恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044

2011
ANNUAL REPORT

Corporate Mission

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

Contents

Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Henry
Wang Ming Fu
Ada Ying Kay Wong

COMPANY SECRETARY

Loo Hong Shing Vincent *FCCA, AHKSA*

AUTHORISED REPRESENTATIVES

Hui Lin Chit
Loo Hong Shing Vincent

LEGAL ADVISERS

Hong Kong
Richards Butler

PRC
Global Law Office

Cayman Islands
Maples and Calder Asia

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

REGISTERED OFFICE

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

HEAD OFFICE

Hengan Industrial City
Anhai Town
Jinjiang City
Fujian Province
PRC

PLACE OF BUSINESS IN HONG KONG

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

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock Code: 1044

WEBSITES

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

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
Bank of China
Construction Bank of China
The Hong Kong & Shanghai Banking Corporation Limited
China Merchants Bank

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

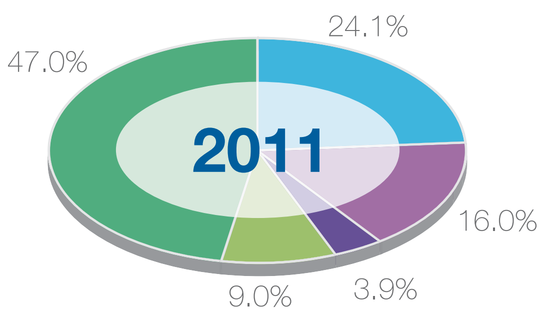
INVESTORS AND MEDIA RELATIONS

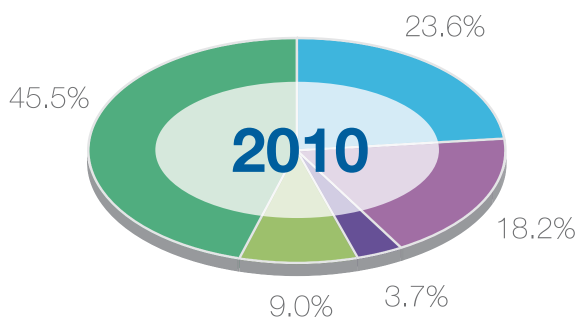
iPR Ogilvy Ltd.
Units 2008-12, 20/F, The Centre
99 Queen's Road
Central
Hong Kong

Financial Highlights

	2011	2010	2009	2008	2007
Net profit margin — based on profit attributable to shareholders of the Company (%)	**15.5**	18.2	19.5	16.8	17.7
Earnings per share (HK$)	**2.160**	1.996	1.770	1.172	0.924
Finished goods turnover (days)	**44**	54	58	61	64
Trade receivables turnover (days)	**35**	31	28	31	32
Current ratio (times)	**1.4**	1.8	1.9	2.7	3.4
Gross gearing ratio (%)	**58.5**	50.6	30.3	27.9	35.5
Net gearing ratio (%)	**(10.8)**	(13.9)	(24.3)	(19.6)	(34.2)

ANALYSIS OF REVENUE BY PRODUCT





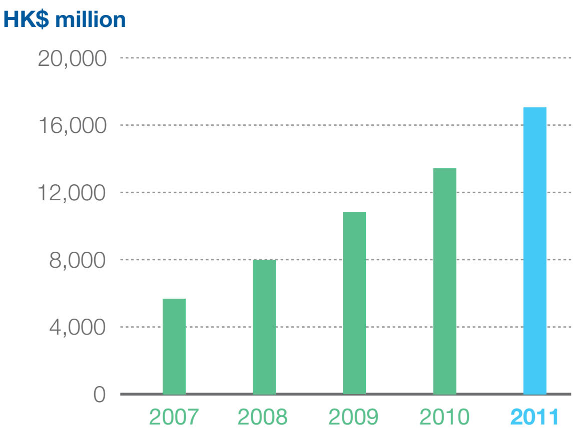
Tissue paper products · Sanitary napkins products · Disposable diapers products · Food and snacks products · Skin care products and others

Five-Year Financial Summary

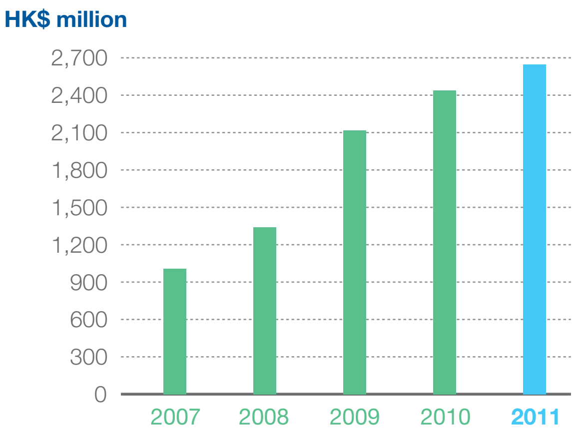
Consolidated Results — for the year ended 31 December

	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
Revenue	**17,050,557**	13,431,688	10,833,839	8,001,545	5,686,972
Profit before income tax	**3,255,375**	3,038,367	2,582,729	1,510,688	1,184,690
Income tax expense	**(569,929)**	(551,950)	(415,706)	(166,032)	(175,555)
Profit for the year	**2,685,446**	2,486,417	2,167,023	1,344,656	1,009,135
Non-controlling interests	**(36,607)**	(48,089)	(49,514)	(3,742)	(978)
Profit attributable to shareholders of the Company	**2,648,839**	2,438,328	2,117,509	1,340,914	1,008,157
Earnings per share (HK$)	**2.160**	1.996	1.770	1.172	0.924

REVENUE



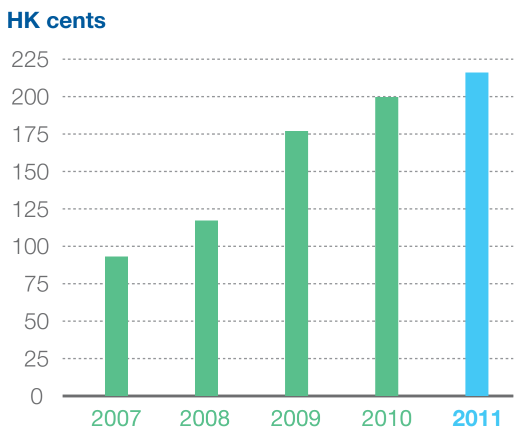
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY



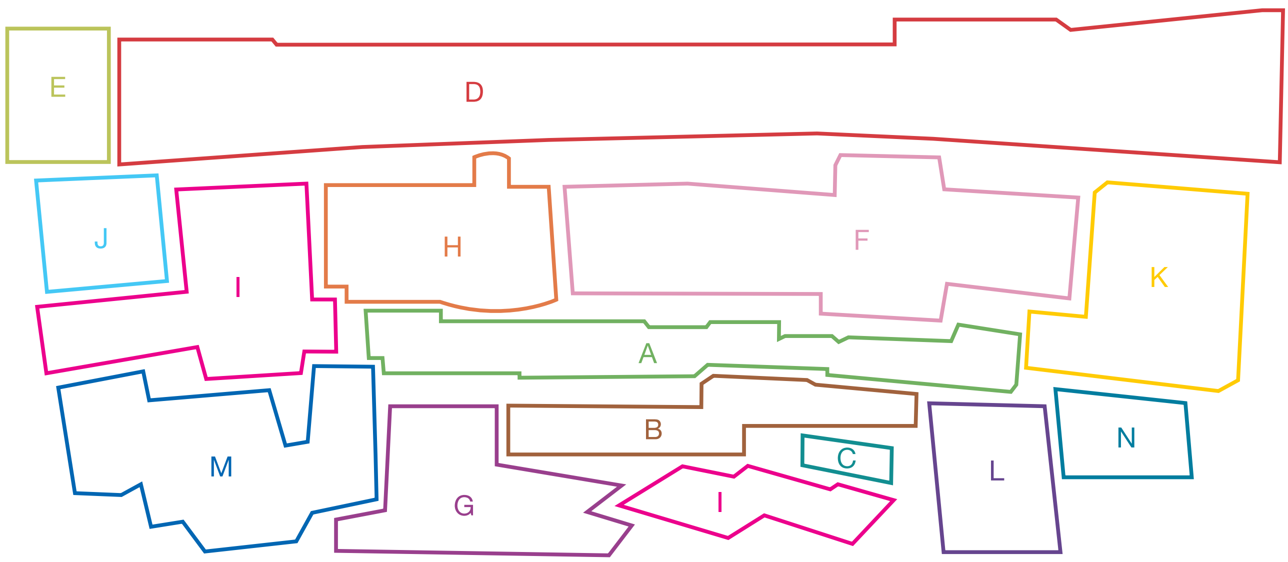
Consolidated Assets and Liabilities — as at 31 December

	2011 HK$'000	2010 HK$'000	2009 HK$'000	2008 HK$'000	2007 HK$'000
Assets					
Property, plant and equipment	5,203,336	4,519,090	3,535,811	3,080,750	2,342,837
Construction-in-progress	2,053,903	665,130	808,410	813,329	455,664
Land use rights	850,365	613,982	397,541	239,408	143,172
Intangible assets	601,212	606,508	616,384	626,296	454,663
Prepayments for non-current assets	439,325	537,714	428,913	466,679	322,219
Deferred income tax assets	131,110	98,213	89,395	68,269	45,216
Non-current finance lease receivables	—	—	—	9,692	—
Cash and bank balances	8,258,202	5,989,024	4,449,674	1,610,552	2,160,031
Long-term bank deposits	296,040	786,274	468,597	—	—
Other current assets	5,485,587	4,761,445	3,353,214	3,134,037	2,450,057
Total assets	23,319,080	18,577,380	14,147,939	10,049,012	8,373,859
Liabilities					
Long-term bank borrowings	403,735	1,497,050	555,031	45,840	85,227
Convertible bonds	—	—	—	1,465,247	1,562,833
Deferred income tax liabilities	180,903	172,637	115,476	56,892	—
Deferred income on government grants	3,807	5,281	5,104	7,555	11,211
Current liabilities	10,011,888	6,076,880	4,175,345	1,757,577	1,348,952
Total liabilities	10,600,333	7,751,848	4,850,956	3,333,111	3,008,223
Non-controlling interest	377,334	322,345	279,977	231,844	21,413
Net assets attributable to shareholders of the Company	12,341,413	10,503,187	9,017,006	6,484,057	5,344,223

EARNINGS PER SHARE



安而康
ElderJoy
成人纸尿片
Anerle
安儿乐
纤薄防漏
安儿乐
超吸干爽
Q:MO
心相印
厨房纸巾
Kitchen Towel
PINO
鸡香醇鲜
香格里



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- A “Anerle” and “Anle” sanitary napkins
- B “Anerle” pantiliners
- C “Anerle” skincare wipes
- D “Anerle” baby diapers
- E “ElderJoy” adult diapers
- F “Hearttex” box tissue papers
- G “Hearttex” wet tissues
- H “Hearttex” toilet rolls
- I “Hearttex” pocket handkerchiefs
- J “Hearttex” kitchen towels
- K “Banitore” first-aid products and “Bendi” enema
- L “MissMay” skin cleansing and care products
- M “QinQin” snack food products
- N “Junichi” baby skin care products

Chairman's Statement

Sze Man Bok
Chairman

Dear Shareholders,

On behalf of Hengan International Group Company Limited ("Hengan International" or the "Group"), I present the annual results of the Group for the year ended 31 December 2011. During the year, the worsening European debt crisis dampened global economic recovery. Facing an external economic environment lined with complications and uncertainties, and a continuous increase in prices of commodities, the Chinese government adopted respective macroeconomic regulations and control measures to sustain a steady economic growth in China. Rising income of Chinese citizens and improved living standards promoted the expansion of hygiene products demand, especially the demand for higher quality hygiene and care products. Hengan International as the leader in the domestic personal and household hygiene product industry successfully seized market opportunity and facilitated continuous business development with its strong brand and scale advantage.

During the year under review, the Group recorded growth in both revenue and profit attributable to shareholders. For the year ended 31 December 2011, the Group's revenue was approximately HK$17,050,557,000 (2010: HK$13,431,688,000), representing an increase of approximately 26.9% from that of the previous year. Profit attributable to shareholders increased by approximately 8.6% to approximately HK$2,648,839,000 (2010: HK$2,438,328,000). Basic earnings per share amounted to approximately HK$2.160 per share (2010: HK$1.996). The Board of Directors recommended the payment of a final dividend of HK$0.75 per share (2010: HK$0.70). Taking into account the interim dividend of HK$0.60 per share (2010: HK$0.60), the annual dividend amounted to HK$1.35 per share (2010: HK$1.30).

Chairman's Statement

During the year, tissue paper business continued to be the Group's major revenue source, accounting for approximately 47.0% of the Group's total revenue. The sanitary napkin and disposable diaper businesses also recorded steady growth, which accounted for approximately 24.1% and 16.0% of the total revenue of the Group respectively. Qin Qin Foodstuffs Group Company Limited continued to integrate with hygiene products business in every aspect and the economic benefit was emerging. During the year, revenue of Qin Qin Foodstuffs accounted for approximately 9.0% of the Group's total revenue.

During the year under review, the prices of the Group's major raw materials, including wood pulp, fluff pulp and petrochemical products, increased significantly, which imposed pressure on the Group's production costs. Although the Group adopted appropriate and flexible cost control measures and improved product portfolio by launching high end products, to mitigate the adverse effect brought about by the increase in production costs, the Group's overall gross profit margin dropped to approximately at 39.9% (2010: 44.3%).

The Group adhered to its operation philosophy of "Growing with You for a Better Life" and the enterprise spirit of "Integrity, Diligence, Innovation, Dedication" and promoted business development actively for fruitful returns to shareholders. In 2011, the Group was honoured to be admitted as a constituent of the Hang Seng Index. The Group is also grateful for the market recognition towards the Group's diligent and proactive operation strategy over the years.

While steadily expediting business growth, the Group also actively fulfills its enterprise social responsibility and contributes to the society within its ability. During the year, the Group made charitable donations amounted to approximately HK$25,978,000 (2010: HK$25,784,000).

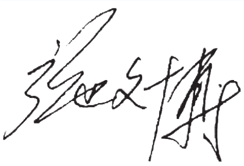
Looking forward to 2012, the Chinese economy is expected to maintain a steady growth. Accelerating urbanization and improvement in living standards will continue to provide vast business potentials for the Group. The Group will continue to develop more high end products and provide upgraded versions of existing products to cater to customers' evolving needs for higher quality products. The Group is well-poised to benefit from the economic growth in China and seize more market opportunities by leveraging on the Group's brand reputation and prudent expansion strategy to consolidate its market leadership.

I would like to express my gratitude to every member of staff for their continuous effort that contributed to the steady growth of Hengan International. I would also like to thank shareholders for their enduring support and recognition of the development strategies and future goals of the Group. To thank for the trust our shareholders on us, Hengan International and our staff will continue to strive to create lucrative returns for our shareholders.

REVENUE BY REGIONS IN MAINLAND CHINA

	2011	2010
NORTH-WESTERN		
Sales Value: (HK$ million)	**859**	638
Percentage of Total Sales:	**5.0%**	4.7%
NORTHERN		
Sales Value: (HK$ million)	**1,690**	1,292
Percentage of Total Sales:	**9.9%**	9.6%
NORTH-EASTERN		
Sales Value: (HK$ million)	**1,404**	1,133
Percentage of Total Sales:	**8.2%**	8.4%
SHANDONG		
Sales Value: (HK$ million)	**1,759**	1,261
Percentage of Total Sales:	**10.3%**	9.4%
EASTERN		
Sales Value: (HK$ million)	**2,451**	1,965
Percentage of Total Sales:	**14.4%**	14.6%

	2011	2010
CENTRAL		
Sales Value: (HK$ million)	**2,500**	1,992
Percentage of Total Sales:	**14.7%**	14.8%
FUJIAN AND GUANGDONG		
Sales Value: (HK$ million)	**3,056**	2,685
Percentage of Total Sales:	**18.0%**	20.0%
SOUTH-WESTERN		
Sales Value: (HK$ million)	**885**	668
Percentage of Total Sales:	**5.2%**	5.0%
SICHUAN		
Sales Value: (HK$ million)	**1,453**	1,170
Percentage of Total Sales:	**8.5%**	8.7%



Sze Man Bok
Chairman

Hong Kong, 27 March 2012

Chief Executive Officer's Report

Hui Lin Chit
Chief Executive Officer

Dear shareholders,

BUSINESS OVERVIEW

In 2011, the euro-zone sovereign debt crisis and the slowdown of the United States economy continued to plague the global economy. On the other hand, China faced rising inflationary pressure as the prices of commodity increased drastically during the year, and remained at relatively high levels though the prices showed signs of slowing down in the second half. Facing various uncertainties, the China Government launched proactive fiscal and economic policies, in view of the prevailing economic conditions, to maintain prudent development pace of the China economy and continuously drive domestic demand to support economic development.

Chief Executive Officer's Report

In 2011, China's GDP amounted to around RMB47,156.4 billion, representing a year-on-year increase of about 9.2%. With the continued urbanization in China, the nation's urban population reached approximately 690 million, more than 50% of total population in China. The per capita disposable income of urban households was approximately RMB21,810, an increase of about 14.1%, while the per capita disposable income of rural households was approximately RMB6,977, up by about 17.9%. The ongoing urbanization of China will help to promote people's awareness of health and hygiene, while the rising per capita income, led by economic growth, would in turn stimulate consumer spending — both factors are beneficial to the development of the personal and family hygiene product market. The Group, a leader in the domestic personal and family hygiene product industry, continued to maintain steady growth by capitalizing on economies of scale and effective cost controls.

For the year ended 31 December 2011, the Group's revenue amounted to approximately HK$17,050,557,000, representing approximately 26.9% increase from that of the previous year. Profit attributable to shareholders grew by approximately 8.6% to about HK$2,648,839,000. The overall gross profit margin for the Group in 2011 dropped to approximately 39.9% (2010: 44.3%), mainly due to the significant increase in production costs resulted from rising raw material prices in the first half of 2011. Meanwhile, the Group continued to optimize its product mix, gradually expand production capacity to enhance economies of scale and implement strict cost control initiatives, thus reducing the negative impact of increasing raw material prices on production costs and gross profit margin.

During the year, distribution costs and administrative expenses accounted for approximately 23.2% (2010: 23.8%) of revenue, which remained fairly stable as compared with that of previous year.

BUSINESS REVIEW

Tissue papers

In recent years, the demand for quality tissue paper continued to rise, underpinning the further expansion of China's quality tissue paper market. The annual tissue paper consumption per capita of Chinese citizens is still much lower than that of other developed countries, implying huge market potential.

In 2011, revenue from the Group's tissue paper business grew by about 31.1% to approximately HK$8,017,520,000, accounting for approximately 47.0% (2010: 45.5%) of the total revenue. The gross profit margin of the tissue paper business decreased to approximately 31.4% (2010: 37.3%), reflecting the negative impact brought by the sharp increase in production cost resulted from the significant surge in the price of the major raw material, tissue wood pulp, in the first half of 2011. Meanwhile, the Group continued to adjust its product mix to reduce the pressure of rising production costs. As such, the sales of toilet roll products, with relatively lower gross profit margin, approximately accounted for 31.7% of total tissue paper products revenue (2010: 33.4%).

The new tissue paper production base in Chongqing, with an annualized production capacity of 60,000 tons, commenced operation in early January 2012. To cater to the increasing market demand of Hearttex products, the Group will further increase additional capacity of 60,000 tons, 120,000 tons and 120,000 tons in Chongqing, Wuhu and Jinjiang respectively, so that the Group's total annualized production capacity is expected to reach about 900,000 tons by the end of 2012.

Chief Executive Officer's Report

Sanitary Napkins

Awareness of personal hygiene rose alongside the accelerating urbanization, driving the demand for sanitary napkins with a gradually rising market penetration. During the year, the Group continued to leverage its brand advantage and saw its sanitary napkin business recorded satisfactory growth. As a result, the revenue of sanitary napkin business increased by about 29.8% to approximately HK$4,114,425,000, accounting for about 24.1% of total revenue (2010: 23.6%).

During the first half of 2011, the significant increase in the prices of major raw materials, fluff pulp and petrochemical products, added pressure to the Group's production costs. Through strengthening cost controls and increasing sales of mid-to-high-end products, the Group was able to mitigate the negative impact brought by the increasing prices of raw materials. As such, the gross profit margin of sanitary napkins business still reached approximately 60.4% (2010: 62.5%).

In the future, the Group will continue to optimize its product mix and introduce more mid-to-high-end products. The Group officially launched the high-end Space Seven "Princess" series through traditional channels in seven provinces and cities in mid December 2011, to meet the market's demand for quality high-end products. This series will be available in all supermarkets nationwide in mid 2012.

Disposable Diapers

The penetration rate of disposable diapers is still very low in China. Urbanization along with increasing disposable income per capita helped to boost the rapid development of disposable diapers market in China which saw sales volume growing rapidly.

In 2011, revenue from the disposable diapers business grew by about 11.3% to approximately HK$2,723,014,000, accounting for about 16.0% of the total revenue (2010: 18.2%). During the year, the growth rate of the disposable diapers business of the Group was not satisfactory. This was mainly because the quality of the Group's old version diaper products required further improvement in quality, and many small and medium new market players entered into the diaper market while many international brands continued their development in second and third tier cities, thus affecting the Group's disposable diaper business.

In order to enhance the competitiveness of the disposable diapers business, the Group gradually introduced upgraded version products from March to August 2011, the sales of which started to improve from the fourth quarter of 2011 as the old version products were gradually digested in the retail market. Meanwhile, the Group also launched the "Q. Mo" series (previously known as the "Day and Night" series) by phases to many major cities in China from late August 2011, targeting consumers demand for high-end products. The product is expected to be launched nationwide in the third quarter of 2012. The Group is prudently optimistic about the long term outlook of disposable diapers business after the launch of the above products.

The prices of major raw materials, fluff pulp and petrochemical products, had increased substantially in the first half of 2011. In addition, more promotion activities were launched during the year to clear the old version products. Therefore, the gross profit margin of the disposable diapers business dropped to approximately 35.2% (2010: 42.4%).

Food and Snacks Products

During the year, revenue of the food and snacks business increased by about 28.3% to approximately HK$1,542,511,000, accounting for about 9.0% of Group total revenue (2010: 9.0%). As the prices of major raw materials such as sugar, seasoning and flour have increased significantly during the year, the gross profit margin of the food and snacks business dropped to approximately 32.4% (2010: 36.2%).

In 2012, the Group will exert greater efforts to integrate its distribution network in order to consolidate its profit base.

First Aid Products

Revenue from the Group's first aid product business in 2011 under the "Banitore" and "Bandi" brand names amounted to approximately HK$35,823,000 (2010: HK$35,719,000). As this business only accounted for approximately 0.2% (2010: 0.3%) of the Group's total revenue, it had an insignificant impact on the Group's overall results.

Skincare and Cleansing Products

Revenue of the Group's skincare and cleansing product business reached approximately HK$18,493,000 (2010: HK$30,708,000). As this business only accounted for approximately 0.1% (2010: 0.2%) of the Group's total revenue, it had only a negligible impact on the Group's overall results.

Distribution and Marketing Strategy

During 2011, less advertisements and other forms of marketing campaigns were launched by the Group such that the related expenses decreased and accounted for about 10.0% of the total revenue (2010: 11.1%).

On the other hand, the Group was subject to new taxes including urban construction and maintenance tax and education surcharge, which totally accounted for around 0.6% of the total revenue (2010: nil).

During 2011, overall speaking, the sales and distribution costs to revenue ratio decreased accordingly to approximately 18.8% (2010: 19.3%).

Research and Development of Products

The Group always strives for excellence of its products. As the first and so far the only enterprise in the mainland's tissue paper industry being awarded the Enterprise Technological Centre with State Accreditation, the Group continued to allocate more resources on the research and development front during the year, in a bid to further enhance its product quality, offer new and high quality hygiene products to consumers, and strengthen the Group's leading position in the personal hygiene product market.

Inclusion as a Hang Seng Index Constituent Stock

On 7 June 2011, the Group was admitted as a constituent of the Hang Seng Index by Hang Seng Indexes Company Limited. This is an important milestone in the development history of the Group, and also marks the market's recognition of the Group's practical and proactive business strategy over the years.

Chief Executive Officer's Report

Latest Awards

During the year, the Group was awarded "Fujian Quality Award" by the Fujian Provincial Government, "Meritorious Enterprise of Quanzhou City" and "Quality Award of Quanzhou City" by the Quanzhou City Government, and "2011 The Most Potential Company" by Capital Magazine and Capital Weekly respectively. These awards endorse the outstanding performance of the Group and its market leadership in China's personal hygiene product market.

Liquidity, Financial Resources and Bank Loans

The Group has maintained a solid financial position. As at 31 December 2011, the Group's cash and bank balances, long-term time deposits and restricted bank deposits totally amounted to approximately HK$8,622,882,000 (2010: HK$6,834,535,000); and the Group's total borrowings amounted to approximately HK$7,218,363,000 (2010: HK$5,312,241,000). The bank borrowings were subject to floating annual interest rates ranging from approximately 0.8% to 4.0% (2010: 0.8% to 3.4%). As at 31 December 2011, apart from the bank deposits of HK$68,640,000 (2010: HK$59,237,000) put in banks as restricted bank deposits for issuing letters of credit, there were no other charges on the Group's assets for its bank loans. As at 31 December 2011, the Group's gross gearing ratio was approximately 58.5% (2010: 50.6%), which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including minority interests). The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term bank deposits as a percentage of the shareholders' base equity (not including minority interests), was negative 10.8% (2010: negative 13.9%) as the Group was in a net cash position.

During the year, the Group's capital expenditure (excluding prepayment) amounted to approximately HK$2,437,340,000.

As at 31 December 2011, the Group had no material contingent liabilities.

Human Resources and Management

As at 31 December 2011, the Group employed approximately 31,000 staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employee 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 continued professional opportunities according to their needs.

Foreign Currency Risks

Most of the Group's income is denominated in Renminbi while some of the raw materials purchased from overseas are required to be settled in US dollar. The Group has never had any difficulties in getting 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 2011, apart from certain non-deliverable foreign exchange forward contracts selling Renminbi for US dollars 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.

Outlook

Looking forward, the Group is still optimistic about the demand for various hygiene products and daily necessities in view of China's economic growth and increasing urbanization. Consumers' increasing awareness of personal hygiene and pursuit of life quality will also spur the consumption of high quality hygiene products. Capitalizing on its brand equity and business scale, as well as by continuously developing and launching high quality products, the Group is confident that it will continue to lead the sustainable development of the domestic personal hygiene product market.

In 2012, the Group will expand its production capacity as planned to satisfy market expansion. In addition, the Group strives to improve product quality, enhance management efficiency and expand sales network to boost the overall competitiveness of the Group, and also further enhance brand influence and expand market share.

The prices of raw materials started to drop from high level in the second half of 2011. Hence, the Group believes that the raw materials cost pressure of the Group will be alleviated in 2012. Meanwhile, the Group will continue to optimize its product mix and stringently control costs. Hence, the Group believes that the gross profit margin of the Group will be improved in 2012.

Leveraging its solid foundation and brand equity, the Group is confident in maintaining its leading position in the personal hygiene product market, delivering steady business growth and creating greater value for shareholders.

Hui Lin Chit
Chief Executive Officer

Hong Kong, 27 March 2012

Directors and Senior Management Profiles

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

DIRECTORS

Executive Directors

Mr. Sze Man Bok, aged 62, 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 of the Company. He is the father of Mr. Sze Wong Kim, a Director of the Company.

Mr. Hui Lin Chit, aged 58, 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. He is also a member of Remuneration Committee. Mr. Hui has the title of senior economist in the People's Republic of China ("PRC") and is a member of the National Committee of the Chinese People's Political Consultative Conference, a deputy chairman of All-China Federation of Industry and Commerce and also Political Consultative Conference in Quanzhou City. He is also the deputy chairman of Fujian Province Industry and Trade Association and the chairman of Quanzhou City Trade Association. He is the father of Mr. Hui Ching Chi, a Director of the Company.

Mr. Hung Ching Shan, aged 62, is responsible for supervising the Group's purchasing tender assignments. He has over 33 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 43, is the Chief Operating Officer and the Director of Business Development Department of the Group. He is responsible for the development and implementation of the Group's sales strategy, operation and business management. He joined the Group in 1985 and has over 27 years of experience in quality control management and business development. He graduated from business administration department in the HuaQiao University and holds the title of economist in the PRC. Mr. Xu is a younger brother of Mr. Xu Da Zuo and Mr. Xu Lian Pi, a Director and a senior officer of the Company respectively.

Mr. Xu Da Zuo, aged 45, is the Group's Deputy Director of Finance and is responsible for overseeing and monitoring the accounting and finance functions of the Group. Joining the Group in 1985, Mr. Xu has over 27 years of experience in accounting and internal audit. He has the title of senior accountant in the PRC. Mr. Xu is the vice-chairman of the Youth Trade Association in Fujian province, China. He is a brother of Mr. Xu Lian Pi and Mr. Xu Shui Shen, senior management of the Group and a Director of the Company respectively.

Mr. Xu Chun Man, aged 37, is the General Manager of Hengan (Shaanxi) Hygiene Products Co. Ltd and Hengan (Shannxi) Paper Products Co. Ltd., subsidiaries in Shaanxi Province. He is responsible for the overall management, business development and operations of the said subsidiaries. He joined the Group after graduating from Fujian Jinjiang Vocational Institute in 1991. Mr. Xu has over 19 years of experience in business development and customer service management.

Directors and Senior Management Profiles

Mr. Sze Wong Kim, aged 36, is responsible for overall strategy of the Group. Before joining the Group, Mr. Sze worked in two accountancy firms in Australia and gained extensive experience in assurance and business advisory work. He started his own business in 2005 on wholesale and distribution of branded electronic components and computer accessories products in Hong Kong and overseas markets. Mr. Sze graduated from the University of Technology, Sydney with a Bachelor Degree of Business majoring in accounting and obtained a Master Degree of Commerce in finance from the University of New South Wales, Australia. He is a member of CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants. He is the son of Mr. Sze Man Bok, the Chairman and a Director of the Company.

Mr. Hui Ching Chi, aged 27, is responsible for merger and acquisition projects of the Group. Mr. Hui worked in a major international bank in London prior to joining the Group in February 2008. Mr. Hui holds a Law Degree from the London University. He is a son of Mr. Hui Lin Chit, the Chief Executive Officer and a Director of the Company.

Mr. Loo Hong Shing Vincent, aged 46, is the Chief Financial Officer, the Company Secretary and authorised representative of the Company. Before joining the Company in 2004, Mr. Loo worked in an international firm of accountants in Hong Kong. He has substantial experience in assurance and business advisory work, company listing and merger and acquisition work in both Hong Kong and the PRC. He graduated from the Hong Kong Polytechnic University and is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Independent Non-Executive Directors

Mr. Chan Henry, aged 46, is an Independent Non-Executive Director of the Company appointed in 1998. Mr. Chan is also a member of the Audit Committee and Remuneration Committee.

Mr. Chan has over 25 years of experience in the financial market and is the Managing Director of Sanfull Securities Limited. He was a Director of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and was also a member of the Advisory Committee of the Securities and Futures Commission. Mr. Chan is currently the Permanent Honorary President of Hong Kong Stockbrokers Association Limited, a supervisory committee member of The Chinese Gold & Silver Exchange Society, an independent non-executive director of Luen Thai Holdings Limited, a company listed on the Main Board of the Stock Exchange which engages in the manufacturing and trading of garment and textile products. Mr. Chan is also a committee member of the Chinese People's Political Consultative Conference in Xiamen, Fujian Province, China. Mr. Chan holds a Master's degree in Business Administration.

Ms Ada Ying Kay Wong, JP, aged 52, is an independent Non-executive Director of the Company appointed in 1998 and a member of the Audit Committee and Remuneration Committee.

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

Directors and Senior Management Profiles

Mr. Wang Ming Fu, aged 46, is an Independent Non-executive Director and a member of the Audit Committee and Remuneration Committee appointed on 1 January 2010. 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 2005, 2009 and 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 Remin 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 18 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.

Senior Management

Mr. Cheng Yong, aged 48, is the Chief Executive Officer of Qin Qin Incorporated Co. Ltd (Fujian), a non-wholly owned subsidiary of the Group. He is responsible for the overall management, business development and operation of the said subsidiary. Before transferring to that subsidiary, he was the Chief Operating Officer and responsible for the Group's daily operation management. Prior to joining the Group in 2001, he worked in some well-known corporations in the PRC and has over 22 years of experience in operation management and specialise in production management and quality control. Mr. Cheng graduated with a bachelor degree in automation-control from the Harbin Engineering University and received a MBA from the Xiamen University. He has the title of electrical engineer in the PRC.

Mr. Xu Lian Pi, aged 51, is responsible for the Group's daily operation management. Mr. Xu joined the Group in 1985 and has over 26 years of experience in human resources management, administration, marketing and sales of fast moving consumer products. He has the title of senior economist in the PRC. He is an elder brother of Mr. Xu Da Zuo and Mr. Xu Shui Shen, Directors of the Company.

Mr. Wang Xiang Yang, aged 43, is the Director of Supply Chain Management of the Group. He is responsible for the overall strategy relating to the Group's planning and purchasing of raw materials and logistic management. Prior to joining the Group in 1999, he was a manager of the international business department at Jinjiang branch of the Construction Bank of China. Mr. Wang graduated from HuaQiao University with a degree in science. He holds the title of senior economist in the PRC.

Mr. Xu Wen Mo, aged 46, is the Director of Tissue Paper Products Development Department of the Group. He 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 23 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 45, 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 26 years of experience in management, marketing and sales of consumer products. He obtained his MBA from University of North Virginia in US and has the title of financial economist in the PRC.

Mr. Xie Gang Yi, aged 46, is the Assistant to Chief Financial Officer of the Group. Prior to joining the Group in 2006, he was a supervisor of electronic banking department at Jinjiang branch of the Industrial and Commercial Bank of China. Mr. Xie has accumulated over 27 years of experience in finance and auditing. He graduated from Xiamen University with a degree in finance and has the titles of certified internal auditor, certified accountant, corporate legal consultant, senior economist and financial management economist in the PRC.

Ms. Liu Ying, aged 44, is the Vice-President of the Human Resources Department and is responsible for the Group's human resources management. Joining the Group in 1995, she has accumulated over 25 years of experiences 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 38, is the General Manager of Internal Audit Department. He joined the Group in 1998 and has over 16 years of experience in finance and auditing areas. He is a graduate from Tianjin University of Commerce with a degree in international accounting and also holds a bachelor degree in law from law school of Southwest University in China. He also has the title of China certified tax agent, certified auditor, senior economist and corporate legal consulate.

Mr. Pan Jia Hong, aged 38, is the Vice President of Trade Development Department and is responsible for sales management and development. He joined the Group in 1996 and has over 16 years of experience in sales and operation management. Mr. Pan graduated from the Huaqiao University specialized in accounting.

Mr. Wang Gui Zhong, aged 38, is the Vice-President of Diaper Products Development Department of the Group. He 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 13 years of experience in sales and marketing of consumer products. Mr. Wang graduated from HuaQiao University with a degree in electronic engineering and Liming Vocational University with a degree in corporate management.

Mr. Zhu Hong Bo, aged 50, is the Strategic Development Director of the Group and responsible for corporate development and investment. Before re-joining the Group in 2010, he worked as senior management in some listed companies and has over 28 years of experience in marketing promotion and corporate management. Mr. Zhu graduated from the Tianjin Normal University in 1984.

Corporate Governance Report

CODE OF BEST PRACTICE AND CODE ON 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 Code on Corporate Governance Practices (the "Code") throughout the year ended 31 December 2011.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

The Board comprises twelve members, including Chairman, Deputy Chairman (who is also the Chief Executive Officer), seven Executive Directors and three Independent Non-executive Directors. Biographical details of the Directors are set out in the section of Directors and Senior Management Profiles on pages 18 to 21.

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.

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. Save as disclosed above, the Directors are not otherwise related to each other.

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)*

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.

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 2011 are showed in Note 13 to the accounts.

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

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

— reviewed and approved the proposed 2011 overall salary increment of the Group; and

— reviewed the proposal of granting share options according to the Company's share option scheme, and made recommendations to the Board.

AUDIT COMMITTEE

The Audit Committee was formed to review and supervise the financial reporting process and internal controls of the Company. The Audit Committee comprises three 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 and Mr. Chan Henry.

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

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

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

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

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

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

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

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

— reviewed the connected transactions entered into by the Group.

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

Directors' attendance at Board, Remuneration Committee and Audit Committee Meetings in 2011:

	Attendance/Number of Meetings Held		
Directors	**Full Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee Meeting**
Executive Directors			
Mr. Sze Man Bok *(Chairman)*	4/4	N/A	N/A
Mr. Hui Lin Chit *(Vice-chairman and Chief Executive Officer)*	4/4	N/A	1/1
Mr. Hung Ching Shan	4/4	N/A	N/A
Mr. Xu Shui Shen	4/4	N/A	N/A
Mr. Xu Da Zuo	4/4	N/A	N/A
Mr. Xu Chun Man	4/4	N/A	N/A
Mr. Sze Wong Kim	4/4	N/A	N/A
Mr. Hui Ching Chi	4/4	N/A	N/A
Mr. Loo Hong Shing Vincent	4/4	2/2*	1/1*
Independent Non-executive Directors			
Mr. Chan, Henry	4/4	2/2	1/1
Ms. Ada Ying Kay Wong	4/4	2/2	1/1
Mr. Wang Ming Fu	3/4	2/2	0/1

* Being the secretary of the meetings.

NOMINATION OF DIRECTORS

The Board has established formal and transparent procedures for the appointments of new Directors and re-nomination and re-election of Directors at regular intervals. In accordance with Article 116 of the Articles of Association of the Company. Mr. Sze Man Bok, Mr. Hung Ching Shan, Mr. Xu Da Zuo and Mr. Loo Hong Shing Vincent will retire office at the Company's annual general meeting, and being eligible, offer themselves for re-election.

AUDITOR'S REMUNERATION

The Group was charged approximately HK$6,180,000 and HK$653,000 by the Company's external auditor, PricewaterhouseCoopers, for auditing and non-auditing services respectively for the year ended 31 December 2011. Non-auditing services mainly included tax advisory services and professional services in accordance with the Hong Kong Standard on Related services 4400 "Engagement to Perform Agreed-Upon Procedures Regarding Financial Information" for continuing connected transaction on sample basis and preliminary announcements of results provided during the year. The Audit Committee is of the view that the auditors' independence is not affected by the services rendered.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

INTERNAL CONTROLS

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

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

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

In 2011, the internal audit department of the Group had performed a review to ensure that the recommendations made by the independent international accounting firm, Booz & Company and HMCT had been implemented accordingly and proper internal control policies, procedures and practices were in place.

INVESTOR RELATIONS AND 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.

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 2011.

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, food and snacks products and skin care products, mainly in the PRC.

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

	2011		2010	
	Revenue HK$'000	Contribution to operating profit HK$'000	Revenue HK$'000	Contribution to operating profit HK$'000
Personal hygiene products				
— Sanitary napkins products	4,114,425	1,456,729	3,169,544	1,138,211
— Disposable diapers products	2,723,014	360,040	2,446,901	503,486
— Tissue paper products	8,017,520	783,446	6,114,379	962,896
Food and snacks products	1,542,511	88,501	1,202,726	98,549
Skin care products and others	653,087	191,295	498,138	92,932
	17,050,557	2,880,011	13,431,688	2,796,074

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

	2011		2010	
	Revenue HK$ million	Percentage of total revenue (%)	Revenue HK$ million	Percentage of total revenue (%)
PRC				
Fujian and Guangdong	3,056	18.0	2,685	20.0
North-western	859	5.0	638	4.7
South-western	885	5.2	668	5.0
Sichuan	1,453	8.5	1,170	8.7
North-eastern	1,404	8.2	1,133	8.4
Northern	1,690	9.9	1,292	9.6
Shandong	1,759	10.3	1,261	9.4
Eastern	2,451	14.4	1,965	14.6
Central	2,500	14.7	1,992	14.8
Overseas	994	5.8	628	4.8
	17,051	100	13,432	100

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 38.

The Directors declared an interim dividend of HK$0.60 (2010: HK$0.60) per ordinary share, totalling HK$737,381,000 (2010: HK$734,531,000), which was paid on 13 October 2011.

The Directors recommend the payment of a final dividend of HK$0.75 (2010: HK$0.70) per ordinary share, totalling HK$921,756,000 (2010: HK$856,953,000). Such dividend is to be approved by shareholders of the Company at the annual general meeting to be held on 22 May 2012.

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 44.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK$25,978,000 (2010: HK$25,784,000).

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution comprise the share premium account and retained earnings. At 31 December 2011, the reserves of the Company available for distribution to shareholders amounted to HK$1,778,636,000 (2010: HK$3,156,352,000), subject to the restrictions stated in Note 29 to the accounts.

FIVE-YEAR FINANCIAL SUMMARY

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

PURCHASE, SALE OR REDEMPTION OF SHARES

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

DIRECTORS

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

Executive Directors

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

Independent Non-Executive Directors

Mr. Chan Henry
Mr. Wang Ming Fu
Ms. Ada Ying Kay Wong

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

DIRECTORS' SERVICE CONTRACTS

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

Independent Non-Executive Directors were appointed for a 3-year term. The service contract of Mr. Chan Henry and Ms. Ada Ying Kay Wong shall expire on 16 December 2014 while Mr. Wang Ming Fu shall expiry on 31 December 2012.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and senior management are set out on pages 18 to 21.

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 ("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 37 to the accounts.

	2011 HK$'000	2010 HK$'000
Purchases from Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power")		
— electricity energy	143,549	92,601
— heat energy	88,436	65,334

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

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

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in page 98 of the Annual Report in accordance with paragraph 14A.38 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

COMPANY OR ANY ASSOCIATED CORPORATION

At 31 December 2011, 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	228,794,599 (Note (2))	–	10,000	228,804,599	18.62%
Mr. Hui Lin Chit	224,669,751 (Note (3))	–	–	224,669,751	18.28%
Mr. Hung Ching Shan	7,000,000 (Note (6))	–	–	7,000,000	0.57%
Mr. Xu Shui Shen	–	33,030	20,000	53,030	0.004%
Mr. Xu Da Zuo	19,777,321 (Notes (4)&(5))	–	–	19,777,321	1.61%
Mr. Xu Chun Man	16,167,445 (Note (5))	–	–	16,167,445	1.32%
Mr. Sze Wong Kim	151,700	–	20,000	171,700	0.01%
Mr. Hui Ching Chi	40,000	–	20,000	60,000	0.005%
Mr. Loo Hong Shing Vincent	40,000	–	85,000	125,000	0.01%

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 31 to 34.

(2) Out of the 228,794,599 ordinary shares, Tin Lee Investments Limited ("Tin Lee") held 228,228,999 ordinary shares while Mr. Sze had personal interests in 565,600 ordinary shares in the Company. Tin Lee is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Tin Wing Holdings Limited ("Tin Wing"). Tin Wing is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse Trust Limited ("Credit Suisse"), the trustee of the Sze's Family Trust. Mr. Sze Man Bok is the settlor and beneficiary of the Sze's Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Sze's Family Trust in the Company.

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

(4) 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").

(5) These interests were held by 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) 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.

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

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

SHARE OPTION SCHEMES

(1) The terms of the share option schemes of the Company adopted on 2 May 2003 (the "2003 Scheme") and on 26 May 2011 (the "2011 Scheme") (jointly the "Schemes") are summarised as follows:

(i) Purpose of the Schemes

The purpose of the Schemes 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 Schemes 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 Schemes 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 2003 Scheme and the 2011 Scheme are 85,638,200 and 119,513,872 respectively, which are not more than 10% of the issued share capital of the Company as at the date of the approval of the Schemes.

(v) Maximum Entitlement of Each Participant

The maximum number of shares issued and to be issued upon exercise of options granted under the Schemes 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

(a) An option may be exercised in accordance with the terms of the 2003 Scheme at any time during a period commencing on the date on which the participant complies in full with the requirements of the Board for the acceptance of the offer and expiring at the close of business on the last date of the 10-year period or the end of the 2003 Scheme period, whichever is the earlier subject to the provisions of early termination thereof.

(b) An option may be exercised in accordance with the terms of the 2011 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 Schemes

The 2003 Scheme will remain in force before 2 May 2013, while the 2011 Scheme will remain in force before 27 July 2021.

(2) Details of movements in the share options as at 31 December 2011 which have been granted under the Schemes are as follows:

	Number of share options								
Eligible person	**Balance as at 01/01/2011**	**Granted during the year**	**Exercised during the year**	**Reclassified during the year**	**Cancelled/ lapsed during the year**	**Balance as at 31/12/2011**	**Exercise price per share** HK$	**Date of grant** (DD/MM/YYYY)	**Exercisable period** (DD/MM/YYYY)
Directors									
Sze Man Bok	10,000	–	–	–	–	10,000	25.30	18/07/2007	18/07/2011–02/05/2013
Hui Lin Chit	90,000	–	(90,000)	–	–	–	25.30	18/07/2007	18/07/2011–02/05/2013
Hung Ching Shan	10,000	–	(10,000)	–	–	–	25.30	18/07/2007	18/07/2011–02/05/2013
Xu Da Zuo	65,000	–	(65,000)	–	–	–	25.30	18/07/2007	18/07/2011–02/05/2013
Xu Chun Man	10,000	–	(10,000)	–	–	–	25.30	18/07/2007	18/07/2011–02/05/2013
Loo Hong Shing Vincent	85,000	–		–	–	85,000	25.30	18/07/2007	18/07/2011–02/05/2013
Xu Shui Shen	75,000	–	(75,000)	–	–	–	25.05	12/07/2007	12/07/2011–02/05/2013
	–	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
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
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
Participants	47,500	–	(47,500)	–	–	–	25.05	12/07/2007	12/07/2010–02/05/2013
	4,445,500	–	(4,431,500)	–	(9,000)	5,000	25.05	12/07/2007	12/07/2011–02/05/2013
	20,000	–	(20,000)	–	–	–	25.30	18/07/2007	18/07/2011–02/05/2013
	50,000	–	(40,000)	–	–	10,000	25.05	18/03/2008	12/07/2011–02/05/2013
	2,536,000	–	–	–	(145,000)	2,391,000	44.30	07/09/2009	07/09/2012–02/05/2013
	–	1,424,000	–	–	(2,500)	1,421,500	68.30	28/07/2011	28/07/2014–27/07/2021
	–	712,000	–	–	(1,250)	710,750	68.30	28/07/2011	28/07/2015–27/07/2021
	–	712,000	–	–	(1,250)	710,750	68.30	28/07/2011	28/07/2016–27/07/2021
	7,444,000	2,908,000	(4,789,000)	–	(159,000)	5,404,000			

No options lapsed during the year.

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

	Options granted in 2007 to Directors	Options granted in 2007 and 2008 to employees	Options granted in 2009 to employees	Options granted in 2011 to Directors	Options granted in 2011 to employees
Risk free rate	4.64% per annum	4.64% per annum	1.40% per annum	2.3% per annum	2.3% per annum
Expected volatility	35% per annum	35% per annum	45% per annum	33.3% per annum	33.3% per annum
Expected dividend yield	2.5% per annum	2.5% per annum	2.3% per annum	2.0% per annum	2.0% per annum
Trigger price multiple	2 times	1.5 times	1.5 times	2.2 times	1.6 times
Expected turnover rate	0% per annum	15% per annum	13.7% per annum	5.8% per annum	14.7% 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 2011, amounted to HK$23,738,000 (2010: HK$24,699,000) and the remaining unamortised fair value of approximately HK$62,397,000 will be charged to the profit and loss account 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 2011, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

Name of Shareholder	Note	Capacity	Number of ordinary shares beneficially held	Approximate percentage of shareholding
Tin Lee Investments Limited	(1)	Beneficial owner	228,228,999 (L)	18.57%
Tin Wing Holdings Limited	(1)	Interests of controlled corporation	228,228,999 (L)	18.57%
An Ping Holdings Limited	(2)	Beneficial owner	224,669,751 (L)	18.28%
An Ping Investments Limited	(2)	Interests of controlled corporation	224,669,751 (L)	18.28%
Serangoon Limited	(1), (2) & (3)	Interests of controlled corporation	487,168,750 (L)	39.64%
Seletar Limited	(1), (2) & (3)	Interests of controlled corporation	487,168,750 (L)	39.64%
Credit Suisse Trust Limited	(3)	Trustee	487,168,750 (L)	39.64%
JP Morgan Chase & Co	(4)	Beneficial owner	2,510,250 (L)	0.20%
	(4)	Beneficial owner	589,926 (S)	0.05%
	(4)	Investment manager	13,542,500 (L)	1.10%
	(4)	Custodian corporation/ approved lending agent	56,974,161 (L)	4.64%

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

Notes:

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

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

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

(4) JP Morgan Chase & Co and its various wholly-owned subsidiaries held the shares on behalf of the accounts they managed.

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	13.0%
— five largest suppliers combined	39.8%

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the 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 27 March 2012.

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, 27 March 2012

Independent Auditor's Report

羅兵咸永道

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

We have audited the consolidated financial statements of Hengan International Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 38 to 104, which comprise the consolidated and company balance sheets as at 31 December 2011 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the Consolidated Financial Statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2012

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Consolidated Income Statement

For the year ended 31 December 2011

	Note	Year ended 31 December 2011 HK$'000	2010 HK$'000
Revenue	5	**17,050,557**	13,431,688
Cost of goods sold	7	**(10,250,259)**	(7,486,900)
Gross profit		**6,800,298**	5,944,788
Other gains — net	6	**456,083**	248,811
Distribution costs	7	**(3,211,723)**	(2,591,384)
Administrative expenses	7	**(750,882)**	(602,515)
Operating profit		**3,293,776**	2,999,700
Finance income	8	**109,406**	110,460
Finance costs	8	**(147,807)**	(71,793)
Finance (costs)/income — net		**(38,401)**	38,667
Profit before income tax		**3,255,375**	3,038,367
Income tax expense	9	**(569,929)**	(551,950)
Profit for the year		**2,685,446**	2,486,417
Profit attributable to:			
Shareholders of the Company	10	**2,648,839**	2,438,328
Non-controlling interests		**36,607**	48,089
		2,685,446	2,486,417
Earnings per share for profit attributable to shareholders of the Company			
— Basic	11	**HK$2.160**	HK$1.996
— Diluted	11	**HK$2.156**	HK$1.988

The notes on pages 46 to 104 are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Year ended 31 December	
	2011	2010
	HK$'000	HK$'000
Profit for the year	**2,685,446**	2,486,417
Other comprehensive income		
— Currency translation differences	**659,552**	370,631
Total comprehensive income for the year	**3,344,998**	2,857,048
Attributable to:		
Shareholders of the Company	**3,288,809**	2,804,658
Non-controlling interests	**56,189**	52,390
Total comprehensive income for the year	**3,344,998**	2,857,048

The notes on pages 46 to 104 are an integral part of the consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2011

	Note	As at 31 December 2011 HK$'000	2010 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**5,203,336**	4,519,090
Construction-in-progress	15	**2,053,903**	665,130
Land use rights	16	**850,365**	613,982
Intangible assets	17	**601,212**	606,508
Prepayments for non-current assets	18	**439,325**	537,714
Deferred income tax assets	32	**131,110**	98,213
Long-term bank deposits	26	**296,040**	786,274
		9,575,291	7,826,911
Current assets			
Inventories	21	**2,934,323**	2,760,090
Trade and bills receivables	22	**1,892,632**	1,395,837
Other receivables, prepayments and deposits	22	**589,734**	532,479
Derivative financial instruments	24	**258**	13,802
Restricted bank deposits	25	**68,640**	59,237
Cash and bank balances	26	**8,258,202**	5,989,024
		13,743,789	10,750,469
Total assets		**23,319,080**	18,577,380
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	27	**122,901**	122,422
Other reserves	29	**3,489,931**	3,630,385
Retained earnings	30		
— Proposed final dividend	12	**921,756**	856,953
— Unappropriated retained earnings		**7,806,825**	5,893,427
		12,341,413	10,503,187
Non-controlling interests		**377,334**	322,345
Total equity		**12,718,747**	10,825,532

The notes on pages 46 to 104 are an integral part of the consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2011

	Note	As at 31 December 2011 HK$'000	2010 HK$'000
LIABILITIES			
Non-current liabilities			
Bank borrowings	31	**403,735**	1,497,050
Deferred income tax liabilities	32	**180,903**	172,637
Deferred income on government grants		**3,807**	5,281
		588,445	1,674,968
Current liabilities			
Trade payables	33	**1,881,313**	1,318,908
Other payables and accrued charges	33	**968,976**	659,696
Derivative financial instruments	24	**1,869**	—
Current income tax liabilities		**345,102**	283,085
Bank borrowings	31	**6,814,628**	3,815,191
		10,011,888	6,076,880
Total liabilities		**10,600,333**	7,751,848
Total equity and liabilities		**23,319,080**	18,577,380
Net current assets		**3,731,901**	4,673,589
Total assets less current liabilities		**13,307,192**	12,500,500

Sze Man Bok
Director

Hui Lin Chit
Director

The notes on pages 46 to 104 are an integral part of the consolidated financial statements.

Company Balance Sheet

As at 31 December 2011

	Note	As at 31 December 2011 HK$'000	2010 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	19	**5,452,549**	5,428,811
Current assets			
Trade receivables	22	**100**	142,780
Amounts due from subsidiaries	23	**989,621**	1,387,231
Other receivables, prepayments and deposits	22	**1,404**	6,503
Cash and bank balances	26	**10,136**	45,997
		1,001,261	1,582,511
Total assets		**6,453,810**	7,011,322
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	27	**122,901**	122,422
Other reserves	29	**727,741**	1,784,469
Retained earnings	30		
— Proposed final dividend	12	**921,756**	856,953
— Unappropriated retained earnings		**162,056**	601,509
Total equity		**1,934,454**	3,365,353

The notes on pages 46 to 104 are an integral part of the financial statements.

Company Balance Sheet

As at 31 December 2011

	Note	As at 31 December 2011 HK$'000	2010 HK$'000
LIABILITIES			
Non-current liabilities			
Bank borrowings	31	**40,000**	476,000
Amounts due to subsidiaries	23	**2,604,931**	1,800,548
		2,644,931	2,276,548
Current liabilities			
Trade payables	33	**8**	109,756
Other payables and accrued charges	33	**13,444**	5,665
Derivative financial instruments	24	**973**	—
Bank borrowings	31	**1,860,000**	1,254,000
		1,874,425	1,369,421
Total liabilities		**4,519,356**	3,645,969
Total equity and liabilities		**6,453,810**	7,011,322
Net current liabilities		**(873,164)**	213,090
Total assets less current liabilities		**4,579,385**	5,641,901

Sze Man Bok
Director

Hui Lin Chit
Director

The notes on pages 46 to 104 are an integral part of the financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Note	Attributable to the Company's shareholders Share capital HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2010		121,931	4,936,821	3,958,254	9,017,006	279,977	9,296,983
Profit for the year		—	—	2,438,328	2,438,328	48,089	2,486,417
Currency translation differences	29(d)	—	366,330	—	366,330	4,301	370,631
Total comprehensive income		—	366,330	2,438,328	2,804,658	52,390	2,857,048
Transactions with owners							
2009 final dividends paid		—	—	(731,588)	(731,588)	—	(731,588)
2010 interim dividends paid	12	—	—	(734,531)	(734,531)	(1,800)	(736,331)
Share-based compensation							
— Value of employee services	27,28	—	24,699	—	24,699	—	24,699
— Proceeds from shares Issued	27,28	491	122,452	—	122,943	—	122,943
Liquidation of subsidiaries		—	—	—	—	(8,222)	(8,222)
Total of transactions with owners		491	147,151	(1,466,119)	(1,318,477)	(10,022)	(1,328,499)
Appropriation to statutory reserves	29(c)	—	180,083	(180,083)	—	—	—
Transfer to retained earnings	29(a)	—	(2,000,000)	2,000,000	—	—	—
Balance at 31 December 2010		122,422	3,630,385	6,750,380	10,503,187	322,345	10,825,532
Balance at 1 January 2011		**122,422**	**3,630,385**	**6,750,380**	**10,503,187**	**322,345**	**10,825,532**
Profit for the year		**—**	**—**	**2,648,839**	**2,648,839**	**36,607**	**2,685,446**
Currency translation differences	29(d)	**—**	**639,970**	**—**	**639,970**	**19,582**	**659,552**
Total comprehensive income		**—**	**639,970**	**2,648,839**	**3,288,809**	**56,189**	**3,344,998**
Transactions with owners							
2010 final dividends paid	12	**—**	**—**	**(856,953)**	**(856,953)**	**—**	**(856,953)**
2011 interim dividends paid	12	**—**	**—**	**(737,381)**	**(737,381)**	**(1,200)**	**(738,581)**
Share-based compensation							
— Value of employee services	27,28	**—**	**23,738**	**—**	**23,738**	**—**	**23,738**
— Proceeds from shares issued	27,28	**479**	**119,534**	**—**	**120,013**	**—**	**120,013**
Total of transactions with owners		**479**	**143,272**	**(1,594,334)**	**(1,450,583)**	**(1,200)**	**(1,451,783)**
Appropriation to statutory reserves	29(c)	**—**	**276,304**	**(276,304)**	**—**	**—**	**—**
Transfer to retained earnings	29(a)	**—**	**(1,200,000)**	**1,200,000**	**—**	**—**	**—**
Balance at 31 December 2011		**122,901**	**3,489,931**	**8,728,581**	**12,341,413**	**377,334**	**12,718,747**

The notes on pages 46 to 104 are an integral part of the consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	Note	Year ended 31 December 2011 HK$'000	2010 HK$'000
Cash flows from operating activities			
Cash generated from operations	34(a)	**3,905,625**	2,667,180
Income tax paid		**(549,724)**	(387,572)
Net cash generated from operating activities		**3,355,901**	2,279,608
Cash flows from investing activities			
Purchase of property, plant and equipment, including additions of construction-in-progress		**(2,203,945)**	(1,034,575)
Additions of land use rights		**(223,881)**	(82,189)
Proceeds from disposal of property, plant and equipment and land use rights	34(b)	**10,199**	5,677
Decrease/(increase) in prepayments for non-current assets		**122,454**	(235,729)
Increase in restricted bank deposits		**(6,330)**	(46,393)
Increase in long-term and short-term bank deposits		**(3,427,230)**	(294,489)
Interest received		**252,662**	110,460
Net cash used in investing activities		**(5,476,071)**	(1,577,238)
Cash flows from financing activities			
Proceeds from bank borrowings		**6,705,262**	5,011,265
Repayment of bank borrowings		**(4,877,404)**	(2,458,182)
Interest paid		**(157,321)**	(75,393)
Dividends paid		**(1,594,334)**	(1,466,119)
Dividends paid to non-controlling interest		**(1,200)**	(1,800)
Payment for discounted bills		**—**	(397,501)
Proceeds from shares issued under the employee share option scheme		**120,013**	122,943
Net cash generated from financing activities		**195,016**	735,213
Net (decrease)/increase in cash and cash equivalents		**(1,925,154)**	1,437,583
Cash and cash equivalents at 1 January	26	**5,989,024**	4,449,674
Effect of foreign exchange rate changes		**165,166**	101,767
Cash and cash equivalents at 31 December	26	**4,229,036**	5,989,024

The notes on pages 46 to 104 are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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, food and snack products and skin care products in the People's Republic of China (the "PRC"), Hong Kong and certain overseas markets.

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

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

These consolidated financial statements of the Group are presented in Hong Kong dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 27 March 2012.

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

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

(i) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011 that are relevant to the Group.

- HKFRS 7 "Financial instruments: Disclosures" clarifies seven disclosure requirements for financial instruments, with a particular focus on the qualitative disclosures and credit risk disclosures. The Group has applied this new accounting policy; however it has no impact on the financial statements.

2 Summary of significant accounting policies *(continued)*

(a) Basis of preparation *(continued)*

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

- HKAS 24 (Revised), 'Related Party Disclosures' is effective for annual period beginning on or after 1 January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:

  - The name of the government and the nature of their relationship;
  - The nature and amount of any individually significant transactions; and
  - The extent of any collectively-significant transactions qualitatively or quantitatively.

It also clarifies and simplifies the definition of a related party. The Group has applied this new accounting policy. However, it has no impact on the Group's financial statements.

(ii) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted

The Group's assessment of the impact of these new and amended standards is set out below.

- HKFRS 7 (Amendment), 'Financial instruments: Disclosures — Offsetting financial assets and financial liabilities' requires new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. Group is yet to assess HKFRS 7 (Amendment)'s full impact and intends to adopt HKFRS 7 (Amendment) upon its effective date, which is for the accounting period beginning on or after 1 January 2013.

- HKFRS 9, 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 and HKFRS 7 (Amendments) "Mandatory effective date and transition disclosures". HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2015.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2 Summary of significant accounting policies *(continued)*

(a) Basis of preparation *(continued)*

(ii) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted *(continued)*

- HKFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The Group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

- HKAS 19 (Amendment) 'Employee benefits'. These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The Group is yet to assess HKAS 19's full impact and intends to adopt HKAS 19 no later than the accounting period beginning on or after 1 January 2013.

- HKAS 1 (Amendment) "Presentation of financial statements". The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

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

2 Summary of significant accounting policies *(continued)*

(b) Subsidiaries

(i) Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(1) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

2 Summary of significant accounting policies *(continued)*

(b) Subsidiaries *(continued)*

(i) Consolidation *(continued)*

(3) Disposal of subsidiaries

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

(ii) Separate financial statements

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

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

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

(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.

2 Summary of significant accounting policies *(continued)*

(d) Foreign currency translation *(continued)*

(ii) Transactions and balances *(continued)*

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other gains — net'.

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

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

(iii) Group companies

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

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

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, corresponding exchange differences that are recorded in other comprehensive income are recognised in the consolidated income statement as part of the gains or losses on sale.

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.

2 Summary of significant accounting policies *(continued)*

(e) Property, plant and equipment and construction-in-progress

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

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

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

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

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

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

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

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

2 Summary of significant accounting policies *(continued)*

(f) 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.

(g) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

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 goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(ii) Patents and trademarks

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

(iii) Customer relationships

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

2 Summary of significant accounting policies *(continued)*

(h) Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life, for example goodwill, 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 (cash-generating units). 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.

(i) 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 22), "restricted bank deposits" (Note 25), "cash and bank balances" and "long-term bank deposits" (Note 26) in the balance sheet.

2 Summary of significant accounting policies *(continued)*

(i) Financial assets *(continued)*

(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 gains — net', in the period in which they arise.

(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.

(iv) Impairment of financial assets

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

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

2 Summary of significant accounting policies *(continued)*

(i) Financial assets *(continued)*

(iv) Impairment of financial assets *(continued)*

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 asset's 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.

(j) 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 gains — net" in the year in which they arise.

(k) 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 costs.

(l) 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.

2 Summary of significant accounting policies *(continued)*

(m) Cash and cash equivalents

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

(n) 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.

(o) Trade and bills payables

Trade and bills payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and bills payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and bills payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(p) Borrowings

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

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

(q) 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.

2 Summary of significant accounting policies *(continued)*

(r) 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, 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 is provided on temporary differences arising on investments in subsidiaries, except 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.

(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 taxes 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)*

(s) Employee benefits

(i) Retirement benefits

The Group participates in defined contribution retirement schemes administered by local government 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$1,000 per month. Contributions from the employer are vested in the employees as soon as they are paid to relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 subject to a few exceptions. The assets of the schemes are held separately from those of the Group in independently administered funds.

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

(ii) Share-based compensation

The Group operates an equity-settled share-based payment plan (Note 28). The fair value of the employee services received in exchange for the grant of the options to purchase shares of the Company is recognised as an expense. 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 entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting 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 when the options are exercised.

2 Summary of significant accounting policies *(continued)*

(t) 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.

(u) Revenue recognition

Revenue comprises the fair value of the consideration received or receivables for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, 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 on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

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

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

2 Summary of significant accounting policies *(continued)*

(v) 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.

(w) Leases

(i) Finance leases by lessor

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

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

(ii) Operating leases

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

(x) 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, 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.

3 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(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 receivables and payables, and bank borrowings held by its subsidiaries, which are denominated in RMB, United States dollar ("US$") and other currencies.

The Group considers the risk of movements in exchange rate between HK$ and US$ to be insignificant as HK$ and US$ are pegged. During the year ended 31 December 2011, 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 material and property, plant and equipment and bank borrowings) and HK$ (the denomination currency of bank borrowings) had brought to the Group exchange gain amounted to HK$113,748,000 (2010: HK$71,172,000). The Group has never experienced any difficulties in getting sufficient foreign currencies for settlement of the purchases or repatriation of profits declared by the subsidiaries in the PRC to their overseas holding companies or repayment of bank loans. As at 31 December 2011, apart from certain forward foreign exchange contracts entered into with commercial banks which were stated at fair value (Note 24), the Group did not hedge its foreign currency risk since the exposure was favorable to the Group.

At 31 December 2011, if HK$ and US$ had weakened/strengthened by 5% (2010: 10%) against the RMB with all other variables held constant, the net profit for the year would have been HK$47,902,000 (2010: HK$75,317,000) higher/lower. There is no impact on equity.

(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 the price risk, the Group enters long term contracts and diversify the suppliers to mitigate the raw material price changes.

(3) Cash flow and fair value interest rate risk

Except for restricted bank deposits (Note 25), long-term bank deposits and cash and bank balances (Note 26), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

3 Financial risk management *(continued)*

(a) Financial risk factors *(continued)*

(i) Market risk *(continued)*

(3) Cash flow and fair value interest rate risk *(continued)*

The Group's interest-rate risk mainly arises from borrowings (Note 31). Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The Group does not hedge its cash flow and fair value interest rate risk. The interest rates and terms of repayments of borrowings are disclosed in Note 31.

At 31 December 2011, if interest rates on bank borrowings had been 100 (2010: 150) basis points higher/lower with all other variables held constant, the net profit for the year would have been HK$44,405,00 (2010: HK$35,207,000) lower/higher as a result of higher/lower interest expenses on floating rate borrowings.

(4) Credit risk

Credit risk is managed on a group basis. Credit risk arises from restricted bank deposits, long-term bank deposit, cash and bank balances, derivative financial instruments, 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 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.

At 31 December 2011, all restricted bank deposits, bank balances and derivative financial instruments were related in highly reputable and sizable banks and financial institutions without significant credit risk.

(5) 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)*

(i) Market risk *(continued)*

(5) Liquidity risk *(continued)*

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

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 3 and 5 years HK$'000
Group			
At 31 December 2011			
Bank borrowings	**6,814,628**	**403,735**	**—**
Interest payables	**67,235**	**6,075**	**—**
Trade and other payables	**2,601,880**	**—**	**—**
At 31 December 2010			
Bank borrowings	3,815,191	1,349,155	147,895
Interest payables	63,525	14,916	950
Trade and other payables	1,747,243	—	—
Company			
At 31 December 2011			
Bank borrowings	**1,860,000**	**40,000**	**—**
Interest payables	**21,406**	**296**	**—**
Trade and other payables	**13,452**	**—**	**—**
Amount due to subsidiaries	**—**	**2,604,931**	**—**
At 31 December 2010			
Bank borrowings	1,254,000	476,000	—
Interest payables	17,552	5,838	—
Trade and other payables	115,421	—	—
Amount due to subsidiaries	—	1,800,548	—

At 31 December 2011, the Company provided financial guarantees for bank loans of its subsidiaries amounting to HK$3,920,377,000 (2010: HK$595,000,000). The subsidiaries are capable for the repayment of the borrowings.

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 2011, the Group's strategy was to maintain a gearing ratio at or below 20%. The calculation of gearing ratio at 31 December 2011 was as follows:

	2011 **HK$'000**	2010 HK$'000
Gross gearing ratio:		
Total borrowings	**7,218,363**	5,312,241
Total equity excluding non-controlling interests	**12,341,413**	10,503,187
Gross gearing ratio	**58.5%**	50.6%
Net gearing ratio:		
Total borrowings	**7,218,363**	5,312,241
Less: long-term bank deposits and cash and bank balances	**(8,554,242)**	(6,775,298)
Net debt	**(1,335,879)**	(1,463,057)
Total equity excluding non-controlling interests	**12,341,413**	10,503,187
Net gearing ratio	**(10.8%)**	(13.9%)

There were no major changes in the gearing ratio in 2010 and 2011.

3 Financial risk management *(continued)*

(c) Fair value estimation

The table below analyses financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- 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).

The following table presents the Group's assets that are measured at fair value at 31 December 2011:

	2011 Level 2 HK$'000	2010 Level 2 HK$'000
Financial assets at fair value through profit or loss		
— Derivative financial instruments (Note 24)	**258**	13,802
Financial liabilities fair value through profit or loss		
— Derivative financial instruments (Note 24)	**(1,869)**	—

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 2011.

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 2011.

4 Critical accounting estimates and judgements

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

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

(a) Useful lives of property, plant and equipment

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

(b) Current tax and deferred tax

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

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

(c) Assessment of impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2(g)(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

5 Segment information

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

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

The Group is principally engaged in the manufacturing, distribution and sale of personal hygiene products (including sanitary napkins products, disposable diapers products and tissue papers products), food and snacks products and skin care products in the PRC. Revenues recognised during the year are as follows:

	2011	2010
	HK$'000	HK$'000
Sales of goods:		
Personal hygiene products		
— Sanitary napkins products	**4,114,425**	3,169,544
— Disposable diapers products	**2,723,014**	2,446,901
— Tissue paper products	**8,017,520**	6,114,379
Food and snacks products	**1,542,511**	1,202,726
Skin care products and others	**653,087**	498,138
	17,050,557	13,431,688

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 of non-current assets (other than deferred income tax assets) located in the PRC amounted to HK$8,931,739,000 (2010: HK$7,220,954,000) as at 31 December 2011 and the total of these non-current assets located in other places amounted to HK$512,442,000 (2010: HK$507,744,000).

During the year ended 31 December 2011, none of the customers of the Group from whom the revenue amounted to 10% or more of the Group's revenue (2010: None).

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

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 Segment information *(continued)*

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

	2011					
	Sanitary napkins products HK$'000	Disposable diapers products HK$'000	Tissue paper products HK$'000	Food and snacks products HK$'000	Skin care products and others HK$'000	Group HK$'000
Consolidated income statement for the year ended 31 December 2011						
Segment revenue	4,309,922	2,757,763	8,357,761	1,542,511	931,750	17,899,707
Inter-segment sales	(195,497)	(34,749)	(340,241)	—	(278,663)	(849,150)
Revenue of the Group	4,114,425	2,723,014	8,017,520	1,542,511	653,087	17,050,557
Segment profit	1,456,729	360,040	783,446	88,501	191,295	2,880,011
Unallocated costs						(42,318)
Other gains — net						456,083
Operating profit						3,293,776
Finance income						109,406
Finance costs						(147,807)
Profit before income tax						3,255,375
Income tax expense						(569,929)
Profit for the year						2,685,446
Non-controlling interests						(36,607)
Profit attributable to shareholders of the Company						2,648,839
Consolidated balance sheet as at 31 December 2011						
Segment assets	3,410,775	3,850,847	12,019,993	1,137,165	2,601,479	23,020,259
Deferred income tax assets						131,110
Unallocated assets						167,711
Total assets						23,319,080
Segment liabilities	503,257	555,628	2,492,518	300,001	78,374	3,929,778
Deferred income tax liabilities						180,903
Current income tax liabilities						345,102
Unallocated liabilities						6,144,550
Total liabilities						10,600,333
Other items for the year ended 31 December 2011						
Addition to non-current assets	194,162	162,424	1,763,262	383,000	522,477	3,025,325
Depreciation charge	50,009	52,076	275,365	27,509	9,824	414,783
Amortisation charge	4,127	2,144	7,988	11,516	2,811	28,586

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

5 Segment information *(continued)*

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

	2010					
	Sanitary napkins products HK$'000	Disposable diapers products HK$'000	Tissue paper products HK$'000	Food and snacks products HK$'000	Skin care products and others HK$'000	Group HK$'000
Consolidated income statement for the year ended 31 December 2010						
Segment revenue	3,274,838	2,495,982	6,403,214	1,202,726	925,033	14,301,793
Inter-segment sales	(105,294)	(49,081)	(288,835)	—	(426,895)	(870,105)
Revenue of the Group	3,169,544	2,446,901	6,114,379	1,202,726	498,138	13,431,688
Segment profit	1,138,211	503,486	962,896	98,549	92,932	2,796,074
Unallocated costs						(45,185)
Other gains — net						248,811
Operating profit						2,999,700
Finance income						110,460
Finance costs						(71,793)
Profit before income tax						3,038,367
Income tax expense						(551,950)
Profit for the year						2,486,417
Non-controlling interests						(48,089)
Profit attributable to shareholders of the Company						2,438,328
Consolidated balance sheet as at 31 December 2010						
Segment assets	3,239,417	3,502,243	8,741,452	961,307	1,809,052	18,253,471
Deferred income tax assets						98,213
Unallocated assets						225,696
Total assets						18,577,380
Segment liabilities	455,888	592,198	2,130,624	219,840	42,219	3,440,769
Deferred income tax liabilities						172,637
Current income tax liabilities						283,085
Unallocated liabilities						3,855,357
Total liabilities						7,751,848
Other items for the year ended 31 December 2010						
Addition to non-current assets	122,291	281,218	1,001,519	55,417	153,555	1,614,000
Depreciation charge	57,517	45,286	221,895	22,922	9,002	356,622
Amortisation charge	3,603	2,592	10,294	11,160	232	27,881

6 Other gains – net

	2011 HK$'000	2010 HK$'000
Government grants income (Note (a))	**275,034**	165,067
Operating exchange gain – net	**44,033**	67,921
Losses on disposal/write off of property, plant and equipment and land use rights	**(2,285)**	(4,802)
Realised fair value (losses)/gains on derivative financial instruments (Note (b))	**(7,582)**	7,202
Unrealised fair value losses on derivative financial instruments (Note (b))	**(1,611)**	(136)
Interests income from long-term and short-term bank deposits	**143,256**	—
Others	**5,238**	13,559
	456,083	248,811

Notes:

(a) 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.

(b) The Group entered into foreign exchange forward contracts and interest rate swap contracts as part of the Group's treasury operations, for the purpose of capturing the price differential between the spot and forward foreign exchange markets thereby reducing the impact of exchange fluctuation to the Group and for the purpose of reducing financial cost by exchanging floating interest rate to fixed interest rate. These foreign exchange forward contracts and interest rate swap contracts are measured at fair value at each balance sheet date. The fair value is with reference to quotations provided by various banks (Note 3(c)).

7 Expenses by nature

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

	2011 HK$'000	2010 HK$'000
Raw materials and consumables used	**8,722,171**	5,747,169
Changes in inventories of work-in-progress and finished goods	**(166,771)**	429,358
Marketing and advertising expenses	**1,703,874**	1,493,474
Employees benefit expense, including directors' emoluments (Note 13)	**1,265,593**	958,354
Transportation and packaging expenses	**687,992**	557,674
Utilities and various office expenses	**824,640**	534,914
Travelling expenses	**142,749**	99,502
Depreciation of property, plant and equipment (Note 14)	**414,783**	356,622
Amortisation of land use rights (Note 16)	**18,556**	17,958
Amortisation of intangible assets (Note 17)	**10,030**	9,923
Operating leases rentals	**76,624**	59,466
Repairs and maintenance expenses	**128,124**	99,345
Auditor's remuneration	**6,460**	5,894
Provision for/(reversal of) impairment of inventories (Note 21)	**19,263**	(297)
Provision for/(reversal of) impairment of trade receivables (Note 22)	**1,832**	(1,865)
Amortisation of deferred income on government grants	**(1,701)**	(1,616)
Others	**358,645**	314,924
Total cost of sales, distribution costs and administration expenses	**14,212,864**	10,680,799

8 Finance income and finance costs

	2011 **HK$'000**	2010 HK$'000
Finance costs:		
Interest expenses		
— Bank borrowings	**142,368**	68,065
Other finance charges	**14,953**	7,728
Total borrowing costs incurred	**157,321**	75,793
Less: Borrowing costs capitalised in buildings and machinery under construction-in-progress (Note 15)	**(9,514)**	(4,000)
	147,807	71,793
Finance income:		
Interest income from cash and cash equivalents	**(39,691)**	(107,209)
Exchange gain	**(69,715)**	(3,251)
	(109,406)	(110,460)
Finance cost/(income), net	**(38,401)**	(38,667)

For the year ended 31 December 2011, the capitalisation rate applied to funds borrowed generally and used for the development of construction-in-progress is between 1.0% to 4.0% (2010: 0.8% to 3.4%) per annum.

9 Income tax expense

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

	2011 **HK$'000**	2010 HK$'000
Current income tax		
— Hong Kong profits tax	**37,288**	49,241
— PRC income tax	**558,027**	454,672
Deferred income tax, net (Note 32)	**(25,386)**	48,037
Income tax expense	**569,929**	551,950

9 Income tax expense *(continued)*

Hong Kong profits tax has been provided for at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits for the year. Taxation on PRC income has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC in which the Group operates.

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

Enterprises incorporated in Hong Kong and other places are subject to income tax at the prevailing rates ranging from 0% to 16.5%.

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

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

	2011 HK$'000	2010 HK$'000
Profit before income tax	**3,255,375**	3,038,367
Tax calculated at tax rates applicable to profits of the Group's companies	**806,765**	732,133
Tax exemption and concession on the profits of certain subsidiaries	**(235,325)**	(214,281)
Income not subject to taxation	**—**	(28,197)
Unrecognised tax losses in current year	**5,249**	3,317
Withholding tax on unremitted earnings (Note 32)	**5,573**	57,125
Others	**(12,333)**	1,853
Income tax expense	**569,929**	551,950

The weighted average applicable tax rate was 24.8% (2010: 24.1%).

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

10 Profit attributable to shareholders of the Company

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of a profit of HK$19,684,000 (2010: profit of HK$230,686,000) (Note 30).

11 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the Group's profit attributable to the Company's shareholders of HK$2,648,839,000 (2010: HK$2,438,328,000) by the weighted average number of 1,226,448,622 (2010: 1,221,449,809) ordinary shares in issue during the year.

	2011 HK$'000	2010 HK$'000
Profit attributable to shareholders of the Company (HK$'000)	**2,648,839**	2,438,328
Weighted average number of ordinary shares in issue (thousands)	**1,226,449**	1,221,450
Basic earnings per share (HK$)	**HK$2.160**	HK$1.996

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's share options are regarded as dilutive potential ordinary shares as at 31 December 2011. 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 2011) 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.

	2011 HK$'000	2010 HK$'000
Profit attributable to shareholders of the Company (HK$'000)	**2,648,839**	2,438,328
Weighted average number of ordinary shares in issue (thousands)	**1,226,449**	1,221,450
— Share options (thousands)	**2,154**	5,189
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,228,603**	1,226,639
Diluted earnings per share (HK$)	**HK$2.156**	HK$1.988

12 Dividends

	2011 HK$'000	2010 HK$'000
Interim, paid, HK$0.60 (2010: HK$0.60) per ordinary share	737,381	734,531
Final, proposed, HK$0.75 (2010: HK$0.70) per ordinary share	921,756	856,953
	1,659,137	1,591,484

The dividends paid in 2011 amounted to HK$1,594,334,000 (2011 interim: HK$0.60 per share, 2010 final: HK$0.70 per share). The dividends paid in 2010 amounted to HK$1,466,119,000 (2010 interim: HK$0.60 per share, 2009 final: HK$0.60 per share). A dividend in respect of the year ended 31 December 2011 of HK$0.75 per share, amounting to a total dividend of HK$921,756,000, is proposed by Directors at a meeting held on 27 March 2012 and to be approved by the shareholders of the Company at the Annual General Meeting to be held on 22 May 2012. These financial statements do not reflect this dividend payable. The aggregate amounts of the dividends paid and proposed during 2011 and 2010 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

13 Employee benefit expense, including directors' emoluments

	2011 HK$'000	2010 HK$'000
Wages and salaries	1,121,618	863,118
Retirement benefit costs	120,237	70,537
Equity-settled share-based payment (Note 28)	23,738	24,699
	1,265,593	958,354

13 Employee benefit expense, including directors' emoluments *(continued)*

(a) Directors' and senior management's emoluments

The remuneration of each Director for the year ended 31 December 2011 is set out below:

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Share-based compensation HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Director						
Mr. Sze Man Bok	**60**	**339**	**–**	**10**	**12**	**421**
Mr. Hui Lin Chit	**60**	**901**	**1,198**	**93**	**12**	**2,264**
Mr. Xu Shui Shen	**60**	**698**	**1,007**	**133**	**3**	**1,901**
Mr. Hung Ching Shan	**60**	**145**	**24**	**10**	**10**	**249**
Mr. Xu Da Zuo	**60**	**417**	**243**	**67**	**3**	**790**
Mr. Xu Chun Man	**60**	**86**	**40**	**10**	**3**	**199**
Mr. Sze Wong Kim	**60**	**–**	**–**	**55**	**3**	**118**
Mr. Hui Ching Chi	**60**	**336**	**–**	**55**	**15**	**466**
Mr. Loo Hong Shing Vincent	**60**	**1,392**	**500**	**88**	**12**	**2,052**
Independent Non-Executive Director						
Mr. Chan Henry	**120**	**–**	**–**	**–**	**–**	**120**
Mr. Wang Ming Fu	**120**	**–**	**–**	**–**	**–**	**120**
Ms. Ada Ying Kay Wong	**120**	**–**	**–**	**–**	**–**	**120**

The remuneration of each Director for the year ended 31 December 2010 is set out below:

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Housing allowance HK$'000	Share-based compensation HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Director							
Mr. Sze Man Bok	60	338	–	–	33	12	443
Mr. Hui Lin Chit	60	550	1,271	50	295	12	2,238
Mr. Xu Shui Shen	30	638	912	–	246	2	1,828
Mr. Hung Ching Shan	60	138	23	–	33	10	264
Mr. Xu Da Zuo	60	392	214	–	213	3	882
Mr. Xu Chun Man	60	74	33	–	33	3	203
Mr. Sze Wong Kim	30	–	–	–	–	2	32
Mr. Hui Ching Chi	30	336	–	–	–	14	380
Mr. Loo Hong Shing Vincent	60	1,377	500	–	279	12	2,228
Independent Non-Executive Director							
Mr. Chan Henry	120	–	–	–	–	–	120
Mr. Wang Ming Fu	120	–	–	–	–	–	120
Ms. Ada Ying Kay Wong	120	–	–	–	–	–	120

13 Employee benefit expense, including directors' emoluments *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2010: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2010: two) individuals during the year are as follows:

	2011 HK$'000	2010 HK$'000
Basic salaries, housing allowances, share-based compensation, other allowances and benefits-in-kind	1,243	1,937
Bonuses	545	230
	1,788	2,167

The emoluments fell within the following bands:

	Number of individuals 2011	2010
Emolument bands		
Nil to HK$1,000,000	2	—
HK$1,000,001 to HK$1,500,000	—	2

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14 Property, plant and equipment — Group

	Leasehold land and buildings HK$'000	Machinery HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2010					
Cost	1,398,930	3,731,304	141,220	25,752	5,297,206
Accumulated depreciation	(237,185)	(1,437,729)	(74,593)	(11,888)	(1,761,395)
Opening net book amount	1,161,745	2,293,575	66,627	13,864	3,535,811
Year ended 31 December 2010					
Opening net book amount	1,161,745	2,293,575	66,627	13,864	3,535,811
Exchange differences	47,765	89,120	2,575	739	140,199
Effect of adoption of HKAS 17 (Amendment)	4,730	—	—	—	4,730
Additions	17,721	61,845	24,657	17,020	121,243
Transfer from construction-in-progress (Note 15)	440,590	636,864	6,754	—	1,084,208
Depreciation for the year (Note 7)	(75,686)	(255,967)	(19,716)	(5,253)	(356,622)
Disposals	(2,570)	(6,719)	(366)	(824)	(10,479)
Closing net book amount	1,594,295	2,818,718	80,531	25,546	4,519,090
At 31 December 2010 and 1 January 2011					
Cost	1,918,328	4,547,842	163,552	38,796	6,668,518
Accumulated depreciation	(324,033)	(1,729,124)	(83,021)	(13,250)	(2,149,428)
Net book amount	1,594,295	2,818,718	80,531	25,546	4,519,090

	Leasehold land and buildings HK$'000	**Machinery HK$'000**	**Office equipment, furniture and fixtures HK$'000**	**Motor vehicles HK$'000**	**Total HK$'000**
Year ended 31 December 2011					
Opening net book amount	**1,594,295**	**2,818,718**	**80,531**	**25,546**	**4,519,090**
Exchange differences	**80,741**	**144,417**	**3,925**	**1,263**	**230,346**
Additions	**19,488**	**91,063**	**17,261**	**6,893**	**134,705**
Transfer from construction-in-progress (Note 15)	**268,089**	**473,594**	**3,725**	**—**	**745,408**
Depreciation for the year (Note 7)	**(97,928)**	**(286,936)**	**(23,313)**	**(6,606)**	**(414,783)**
Disposals	**(4,165)**	**(6,434)**	**(398)**	**(433)**	**(11,430)**
Closing net book amount	**1,860,520**	**3,234,422**	**81,731**	**26,663**	**5,203,336**
At 31 December 2011					
Cost	**2,280,756**	**5,333,555**	**184,694**	**44,971**	**7,843,976**
Accumulated depreciation	**(420,236)**	**(2,099,133)**	**(102,963)**	**(18,308)**	**(2,640,640)**
Net book amount	**1,860,520**	**3,234,422**	**81,731**	**26,663**	**5,203,336**

14 Property, plant and equipment — Group *(continued)*

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

	2011 HK$'000	2010 HK$'000
Manufacturing overheads included under cost of goods sold	337,977	291,075
Distribution costs	7,665	5,478
Administrative expenses	69,141	60,069
	414,783	356,622

There was no pledge of property, plant and equipment of the Group as at 31 December 2011 and 2010.

15 Construction-in-progress — Group

	2011 HK$'000	2010 HK$'000
At 1 January	665,130	808,410
Exchange differences	60,017	23,596
Additions	2,074,164	917,332
Transfer to property, plant and equipment (Note 14)	(745,408)	(1,084,208)
At 31 December	2,053,903	665,130

During the year ended 31 December 2011, finance costs capitalised in construction-in-progress amounted to HK$9,514,000 (2010: HK$4,000,000) (Note 8).

16 Land use rights — Group

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

	2011 HK$'000	2010 HK$'000
Outside Hong Kong, held on:		
Leases between 10 to 50 years	850,365	613,982
At 1 January, as previously reported	613,982	397,541
Exchange differences	32,112	16,537
Effect of adoption of HKAS 17 (Amendment)	—	(4,730)
Additions	223,881	222,592
Amortisation of prepaid operating leases payments (Note 7)	(18,556)	(17,958)
Disposals	(1,054)	—
At 31 December	850,365	613,982

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

17 Intangible assets — Group

	Goodwill HK$'000	Patents and trademarks HK$'000	Customer relationships HK$'000	Total HK$'000
At 1 January 2010				
Cost	495,300	76,616	57,850	629,766
Accumulated amortisation	—	(7,597)	(5,785)	(13,382)
Net book amount	495,300	69,019	52,065	616,384
Year ended 31 December 2010				
Opening net book amount	495,300	69,019	52,065	616,384
Exchange differences	—	47	—	47
Amortisation charge (Note 7)	—	(4,138)	(5,785)	(9,923)
Closing net book amount	495,300	64,928	46,280	606,508
At 31 December 2010				
Cost	495,300	76,820	57,850	629,970
Accumulated amortisation	—	(11,892)	(11,570)	(23,462)
Net book amount	495,300	64,928	46,280	606,508
Year ended 31 December 2011				
Opening net book amount	**495,300**	**64,928**	**46,280**	**606,508**
Exchange differences	**—**	**144**	**—**	**144**
Additions	**—**	**4,590**	**—**	**4,590**
Amortisation charge (Note 7)	**—**	**(4,245)**	**(5,785)**	**(10,030)**
Closing net book amount	**495,300**	**65,417**	**40,495**	**601,212**
At 31 December 2011				
Cost	**495,300**	**81,802**	**57,850**	**634,952**
Accumulated amortisation	**—**	**(16,385)**	**(17,355)**	**(33,740)**
Net book amount	**495,300**	**65,417**	**40,495**	**601,212**

Amortisation of HK$10,030,000 (2010: HK$9,923,000) has been charged to administrative expense in the consolidated income statement.

17 Intangible assets — Group *(continued)*

The Directors have performed an impairment review of the carrying amount of goodwill as at 31 December 2011 and have concluded that no provision for impairment is required. For the purposes of impairment testing, goodwill acquired has been allocated to the smallest individual of cash generating units identified by business segments, including goodwill on the tissue paper products segment of HK$452,030,000 and goodwill on the food and snack products segment of HK$43,270,000 as at 31 December 2011. The recoverable amount of each of the cash generating units is determined based by value-in-use calculations. The calculation uses cash flow projections based on financial estimates made by the Directors, with reference to the prevailing market conditions, covering a period of three years and assuming sales growth rate of 25% and gross profit margins ranging from 31.4% to 32.0%. The management assumes that the sales beyond the three-year period will keep stable and 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% per annum. Based on management's assessment results, there was no impairment of goodwill as at 31 December 2011 and 2010 and no reasonable change to the assumptions would lead to an impairment.

18 Prepayments for non-current assets — Group

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

19 Investments in subsidiaries — Company

	2011	2010
	HK$'000	HK$'000
Unlisted shares, at cost	**550,742**	527,004
Loans to subsidiaries	**4,901,807**	4,901,807
	5,452,549	5,428,811

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

The particulars of the Company's principal subsidiaries are set out in Note 38 to the consolidated financial statements.

20 Financial instruments by category — Group and Company

(a) Assets

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loans and receivables				
— Trade and other receivables, excluding advances to suppliers and prepayments	**2,291,507**	1,624,843	**100**	142,780
— Amounts due from subsidiaries (Note 23)	**—**	—	**989,621**	1,387,231
— Restricted bank deposits (Note 25)	**68,640**	59,237	**—**	—
— Long-term bank deposits (Note 26)	**296,040**	786,274	**—**	—
— Cash and bank balances (Note 26)	**8,258,202**	5,989,024	**10,136**	45,997
	10,914,389	8,459,378	**999,857**	1,576,008
Assets at fair value through profit or loss				
— Derivative financial instruments (Note 24)	**258**	13,802	**—**	—
Total	**10,914,647**	8,473,180	**999,857**	1,576,008

(b) Liabilities

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities at amortised costs				
— Trade and other payables, excluding non-financial liabilities	**2,601,880**	1,747,243	**13,452**	115,421
— Amounts due to subsidiaries (Note 23)	**—**	—	**2,604,931**	1,800,548
— Bank borrowings (Note 31)	**7,218,363**	5,312,241	**1,900,000**	1,730,000
	9,820,243	7,059,484	**4,518,383**	3,645,969
Liabilities at fair value through profit or loss				
— Derivative financial instruments (Note 24)	**1,869**	—	**973**	—
Total	**9,822,112**	7,059,484	**4,519,356**	3,645,969

21 Inventories — Group

	Group	
	2011	2010
	HK$'000	HK$'000
Finished goods	**1,154,400**	1,322,052
Work-in-progress	**30,886**	30,005
Raw materials	**1,575,540**	1,283,795
Spare parts and consumables	**173,497**	124,238
	2,934,323	2,760,090

The cost of inventories recognised as expenses and included in cost of goods sold amounted to HK$8,555,400,000 (2010: HK$6,176,527,000).

The Group provided for impairment of inventories amounted to HK$19,263,000 (2010: reversed previous inventory write-downs of HK$297,000). These amounts have been included in cost of sales in the consolidated income statement (Note 7).

22 Trade and other receivables — Group and Company

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**1,843,657**	1,395,257	**100**	142,780
Less: provision for impairment	**(8,373)**	(7,707)	**—**	—
Trade receivables — net	**1,835,284**	1,387,550	**100**	142,780
Bills receivable	**57,348**	8,287	**—**	—
Trade and bills receivables	**1,892,632**	1,395,837	**100**	142,780
Other receivables, prepayment and deposits				
— Advance payments to suppliers	**242,317**	290,333	**1,404**	6,503
— Interest income receivables	**134,205**	46,318	**—**	—
— Prepayments for rental fee and utility fee	**34,783**	22,020	**—**	—
— Value added tax recoverable	**79,522**	108,384	**—**	—
— Others	**98,907**	65,424	**—**	—
	589,734	532,479	**1,404**	6,503
Trade and other receivables	**2,482,366**	1,928,316	**1,504**	149,283

22 Trade and other receivables — Group and Company *(continued)*

The majority of the Group's sales is on open account with credit terms ranging from 30 days to 90 days. At 31 December 2011, the ageing analysis of the trade and bills receivables based on invoice date was as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 30 days	**1,003,328**	691,307	**—**	43,242
31–180 days	**841,474**	667,640	**—**	98,498
181–365 days	**35,028**	31,726	**—**	1,040
Over 365 days	**12,802**	5,164	**100**	—
	1,892,632	1,395,837	**100**	142,780

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

The credit quality of the trade receivables that are neither past due nor impaired in the amount of HK$1,676,059,000 (2010: HK$1,253,385,000) 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 2011, trade receivables of HK$216,573,000 (31 December 2010: HK$142,452,000) 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 2011 and 2010, the ageing analysis of these trade receivables was as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 30 days	**94,496**	—	**—**	—
31–180 days	**102,536**	130,415	**—**	—
181–365 days	**10,977**	7,039	**—**	—
Over 365 days	**8,564**	4,998	**—**	—
	216,573	142,452	**—**	—

Trade receivables of HK$8,373,000 (31 December 2010: HK$7,707,000) were impaired and fully provided for.

As at 31 December 2011, the other receivables are neither past due nor impaired.

22 Trade and other receivables — Group and Company *(continued)*

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**7,707**	11,378	**—**	—
Exchange differences	**389**	302	**—**	—
Provision for/(reversal of) impairment of trade receivables (Note 7)	**1,832**	(1,865)	**—**	—
Receivables written-off during the year as uncollectible	**(1,555)**	(2,108)	**—**	—
As 31 December	**8,373**	7,707	**—**	—

The creation and release of provision for impaired receivables have been included 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.

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

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
RMB	**1,762,238**	1,200,575	**—**	—
Other currencies	**130,394**	195,262	**100**	142,780
	1,892,632	1,395,837	**100**	142,780

23 Amounts due from and to subsidiaries — Company

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

The amounts due to subsidiaries were unsecured, interest bearing at a rate of 1.60% (2010: 1.39%) per annum, denominated in RMB and not repayable within 12 months from the balance sheet date.

24 Derivative financial instruments – Group and Company

These represented the fair value of the non-deliverable forward foreign exchange contracts to sell RMB for US$ and the fair value of the interest rate swap contracts entered into with banks to exchange floating interest rates to fixed interest rates (Note 6(b)). These contracts are regarded as derivative financial instruments.

25 Restricted bank deposits — Group

Approximately HK$68,640,000 (31 December 2010: HK$59,237,000) of the bank balances were restricted to be drawn down until certain letters of credit issued by the Group are settled.

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26 Long-term bank deposits and cash and bank balances — Group and Company

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Long-term bank deposits	**296,040**	786,274	**—**	—
Cash and bank balances				
— Bank deposits	**4,029,166**	—	**—**	—
— Cash and cash equivalents	**4,229,036**	5,989,024	**10,136**	45,997
	8,258,202	5,989,024	**10,136**	45,997
Total	**8,554,242**	6,775,298	**10,136**	45,997

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

The effective interest rate on bank deposit as at 31 December 2011 was approximately 2.45% (31 December 2010: 1.96%) per annum.

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Long-term bank deposits				
RMB	**296,040**	786,274	**—**	—
Cash and bank balances				
RMB	**5,874,525**	4,822,668	**—**	—
US$	**2,353,212**	1,090,337	**2,797**	37,291
HK$	**27,002**	75,857	**7,323**	8,706
Others	**3,463**	162	**16**	—
	8,258,202	5,989,024	**10,136**	45,997

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

27 Share capital — Group and Company

	Authorised share capital Ordinary shares of HK$0.1 each Number of shares	HK$'000
At 31 December 2011 and 31 December 2010	3,000,000,000	300,000

	Issued and fully paid Ordinary shares of HK$0.1 each Number of shares	HK$'000
At 1 January 2010	1,219,313,721	121,931
Employee share option scheme		
— Shares issued upon exercise of share options (Note 28)	4,905,000	491
At 31 December 2010	1,224,218,721	122,422
Employee share option scheme		
— Shares issued upon exercise of share options (Note 28)	**4,789,000**	**479**
At 31 December 2011	**1,229,007,721**	**122,901**

28 Share-based compensation — Group

The Company adopted two share option schemes on 6 May 2003 and 26 May 2011. Pursuant to the schemes, share options had been granted to the directors and selected employees. The exercise prices of the options granted were equal to the market prices of the Company's shares on the grant dates. The options granted will be cancelled 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:

	2011		2010	
	Average exercise price in HK$ per share	**Options (thousands)**	Average exercise price in HK$ per share	Options (thousands)
At 1 January	**31.62**	**7,444**	29.19	13,032
Granted	**68.30**	**2,908**	—	—
Forfeited	**25.05 to 68.30**	**(159)**	25.05 to 44.30	(683)
Exercised	**25.05 to 25.30**	**(4,789)**	25.05 to 25.30	(4,905)
At 31 December		**5,404**		7,444

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

	Exercise price in HK$ per share option	**Options (thousands)**	
		2011	2010
Expiry date – 2 May			
2013	25.30	**95**	290
2013	25.05	**15**	4,618
2013	44.30	**2,391**	2,536
Expiry date – 27 July			
2021	68.30	**2,903**	—
		5,404	7,444

28 Share-based compensation — Group *(continued)*

The total amount of the fair value of share options granted to Directors and selected employees is expensed over the vesting period. The share-based compensation expense for the year ended 31 December 2011 amounted to HK$23,738,000 (2010: HK$24,699,000) (Note 13), and the remaining unamortised fair value of approximately HK$62,397,000 will be charged to the consolidated income statement in the future years.

The maximum number of shares available for issue after considering the share options already granted under the 2003 Scheme and the 2011 Scheme are 85,638,200 and 119,513,872 respectively, which are not more than 10% of the issued share capital of the Company as at the date of the approval of the Schemes.

29 Other reserves — Group and Company

Group

	Share premium account HK$'000	Capital reserve HK$'000 (Note(b))	Capital redemption reserve HK$'000	Statutory reserves HK$'000 (Note(c))	Share-based compensation reserve HK$'000	Exchange reserve HK$'000 (Note(d))	Total HK$'000
At 1 January 2010	2,990,438	517,705	1,807	516,465	60,073	850,333	4,936,821
Other comprehensive income — currency translation differences	–	–	–	–	–	366,330	366,330
Total other comprehensive income	2,990,438	517,705	1,807	516,465	60,073	1,216,663	5,303,151
Appropriation to statutory reserves	–	–	–	180,083	–	–	180,083
Transfer to retained earnings (Note (a))	(2,000,000)	–	–	–	–	–	(2,000,000)
Share-based compensation							
– Value of employee services	–	–	–	–	24,699	–	24,699
– Proceeds from shares issued	122,452	–	–	–	–	–	122,452
At 31 December 2010	1,112,890	517,705	1,807	696,548	84,772	1,216,663	3,630,385
At 1 January 2011	**1,112,890**	**517,705**	**1,807**	**696,548**	**84,772**	**1,216,663**	**3,630,385**
Other comprehensive income — currency translation differences	**–**	**–**	**–**	**–**	**–**	**639,970**	**639,970**
Total other comprehensive income	**1,112,890**	**517,705**	**1,807**	**696,548**	**84,772**	**1,856,633**	**4,270,355**
Appropriation to statutory reserves	**–**	**–**	**–**	**276,304**	**–**	**–**	**276,304**
Transfer to retained earnings (Note (a))	**(1,200,000)**	**–**	**–**	**–**	**–**	**–**	**(1,200,000)**
Share-based compensation							
– Value of employee services	**–**	**–**	**–**	**–**	**23,738**	**–**	**23,738**
– Proceeds from shares issued	**119,534**	**–**	**–**	**–**	**–**	**–**	**119,534**
– Exercise of share options	**77,400**	**–**	**–**	**–**	**(77,400)**	**–**	**–**
At 31 December 2011	**109,824**	**517,705**	**1,807**	**972,852**	**31,110**	**1,856,633**	**3,489,931**

29 Other reserves — Group and Company *(continued)*

Company

	Share premium account HK$'000	Capital redemption reserve HK$'000	Share-based compensation reserve HK$'000	Total HK$'000
At 1 January 2010	3,575,438	1,807	60,073	3,637,318
Transfer to retained earnings (Note (a))	(2,000,000)	—	—	(2,000,000)
Share-based compensation				
— Value of employee services	—	—	24,699	24,699
— Proceeds from shares issued	122,452	—	—	122,452
At 31 December 2010	1,697,890	1,807	84,772	1,784,469
At 1 January 2011	**1,697,890**	**1,807**	**84,772**	**1,784,469**
Transfer to retained earnings (Note (a))	**(1,200,000)**	**—**	**—**	**(1,200,000)**
Share-based compensation				
— Value of employee services	**—**	**—**	**23,738**	**23,738**
— Proceeds from shares issued	**119,534**	**—**	**—**	**119,534**
— Exercise of share options	**77,400**	**—**	**(77,400)**	**—**
At 31 December 2011	**694,824**	**1,807**	**31,110**	**727,741**

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. During the year ended 31 December 2011, HK$1,200,000,000 (2010: HK$2,000,000,000) was transferred from share premium account to retained earnings.

(b) The capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares issued by the Company as consideration for share exchange on merger in previous years.

(c) 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%, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries.

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

30 Retained earnings — Group and Company

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**6,750,380**	3,958,254	**1,458,462**	693,895
2010/2009 final dividends paid	**(856,953)**	(731,588)	**(856,953)**	(731,588)
2011/2010 interim dividends paid	**(737,381)**	(734,531)	**(737,381)**	(734,531)
Profit for the year	**2,648,839**	2,438,328	**19,684**	230,686
Appropriation to statutory reserves	**(276,304)**	(180,083)	**—**	—
Transfer from share premium account	**1,200,000**	2,000,000	**1,200,000**	2,000,000
At 31 December	**8,728,581**	6,750,380	**1,083,812**	1,458,462

31 Bank borrowings — Group and Company

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current				
Long-term bank loans — unsecured	**403,735**	1,497,050	**40,000**	476,000
Current				
Trust receipt bank loans	**520,015**	207,102	**—**	—
Current portion of long-term bank loans — unsecured	**1,266,713**	692,432	**346,000**	—
Short-term bank loans — unsecured	**5,027,900**	2,915,657	**1,514,000**	1,254,000
	6,814,628	3,815,191	**1,860,000**	1,254,000
Total bank borrowings	**7,218,363**	5,312,241	**1,900,000**	1,730,000

As at 31 December 2011, the effective interest rate of the Group's borrowings is approximately 2.03% (2010: 1.74%) per annum.

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For the year ended 31 December 2011

31 Bank borrowings — Group and Company *(continued)*

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$	**5,188,557**	3,960,328	**1,900,000**	1,730,000
US$	**2,026,413**	1,349,375	**—**	—
RMB	**3,393**	2,538	**—**	—
	7,218,363	5,312,241	**1,900,000**	1,730,000

At 31 December 2011, the Group's long-term bank borrowings are repayable as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 1 year	**1,266,713**	692,432	**346,000**	—
Between 1 and 2 years	**403,735**	1,349,155	**40,000**	476,000
Between 3 and 5 years	**—**	147,895	**—**	—
Wholly repayable within 5 years	**1,670,448**	2,189,482	**386,000**	476,000

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

The Group had the following undrawn bank borrowing facilities:

	Group	
	2011	2010
	HK$'000	HK$'000
Undrawn bank borrowing facilities	**6,482,443**	4,286,521

32 Deferred income tax – Group

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

	2011 HK$'000	2010 HK$'000
Deferred income tax assets		
— Deferred tax asset to be recovered within 12 months	131,110	98,213
Deferred income tax liabilities		
— Deferred tax liability to be settled after more than 12 months	42,809	46,324
— Deferred tax liability to be settled within 12 months	138,094	126,313
	180,903	172,637
Deferred income tax liabilities — net	(49,793)	(74,424)

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	
	2011 HK$'000	2010 HK$'000
At 1 January	98,213	89,395
Exchange differences	5,452	3,243
Credited to consolidated income statement (Note 9)	27,445	5,575
At 31 December	131,110	98,213

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32 Deferred income tax – Group *(continued)*

Deferred income tax liabilities:

	Withholding tax on unremitted earnings in PRC subsidiaries		Tax effect of fair value adjustments on assets recognised upon business combination		Total	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1 January	**122,800**	62,126	**49,837**	53,350	**172,637**	115,476
Exchange difference	**6,207**	3,549	**—**	—	**6,207**	3,549
Charged/(credited) to consolidated income statement (Note 9)	**5,573**	57,125	**(3,514)**	(3,513)	**2,059**	53,612
At 31 December	**134,580**	122,800	**46,323**	49,837	**180,903**	172,637

Deferred income tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred tax assets of HK$1,960,000 (31 December 2010: HK$680,000) in respect of losses amounted to HK$7,837,000 (31 December 2010: HK$2,717,000) that can be carried forward against future taxable income as at 31 December 2011. The unrecognised tax losses will expire up to 2016.

Deferred income tax liabilities of HK$258,360,000 (2010: HK$110,300,000) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. The unremitted earnings are permanently reinvested. Unremitted earnings totalled HK$5,167,200,000 at 31 December 2011 (31 December 2010: HK$2,206,000,000).

33 Trade and other payables — Group and Company

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**1,881,313**	1,318,908	**8**	109,756
Other payables and accrued charges				
— Payables for property, plant and equipment	**511,586**	240,703	**13,444**	5,665
— Accrued expenses	**170,622**	176,231	**—**	—
— Advance receipts from customers	**131,706**	165,293	**—**	—
— Staff salaries payables	**94,528**	52,147	**—**	—
— Other tax payables	**22,175**	13,921	**—**	—
— Others	**38,359**	11,401	**—**	—
	968,976	659,696	**13,444**	5,665
Trade and other payables	**2,850,289**	1,978,604	**13,452**	115,421

33 Trade and other payables — Group and Company *(continued)*

At 31 December 2011, the ageing analysis of trade payables is as follows:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 30 days	**1,002,675**	707,931	**8**	43,426
31–180 days	**851,895**	589,328	**—**	66,330
181–365 days	**14,930**	14,119	**—**	—
Over 365 days	**11,813**	7,530	**—**	—
	1,881,313	1,318,908	**8**	109,756

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

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

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
RMB	**1,044,565**	693,488	**—**	—
US$	**827,531**	584,206	**—**	105,237
Other currencies	**9,217**	41,214	**8**	4,519
	1,881,313	1,318,908	**8**	109,756

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34 Notes to the consolidated cash flow statement

(a) Cash generated from operations

	2011 HK$'000	2010 HK$'000
Profit before income tax	**3,255,375**	3,038,367
Depreciation of property, plant and equipment (Note 14)	**414,783**	356,622
Amortisation of land use rights (Note 16)	**18,556**	17,958
Amortisation of intangible assets (Note 17)	**10,030**	9,923
Unrealised fair value losses on derivative financial instruments (Note 6)	**1,611**	136
Loss on disposal/write-off of property, plant and equipment and land use rights (Note 6)	**2,285**	4,802
Share-based compensation expenses (Note 28)	**23,738**	24,699
Amortisation of deferred income on government grants (Note 7)	**(1,701)**	(1,616)
Interest income and other finance income	**(252,662)**	(110,460)
Finance costs (Note 8)	**147,807**	71,393
Operating profit before working capital changes	**3,619,822**	3,411,824
Increase in inventories	**(36,593)**	(503,520)
Increase in trade and bills receivables, other receivables, deposits prepayments and deposits	**(435,105)**	(717,993)
Increase in trade payables, other payables and accrued charges	**757,501**	476,869
Cash generated from operations	**3,905,625**	2,667,180

(b) Proceeds from disposal of property, plant and equipment and land use rights

	2011 HK$'000	2010 HK$'000
Net book value (Note 14 and Note 16)	**12,484**	10,479
Losses on disposal/write off of property, plant and equipment and land use rights (Note 6)	**(2,285)**	(4,802)
Proceeds from disposal of property, plant and equipment and land use right	**10,199**	5,677

35 Contingent liabilities

At 31 December 2011, the Group had no material contingent liabilities (2010: Nil).

36 Commitments

At 31 December 2011, the Group had the following commitments:

(a) Capital commitments

	Group	
	2011	2010
	HK$'000	HK$'000
Contracted but not provided for in respect of:		
Machinery and equipment	**706,466**	707,244
Leasehold land and buildings	**809,980**	406,346
Land use rights	**2,795**	2,663
	1,519,241	1,116,253
Authorised but not contracted for in respect of:		
Leasehold land and buildings	**291,549**	656,210
Total capital commitment	**1,810,790**	1,772,463

(b) Commitments under operating leases

At 31 December 2011, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land use rights and buildings	
	2011	2010
	HK$'000	HK$'000
Not later than 1 year	**36,254**	25,497
Later than 1 year and not later than 5 years	**8,257**	8,861
	44,511	34,358

The Company did not have significant commitment as at 31 December 2011 and 2010.

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37 Significant related party transactions — Group

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

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following significant related party transactions during the year ended 31 December 2011:

	2011	2010
	HK$'000	HK$'000
Purchases from Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power")		
— electricity energy	**143,549**	92,601
— heat energy	**88,436**	65,334
	231,985	157,935
Key management compensation		
Basic salaries, housing allowances, other allowances and benefits-in-kind	**14,672**	13,384
Share-based compensation	**921**	2,392
Contributions to pension schemes	**71**	68
	15,664	15,844

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

38 Principal subsidiaries

The following is a list of the principal subsidiaries of the Company at 31 December 2011 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 2011 %
Direct subsidiaries:				
Hengan Mega Jumbo Investments Ltd.	Hong Kong, limited liability company	Investment holding, trading and procurement in Hong Kong	1 ordinary share of HK$1 each	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:				
Hengan (China) Investment Co., Ltd.	PRC, wholly foreign-owned enterprise	Investment holding in the PRC, trading and procurement in the PRC	RMB800,000,000	100
Hengan Industrial (Hong Kong) Limited	Hong Kong, limited liability company	Trading and procurement in Hong Kong	2 ordinary shares of HK$1 each	100
Hengan Pharmacare Company Limited	Hong Kong, limited liability company	Trading, procurement and distribution of hygiene products in Hong Kong	10,000 ordinary shares of HK$1 each	70
Fujian Hengan Holding Xiamen Business Trade Co., Ltd	PRC, sino-foreign equity joint venture	Trading in the PRC	RMB100,000,000	100
Fujian Hengan Holding Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB511,407,600	99.02
Guangzhou Xingshi Professional Equipments Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene equipments 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
Hengan (Jiangxi) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	HK$6,958,000	100

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38 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 2011 %
Indirect subsidiaries: *(continued)*				
Hengan (Shaanxi) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB3,980,000	100
Hengan (Sichuan) Hygiene Products Co. Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$1,380,000	100
Hengan (Tianjin) Hygiene Supplies Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$3,000,000	100
Hengan (Weifang) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$3,410,000	100
Fujian Hengan Hygiene Material Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sales of personal hygiene materials in the PRC	US$40,000,000	100
Jinjiang Hengan Antimicrobial Science and Technology Development 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) Household Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$3,000,000	100
Hengan (Weifang) Household Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	HK$10,000,000	100
Hengan (Xiaogan) Family Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	HK$10,000,000	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$12,000,000	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

38 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 2011 %
Indirect subsidiaries: *(continued)*				
Hengan (Hubei) Household Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB33,600,000	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$20,000,000	100
Hengan (Shangyu) Hygiene Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$5,000,000	100
Hengan (Hefei) Living Co., Ltd.	PRC, sino-foreign foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB114,300,000	100
Hunan Hengan Paper Co., Ltd	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$39,980,000	100
Hengan (Chongqing) Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	HK$2,500,000	100
Hengan (China) Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$98,880,000	100
Hengan (China) Hygiene Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$12,000,000	100
Hengan Zhejiang Paper Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$30,000,000	100
Hengan (Tianjin) Paper Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB80,900,000	100
Hengan Guangxi Paper Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$161,400,000	100

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38 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 2011 %
Indirect subsidiaries: *(continued)*				
Hengan (Hubei) Hearttex Paper Products Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB32,000,000	100
Hengan (Hunan) Tissue Paper Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB79,000,000	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	RMB402,280,000	100
Hengan (Chongqing) Living Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB409,200,000	100
Hengan (Shaanxi) Paper Products Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$9,980,000	100
Jinjiang Hengan Hearttex Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$12,000,000	100
Jinjiang Hengan Household Tissue Products 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$49,800,000	100
Shandong 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$35,880,000	100
Chongqing Hengan Hearttex Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$6,000,000	100
Fushun Hengan Hearttex Paper Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$3,000,000	100

38 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 2011 %
Indirect subsidiaries: *(continued)*				
Fushun Hengan Tissue Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$3,000,000	100
Hengan Wuhu Paper Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB204,000,000	100
Hengan (Henan) Hygiene Products Co., Ltd	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB82,000,000	100
恒安（昌吉）紙業有限公司	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB82,000,000	100
Hengan (Zhejiang) Homecare Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Distribution and sale of packaged tissue paper and personal hygiene products in the PRC	USD35,000,000	100
Hengan Li Ren Tang (Jian) Cosmetics Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of skin care products and daily personal necessities in the PRC	RMB32,000,000	70
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$580,000	100
Junichi Co., Ltd	Japan, limited liability company	Trading the products for ladies and babies in Japan	JPY100,000	100
廈門恒安物業有限公司	PRC, limited liability company	Property management in the PRC	RMB500,000	100
QinQin Foodstuffs Group Company Limited	British Virgin Islands limited liability company	Investment holding in Hong Kong	135,946,900 Ordinary shares of HK$0.001 each	51
QinQin Foodstuffs Group (Hong Kong) Limited	Hong Kong limited liability	Investment holding in Hong Kong	1 ordinary share of HK$1 each	51

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For the year ended 31 December 2011

38 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 2011 %
Indirect subsidiaries: *(continued)*				
Fushun Nanfang Food Industry Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB10,000,000	51
Fushun QinQin Food Industry Development Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB22,000,000	51
Luohe Linying QinQin Food Industry Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB10,000,000	51
Qin Qin Incorporated Co., Ltd. (Fujian)	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB70,000,000	51
Quanzhou QinQin Foodstuff Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of snack foods in the PRC	RMB130,000,000	51
Taian QinQin Food Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB5,000,000	51
Xiantao QinQin Food Industry Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB10,000,000	51
Xianyang Qin Qin Foods Stuff Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of snack foods in the PRC	RMB5,000,000	51
Qin Qin Business Trade Co., Ltd	PRC, limited liability company	Trading and procurement in PRC	RMB5,000,000	51

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2011.