,746** | 2,643 |
| Unrealised fair value losses on derivative financial instruments *(Note 6)* | **1,073** | 28,906 |
| Realised fair value gains on derivative financial instruments *(Note 6)* | **(28,906)** | – |
| Losses on disposal of property, plant and equipment *(Note 6)* | **32,709** | 15,568 |
| Share-based compensation expenses *(Note 26)* | **51,029** | 50,502 |
| Interest income and other finance income | **(418,869)** | (483,770) |
| Loss on early redemption of convertible bonds *(Note 6)* | **18,885** | – |
| Finance costs *(Note 8)* | **360,302** | 509,968 |
| Operating profit before working capital changes | **5,232,484** | 5,277,126 |
| Increase in inventories | **(38,426)** | (358,400) |
| Decrease/(increase) in trade and bills receivables, other receivables, prepayments and deposits | **256,211** | (476,118) |
| (Decrease)/increase in trade payables, other payables and accrued charges | **(152,163)** | 314,879 |
| Cash generated from operations | **5,298,106** | 4,757,487 |

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

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| Net book value *(Note 13)* | **40,142** | 19,206 |
| Losses on disposal of property, plant and equipment *(Note 6)* | **(32,709)** | (15,568) |
| Proceeds from disposal of property, plant and equipment | **7,433** | 3,638 |

## 34 CONTINGENT LIABILITIES

At 31 December 2016, the Group had no material contingent liabilities (2015: Nil).

## 35 COMMITMENTS

At 31 December 2016, the Group had the following commitments from continuing operations:

### (a) Capital commitments

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| Contracted but not provided for in respect of: | | |
| Machinery and equipment | 295,418 | 332,558 |
| Leasehold land and buildings | 166,525 | 156,952 |
| Total capital commitments | 461,943 | 489,510 |

### (b) Investment commitments

On 6 November 2016, the Group's subsidiary entered into an agreement with a third party to establish a joint venture company in the Republic of Indonesia for the future manufacturing of paper products. The total capital contribution is US$10,000,000, of which Hengan will contribute US$7,000,000, represents 70% equity interest in the joint venture. As at 31 December 2016, the capital contribution of US$7,000,000 has not been paid.

### (c) Commitments under operating leases

*(i) The Group is the lessee:*

At 31 December 2016, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | Land use rights and buildings | |
|---|---|---|
| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
| Not later than 1 year | 28,336 | 30,348 |
| Later than 1 year and not later than 5 years | 6,510 | 9,786 |
| Later than 5 years | 13 | – |
| | 34,859 | 40,134 |

*(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:

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| Not later than 1 year | 17,108 | 14,839 |
| Later than 1 year and not later than 5 years | 32,591 | 35,282 |
| Later than 5 years | 5,701 | 3,771 |
| | 55,400 | 53,892 |

## 36 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following significant related party transactions during the year ended 31 December 2016:

### (a) Purchase of energy

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| Purchases from Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power") | | |
| – Electricity energy | 100,373 | 96,021 |
| – Heat energy | 61,130 | 58,422 |
| | 161,503 | 154,443 |

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 determined according to the terms of the contracts. Weifang Power is beneficially owned by Mr. Sze Wong Kim, an executive director, and a son (the latter is a elder brother of Hui Ching Chi, an executive director of the Company) of Mr. Hui Lin Chit, an executive director and a substantial shareholder of the Company, and a son of Mr. Hung Ching Shan, an executive director of the Company.

### (b) Key management compensation

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| Basic salaries, housing allowances, other allowances and benefits-in-kind | 10,526 | 10,585 |
| Share-based compensation | 1,713 | 3,828 |
| Contributions to pension schemes | 82 | 78 |
| | 12,321 | 14,491 |

### (c) Balance with related parties

| | 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| Other receivables, prepayments and deposits | | |
| – Weifang Power | – | 11,993 |

The receivable is unsecured in nature and bears no interest. No provision is held against the receivable from related parties (2015:Nil).

## 37 PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries of the Company at 31 December 2016 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 2016 % |
|---|---|---|---|---|
| **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 sale of hygiene products in Hong Kong | 10,000 ordinary shares of HK$2,030,786 | 70 |
| PT.Hengan Global | Indonesia, 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 |

| 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 2016 % |
|---|---|---|---|---|
| **Indirect subsidiaries:** *(continued)* | | | | |
| Guangdong Paper Products Co., Ltd. * | PRC, wholly foreign-owned enterprise | Manufacturing, distribution and sale of packaged tissue paper products in the PRC | US$18,000,000 | 100 |
| 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 |
| 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 (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$16,380,000 | 100 |
| Hengan (Fushun) Household Products Co., Ltd. * | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of personal hygiene products in the PRC | RMB24,000,000 | 100 |
| Hengan (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 personal hygiene products in the PRC | RMB114,300,000 | 100 |

## 37 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 2016 % |
|---|---|---|---|---|
| **Indirect subsidiaries:** *(continued)* | | | | |
| Hunan Hengan Paper Co., Ltd. | PRC, wholly foreign-owned enterprise | Manufacturing, distribution and sale of personal hygiene 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$2,778,000 | 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$145,760,000 | 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 |
| Hengan (Hunan) Hearttex Paper Co., Ltd. * | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of packaged tissue paper products in the PRC | RMB209,000,000 | 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 | RMB852,280,000 | 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 | RMB959,200,000 | 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 |

## 37 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 2016 % |
|---|---|---|---|---|
| **Indirect subsidiaries:** *(continued)* | | | | |
| 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$19,810,000 | 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$98,660,000 | 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$47,050,000 | 100 |
| Chongqing Hengan Hearttex Paper Products Co., Ltd. | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of packaged tissue paper products in the PRC | US$21,630,000 | 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 |
| Hengan Li Ren Tang (Jian) Cosmetics Co., Ltd. | PRC, wholly foreign-owned enterprise | Manufacturing, distribution and sale of skin care products and daily personal necessities in the PRC | RMB32,000,000 | 100 |
| Hengan (Wuhu) Paper Co., Ltd. * | PRC, sino-foreign equity joint venture | Manufacturing, distribution and sale of packaged tissue paper products in the PRC | RMB874,000,000 | 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 |

## 37 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 2016 % |
|---|---|---|---|---|
| **Indirect subsidiaries:** *(continued)* | | | | |
| 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 | RMB137,000,000 | 100 |
| Hengan (Zhejiang) Homecare Products Co., Ltd. * | PRC, sino-foreign equity joint venture | Manufacturing, 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 |
| Hengan (Sichuan) Maternal and Child Products Co., Ltd * | PRC, wholly foreign-owned enterprise | Manufacturing, distribution and sale of personal hygiene products in the PRC | USD 10,000,000 | 100 |
| Xiamen Hengan E-commerce Co., Ltd * | PRC, wholly foreign-owned enterprise | Trading online in the PRC | RMB2,000,000 | 100 |
| Xiamen Seven-space E-commerce Co.,Ltd* | PRC, wholly foreign-owned enterprise | Trading online in the PRC | RMB2,000,000 | 100 |

* *For identification purpose only*

The non-controlling interests in respect of Hengan Pharmacare Company Limited, Fujian Hengan Holding Co., Ltd., Quanzhou Jinjiang Hengan Hygiene Science and Technology 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.

## 38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

| | As at 31 December 2016 RMB'000 | 2015 RMB'000 (Restated) |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | | |
| Amounts due from subsidiaries | **1,979,983** | – |
| Investments in subsidiaries | **5,679,940** | 5,452,717 |
| | **7,659,923** | 5,452,717 |
| **Current assets** | | |
| Amounts due from subsidiaries | **4,242,420** | 5,333,297 |
| Other receivables, prepayments and deposits | **177** | – |
| Inventories | **12,132** | 819 |
| Cash and bank balances | **320,660** | 54,054 |
| | **4,575,389** | 5,388,170 |
| **Total assets** | **12,235,312** | 10,840,887 |
| **Equity and liabilities** | | |
| **Equity attributable to shareholders of the Company** | | |
| Share capital | **126,991** | 128,132 |
| Other reserves *(Note(a))* | **445,574** | 445,090 |
| Retained earnings *(Note(a))* | **4,499,403** | 2,912,094 |
| **Total equity** | **5,071,968** | 3,485,316 |
| **Liabilities** | | |
| **Non-current liabilities** | | |
| Borrowings | **1,995,519** | – |
| Convertible bonds | **472,719** | – |
| Amounts due to subsidiaries | **1,520,691** | 1,349,018 |
| | **3,988,929** | 1,349,018 |
| **Current liabilities** | | |
| Trade payables | **21,798** | 8,386 |
| Amounts to subsidiaries | **358** | 1,137 |
| Other payables and accrued charges | **39,399** | 9,068 |
| Borrowings | **3,112,860** | 1,331,055 |
| Convertible bonds | **–** | 4,656,907 |
| | **3,174,415** | 6,006,553 |
| **Total liabilities** | **7,163,344** | 7,355,571 |
| **Total equity and liabilities** | **12,235,312** | 10,840,887 |

The balance sheet of the Company was approved by the Board of Directors on 21 March 2017 and was signed on its behalf.

*Director*
**Sze Man Bok**

*Director*
**Hui Lin Chit**

## 38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(continued)*

**Note (a) Reserve movement of the Company**

| | Retained earnings RMB'000 | Other Reserve RMB'000 |
|---|---|---|
| At 1 January 2016 (Restated) | 2,912,094 | 445,090 |
| Profit for the year | 4,980,098 | – |
| Currency Translation | – | 78,763 |
| 2015 final dividend paid | (1,166,057) | – |
| 2016 interim dividend paid | (1,031,079) | – |
| Share-based compensation | | |
| – value of employee services | – | 51,029 |
| – proceeds from shares issued | – | 1,315 |
| Buy-back of shares | (715,470) | (2,955) |
| Redemption of convertible bonds | 55,827 | (127,668) |
| Distribution in specie | (536,010) | – |
| At 31 December 2016 | 4,499,403 | 445,574 |
| At 1 January 2015 (Restated) | **1,320,196** | **377,561** |
| Profit for the year | **4,044,802** | **–** |
| Currency Translation | **–** | **16,640** |
| 2014 final dividend paid | **(1,115,477)** | **–** |
| 2015 interim dividend paid | **(953,165)** | **–** |
| Share-based compensation | | |
| – value of employee services | **–** | **50,502** |
| – proceeds from shares issued | **–** | **2,725** |
| Buy-back of shares | **(384,262)** | **(2,338)** |
| At 31 December 2015 (Restated) | **2,912,094** | **445,090** |

## 39 BENEFITS AND INTERESTS OF DIRECTORS

### (a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive for the year ended 31 December 2016 is set out below:

| Name of Director | Fees RMB'000 | Salaries RMB'000 | Discretionary bonuses RMB'000 | Share-based compensation RMB'000 | Housing allowance and payment in lieu of annual leave RMB'000 | Employer's contribution to a retirement benefit scheme RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **Director** | | | | | | | |
| Mr. Sze Man Bok | 72 | 305 | – | 34 | – | 15 | 426 |
| Mr. Hui Lin Chit | 72 | 670 | 450 | 250 | – | 15 | 1,457 |
| Mr. Xu Shui Shen | 51 | 1,082 | 324 | 282 | – | 3 | 1,742 |
| Mr. Hung Ching Shan | 72 | 122 | 8 | 34 | – | 9 | 245 |
| Mr. Xu Da Zuo | 72 | 622 | 69 | 182 | – | 3 | 948 |
| Mr. Xu Chun Man | 51 | – | – | 34 | – | 3 | 88 |
| Mr. Sze Wong Kim | 51 | – | – | 12 | – | 3 | 66 |
| Mr. Hui Ching Chi | 51 | 395 | 105 | 12 | – | 15 | 578 |
| Mr. Loo Hong Shing Vincent *(Note)* | 47 | 933 | 184 | 236 | 212 | 16 | 1,628 |
| **Independent Non-executive Director** | | | | | | | |
| Mr. Chan Henry | 103 | – | – | – | – | – | 103 |
| Mr. Wang Ming Fu | 103 | – | – | – | – | – | 103 |
| Ms. Ada Ying Kay Wong | 103 | – | – | – | – | – | 103 |
| Mr. Ho Kwai Ching, Mark | 103 | – | – | – | – | – | 103 |
| Mr. Zhou Fang Sheng | 103 | – | – | – | – | – | 103 |

## 39 BENEFITS AND INTERESTS OF DIRECTORS *(continued)*

### (a) Directors' and chief executive's emoluments *(continued)*

The remuneration of every director and the chief executive for the year ended 31 December 2015 is set out below:

| Name of Director | Fees RMB'000 (Restated) | Salaries RMB'000 (Restated) | Discretionary bonuses RMB'000 (Restated) | Share-based compensation RMB'000 (Restated) | Housing allowance and payment in lieu of annual leave RMB'000 (Restated) | Employer's contribution to a retirement benefit scheme RMB'000 (Restated) | Total RMB'000 (Restated) |
|---|---|---|---|---|---|---|---|
| **Director** | | | | | | | |
| Mr. Sze Man Bok | 48 | 328 | – | 76 | – | 14 | 466 |
| Mr. Hui Lin Chit | 48 | 707 | 420 | 563 | – | 14 | 1,752 |
| Mr. Xu Shui Shen | 48 | 1,083 | 338 | 641 | – | 2 | 2,112 |
| Mr. Hung Ching Shan | 48 | 163 | 8 | 76 | – | 8 | 303 |
| Mr. Xu Da Zuo | 48 | 661 | 64 | 411 | – | 2 | 1,186 |
| Mr. Xu Chun Man | 48 | – | – | 76 | – | 2 | 126 |
| Mr. Sze Wong Kim | 48 | – | – | 32 | – | 2 | 82 |
| Mr. Hui Ching Chi | 48 | 325 | 83 | 32 | – | 14 | 502 |
| Mr. Loo Hong Shing Vincent | 48 | 903 | 403 | 532 | 357 | 18 | 2,261 |
| **Independent Non-executive Director** | | | | | | | |
| Mr. Chan Henry | 97 | – | – | – | – | – | 97 |
| Mr. Wang Ming Fu | 97 | – | – | – | – | – | 97 |
| Ms. Ada Ying Kay Wong | 97 | – | – | – | – | – | 97 |
| Mr. Ho Kwai Ching, Mark | 97 | – | – | – | – | – | 97 |
| Mr. Zhou Fang Sheng | 97 | – | – | – | – | – | 97 |

*Note:* Mr. Loo Hong Shing Vincent resigned on 29 November 2016.

### (b) Directors' material interests in transactions, arrangements or contracts

Pursuant to an agreement dated 17 December 2015 (the "Agreement") made between a wholly-owned subsidiary of the Company, and Weifang Power, the Group purchased electricity and heat energy from Weifang Power at prices according to the terms of the contracts. Mr. Sze Wong Kim, an executive director of the Company, is interested in this transaction to the extent that Weifang Power is controlled by him.

Save for contracts amongst group companies and the aforementioned transaction, no other significant transactions, arrangements and contracts to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.