



# 恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044



ANNUAL REPORT  
**2015**

# Corporate Mission

## “GROWING WITH YOU FOR A BETTER LIFE”

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





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# Corporate Information

## EXECUTIVE DIRECTORS

Sze Man Bok (*Chairman*)  
Hui Lin Chit (*Deputy Chairman and Chief Executive Officer*)  
Hung Ching Shan  
Xu Shui Shen  
Xu Da Zuo  
Xu Chun Man  
Sze Wong Kim  
Hui Ching Chi  
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*  
ReedSmith Richards Butler

*PRC*  
Global Law Office

*Cayman Islands*  
Maples and Calder Asia

## AUDITOR

PricewaterhouseCoopers  
*Certified Public Accountants*

## REGISTERED OFFICE

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

## HEAD OFFICE

Hengan Industrial City  
Anhai Town  
Jinjiang City  
Fujian Province  
PRC

## PLACE OF BUSINESS IN HONG KONG

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

## PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited  
Stock Code: 1044

## WEBSITES

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

## PRINCIPAL BANKERS

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

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

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

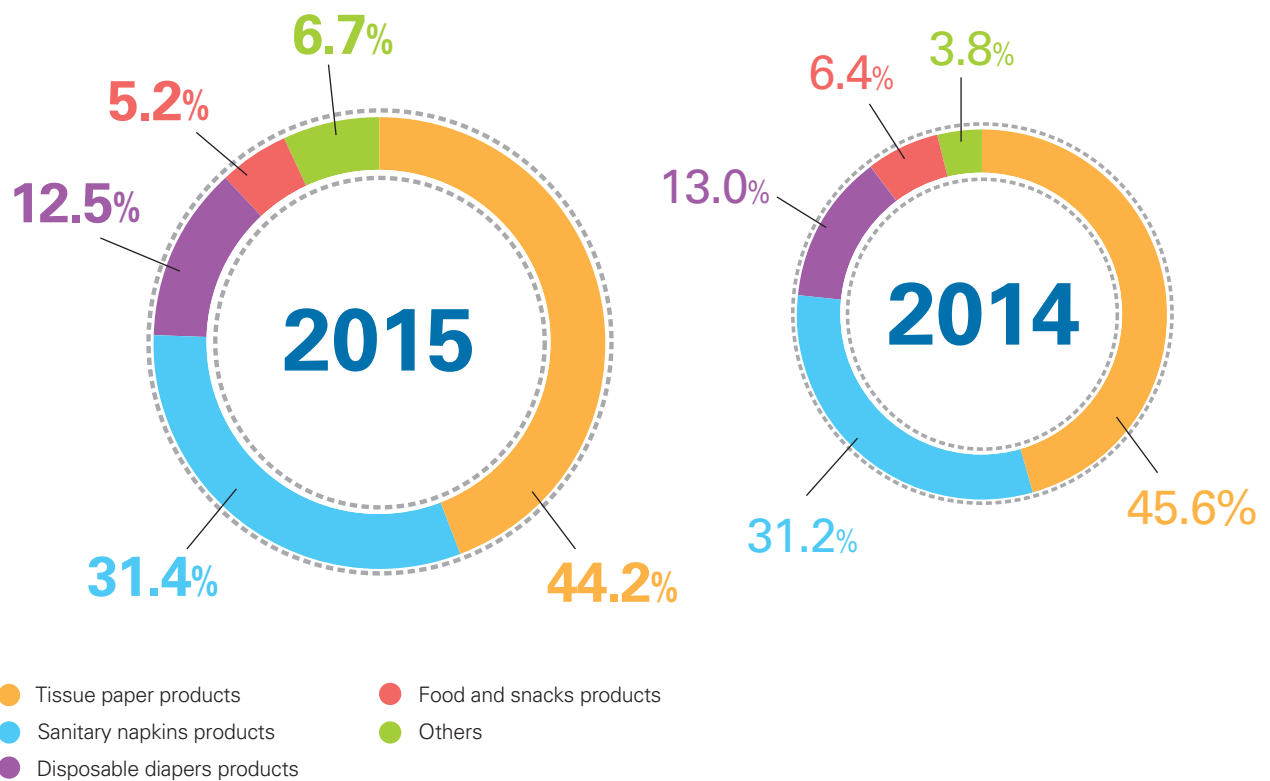
## INVESTORS AND MEDIA RELATIONS

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

# Financial Highlights

	2015	2014	2013	2012	2011
Net profit margin — based on profit attributable to shareholders of the Company (%)	16.6	16.4	17.6	19.0	15.5
Earnings per share (HK\$)	3.314	3.188	3.024	2.863	2.160
Finished goods turnover (days)	41	49	55	47	44
Trade receivables turnover (days)	38	36	35	37	35
Current ratio (times)	1.2	1.5	1.6	1.5	1.4
Gross gearing ratio (%)	98.3	116.5	117.5	79.8	58.5
Net gearing ratio (%)	(9.3)	(10.4)	(5.8)	(1.1)	(10.8)

## ANALYSIS OF REVENUE BY PRODUCT

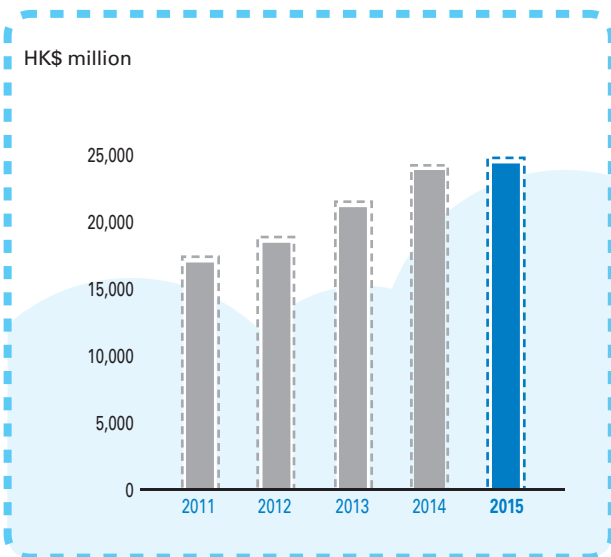


# Five-Year Financial Summary

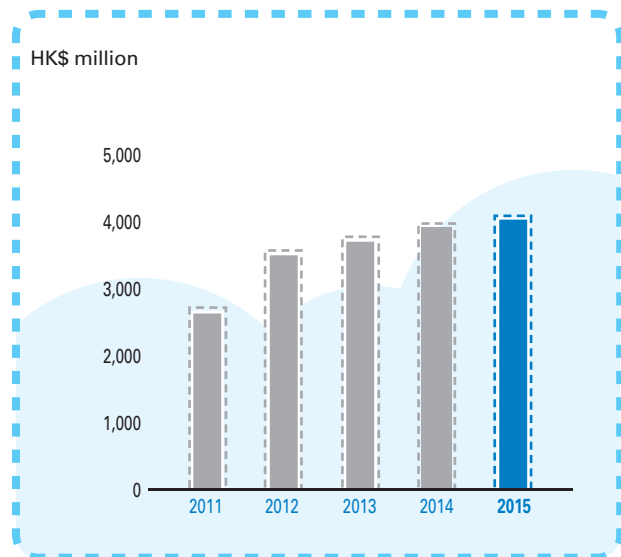
## CONSOLIDATED RESULTS – FOR THE YEAR ENDED 31 DECEMBER

	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000
Revenue	24,450,468	23,830,778	21,186,368	18,524,233	17,050,557
Profit before income tax	5,742,804	5,342,886	5,015,471	4,538,954	3,255,375
Income tax expense	(1,639,436)	(1,368,716)	(1,244,889)	(1,001,235)	(569,929)
Profit for the year	4,103,368	3,974,170	3,770,582	3,537,719	2,685,446
Non-controlling interests	(52,499)	(58,352)	(49,551)	(19,014)	(36,607)
Profit attributable to shareholders of the Company	4,050,869	3,915,818	3,721,031	3,518,705	2,648,839
Earnings per share (HK\$)	3.314	3.188	3.024	2.863	2.160

### REVENUE



### PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

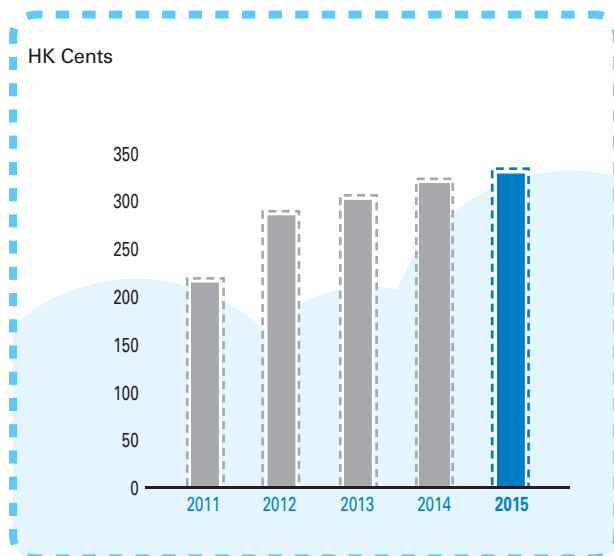


Five-Year Financial Summary

**CONSOLIDATED ASSETS AND LIABILITIES – AS AT 31 DECEMBER**

	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000
<b>Assets</b>					
Property, plant and equipment	8,910,303	8,861,823	8,627,200	7,815,553	5,203,336
Construction-in-progress	1,302,719	1,383,631	1,204,372	1,301,331	2,053,903
Investment properties	221,874	238,994	–	–	–
Land use rights	1,022,592	1,112,353	1,105,298	1,032,792	850,365
Intangible assets	589,261	603,522	581,150	590,822	601,212
Prepayments for non-current assets	181,337	356,534	379,463	275,625	439,325
Deferred income tax assets	222,123	217,229	157,511	152,116	131,110
Cash and bank balances	17,744,192	21,296,676	19,563,983	9,544,379	8,258,202
Long-term bank deposits	1,014,562	1,096,463	814,042	1,845,231	296,040
Other current assets	7,999,082	7,409,371	7,757,468	6,646,967	5,485,587
<b>Total assets</b>	<b>39,208,045</b>	<b>42,576,596</b>	<b>40,190,487</b>	<b>29,204,816</b>	<b>23,319,080</b>
<b>Liabilities</b>					
Long-term bank borrowings	–	–	959,643	3,787,218	403,735
Convertible bonds	5,558,495	5,390,267	5,227,130	–	–
Deferred income tax liabilities	188,808	136,855	169,146	185,801	180,903
Deferred income on government grants	–	–	929	2,070	3,807
Other current liabilities	15,583,777	18,986,415	16,914,973	10,821,487	10,011,888
<b>Total liabilities</b>	<b>21,331,080</b>	<b>24,513,537</b>	<b>23,271,821</b>	<b>14,796,576</b>	<b>10,600,333</b>
Non-controlling interest	452,255	425,419	385,070	330,048	377,334
<b>Net assets attributable to shareholders of the Company</b>	<b>17,424,710</b>	<b>17,637,640</b>	<b>16,533,596</b>	<b>14,078,192</b>	<b>12,341,413</b>

**EARNINGS PER SHARE**





"HEARTEX" AND "PINO" BOX TISSUE PAPER



"QINQIN" SNACK FOOD PRODUCTS



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



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



"SPACE 7", "ANERLE", "ANLE" AND "DORIA" SANITARY NAPKINS AND PANTLINERS







"HEARTEX" KITCHEN TOWELS



"HEARTEX" AND "PINO" POCKET HANDKERCHIEFS



"HEARTEX" PRESERVATION BAGS/PAPER



"HEARTEX" AND "PINO" TOILET ROLLS



"ELDERJOY" ADULT DIAPERS



"HEARTEX" WET TISSUES



"ANERLE" AND "Q-MO" BABY DIAPERS

# Chairman's Statement



Dear Shareholders,

On behalf of Hengan International Group Company Limited ("Hengan International" or the "Group"), I present its annual results for the year ended 31 December 2015. During the year under review, China's economy grew at a slower pace, but Chinese government accelerated reforms and innovations. China's new "two-child" policy", along with the country's ongoing urbanization process will spur consumption demand and bode well for expansion of markets of high-quality personal and household hygiene products. As a leading company in the market for personal care and family hygiene products in mainland China, Hengan leverages its brand equity and economies of scale to grasp opportunities in the changing market and drive its consistent business growth.

**SZE MAN BOK**  
Chairman

For the year ended 31 December 2015, the Group's revenue amounted to HK\$24,450,468,000 (2014: HK\$23,830,778,000), representing an increase of 2.6% over the prior year. Profit attributable to shareholders increased by about 3.4% to approximately HK\$4,050,869,000 (2014: HK\$3,915,818,000). Basic earnings per share were approximately HK\$3.314 (2014: HK\$3.188). The Board of Directors recommended the payment of a final dividend of HK\$1.15 per share (2014: HK\$1.15), which together with the interim dividend of HK\$0.95 per share (2014 1H: HK\$0.85), bringing the annual dividend to HK\$2.10 per share (2014: HK\$2.00).

During the year under review, the Group proactively responded to changes in the market and improved its marketing strategy, thus making steady progress in its major business. Its businesses of tissue paper, sanitary napkin and disposable diaper regained growth momentum in the second half of 2015. The tissue paper business continued to be the Group's major revenue source, accounting for approximately 44.2% of its total revenue. The businesses of sanitary napkin and disposable diaper remained resilient, and accounted for approximately 31.4% and 12.5% respectively of the Group's total revenue. The business of food and snacks accounted for 5.2% of the Group's total revenue. Benefitting from the optimized product portfolio which proved to be effective, as well as the drop in prices of such major raw materials as tissue wood pulp and petrochemical products, the Group's businesses of tissue paper, sanitary napkin and disposable diapers saw their gross profit margins increase.

Chairman's Statement

Hengan International consistently upheld its corporate spirit of integrity, diligence, innovation and dedication. The Group continued to launch new products and expand its operation by providing the public with high-quality personal and household hygiene products as well as improving the quality of their lives. In 2015, the Group won the "Outstanding Listed Enterprise Award". Its brand "Mind Act Upon Mind" was named by the U.S.-based World Brand Labs as one of the "China's 500 Most Valuable Brands" and the brand was valued at 8.69 billion yuan. The brand's value increased by 1.74 billion yuan or 25% over 2014, in recognition of the Group's outstanding performance and market position.

Looking ahead to 2016, uncertainties surrounding the global economy, along with the slowing economic growth in China will impact the consumer confidence and overall market sentiment. Nevertheless, the country's rising personal income as well as growing awareness of health and hygiene will continue to be the major driving forces for the personal hygiene products market.

In face of market consolidation and the challenges of ever-changing demand of consumers, the Group will stay committed to enhancing product quality, optimizing the product mix, flexibly deploying marketing strategy and capturing market opportunities with a view to improving its profitability. With its nationwide distribution network and bold expansion strategy, the Group is confident of delivering sustainable business growth and maintaining its leading position in mainland China's personal hygiene product market amid steady economic growth in China.

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



## Chairman's Statement

## REVENUE BY REGIONS IN MAINLAND CHINA



	2015	2014		2015	2014
<b>NORTH-WESTERN</b>			<b>EASTERN</b>		
Sales Value: (HK\$ million)	<b>1,294</b>	1,346	Sales Value: (HK\$ million)	<b>3,524</b>	3,542
Percentage of Total Sales:	<b>5.3%</b>	5.7%	Percentage of Total Sales:	<b>14.4%</b>	14.9%
<b>NORTHERN</b>			<b>CENTRAL</b>		
Sales Value: (HK\$ million)	<b>2,265</b>	2,513	Sales Value: (HK\$ million)	<b>3,084</b>	2,940
Percentage of Total Sales:	<b>9.3%</b>	10.5%	Percentage of Total Sales:	<b>12.6%</b>	12.3%
<b>NORTH-EASTERN</b>			<b>FUJIAN AND GUANGDONG</b>		
Sales Value: (HK\$ million)	<b>1,428</b>	1,471	Sales Value: (HK\$ million)	<b>5,452</b>	4,404
Percentage of Total Sales:	<b>5.8%</b>	6.2%	Percentage of Total Sales:	<b>22.3%</b>	18.5%
<b>SHANDONG</b>			<b>SOUTH-WESTERN</b>		
Sales Value: (HK\$ million)	<b>2,454</b>	2,438	Sales Value: (HK\$ million)	<b>1,105</b>	1,269
Percentage of Total Sales:	<b>10.0%</b>	10.2%	Percentage of Total Sales:	<b>4.5%</b>	5.3%
<b>SICHUAN</b>					
Sales Value: (HK\$ million)	<b>2,046</b>	2,013			
Percentage of Total Sales:	<b>8.4%</b>	8.4%			

**Sze Man Bok**  
Chairman

Hong Kong, 22 March 2016

# Chief Executive Officer's Report

Dear Shareholders,

In 2015, the global economic recovery was tepid. The United States' economy expanded moderately, while the economic recovery in the eurozone remained slow and the overall economic growth in emerging markets further decelerated. Although the People's Bank of China implemented targeted easing policy during the year under review, China's economic growth continued to slow down. According to China's National Bureau of Statistics, China's GDP rose by about 6.9% to about RMB67,670.8 billion in 2015.



**HUI LIN CHIT**  
Chief Executive Officer

## BUSINESS REVIEW

For the year ended 31 December 2015, faced with fierce market competition alongside tight cash flow and mounting inventory among some distributors, the Group recorded revenue of approximately HK\$24,450,468,000 (2014: HK\$23,830,778,000), only rose by about 2.6% compared with last year. Operating profit increased by about 7.0% to approximately HK\$6,151,002,000 (2014: HK\$5,750,058,000). During the year under review, Renminbi devalued against the Hong Kong dollar and the US dollar, the Group recorded a foreign exchange loss of approximately HK\$429,238,000 (2014: HK\$132,264,000). Profit attributable to shareholders was approximately HK\$4,050,869,000 (2014: HK\$3,915,818,000), an increase of approximately 3.4% compared with that of last year. The Board of Directors declared a final dividend of HK\$1.15 per share for the year ended 31 December 2015 (2014: HK\$1.15).

During the year under review, the positive impact brought by an optimized product mix, expanding economies of scale, and falling raw material prices, has offset the negative impact of intensifying market competition, and hence the Group's gross profit margin increased to approximately 47.6% (2014: 46.1%).



## Chief Executive Officer's Report

Distribution costs and administrative expenses decreased as a percentage of revenue, accounting for approximately 25.3% (2014: 26.9%) of the Group's total revenue. The decrease was mainly attributable to the decline in transportation and warehousing costs amid significant falling oil prices and improvement in logistics and warehouse management as well as the drop in marketing and advertising expenses resulted from a switch from distributors to self-operation in some of the emerging maternity stores and online sales channels.

Effective tax rate increased to approximately 28.5% (2014: 25.6%) as the Group has paid dividend withholding tax on the amount of dividend remitted to holding company out of mainland China during the year and has provided dividend withholding tax for the dividend which may be remitted in the foreseeable future.

## SANITARY NAPKINS



Accelerating urbanization and rising living standards raised the market penetration rate of sanitary napkins and promoted consumption upgrade, which continued to drive the development of the sanitary napkin market. However, during the year, there was keen competition in the market. In addition, some of the Group's distributors faced cash crunch and excess inventories, coupled with the devaluation of the Renminbi, limited the growth of the Group's sanitary napkin business.

Revenue of the sanitary napkin business grew by approximately 3.4% to approximately HK\$7,683,399,000, which accounted for around 31.4% of the total revenue (2014: 31.2%). Optimized product portfolio and the continued decline in the prices of major raw materials, petrochemical products, boosted the gross profit margin of sanitary napkin business to approximately 72.6% (2014: 68.5%).

Looking into 2016, the Group expects sales performance to improve as its new and upgraded products received warm response and inventories at distributors have gradually returned to a reasonable level. The sales growth in the first quarter of 2016 is better than the sales growth in 2015. The Group will continue to expand its emerging online sales channels, focus on product innovation, optimize product mix and increase the sales of mid-to-high-end and high-end products to meet the changing needs of the market.

## TISSUE PAPER

Increasing health and hygiene awareness as well as rising living standard of the Chinese people continued to fuel the expansion of high-quality tissue paper market. China's tissue consumption per capita still lags behind that of developed countries, implying enormous market potential. However, the overall overcapacity in the industry, as well as stiff competition and the devaluation of Renminbi continued to impact the growth rate of the Group's tissue paper business. As such, the sales of the Group's tissue paper declined slightly by approximately 0.5% to approximately HK\$10,800,191,000, accounting for approximately 44.2% (2014: 45.6%) of the Group's total revenue. Excluding the sales of low-margin raw paper business (mainly for export purpose), the sales of domestic products increased mildly by about 1.5%.

As the drop in prices of tissue wood pulp used in tissue paper production offset the negative impact of intense market competition and increased efforts in marketing and brand promotions, gross profit margin increased to approximately 35.6% (2014: 34.5%) from last year.



## Chief Executive Officer's Report

As the newly-packaged products are well accepted by the market, the Group expects tissue sales to improve in 2016. There is a positive overall sales growth in the first quarter of 2016.

The Group's annualized production capacity was approximately 1,020,000 tons in 2015, and it is expected to increase to approximately 1,140,000 tons in the second half of 2016 or in the first half of 2017. The Group will examine future market conditions and sales performance to determine the expansion of its production capacity. In addition, the Group will continue to expand its emerging online sales channels in the future.

### DISPOSABLE DIAPERS

In light of urbanization and increasing personal hygiene awareness, the demand for disposable diapers continued to rise. The market penetration rate of disposable diapers is still low as many people in China do not consider diapers as a necessity, which implies a huge untapped market potential. Despite increasing competition brought by a large number of manufacturers entering the market, it is expected that market penetration rate of diapers will continue to grow, thanks to China's new two-child policy and improved living standards.

During the year under review, the Group continued to strengthen promotional efforts for mid-to-high-end products, and actively expanded its presence in the emerging maternity stores and e-commerce sales channels. Sales of mid-to-high-end diapers increased by approximately 21.9%, indicating the rising market demand for higher end products. However, battered by fierce competition in the markets of low-end diapers (i.e. simplified diapers) and mid-end diapers along with the devaluation of Renminbi, its sales dropped by approximately 22.6% and 16.1% respectively. As a result, revenue from the sales of diapers for the year ended 31 December 2015 slightly decreased by approximately 1.6% to approximately HK\$3,044,739,000, accounting for approximately 12.5% of the Group's total revenue (2014: 13.0%).

The optimized product portfolio proved to be effective. This, together with the continued drop in prices of major raw materials, petrochemical products, boosted the gross profit margin to approximately 49.3% (2014: 45.3%).

In 2016, the Group will continue to enhance the promotion of mid-to-high-end products, expand its business presence in maternity stores and e-commerce sales channels in the hope of increasing sales for the long term. Accordingly, the sales performance in the first quarter of 2016 is better than that of 2015.



### FOOD AND SNACK PRODUCTS

As the snack products of the Group are not daily necessities, their sales were affected by the economic slowdown. During the year, sales of food and snack products decreased by about 17.4% to approximately HK\$1,267,144,000, accounting for approximately 5.2% of the Group's total revenue (2014: 6.4%). The decline in the costs of major raw materials such as palm oil and packaging materials offset the negative impact of intense market competition. As such, gross profit margin remained stable at approximately 42.2% (2014: 42.4%).



## Chief Executive Officer's Report

As quality of living in China improves, the Group believes that the snack business will maintain a steady growth in the long term. In 2016, the Group will continue to commit resources to enriching its product portfolio in order to cater to the different tastes of consumers, and hence propel the revenue growth of the business.

With reference to the Company's announcement published on 11 January 2016, the Company plans to spin off its food and snacks business. Related work is in progress and is expected to be completed in 2016. For more details, please refer to the Company's upcoming announcements and circular.

### FIRST AID PRODUCTS

First-aid product sales under the brands of "Banitore" and "Bandi" amounted to approximately HK\$42,307,000 (2014: HK\$41,334,000). The business only accounted for approximately 0.2% (2014: 0.2%) of the Group's total revenue, and did not have significant impact on the Group's overall results.

### EXCHANGE LOSS AND FOREIGN CURRENCY RISKS

During the year under review, Renminbi devalued against the Hong Kong dollar and the US dollar. The Group's Renminbi-denominated dividend receivables from mainland subsidiaries in the Hong Kong companies' accounts generated a total foreign exchange loss of approximately HK\$227,653,000. In addition, as Hong Kong and Macau companies had Renminbi deposits while the mainland companies had net US dollar bank loans, a total foreign exchange loss of approximately HK\$102,654,000 was generated. The Group has taken appropriate measures by reducing substantially Renminbi-denominated assets in Hong Kong and Macau, and having net US dollar deposits in the mainland companies. As a result, foreign exchange losses arising from possible Renminbi devaluation are expected to decrease in 2016.

Most of the Group's income is denominated in Renminbi while part of the raw materials is imported and settled in US dollars. The Group has never had any significant 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 2015, apart from certain forward foreign exchange contracts and interest rate swap contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

### APPOINTMENT OF PROFESSIONAL CONSULTANTS

As mentioned in 2014 annual report, to further optimize the operation process of the Group's supply chain, logistics networks, inventory management and information technology planning, the Group appointed IBM (China) Co., Ltd. to give professional advice on the above aspects. In addition, the Group signed a contract with SAP (Beijing) Software Systems Co., Ltd. to use its software to support the evolving business development in the future. The Group is now conducting trials in some provinces, and the entire project is expected to be completed in the second half of 2016 or the first half of 2017.

In addition, the company also hired PricewaterhouseCoopers Consulting (Shanghai) Co., Ltd. in February 2016 to provide advisory services regarding the preparation of "Environmental, Social and Governance Report". The detail report is expected to be presented in 2016 annual report.

### PRODUCT RESEARCH AND DEVELOPMENT

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



## Chief Executive Officer's Report

**LIQUIDITY, FINANCIAL RESOURCES AND BANK LOANS**

The Group maintained a solid financial position. As at 31 December 2015, the Group's cash and bank balances, long-term bank deposits and restricted bank deposits amounted to approximately HK\$18,783,978,000 (31 December 2014: HK\$22,432,839,000); the liability component of convertible bonds amounted to approximately HK\$5,558,495,000 (31 December 2014: HK\$5,390,267,000), and bank borrowings amounted to approximately HK\$11,573,518,000 (31 December 2014: HK\$15,164,387,000).

The net proceeds from the issuance of convertible bonds in June 2013 was approximately HK\$5,324 million, of which approximately HK\$3,751 million was used for repayment of bank borrowings, approximately HK\$442 million was invested in subsidiaries, approximately HK\$302 million was used for share repurchases, approximately HK\$551 million was used to pay dividends, approximately HK\$116 million was placed as fixed deposits and approximately HK\$162 million was used for general working capital purposes.

The convertible bonds were subject to a fixed interest rate of 2.7% while the bank borrowings were subject to floating annual interest rates ranging from approximately 0.3% to 5.2% (2014: from 1.1% to 5.2%).

As at 31 December 2015, the Group's gross gearing ratio, 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) fell to approximately 98.3% (2014: 116.5%). The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term time deposits as a percentage of the shareholders' equity (not including non-controlling interests), was approximately negative 9.3% (2014: negative 10.4%) as the Group was in a net cash position.

During 2015, the Group's capital expenditure amounted to approximately HK\$1,375,339,000. As at 31 December 2015, the Group had no material contingent liabilities.

**HUMAN RESOURCES AND MANAGEMENT**

As at 31 December 2015, the Group employed approximately 29,700 staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and career opportunities according to their needs.

**LATEST AWARDS**

During the year, the Group was awarded "The Excellence of Listed Enterprise Awards 2015". The accreditation reaffirmed recognitions from all sectors of society of the Group's excellent performance and market position. The Group will continue to do its best and enhance the values of its brands.

**OUTLOOK**

Looking ahead to 2016, the global economic environment will remain challenging. China's economy has entered into a new normal stage of moderate growth. Nevertheless, China's rising per capita income, accelerated urbanization and consumers' increasing awareness of personal hygiene will continue to bode well for the development of the personal hygiene market.

In response to market consolidation and the changes to the structure of product sales, the Group will continue to optimize its product portfolio in order to maintain its market share. Meanwhile, the Group will strive to improve product quality and management efficiency, thereby strengthening its brand influence as well as increasing profitability and overall competitiveness. The Group will continue to pay close attention to the trends in raw material prices, and optimize product portfolio in light of market changes, further improving its gross profit margin.

With its strong brand equity and high-level corporate governance, as well as a nationwide distribution network, the Group is confident of maintaining its leading position in mainland China's personal hygiene product market. It will ensure steady business growth and create greater value for shareholders.

## Directors and Senior Management Profiles



Mr. Sze Man Bok



Mr. Hui Lin Chit



Mr. Hung Ching Shan



Mr. Xu Shui Shen



Mr. Xu Da Zuo



Mr. Xu Chun Man

### DIRECTORS

#### Executive Directors

**Mr. Sze Man Bok**, aged 66, 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 62, 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 66, is responsible for supervising the Group's purchasing tender assignments. He has over 37 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 46, was appointed as Deputy Chief Executive Officer of the Group on 26 March 2013. He is also the Chief Operating Officer of the Group. He is responsible for the development and implementation of the Group's sales strategy, operation and business management. He joined the Group in 1985 and has over 31 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 49, 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 31 years of experience in accounting and internal audit. He has the title of senior accountant in the PRC. He is a brother of Mr. Xu Lian Pi and Mr. Xu Shui Shen, senior management of the Group and a Director of the Company respectively.

**Mr. Xu Chun Man**, aged 41, 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 25 years of experience in business development and customer service management.

## Directors and Senior Management Profiles



Mr. Sze Wong Kim



Mr. Hui Ching Chi

Mr. Loo Hong  
Shing Vincent

Mr. Chan Henry

Ms. Ada Ying Kay  
Wong

**Mr. Sze Wong Kim**, aged 40, 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 31. He 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. Mr. Hui worked in a major international bank in London prior to joining the Group in February 2008. Mr. Hui holds a Law Degree from the London University. He is a son of Mr. Hui Lin Chit, the Chief Executive Officer and a Substantial shareholder of the Company.

**Mr. Loo Hong Shing Vincent**, aged 50, 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 50, 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 29 years of experience in the financial market and is the Managing Director of Sanfull Securities Limited. He was a Director of the Stock Exchange and was also a member of the Advisory Committee of the Securities and Futures Commission. Mr. Chan is currently the Permanent Honorary President of Hong Kong Stockbrokers Association Limited, and an independent non-executive director of Luen Thai Holdings Limited, a company listed on the Main Board of the Stock Exchange, which engages in the manufacturing and trading of garment and textile products. Mr. Chan is also a committee member of the Chinese People's Political Consultative Conference in Xiamen, Fujian Province, China. Mr. Chan holds a Master degree in Business Administration.

**Ms. Ada Ying Kay Wong**, JP, aged 56, 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. 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.

## Directors and Senior Management Profiles



Mr. Wang Ming Fu



Mr. Ho Kwai Ching Mark



Mr. Zhou Fang Sheng

**Mr. Wang Ming Fu**, aged 50, 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 21 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 54, is an Independent Non-executive Director of the Company appointed on 1 January 2013. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee. He is currently a consultant in the securities and futures industry and an independent non-executive director of Lee Kee Holdings Limited, a company listed on the Main Board of the Stock Exchange. He was the Chief

Operating Officer of Oriental Patron Securities Limited, the Chief Compliance Officer of Hong Kong Mercantile Exchange Limited, the Director of Business Development of Sun Hung Kai Securities Limited and a Director of Phillip Securities (HK) Limited. He was also previously Vice President of Corporate Strategy of Hong Kong Exchanges and Clearing Limited and Head of Compliance of Hong Kong Futures Exchange Limited. He has more than 21 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 66, 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 22 years of management experience. From 1991 to 1997, Mr. Zhou served as deputy division director and division director in State-owned Assets Administration Bureau, and deputy director in Stated-owned Assets Administration Research Institute. From 1997 to 2001, Mr. Zhou worked as deputy director in difficulty relief working office for state-owned enterprises of State Economic and Trade Commission. From 2001 to 2003, Mr. Zhou served as a director in State-owned Assets Administration Research Section of Research Institute for Fiscal Science of Ministry of Finance. From 2003 to 2009, Mr. Zhou worked as Vice Counsel in charge of state-owned enterprise restructuring and business management in Enterprise Reform Bureau of State-owned Assets Supervision and Administration Commission of the State Council. Mr. Zhou was appointed as a supervisor of Sinotrans Limited, a company listed on the Main Board of the Stock Exchange on 19 November 2011. He has been also appointed an independent non-executive director of Beijing BDStar Navigation Co., Ltd and China Aviation Optical-Electrical Technology Co., Ltd, companies listed on Shenzhen Stock Exchange, since 16 January 2012 and 13 June 2013 respectively.

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## Directors and Senior Management Profiles

### Senior Management

**Mr. Cheng Yong**, aged 51, 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 26 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 55, is the General Manager of Product Operation Department and is responsible for the Group's daily operation management. Mr. Xu joined the Group in 1985 and has over 30 years of experience in human resources management, administration, marketing and sales of fast moving consumer products. He has the title of senior economist in the PRC. He is an elder brother of Mr. Xu Da Zuo and Mr. Xu Shui Shen, Directors of the Company.

**Mr. Xu Wen Mo**, aged 50, is the Director of Tissue Paper Products Development Department of the Group and is responsible for the overall management and business development of paper products of the Group. Mr. Xu joined the Group in 1985 and has accumulated over 27 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 48, 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 30 years of experience in management, marketing and sales of consumer products. He obtained his MBA from University of North Virginia in US and has the title of financial economist in the PRC.

**Ms. Liu Ying**, aged 47, is the Deputy Director of the Human Resources Department and is responsible for the Group's human resources management. Joining the Group in 1995, she has accumulated over 29 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 41, is the General Manager of Internal Audit Department. He joined the Group in 1998 and has over 20 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 consulante.

**Mr. Pan Jia Hong**, aged 42, is the Director of Trade Development Department and is responsible for sales management and development. He joined the Group in 1996 and has over 20 years of experience in sales and operation management. Mr. Pan graduated from the Huaqiao University specialized in accounting.

**Mr. Wang Gui Zhong**, aged 42, is the Deputy Director of Diaper Products Development Department of the Group and is responsible for the overall management and business development of diaper products of the Group. Before taking up this position, he held the position of sales and marketing general manager of Tissue Paper Products Development Department of the Group, responsible for marketing and brand management of Tissue Paper Products Development Department of the Group. Mr. Wang joined the Group in 1999 and has over 17 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 53, is the Director of the Strategic Development Department of the Group and is responsible for corporate development and investment. Before re-joining the Group in 2010, he worked as senior management in some listed companies and has over 32 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 2015.

## 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, reevaluating the performance of the Group and supervising the work of management. The management is responsible for the daily operations of the Group under the leadership of the Chief Executive Officer.

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

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

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

Corporate Governance Report

**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 statutes, 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 2015, all directors of the Company were updated regularly on the Group's business, operations, risk management and corporate governance matters. Materials on new or changes to salient laws and regulations applicable to the Group were provided to the directors. All directors are requested to provide the Company with their respective training record.

During the year 2015, the Directors also participated in the following trainings:

Members	Types of training
<b>EXECUTIVE DIRECTORS</b>	
Mr. Sze Man Bok ( <i>Chairman</i> )	A/C
Mr. Hui Lin Chit ( <i>Deputy Chairman and Chief Executive Officer</i> )	A/B/C
Mr. Hung Ching Shan	A/C
Mr. Xu Shui Shen	A/C
Mr. Xu Da Zuo	A/B/C
Mr. Xu Chun Man	A/C
Mr. Sze Wong Kim	A/C
Mr. Hui Ching Chi	A/C
Mr. Loo Hong Shing Vincent	A/C
<b>INDEPENDENT NON-EXECUTIVE DIRECTORS</b>	
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/B/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.

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## Corporate Governance Report

### 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 2015, one remuneration committee meetings were held.

Directors' emoluments comprise payments to Directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The amounts paid to each Director of the Company for 2015 are showed in Note 39 to the accounts.

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

- reviewed the Group's remuneration policy and made recommendations to the Board; and
- reviewed and approved the proposed 2015 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.



## Corporate Governance Report

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

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

- met with the external auditor to discuss the general scope and findings of their annual audit and interim review work;
- reviewed and recommended to the Board for approval of the external auditor’s remuneration;
- made recommendations to the Board on the re-appointment of the external auditor;
- reviewed the external auditor’s independence, objectivity and the effectiveness of the audit process;
- reviewed the annual and interim reports and annual and interim announcements of the Company;
- discussed on auditing, internal control, risk management and financial reporting matters before recommending them to the Board for approval; and
- reviewed the connected transactions entered into by the Group.

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

## NOMINATION COMMITTEE

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

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

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

- (i) reviewed the structure, size and composition of the Board, considering *inter alia* the skills, knowledge, the breadth of expertise of the Board as a whole, and make recommendations on any proposed changes to the Board to complement the Company’s corporate strategy;
- (ii) assess the independence of Independent Non-executive Directors and confirmed that all independent non-executive directors are considered independent; and
- (iii) made recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

## Corporate Governance Report

In accordance with Article 116 of the Articles of Association of the Company, Mr. Hui Ching Chi, Ms. Ada Ying Kay Wong, Mr. Wang Wing Fu, Mr. Ho Kwai Ching Mark, Mr. Zhou Fang Sheng 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 2015:

Directors	Attendance/Number of Meetings Held				
	Full Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting
<b>Executive Directors</b>					
Mr. Sze Man Bok ( <i>Chairman</i> )	4/4	N/A	N/A	1/1	1/1
Mr. Hui Lin Chit ( <i>Vice-chairman and Chief Executive Officer</i> )	3/4	N/A	1/1	1/1	1/1
Mr. Hung Ching Shan	3/4	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
<b>Independent Non-executive Directors</b>					
Mr. Chan, Henry	4/4	2/2	1/1	1/1	1/1
Ms. Ada Ying Kay Wong	4/4	2/2	1/1	1/1	1/1
Mr. Wang Ming Fu	3/4	2/2	1/1	1/1	0/1
Mr. Ho Kwai Ching, Mark	4/4	2/2	1/1	1/1	1/1
Mr. Zhou Fang Sheng	3/4	1/2	0/1	0/1	0/1

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

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

\* Being the secretary of the meetings.

## AUDITOR'S REMUNERATION

The Group was charged approximately HK\$6,584,000 and HK\$622,000 by the Company's external auditor, PricewaterhouseCoopers, for auditing and non-auditing services respectively for the year ended 31 December 2015. Non-auditing services mainly included services provided for tax advisory services and professional services in accordance with the Hong Kong Standard on Related services 4400 "Engagement to Perform Agreed-Upon Procedures Regarding Financial Information" for continuing connected transaction on sample basis and preliminary announcements of results provided during the year. The Audit Committee is of the view that the auditors' independence is not affected by the services rendered.

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## Corporate Governance Report

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

### INTERNAL CONTROLS

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

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

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

In 2015, 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.

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## Corporate Governance Report

### (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](http://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.

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## Corporate Governance Report

### **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 2015, the Group has 437 part-time trainers, lecturing 35,240 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 three decades, the Group and its major shareholders had donated a total of over RMB1,000 million to all kinds of commonweal works and charities. The Group has also donated about HK\$74,794,000 in 2015. The Company set up a youth volunteer service team in 2011, which has 117 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 2015.

## 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:

	2015		2014	
	Revenue HK\$'000	Contribution to operating profit HK\$'000	Revenue HK\$'000	Contribution to operating profit HK\$'000
Personal hygiene products				
— Sanitary napkin products	7,683,399	3,558,698	7,427,740	3,132,616
— Disposable diaper products	3,044,739	689,983	3,094,573	540,592
— Tissue paper products	10,800,191	1,136,682	10,857,293	892,683
Food and snack products	1,267,144	69,778	1,534,749	115,091
Others	1,654,995	92,450	916,423	815
	<b>24,450,468</b>	<b>5,547,591</b>	<b>23,830,778</b>	<b>4,681,797</b>

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

	2015		2014	
	Revenue HK\$ million	Percentage of total revenue (%)	Revenue HK\$ million	Percentage of total revenue (%)
PRC				
— Fujian and Guangdong	5,452	22.3	4,404	18.5
— North-western	1,294	5.3	1,346	5.7
— South-western	1,105	4.5	1,269	5.3
— Sichuan	2,046	8.4	2,013	8.4
— North-eastern	1,428	5.8	1,471	6.2
— Northern	2,265	9.3	2,513	10.5
— Shandong	2,454	10.0	2,438	10.2
— Eastern	3,524	14.4	3,542	14.9
— Central	3,084	12.6	2,940	12.3
Overseas	1,798	7.4	1,895	8.0
	<b>24,450</b>	<b>100</b>	<b>23,831</b>	<b>100</b>

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## Report of the Directors

### RESULTS AND APPROPRIATIONS

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

The Directors declared an interim dividend of HK\$0.95 (2014: HK\$0.85) per ordinary share, totalling HK\$1,157,175,000 (2014: HK\$1,042,779,000), which was paid on 8 October 2015.

The Directors recommend the payment of/paid a final dividend of HK\$1.15 (2014: HK\$1.15) per ordinary share, totalling HK\$1,400,808,000 (2014: HK\$1,408,075,000). Such dividend is to be approved by shareholders of the Company at the annual general meeting to be held on 18 May 2016.

### 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 45.

### DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK\$74,794,000 (2014: HK\$1,783,000).

### PROPERTY, PLANT AND EQUIPMENT

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

### SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 24 to the accounts.

### DISTRIBUTABLE RESERVES

The Company's reserves available for distribution comprise the share premium account and retained earnings. At 31 December 2015, the reserves of the Company available for distribution to shareholders amounted to HK\$3,547,414,000 (2014: HK\$1,554,039,000), subject to the restrictions stated in Note 26 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.

## Report of the Directors

**PURCHASE, SALE OR REDEMPTION OF SHARES**

During the year ended 31 December 2015, the Company repurchased a total of 6,340,000 ordinary shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of approximately HK\$470,996,000 (excluding expenses) for enhancing its per share net asset value and earnings. All the repurchased shares were subsequently cancelled. Details of the repurchase of shares are summarized as follows:

Date of repurchase	Number of shares repurchased	Highest price paid HK\$	Lowest price paid HK\$
7 July 2015	50,000	79.70	79.70
26 August 2015	2,918,500	75.10	71.00
27 August 2015	946,500	74.90	73.20
28 August 2015	201,500	75.95	75.95
31 August 2015	490,000	76.00	74.75
1 September 2015	904,000	76.00	75.00
2 September 2015	628,000	75.00	74.05
4 September 2015	201,500	74.20	73.65
	<u>6,340,000</u>		

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2015.

**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. Hui Ching Chi, Ms. Ada Ying Kay Wong, Mr. Wang Ming Fu, Mr. Ho Kwai Ching Mark, Mr. Zhou Fang Sheng retire, and being eligible, offer themselves for re-election.



## Report of the Directors

**DIRECTORS' SERVICE CONTRACTS**

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

Independent Non-Executive Directors were appointed for a 3-year term. The letters of appointment of Mr. Chan Henry and Ms. Ada Ying Kay Wong shall expire on 15 December 2017, while Mr. Wang Ming Fu, Mr. Ho Kwai Ching Mark and Mr. Zhou Fang Sheng shall expiry on 31 December 2018.

**BIOGRAPHICAL 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 35 to the accounts.

	2015 HK\$'000	2014 HK\$'000
Purchases from Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power")		
— Electricity energy	119,281	131,673
— Heat energy	72,574	83,839

Pursuant to agreements entered between a wholly-owned subsidiary of the Company and Weifang Power, an electricity generation company, the Group purchased electricity and heat energy from Weifang Power at prices determined according to the terms of the contract. Weifang Power is beneficially owned by Mr. Sze Wong Kim, an executive director of the Company, and a son of Mr. Hui Lin Chit, an executive director and a substantial shareholder of the Company.

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

## Report of the Directors

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.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

## COMPANY OR ANY ASSOCIATED CORPORATION

At 31 December 2015, 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:

Name of Directors	Capacity/Nature of Interest Number of shares		Number of unlisted shares (Note (1))		Approximate percentage of shareholding
	Personal interests/ Beneficiary	Family interests	Personal interests/ Beneficiary	Total	
Mr. Sze Man Bok (Note (2))	228,804,599	–	20,000	228,824,599	18.79%
Mr. Hui Lin Chit (Note (3))	224,669,751	–	148,000	224,817,751	18.46%
Mr. Hung Ching Shan (Note (4))	7,000,000	–	20,000	7,020,000	0.58%
Mr. Xu Shui Shen	–	33,030	180,000	213,030	0.02%
Mr. Xu Da Zuo (Notes (5))	19,777,321	–	108,000	19,885,321	1.63%
Mr. Xu Chun Man (Note (6))	14,915,621	–	20,000	14,935,621	1.23%
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 33 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.

## Report of the Directors

- (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 ("HILL"), 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 HILL.
- (7) Interests in shares and share options were long position.

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

## SHARE OPTION SCHEMES

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

### (i) Purpose of the Scheme

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

### (ii) Eligible Persons

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

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

### (iii) Subscription Prices

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

- (a) the closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange for the date of offer (which is deemed to be the date of grant if the offer for the grant of an option is accepted by the employee), which must be a business day;
- (b) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer; and
- (c) the nominal value of a share.

## Report of the Directors

**(iv) Maximum Number of Shares Available for Issue**

The maximum number of shares available for issue after considering the share options already granted under the Scheme are 102,422,872, which are not more than 10% of the issued share capital of the Company as at the date of the approval of the Scheme.

**(v) Maximum Entitlement of Each Participant**

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

**(vi) Time on Exercise of Options**

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

**(vii) Acceptance of Offer**

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

**(viii) Remaining Life of the Scheme**

The Scheme will remain in force before 26 May 2021.

- (2) Details of movements in the share options as at 31 December 2015 which have been granted under the Scheme are as follows:

Eligible person	Number of share options					Balance as at 31/12/2015	Exercise price per share HK\$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
	Balance as at 01/01/2015	Granted during the year	Exercised during the year	Reclassified during the year	Cancelled or lapsed during the year				
<b>Directors</b>									
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

Report of the Directors

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

## Report of the Directors

Eligible person	Number of share options					Balance as at 31/12/2015	Exercise price per share HK\$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
	Balance as at 01/01/2015	Granted during the year	Exercised during the year	Reclassified during the year	Cancelled or lapsed during the year				
<b>Participants</b>	1,238,000	-	(44,500)	-	-	1,193,500	68.30	28/07/2011	28/07/2014-27/07/2021
	619,000	-	(3,000)	-	-	616,000	68.30	28/07/2011	28/07/2015-27/07/2021
	619,000	-	-	-	-	619,000	68.30	28/07/2011	28/07/2016-27/07/2021
	5,571,000	-	(2,000)	-	-	5,569,000	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
	-	2,666,500	-	-	-	2,666,500	79.20	05/10/2015	05/10/2018-05/10/2025
	-	1,333,250	-	-	-	1,333,250	79.20	05/10/2015	05/10/2019-05/10/2025
	-	1,333,250	-	-	-	1,333,250	79.20	05/10/2015	05/10/2020-05/10/2025
	14,294,000	5,333,000	(49,500)	-	-	19,577,500			

No options lapsed during the year.

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

	Options granted in 2011 to Directors	Options granted in 2011 to employees	Options granted in 2012 to Directors	Options granted in 2012 to employees	Options granted in 2015 to employees
Risk free rate	2.3% per annum	2.3% per annum	0.8% per annum	0.8% per annum	1.5% per annum
Expected volatility	33.3% per annum	33.3% per annum	32.5% per annum	32.5% per annum	34.5% per annum
Expected dividend yield	2.0% per annum	2.0% per annum	1.8% per annum	1.8% per annum	2.041% per annum
Trigger price multiple	2.2 times	1.6 times	2.2 times	1.6 times	2.51 times
Expected turnover rate	5.8% per annum	14.7% per annum	4.8% per annum	27.1% per annum	16.70% per annum

According to the Binomial Model, the fair value of the options granted, which had been charged to the profit and loss account for the year ended 31 December 2015, amounted to HK\$62,735,000 (2014: HK\$77,212,000) and the remaining unamortised fair value of approximately HK\$153,215,000 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.

## Report of the Directors

**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 2015, 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)	18.74%
Tin Wing Holdings Limited	(1)	Interests of controlled corporation	228,228,999 (L)	18.74%
An Ping Holdings Limited	(2)	Beneficial owner	224,669,751 (L)	18.44%
An Ping Investments Limited	(2)	Interests of controlled corporation	224,669,751 (L)	18.44%
Serangoon Limited	(1), (2) & (3)	Interests of controlled corporation	487,168,750 (L)	39.99%
Seletar Limited	(1), (2) & (3)	Interests of controlled corporation	487,168,750 (L)	39.99%
Credit Suisse Trust Limited	(3)	Trustee	487,168,750 (L)	39.99%
JP Morgan Chase & Co	(4)	Beneficial owner	5,275,642 (L)	0.43%
	(4)	Beneficial owner	1,624,406 (S)	0.13%
	(4)	Investment manager	3,386,491 (L)	0.28%
	(4)	Custodian corporation/ approved lending agent	53,065,711 (L)	4.36%

(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.

Report of the Directors

## 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	8.5%
— five largest suppliers combined	28.9%

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

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at 22 March 2016.

## 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, 22 March 2016



# Independent Auditor's Report



羅兵咸永道

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

We have audited the consolidated financial statements of Hengan International Group Company Limited (the "Company") and its subsidiaries set out on pages 41 to 116, which comprise the consolidated balance sheet as at 31 December 2015 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.

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## Independent Auditor's Report

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 financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 22 March 2016

# Consolidated Income Statement

For the Year Ended 31 December 2015

	Note	Year ended 31 December	
		2015 HK\$'000	2014 HK\$'000
<b>Revenue</b>	5	24,450,468	23,830,778
Cost of goods sold	7	(12,810,057)	(12,842,802)
<b>Gross profit</b>		11,640,411	10,987,976
Other income and other gains – net	6	686,511	1,164,078
Distribution costs	7	(4,456,283)	(4,840,381)
Administrative expenses	7	(1,719,637)	(1,561,615)
<b>Operating profit</b>		6,151,002	5,750,058
Finance income	8	226,655	232,353
Finance costs	8	(634,853)	(639,525)
Finance costs – net		(408,198)	(407,172)
<b>Profit before income tax</b>		5,742,804	5,342,886
Income tax expense	9	(1,639,436)	(1,368,716)
<b>Profit for the year</b>		4,103,368	3,974,170
<b>Profit attributable to:</b>			
Shareholders of the Company	27	4,050,869	3,915,818
Non-controlling interests		52,499	58,352
		4,103,368	3,974,170
<b>Earnings per share for profit attributable to shareholders of the Company</b>			
– Basic	10	HK\$3.314	HK\$3.188
– Diluted	10	HK\$3.308	HK\$3.184

The notes on pages 47 to 116 are an integral part of the consolidated financial statements.

# Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2015

	Year ended 31 December	
	2015 HK\$'000	2014 HK\$'000
<b>Profit for the year</b>	4,103,368	3,974,170
<b>Other comprehensive income</b>		
<i>Items that may be reclassified to profit or loss</i>		
– Currency translation differences	(1,317,841)	(72,150)
<b>Total comprehensive income for the year</b>	<b>2,785,527</b>	<b>3,902,020</b>
<b>Attributable to:</b>		
Shareholders of the Company	2,757,191	3,844,876
Non-controlling interests	28,336	57,144
<b>Total comprehensive income for the year</b>	<b>2,785,527</b>	<b>3,902,020</b>

The notes on pages 47 to 116 are an integral part of the consolidated financial statements.

# Consolidated Balance Sheet

As at 31 December 2015

		As at 31 December	
	Note	2015	2014
		HK\$'000	HK\$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	8,910,303	8,861,823
Construction-in-progress	15	1,302,719	1,383,631
Investment properties	14	221,874	238,994
Land use rights	16	1,022,592	1,112,353
Intangible assets	17	589,261	603,522
Prepayments for non-current assets	18	181,337	356,534
Deferred income tax assets	30	222,123	217,229
Long-term bank deposits	23	1,014,562	1,096,463
		<b>13,464,771</b>	<b>13,870,549</b>
<b>Current assets</b>			
Inventories	20	3,934,132	3,694,833
Trade and bills receivables	21	2,645,689	2,455,109
Other receivables, prepayments and deposits	21	1,263,684	1,219,729
Tax recoverable		130,353	–
Restricted bank deposits		25,224	39,700
Cash and bank balances	23	17,744,192	21,296,676
		<b>25,743,274</b>	<b>28,706,047</b>
<b>Total assets</b>		<b>39,208,045</b>	<b>42,576,596</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to shareholders of the company</b>			
Share capital	24	121,809	122,438
Other reserves	26	3,710,777	4,815,132
Retained earnings	27	13,592,124	12,700,070
		<b>17,424,710</b>	<b>17,637,640</b>
<b>Non-controlling interests</b>		<b>452,255</b>	<b>425,419</b>
<b>Total equity</b>		<b>17,876,965</b>	<b>18,063,059</b>

The notes on pages 47 to 116 are an integral part of the consolidated financial statements.

## Consolidated Balance Sheet

As at 31 December 2015

	Note	As at 31 December	
		2015 HK\$'000	2014 HK\$'000
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Convertible bonds	29	–	5,390,267
Deferred income tax liabilities	30	188,808	136,855
		<b>188,808</b>	<b>5,527,122</b>
<b>Current liabilities</b>			
Trade payables	31	2,718,895	2,299,705
Other payables and accrued charges	31	1,184,154	1,431,641
Derivative financial instruments	22	35,908	–
Current income tax liabilities		71,302	90,682
Bank borrowings	28	11,573,518	15,164,387
Convertible bonds	29	5,558,495	–
		<b>21,142,272</b>	<b>18,986,415</b>
<b>Total liabilities</b>		<b>21,331,080</b>	<b>24,513,537</b>
<b>Total equity and liabilities</b>		<b>39,208,045</b>	<b>42,576,596</b>

The notes on pages 47 to 116 are an integral part of the consolidated financial statements.

The financial statements on pages 41 to 116 were approved by the Board of Directors on 22 March 2016 and were signed on its behalf.

Director  
Sze Man Bok

Director  
Hui Lin Chit

# Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2015

	Note	Attributable to the Company's shareholders				Non-controlling interests HK\$'000	Total equity HK\$'000
		Share capital HK\$'000	Other reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000		
<b>Balance at 1 January 2014</b>		123,138	4,521,293	11,889,165	16,533,596	385,070	16,918,666
Profit for the year		–	–	3,915,818	3,915,818	58,352	3,974,170
Currency translation differences	26(c)	–	(70,942)	–	(70,942)	(1,208)	(72,150)
Total comprehensive income		–	(70,942)	3,915,818	3,844,876	57,144	3,902,020
<b>Transactions with owners:</b>							
2013 final dividends paid	11	–	–	(1,228,234)	(1,228,234)	(19,135)	(1,247,369)
2014 interim dividends paid	11	–	–	(1,042,779)	(1,042,779)	–	(1,042,779)
Share-based compensation							
– value of employee services	25,26	–	77,212	–	77,212	–	77,212
Buy-back of shares	26,27	(700)	(133,356)	(412,975)	(547,031)	–	(547,031)
Capital contribution by non-controlling interests		–	–	–	–	2,340	2,340
<b>Total of transactions with owners</b>		(700)	(56,144)	(2,683,988)	(2,740,832)	(16,795)	(2,757,627)
Appropriation to statutory reserves	26(b)	–	420,925	(420,925)	–	–	–
<b>Balance at 31 December 2014</b>		122,438	4,815,132	12,700,070	17,637,640	425,419	18,063,059
<b>Balance at 1 January 2015</b>		122,438	4,815,132	12,700,070	17,637,640	425,419	18,063,059
Profit for the year		–	–	4,050,869	4,050,869	52,499	4,103,368
Currency translation differences	26(c)	–	(1,293,678)	–	(1,293,678)	(24,163)	(1,317,841)
Total comprehensive income		–	(1,293,678)	4,050,869	2,757,191	28,336	2,785,527
<b>Transactions with owners:</b>							
2014 final dividends paid	11	–	–	(1,408,075)	(1,408,075)	(1,500)	(1,409,575)
2015 interim dividends paid	11	–	–	(1,157,175)	(1,157,175)	–	(1,157,175)
Share-based compensation							
– value of employee services	25,26	–	62,735	–	62,735	–	62,735
– proceeds from shares issued	26	5	3,385	–	3,390	–	3,390
Buy-back of shares	26,27	(634)	(2,963)	(467,399)	(470,996)	–	(470,996)
<b>Total of transactions with owners</b>		(629)	63,157	(3,032,649)	(2,970,121)	(1,500)	(2,971,621)
Appropriation to statutory reserves	26(b)	–	126,166	(126,166)	–	–	–
<b>Balance at 31 December 2015</b>		121,809	3,710,777	13,592,124	17,424,710	452,255	17,876,965

The notes on pages 47 to 116 are an integral part of the consolidated financial statements.

# Consolidated Cash Flow Statement

For the Year Ended 31 December 2015

	Note	Year ended 31 December	
		2015 HK\$'000	2014 HK\$'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	32(a)	6,115,346	6,669,241
Income tax paid		(1,753,363)	(1,641,230)
Net cash generated from operating activities		4,361,983	5,028,011
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment, including additions of construction-in-progress		(1,114,596)	(1,577,532)
Additions of land use rights		(11,225)	(82,909)
Purchase of intangible assets		(1,019)	(35,260)
Proceeds from disposal of property, plant and equipment	32(b)	4,565	257,444
Increase in long-term and short-term bank deposits		(1,097,537)	(1,689,470)
Interest received		678,226	772,513
Net cash used in investing activities		(1,541,586)	(2,355,214)
<b>Cash flows from financing activities</b>			
Proceeds from capital contribution by non-controlling interests		–	2,340
Proceeds from bank borrowings		15,000,804	15,767,251
Repayment of bank borrowings		(18,370,356)	(14,910,530)
Decrease in restricted bank deposits		12,653	20,050
Buy-back of shares		(470,996)	(547,031)
Interest paid		(372,124)	(341,306)
Dividends paid		(2,565,250)	(2,271,013)
Dividends paid to non-controlling interests		(50,885)	(30,717)
Proceeds from shares issued under the employee share option scheme		3,390	–
Net cash used in financing activities		(6,812,764)	(2,310,956)
Net (decrease)/increase in cash and cash equivalents		(3,992,367)	361,841
Cash and cash equivalents at 1 January	23	11,062,484	10,711,251
Effect of foreign exchange rate changes		(35,250)	(10,608)
Cash and cash equivalents at 31 December	23	7,034,867	11,062,484

The notes on pages 47 to 116 are an integral part of the consolidated financial statements.



# Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2015

## 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, Uglund House, Grand Cayman, KY1-1104, British West Indies.

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### (1) 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 2015:

- Annual improvements 2012 include changes from the 2010–2012 cycle of the annual improvements project that are effective for relevant transactions executed on or after 1 July 2014:
  - Amendment to HKFRS 8 ‘Operating Segments’ require disclosure of the judgements made by management in aggregating operating segments and a reconciliation of segment assets to the entity’s assets when segment assets are reported.
  - Amendment to HKAS 24 ‘Related Party Disclosures’ clarify that the reporting entity is not required to disclose the compensation paid by the management entity (as a related party) to the management entity’s employee or directors, but it is required to disclose the amounts charged to the reporting entity by the management entity for services provided.

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

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

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

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

- Annual improvements 2013 include changes from the 2011–2013 cycle of the annual improvements project, that are effective for relevant transactions executed on or after 1 July 2014:
  - Amendment to HKFRS13 'Fair Value Measurement' clarify the portfolio exception allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of HKAS 39 or HKFRS 9.
  - Amendment to HKAS 40 'Investment Property' clarifies that the interrelationship between HKAS 40 and HKFRS 3 when classifying property as investment property or owner-occupied property.

The following new amendments of HKFRSs are effective for the first time for the financial year beginning on 1 January 2015 and not relevant to the Group's operations (although they may affect the accounting for future transactions and events):

- Amendment to HKAS 19 regarding defined benefit plans is effective for annual periods beginning on or after 1 July 2014. It 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.
- Amendment to HKAS 16 'Property, plant and equipment' and HKAS 38 'Intangible assets' is effective for annual periods beginning on or after 1 July 2014. It clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.
- Amendment to HKFRS 3 'Business Combinations' is effective for relevant transactions executed on or after 1 July 2014. It clarifies that HKFRS 3 does not apply to the accounting for the formation of any joint arrangement under HKFRS 11 in the financial statements of the joint arrangement.

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

#### (ii) *New Hong Kong Companies Ordinance (Cap. 622)*

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

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

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

(iii) *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 2015 and have not been early adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been early adopted in preparing these consolidated financial statements. The Group has started assessing the full impact of the amendments and standards and intends to adopt the amendments no later than the respective effective dates of the amendments. The new standards and amendments to standards and interpretations are set out below:

- HKFRS 14 Regulatory Deferral Accounts, effective for annual periods beginning on or after 1 January 2016.
- Amendment to HKFRS 11 Accounting for acquisitions of interests in joint operations, effective for annual periods beginning on or after 1 January 2016.
- Amendments to HKAS 16 and HKAS 38 Clarification of acceptable methods of depreciation and amortisation, effective for annual periods beginning on or after 1 January 2016.
- Amendments to HKFRS 10 and HKAS 28 Sale or contribution of assets between an investor and its associate or joint venture, effective date to be determined.
- Amendment to HKAS 27 Equity method in separate financial statements, effective for annual periods beginning on or after 1 January 2016.
- Annual improvements 2014 that affect following standards: HKFRS5 'Non-current assets held for sale and discontinued operations', HKFRS 7 'Financial instruments: Disclosures', HKAS19 'Employee benefits' and HKAS 34 'Interim financial reporting', effective for annual periods beginning on or after 1 January 2016.
- Amendments to HKFRS 10, HKFRS 12 and HKAS 28 Investment entities: applying the consolidation exception, effective for annual periods beginning on or after 1 January 2016.
- Amendments to HKAS 1 Disclosure initiative, effective for annual periods beginning on or after 1 January 2016.
- HKFRS15 Revenue from Contracts with Customers, effective for annual periods beginning on or after 1 January 2018.
- HKFRS 9 Financial Instruments, effective for annual periods beginning on or after 1 January 2018.

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.

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

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

### (2) Subsidiaries

#### (i) Consolidation

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

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

#### (1) Business combinations

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

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

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (Note2(8)). If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

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

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

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

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

### (2) 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.

### (3) Segment reporting

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

### (4) Foreign currency translation

#### (i) Functional and presentation currency

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

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

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

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

#### *(ii) Transactions and balances*

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

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

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

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

#### *(iii) Group companies*

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

- (1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates on the dates of the transactions); and
- (3) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

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

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

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

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(9)).

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

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

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

### (6) Investment property

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

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

### (7) Land use rights

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

### (8) Intangible assets

#### (i) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

#### (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.



Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

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

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

#### (iii) *Customer relationships*

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

#### (iv) *Computer softwares*

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

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

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

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

### (10) 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.

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

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

### (10) Financial assets *(continued)*

#### (i) Classification *(continued)*

##### (2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period and are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" (Note 21), "restricted bank deposits", "cash and bank balances" and "long-term bank deposits" (Note 23) in the balance sheet.

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

#### (ii) Recognition and measurement

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

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

#### (iii) Offsetting financial instruments

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

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

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

### (10) Financial assets *(continued)*

#### (iv) Impairment of financial assets – assets carried at amortised cost

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

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

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

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

### (11) Derivative financial instruments

Derivatives are initially recognised 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.

### (12) 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.

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

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

### (13) 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.

### (14) Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

### (15) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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

### (16) 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.

### (17) 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.

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

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

### (18) Borrowings costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

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

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

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

### (19) 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.

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***(19) Compound financial instruments** *(continued)*

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

**(20) 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.

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

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

### (20) Current and deferred income tax *(continued)*

#### (iii) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### (21) Employee benefits

#### (i) *Retirement benefits*

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

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

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

#### (ii) *Share-based compensation*

The Group operates an equity-settled share-based payment plan (Note 25). 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.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2015

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***(22) 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.

**(23) Revenue recognition**

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

- (i) Revenue from the sales of goods is recognised when the risk and reward of the goods has been transferred to the customer, which is usually at the date when a group entity has delivered products to the customer and the customer has accepted the products, the collectability of the related receivables is reasonably assumed and there is no unfulfilled obligation that could affect the customer's acceptance of the products.
- (ii) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.
- (iii) Dividend income is recognised when the right to receive payment is established.
- (iv) Rental income from investment property is recognised in the consolidated income statement on a straight-line basis over the term of the lease.



Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

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

### (24) 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.

### (25) 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.

### (26) Research and development

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

- (i) it is technically feasible to complete the intangible asset so that it will be available for use;
- (ii) management intends to complete the intangible asset and use it;
- (iii) there is an ability to use the intangible asset;
- (iv) it can be demonstrated how the intangible asset will generate probable future economic benefits;
- (v) adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and
- (vi) the expenditure attributable to the intangible asset during its development can be reliably measured.

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

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

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

### (27) Dividend distribution

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

## 3 FINANCIAL RISK MANAGEMENT

### (a) Financial risk factors

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

#### (i) Market risk

##### (1) Foreign exchange risk

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

The Group considers the risk of movements in exchange rate between HK\$ and US\$ to be insignificant as HK\$ and US\$ are pegged. During the year ended 31 December 2015, the fluctuations in exchange rates between RMB (the functional currency of the majority of the Group's entities), US\$ (the denomination currency of the majority of the Group's imports of raw materials and property, plant and equipment and bank borrowings) and HK\$ (the denomination currency of bank borrowings) resulted in a total exchange loss of HK\$429,238,000 (2014: HK\$132,264,000). 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 2015, 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\$160,466,000 (2014: HK\$217,856,000) lower/higher (2014: 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.

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

### 3 FINANCIAL RISK MANAGEMENT *(continued)*

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

##### (i) Market risk *(continued)*

##### (3) Cash flow and fair value interest rate risk

Except for restricted bank deposits, long-term bank deposits and cash and bank balances (Note 23), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

The Group's interest-rate risk mainly arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The Group 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 28.

At 31 December 2015, 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\$44,731,000/HK\$35,392,000 (2014: HK\$72,185,000) lower/higher as a result of higher/lower interest expenses on floating rate borrowings.

##### (ii) Credit risk

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

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

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015**3 FINANCIAL RISK MANAGEMENT** *(continued)***(a) Financial risk factors** *(continued)**(ii) Credit risk (continued)*

At 31 December 2015, 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 2015 and 2014:

	2015 HK\$'000	2014 HK\$'000
Counterparties		
– Big 4 domestic banks <i>(Note)</i>	4,856,421	3,221,350
– Other reputable and sizeable domestic commercial banks	11,130,112	16,567,749
– Highly reputable and sizeable foreign-owned banks	2,789,523	2,637,139
	<b>18,776,056</b>	<b>22,426,238</b>

*Note:*

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

*(iii) Liquidity risk*

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

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

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

**3 FINANCIAL RISK MANAGEMENT** *(continued)*

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

*(iii) Liquidity risk (continued)*

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

	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 3 years HK\$'000	Between 3 and 5 years HK\$'000
At 31 December 2015				
Bank borrowings	11,573,518	–	–	–
Interest payables of bank borrowings	108,448	–	–	–
Convertible bonds	5,768,191	–	–	–
Net settled derivative financial instruments	35,908	–	–	–
Trade and other payables	3,588,892	–	–	–
<b>Total</b>	<b>21,074,957</b>	<b>–</b>	<b>–</b>	<b>–</b>
At 31 December 2014				
Bank borrowings	15,164,387	–	–	–
Interest payables of bank borrowings	185,163	–	–	–
Convertible bonds	–	5,768,191	–	–
Trade and other payables	3,423,364	–	–	–
<b>Total</b>	<b>18,772,914</b>	<b>5,768,191</b>	<b>–</b>	<b>–</b>

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015**3 FINANCIAL RISK MANAGEMENT** *(continued)***(a) Financial risk factors** *(continued)**(iii) Liquidity risk (continued)*

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

	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 3 years HK\$'000	Between 3 and 5 years HK\$'000
At 31 December 2015				
Bank borrowings	11,573,518	–	–	–
Interest payables of bank borrowings	108,448	–	–	–
Convertible bonds	–	–	6,002,396	–
Net settled derivative financial instruments	35,908	–	–	–
Trade and other payables	3,588,892	–	–	–
<b>Total</b>	<b>15,306,766</b>	<b>–</b>	<b>6,002,396</b>	<b>–</b>
At 31 December 2014				
Bank borrowings	15,164,387	–	–	–
Interest payables of bank borrowings	185,163	–	–	–
Convertible bonds	–	–	–	6,002,396
Trade and other payables	3,423,364	–	–	–
<b>Total</b>	<b>18,772,914</b>	<b>–</b>	<b>–</b>	<b>6,002,396</b>

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

**3 FINANCIAL RISK MANAGEMENT** *(continued)*

**(b) Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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

During 2015, the Group's strategy was to maintain a net gearing ratio at or below 20%. The calculation of the gearing ratios at 31 December 2015 was as follows:

	2015 HK\$'000	2014 HK\$'000
Gross gearing ratio:		
Total bank borrowings and convertible bonds	17,132,013	20,554,654
Total equity excluding non-controlling interests	17,424,710	17,637,640
Gross gearing ratio	98.3%	116.5%
Net gearing ratio:		
Total bank borrowings and convertible bonds	17,132,013	20,554,654
Less: long-term bank deposits and cash and bank balances	(18,758,754)	(22,393,139)
Net debt	(1,626,741)	(1,838,485)
Total equity excluding non-controlling interests	17,424,710	17,637,640
Net gearing ratio	(9.3%)	(10.4%)

The decrease in net gearing ratio during 2015 resulted primarily from the repayment of bank borrowing.

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015**3 FINANCIAL RISK MANAGEMENT** *(continued)***(c) Fair value estimation**

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2015 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

	2015 Level 2 HK\$'000	2014 Level 2 HK\$'000
Financial liabilities fair value through profit or loss		
– Derivative financial instruments ( <i>Note 22</i> )	35,908	–

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 2015.

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 2015.



Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

#### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

**(a) Useful lives of property, plant and equipment**

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

**(b) Current tax and deferred tax**

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

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

**(c) Assessment of impairment of goodwill**

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2(8)(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates (Note 17). These calculations require the use of estimates.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2015

**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 napkin products, disposable diaper products and tissue papers products) and food and snack products in the PRC. Sales between segments are carried out at terms mutually agreed amongst these business segments. Revenue from external parties reported to the Executive Directors are measured in a manner consistent with that in the consolidated income statement. Revenues from sales of goods recognised during the year are as follows:

	2015 HK\$'000	2014 HK\$'000
Personal hygiene products		
– Sanitary napkin products	7,683,399	7,427,740
– Disposable diaper products	3,044,739	3,094,573
– Tissue paper products	10,800,191	10,857,293
	<b>21,528,329</b>	21,379,606
Food and snack products	1,267,144	1,534,749
Others	1,654,995	916,423
	<b>24,450,468</b>	23,830,778

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

The total non-current assets (other than deferred income tax assets and long-term bank deposit) located in the PRC amounted to HK\$11,637,850,000 (31 December 2014: HK\$11,986,539,000) as at 31 December 2015 and the total non-current assets located in other places amounted to HK\$590,236,000 (31 December 2014: HK\$570,318,000).

During the year ended 31 December 2015, there were no customers of the Group from whom the revenue amounted to 10% or more of the Group's total revenue (2014: None).

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

Additions to non-current assets comprise additions to property, plant and equipment (Note 13), investment properties (Note 14), construction-in-progress (Note 15), land use rights (Note 16) and intangible assets (Note 17).

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

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

**5 SEGMENT INFORMATION** (continued)

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

	2015					Group HK\$'000
	Sanitary napkin products HK\$'000	Disposable diaper products HK\$'000	Tissue paper products HK\$'000	Food and snack products HK\$'000	Others HK\$'000	
<b>Consolidated income statement for the year ended 31 December 2015</b>						
Segment revenue	7,798,751	3,134,307	11,171,337	1,267,144	2,223,348	25,594,887
Inter-segment sales	(115,352)	(89,568)	(371,146)	–	(568,353)	(1,144,419)
Revenue of the Group	7,683,399	3,044,739	10,800,191	1,267,144	1,654,995	24,450,468
Segment profit	3,558,698	689,983	1,136,682	69,778	92,450	5,547,591
Unallocated costs						(83,100)
Other income and other gains – net						686,511
Operating profit						6,151,002
Finance income						226,655
Finance costs						(634,853)
Profit before income tax						5,742,804
Income tax expense						(1,639,436)
Profit for the year						4,103,368
Non-controlling interests						(52,499)
Profit attributable to shareholders of the Company						4,050,869
<b>Consolidated balance sheet as at 31 December 2015</b>						
Segment assets	7,003,064	4,217,679	17,937,635	1,084,647	8,404,843	38,647,868
Deferred income tax assets						222,123
Tax recoverable						130,353
Unallocated assets						207,701
Total assets						39,208,045
Segment liabilities	2,305,296	814,410	4,199,914	141,054	2,252,809	9,713,483
Deferred income tax liabilities						188,808
Current income tax liabilities						71,302
Unallocated liabilities						11,357,487
Total liabilities						21,331,080
<b>Other items for the year ended 31 December 2015</b>						
Additions to non-current assets	374,896	46,422	815,669	16,372	121,980	1,375,339
Depreciation charge	160,701	40,993	489,348	49,846	23,761	764,649
Amortisation charge	14,021	2,891	20,770	12,609	707	50,998

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

## 5 SEGMENT INFORMATION (continued)

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

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

**6 OTHER INCOME AND OTHER GAINS – NET**

	2015 HK\$'000	2014 HK\$'000
Government grants income ( <i>Note</i> )	612,666	665,634
Exchange loss from operating activities – net	(277,773)	(1,893)
Losses on disposal of property, plant and equipment	(19,865)	(26,651)
Realised fair value gains on derivative financial instruments	–	39,727
Unrealised fair value losses on derivative financial instruments	(35,908)	–
Interests income from long-term and short-term bank deposits	388,983	474,319
Others	18,408	12,942
	<b>686,511</b>	<b>1,164,078</b>

*Note:*

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

**7 EXPENSES BY NATURE**

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

	2015 HK\$'000	2014 HK\$'000
Raw materials and consumables used	10,358,583	9,831,793
Changes in inventories of work-in-progress and finished goods	31,873	552,275
Marketing and advertising expenses	2,492,449	2,598,962
Employee benefit expense, including directors' emoluments ( <i>Note 12</i> )	1,863,003	1,898,803
Utilities and various office expenses	1,073,483	1,112,288
Transportation and packaging expenses	770,376	1,008,844
Depreciation of property, plant and equipment ( <i>Note 13</i> )	758,074	710,419
Amortisation of land use rights ( <i>Note 16</i> )	37,675	28,676
Amortisation of intangible assets ( <i>Note 17</i> )	13,323	13,012
Research and development expenses	472,852	433,050
Repairs and maintenance expenses	193,012	201,773
Travelling expenses	193,114	201,525
Operating leases rentals	109,602	107,347
Provision for inventories write-down ( <i>Note 20</i> )	10,133	5,634
Provision for impairment of trade receivables ( <i>Note 21</i> )	28,498	1,700
Auditor's remuneration		
– Audit services	6,584	6,562
– Non-audit services	622	666
Amortisation of deferred income on government grants	–	(921)
Others	572,721	532,390
	<b>18,985,977</b>	<b>19,244,798</b>

Total cost of sales, distribution costs and administrative expenses

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015**8 FINANCE INCOME AND FINANCE COSTS**

	2015 HK\$'000	2014 HK\$'000
Finance costs:		
Interest expenses		
– Bank borrowings	326,359	347,884
– Convertible bonds	168,228	163,137
Exchange loss	151,465	130,371
Other finance charges	17,208	16,782
	<b>663,260</b>	658,174
Total borrowing costs incurred		
Less: Borrowing costs capitalised in buildings and machinery under construction-in-progress ( <i>Note 15</i> )	(28,407)	(18,649)
	<b>634,853</b>	639,525
Finance income:		
Interest income from cash and cash equivalents	(226,655)	(232,353)
	<b>408,198</b>	407,172

For the year ended 31 December 2015, the capitalisation rate applied to funds borrowed generally and used for the development of construction-in-progress is 2.32% (2014: 1.82%) per annum.

**9 INCOME TAX EXPENSE**

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

	2015 HK\$'000	2014 HK\$'000
Current income tax		
– Current tax on profits for the year	1,358,429	1,249,736
– PRC withholding income tax	240,140	210,414
Deferred income tax, net ( <i>Note 30</i> )	40,867	(91,434)
	<b>1,639,436</b>	1,368,716

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2015

**9 INCOME TAX EXPENSE** (continued)

- (a) Hong Kong profits tax has been provided for at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits for the year.
- (b) Taxation on PRC income has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC in which the group's entities operate. The Company's subsidiaries incorporated in the PRC are subject to Corporate Income Tax ("CIT") at the rate of 25%.

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

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

- (c) The profits of the PRC subsidiaries of the Group derived since 1 January 2008 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.
- (d) The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rates applicable to profits of the Group's companies as follows:

	2015 HK\$'000	2014 HK\$'000
Profit before income tax	5,742,804	5,342,886
Tax calculated at tax rates applicable to profits of the Group's companies	1,394,142	1,293,761
Tax exemption and concession on the profits of certain PRC subsidiaries	(44,805)	(77,439)
Tax losses in current year for which no deferred tax assets were recognised	51	7,278
Utilisation of previously unrecognized tax losses	(11,166)	(9,213)
Withholding tax on distributed profit and unremitted earnings	302,729	182,407
Others	(1,515)	(28,078)
Income tax expense	1,639,436	1,368,716

The weighted average applicable tax rate was 24.3% (2014: 24.2%).

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

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015**10 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\$4,050,869,000 (2014: HK\$3,915,818,000) by the weighted average number of 1,222,463,762 (2014: 1,228,106,600) ordinary shares in issue during the year.

	2015	2014
Profit attributable to shareholders of the Company (HK\$'000)	4,050,869	3,915,818
Weighted average number of ordinary shares in issue (thousands)	1,222,464	1,228,107
Basic earnings per share (HK\$)	HK\$3.314	HK\$3.188

**(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 the convertible bonds have no dilutive effect on the earnings per share as at 31 December 2015. Calculations are done to determine the number of shares that could have been acquired at fair value (determined by using average market share price of the Company's shares for the year ended 31 December 2015) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2015	2014
Profit attributable to shareholders of the Company (HK\$'000)	4,050,869	3,915,818
Weighted average number of ordinary shares in issue (thousands)	1,222,464	1,228,107
Adjusted for:		
– Share options (thousands)	1,927	1,682
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,224,391	1,229,789
Diluted earnings per share (HK\$)	HK\$3.308	HK\$3.184



Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015**11 DIVIDENDS**

	2015 HK\$'000	2014 HK\$'000
Interim, paid, HK\$0.95 (2014: HK\$0.85) per ordinary share	1,157,175	1,042,779
Final, proposed/paid, HK\$1.15 (2014: HK\$1.15) per ordinary share	1,400,808	1,408,075
	<b>2,557,983</b>	<b>2,450,854</b>

The dividends paid in 2015 amounted to HK\$2,565,250,000 (2015 interim: HK\$0.95 per share, 2014 final: HK\$1.15 per share). The dividends paid in 2014 amounted to HK\$2,271,013,000 (2014 interim: HK\$0.85 per share, 2013 final: HK\$1.00 per share). A final dividend in respect of the year ended 31 December 2015 of HK\$1.15 per share, amounting to a total dividend of HK\$1,400,808,000, was proposed by the Board of Directors at a meeting held on 22 March 2016, subject to the final approval by the shareholders of the Company at the Annual General Meeting to be held on 18 May 2016. These financial statements do not reflect this dividend payable.

**12 EMPLOYEE BENEFIT EXPENSE**

	2015 HK\$'000	2014 HK\$'000
Wages and salaries	1,545,991	1,590,700
Retirement benefit cost	254,277	230,891
Equity-settled share-based payment ( <i>Note 25</i> )	62,735	77,212
Total employee benefit expense	<b>1,863,003</b>	<b>1,898,803</b>

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015**12 EMPLOYEE BENEFIT EXPENSE** (continued)**(a) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include four (2014: four) directors whose emoluments are reflected in the analysis shown in Note 39. The emoluments payable to the remaining one (2014: one) individual during the year are as follows:

	2015 HK\$'000	2014 HK\$'000
Basic salaries, housing allowances, share-based compensation, other allowances and benefits-in-kind	1,163	1,285
Bonuses	144	166
	<b>1,307</b>	<b>1,451</b>

The emoluments fell within the following bands:

	Number of individuals	
	2015	2014
Emolument bands HK\$1,000,001 to HK\$1,500,000	1	1

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

**13 PROPERTY, PLANT AND EQUIPMENT**

	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 2014					
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)
Opening net book amount	3,631,529	4,872,462	97,226	25,983	8,627,200
Year ended 31 December 2014					
Opening net book amount	3,631,529	4,872,462	97,226	25,983	8,627,200
Currency translation differences	(11,663)	(16,215)	(281)	(95)	(28,254)
Additions	22,270	102,440	30,976	7,299	162,985
Transfer from construction-in-progress (Note 15)	568,167	513,993	12,246	–	1,094,406
Depreciation for the year (Note 7)	(203,172)	(469,185)	(30,032)	(8,030)	(710,419)
Disposals	(243,396)	(38,623)	(1,238)	(838)	(284,095)
Closing net book amount	3,763,735	4,964,872	108,897	24,319	8,861,823
At 31 December 2014					
Cost	4,694,347	8,065,933	254,702	55,610	13,070,592
Accumulated depreciation	(930,612)	(3,101,061)	(145,805)	(31,291)	(4,208,769)
Net book amount	3,763,735	4,964,872	108,897	24,319	8,861,823
Year ended 31 December 2015					
Opening net book amount	3,763,735	4,964,872	108,897	24,319	8,861,823
Currency translation differences	(232,839)	(293,342)	(7,295)	(1,345)	(534,821)
Additions	27,339	71,538	52,761	6,324	157,962
Transfer from construction-in-progress (Note 15)	629,705	570,374	7,764	–	1,207,843
Depreciation for the year (Note 7)	(222,200)	(494,162)	(34,159)	(7,553)	(758,074)
Disposals	(306)	(21,275)	(2,196)	(653)	(24,430)
Closing net book amount	3,965,434	4,798,005	125,772	21,092	8,910,303
At 31 December 2015					
Cost	5,054,910	8,031,303	279,917	54,096	13,420,226
Accumulated depreciation	(1,089,476)	(3,233,298)	(154,145)	(33,004)	(4,509,923)
Net book amount	3,965,434	4,798,005	125,772	21,092	8,910,303

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015**13 PROPERTY, PLANT AND EQUIPMENT** *(continued)*

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

	2015 HK\$'000	2014 HK\$'000
Manufacturing overheads included under cost of goods sold	581,647	540,939
Distribution costs	10,465	9,869
Administrative expenses	165,962	159,611
	<b>758,074</b>	<b>710,419</b>

There was no pledge of property, plant and equipment of the Group as at 31 December 2015 and 2014.

**14 INVESTMENT PROPERTIES**

	2015 HK\$'000	2014 HK\$'000
At 1 January		
Opening net book amount	238,994	–
Currency translation differences	(13,821)	1,056
Transfer from construction-in-progress <i>(Note 15)</i>	1,103	196,832
Transfer from land use rights <i>(Note 16)</i>	2,173	43,611
Depreciation for the year	(6,575)	(2,505)
Closing net book amount	<b>221,874</b>	<b>238,994</b>
At 31 December		
Cost	230,561	241,510
Accumulated depreciation	(8,687)	(2,516)
Net book amount	<b>221,874</b>	<b>238,994</b>

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

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

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

**14 INVESTMENT PROPERTIES** *(continued)*

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

	2015 HK\$'000	2014 HK\$'000
Rental income	18,805	4,592
Direct operating expenses	(6,575)	(3,418)
Net book amount	<u>12,230</u>	<u>1,174</u>

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

	2015 HK\$'000	2014 HK\$'000
Other income and other gains – net	<u>(6,575)</u>	<u>(2,505)</u>

**15 CONSTRUCTION-IN-PROGRESS**

	2015 HK\$'000	2014 HK\$'000
At 1 January	1,383,631	1,204,372
Currency translation differences	(77,099)	(3,018)
Additions	1,205,133	1,508,226
Transfer to property, plant and equipment ( <i>Note 13</i> )	(1,207,843)	(1,094,406)
Transfer to Investment properties ( <i>Note 14</i> )	(1,103)	(196,832)
Transfer to Intangible assets ( <i>Note 17</i> )	–	(34,711)
At 31 December	<u>1,302,719</u>	<u>1,383,631</u>

During the year ended 31 December 2015, finance costs capitalised in construction-in-progress amounted to HK\$28,407,000 (2014: HK\$18,649,000) (Note 8).

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015**16 LAND USE RIGHTS**

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

	2015 HK\$'000	2014 HK\$'000
At 1 January	1,112,353	1,105,298
Currency translation differences	(61,138)	(3,567)
Additions	11,225	82,909
Transfer to investment properties ( <i>Note 14</i> )	(2,173)	(43,611)
Amortisation of prepaid operating leases payments ( <i>Note 7</i> )	(37,675)	(28,676)
At 31 December	<b>1,022,592</b>	1,112,353

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

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

17 INTANGIBLE ASSETS

	Goodwill HK\$'000	Patents and trademarks HK\$'000	Customer relationships HK\$'000	Softwares HK\$'000	Total HK\$'000
At 1 January 2014					
Cost	495,300	75,734	57,850	31	628,915
Accumulated amortisation	–	(18,839)	(28,926)	–	(47,765)
Net book amount	495,300	56,895	28,924	31	581,150
Year ended 31 December 2014					
Opening net book amount	495,300	56,895	28,924	31	581,150
Additions	–	–	–	549	549
Transfer from construction-in-progress ( <i>Note 15</i> )	–	–	–	34,711	34,711
Currency translation differences	–	(17)	–	141	124
Amortisation charge ( <i>Note 7</i> )	–	(4,017)	(5,785)	(3,210)	(13,012)
Closing net book amount	495,300	52,861	23,139	32,222	603,522
At 31 December 2014					
Cost	495,300	75,718	57,850	35,447	664,315
Accumulated amortisation	–	(22,857)	(34,711)	(3,225)	(60,793)
Net book amount	495,300	52,861	23,139	32,222	603,522
Year ended 31 December 2015					
Opening net book amount	495,300	52,861	23,139	32,222	603,522
Additions	–	–	–	1,019	1,019
Currency translation differences	–	(173)	–	(1,784)	(1,957)
Amortisation charge ( <i>Note 7</i> )	–	(4,035)	(5,785)	(3,503)	(13,323)
Closing net book amount	495,300	48,653	17,354	27,954	589,261
At 31 December 2015					
Cost	495,300	75,430	57,850	34,357	662,937
Accumulated amortisation	–	(26,777)	(40,496)	(6,403)	(73,676)
Net book amount	495,300	48,653	17,354	27,954	589,261

Amortisation of HK\$13,323,000 (2014: HK\$13,012,000) has been charged to administrative expenses in the consolidated income statement.

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015**17 INTANGIBLE ASSETS** (continued)**Impairment tests for goodwill**

The Directors have performed an impairment review of the carrying amount of goodwill as at 31 December 2015 and have concluded that no provision for impairment is required. For the purposes of impairment testing, goodwill acquired has been allocated to the smallest individual of CGUs identified by business segments, including goodwill on the tissue paper products segment of HK\$452,030,000 and goodwill on the food and snacks products segment of HK\$43,270,000 as at 31 December 2015. The recoverable amount of each of the CGUs is determined based on value-in-use calculations. The calculation of goodwill on the tissue paper product segment uses cash flow projections based on financial estimates made by the Directors, with reference to the prevailing market conditions, covering a period of five years and assuming sales would be in consistent with 2015 and gross profit margins of 35.6% (2014: assuming sales growth rate ranging from 2% to 6.4% and gross profit margins of 34.5%). The cash flows are extrapolated with reference to the production capacity of the cash generating units acquired. The cash flow projections are discounted at a pre-tax discount rate of 10.8% per annum (2014: 10.9%). Based on management's assessment results, there was no impairment of goodwill as at 31 December 2015 and 2014 and any reasonable change to the key assumptions would not lead to an impairment.

**18 PREPAYMENTS FOR NON-CURRENT ASSETS**

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

**19 FINANCIAL INSTRUMENTS BY CATEGORY****(a) Assets**

	2015 HK\$'000	2014 HK\$'000
<b>Loans and receivables</b>		
– Trade and other receivables, excluding advances to suppliers, prepayments and value added tax recoverable	2,878,731	2,845,017
– Restricted bank deposits	25,224	39,700
– Long-term bank deposits (Note 23)	1,014,562	1,096,463
– Cash and bank balances (Note 23)	17,744,192	21,296,676
Total	<b>21,662,709</b>	<b>25,277,856</b>



Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

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

**(b) Liabilities**

	2015 HK\$'000	2014 HK\$'000
<b>Financial liabilities at amortised costs</b>		
– Trade and other payables, excluding non-financial liabilities	3,588,892	3,423,364
– Bank borrowings (Note 28)	11,573,518	15,164,387
– Convertible bonds (Note 29)	5,558,495	5,390,267
	<b>20,720,905</b>	<b>23,978,018</b>
<b>Liabilities at fair value through profit or loss</b>		
– Derivative financial instruments (Note 22)	35,908	–
Total	<b>20,756,813</b>	<b>23,978,018</b>

**20 INVENTORIES**

	2015 HK\$'000	2014 HK\$'000
Finished goods	1,424,312	1,451,120
Work-in-progress	32,982	38,047
Raw materials	2,278,082	1,988,267
Spare parts and consumables	198,756	217,399
	<b>3,934,132</b>	<b>3,694,833</b>

The cost of inventories recognised as expenses and included in cost of goods sold amounted to HK\$10,390,456,000 (2014: HK\$10,384,068,000).

The Group provided for inventories write-down amounting to HK\$10,133,000 (2014: HK\$5,634,000). These amounts have been included in cost of sales in the consolidated income statement (Note 7).

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015**21 TRADE AND OTHER RECEIVABLES**

	2015 HK\$'000	2014 HK\$'000
Trade receivables	2,568,739	2,426,291
Bills receivable	105,600	35,169
	<b>2,674,339</b>	<b>2,461,460</b>
Less: provision for impairment	(28,650)	(6,351)
Trade and bills receivables	<b>2,645,689</b>	<b>2,455,109</b>
Other receivables, prepayments and deposits		
– Advance payments to suppliers	520,245	405,317
– Interest income receivables	139,207	201,795
– Prepayments for rental fee and utility fee	32,846	34,671
– Value added tax recoverable	477,551	389,833
– Others	93,835	188,113
	<b>1,263,684</b>	<b>1,219,729</b>
Trade and other receivables	<b>3,909,373</b>	<b>3,674,838</b>

Part of the Group's sales are on open account with credit terms ranging from 30 days to 90 days. At 31 December 2015, the ageing analysis of the trade and bills receivables based on invoice date was as follows:

	2015 HK\$'000	2014 HK\$'000
Within 30 days	1,175,807	1,163,679
31–180 days	1,399,992	1,212,946
181–365 days	49,736	54,309
Over 365 days	48,804	30,526
	<b>2,674,339</b>	<b>2,461,460</b>

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

**21 TRADE AND OTHER RECEIVABLES** *(continued)*

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

The credit quality of the trade receivables that are neither past due nor impaired totaled HK\$2,222,384,000 (2014: HK\$2,138,599,000) 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 2015, trade receivables of HK\$423,305,000 (2014: HK\$316,510,000) 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 2015 and 2014, the ageing analysis of the trade receivables based on invoice date was as follows:

	2015 HK\$'000	2014 HK\$'000
Within 30 days	230,090	168,511
31–180 days	166,160	114,992
181–365 days	17,801	22,465
Over 365 days	9,254	10,542
	<b>423,305</b>	<b>316,510</b>

Trade receivables of HK\$28,650,000 (2014: HK\$6,351,000) were impaired and fully provided. The aging of these receivables is over 365 days.

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

	2015 HK\$'000	2014 HK\$'000
At 1 January	6,351	6,479
Currency translation differences	(1,294)	(23)
Provision for impairment of trade receivables ( <i>Note 7</i> )	28,498	1,700
Receivables written-off during the year as uncollectible	(4,905)	(1,805)
As 31 December	<b>28,650</b>	<b>6,351</b>

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 2015, other receivables are neither past due nor impaired.

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

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015**21 TRADE AND OTHER RECEIVABLES** *(continued)*

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

	2015 HK\$'000	2014 HK\$'000
RMB	2,404,822	2,187,701
Other currencies	269,517	273,759
	<b>2,674,339</b>	<b>2,461,460</b>

**22 DERIVATIVE FINANCIAL INSTRUMENTS**

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

	2015 HK\$'000	2014 HK\$'000
Liabilities:		
Interest rate swap contracts	2,418	–
Forward foreign exchange contract	33,490	–
	<b>35,908</b>	<b>–</b>

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

The forward foreign exchange contract as at 31 December 2015 comprised one contract with notional principal amounted to USD\$193,237,000 (2014: Nil).

The interest rate swap contracts as at 31 December 2015 comprised two contracts with notional principal amounted to USD\$154,808,000 (2014: Nil).

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

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

	2015 HK\$'000	2014 HK\$'000
<b>Long-term bank deposits</b>	1,014,562	1,096,463
<b>Cash and bank balances</b>		
– Bank deposits	10,709,325	10,234,192
– Cash and cash equivalents	7,034,867	11,062,484
	17,744,192	21,296,676
<b>Total</b>	18,758,754	22,393,139

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

The effective interest rate on bank deposits as at 31 December 2015 was approximately 3.09% (31 December 2014: 3.16%) per annum.

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

	2015 HK\$'000	2014 HK\$'000
<b>Long-term bank deposits</b>		
RMB	1,014,562	1,096,463
<b>Cash and bank balances</b>		
RMB	8,765,045	19,291,581
US\$	8,379,484	1,958,021
HK\$	592,881	42,538
Others	6,782	4,536
<b>Total</b>	17,744,192	21,296,676

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.

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015**24 SHARE CAPITAL**

Ordinary shares, issued and fully paid:

	Number of shares	HK\$'000
At 1 January 2014	1,231,384,721	123,138
Buy-back of shares	(7,000,000)	(700)
At 31 December 2014	1,224,384,721	122,438
At 31 December 2014	<b>1,224,384,721</b>	<b>122,438</b>
Buy-back of shares ( <i>Note</i> )	<b>(6,340,000)</b>	<b>(634)</b>
Employee share option schemes		
– Shares issued upon exercise of share options ( <i>Note 25</i> )	49,500	5
At 31 December 2015	<b>1,218,094,221</b>	<b>121,809</b>

*Note:*

The Group acquired 6,340,000 its own ordinary shares through purchases on The Stock Exchange of Hong Kong Limited during the year ended 31 December 2015. The shares had been cancelled after buy-back. The total amount paid to acquire the shares was approximately HK\$470,996,000 and have been deducted from share capital, other reserves and retained earnings in the amounts of HK\$634,000, HK\$2,963,000(*Note 26*) and HK\$467,399,000(*Note 27*), respectively.

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

## 25 SHARE-BASED COMPENSATION

The Company adopted a share option scheme 26 May 2011 ("2011 scheme"). Pursuant to the scheme, share options had been granted to the Directors and selected employees. The options granted will be forfeited if the Directors and employees leave the Group before the options are exercisable. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	2015		2014	
	Average exercise price in HK\$ per share	Options (thousands)	Average exercise price in HK\$ per share	Options (thousands)
At 1 January	71.96	14,294	71.95	14,342
Granted	79.20	5,333	–	–
Forfeited	–	–	68.30	(48)
Exercised	68.30	(48)	–	–
Exercised	72.75	(2)	–	–
At 31 December	73.94	19,577	71.96	14,294

Out of the 19,577,000 outstanding options (2014: 14,294,000), 7,731,500 options (2014: 1,268,000) were exercisable as at 31 December 2015.

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)	
		2015	2014
Expiry date – 27 July 2021	68.30	2,488	2,536
Expiry date – 28 July 2022	72.75	11,756	11,758
Expiry date – 5 Oct 2025	79.20	5,333	–
		19,577	14,294

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2015

**25 SHARE-BASED COMPENSATION** (continued)

The Company has used the Binomial Model for assessing the fair value of the share options granted. The significant inputs into the model were weighted average share price of HK\$79.20 (2014: Nil) at the grant date, exercise price shown above, volatility of 34.5% (2014: Nil), dividend yield of 2.041% (2014: Nil), an expected option life of ten years, and an annual risk-free interest rate of 1.5% (2014: Nil).

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 2015 amounted to HK\$62,735,000 (2014: HK\$77,212,000) (Note 12), and the remaining unamortised fair value of approximately HK\$153,215,000 will be charged to the consolidated income statement in the future years.

The maximum number of shares available for issue after considering the share options already granted under the 2011 Scheme are 102,422,872 which are not more than 10% of the issued share capital of the Company as at the date of the approval of the Scheme.

**26 OTHER RESERVES**

	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 2014	133,356	1,807	1,620,147	134,909	2,454,509	176,565	4,521,293
Other comprehensive income							
– currency translation differences	–	–	–	–	(70,942)	–	(70,942)
Appropriation to statutory reserves	–	–	420,925	–	–	–	420,925
Share-based compensation							
– value of employee services	–	–	–	77,212	–	–	77,212
Buy-back of shares	(133,356)	–	–	–	–	–	(133,356)
At 31 December 2014	–	1,807	2,041,072	212,121	2,383,567	176,565	4,815,132
At 1 January 2015	–	1,807	2,041,072	212,121	2,383,567	176,565	4,815,132
Other comprehensive income							
– currency translation differences	–	–	–	–	(1,293,678)	–	(1,293,678)
Appropriation to statutory reserves	–	–	126,166	–	–	–	126,166
Share-based compensation							
– value of employee services	–	–	–	62,735	–	–	62,735
– proceeds from shares issued	3,385	–	–	–	–	–	3,385
– exercise of share options	1,003	–	–	(1,003)	–	–	–
Buy-back of shares	(2,963)	–	–	–	–	–	(2,963)
At 31 December 2015	1,425	1,807	2,167,238	273,853	1,089,889	176,565	3,710,777



## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2015

**26 OTHER RESERVES** (continued)

Notes:

- (a) Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company. No share premium was transferred to retained earnings during the year ended 31 December 2015 (2014: Nil).
- (b) Statutory reserves comprise statutory surplus reserve of the subsidiary companies in the PRC. The Company's subsidiaries incorporated in the PRC are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under the PRC accounting regulations and before distribution to shareholders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations in the PRC at rate of 10% or at the discretion of the board of directors of the PRC subsidiaries, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries.
- (c) Exchange reserve of the Group represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from HK\$, the presentation currency of the financial statements of the Company and the Group.

**27 RETAINED EARNINGS**

	2015 HK\$'000	2014 HK\$'000
At 1 January	12,700,070	11,889,165
2014/2013 final dividends paid	(1,408,075)	(1,228,234)
2015/2014 interim dividends paid	(1,157,175)	(1,042,779)
Profit for the year	4,050,869	3,915,818
Appropriation to statutory reserves	(126,166)	(420,925)
Buy-back of shares	(467,399)	(412,975)
At 31 December	<b>13,592,124</b>	12,700,070

**28 BANK BORROWINGS**

	2015 HK\$'000	2014 HK\$'000
Current		
Trust receipt bank loans	858,153	1,290,496
Current portion of long-term bank loans – unsecured	–	1,069,784
Short-term bank loans – unsecured	10,715,365	12,804,107
Total bank borrowings	<b>11,573,518</b>	15,164,387

As at 31 December 2015, the effective interest rate of the Group's borrowings is approximately 2.32% (2014: 1.82%) per annum.

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015**28 BANK BORROWINGS** (continued)

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

	2015 HK\$'000	2014 HK\$'000
HK\$	2,523,037	4,055,338
US\$	5,221,717	11,109,049
RMB	3,828,764	–
	<b>11,573,518</b>	<b>15,164,387</b>

At 31 December 2015, the Group's long-term bank borrowings are repayable as follows:

	2015 HK\$'000	2014 HK\$'000
Within 1 year	–	1,069,784

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:

	2015 HK\$'000	2014 HK\$'000
Undrawn bank borrowing facilities	<b>23,053,229</b>	<b>17,022,679</b>

Notes to the Consolidated Financial Statements  
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**29 CONVERTIBLE BONDS**

	2015 HK\$'000	2014 HK\$'000
Face value of convertible bonds issued on 27 June 2013	5,434,000	5,434,000
Issuing expenses	(110,013)	(110,013)
Equity component	(176,565)	(176,565)
Liability component on initial recognition on 27 June 2013	5,147,422	5,147,422
Accumulated finance costs	411,073	242,845
Liability component		
– Current	5,558,495	–
– Non-current	–	5,390,267
	<b>5,558,495</b>	<b>5,390,267</b>

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. According to the terms of the convertible loan agreement, on 27 June 2016 (the “Put Option Date”), the holder of each bond will have the right at such holder’s option to require the Company to redeem all or some only of the bonds of such holder on the Put Option Date at 106.15 per cent of their principal amount. Accordingly, the convertible bonds had been reclassified from non-current liabilities to current liabilities as at 31 December 2015.

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 2015.

From 27 June 2013 to 31 December 2015, no bond holders have converted their bonds into ordinary shares of the Company.

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015**30 DEFERRED INCOME TAX**

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

	2015 HK\$'000	2014 HK\$'000
<b>Deferred income tax assets</b>		
– Deferred tax asset to be settled after more than 12 months	15,387	96,027
– Deferred tax asset to be recovered within 12 months	206,736	121,202
	<b>222,123</b>	<b>217,229</b>
<b>Deferred income tax liabilities</b>		
– Deferred tax liability to be settled after more than 12 months	28,003	31,436
– Deferred tax liability to be settled within 12 months	160,805	105,419
	<b>188,808</b>	<b>136,855</b>
<b>Deferred income tax assets – net</b>	<b>33,315</b>	<b>80,374</b>

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

	2015 HK\$'000	2014 HK\$'000
At 1 January	80,374	(11,635)
Currency translation differences	(6,192)	575
(Charged)/credited to consolidated income statement ( <i>Note 9</i> )	(40,867)	91,434
At 31 December	<b>33,315</b>	<b>80,374</b>

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

**30 DEFERRED INCOME TAX** (continued)

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

**Deferred income tax assets:**

	Unrealised profit in inventories arising from intra-group transactions		Provisions		Tax losses		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	121,202	157,511	–	–	96,027	–	217,229	157,511
Currency translation differences (Charged)/credited to consolidated income statement (Note 9)	(7,701)	(696)	(3,147)	–	(2,547)	423	(13,395)	(273)
	15,992	(35,613)	80,390	–	(78,093)	95,604	18,289	59,991
At 31 December	129,493	121,202	77,243	–	15,387	96,027	222,123	217,229

**Deferred income tax liabilities:**

	Withholding income tax on unremitted earnings in PRC subsidiaries		Tax effect of fair value adjustments on assets recognised upon business combination		Total	
	2015	2014	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	101,905	130,760	34,950	38,386	136,855	169,146
Currency translation differences Charged/(credited to) consolidated income statement (Note 9)	(7,203)	(848)	–	–	(7,203)	(848)
	62,589	(28,007)	(3,433)	(3,436)	59,156	(31,443)
At 31 December	157,291	101,905	31,517	34,950	188,808	136,855

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related income tax benefit through the future taxable profits is probable. The Group did not recognise cumulative deferred income tax assets of HK\$200,000 (2014: HK\$19,533,000) in respect of losses amounted to HK\$801,000 (2014: HK\$78,130,000) that can be carried forward against future taxable income as at 31 December 2015. The unrecognised tax losses expire in the following five years in the amounts of HK\$253,000 (2014: HK\$9,290,000), HK\$128,000 (2014: HK\$13,969,000), HK\$68,000 (2014: HK\$13,385,000), HK\$147,000 (2014: HK\$12,373,000) and HK\$205,000 (2014: HK\$29,113,000).

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015**30 DEFERRED INCOME TAX** (continued)

The Group has been providing deferred income tax liabilities on the withholding income tax on the unremitted earnings of certain PRC subsidiaries following the dividend distribution plan of the Company. During the year ended 31 December 2015, the Group has re-considered its dividend distribution plan of all the PRC subsidiaries. As at 31 December 2015, deferred income tax liabilities of HK\$253,872,000 (2014: HK\$349,500,000) have not been recognised for the withholding income tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries in the PRC. The unremitted earnings will be permanently reinvested, amounting to HK\$5,077,438,000 (2014: HK\$6,990,000,000) as at 31 December 2015.

**31 TRADE AND OTHER PAYABLES**

	2015 HK\$'000	2014 HK\$'000
Trade payables	2,718,895	2,299,705
Other payables and accrued charges		
– Payables for purchase of property, plant and equipment	571,671	512,906
– Accrued expenses	251,662	519,537
– Advance receipts from customers	165,203	144,506
– Staff salaries payables	112,800	137,359
– Other taxes payables	36,154	26,117
– Others	41,282	36,449
– Dividend payables	5,382	54,767
	1,184,154	1,431,641
Trade and other payables	3,903,049	3,731,346

At 31 December 2015, the ageing analysis of trade payables based on invoice date was as follows:

	2015 HK\$'000	2014 HK\$'000
Within 30 days	1,920,352	1,577,367
31–180 days	780,937	694,510
181–365 days	2,778	9,388
Over 365 days	14,828	18,440
	2,718,895	2,299,705

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

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

**31 TRADE AND OTHER PAYABLES** *(continued)*

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

	2015 HK\$'000	2014 HK\$'000
RMB	1,391,545	1,143,662
US\$	1,325,859	1,153,925
Other currencies	1,491	2,118
	<b>2,718,895</b>	<b>2,299,705</b>

**32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**

**(a) Cash generated from operations**

	2015 HK\$'000	2014 HK\$'000
Profit before income tax	5,742,804	5,342,886
Depreciation of property, plant and equipment <i>(Note 13)</i>	758,074	710,419
Depreciation of investment properties <i>(Note 14)</i>	6,575	2,505
Amortisation of land use rights <i>(Note 16)</i>	37,675	28,676
Amortisation of intangible assets <i>(Note 17)</i>	13,323	13,012
Realised fair value gains on derivative financial instruments <i>(Note 6)</i>	–	(39,727)
Unrealised fair value losses on derivative financial instruments <i>(Note 6)</i>	35,908	–
Losses on disposal of property, plant and equipment <i>(Note 6)</i>	19,865	26,651
Share-based compensation expenses <i>(Note 25)</i>	62,735	77,212
Amortisation of deferred income on government grants <i>(Note 7)</i>	–	(921)
Interest income and other finance income	(615,638)	(706,672)
Finance costs <i>(Note 8)</i>	634,853	639,525
Operating profit before working capital changes	<b>6,696,174</b>	<b>6,093,566</b>
(Increase)/decrease in inventories	(473,493)	673,079
Increase in trade and bills receivables, other receivables, prepayments and deposits	(529,909)	(438,843)
Increase in trade payables, other payables and accrued charges	422,574	341,439
Cash generated from operations	<b>6,115,346</b>	<b>6,669,241</b>

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015**32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT** *(continued)***(b) Proceeds from disposal of property, plant and equipment**

	2015 HK\$'000	2014 HK\$'000
Net book value (Note 13)	24,430	284,095
Losses on disposal of property, plant and equipment (Note 6)	(19,865)	(26,651)
Proceeds from disposal of property, plant and equipment	4,565	257,444

**33 CONTINGENT LIABILITIES**

At 31 December 2015, the Group had no material contingent liabilities (2014: Nil).

**34 COMMITMENTS**

At 31 December 2015, the Group had the following commitments:

**(a) Capital commitments**

	Group	
	2015 HK\$'000	2014 HK\$'000
Contracted but not provided for in respect of:		
Machinery and equipment	403,760	786,841
Leasehold land and buildings	190,647	297,085
Total capital commitments	594,407	1,083,926

**(b) Commitments under operating leases***(i) The Group is the lessee:*

At 31 December 2015, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land use rights and buildings	
	2015 HK\$'000	2014 HK\$'000
Not later than 1 year	39,569	39,074
Later than 1 year and not later than 5 years	11,794	12,612
	51,363	51,686



Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

**34 COMMITMENTS** *(continued)*

**(b) Commitments under operating leases** *(continued)*

*(ii) The Group is the lessor:*

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

	2015 HK\$'000	2014 HK\$'000
Not later than 1 year	17,711	14,893
Later than 1 year and not later than 5 years	42,113	47,274
Later than 5 years	4,501	11,266
	<b>64,325</b>	<b>73,433</b>

**35 SIGNIFICANT RELATED PARTY TRANSACTIONS**

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

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following significant related party transactions during the year ended 31 December 2015:

**(a) Purchase of energy**

	2015 HK\$'000	2014 HK\$'000
Purchases from Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power")		
– Electricity energy	119,281	131,673
– Heat energy	72,574	83,839
	<b>191,855</b>	<b>215,512</b>

Pursuant to agreements entered between a wholly-owned subsidiary of the Company and Weifang Power, an electricity generation company, the Group purchased electricity and heat energy from Weifang Power at prices determined according to the terms of the contracts. Weifang Power is beneficially owned by Mr. Sze Wong Kim, an executive director, and a son of Mr. Hui Lin Chit, an executive director and a substantial shareholder of the Company.

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015**35 SIGNIFICANT RELATED PARTY TRANSACTIONS** (continued)**(b) Key management compensation**

	2015 HK\$'000	2014 HK\$'000
Basic salaries, housing allowances, other allowances and benefits-in-kind	13,150	13,108
Share-based compensation	4,755	7,252
Contributions to pension schemes	97	76
	<b>18,002</b>	<b>20,436</b>

**(c) Balance with related parties**

	2015 HK\$'000	2014 HK\$'000
Other receivables, prepayments and deposits – Weifang Power	14,315	–

The receivable is unsecured in nature and bears no interest. No provision is held against the receivable from related parties (2014:nil)

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

**36 PRINCIPAL SUBSIDIARIES**

The following is a list of the principal subsidiaries of the Company at 31 December 2015 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 2015 %
<b>Direct subsidiaries:</b>				
Hengan Mega Jumbo Investments Ltd.	Hong Kong, limited liability company	Investment holding, trading and procurement in Hong Kong	9,000 ordinary shares of HK\$1,367,302,854	100
Ever Town Investments Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US\$1 each	100
Hengan International Holdings Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US\$1 each	100
<b>Indirect subsidiaries:</b>				
Anhai (Macao Commercial Offshore) Limited	Macau, limited liability company	Trading and procurement in Macau	MOP100,000	100
Hengan (China) Investment Co., Ltd.*	PRC, wholly foreign-owned enterprise	Investment holding, trading and procurement in the PRC	RMB1,180,000,000	100
Hengan Industrial (Hong Kong) Limited	Hong Kong, limited liability company	Trading and procurement in Hong Kong	2 ordinary shares of HK\$2	100
Hengan Pharmacare Company Limited	Hong Kong, limited liability company	Trading, procurement and distribution of hygiene products in Hong Kong	10,000 ordinary shares of HK\$2,030,786	70
PT.Hengan Global	Indonisa, joint venture	Distribution and sale of personal hygiene products in Indonesia	US\$2,000,000	70
Fujian Hengan Holding Xiamen Business Trade Co., Ltd.	PRC, sino-foreign equity joint venture	Trading in the PRC	RMB100,000,000	100
Fujian Hengan Holding Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB511,407,600	99.02

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For the Year Ended 31 December 2015

## 36 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 2015 %
<b>Indirect subsidiaries: (continued)</b>				
Guangdong Paper Co., Ltd. (formerly named as "Guangzhou Xingshi Professional Equipments Co., Ltd")	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US\$18,000,000	100
Hengan (Jinjiang) Household Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US\$15,800,000	100
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
Fujian Hengan Hygiene Material Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US\$40,000,000	100
Quanzhou Jinjiang Hengan Hygiene Science and Technology Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB11,100,000	90.1
Hengan (Sichuan) Family Products Co., Ltd.*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US\$3,000,000	100
Hengan (Xiaogan) Family Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB76,200,200	100
Hengan (Sichuan) Household Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	US\$15,000,000	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

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

**36 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 2015 %
<b>Indirect subsidiaries:</b> (continued)				
Hengan (Jiangxi) Household Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	HK\$26,958,000	100
Hengan (Hefei) Living Co., Ltd.*	PRC, sino-foreign foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB114,300,000	100
Hunan Hengan Paper Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US\$39,980,000	100
Hengan (Chongqing) Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	HK\$2,778,000	100
Hengan (China) Paper Industry Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US\$145,760,000	100
Hengan (China) Hygiene Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	US\$12,000,000	100
Hengan (Tianjin) Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB105,731,005	100
Hengan Guangxi Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB161,400,000	100
Hengan (Hunan) Hearttex Paper Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB209,000,000	100
Hunan Hengan Living Paper Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB852,280,000	100

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## 36 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 2015 %
<b>Indirect subsidiaries: (continued)</b>				
Hengan (Chongqing) Living Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB959,200,000	100
Hengan (Shaanxi) Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US\$9,980,000	100
Jinjiang Hengan Hearttex Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US\$19,810,000	100
Jinjiang Hengan Household Tissue Product Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US\$12,000,000	100
Shandong Hengan Paper Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US\$55,800,000	100
Shandong Hengan Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US\$47,050,000	100
Chongqing Hengan Hearttex Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US\$21,630,000	100
Fushun Hengan Tissue Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US\$6,000,000	100
Hengan Li Ren Tang (Jian) Cosmetics Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of skin care products and daily personal necessities in the PRC	RMB32,000,000	70
Hengan (Wuhu) Paper Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB874,000,000	100

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**36 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 2015 %
<b>Indirect subsidiaries:</b> (continued)				
Junichi (Xiamen) Maternal and Child Articles Co., Ltd.	PRC, wholly foreign-owned enterprise	Trading pregnant women, infants and kid's products in the PRC	HK\$24,000,000	100
Junichi Co., Ltd.	Japan, limited liability company	Trading the products for ladies and babies in Japan	JPY100,000	100
Hengan (Henan) Hygiene Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB82,000,000	100
Hengan (Changji) Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB137,000,000	100
Hengan (Zhejiang) Homecare Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Distribution and sale of packaged tissue paper and personal hygiene products in the PRC	USD 70,000,000	100
Xiamen Jinjiang Property Co., Ltd.*	PRC, limited liability company	Property management in the PRC	RMB1,000,000	100
Fujian Hengan Homecare Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB310,000,000	100
Wuhu Hengan Hearttex Paper Products Co., Ltd.*	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB105,000,000	100
Hengan (Sichuan) Maternal and Child Products Co., Ltd.*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	USD 10,000,000	100
QinQin Foodstuffs Group Company Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	135,946,900 Ordinary shares of HK\$0.001 each	51
QinQin Foodstuffs Group (Hong Kong) Company Limited	Hong Kong, limited liability company	Investment holding, distribution and sale of snack foods in Hong Kong	1 ordinary shares of HKD 1	51

Notes to the Consolidated Financial Statements  
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## 36 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 2015 %
<b>Indirect subsidiaries:</b> (continued)				
Fushun Nanfang Food Industry Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB10,000,000	51
Fushun QinQin Food Industry Development Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	RMB22,000,000	51
Luohe Linying QinQin Food Industry Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of snack foods in the PRC	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

\* For identification purpose only

The total non-controlling interest for the period is HK\$452,255,000, of which HK\$423,705,000 is attributable to QinQin Foodstuffs Group Company Limited and its subsidiaries ("QinQin Group"). The non-controlling interests in respect of Hengan Pharmacare Company Limited, Fujian Hengan Holding Co., Ltd., Jinjiang Hengan Antimicrobial Science and Technology Development Co., Ltd., Hengan Li Ren Tang (Jian) Cosmetics Co., Ltd. and PT. Hengan Global are not material.

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



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For the Year Ended 31 December 2015

**36 PRINCIPAL SUBSIDIARIES** *(continued)*

**Summarised financial information on subsidiaries with material non-controlling interests**

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

*Summarised balance sheet*

	2015 HK\$'000	2014 HK\$'000
Current		
Assets	426,763	506,584
Liabilities	(150,362)	(325,283)
Total current net assets	276,401	181,301
Non-current		
Assets	624,347	702,913
Liabilities	(36,043)	(39,527)
Total non-current net assets	588,304	663,386
Net assets	864,705	844,687

*Summarised income statement*

	2015 HK\$'000	2014 HK\$'000
Revenue	1,267,144	1,534,749
Profit before income tax	92,383	145,626
Income tax expense	(26,466)	(40,312)
Post-tax profit	65,917	105,314
Other comprehensive income	(45,900)	(2,169)
Total comprehensive income	20,017	103,145
Total comprehensive income allocated to non-controlling interests	9,809	50,541
Dividends paid to non-controlling interests	37,911	22,248

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015**36 PRINCIPAL SUBSIDIARIES** (continued)**Summarised financial information on subsidiaries with material non-controlling interests**

(continued)

Summarised cash flows

	2015 HK\$'000	2014 HK\$'000
<b>Cash flows from operating activities</b>		
Cash generated from operations	148,068	232,452
Income tax paid	(30,886)	(36,352)
Net cash generated from operating activities	117,182	196,100
Net cash used in investing activities	(1,552)	(23,714)
Net cash used in financing activities	(152,220)	(48,050)
Net (decrease)/increase in cash and cash equivalents	(36,590)	124,336
Cash and cash equivalents at beginning of year	318,132	199,807
Exchange losses on cash and cash equivalents	(18,478)	(6,011)
Cash and cash equivalents at end of year	263,064	318,132

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

**37 EVENTS AFTER THE BALANCE SHEET DATE**

On 5 February 2016, the Company submitted a proposal to The Stock Exchange of Hong Kong Limited in accordance with Practice Note 15 of Listing Rules for the spin-off of the QinQin Group by way of introduction achieved by distribution in specie of the entire shares of QinQin Group. As at the approval date of these financial statements, the spin-off is still in the process.

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

**38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY**

	As at 31 December	
	2015	2014
	HK\$'000	HK\$'000
<b>Assets</b>		
<b>Non-current assets</b>		
Investments in subsidiaries	6,469,742	6,433,639
<b>Current assets</b>		
Amounts due from subsidiaries	6,365,836	7,741,259
Other receivables, prepayments and deposits	–	338
Inventories	977	–
Cash and bank balances	64,519	21,172
	<b>6,431,332</b>	<b>7,762,769</b>
<b>Total assets</b>	<b>12,901,074</b>	<b>14,196,408</b>
<b>Equity and liabilities</b>		
<b>Equity attributable to shareholders of the Company</b>		
Share capital	121,809	122,438
Other reserves ( <i>Note(a)</i> )	520,945	457,788
Retained earnings ( <i>Note(a)</i> )	3,478,694	1,486,744
<b>Total equity</b>	<b>4,121,448</b>	<b>2,066,970</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Convertible bonds	–	5,390,267
Amounts due to subsidiaries	1,610,191	4,999,001
	<b>1,610,191</b>	<b>10,389,268</b>
<b>Current liabilities</b>		
Trade payables	10,009	11,966
Other payables and accrued charges	10,824	10,481
Amounts due to subsidiaries	1,357	1,323
Bank borrowings	1,588,750	1,716,400
Convertible bonds	5,558,495	–
	<b>7,169,435</b>	<b>1,740,170</b>
<b>Total liabilities</b>	<b>8,779,626</b>	<b>12,129,438</b>
<b>Total equity and liabilities</b>	<b>12,901,074</b>	<b>14,196,408</b>

The balance sheet of the Company was approved by the Board of Directors on 22 March 2016 and was signed on its behalf.

Director  
Sze Man Bok

Director  
Hui Lin Chit

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015**38 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY** *(continued)***Note (a) Reserve movement of the Company**

	Retained earnings HK\$'000	Other Reserve HK\$'000
At 1 January 2014	1,505,866	513,932
Profit for the year	2,664,866	–
Dividend paid	(2,271,013)	–
Share-based compensation		
– value of employee services	–	77,212
Buy-back of shares	(412,975)	(133,356)
At 31 December 2014	1,486,744	457,788
At 1 January 2015	1,486,744	457,788
Profit for the year	5,024,599	–
Dividend paid	(2,565,250)	–
Share-based compensation		
– value of employee services	–	3,385
– proceeds from shares issued	–	62,735
Buy-back of shares	(467,399)	(2,963)
At 31 December 2015	3,478,694	520,945

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015

**39 BENEFITS AND INTERESTS OF DIRECTORS**

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

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

Name of Director	Fees HK\$'000	Salaries HK\$'000	Discretionary bonuses HK\$'000	Share-based compensation HK\$'000	Housing allowance and payment in lieu of annual leave HK\$'000	Employer's contribution to a retirement benefit scheme HK\$'000	Total HK\$'000
<b>Director</b>							
Mr. Sze Man Bok	60	407	–	94	–	17	578
Mr. Hui Lin Chit	60	878	522	699	–	18	2,177
Mr. Xu Shui Shen	60	1,346	420	796	–	3	2,625
Mr. Hung Ching Shan	60	202	10	94	–	10	376
Mr. Xu Da Zuo	60	822	79	510	–	3	1,474
Mr. Xu Chun Man	60	–	–	94	–	3	157
Mr. Sze Wong Kim	60	–	–	40	–	3	103
Mr. Hui Ching Chi	60	404	103	40	–	18	625
Mr. Loo Hong Shing Vincent	60	1,122	500	611	443	23	2,809
<b>Independent Non-executive Director</b>							
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

Notes to the Consolidated Financial Statements  
For the Year Ended 31 December 2015**39 BENEFITS AND INTERESTS OF DIRECTORS** (continued)**(a) Directors' and chief executive's emoluments** (continued)

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

Name of Director	Fees HK\$'000	Salaries HK\$'000	Discretionary bonuses HK\$'000	Share-based compensation HK\$'000	Housing allowance and payment in lieu of annual leave HK\$'000	Employer's contribution to a retirement benefit scheme HK\$'000	Total HK\$'000
<b>Director</b>							
Mr. Sze Man Bok	60	355	-	127	-	11	553
Mr. Hui Lin Chit	60	844	530	939	-	17	2,390
Mr. Xu Shui Shen	60	1,363	501	1,111	-	3	3,038
Mr. Hung Ching Shan	60	154	10	127	-	8	359
Mr. Xu Da Zuo	60	784	109	685	-	3	1,641
Mr. Xu Chun Man	60	-	-	127	-	3	190
Mr. Sze Wong Kim	60	-	-	96	-	3	159
Mr. Hui Ching Chi	60	78	22	96	-	7	263
Mr. Loo Hong Shing Vincent	60	1,100	500	888	453	21	3,022
<b>Independent Non-executive Director</b>							
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

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

Pursuant to an agreement dated 22 December 2014 (the "Agreement") made between a wholly-owned subsidiary of the Company, and Weifang Power, the Group purchased electricity and heat energy from Weifang Power at prices according to the terms of the contracts. Mr. Sze Wong Kim, a non-executive director of the Company, is interested in this transaction to the extent that Weifang Power is controlled by him.

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