恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044

ANNUAL REPORT 2013

CORPORATE MISSION

"GROWING WITH YOU FOR A BETTER LIFE"

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

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Loo Hong Shing Vincent *FCCA, AHKSA*

AUTHORISED REPRESENTATIVES

Hui Lin Chit
Loo Hong Shing Vincent

LEGAL ADVISERS

Hong Kong
Richards Butler

PRC
Global Law Office

Cayman Islands
Maples and Calder Asia

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

REGISTERED OFFICE

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

HEAD OFFICE

Hengan Industrial City
Anhai Town
Jinjiang City
Fujian Province
PRC

PLACE OF BUSINESS IN HONG KONG

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

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock Code: 1044

WEBSITES

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

PRINCIPAL BANKERS

Bank of China (Hong Kong)
The Hong Kong & Shanghai Banking Corporation Limited
China Merchants Bank
Industrial and Commercial Bank of China
Hua Xia Bank

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

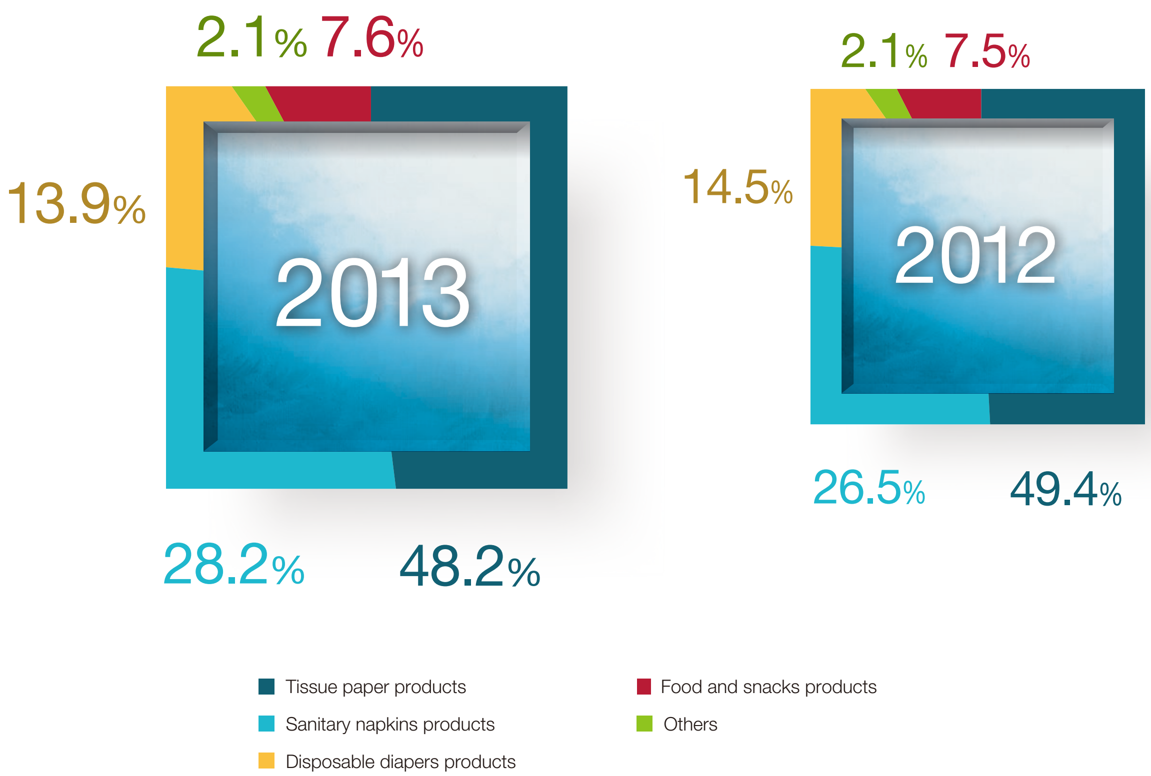
INVESTORS AND MEDIA RELATIONS

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

FINANCIAL HIGHLIGHTS

	2013	2012	2011	2010	2009
Net profit margin — based on profit attributable to shareholders of the Company (%)	**17.6**	19.0	15.5	18.2	19.5
Earnings per share (HK$)	**3.024**	2.863	2.160	1.996	1.770
Finished goods turnover (days)	**55**	47	44	54	58
Trade receivables turnover (days)	**35**	37	35	31	28
Current ratio (times)	**1.6**	1.5	1.4	1.8	1.9
Gross gearing ratio (%)	**117.5**	79.8	58.5	50.6	30.3
Net gearing ratio (%)	**(5.8)**	(1.1)	(10.8)	(13.9)	(24.3)

ANALYSIS OF REVENUE BY PRODUCT



FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS — FOR THE YEAR ENDED 31 DECEMBER

	2013 HK$'000	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000
Revenue	**21,186,368**	18,524,233	17,050,557	13,431,688	10,833,839
Profit before income tax	**5,015,471**	4,538,954	3,255,375	3,038,367	2,582,729
Income tax expense	**(1,244,889)**	(1,001,235)	(569,929)	(551,950)	(415,706)
Profit for the year	**3,770,582**	3,537,719	2,685,446	2,486,417	2,167,023
Non-controlling interests	**(49,551)**	(19,014)	(36,607)	(48,089)	(49,514)
Profit attributable to shareholders of the Company	**3,721,031**	3,518,705	2,648,839	2,438,328	2,117,509
Earnings per share (HK$)	**3.024**	2.863	2.160	1.996	1.770

REVENUE

HK$ million

PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

HK$ million

CONSOLIDATED ASSETS AND LIABILITIES — AS AT 31 DECEMBER

	2013 HK$'000	2012 HK$'000	2011 HK$'000	2010 HK$'000	2009 HK$'000
Assets					
Property, plant and equipment	8,627,200	7,815,553	5,203,336	4,519,090	3,535,811
Construction-in-progress	1,204,372	1,301,331	2,053,903	665,130	808,410
Land use rights	1,105,298	1,032,792	850,365	613,982	397,541
Intangible assets	581,150	590,822	601,212	606,508	616,384
Prepayments for non-current assets	379,463	275,625	439,325	537,714	428,913
Deferred income tax assets	157,511	152,116	131,110	98,213	89,395
Cash and bank balances	19,563,983	9,544,379	8,258,202	5,989,024	4,449,674
Long-term bank deposits	814,042	1,845,231	296,040	786,274	468,597
Other current assets	7,757,468	6,646,967	5,485,587	4,761,445	3,353,214
Total assets	40,190,487	29,204,816	23,319,080	18,577,380	14,147,939
Liabilities					
Long-term bank borrowings	959,643	3,787,218	403,735	1,497,050	555,031
Convertible bonds	5,227,130	–	–	–	–
Deferred income tax liabilities	169,146	185,801	180,903	172,637	115,476
Deferred income on government grants	929	2,070	3,807	5,281	5,104
Current liabilities	16,914,973	10,821,487	10,011,888	6,076,880	4,175,345
Total liabilities	23,271,821	14,796,576	10,600,333	7,751,848	4,850,956
Non-controlling interest	385,070	330,048	377,334	322,345	279,977
Net assets attributable to shareholders of the Company	16,533,596	14,078,192	12,341,413	10,503,187	9,017,006

EARNINGS PER SHARE

HK cents


"HEARTTEX" WET TISSUES
"ANERLE" AND "Q-MO" BABY DIAPERS
"HEARTTEX" AND "PINO" BOX TISSUE PAPER
"ANERLE", "ANLE" AND "DORIA" SANITARY NAPKINS AND PANTILINERS
"BANITORE" FIRST-AID PRODUCTS AND "BENDI" ENEMA


"HEARTTEX" KITCHEN TOWELS
"ELDERJOY" ADULT DIAPERS
"HEARTTEX" AND "PINO" TOILET ROLLS
"HEARTTEX" AND "PINO" POCKET HANDKERCHIEFS
"QINQIN" SNACK FOOD PRODUCTS
"HEARTTEX" PRESERVATION BAGS/PAPER
"JUNICHI" BABY SKIN CARE PRODUCTS AND "MISSMAY" SKIN CARE AND CLEANSING 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 its annual results for the year ended 31 December 2013. During the year under review, both Europe and the United States experienced gradual economic recovery while China maintained steady economic growth by stepping up a series of measures. Continuing economic growth and urbanization boosted personal incomes in both the urban and rural areas of China, and led to rising living standard and awareness of hygiene. This is conducive to the development of markets for high-quality personal and household hygiene products, for which Hengan International is well known as an industry leader in the country. The Group leverages its solid fundamentals, strong brand and economies of scale, and adopts effective cost control measures to cope with the changes in the market environment. With these advantages, the Group seeks steady business growth by capturing the opportunities in the flourishing market.

For the year ended 31 December 2013, the Group's revenue rose by about 14.4% to approximately HK$21,186,368,000 (2012: HK$18,524,233,000). Profit attributable to shareholders increased by about 5.8% to approximately HK$3,721,031,000 (2012: HK$3,518,705,000). Basic earnings per share were approximately HK$3.024 (2012: HK$2.863). The Board of Directors recommended the payment of a final dividend of HK$1.00 per share (2012: HK$0.95), which together with the interim dividend of HK$0.85 per share (2012 1H: HK$0.75), brings the annual dividend to HK$1.85 per share (2012: HK$1.70).

During the year, the tissue paper business continued to be the Group's major revenue source, accounting for approximately 48.2% of its total revenue. The businesses of sanitary napkin and disposable diaper recorded satisfactory growth, and accounted for approximately 28.2% and 13.9% respectively of the Group's total revenue. Food and snacks products business has regained growth momentum, accounting for 7.6% of the Group's total revenue.

With integrity, diligence, innovation and dedication as its corporate values, Hengan International aims to provide better personal and household hygiene products to the general public and improve the quality of life through product innovation and business expansion. In 2013, the Group was listed as "Forbes Asia's Fabulous 50" and "Top 500 Private Firms for 2013" in recognition of its outstanding performance and market position.

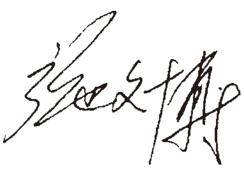
Looking ahead to 2014, we expect that the imminent economic recovery in Europe and the United States will lead to the revival of global trade and economic development, and will also benefit China's economy. Consistent growth in personal income and accelerating urbanization will also pave the way for the growth in China's market for personal hygiene products. In addition, China starts to relax its one-child policy, and the move's beneficial effects on the baby products market will gradually become manifest from the fourth quarter of 2014 onwards. To seize the opportunity in the growing market, the Group will continue to step up product promotion and develop markets with good potential. With our extensive distribution network and proactive business expansion strategy, the Group is confident of maintaining steady growth and its industry leadership in China on the back of the country's steady economic growth.

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

REVENUE BY REGIONS IN MAINLAND CHINA

	2013	2012
NORTH-WESTERN		
Sales Value: (HK$ million)	**1,247**	996
Percentage of Total Sales:	**5.9%**	5.4%
NORTHERN		
Sales Value: (HK$ million)	**2,496**	1,874
Percentage of Total Sales:	**11.8%**	10.1%
NORTH-EASTERN		
Sales Value: (HK$ million)	**1,445**	1,487
Percentage of Total Sales:	**6.8%**	8.0%
SHANDONG		
Sales Value: (HK$ million)	**2,143**	1,875
Percentage of Total Sales:	**10.1%**	10.1%

	2013	2012
EASTERN		
Sales Value: (HK$ million)	**3,248**	2,822
Percentage of Total Sales:	**15.3%**	15.2%
CENTRAL		
Sales Value: (HK$ million)	**2,618**	2,185
Percentage of Total Sales:	**12.4%**	11.8%
FUJIAN AND GUANGDONG		
Sales Value: (HK$ million)	**3,629**	3,305
Percentage of Total Sales:	**17.1%**	17.8%
SOUTH-WESTERN		
Sales Value: (HK$ million)	**1,086**	997
Percentage of Total Sales:	**5.1%**	5.4%
SICHUAN		
Sales Value: (HK$ million)	**1,898**	1,589
Percentage of Total Sales:	**9.0%**	8.6%



Sze Man Bok
Chairman

Hong Kong, 25 March 2014

CHIEF EXECUTIVE OFFICER'S REPORT

HUI LIN CHIT
Chief Executive Officer

Dear shareholders,

In 2013, the global economy remained complicated but was improving. Although the United States and Europe had yet to solve their economic problems, their economies seemed to have bottomed, with the former recovering slowly while the latter showing signs of stabilization. In response to the complex global economic situation, the Chinese government implemented various measures to foster its own economic development, and succeeded in maintaining steady growth. According to the data from the National Bureau of Statistics of China, the country's gross domestic product grew by 7.7% year on year to RMB56,884.5 billion in 2013. Thanks to the country's continuous economic growth and rapid urbanisation, its urban and rural residents' income have been growing. The improving living standard and people's increasing awareness of health and hygiene have promoted the development of the markets for high-quality personal care and family hygiene products. Nevertheless, market competition is also intensifying at the same time. As the leading company in the markets for personal care and family hygiene products in mainland China, the Group draws on its economies of scale and adopts effective cost-control measures to overcome the challenges brought by the changing market environment and achieve steady growth in business.

For the year ended 31 December 2013, the Group's revenue increased by about 14.4% to approximately HK$21,186,368,000 (2012: HK$18,524,233,000). Profit attributable to shareholders grew by about 5.8% to approximately HK$3,721,031,000 (2012: HK$3,518,705,000). The Board of Directors declared a final dividend of HK$1.00 (2012: HK$0.95).

During the year, the pressure from slight increase in raw material prices and negative impact of intensified market competition were offset by the Group's optimized product portfolio, effective cost control measures and enhanced economies of scale that resulted from business expansion. The overall gross profit margin of the Group was approximately 45.1% (2012: 44.9%), which remained fairly stable as compared with that of the previous year. During the year, distribution costs and administrative expenses increased and accounted for approximately 24.8% (2012: 22.3%) of turnover, mainly due to the increased investment in marketing and brand promotion as well as research and development.

TISSUE PAPER

Mainland China's market for high-quality tissue paper was expanding on the back of rising living standard and increasing awareness of health and hygiene. However, the country's annual tissue paper consumption per capita is still far behind that of other developed countries, indicating enormous market potentials. In order to capture the opportunity, the country's tissue-paper production capacity investment has been increasing, thus resulting in over capacity and intensifying competition in the short term.

In 2013, the Group's tissue paper business launched upgraded products and continued to take advantage of the Group's brand and sales network as its development strategy to drive sales growth. The Group strengthened marketing and brand promotion in the second half of the year to cope with the intensified competition, which had restricted the growth in the tissue paper business. The total revenue from the sales of the Group's tissue paper increased by approximately 11.6% to approximately HK$10,204,020,000, accounting for approximately 48.2% of the total revenue (2012: 49.4%). In 2013, the Group's revenue from tissue paper sales in the mainland China market increased by approximately 14.2% Nevertheless, the raw paper export sales, which had a lower margin relatively, saw a double-digit decline in revenue due to keen price competition and hence dragged down the growth rate of total revenue.

In 2013, the gross profit margin of the tissue paper business dropped to approximately 34.1% (2012: 35.4%), reflecting the increase in production costs as a result of the slight increase in prices of tissue wood pulp, the major raw material for manufacturing tissue paper, in the second half of the year, and enhanced efforts in marketing and brand promotion campaigns. As the global supply of tissue wood pulp will begin to rise in 2014, the management expects that the upward pressure of raw material costs could be eased in the second half of 2014.

For the year ended 31 December 2013, the Group did not add any new production line. The annualised production capacity is expected to be approximately 900,000 tons. It is the Group's plan to increase the annualised production capacity by around 360,000 tons in the second half of 2014 and 120,000 tons in 2015. With new additional production capacity gradually bringing on stream, the management now consider beginning overseas market expansion in the second quarter of 2014 while consolidating its presence in mainland China in order to increase sales revenue.

SANITARY NAPKINS

Accelerating urbanization and rising living standard continue to catalyze the growth of the sanitary napkin market, and increase the product's market penetration rate. This has also attracted foreign competitors to the market. To capture the opportunity for growth, the Group continued to invest in product development, product mix enhancement and promoting its brand, with an aim of boosting the business segment's sales growth.

During the year, the Group's sanitary napkin business grew steadily, with an about 21.5% increase in revenue to approximately HK$5,972,695,000, which accounted for around 28.2% of the total revenue (2012: 26.5%). The Group continued to increase the proportion of mid-priced and high-end products in sales during the year. The gross profit margin of the sanitary napkin business was approximately 66.3% (2012: 65.8%), which remained fairly stable as compared with that of the previous year. This reflected the fact that the pressure from slight increase in raw material prices and negative impact of intensified market competition were offset by the optimisation of product portfolio. Looking ahead, the Group will continue to focus on product innovation, optimize the product mix, improve product quality and increase the sales of mid-priced and high-end products in order to satisfy the demand.

DISPOSABLE DIAPERS

Mainland China's steady economic growth and urbanization, and people's increasing awareness of personal hygiene continue to boost the demand for diaper products. The market penetration rate for diaper products in the country is still low, implying enormous growth potential. Moreover, the Chinese government has adopted a policy of allowing couples to have two children if one of the parents is an only child. This will be conducive to the expansion of the disposable diaper market.

In 2012, the sales of the upgraded versions of diapers were not satisfactory due to the overstocking of the old version products in various distribution channels. Nonetheless, as the inventories of the old versions in the distribution channels were substantially cleared in the first quarter of the year, and the upgraded version products were well accepted by the market, the Group's diaper sales recovered with a growth of about 9.4% to approximately HK$2,938,186,000 in 2013, accounting for approximately 13.9% of the total revenue (2012: 14.5%).

The Group's efforts in strengthening marketing and promotion of mid-price and high-end diaper products, together with the introduction of new products series ("拉拉褲") in the fourth quarter of 2013, resulted in an increase of approximately 17.9% in sales revenue of the mid-priced and high-end diaper products. On the other hand, revenue from sales of low-end diapers decreased by approximately 10.6% as market competition remained fierce. The higher proportion of mid-end and high-end products with higher margins in sales offset the impact of the slight increase in raw material prices during the year. Gross profit margin of the Group's disposable diapers business increased to approximately 44.5% (2012: 42.9%).

Promotion of brand and products plays a key role in boosting the sales of diaper products. Apart from strengthening the existing distribution network management during the year, the Group also actively expanded its presence in new distribution channels by entering various maternity stores and expanding online sales network on a number of platforms, including "yhd.com", "Tmall" and "JD.com", in order to gain more comprehensive market coverage. With the implementation of the above measures, the management is cautiously optimistic about grasping the market opportunities which will arise from China's loosened birth control policy and the products' increasing market penetration.

FOOD AND SNACKS PRODUCTS

The impact of the media exposure of application of industrial gelatine in food in 2012 on the snack industry abated in 2013, and the Group's food and snacks business recovered. In 2013, revenue of the Group's business of food and snacks products grew by about 15.7% to approximately HK$1,604,655,000, accounting

for approximately 7.6% of the Group's total revenue (2012: 7.5%). Owing to the decline in costs of major raw materials such as sugar and palm oil during the year, the gross profit margin of the Group's snacks business increased to approximately 42.3% (2012: 38.2%).

As quality of living in mainland China improves, the Group believes that the snack business in the long term will keep booming. In 2014, the Group will continue to commit resources to enriching its product portfolio so that it will be able to cater to the different tastes of consumers, and boost the revenue growth of its snack business.

FIRST AID PRODUCTS

Revenue of the Group's first-aid product business under the brands of "Banitore" and "Bandi" amounted to approximately HK$44,391,000 (2012: HK$37,473,000). As the business only accounted for approximately 0.2% (2012: 0.2%) of the Group's total revenue, it did not have any significant impact on the Group's overall results.

APPOINTMENT OF PROFESSIONAL CONSULTANTS

To further optimize the operation process of supply chains, logistics networks, inventory management and information technology planning, the Group engaged IBM China Company Limited in March 2014 to provide professional recommendations in regard to the above aspects.

In addition, the Group also appointed Yonyou Software Co., Ltd. to update and improve Hengan's information systems, including system upgrades, enhancement of information systems management for sales networks and production process, as well as construction of electronic warehouse system, in order to support the evolving business in the future.

PRODUCT RESEARCH AND DEVELOPMENT

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

LATEST AWARDS

In 2013, the Group was named by Forbes Magazine as one of the "Forbes Asia's Fabulous 50" and also scooped a number of other awards, including "Top 500 Private Firms for 2013" and a charity award from All-China Federation of Industry & Commerce and World Federation of Jin Jiang Clan, respectively. The Group won these awards in recognition of its outstanding performance and market position. The Group will keep fulfilling its obligations and social responsibility in the future.

LIQUIDITY, FINANCIAL RESOURCES AND BANK LOANS

The Group maintained a solid financial position. On 27 June 2013, the Group completed the issue of HK$5,434,000,000 zero-coupon convertible bonds due 2018. The Directors intended to use the net proceeds to finance the capital expenditure of the Group, to refinance a portion of the Group's bank borrowings and for working capital and general corporate purposes.

As at 31 December 2013, the Group's cash and bank balances, long-term bank deposits and restricted bank deposits amounted to approximately HK$20,438,069,000 in total (31 December 2012: HK$11,452,149,000); convertible bonds liability portion amounted to approximately HK$5,227,130,000 (31 December 2012: Nil), and bank borrowings amounted to approximately HK$14,192,557,000 (31 December 2012: HK$11,227,796,000).

The convertible bonds were subject to a fixed interest rate of 2.7% while the bank borrowings were subject to floating annual interest rates ranging from approximately 1.0% to 5.0% (2012: 1.0% to 4.8%). As at 31 December 2013, apart from the cash of HK$60,044,000 (31 December 2012: HK$62,539,000) deposited 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 2013, the Group's gross gearing ratio was approximately 117.5% (2012: 79.8%), which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including non-controlling interests). The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term time deposits as a percentage of the shareholders' equity (not including minority interests), was approximately negative 5.8% (2012: negative 1.1%) as the Group was in a net cash position.

During the year, the Group's capital expenditure amounted to approximately HK$1,200,581,000. As at 31 December 2013, the Group had no material contingent liabilities.

HUMAN RESOURCES AND MANAGEMENT

As at 31 December 2013, the Group employed approximately 34,000 staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and career opportunities according to their needs and capabilities.

FOREIGN CURRENCY RISKS

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

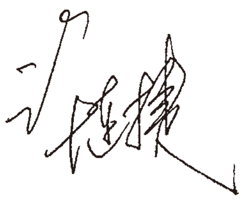
As at 31 December 2013, apart from certain exchange rate swap contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

OUTLOOK

Looking ahead to 2014, the economic improvement of Europe and the US will be favourable to the recovery of global trading. This will set the tone for the development of the world's economy and will be conducive to China's steady economic growth. China's rising per capita income and accelerating urbanization will lay a solid foundation of the development of its market for personal hygiene products. Although the rapid increase in production capacity has led to intensified competition in the tissue paper market in the short term, the people's rising awareness of personal hygiene will support the growth in the market for high-quality hygiene products in the long run. Meanwhile, the Chinese government's loosened birth control policy will start to benefit the development of baby product market from the fourth quarter of 2014 onwards.

In view of the current market situation, the Group will continue to strengthen product promotion and tap markets with potential for growth. In addition to its plan to expand production capacity of the core businesses, the Group will consider expanding its business overseas with its increased production capacity. It will also improve product quality and management efficiency in order to increase its brand influence, market share and overall competitiveness. Meanwhile, the Group will continue to monitor closely the price trends of raw materials and promptly optimize its product mix according to the changes in the market with a view to improving its gross profit margin.

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



Hui Lin Chit
Chief Executive Officer

Hong Kong, 25 March 2014

DIRECTORS AND SENIOR MANAGEMENT PROFILES

DIRECTORS

Executive Directors

Mr. Sze Man Bok, aged 64, is the Chairman of the Group. He is responsible for the Group's overall corporate direction and business strategy. Mr. Sze is one of the founding shareholders and a member of the Nomination Committee of the Company. He is the father of Mr. Sze Wong Kim, a Director of the Company.

Mr. Hui Lin Chit, aged 60, is the Deputy Chairman and Chief Executive Officer of the Group. He is responsible for strategic planning, human resources and the overall management of the Group. Mr. Hui is one of the founding shareholders of the Company, and is also a member of Nomination Committee and Remuneration Committee. Mr. Hui has the title of senior economist in the People's Republic of China ("PRC") and is a deputy chairman of All-China General Chamber of Industry and Commerce and also Political Consultative Conference in Quanzhou City. He is also the deputy chairman of Fujian Province Industry and Trade Association and the chairman of Quanzhou City Trade Association. During 1998 to 2012, Mr. Hui was a member of the Ninth, Tenth and Eleventh National Committee of the Chinese People's Political Consultative Conference. During 1997 to 2011, he was also a member of the Executive Committee (the Eighth) and Standing Committee (the Ninth), and deputy chairman (the Tenth) of All-China Federation of Industry and commerce. He is the father of Mr. Hui Ching Chi, a Director of the Company.

Mr. Hung Ching Shan, aged 64, is responsible for supervising the Group's purchasing tender assignments. He has over 35 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 44, was appointed as Deputy Chief Executive Officer of the Group on 26 March 2013. He is also 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 29 years of experience in operation management and business development. He graduated from business administration department in the HuaQiao University and holds the title of economist in the PRC. Mr. Xu is a younger brother of Mr. Xu Da Zuo and Mr. Xu Lian Pi, a Director and a senior officer of the Company respectively.

Mr. Xu Da Zuo, aged 47, 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 29 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 39, is responsible for the Group's overall business development strategy. He joined the Group after graduating from Fujian Jinjiang Vocational Institute in 1991. Mr. Xu has over 23 years of experience in business development and customer service management.

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

Mr. Sze Wong Kim, aged 38, 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 29, 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 48, is the Chief Financial Officer, the Company Secretary and authorised representative of the Company. Before joining the Company in 2004, Mr. Loo worked in an international firm of accountants in Hong Kong. He has substantial experience in assurance and business advisory work, company listing and merger and acquisition work in both Hong Kong and the PRC. He graduated from the Hong Kong Polytechnic University and is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He is an independent non-executive director of Goldenmars Technology (HK) Limited, a company listed on the GEM Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Independent Non-Executive Directors

Mr. Chan Henry, aged 48, is an Independent Non-Executive Director of the Company appointed in 1998. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee.

Mr. Chan has over 27 years of experience in the financial market and is the Managing Director of Sanfull Securities Limited. He was a Director of the Stock Exchange and was also a member of the Advisory Committee of the Securities and Futures Commission. Mr. Chan is currently the Permanent Honorary President of Hong Kong Stockbrokers Association Limited, a supervisory committee member of The Chinese Gold & Silver Exchange Society, an independent non-executive director of Luen Thai Holdings Limited, a company listed on the Main Board of the Stock Exchange which engages in the manufacturing and trading of garment and textile products. Mr. Chan is also a committee member of the Chinese People's Political Consultative Conference in Xiamen, Fujian Province, China. Mr. Chan holds a Master degree in Business Administration.

Ms. Ada Ying Kay Wong, JP, aged 54, is an independent Non-executive Director of the Company appointed in 1998. She is also a member of the Audit Committee, Nomination Committee and Remuneration Committee.

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

Mr. Wang Ming Fu, aged 48, is an Independent Non-executive Director of the Company appointed on 1 January 2010. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee. Currently, he is the chairman of the HeJun Consulting Co., Ltd. He was a managing director of Security Research Institute and a general manager of merger and acquisition department of Junan Securities Co., Ltd. from 1993 to 1998, and was an executive director of Institute of Finance and Security, Renmin University of China from 1999 to 2003. He is a director of New Oriental Education Fund from 2007. In addition, he was an independent non-executive director of Shenzhen Airport Co., Ltd. and Hainan Minsheng Gas Corporation. He has been appointed as an independent non-executive director of Beiqi Foton Motor Co., Ltd. since April 2010.

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

Mr. Ho Kwai Ching Mark, aged 52, is an Independent Non-executive Director of the Company appointed on 1 January 2013. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee. He is currently the Chief Operating Officer of Oriental Patron Securities Limited ("OPSL"). Prior to joining OPSL, he was the Chief Compliance Officer of Hong Kong Mercantile Exchange Limited, the Director of Business Development of Sun Hung Kai Securities Limited and a Director of Phillip Securities (HK) Limited. He was also previously Vice President of Corporate Strategy of Hong Kong Exchanges and Clearing Limited and Head of Compliance of Hong Kong Futures Exchange Limited. He has more than 20 years of experience in the securities and futures industry.

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

Mr. Zhou Fang Sheng, aged 64, is an Independent Non-executive Director of the Company appointed on 1 January 2013. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee. He has more than 20 years of management experience. From 1991 to 1997, Mr. Zhou served as deputy division director and division director in State-owned Assets Administration Bureau, and deputy director in Stated-owned Assets Administration Research Institute. From 1997 to 2001, Mr. Zhou worked as deputy director in difficulty relief working office for state-owned enterprises of State Economic and Trade Commission. From 2001 to 2003, Mr. Zhou served as director in State-owned Assets Administration Research Section of Research Institute for Fiscal Science of Ministry of Finance. From 2003 to 2009, Mr. Zhou worked as Vice Counsel in charge of state-owned enterprise restructuring and business management in Enterprise Reform Bureau of State-owned Assets Supervision and Administration Commission of the State Council. Mr. Zhou was appointed as a supervisor of Sinotrans Limited, a company listed on the Main Board of the Stock Exchange on 19 November 2011. He has been also appointed an independent non-executive director of Beijing BDStar Navigation Co., Ltd and China Aviation Optical-Electrical Technology Co., Ltd, companies listed on Shenzhen Stock Exchange, since 16 January 2012 and 13 June 2013 respectively.

Senior Management

Mr. Cheng Yong, aged 49, is the Chief Executive Officer of Qin Qin Incorporated Co. Ltd (Fujian), a non-wholly owned subsidiary of the Group. He is responsible for the overall management, business development and operation of the said subsidiary. Before transferring to that subsidiary, he was the Chief Operating Officer responsible for the Group's daily operation management. Prior to joining the Group in 2001, he worked in some well-known corporations in the PRC and has over 24 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 53, is responsible for the Group's daily operation management. Mr. Xu joined the Group in 1985 and has over 28 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 44, 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 48, 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 25 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 46, 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 28 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 47, 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 29 years of experience in finance and auditing. He graduated from Xiamen University with a degree in finance and has the titles of international certified internal auditor, international certified senior public accountant, certified public account in the PRC, corporate legal consultant, senior economist and financial management economist in the PRC. He is also an affiliated member of the Association of International Accountants.

Ms. Liu Ying, aged 45, 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 27 years of experience in human resources management and administration. Ms. Liu is a graduate from Peking University with a degree in administration management. She has the title of senior economist in the PRC.

Mr. Zhu Jian Shui, aged 39, is the General Manager of Internal Audit Department. He joined the Group in 1998 and has over 18 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 40, 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 18 years of experience in sales and operation management. Mr. Pan graduated from the Huaqiao University specialized in accounting.

Mr. Wang Gui Zhong, aged 40, 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 15 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 51, 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 30 years of experience in marketing promotion and corporate management. Mr. Zhu graduated from the Tianjin Normal University in 1984.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with the applicable code provisions in the Corporate Governance Code (the "Code") set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2013.

BOARD OF DIRECTORS

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

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

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

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

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

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT PROGRAMME

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

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

During the year ended 31 December 2013, all directors of the Company were updated regularly on the Group's business, operations, risk management and corporate governance matters. Materials on new or changes to salient laws and regulations applicable to the Group were provided to the directors. A briefing session was organised for Directors to update them on the new amendments to the inside information provisions of part XIVA of the Securities and Futures (Amendment) Ordinance. All directors are requested to provide the Company with their respective training record.

During the year 2013, the Directors also participated in the following trainings:

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

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

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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

REMUNERATION COMMITTEE

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

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

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

No Directors can determine their own remuneration package. The Committee will meet at least once a year to discharge its responsibilities in accordance with its terms of reference which are set out in accordance with the requirements of the Listing Rules. During the year ended 31 December 2013, one remuneration committee meeting was held.

Directors' emoluments comprise payments to Directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The amounts paid to each Director of the Company for 2013 are showed in Note 13 to the accounts.

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

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

— reviewed and approved the proposed 2013 overall salary increment of the Group.

AUDIT COMMITTEE

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

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

During the year, the Audit Committee 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.

NOMINATION COMMITTEE

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

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

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

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

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

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

In accordance with Article 116 of the Articles of Association of the Company, Mr. Sze Man Bok, Mr. Hui Lin Chit, Mr. Xu Chun Man, Mr. Chan Henry and Ms. Ada Ying Kay Wong will retire office at the Company's annual general meeting, and being eligible, offer themselves for reelection.

Directors' attendance at the Board, Remuneration Committee, Nomination Committee, Audit Committee and general meetings in 2013:

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

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

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

* Being the secretary of the meetings.

AUDITOR'S REMUNERATION

The Group was charged approximately HK$6,768,000 and HK$2,729,000 by the Company's external auditor, PricewaterhouseCoopers, for auditing and non-auditing services respectively for the year ended 31 December 2013. Non-auditing services mainly included services provided for issuance of convertible bonds, 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 2013, the internal audit department of the Group had performed a review to ensure that the recommendations made by the independent international accounting firm, Booz & Company and HMCT had been implemented accordingly and proper internal control policies, procedures and practices were in place.

INVESTOR RELATIONS

(i) Communication with Shareholders

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

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

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

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

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

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

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

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

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

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

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

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

CONSTITUTIONAL DOCUMENTS

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

EMPLOYEES

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

WORKING ENVIRONMENT, HEALTH AND SAFETY

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

EMPLOYEE CULTIVATION AND DEVELOPMENT

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

The Group attaches great importance to the cultivation of professional managers and nurturing of successors, and has pushed the management personnel to proactively cultivate subordinates and create a studying atmosphere through the professional manager cultivation system, hereby effectively cultivating the professional managers and their successors. In 2013, the Group has 406 part-time trainers, lecturing 34,679 hours in total.

ENVIRONMENT PROTECTION AND RESOURCE UTILIZATION

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

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

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

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

SOCIAL RESPONSIBILITIES

The Group actively participates in social public commonweal work. Hengan has established many companies in Central and Western China since 1990s, which provided employment opportunities to over ten thousand people. Moreover, during the past two decades, the Group and its major shareholders had donated a total of over RMB600 million to all kinds of commonweal works and charities. The Group has also donated about HK$15,261,000 in 2013. The Company set up a youth volunteer service team in 2011, which has 136 volunteers so far, and develops voluntary activities for long term.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting herewith their report together with the audited accounts of the Group for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

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

	2013		2012	
	Revenue HK$'000	Contribution to operating profit HK$'000	Revenue HK$'000	Contribution to operating profit HK$'000
Personal hygiene products				
— Sanitary napkins products	**5,972,695**	**2,534,753**	4,915,462	2,128,709
— Disposable diapers products	**2,938,186**	**605,879**	2,685,473	604,135
— Tissue paper products	**10,204,020**	**1,142,008**	9,146,766	1,410,848
Food and snacks products	**1,604,655**	**116,841**	1,387,487	51,603
Others	**466,812**	**4,141**	389,045	46,154
	21,186,368	**4,403,622**	18,524,233	4,241,449

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

	2013		2012	
	Revenue HK$ million	Percentage of total revenue (%)	Revenue HK$ million	Percentage of total revenue (%)
PRC				
Fujian and Guangdong	**3,629**	**17.1**	3,305	17.8
North-western	**1,247**	**5.9**	996	5.4
South-western	**1,086**	**5.1**	997	5.4
Sichuan	**1,898**	**9.0**	1,589	8.6
North-eastern	**1,445**	**6.8**	1,487	8.0
Northern	**2,496**	**11.8**	1,874	10.1
Shandong	**2,143**	**10.1**	1,875	10.1
Eastern	**3,248**	**15.3**	2,822	15.2
Central	**2,618**	**12.4**	2,185	11.8
Overseas	**1,376**	**6.5**	1,394	7.6
	21,186	**100**	18,524	100

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 40.

The Directors declared an interim dividend of HK$0.85 (2012: HK$0.75) per ordinary share, totalling HK$1,046,677,000 (2012: HK$921,776,000), which was paid on 10 October 2013.

The Directors recommend the payment of a final dividend of HK$1.00 (2012: HK$0.95) per ordinary share, totalling HK$1,231,385,000 (2012: HK$1,167,576,000). Such dividend is to be approved by shareholders of the Company at the annual general meeting to be held on 22 May 2014.

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 46.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK$15,261,000 (2012: HK$26,788,000).

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 2013, the reserves of the Company available for distribution to shareholders amounted to HK$1,706,517,000 (2012: HK$1,237,770,000), 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
Mr. Ho Kwai Ching Mark
Mr. Zhou Fang Sheng

In accordance with Article 116 of the Company's Articles of Association, Mr. Sze Man Bok, Mr. Hui Lin Chit, Mr. Xu Chun Man, Mr. Chan Henry and Ms. Ada Ying Kay Wong retire, and being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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

Independent Non-Executive Directors were appointed for a 3-year term. The letters of appointment of Mr. Chan Henry and Ms. Ada Ying Kay Wong shall expire on 16 December 2014, while Mr. Wang Ming Fu, Mr. Ho Kwai Ching Mark and Mr. Zhou Fang Sheng shall expiry on 31 December 2015.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

DIRECTORS' INTERESTS IN CONTRACTS

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

CONTINUING CONNECTED TRANSACTIONS

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

	2013 **HK$'000**	2012 HK$'000
Purchases from Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power")		
— electricity energy	**158,589**	163,466
— heat energy	**101,631**	95,737

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

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

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in page 103 of the Annual Report in accordance with paragraph 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

COMPANY OR ANY ASSOCIATED CORPORATION

At 31 December 2013, the interests of each Director in the shares, short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO and disclosed in accordance with the Listing Rules were as follows:

	Capacity/Nature of Interest Number of shares		Number of unlisted shares (Note (1))		
Name of Directors	Personal interests/ Beneficiary	Family interests	Personal interests/ Beneficiary	Total	Approximate percentage of shareholding
Mr. Sze Man Bok (Note (2))	228,804,599	–	20,000	228,824,599	18.58%
Mr. Hui Lin Chit (Note (3))	224,669,751	–	148,000	224,817,751	18.26%
Mr. Hung Ching Shan (Note (4))	7,000,000	–	20,000	7,020,000	0.57%
Mr. Xu Shui Shen	–	33,030	180,000	213,030	0.02%
Mr. Xu Da Zuo (Notes (5))	19,777,321	–	108,000	19,885,321	1.62%
Mr. Xu Chun Man (Note (6))	14,915,621	–	20,000	14,935,621	1.21%
Mr. Sze Wong Kim	151,700	–	20,000	171,700	0.01%
Mr. Hui Ching Chi	40,000	–	20,000	60,000	0.01%
Mr. Loo Hong Shing Vincent	125,000	–	140,000	265,000	0.02%

Notes:

(1) Unlisted shares represent share options granted to Directors pursuant to share option scheme of the Company and details of which are set out on pages 32 to 36.

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

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

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

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

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

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

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

SHARE OPTION SCHEMES

(1) The terms of the share option 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 107,755,872 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 expired on 2 May 2013, while the 2011 Scheme will remain in force before 26 May 2021.

(2) Details of movements in the share options as at 31 December 2013 which have been granted under the Schemes are as follows:

	Number of share options								
Eligible person	Balance as at 01/01/2013	Granted during the year	Exercised during the year	Reclassified during the year	Cancelled or lapsed during the year	Balance as at 31/12/2013	Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
Directors									
Mr. Sze Man Bok	10,000	–	–	–	–	10,000	72.75	27/07/2012	28/07/2015–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2016–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Hui Lin Chit	74,000	–	–	–	–	74,000	72.75	27/07/2012	28/07/2015–27/07/2022
	37,000	–	–	–	–	37,000	72.75	27/07/2012	28/07/2016–27/07/2022
	37,000	–	–	–	–	37,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Xu Shui Shen	10,000	–	–	–	–	10,000	68.30	28/07/2011	28/07/2014–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2015–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2016–27/07/2021
	80,000	–	–	–	–	80,000	72.75	27/07/2012	28/07/2015–27/07/2022
	40,000	–	–	–	–	40,000	72.75	27/07/2012	28/07/2016–27/07/2022
	40,000	–	–	–	–	40,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Hung Ching Shan	10,000	–	–	–	–	10,000	72.75	27/07/2012	28/07/2015–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2016–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Xu Da Zuo	54,000	–	–	–	–	54,000	72.75	27/07/2012	28/07/2015–27/07/2022
	27,000	–	–	–	–	27,000	72.75	27/07/2012	28/07/2016–27/07/2022
	27,000	–	–	–	–	27,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Xu Chun Man	10,000	–	–	–	–	10,000	72.75	27/07/2012	28/07/2015–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2016–27/07/2022
	5,000	–	–	–	–	5,000	72.75	27/07/2012	28/07/2017–27/07/2022
Mr. Sze Wong Kim	10,000	–	–	–	–	10,000	68.30	28/07/2011	28/07/2014–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2015–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2016–27/07/2021

Eligible person	Number of share options: Balance as at 01/01/2013	Granted during the year	Exercised during the year	Reclassified during the year	Cancelled or lapsed during the year	Balance as at 31/12/2013	Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
Directors									
Mr. Hui Ching Chi	10,000	–	–	–	–	10,000	68.30	28/07/2011	28/07/2014–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2015–27/07/2021
	5,000	–	–	–	–	5,000	68.30	28/07/2011	28/07/2016–27/07/2021
Mr. Loo Hong Shing Vincent									
	85,000	–	(85,000)	–	–	–	25.30	18/07/2007	18/07/2011–02/05/2013
	70,000	–	–	–	–	70,000	72.75	27/07/2012	28/ 07/2015–27/07/2022
	35,000	–	–	–	–	35,000	72.75	27/07/2012	28/07/2016–27/07/2022
	35,000	–	–	–	–	35,000	72.75	27/07/2012	28/07/2017–27/07/2022
Participants	5,000	–	(5,000)	–	–	–	25.05	12/07/2007	12/07/2011–02/05/2013
	2,267,000	–	(2,267,000)	–	–	–	44.30	07/09/2009	07/09/2012–02/05/2013
	1,339,000	–	–	–	(77,000)	1,262,000	68.30	28/07/2011	28/07/2014–27/07/2021
	669,500	–	–	–	(38,500)	631,000	68.30	28/07/2011	28/07/2015–27/07/2021
	669,500	–	–	–	(38,500)	631,000	68.30	28/07/2011	28/07/2016–27/07/2021
	5,571,000	–	–	–	–	5,571,000	72.75	27/07/2012	28/07/2015–27/07/2022
	2,785,500	–	–	–	–	2,785,500	72.75	27/07/2012	28/07/2016–27/07/2022
	2,785,500	–	–	–	–	2,785,500	72.75	27/07/2012	28/07/2017–27/07/2022
	16,853,000	–	(2,357,000)	–	(154,000)	14,342,000			

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	Options granted in 2012 to Directors	Options granted in 2012 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	0.8% per annum	0.8% per annum
Expected volatility	35% per annum	35% per annum	45% per annum	33.3% per annum	33.3% per annum	32.5% per annum	32.5% 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	1.8% per annum	1.8% per annum
Trigger price multiple	2 times	1.5 times	1.5 times	2.2 times	1.6 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	4.8% per annum	27.1% per annum

According to the Binomial Model, the fair value of the options granted, which had been charged to the profit and loss account for the year ended 31 December 2013, amounted to HK$81,441,000 (2012: HK$53,393,000) and the remaining unamortised fair value of approximately HK$160,848,000 will be charged to the consolidated income statement in the future years.

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

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

The register of substantial shareholders maintained under section 336 of part XV of the SFO shows that as at 31 December 2013, 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)	18.53%
Tin Wing Holdings Limited	*(1)*	Interests of controlled corporation	228,228,999 (L)	18.53%
An Ping Holdings Limited	*(2)*	Beneficial owner	224,669,751 (L)	18.25%
An Ping Investments Limited	*(2)*	Interests of controlled corporation	224,669,751 (L)	18.25%
Serangoon Limited	*(1), (2) & (3)*	Interests of controlled corporation	487,168,750 (L)	39.56%
Seletar Limited	*(1), (2) & (3)*	Interests of controlled corporation	487,168,750 (L)	39.56%
Credit Suisse Trust Limited	*(3)*	Trustee	487,168,750 (L)	39.56%
JP Morgan Chase & Co	*(4)*	Beneficial owner	3,410,630 (L)	0.28%
	(4)	Beneficial owner	1,202,497 (S)	0.10%
	(4)	Investment manager	3,230,904 (L)	0.26%
	(4)	Custodian corporation/ approved lending agent	55,182,999 (L)	4.48%

(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	10.7%
— five largest suppliers combined	29.1%

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at 25 March 2014.

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, 25 March 2014

INDEPENDENT AUDITOR'S REPORT

pwc

羅兵咸永道

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

We have audited the consolidated financial statements of Hengan International Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 40 to 112, which comprise the consolidated and company balance sheets as at 31 December 2013 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 2013, 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, 25 March 2014

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
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CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

	Note	Year ended 31 December 2013 HK$'000	2012 HK$'000
Revenue	5	**21,186,368**	18,524,233
Cost of goods sold	7	**(11,626,908)**	(10,209,030)
Gross profit		**9,559,460**	8,315,203
Other income and other gains — net	6	**776,472**	564,833
Distribution costs	7	**(3,886,428)**	(3,240,815)
Administrative expenses	7	**(1,361,656)**	(898,386)
Operating profit		**5,087,848**	4,740,835
Finance income	8	**291,615**	37,709
Finance costs	8	**(363,992)**	(239,590)
Finance costs — net		**(72,377)**	(201,881)
Profit before income tax		**5,015,471**	4,538,954
Income tax expense	9	**(1,244,889)**	(1,001,235)
Profit for the year		**3,770,582**	3,537,719
Profit attributable to:			
Shareholders of the Company	30	**3,721,031**	3,518,705
Non-controlling interests		**49,551**	19,014
		3,770,582	3,537,719
Earnings per share for profit attributable to shareholders of the Company			
— Basic	11	**HK$3.024**	HK$2.863
— Diluted	11	**HK$3.021**	HK$2.861

The notes on pages 48 to 112 are an integral part of the consolidated financial statements.

	Note	Year ended 31 December 2013 HK$'000	2012 HK$'000
Dividends	12	**2,278,062**	2,089,352

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Year ended 31 December	
	2013	2012
	HK$'000	HK$'000
Profit for the year	**3,770,582**	3,537,719
Other comprehensive income		
Items that may be reclassified to profit or loss		
— Currency translation differences	**600,526**	9,877
Total comprehensive income for the year	**4,371,108**	3,547,596
Attributable to:		
Shareholders of the Company	**4,311,186**	3,526,426
Non-controlling interests	**59,922**	21,170
Total comprehensive income for the year	**4,371,108**	3,547,596

The notes on pages 48 to 112 are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2013

	Note	As at 31 December 2013 HK$'000	As at 31 December 2012 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*14*	**8,627,200**	7,815,553
Construction-in-progress	*15*	**1,204,372**	1,301,331
Land use rights	*16*	**1,105,298**	1,032,792
Intangible assets	*17*	**581,150**	590,822
Prepayments for non-current assets	*18*	**379,463**	275,625
Deferred income tax assets	*33*	**157,511**	152,116
Long-term bank deposits	*26*	**814,042**	1,845,231
		12,869,036	13,013,470
Current assets			
Inventories	*21*	**4,385,909**	3,830,502
Trade and bills receivables	*22*	**2,184,484**	1,870,481
Other receivables, prepayments and deposits	*22*	**1,127,031**	882,063
Derivative financial instruments	*24*	**—**	1,382
Restricted bank deposits	*25*	**60,044**	62,539
Cash and bank balances	*26*	**19,563,983**	9,544,379
		27,321,451	16,191,346
Total assets		**40,190,487**	29,204,816
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	*27*	**123,138**	122,903
Other reserves	*29*	**4,521,293**	3,220,065
Retained earnings	*30*		
— Proposed final dividend	*12*	**1,231,385**	1,167,576
— Unappropriated retained earnings		**10,657,780**	9,567,648
		16,533,596	14,078,192
Non-controlling interests		**385,070**	330,048
Total equity		**16,918,666**	14,408,240

The notes on pages 48 to 112 are an integral part of the consolidated financial statements.

As at 31 December 2013

	Note	As at 31 December 2013 HK$'000	2012 HK$'000
LIABILITIES			
Non-current liabilities			
Bank borrowings	*31*	**959,643**	3,787,218
Convertible bonds	*32*	**5,227,130**	—
Deferred income tax liabilities	*33*	**169,146**	185,801
Deferred income on government grants		**929**	2,070
		6,356,848	3,975,089
Current liabilities			
Trade payables	*34*	**2,096,990**	1,803,054
Other payables and accrued charges	*34*	**1,271,912**	1,217,375
Derivative financial instruments	*24*	**39,727**	5,666
Current income tax liabilities		**273,430**	354,814
Bank borrowings	*31*	**13,232,914**	7,440,578
		16,914,973	10,821,487
Total liabilities		**23,271,821**	14,796,576
Total equity and liabilities		**40,190,487**	29,204,816
Net current assets		**10,406,478**	5,369,859
Total assets less current liabilities		**23,275,514**	18,383,329

The notes on pages 48 to 112 are an integral part of the consolidated financial statements.

The financial statements on pages 40 to 112 were approved by the Board of Directors on 25 March 2014 and were signed on its behalf.

Sze Man Bok
Director

Hui Lin Chit
Director

COMPANY BALANCE SHEET

As at 31 December 2013

	Note	As at 31 December 2013 HK$'000	2012 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	19	**6,356,355**	5,105,867
Current assets			
Amounts due from subsidiaries	23	**5,911,261**	2,850,458
Other receivables, prepayments and deposits	22	**1,480**	340
Inventories	21	**11,695**	—
Derivative financial instruments	24	**—**	1,382
Cash and bank balances	26	**735,850**	27,866
		6,660,286	2,880,046
Total assets		**13,016,641**	7,985,913
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	27	**123,138**	122,903
Other reserves	29	**513,932**	153,457
Retained earnings	30		
— Proposed final dividend	12	**1,231,385**	1,167,576
— Unappropriated retained earnings		**274,481**	2,899
Total equity		**2,142,936**	1,446,835

The notes on pages 48 to 112 are an integral part of the financial statements.

As at 31 December 2013

	Note	As at 31 December 2013 HK$'000	2012 HK$'000
LIABILITIES			
Non-current liabilities			
Bank borrowings	*31*	**250,000**	1,191,000
Convertible bonds	*32*	**5,227,130**	—
Amounts due to subsidiaries	*23*	**3,417,334**	3,857,255
		8,894,464	5,048,255
Current liabilities			
Trade payables	*34*	**18,904**	—
Other payables and accrued charges	*34*	**4,063**	12,439
Amount due to a subsidiary	*23*	**874**	—
Derivative financial instruments	*24*	**—**	184
Bank borrowings	*31*	**1,955,400**	1,478,200
		1,979,241	1,490,823
Total liabilities		**10,873,705**	6,539,078
Total equity and liabilities		**13,016,641**	7,985,913
Net current assets		**4,681,045**	1,389,223
Total assets less current liabilities		**11,037,400**	6,495,090

The notes on pages 48 to 112 are an integral part of the financial statements.

The financial statements on pages 40 to 112 were approved by the Board of Directors on 25 March 2014 and were signed on its behalf.

Sze Man Bok
Director

Hui Lin Chit
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	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 2012		122,901	3,489,931	8,728,581	12,341,413	377,334	12,718,747
Profit for the year		—	—	3,518,705	3,518,705	19,014	3,537,719
Currency translation differences	*29(c)*	—	7,721	—	7,721	2,156	9,877
Total comprehensive income		—	7,721	3,518,705	3,526,426	21,170	3,547,596
Transactions with owners:							
2011 final dividends paid	*12*	—	—	(921,767)	(921,767)	(65,800)	(987,567)
2012 interim dividends paid	*12*	—	—	(921,776)	(921,776)	(2,656)	(924,432)
Share-based compensation							
— value of employee services	*27,28*	—	53,393	—	53,393	—	53,393
— proceeds from shares issued	*27,28*	2	501	—	503	—	503
Total of transactions with owners		2	53,894	(1,843,543)	(1,789,647)	(68,456)	(1,858,103)
Appropriation to statutory reserves	*29(b)*	—	296,697	(296,697)	—	—	—
Transfer to retained earnings	*29(a)*	—	(628,178)	628,178	—	—	—
Balance at 31 December 2012		122,903	3,220,065	10,735,224	14,078,192	330,048	14,408,240
Balance at 1 January 2013		**122,903**	**3,220,065**	**10,735,224**	**14,078,192**	**330,048**	**14,408,240**
Profit for the year		**—**	**—**	**3,721,031**	**3,721,031**	**49,551**	**3,770,582**
Currency translation differences	*29(c)*	**—**	**590,155**	**—**	**590,155**	**10,371**	**600,526**
Total comprehensive income		**—**	**590,155**	**3,721,031**	**4,311,186**	**59,922**	**4,371,108**
Transactions with owners:							
2012 final dividends paid	*12*	**—**	**—**	**(1,169,815)**	**(1,169,815)**	**(4,900)**	**(1,174,715)**
2013 interim dividends paid	*12*	**—**	**—**	**(1,046,677)**	**(1,046,677)**	**—**	**(1,046,677)**
Share-based compensation							
— value of employee services	*27,28*	**—**	**81,441**	**—**	**81,441**	**—**	**81,441**
— proceeds from shares issued	*27,28*	**235**	**102,469**	**—**	**102,704**	**—**	**102,704**
Convertible bonds							
— equity component	*32*	**—**	**176,565**	**—**	**176,565**	**—**	**176,565**
Total of transactions with owners		**235**	**360,475**	**(2,216,492)**	**(1,855,782)**	**(4,900)**	**(1,860,682)**
Appropriation to statutory reserves	*29(b)*	**—**	**350,598**	**(350,598)**	**—**	**—**	**—**
Balance at 31 December 2013		**123,138**	**4,521,293**	**11,889,165**	**16,533,596**	**385,070**	**16,918,666**

The notes on pages 48 to 112 are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2013

	Notes	Year ended 31 December 2013 HK$'000	Year ended 31 December 2012 HK$'000
Cash flows from operating activities			
Cash generated from operations	*35(a)*	**5,219,674**	3,963,754
Income tax paid		**(1,354,717)**	(1,007,545)
Net cash generated from operating activities		**3,864,957**	2,956,209
Cash flows from investing activities			
Purchase of property, plant and equipment, including additions of construction-in-progress		**(1,337,469)**	(2,100,976)
Additions of land use rights		**(69,682)**	(204,880)
Purchase of intangible assets		**(30)**	—
Proceeds from disposal of property, plant and equipment and land use rights	*35(b)*	**12,626**	7,761
Decrease in restricted bank deposits		**4,387**	6,071
Increase in long-term and short-term bank deposits		**(4,148,478)**	(963,006)
Interest received		**320,622**	261,713
Net cash used in investing activities		**(5,218,024)**	(2,993,317)
Cash flows from financing activities			
Proceeds from bank borrowings		**15,417,882**	13,847,030
Repayment of bank borrowings		**(12,409,891)**	(9,846,255)
Proceeds from issuance of convertible bonds, net off issuing expenses		**5,323,987**	—
Interest paid		**(315,885)**	(254,806)
Dividends paid		**(2,216,492)**	(1,843,543)
Dividends paid to non-controlling interests		**(3,654)**	(3,406)
Proceeds from shares issued under the employee share option scheme		**102,704**	503
Net cash generated from financing activities		**5,898,651**	1,899,523
Net increase in cash and cash equivalents		**4,545,584**	1,862,415
Cash and cash equivalents at 1 January	*26*	**6,098,604**	4,229,036
Exchange gains on cash and cash equivalents		**67,063**	7,153
Cash and cash equivalents at 31 December	*26*	**10,711,251**	6,098,604

The notes on pages 48 to 112 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1 GENERAL INFORMATION

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

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

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

These consolidated financial statements of the Group are presented in Hong Kong dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 25 March 2014.

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 relevant to the Group are mandatory adopted for the first time for the financial year beginning on 1 January 2013:

- Amendment to HKAS 1 'Financial statement presentation' is effective for annual periods beginning on or after 1 July 2012. 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 Group assessed the adoption of this standard and concluded that it did not have a significant impact on the Group's results and financial position, except that certain new disclosures are introduced.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

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

- Annual improvements 2011 are effective for annual periods beginning on or after 1 January 2013. These annual improvements includes changes to the following standards which are relevant to the Group but management considers they do not have any significant impact to the Group's financial statements:

HKAS 1	Financial statement presentation
HKAS 16	Property plant and equipment
HKAS 32	Financial instruments: Presentation
HKAS 34	Interim financial reporting

- HKFRS 10 'Consolidated financial statements' is effective for annual periods beginning on or after 1 January 2013. The objective of HKFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements. The Group assessed that adoption of HKFRS 10 did not result in any change in the consolidation status of its subsidiaries, and would not have any significant impact on the Group's financial statements.

- HKAS 27 (revised 2011) 'Separate financial statements' is effective for annual periods beginning on or after 1 January 2013. It includes the provisions on separate financial statements that are left after the control provisions of HKAS 27 have been included in the new HKFRS 10. It is not expected to have any significant impact on the Group's financial statements.

- HKFRS 12 'Disclosure of interests in other entities' is effective for annual periods beginning on or after 1 January 2013. It 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 assessed the adoption of this standard and concluded that it did not have a significant impact on the Group's results and financial position, except that certain new disclosures are introduced.

- HKFRS 13 'Fair value measurements' is effective for annual periods beginning on or after 1 January 2013. It 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, which are largely aligned between HKFRSs and US GAAP, 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 or US GAAP. The Group assessed the adoption of this standard and concluded that it did not have a significant impact on the Group's results and financial position, except that certain new disclosures are introduced.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

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

- Amendment to HKFRS 7 'Financial instruments: Disclosures — Offsetting financial assets and financial liabilities' is effective for annual periods beginning on or after 1 January 2013. The amendments also require new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in balance sheet, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The Group assessed the adoption of this standard and concluded that it did not have a significant impact on the Group's results and financial position, except that certain new disclosures are introduced.

- Annual improvement 2012 — Amendment to HKFRS 13, 'Fair value measurement' is effective for annual periods beginning on or after 1 January 2013. This amendment is a clarification that there is no change in measurement requirements for short-term receivables and payable when the effect of not discounting is immaterial.

(ii) New and amended standards that might be relevant to the Group have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted

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

- Amendment to HKAS 32 'Financial instruments: Presentation' on asset and liability offsetting are to the application guidance in HKAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The Group is yet to assess full impact of the amendments and intends to adopt the amendments no later than the accounting period beginning on or after 1 January 2014.

- Amendment to HKAS 36, 'Impairment of assets' on recoverable amount disclosures addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The Group is yet to assess full impact of the amendments and intends to adopt the amendment no later than the accounting period beginning on or after 1 January 2014.

- HK(IFRIC) 21 'Levies' is an interpretation of HKAS 37, 'Provisions, contingent liabilities and contingent assets'. HKAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Group is yet to assess full impact of the amendments and intends to adopt the IFRIC 21 no later than the accounting period beginning on or after 1 January 2014.

- Amendment to HKAS19 regarding defined benefit plans applies to contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits. The Group is yet to assess full impact of the amendments and intends to adopt the amendment no later than the accounting period beginning on or after 1 July 2014.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation *(continued)*

(ii) New and amended standards that might be relevant to the Group have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted (continued)

- Annual improvements 2012. These improvements include changes from the 2010-2012 cycle of the annual improvements project, that affect the following standards which might be relevant to the Group:

	Effective for annual periods beginning on or after
HKFRS2 'Share-based payment'	1 July 2014
HKFRS3, 'Business combinations' and consequential amendments to HKFRS9, 'Financial instruments', HKAS37, 'Provisions, contingent liabilities and contingent assets', and HKAS39, 'Financial instruments — Recognition and measurement'	1 July 2014
HKFRS8 'Operating segments'	1 July 2014
HKAS24 'Related party disclosures'	1 July 2014

- Annual improvements 2013. The amendments include changes from the 2011-2013 cycle of the annual improvements project that affect the following standards which might be relevant to the Group:

	Effective for annual periods beginning on or after
HKFRS3 'Business combination'	1 July 2014
HKFRS13 'Fair value measurement'	1 July 2014

- HKFRS 9 'Financial Instruments' is the first standard issued as part of a wider project to replace HKAS 39. HKFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in HKAS 39 on impairment of financial assets continues to apply. The mandatory effective date of HKFRS 9 is not yet determined.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Subsidiaries

(i) Consolidation

A subsidiary is an entity (including a structured entity) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

(1) Business combinations

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement (Note 2(g)).

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

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

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

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 who make strategic decisions.

(d) Foreign currency translation

(i) Functional and presentation currency

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

(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 income and other gains — net'.

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

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

(iii) Group companies

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

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

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

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

On consolidation, currency translation 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 currency translation 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. Currency translation differences arising are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

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

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

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

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

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

(f) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries 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.

(iv) Computer softwares

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

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

(ii) Recognition and measurement

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

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within 'other income and other gains — net', in the period in which they arise.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial assets *(continued)*

(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 — assets carried at amortised cost

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

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

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

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

(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 income and other gains — net" in the year in which they arise.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 expenses.

(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.

(m) Cash and cash equivalents

In the consolidated cash flow statement, 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 payables

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

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

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(r) Compound financial instruments

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Current and deferred income tax

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

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

(1) Inside basis differences

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

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

(2) Outside basis differences

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

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

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income 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)*

(t) Employee benefits

(i) Retirement benefits

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

The Group also operates the mandatory provident fund scheme (the "MPF Scheme") for its Hong Kong staff. The MPF Scheme is a defined contribution retirement benefit scheme administered by independent trustees. Each of the employer and the employee has to contribute an amount equal to 5% of the relevant income of the employee to the MPF Scheme, subject to a cap of HK$1,250 per month. Contributions from the employer are vested in the employees as soon as they are paid to relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 subject to a few exceptions. The assets of the schemes are held separately from those of the Group in independently administered funds.

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

(ii) Share-based compensation

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

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) 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.

(v) Revenue recognition

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

(w) Government grants

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) 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.

(y) Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

(i) Market risk

(1) Foreign exchange risk

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(i) *Market risk (continued)*

(1) Foreign exchange risk *(continued)*

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 2013, the fluctuations in exchange rates between RMB (the functional currency of the majority of the Group's entities), US$ (the denomination currency of the majority of the Group's imports of raw materials and property, plant and equipment and bank borrowings) and HK$ (the denomination currency of bank borrowings) resulted in a total exchange gain of HK$279,186,000 (2012: total exchange loss of HK$18,511,000). The Group has never experienced any difficulties in getting sufficient foreign currencies for settlement of purchase obligations or repatriation of profits declared by the subsidiaries in the PRC to their overseas holding companies or repayment of bank loans.

At 31 December 2013, if HK$ and US$ had weakened/strengthened by 5% against the RMB with all other variables held constant, the net profit for the year would have been HK$133,394,000 (2012: HK$70,206,000) higher/lower.

(2) Price risk

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

(3) Cash flow and fair value interest rate risk

Except for restricted bank deposits (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.

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 2013, if interest rates on bank borrowings had been 100 basis points higher/lower with all other variables held constant, the net profit for the year would have been HK$57,457,000 (2012: HK$41,068,000) lower/higher as a result of higher/lower interest expenses on floating rate borrowings.

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(ii) Credit risk

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

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

At 31 December 2013, all restricted bank deposits, bank balances and derivative financial instruments were placed with or entered into with highly reputable and sizable banks and financial institutions without significant credit risk. The table below shows the balances with counterparties as at 31 December 2013 and 2012:

	2013 HK$'000	2012 HK$'000
Counterparties		
— Big 4 domestic banks *(Note (a))*	**3,012,912**	2,406,729
— Other reputable and sized domestic commercial banks	**15,114,367**	7,851,367
— Highly reputable and sized foreign owned banks	**2,303,235**	1,184,851
	20,430,514	11,442,947

Note:

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

(iii) Liquidity risk

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

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(iii) Liquidity risk (continued)

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

	Less than 1 year HK$'000	**Between 1 and 2 years** HK$'000	**Between 3 and 5 years** HK$'000
Group			
At 31 December 2013			
Bank borrowings	**13,232,914**	**959,643**	**—**
Convertible bonds	**—**	**—**	**6,002,396**
Interest payables	**162,037**	**8,087**	**—**
Net settled derivative financial instruments	**39,727**	**—**	**—**
Trade and other payables	**2,926,386**	**—**	**—**
At 31 December 2012			
Bank borrowings	7,440,578	2,950,073	837,145
Interest payables	204,906	77,075	11,591
Net settled derivative financial instruments	5,666	—	—
Trade and other payables	2,732,054	—	—
Company			
At 31 December 2013			
Bank borrowings	**1,955,400**	**250,000**	**—**
Convertible bonds	**—**	**—**	**6,002,396**
Interest payables	**19,589**	**1,865**	**—**
Trade and other payables	**22,241**	**—**	**—**
Amounts due to subsidiaries	**874**	**3,417,334**	**—**
Financial guarantee contracts	**10,182,474**	**742,843**	**—**
At 31 December 2012			
Bank borrowings	1,478,200	511,000	680,000
Interest payables	56,374	28,480	5,751
Net settled derivative financial instruments	184	—	—
Trade and other payables	12,439	—	—
Amounts due to subsidiaries	—	3,857,255	—
Financial guarantee contracts	2,829,966	2,019,480	—

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(iii) Liquidity risk (continued)

At 31 December 2013, the Company provided financial guarantees for the bank loans of its subsidiaries amounting to HK$10,925,317,000 (2012: HK$4,859,446,000). Management of the Company anticipated that such guarantee arrangements would not lead to any losses for the Company.

(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 2013, the Group's strategy was to maintain a net gearing ratio at or below 20%. The calculation of the gearing ratios at 31 December 2013 was as follows:

	2013 HK$'000	2012 HK$'000
Gross gearing ratio:		
Total borrowings	**19,419,687**	11,227,796
Total equity excluding non-controlling interests	**16,533,596**	14,078,192
Gross gearing ratio	**117.5%**	79.8%
Net gearing ratio:		
Total borrowings	**19,419,687**	11,227,796
Less: long-term bank deposits and cash and bank balances	**(20,378,025)**	(11,389,610)
Net debt	**(958,338)**	(161,814)
Total equity excluding non-controlling interests	**16,533,596**	14,078,192
Net gearing ratio	**(5.8%)**	(1.1%)

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 2013:

	2013 Level 2 HK$'000	2012 Level 2 HK$'000
Financial assets at fair value through profit or loss		
— Derivative financial instruments (Note 24)	**—**	1,382
Financial liabilities fair value through profit or loss		
— Derivative financial instruments (Note 24)	**(39,727)**	(5,666)

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 2013.

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 2013.

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.

5 SEGMENT INFORMATION

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

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

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

	2013 **HK$'000**	2012 HK$'000
Sales of goods:		
Personal hygiene products		
— Sanitary napkins products	**5,972,695**	4,915,462
— Disposable diapers products	**2,938,186**	2,685,473
— Tissue paper products	**10,204,020**	9,146,766
Food and snacks products	**1,604,655**	1,387,487
Others	**466,812**	389,045
	21,186,368	18,524,233

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

The total non-current assets (other than deferred income tax assets) located in the PRC amounted to HK$12,153,417,000 (31 December 2012: HK$12,353,740,000) as at 31 December 2013 and the total non-current assets located in other places amounted to HK$558,108,000 (31 December 2012: HK$507,614,000).

During the year ended 31 December 2013, none of the customers of the Group from whom the revenue amounted to 10% or more of the Group's revenue (2012: None).

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

Additions to non-current assets comprise additions to property, plant and equipment (Note 14), 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.

For the year ended 31 December 2013

5 SEGMENT INFORMATION *(continued)*

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

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

5 SEGMENT INFORMATION *(continued)*

	2012					
	Sanitary napkins products HK$'000	Disposable diapers products HK$'000	Tissue paper products HK$'000	Food and snacks products HK$'000	Others HK$'000	Group HK$'000
Consolidated income statement for the year ended 31 December 2012						
Segment revenue	5,246,531	2,939,992	9,426,432	1,387,487	402,564	19,403,006
Inter-segment sales	(331,069)	(254,519)	(279,666)	—	(13,519)	(878,773)
Revenue of the Group	4,915,462	2,685,473	9,146,766	1,387,487	389,045	18,524,233
Segment profit	2,128,709	604,135	1,410,848	51,603	46,154	4,241,449
Unallocated costs						(65,447)
Other income and other gains — net						564,833
Operating profit						4,740,835
Finance income						37,709
Finance costs						(239,590)
Profit before income tax						4,538,954
Income tax expense						(1,001,235)
Profit for the year						3,537,719
Non-controlling interests						(19,014)
Profit attributable to shareholders of the Company						3,518,705
Consolidated balance sheet as at 31 December 2012						
Segment assets	4,715,519	4,039,846	16,529,839	1,129,447	2,353,637	28,768,288
Deferred income tax assets						152,116
Unallocated assets						284,412
Total assets						29,204,816
Segment liabilities	1,091,254	315,553	4,681,658	320,106	166,831	6,575,402
Deferred income tax liabilities						185,801
Current income tax liabilities						354,814
Unallocated liabilities						7,680,559
Total liabilities						14,796,576
Other items for the year ended 31 December 2012						
Additions to non-current assets	108,584	15,816	2,162,901	132,934	176,679	2,596,914
Depreciation charge	60,080	41,835	377,929	38,300	9,236	527,380
Amortisation charge	3,467	1,450	16,579	11,562	315	33,373

For the year ended 31 December 2013

6 OTHER INCOME AND OTHER GAINS — NET

	2013 HK$'000	2012 HK$'000
Government grants income *(Note (a))*	**404,044**	337,036
Exchange gain/(loss) from operating activities — net	**94,022**	(12,286)
Losses on disposal of property, plant and equipment and land use rights	**(27,058)**	(2,524)
Realised fair value gains on derivative financial instruments	**1,239**	100
Unrealised fair value losses on derivative financial instruments	**(36,682)**	(2,623)
Interests income from long-term and short-term bank deposits	**333,695**	237,910
Others	**7,212**	7,220
	776,472	564,833

Note:

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

7 EXPENSES BY NATURE

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

	2013 HK$'000	2012 HK$'000
Raw materials and consumables used	**9,665,558**	7,746,523
Changes in inventories of work-in-progress and finished goods	**(528,994)**	327,162
Marketing and advertising expenses	**1,861,319**	1,522,239
Employees benefit expense, including directors' emoluments *(Note 13)*	**1,843,519**	1,511,983
Utilities and various office expenses	**1,157,764**	1,007,452
Transportation and packaging expenses	**880,859**	776,613
Depreciation of property, plant and equipment *(Note 14)*	**664,903**	527,380
Amortisation of land use rights *(Note 16)*	**28,188**	22,987
Amortisation of intangible assets *(Note 17)*	**9,827**	10,386
Repairs and maintenance expenses	**206,166**	157,382
Travelling expenses	**194,288**	161,500
Operating leases rentals	**94,783**	87,796
(Reversal of)/provision for inventories write-down *(Note 21)*	**(26,433)**	14,876
Provision for impairment of trade receivables *(Note 22)*	**19,643**	2,927
Auditor's remuneration		
— Audit services	**6,768**	6,637
— Non-audit services	**2,729**	1,177
Amortisation of deferred income on government grants	**(1,188)**	(1,731)
Others	**795,293**	464,942
Total cost of sales, distribution costs and administration expenses	**16,874,992**	14,348,231

8 FINANCE INCOME AND FINANCE COSTS

	2013 HK$'000	2012 HK$'000
Finance costs:		
Interest expenses		
— Bank borrowings wholly repayable within 5 years	**275,925**	224,686
— Convertible bonds	**79,708**	—
Exchange loss	**—**	6,225
Other finance charges	**24,180**	25,515
Total borrowing costs incurred	**379,813**	256,426
Less: Borrowing costs capitalised in buildings and machinery under construction-in-progress *(Note 15)*	**(15,821)**	(16,836)
	363,992	239,590
Finance income:		
Interest income from cash and cash equivalents	**(106,451)**	(37,709)
Exchange gain	**(185,164)**	—
	(291,615)	(37,709)
Finance costs, net	**72,377**	201,881

For the year ended 31 December 2013, the capitalisation rate applied to funds borrowed generally and used for the development of construction-in-progress is 1.92% (2012: 2.45%) per annum.

9 INCOME TAX EXPENSE

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

	2013 HK$'000	2012 HK$'000
Current income tax		
— Hong Kong profits tax	**151,699**	102,635
— PRC income tax	**1,114,868**	914,700
Deferred income tax, net *(Note 33)*	**(21,678)**	(16,100)
Income tax expense	**1,244,889**	1,001,235

9 INCOME TAX EXPENSE *(continued)*

Hong Kong profits tax has been provided for at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the year. Taxation on PRC income has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC in which the Group operates.

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

Certain subsidiaries are entitled to a two-year full exemption followed by a three-year 50% reduction of EIT, commencing from 2008. Accordingly, certain subsidiaries enjoy a tax preference of a two-year income tax exemption for 2008 and 2009, followed by a 50% income tax reduction for 2010, 2011 and 2012.

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

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

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 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:

	2013 **HK$'000**	2012 HK$'000
Profit before income tax	**5,015,471**	4,538,954
Tax calculated at tax rates applicable to profits of the Group's companies	**1,213,641**	1,098,884
Tax exemption and concession on the profits of certain PRC subsidiaries	**(95,090)**	(148,747)
Tax losses in current year for which no deferred tax assets were recognised	**26,830**	7,958
Withholding tax on distributed profit and unremitted earnings	**101,313**	32,141
Others	**(1,805)**	10,999
Income tax expense	**1,244,889**	1,001,235

The weighted average applicable tax rate was 24.2% (2012: 24.2%).

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

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10 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of HK$2,551,883,000 (2012: profit of HK$1,302,028,000) (Note 30).

11 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the Group's profit attributable to the Company's shareholders of HK$3,721,031,000 (2012: HK$3,518,705,000) by the weighted average number of 1,230,640,954 (2012: 1,229,021,819) ordinary shares in issue during the year.

	2013	2012
Profit attributable to shareholders of the Company (HK$'000)	3,721,031	3,518,705
Weighted average number of ordinary shares in issue (thousands)	1,230,641	1,229,022
Basic earnings per share (HK$)	HK$3.024	HK$2.863

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The Company's share options are regarded as dilutive potential ordinary shares while convertible bonds have no dilutive effect on the earnings per share as at 31 December 2013. 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 2013) 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.

	2013	2012
Profit attributable to shareholders of the Company (HK$'000)	3,721,031	3,518,705
Weighted average number of ordinary shares in issue (thousands)	1,230,641	1,229,022
— Share options (thousands)	1,054	974
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,231,695	1,229,996
Diluted earnings per share (HK$)	HK$3.021	HK$2.861

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12 DIVIDENDS

	2013 HK$'000	2012 HK$'000
Interim, paid, HK$0.85 (2012: HK$0.75) per ordinary share	**1,046,677**	921,776
Final, proposed, HK$1.00 (2012: HK$0.95) per ordinary share	**1,231,385**	1,167,576
	2,278,062	2,089,352

The dividends paid in 2013 amounted to HK$2,216,492,000 (2013 interim: HK$0.85 per share, 2012 final: HK$0.95 per share). The dividends paid in 2012 amounted to HK$1,843,543,000 (2012 interim: HK$0.75 per share, 2011 final: HK$0.75 per share). A final dividend in respect of the year ended 31 December 2013 of HK$1.00 per share, amounting to a total dividend of HK$1,231,385,000, was proposed by the Board of Directors at a meeting held on 25 March 2014, subject to the final approval by the shareholders of the Company at the Annual General Meeting to be held on 22 May 2014. These financial statements do not reflect this dividend payable. The aggregate amounts of the dividends paid and proposed during 2013 and 2012 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

13 EMPLOYEE BENEFIT EXPENSE, INCLUDING DIRECTORS' EMOLUMENTS

	2013 HK$'000	2012 HK$'000
Wages and salaries	**1,558,780**	1,308,735
Retirement benefit costs	**203,298**	149,855
Equity-settled share-based payment *(Note 28)*	**81,441**	53,393
	1,843,519	1,511,983

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 2013 is set out below:

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

The remuneration of each Director for the year ended 31 December 2012 is set out below:

Name of Director	Fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Share-based compensation HK$'000	Housing allowance HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Director							
Mr. Sze Man Bok	60	351	–	55	–	14	480
Mr. Hui Lin Chit	60	825	1,219	406	–	14	2,524
Mr. Xu Shui Shen	60	711	1,025	561	–	3	2,360
Mr. Hung Ching Shan	60	150	25	55	–	11	301
Mr. Xu Da Zuo	60	576	305	297	–	3	1,241
Mr. Xu Chun Man	60	100	44	55	–	3	262
Mr. Sze Wong Kim	60	–	–	121	–	3	184
Mr. Hui Ching Chi	60	84	–	121	–	6	271
Mr. Loo Hong Shing Vincent	60	1,233	500	384	159	14	2,350
Independent Non-Executive Director							
Mr. Chan Henry	120	–	–	–	–	–	120
Mr. Wang Ming Fu	120	–	–	–	–	–	120
Ms. Ada Ying Kay Wong	120	–	–	–	–	–	120

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2012: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2012: one) individual during the year are as follows:

	2013 HK$'000	2012 HK$'000
Basic salaries, housing allowances, share-based compensation, other allowances and benefits-in-kind	**1,209**	750
Bonuses	**149**	489
	1,358	1,239

The emoluments fell within the following bands:

	Number of individuals	
	2013	2012
Emolument bands		
HK$1,000,001 to HK$1,500,000	**1**	1

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 2012					
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)
Opening net book amount	1,860,520	3,234,422	81,731	26,663	5,203,336
Year ended 31 December 2012					
Opening net book amount	1,860,520	3,234,422	81,731	26,663	5,203,336
Currency translation differences	3,593	4,776	20	(2)	8,387
Additions	10,365	100,074	29,524	7,283	147,246
Transfer from construction-in-progress *(Note 15)*	1,221,710	1,764,047	8,492	—	2,994,249
Depreciation for the year *(Note 7)*	(125,770)	(370,009)	(24,882)	(6,719)	(527,380)
Disposals	(4,489)	(4,295)	(997)	(504)	(10,285)
Closing net book amount	2,965,929	4,729,015	93,888	26,721	7,815,553
At 31 December 2012					
Cost	3,500,348	7,169,205	212,964	49,130	10,931,647
Accumulated depreciation	(534,419)	(2,440,190)	(119,076)	(22,409)	(3,116,094)
Net book amount	2,965,929	4,729,015	93,888	26,721	7,815,553
Year ended 31 December 2013					
Opening net book amount	**2,965,929**	**4,729,015**	**93,888**	**26,721**	**7,815,553**
Currency translation differences	**99,765**	**147,514**	**2,881**	**824**	**250,984**
Additions	**81,421**	**136,704**	**19,694**	**6,503**	**244,322**
Transfer from construction-in-progress *(Note 15)*	**672,327**	**336,657**	**11,584**	**—**	**1,020,568**
Depreciation for the year *(Note 7)*	**(183,050)**	**(448,728)**	**(25,657)**	**(7,468)**	**(664,903)**
Disposals	**(4,863)**	**(28,700)**	**(5,164)**	**(597)**	**(39,324)**
Closing net book amount	**3,631,529**	**4,872,462**	**97,226**	**25,983**	**8,627,200**
At 31 December 2013					
Cost	**4,364,397**	**7,649,449**	**224,607**	**52,996**	**12,291,449**
Accumulated depreciation	**(732,868)**	**(2,776,987)**	**(127,381)**	**(27,013)**	**(3,664,249)**
Net book amount	**3,631,529**	**4,872,462**	**97,226**	**25,983**	**8,627,200**

For the year ended 31 December 2013

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

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

	2013 HK$'000	2012 HK$'000
Manufacturing overheads included under cost of goods sold	**542,769**	421,194
Distribution costs	**9,151**	8,455
Administrative expenses	**112,983**	97,731
	664,903	527,380

There was no pledge of property, plant and equipment of the Group as at 31 December 2013 and 2012.

15 CONSTRUCTION-IN-PROGRESS — GROUP

	2013 HK$'000	2012 HK$'000
At 1 January	**1,301,331**	2,053,903
Currency translation differences	**37,062**	(3,111)
Additions	**886,547**	2,244,788
Transfer to property, plant and equipment *(Note 14)*	**(1,020,568)**	(2,994,249)
At 31 December	**1,204,372**	1,301,331

During the year ended 31 December 2013, finance costs capitalised in construction-in-progress amounted to HK$15,821,000 (2012: HK$16,836,000) (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:

	2013 HK$'000	2012 HK$'000
Outside Hong Kong, held on:		
Leases between 10 to 50 years	**1,105,298**	1,032,792
At 1 January	**1,032,792**	850,365
Currency translation differences	**31,372**	534
Additions	**69,682**	204,880
Amortisation of prepaid operating leases payments *(Note 7)*	**(28,188)**	(22,987)
Disposals	**(360)**	—
At 31 December	**1,105,298**	1,032,792

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

For the year ended 31 December 2013

17 INTANGIBLE ASSETS — GROUP

	Goodwill HK$'000	Patents and trademarks HK$'000	Customer relationships HK$'000	Softwares HK$'000	Total HK$'000
At 1 January 2012					
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
Year ended 31 December 2012					
Opening net book amount	495,300	65,417	40,495	—	601,212
Currency translation differences	—	(4)	—	—	(4)
Amortisation charge *(Note 7)*	—	(4,601)	(5,785)	—	(10,386)
Closing net book amount	495,300	60,812	34,710	—	590,822
At 31 December 2012					
Cost	495,300	81,802	57,850	—	634,952
Accumulated amortisation	—	(20,990)	(23,140)	—	(44,130)
Net book amount	495,300	60,812	34,710	—	590,822
Year ended 31 December 2013					
Opening net book amount	**495,300**	**60,812**	**34,710**	**—**	**590,822**
Additions	**—**	**—**	**—**	**30**	**30**
Currency translation differences	**—**	**124**	**—**	**1**	**125**
Amortisation charge *(Note 7)*	**—**	**(4,041)**	**(5,786)**	**—**	**(9,827)**
Closing net book amount	**495,300**	**56,895**	**28,924**	**31**	**581,150**
At 31 December 2013					
Cost	**495,300**	**75,734**	**57,850**	**31**	**628,915**
Accumulated amortisation	**—**	**(18,839)**	**(28,926)**	**—**	**(47,765)**
Net book amount	**495,300**	**56,895**	**28,924**	**31**	**581,150**

Amortisation of HK$9,827,000 (2012: HK$10,386,000) has been charged to administrative expenses in the consolidated income statement.

17 INTANGIBLE ASSETS — GROUP *(continued)*

Impairment tests for goodwill

The Directors have performed an impairment review of the carrying amount of goodwill as at 31 December 2013 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 snacks products segment of HK$43,270,000 as at 31 December 2013. The recoverable amount of each of the cash generating units is determined based on value-in-use calculations. The calculation of goodwill on the tissue paper product segment uses cash flow projections based on financial estimates made by the Directors, with reference to the prevailing market conditions, covering a period of three years and assuming sales growth rate ranging from 2.0% to 11.6% and gross profit margins of 34.1%. 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 11% per annum. Based on management's assessment results, there was no impairment of goodwill as at 31 December 2013 and 2012 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

	2013 HK$'000	2012 HK$'000
Unlisted shares, at cost	**1,893,782**	1,893,782
Capital contribution relating to share-based payment	**158,572**	77,131
Loans to subsidiaries	**4,304,001**	3,134,954
	6,356,355	5,105,867

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

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

For the year ended 31 December 2013

20 FINANCIAL INSTRUMENTS BY CATEGORY — GROUP AND COMPANY

(a) Assets

	Group		Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Loans and receivables				
— Trade and other receivables, excluding advances to suppliers and prepayments	**2,640,274**	2,466,527	**1,099**	—
— Amounts due from subsidiaries *(Note 23)*	**—**	—	**5,911,261**	2,850,458
— Restricted bank deposits *(Note 25)*	**60,044**	62,539	**—**	—
— Long-term bank deposits *(Note 26)*	**814,042**	1,845,231	**—**	—
— Cash and bank balances *(Note 26)*	**19,563,983**	9,544,379	**735,850**	27,866
	23,078,343	13,918,676	**6,648,210**	2,878,324
Assets at fair value through profit or loss				
— Derivative financial instruments *(Note 24)*	**—**	1,382	**—**	1,382
Total	**23,078,343**	13,920,058	**6,648,210**	2,879,706

20 FINANCIAL INSTRUMENTS BY CATEGORY — GROUP AND COMPANY *(continued)*

(b) Liabilities

	Group		Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Financial liabilities at amortised costs				
— Trade and other payables, excluding non-financial liabilities	**2,926,386**	2,732,054	**22,241**	12,439
— Amounts due to subsidiaries *(Note 23)*	**—**	—	**3,418,208**	3,857,255
— Bank borrowings *(Note 31)*	**14,192,557**	11,227,796	**2,205,400**	2,669,200
— Convertible bonds *(Note 32)*	**5,227,130**	—	**5,227,130**	—
	22,346,073	13,959,850	**10,872,979**	6,538,894
Liabilities at fair value through profit or loss				
— Derivative financial instruments *(Note 24)*	**39,727**	5,666	**—**	184
Total	**22,385,800**	13,965,516	**10,872,979**	6,539,078

21 INVENTORIES — GROUP AND COMPANY

	Group		Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Finished goods	**2,008,416**	1,478,891	**—**	—
Work-in-progress	**33,026**	33,557	**—**	—
Raw materials	**2,120,480**	2,121,424	**11,695**	—
Spare parts and consumables	**223,987**	196,630	**—**	—
	4,385,909	3,830,502	**11,695**	—

The cost of inventories recognised as expenses and included in cost of goods sold amounted to HK$9,136,564,000 (2012: HK$8,073,685,000).

The Group reversed inventories write-down amounted to HK$26,433,000 (2012: provided for HK$14,876,000). 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	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Trade receivables	**2,187,373**	1,861,296	**—**	—
Bills receivable	**3,590**	17,648	**—**	—
	2,190,963	1,878,944	**—**	—
Less: provision for impairment	**(6,479)**	(8,463)	**—**	—
Trade and bills receivables	**2,184,484**	1,870,481	**—**	—
Other receivables, prepayments and deposits				
— Advance payments to suppliers	**209,275**	280,652	**381**	198
— Interest income receivables	**267,635**	148,111	**960**	—
— Prepayments for rental fee and utility fee	**29,312**	27,780	**—**	—
— Value added tax recoverable	**432,654**	218,169	**—**	—
— Others	**188,155**	207,351	**139**	142
	1,127,031	882,063	**1,480**	340
Trade and other receivables	**3,311,515**	2,752,544	**1,480**	340

The majority of the Group's sales are on open account with credit terms ranging from 30 days to 90 days. At 31 December 2013, the ageing analysis of the trade and bills receivables based on invoice date was as follows:

	Group		Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Within 30 days	**1,026,891**	912,811	**—**	—
31—180 days	**1,064,054**	914,144	**—**	—
181—365 days	**78,450**	19,903	**—**	—
Over 365 days	**21,568**	32,086	**—**	—
	2,190,963	1,878,944	**—**	—

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

22 TRADE AND OTHER RECEIVABLES — GROUP AND COMPANY *(continued)*

The credit quality of the trade receivables that are neither past due nor impaired totaled HK$1,835,957,000 (2012: HK$1,560,016,000) 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 2013, trade receivables of HK$348,527,000 (31 December 2012: HK$310,465,000) 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 2013 and 2012, the ageing analysis of the trade receivables based on invoice date was as follows:

	Group		Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Within 30 days	**140,174**	159,504	**—**	—
31—180 days	**170,170**	125,431	**—**	—
181—365 days	**28,466**	11,429	**—**	—
Over 365 days	**9,717**	14,101	**—**	—
	348,527	310,465	**—**	—

Trade receivables of HK$6,479,000 (31 December 2012: HK$8,463,000) were impaired and fully provided for.

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

	Group		Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
At 1 January	**8,463**	8,373	**—**	—
Currency translation differences	**232**	(1)	**—**	—
Provision for impairment of trade receivables *(Note 7)*	**19,643**	2,927	**—**	—
Receivables written-off during the year as uncollectible	**(21,859)**	(2,836)	**—**	—
As 31 December	**6,479**	8,463	**—**	—

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

As at 31 December 2013, other receivables are neither past due nor impaired.

22 TRADE AND OTHER RECEIVABLES — GROUP AND COMPANY *(continued)*

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	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
RMB	**1,926,838**	1,613,199	**—**	—
Other currencies	**264,125**	265,745	**—**	—
	2,190,963	1,878,944	**—**	—

23 AMOUNTS DUE FROM AND TO SUBSIDIARIES — COMPANY

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

Apart from the amount due to a subsidiary repayable within 12 months (Note 3), the amounts due to subsidiaries were unsecured, bore interest at a rate of 1.67% (2012: 2.11%) 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 interest rate swap contracts entered into with banks to exchange floating interest rates to fixed interest rates and the fair value of the currency swap contracts. These contracts are regarded as derivative financial instruments.

25 RESTRICTED BANK DEPOSITS — GROUP

Approximately HK$60,044,000 (31 December 2012: HK$62,539,000) of the bank balances were restricted until certain letters of credit issued by the Group are settled.

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

	Group		Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Long-term bank deposits	**814,042**	1,845,231	**—**	—
Cash and bank balances				
— Bank deposits	**8,852,732**	3,445,775	**—**	—
— Cash and cash equivalents	**10,711,251**	6,098,604	**735,850**	27,866
	19,563,983	9,544,379	**735,850**	27,866
Total	**20,378,025**	11,389,610	**735,850**	27,866

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

The effective interest rate on bank deposits as at 31 December 2013 was approximately 2.72% (31 December 2012: 3.18%) per annum.

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

	Group		Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Long-term bank deposits				
RMB	**814,042**	1,267,760	**—**	—
US$	**—**	542,655	**—**	—
Others	**—**	34,816	**—**	—
Total	**814,042**	1,845,231	**—**	—
Cash and bank balances				
RMB	**17,248,929**	7,661,117	**728,577**	—
US$	**2,269,030**	1,499,307	**3,366**	24,823
HK$	**40,228**	121,811	**3,892**	3,028
Others	**5,796**	262,144	**15**	15
Total	**19,563,983**	9,544,379	**735,850**	27,866

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26 LONG-TERM BANK DEPOSITS AND CASH AND BANK BALANCES — GROUP AND COMPANY *(continued)*

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 2013 and 31 December 2012	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 2012	1,229,007,721	122,901
Employee share option schemes		
— Shares issued upon exercise of share options *(Note 28)*	20,000	2
At 31 December 2012	1,229,027,721	122,903
Employee share option schemes		
— Shares issued upon exercise of share options *(Note 28)*	2,357,000	235
At 31 December 2013	**1,231,384,721**	**123,138**

28 SHARE-BASED COMPENSATION — GROUP

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

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

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

	2013 Average exercise price in HK$ per share	2013 Options (thousands)	2012 Average exercise price in HK$ per share	2012 Options (thousands)
At 1 January	**67.95**	**16,853**	56.81	5,404
Granted	**—**	**—**	72.75	11,758
Forfeited	**68.30**	**(154)**	44.30 to 68.30	(289)
Exercised	**25.05 to 44.30**	**(2,357)**	25.05 to 25.30	(20)
At 31 December	**71.95**	**14,342**	67.95	16,853

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

	Exercise price in HK$ per share option	Options (thousands) 2013	Options (thousands) 2012
Expiry date — 2 May			
2013	25.30	**—**	85
2013	25.05	**—**	5
2013	44.30	**—**	2,267
Expiry date — 27 July			
2021	68.30	**2,584**	2,738
Expiry date — 28 July			
2022	72.75	**11,758**	11,758
		14,342	16,853

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 2013 amounted to HK$81,441,000 (2012: HK$53,393,000) (Note 13), and the remaining unamortised fair value of approximately HK$160,848,000 will be charged to the consolidated income statement in the future years.

The maximum number of shares available for issue after considering the share options already granted under the 2003 Scheme and the 2011 Scheme are 85,638,200 and 107,755,872 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.

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29 OTHER RESERVES — GROUP AND COMPANY

Group

	Share premium account HK$'000 *(Note(a))*	Capital redemption reserve HK$'000	Statutory reserves HK$'000 *(Note(b))*	Share-based compensation reserve HK$'000	Exchange reserve HK$'000 *(Note(c))*	Convertible bonds — equity component HK$'000	Total HK$'000
At 1 January 2012	627,529	1,807	972,852	31,110	1,856,633	—	3,489,931
Other comprehensive income							
— currency translation differences	—	—	—	—	7,721	—	7,721
Appropriation to statutory reserves	—	—	296,697	—	—	—	296,697
Transfer to retained earnings *(Note (a))*	(628,178)	—	—	—	—	—	(628,178)
Share-based compensation							
— value of employee services	—	—	—	53,393	—	—	53,393
— proceeds from shares issued	501	—	—	—	—	—	501
— exercise of share options	148	—	—	(148)	—	—	—
At 31 December 2012	—	1,807	1,269,549	84,355	1,864,354	—	3,220,065
At 1 January 2013	**—**	**1,807**	**1,269,549**	**84,355**	**1,864,354**	**—**	**3,220,065**
Other comprehensive income							
— currency translation differences	**—**	**—**	**—**	**—**	**590,155**	**—**	**590,155**
Appropriation to statutory reserves	**—**	**—**	**350,598**	**—**	**—**	**—**	**350,598**
Share-based compensation							
— value of employee services	**—**	**—**	**—**	**81,441**	**—**	**—**	**81,441**
— proceeds from shares issued	**102,469**	**—**	**—**	**—**	**—**	**—**	**102,469**
— exercise of share options	**30,887**	**—**	**—**	**(30,887)**	**—**	**—**	**—**
Convertible bonds							
— equity component	**—**	**—**	**—**	**—**	**—**	**176,565**	**176,565**
At 31 December 2013	**133,356**	**1,807**	**1,620,147**	**134,909**	**2,454,509**	**176,565**	**4,521,293**

For the year ended 31 December 2013

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

Company

	Share premium account HK$'000 *(Note (a))*	Capital redemption reserve HK$'000	Share-based compensation reserve HK$'000	Convertible bonds — equity component HK$'000	Total HK$'000
At 1 January 2012	694,824	1,807	31,110	—	727,741
Transfer to retained earnings *(Note (a))*	(628,178)	—	—	—	(628,178)
Share-based compensation					
— value of employee services	—	—	53,393	—	53,393
— proceeds from shares issued	501	—	—	—	501
— exercise of share options	148	—	(148)	—	—
At 31 December 2012	67,295	1,807	84,355	—	153,457
At 1 January 2013	**67,295**	**1,807**	**84,355**	**—**	**153,457**
Transfer to retained earnings *(Note (a))*	**—**	**—**	**—**	**—**	**—**
Share-based compensation					
— value of employee services	**—**	**—**	**81,441**	**—**	**81,441**
— proceeds from shares issued	**102,469**	**—**	**—**	**—**	**102,469**
— exercise of share options	**30,887**	**—**	**(30,887)**	**—**	**—**
Convertible bonds					
— equity component	**—**	**—**	**—**	**176,565**	**176,565**
At 31 December 2013	**200,651**	**1,807**	**134,909**	**176,565**	**513,932**

Notes:

(a) Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company. No share premium was transferred to retained earnings during the year ended 31 December 2013 (2012: HK$628,178,000).

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

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

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30 RETAINED EARNINGS — GROUP AND COMPANY

	Group		Company	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
At 1 January	**10,735,224**	8,728,581	**1,170,475**	1,083,812
2012/2011 final dividends paid	**(1,169,815)**	(921,767)	**(1,169,815)**	(921,767)
2013/2012 interim dividends paid	**(1,046,677)**	(921,776)	**(1,046,677)**	(921,776)
Profit for the year	**3,721,031**	3,518,705	**2,551,883**	1,302,028
Appropriation to statutory reserves	**(350,598)**	(296,697)	**—**	—
Transfer from share premium account	**—**	628,178	**—**	628,178
At 31 December	**11,889,165**	10,735,224	**1,505,866**	1,170,475

31 BANK BORROWINGS — GROUP AND COMPANY

	Group		Company	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Non-current				
Long-term bank loans — unsecured	**959,643**	3,787,218	**250,000**	1,191,000
Current				
Trust receipt bank loans	**963,996**	1,173,458	**—**	—
Current portion of long-term bank loans — unsecured	**2,456,386**	850,847	**125,000**	391,200
Short-term bank loans — unsecured	**9,812,532**	5,416,273	**1,830,400**	1,087,000
	13,232,914	7,440,578	**1,955,400**	1,478,200
Total bank borrowings	**14,192,557**	11,227,796	**2,205,400**	2,669,200

As at 31 December 2013, the effective interest rate of the Group's borrowings is approximately 1.92% (2012: 2.45%) per annum.

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

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

	Group		Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
HK$	**5,546,376**	3,748,902	**1,675,000**	1,576,200
US$	**8,394,049**	7,137,697	**530,400**	1,053,000
RMB	**16,750**	41,332	**—**	40,000
EUR	**—**	299,865	**—**	—
AUD	**235,382**	—	**—**	—
	14,192,557	11,227,796	**2,205,400**	2,669,200

At 31 December 2013, the Group's long-term bank borrowings are repayable as follows:

	Group		Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Within 1 year	**2,456,386**	850,847	**125,000**	391,200
Between 1 and 2 years	**959,643**	2,950,073	**250,000**	511,000
Between 3 and 5 years	**—**	837,145	**—**	680,000
Wholly repayable within 5 years	**3,416,029**	4,638,065	**375,000**	1,582,200

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

The Group had the following undrawn bank borrowing facilities:

	Group	
	2013 HK$'000	2012 HK$'000
Undrawn bank borrowing facilities	**24,846,075**	17,800,640

32 CONVERTIBLE BONDS — GROUP AND COMPANY

	2013 HK$'000	2012 HK$'000
Face value of convertible bonds issued on 27 June 2013	5,434,000	—
Issuing expenses	(110,013)	—
Equity component	(176,565)	—
Liability component on initial recognition on 27 June 2013	5,147,422	—
Accumulated finance costs	79,708	—
Liability component	5,227,130	—

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

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

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

The fair value of the convertible bonds approximated its carrying amounts as at 31 December 2013.

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

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33 DEFERRED INCOME TAX — GROUP

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

	2013 HK$'000	2012 HK$'000
Deferred income tax assets		
— Deferred tax asset to be recovered within 12 months	**157,511**	152,116
Deferred income tax liabilities		
— Deferred tax liability to be settled after more than 12 months	**34,872**	39,295
— Deferred tax liability to be settled within 12 months	**134,274**	146,506
	169,146	185,801
Deferred income tax liabilities — net	**(11,635)**	(33,685)

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

Deferred income tax assets:

	Unrealised profit in inventories arising from intra-group transactions	
	2013 HK$'000	2012 HK$'000
At 1 January	**152,116**	131,110
Currency translation differences	**4,770**	56
Credited to consolidated income statement *(Note 9)*	**625**	20,950
At 31 December	**157,511**	152,116

33 DEFERRED INCOME TAX — GROUP *(continued)*

Deferred income tax liabilities:

	Withholding tax on unremitted earnings in PRC subsidiaries		Tax effect of fair value adjustments on assets recognised upon business combination		Total	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
At 1 January	**142,992**	134,580	**42,809**	46,323	**185,801**	180,903
Currency translation differences	**4,398**	48	**—**	—	**4,398**	48
(Credited)/charged to consolidated income statement *(Note 9)*	**(16,630)**	8,364	**(4,423)**	(3,514)	**(21,053)**	4,850
At 31 December	**130,760**	142,992	**38,386**	42,809	**169,146**	185,801

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 cumulative deferred tax assets of HK$42,869,000 (31 December 2012: HK$18,609,000) in respect of losses amounted to HK$171,474,000 (31 December 2012: HK$74,439,000) that can be carried forward against future taxable income as at 31 December 2013. The unrecognised tax losses expire in the following years:

	2013 HK$'000	2012 HK$'000
Expire year		
2013	**—**	12,430
2014	**6,030**	3,953
2015	**9,225**	9,047
2016	**18,079**	17,178
2017	**30,821**	31,831
2018	**107,319**	—
	171,474	74,439

Deferred income tax liabilities of HK$339,620,000 (2012: HK$381,140,000) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. The unremitted earnings are permanently reinvested. Unremitted earnings totalled HK$6,792,400,000 at 31 December 2013 (31 December 2012: HK$7,622,800,000).

34 TRADE AND OTHER PAYABLES — GROUP AND COMPANY

	Group		Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Trade payables	**2,096,990**	1,803,054	**18,904**	—
Other payables and accrued charges				
— Payables for purchase of property, plant and equipment	**494,122**	622,725	**—**	12,439
— Accrued expenses	**240,631**	202,767	**3,328**	—
— Advance receipts from customers	**280,415**	166,510	**726**	—
— Staff salaries payables	**138,500**	102,768	**—**	—
— Other taxes payables	**23,601**	19,097	**—**	—
— Dividend payables	**66,305**	65,059	**—**	—
— Others	**28,338**	38,449	**9**	—
	1,271,912	1,217,375	**4,063**	12,439
Trade and other payables	**3,368,902**	3,020,429	**22,967**	12,439

At 31 December 2013, the ageing analysis of trade payables was as follows:

	Group		Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Within 30 days	**1,527,717**	1,193,981	**18,904**	—
31—180 days	**544,042**	583,037	**—**	—
181—365 days	**9,112**	10,939	**—**	—
Over 365 days	**16,119**	15,097	**—**	—
	2,096,990	1,803,054	**18,904**	—

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

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

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

	Group		Company	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
RMB	**1,099,796**	839,538	**—**	—
US$	**995,542**	961,013	**18,904**	—
Other currencies	**1,652**	2,503	**—**	—
	2,096,990	1,803,054	**18,904**	—

35 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from operations

	2013 HK$'000	2012 HK$'000
Profit before income tax	**5,015,471**	4,538,954
Depreciation of property, plant and equipment *(Note 14)*	**664,903**	527,380
Amortisation of land use rights *(Note 16)*	**28,188**	22,987
Amortisation of intangible assets *(Note 17)*	**9,827**	10,386
Realised fair value gains on derivative financial instruments *(Note 6)*	**(1,239)**	—
Unrealised fair value losses on derivative financial instruments *(Note 6)*	**36,682**	2,623
Losses on disposal of property, plant and equipment and land use rights *(Note 6)*	**27,058**	2,524
Share-based compensation expenses *(Note 28)*	**81,441**	53,393
Amortisation of deferred income on government grants *(Note 7)*	**(1,188)**	(1,731)
Interest income and other finance income	**(625,310)**	(275,619)
Finance costs *(Note 8)*	**363,992**	239,590
Operating profit before working capital changes	**5,599,825**	5,120,487
Increase in inventories	**(429,166)**	(893,455)
Increase in trade and bills receivables, other receivables, deposits prepayments and deposits	**(346,387)**	(255,390)
Increase/(decrease) in trade payables, other payables and accrued charges	**395,402**	(7,888)
Cash generated from operations	**5,219,674**	3,963,754

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

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

	2013 HK$'000	2012 HK$'000
Net book value *(Note 14 and Note 16)*	**39,684**	10,285
Losses on disposal of property, plant and equipment and land use rights *(Note 6)*	**(27,058)**	(2,524)
Proceeds from disposal of property, plant and equipment and land use rights	**12,626**	7,761

36 CONTINGENT LIABILITIES

At 31 December 2013, the Group had no material contingent liabilities (2012: Nil).

37 COMMITMENTS

At 31 December 2013, the Group had the following commitments:

(a) Capital commitments

	Group	
	2013 HK$'000	2012 HK$'000
Contracted but not provided for in respect of:		
Machinery and equipment	**1,046,496**	1,091,778
Leasehold land and buildings	**493,556**	388,745
Land use rights	**—**	102,688
	1,540,052	1,583,211
Authorised but not contracted for in respect of:		
Machinery and equipment	**—**	727,861
Leasehold land and buildings	**215,029**	1,765,639
	215,029	2,493,500
Total capital commitments	**1,755,081**	4,076,711

37 COMMITMENTS *(continued)*

(b) Commitments under operating leases

At 31 December 2013, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land use rights and buildings	
	2013 **HK$'000**	2012 HK$'000
Not later than 1 year	**39,953**	40,411
Later than 1 year and not later than 5 years	**11,656**	14,570
Later than 5 years	**—**	149
	51,609	55,130

38 SIGNIFICANT RELATED PARTY TRANSACTIONS — GROUP

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

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following significant related party transactions during the year ended 31 December 2013:

	2013 **HK$'000**	2012 HK$'000
Purchases from Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power")		
— electricity energy	**158,589**	163,466
— heat energy	**101,631**	95,737
	260,220	259,203
Key management compensation		
— Basic salaries, housing allowances, other allowances and benefits-in-kind	**12,396**	15,251
— Share-based compensation	**7,351**	3,379
— Contributions to pension schemes	**71**	69
	19,818	18,699

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

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39 PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries of the Company at 31 December 2013 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 2013 %
Direct subsidiaries:				
Hengan Mega Jumbo Investments Ltd.	Hong Kong, limited liability company	Investment holding, trading and procurement in Hong Kong	9,000 ordinary shares of HK$1 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:				
Anhai (Macao Commercial Offshore) Limited	Macau, limited liability company	Trading and procurement in Macau	MOP100,000	100
Hengan (China) Investment Co., Ltd.	PRC, wholly foreign-owned enterprise	Investment holding, trading and procurement in the PRC	RMB1,180,000,000	100
Hengan Industrial (Hong Kong) Limited	Hong Kong, limited liability company	Trading and procurement in Hong Kong	2 ordinary shares of HK$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 products in the PRC	US$18,000,000	100

39 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2013 %
Indirect subsidiaries: *(continued)*				
Hengan (Jinjiang) Household Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$15,800,000	100
Hengan (Sichuan) Hygiene Products Co. Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$1,380,000	100
Hengan (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 sale of personal hygiene products 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

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39 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2013 %
Indirect subsidiaries: *(continued)*				
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
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$26,958,000	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

39 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2013 %
Indirect subsidiaries: *(continued)*				
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 packed tissue paper 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	RMB161,400,000	100
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) Hearttex Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB159,000,000	100
Hunan Hengan Living Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB552,280,000	100
Hengan (Chongqing) Living Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB559,200,000	100
Hengan (Shaanxi) Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$9,980,000	100

For the year ended 31 December 2013

39 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2013 %
Indirect subsidiaries: *(continued)*				
Jinjiang Hengan Hearttex Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$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
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 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

39 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2013 %
Indirect subsidiaries: *(continued)*				
Hengan (Wuhu) Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB324,000,000	100
Junichi (Xiamen) Maternal and Child Articles Co., Ltd.	PRC, wholly foreign-owned enterprise	Trading pregnant women, infants and kid's products in the PRC	HK$24,000,000	100
Junichi Co., Ltd.	Japan, limited liability company	Trading the products for ladies and babies in Japan	JPY100,000	100
Hengan (Henan) Hygiene Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB82,000,000	100
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	USD 35,000,000	100
廈門恒安物業有限公司	PRC, limited liability company	Property management in the PRC	RMB1,000,000	100
Fujian Hengan Homecare Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB310,000,000	100
Wuhu Hengan Hearttex Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB105,000,000	100
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

39 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2013 %
Indirect subsidiaries: *(continued)*				
QinQin Foodstuffs Group (Hong Kong) Limited	Hong Kong, limited liability company	Investment holding, distribution and sales of snack foods in Hong Kong	1 ordinary share of HK$1 each	51
Fushun Nanfang Food Industry Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB10,000,000	51
Fushun QinQin Food Industry Development Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB22,000,000	51
Luohe Linying QinQin Food Industry Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB100,000,000	51
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 in the PRC	RMB5,000,000	51

The total non-controlling interest for the period is HK$385,070,000, of which HK$363,356,000 is for QinQin Foodstuffs Group Company Limited. The non-controlling interests in respect of Hengan Pharmacare Company Limited, Fujian Hengan Holding Co., Ltd., Jinjiang Hengan Antimicrobial Science and Technology Development Co., Ltd. and Hengan Li Ren Tang (Jian) Cosmetics Co., Ltd. are not material.

39 PRINCIPAL SUBSIDIARIES *(continued)*

For the non-wholly owned subsidiaries, their non-controlling interest held are same as remaining interest other than those held by the Company, which are same as the voting rights have.

Summarised financial information on subsidiaries with material non-controlling interests

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

Summarised balance sheet

	2013 HK$'000	2012 HK$'000
Current		
Assets	**499,367**	347,545
Liabilities	**(451,171)**	(421,552)
Total current net assets/(liabilities)	**48,196**	(74,007)
Non-current		
Assets	**737,408**	750,029
Liabilities	**(44,062)**	(46,850)
Total non-current net assets	**693,346**	703,179
Net assets	**741,542**	629,172

Summarised income statement

	2013 HK$'000	2012 HK$'000
Revenue	**1,604,655**	1,387,486
Profit before income tax	**123,140**	58,088
Income tax expense	**(30,650)**	(21,858)
Post-tax profit from continuing operations	**92,490**	36,230
Other comprehensive income	**9,742**	2,156
Total comprehensive income	**102,232**	38,386
Total comprehensive income allocated to non-controlling interests	**50,094**	18,809
Dividends paid to non-controlling Interests	**–**	63,700

For the year ended 31 December 2013

39 PRINCIPAL SUBSIDIARIES *(continued)*

Summarised cash flows

	2013 HK$'000	2012 HK$'000
Cash flows from operating activities		
Cash generated from operations	**152,676**	108,006
Income tax paid	**(29,942)**	(25,130)
Net cash generated from operating activities	**122,734**	82,876
Net cash used in investing activities	**(13,027)**	(76,186)
Net cash used in financing activities	**(80)**	(1,327)
Net increase in cash and cash equivalents	**109,627**	5,363
Cash and cash equivalents at beginning of year	**85,863**	80,505
Exchange gains/(losses) on cash and cash equivalents	**4,317**	(5)
Cash and cash equivalents at end of year	**199,807**	85,863

The information above is the amount before inter-company eliminations.