恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044

Annual Report 2017

CORPORATE MISSION

"GROWING WITH YOU FOR A BETTER LIFE"

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

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Sze Man Bok *(Chairman)*
Hui Lin Chit *(Deputy Chairman and Chief Executive Officer)*
Hung Ching Shan
Xu Shui Shen
Xu Da Zuo
Xu Chun Man
Sze Wong Kim
Hui Ching Chi
Li Wai Leung *(appointed on 21 March 2017)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Li Wai Leung *FCPA*

AUTHORISED REPRESENTATIVES

Hui Lin Chit
Li Wai Leung

LEGAL ADVISERS

Hong Kong
ReedSmith Richards Butler

PRC
Global Law Office

Cayman Islands
Maples and Calder (Hong Kong) LLP

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

REGISTERED OFFICE

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

HEAD OFFICE

Hengan Industrial City
Anhai Town
Jinjiang City
Fujian Province
PRC

PLACE OF BUSINESS IN HONG KONG

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

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
Stock Code: 1044

WEBSITES

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

PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road, P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

INVESTORS AND MEDIA RELATIONS

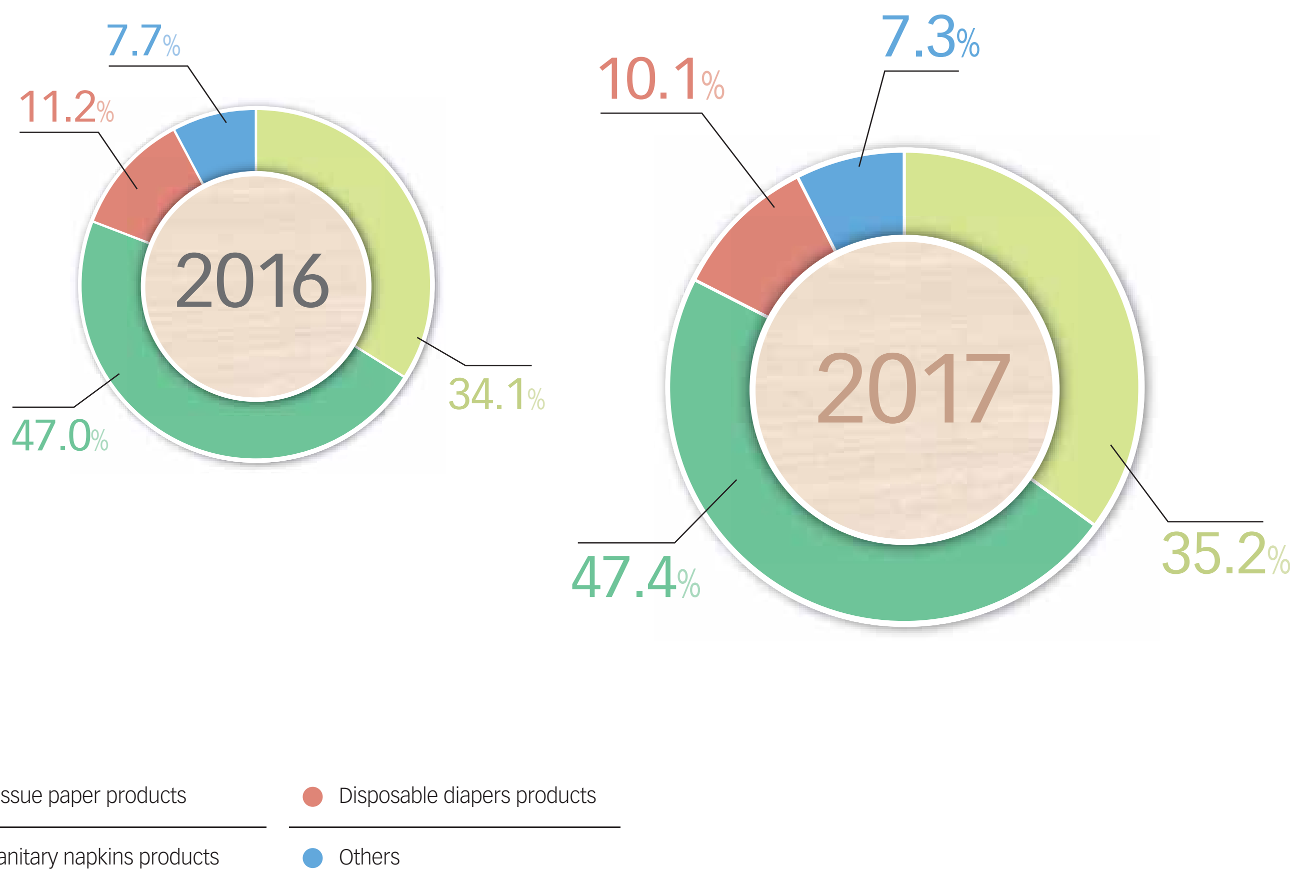
iPR Ogilvy Ltd.
Units 2008–12, 20/F, The Centre
99 Queen's Road
Central Hong Kong

FINANCIAL HIGHLIGHTS

	2017	2016	2015	2014	2013
Continuing operations *(Note)*					
Net profit margin — based on profit attributable to shareholders of the Company (%)	**19.1**	18.0	17.3	16.4	17.6
Earnings per share — basic (RMB)	**3.149**	2.864	2.645	2.525	2.418
Finished goods turnover (days)	**46**	46	43	49	55
Trade receivables turnover (days)	**47**	47	40	35	35
Current ratio (times)	**1.3**	1.4	1.2	1.5	1.6
Gross gearing ratio (%)	**118.5**	108.1	98.8	115.3	116.1
Net gearing ratio (%)	**(11.5)**	(4.9)	(7.9)	(10.3)	(5.7)

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

ANALYSIS OF REVENUE BY PRODUCT



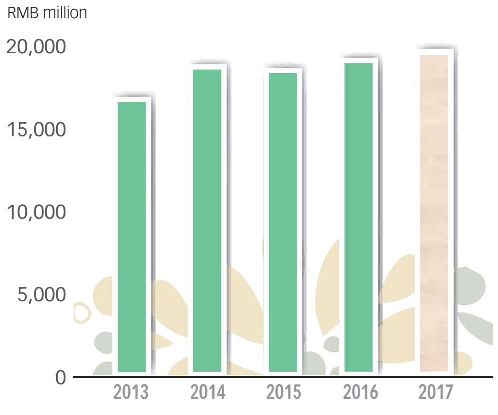
FIVE-YEAR FINANCIAL SUMMARY

CONSOLIDATED RESULTS — FOR THE YEAR ENDED 31 DECEMBER

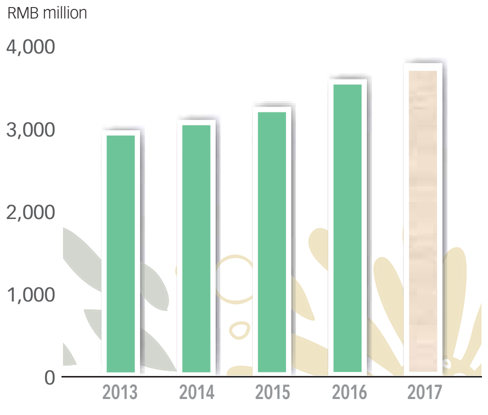
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Revenue *(Note)*	**19,825,031**	19,277,397	18,662,576	18,883,508	16,904,603
Profit before income tax *(Note)*	**4,960,598**	4,559,011	4,548,674	4,231,297	4,011,520
Income tax expense *(Note)*	**(1,159,142)**	(1,079,445)	(1,299,209)	(1,084,310)	(997,234)
Profit for the year from continuing operations *(Note)*	**3,801,456**	3,479,566	3,249,465	–	–
Profit for the year from discontinued operations *(Note)*	**–**	281,896	52,272	–	–
Profit for the year	**3,801,456**	3,761,462	3,301,737	3,146,987	3,014,286
Non-controlling interests	**(7,415)**	(164,641)	(41,874)	(45,788)	(38,992)
Profit attributable to shareholders of the Company	**3,794,041**	3,596,821	3,259,863	3,101,199	2,975,294
Earnings per share - basic (RMB) *(Note)*	**3.149**	2.864	2.645	2.525	2.418

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

REVENUE



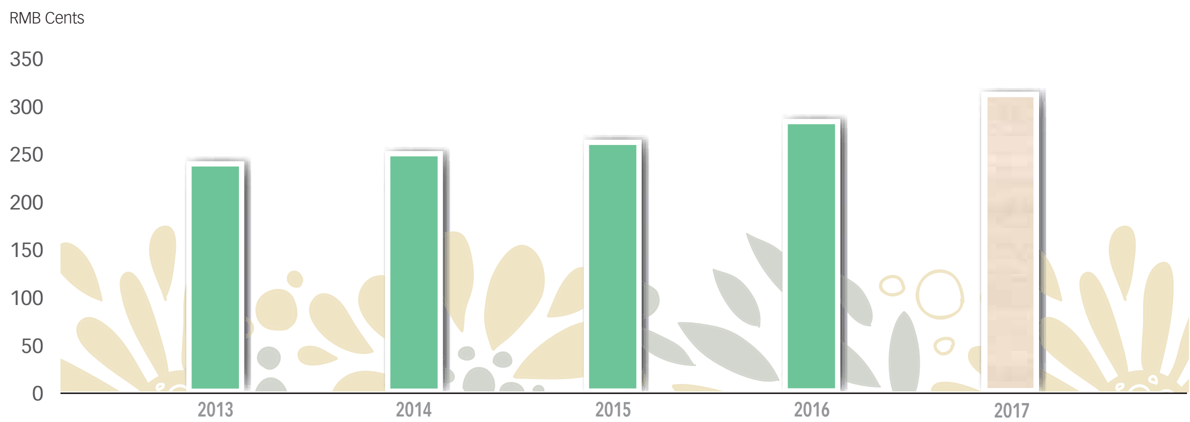
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY



CONSOLIDATED ASSETS AND LIABILITIES — AS AT 31 DECEMBER

	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Assets					
Property, plant and equipment	**8,044,858**	7,344,807	7,468,314	6,996,840	6,787,773
Construction-in-progress	**878,088**	1,094,145	1,089,602	1,091,711	949,240
Investment properties	**216,753**	194,848	185,886	188,542	–
Land use rights	**773,327**	751,308	858,708	881,855	873,563
Intangible assets	**503,246**	498,510	599,356	609,975	593,179
Prepayments for non-current assets	**141,132**	163,281	151,924	281,270	298,334
Deferred income tax assets	**172,244**	210,813	186,094	171,372	123,835
Cash and bank balances	**18,429,716**	14,874,877	14,866,085	16,800,949	15,381,201
Long-term bank deposits	**2,499,738**	1,760,000	850,000	865,000	640,000
Other current assets	**7,238,938**	7,252,139	6,708,384	5,853,258	6,106,992
Total assets	**38,898,040**	34,144,728	32,964,353	33,740,772	31,754,117
Liabilities					
Long-term borrowings	**3,247,233**	3,524,687	–	–	754,471
Convertible bonds	**455,537**	472,719	4,656,907	4,252,382	4,109,570
Deferred income tax liabilities	**120,007**	106,452	159,563	111,423	136,645
Deferred income on government grants	**–**	–	–	–	730
Other current and non-current liabilities	**18,730,962**	15,280,014	13,056,088	14,978,378	13,298,455
Total liabilities	**22,553,739**	19,383,872	17,872,558	19,342,183	18,299,871
Non-controlling interest	**237,883**	34,065	380,928	340,378	308,125
Net assets attributable to shareholders of the Company	**16,106,418**	14,726,791	14,710,867	14,058,211	13,146,121

EARNINGS PER SHARE



“HEARTTEX” AND
“PINO” BOX TISSUE PAPER

“HEARTTEX” KITCHEN TOWELS

“JUNICHI” BABY SKIN CARE PRODUCTS, “MISSMAY” SKIN CARE PRODUCTS AND “SUNREST” CLEANSING PRODUCTS

“BANITORE” FIRST-AID PRODUCTS AND
“BENDI” ENEMA

“HEATTEX” PRESERVATION
BAGS/PAPER

“SPACE 7”, “ANERLE”, “ANLE” AND “DORIA” SANITARY NAPKINS AND PANTILINERS

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

"HEARTTEX" AND
"PINO" TOILET ROLLS

"ELDERJOY" ADULT DIAPERS

"HEARTTEX" WET
TISSUES

"ANERLE" AND
"Q • MO" BABY DIAPERS

CHAIRMAN'S STATEMENT

SZE MAN BOK
Chairman

Dear **Shareholders**,

On behalf of Hengan International Group Company Limited ("Hengan International" or the "Group"), I present its annual results for the year ended 31 December 2017. During the year under review, China's economy maintained steady growth thanks to the recovery of retailing market, development of urbanization and continual increase in income of citizens. Accelerated reforms and innovations by the Chinese government and consumption upgrade will bode well for the development of high-quality personal and household hygiene products market. As a leading company in the industry in mainland China, Hengan leverages its brand equity, economies of scale and the spirit of constant innovation to grasp opportunities in the changing market and drive its steady business growth.

For the year ended 31 December 2017, the Group's revenue from continuing operations amounted to approximately RMB19,825,031,000 (2016: RMB19,277,397,000), representing an increase of about 2.8% over the prior year. Profit from continuing operations attributable to the shareholders of the Company was approximately RMB3,794,041,000 (2016: RMB3,471,746,000), an increase of approximately 9.3% compared with that of previous year. Profit attributable to shareholders increased by about 5.5% to approximately RMB3,794,041,000 (2016: RMB3,596,821,000). Basic earnings per share were approximately RMB3.149 (2016: RMB2.967). The Board of Directors recommended the payment of a final dividend of RMB1.15 per share (2016: RMB1.10), which together with the interim dividend of RMB0.95 per share (2016: RMB0.85), bringing the annual dividend to RMB2.1 per share (2016: RMB1.95).

During the year under review, despite increasingly intensified competition in the industry, the Group optimized its product portfolio and expanded the economies of scale, thus making its high quality products stand out from its competitors. The tissue paper business continued to be the Group's major revenue source, accounting for approximately 47.4% of its total revenue. The businesses of sanitary napkin and disposable diaper accounted for approximately 35.2% and 10.1% respectively of the Group's total revenue. The rise in the prices of major raw material, such as wood pulp, resulted in continued pressure on the gross profit margin of the businesses of tissue paper and disposable diaper while the gross profit margin of the sanitary napkin business remained stable. In face of diverging market factors, the Group continued its implementation of the "small sales team" operating model (also known as Hengan's Amoeba model") during the year under review. The Amoeba reform has gradually gained ground while the three main businesses saw stable development with improvements in both sales performance and expense ratio. The Group is confident of constantly enhancing its operational efficiency.

Hengan International consistently upheld its corporate spirit of integrity, diligence, innovation and dedication, actively upgraded its products portfolio, facilitated long term and sustainable development to serve the public with high-quality personal and household hygiene products. During the year under review, the Group launched various new products to step up its efforts in the development of younger generation's market. It also further strengthened its presence in mid-to-high-end and high-end markets as well as introduced online exclusive products to cater for consumption habits of the e-commerce market. In 2017, the Group was selected as one of the brands of CCTV "2018 National Brand Plan". Being the only shortlisted company in the household products industry in China, the Plan fully affirmed the Group's excellent performance and leading market position. In addition, the Group acquired Wang-Zheng Berhad, a company listed on the Main Market of Bursa Malaysia Securities Berhad, during the year under review, bringing its products to the Southeast Asian market.

Looking ahead to 2018, despite global political and economic uncertainties linger, it is expected that China's economy will continue with its steady growth momentum. Rising income level of Chinese citizens and growing awareness of health and hygiene will drive consumers' demand for personal hygiene products, thus benefiting the sustainable growth of the market. The Group will extend the Amoeba reform to all sales channels and production units to further increase its operational efficiency of all aspects, ranging from production to logistics and from inventory to sales. Besides, the Group will flexibly optimise the product mix according to the market dynamics, launch new products and upgrade products to cater to the need of consumers. The Group will also closely monitor the trends of raw material prices to enhance its overall gross profit margin and consolidate its leading position in the hygiene product market in mainland China.

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

REVENUE FROM CONTINUING OPERATIONS BY REGIONS IN MAINLAND CHINA

	2017	2016
NORTH-WESTERN		
Sales Value: (RMB million)	**935**	932
Percentage of Total Sales:	**4.7%**	4.8%
NORTHERN		
Sales Value: (RMB million)	**1,305**	1,476
Percentage of Total Sales:	**6.6%**	7.7%
NORTH-EASTERN		
Sales Value: (RMB million)	**786**	830
Percentage of Total Sales:	**4.0%**	4.3%
SHANDONG		
Sales Value: (RMB million)	**1,685**	1,848
Percentage of Total Sales:	**8.5%**	9.6%

	2017	2016
EASTERN		
Sales Value: (RMB million)	**2,975**	2,988
Percentage of Total Sales:	**15.0%**	15.5%
CENTRAL		
Sales Value: (RMB million)	**2,160**	2,425
Percentage of Total Sales:	**10.9%**	12.6%
FUJIAN AND GUANGDONG		
Sales Value: (RMB million)	**5,580**	4,897
Percentage of Total Sales:	**28.2%**	25.4%
SOUTH-WESTERN		
Sales Value: (RMB million)	**1,217**	1,021
Percentage of Total Sales:	**6.1%**	5.3%
SICHUAN		
Sales Value: (RMB million)	**1,576**	1,599
Percentage of Total Sales:	**8.0%**	8.3%

Sze Man Bok
Chairman

Hong Kong, 22 March 2018

CHIEF EXECUTIVE OFFICER'S REPORT

BUSINESS REVIEW

HUI LIN CHIT
Chief Executive Officer

Looking back on 2017, China's economic growth remained steady. According to the National Bureau of Statistics of China, the country's gross domestic product for 2017 increased by 6.9% year-on-year, better than market expectations and well above the government's annual growth target of 6.5%. Momentum in China's retail market began to pick up with annual retail sales of consumer goods increased by 10.2% year-on-year. Consumer market grew at a stable rate.

During the year under review, it was the crucial stage for the Group's implementation of the "small sales team" operating model (also known as "Hengan's Amoeba model"). The layout and full rollout of this operating model was completed at the end of April 2017. The sales network was successfully "vitalized" in the following eight months, and the Group began to see the benefits in the second half of the year. During the adjustment period of sales structure, the Group's overall sales were mildly affected and decreased slightly in the first half of 2017. Nevertheless, for the year ended 31 December 2017, the Group retrieved a positive growth of revenue from continuing operations, which amounted to approximately RMB19,825,031,000 (2016: RMB19,277,397,000), representing an increase of 2.8% compared with that of the previous year. The Group anticipated that the positive impact brought by the "small sales team" operating model will become more pronounced in 2018, along with the launch of new and upgraded products across China, together with the continuous growth momentum in e-commerce sales, the sales performance is expected to improve in 2018.

During the year, due to the increase in the prices of wood pulp, the Group's production cost of tissue business increased. The Group's gross profit margin dropped to about 46.9% during the year under review (2016: 48.8%). The Group will continue to optimize its product portfolio and expand the economies of scale in 2018 so as to mitigate the negative effects of rising wood pulp prices. Selling and distribution costs and administrative expenses decreased to approximately 26.1% (2016: 27.0%) of the Group's revenue. The decrease was mainly attributable to the implementation of "small sales team" operating model which effectively controlled the marketing and advertising expenses of sales channels.

In 2017, operating profit from continuing operations rose by about 11.1% to approximately RMB5,271,574,000 (2016: RMB4,742,869,000). Profit from continuing operations attributable to the shareholders of the Company and overall profit attributable to shareholders of the Company increased by about 9.3% and 5.5% respectively to approximately RMB3,794,041,000 (2016: RMB3,471,746,000 and 3,596,821,000). The Board of Directors declared a final dividend of RMB1.15 per share for the year ended 31 December 2017 (2016: RMB1.1).

During the year, the effective tax rate of continuing operations was approximately 23.4% (2016: 23.7%).

SANITARY NAPKIN

Against the backdrop of rising education level, social status as well as consumption power of women in China, their awareness of and demand for personal health continued to increase. Premium personal hygiene products were more welcomed by Chinese women, thus facilitating the stable development of the sanitary napkins market. Although the penetration of the sanitary napkins market in China has been quite high, the Group flexibly adapted to the change in purchasing power and consumption patterns and continued to optimize its product portfolio by upgrading the package, material and functionality of products. During the year, the Group launched Space 7 series, which targets mature female market, and constantly promoted Sweet Sleeping Panty series, which caters to female needs at night. Both products were well received by market. Coupled with the rise in average selling prices driven by product upgrade and the improved sales efficiency of the traditional channels as a result of "small sales team" business strategies, the Group's sanitary napkins business managed to maintain stable growth and strengthened its leading market position.

During the year, revenue of the sanitary napkins business grew by approximately 6.1% to approximately RMB6,972,405,000, which accounted for around 35.2% of the Group's revenue (2016: 34.1%). In 2017, the gross profit margin of the sanitary napkins business remained stable at approximately 72.2% (2016: 72.6%) as the gain brought by the Group's upgraded product portfolio offset the impact of increasing from some raw material cost.

In the future, the Group will continue to make more breakthroughs on packaging, functionality and materials. Capitalising on its leading position in the teenage market, the Group will launch more new products and upgrade products to further develop the mature women and white-collar market. The Group will also leverage on the speedy market response of "small sales team", adjusting its product mix according to the needs of different regions and sales channels to increase sales efficiency. While consolidating and optimizing offline channels, the Group will further expand its market share in the ecommerce market of personal hygiene products. It is expected to maintain steady growth in sales performance in 2018.

TISSUE PAPER

In light of stable economic growth in China, accelerating urbanization has enhanced the national hygiene standard. China's tissue consumption per capita still lags behind that of developed countries, implying enormous market potential. Despite vigorous competition, the Group, with its production scale and strong brand influence, coupled with its perseverance in high-quality tissue paper, still managed to gain competitive advantage and effectively expanded its market share. In addition, the government tightened the environmental regulations and strengthened law enforcement, resulting in elimination of small manufacturers and accelerated industry consolidation, which further solidified the position of large-scale manufacturers like the Group in the industry.

During the year, revenue from the Group's tissue paper segment increased by about 3.6% to approximately RMB9,390,072,000 accounting for approximately 47.4% (2016: 47.0%) of the Group's total revenue. In the second half of 2017, tissue paper segment recorded an increase of above 7.0% in revenue, which was attributable to the "small sales team operation" strategies that improved sales of traditional channels gradually and continued strong sales growth of e-commerce channel. During the year, gross profit margin of tissue paper business was affected by the persistent increase in the prices of wood pulp, a raw material for tissue paper production. Gross profit margin decreased to approximately 32.9% (2016: 37.9%). However, the Group is confident that the positive effect of "small sales team" operating model will become more evident in 2018 which would mitigate the pressure from rising raw material costs. The Group will also continue to innovate and launch high-quality, high-end products and new packing series with well-known brands to further optimize the product portfolio.

The Group's annualized production capacity was approximately 1,300,000 tons during the year. The production capacity is expected to increase to approximately 1,420,000 tons by the first half of 2018. The Group will consider expanding its production capacity according to the market conditions and sales performance in the future. In 2018, the Group will increase the supply of the popular products such as Minions-themed tissue paper series and Hearttex customized series of Hebe Tien to satisfy the market demand. Meanwhile, the Group will launch a new product "Talking tissue paper" and cooperate with other famous brand such as "three squirrels" to launch new packings for online exclusive products. The Group will also capitalize on the market craze for "super mini" and "wake up" series by strengthening the promotion and introducing more new packings for "super mini" and "wake up" series wet wipes. With high market sensitivity and quick adaptability of the "small sales team", the Group can further segmentise the market and then allocate different product mix to specific market. In 2018, the Group believes that tissue paper segment will accelerate its sales growth and improve its gross profit margin.

DISPOSABLE DIAPERS

Chinese government implemented the "two-child" policy since 2016, expanding the development potential of infant products. Due to the rising income of citizens, parents are more capable and willing to increase parenting expense, which is beneficial to the high-quality baby diapers market. Increasing personal hygiene awareness and consumers' pursuit of higher living standards have also facilitated the development of the adult diapers market. In addition, the market penetration rate of disposable diapers in China is still relatively low compared with that in the developed countries, implying huge market potential.

During the year, the benefits of the Group's strategic investment in e-commerce and maternity stores began to emerge. Diapers sales in both channels recorded significant growth. Sales from e-commerce channels reached a year-on-year growth of 70% and accounted for over 25% of the overall diapers sales in 2017, effectively alleviating the decline in the Group's overall diapers sales.

For the year ended 31 December 2017, revenue from the sales of diapers decreased by approximately 7.0% to approximately RMB1,999,325,000, accounting for approximately 10.1% (2016: 11.2%) of the Group's revenue.

During the year, as the prices of petrochemical products like superabsorbent polymer, a major raw material for disposable diapers increased, coupled with the price gap between e-commerce channel and traditional channel as well as intensified market competition, gross profit margin of disposable diapers business dropped to around 46.9% (2016: 50.8%). However, the Group took appropriate measures to adjust the price of e-commerce products in the second half of 2017 and launched high-end and optimized products, thus the gross profit margin for the year 2017 slightly improved comparing to the first half of 2017.

The Group expected that the new high-end product "Q·MO", which has established its market reputation and its image as quality diaper, will help enhance the sales performance of overall diapers business and the positive influence will be gradually reflected in 2018. To conform to the trend of product premiumisation of the personal hygiene product consumption, the Group will continue to enrich "Q·MO" series and launch "「Ultra Soft」、「Natural Cotton」、「Fresh Air」" series in 2018 to cater to the market demand for high-quality products. The Group will use quality overseas raw materials and technology and leverage on its national and international certification to strengthen consumer confidence in the Group's disposable diapers and increase its competitiveness in order to stand out from the competition with high-quality products.

FIRST AID PRODUCTS

Sales of first-aid products under the brands of "Banitore" and "Bandi" amounted to approximately RMB32,451,000 (2016: RMB25,668,000). The business accounted for approximately 0.2% (2016: 0.1%) of the Group's revenue from continuing operations, and did not have any significant impact on the Group's overall results.

E-COMMERCE

Online shopping has become an indispensable part of Chinese daily lives. The Group further developed its national sales network through online stores and Wechat stores. To further enhance the sales performance and market share of the e-commerce channel, the Group has accelerated the development of its e-commerce sales channels including online stores and Wechat stores, in the aspects of product type, sales model and product promotion. During the year, the Group's e-commerce business achieved extraordinary growth. The e-commerce sales of the Group's core business segments, including sanitary napkins, tissue paper and disposable diapers, maintained robust growth momentum. As at 31 December 2017, revenue from e-commerce reached about RMB2.02 billion, up by more than 80% over the same period last year. E-commerce's contribution to total sales revenue also rose to approximately 10.0% (2016: 6.0%).

While delivery efficiency and product positioning are the main factors influencing the consumption decision at e-commerce channels, the Group's sales channel reform and warehouse adjustment helped enhance the efficiency of e-commerce sales channels, so as to deliver goods in an efficient manner and save selling and distribution costs. The Group also established strategic cooperation with the major e-commerce platforms to optimize the cost-effectiveness of the logistics network. Meanwhile, the Group will continue to develop exclusive products for e-commerce sales channels to enhance their competitiveness. The Group has started strategic collaborations with several e-commerce operators since 2018, increasing cooperation in the aspects of product development, marketing and supply chain. It is anticipated that the e-commerce sales will be further accelerated.

HENGAN'S AMOEBA MODEL

From January 2017 onwards, the Group started the implementation of the "small sales team" business strategy nationally to break its original management model and transform it into a flattened and streamlined service model which gives its sales team sufficient autonomy. The nationwide rollout of the aforementioned new strategy was completed at the end of April. Leveraging on the agility and market responsiveness of the "small sales team", the Group has effectively formulated sales strategies to meet the varying needs of different regional markets and adjust the product mix according to consumer needs of each market. With the motto of "customer first", it successfully revitalized the sales of traditional channels, leading to a win-win situation for both the Group and consumers. While the sales performance has been enhanced, the Group's expense ratio also improved by about 0.9% in 2017 comparing to last year, demonstrating the effectiveness of the "small sales team".

"Small sales team" completed its national layout in 2017 and will continue to deepen its reform to enhance the operating efficiency of small sales team in 2018. Apart from sales team, "small sales team operating" model will gradually extend to other operating divisions of the Group, strengthening the agility and market responsiveness of the Group. The Group also put forward the development philosophy of "create the value together, shoulder the responsibility together, share the interest", which was accepted by all employees.

As "small sales team" model has been widely adopted by the Group internally, along with the support of regional operation center and shared service center for each small team in the aspects of operation and distribution, "small team sales operating" model will continue to revitalize and reform the whole Group. It is expected that the Group's overall revenue will grow rapidly in 2018 and it will continue to enhance its operating efficiency.

ACQUISITION OF WANG-ZHENG

On 5 June 2017, the Group announced that it acquired an aggregate of 80 million shares of Wang-Zheng Berhad (Stock code: 7203), a company listed on the Main Market of Bursa Malaysia Securities Berhad. The Sale Shares represented approximately 50.45% of the equity interest in Wang-Zheng. The transaction price amounted RM91.2 million (equivalent to approximately RMB146 million). On 19 July 2017, the Group closed the unconditional mandatory takeover offer (the "Offer"). Taking into account the valid acceptances under the Offer, the Group is interested in an aggregate of 80,003,000 shares in Wang-Zheng, representing approximately 50.45% of the equity interest in Wang-Zheng.

If the acquisition had occurred on 1 January 2017, the consolidated revenue and consolidated net profit for the year ended 31 December 2017 of the Group would have been increased by RMB434,152,000 and RMB15,263,000 respectively. From the date of acquisition completed (8 June 2017), the contribution to the Group's revenue during the period amounted to approximately RMB261,477,000 and the net profit amounted to RMB49,786,000 (including the negative goodwill recognized from the acquisition of Wang-Zheng of about RMB42,383,000), accounting for approximately 1.3% and 1.3% of the Group's total revenue and net profit respectively.

Wang-Zheng and its subsidiaries are principally engaged in investment holding and the manufacturing and processing of fibre-based products, which include disposable adult and baby diapers, sanitary protection and tissue products, cotton products and processed papers. The acquisition was undertaken as part of the Group's plan to expand its business operations and diversify its revenue stream outside the People's Republic of China. The Group will seek to leverage on its extensive experience and work with the existing management team of Wang-Zheng to grow the Wang-Zheng Group. Meanwhile, Wang-Zheng's sales network covers the major sales channels in Southeast Asia, such as large-scale supermarkets and personal hygiene product stores. The Group will make good use of Wang-Zheng's current network to bring its products to the Southeast Asian region. The Group will grasp this opportunity to introduce more product types on the one hand and enhance the Group's overseas reputation on the other hand.

FOREIGN CURRENCY RISKS

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

As at 31 December 2017, apart from certain forward 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.

LIQUIDITY, FINANCIAL RESOURCES AND BANK LOANS

The Group maintained a solid financial position. As at 31 December 2017, the Group's cash and bank balances, long-term bank time deposits and restricted bank deposits amounted to approximately RMB20,932,456,000 (31 December 2016: RMB16,649,499,000); the liability component of convertible bonds amounted to approximately RMB455,537,000 (31 December 2016: RMB472,719,000); medium-term notes (panda bonds) and domestic bonds of approximately RMB2,991,175,000 (31 December 2016: RMB2,987,987,000), and bank borrowings amounted to approximately RMB15,631,443,000 (31 December 2016: RMB12,455,274,000).

In the second half of 2016, the Group successfully registered for the proposed issue of RMB5 billion medium-term notes (panda bonds) and RMB5.75 billion domestic corporate bonds. The Group also completed the issue of the first tranche 3-year panda bonds of RMB2 billion and the issue of the first tranche of 5-year domestic bonds of RMB1 billion in September 2016, with a coupon rate of 3.24% and 3.3% per annum respectively.

In addition, the Group successfully registered for the proposed issue of RMB5 billion super & short-term commercial paper during the year. The Group may issue super & short-term commercial paper in batches within two years from the date of acceptance of the registration notice. The suggested amount of the first issuance of super & short-term commercial paper is expected to be approximately 10 billion (the exact amount will be finalized by the Group at the time of issuance).

The principal amount of the convertible bonds issued in June 2013 was approximately RMB4,328 million, out of which part of the convertible bonds had been partly redeemed on 27 June 2016, and the remaining amount will be repaid on 27 June 2018.

The convertible bonds were subject to a fixed interest rate of 2.7% while the bank borrowings were subject to floating annual interest rates ranging from approximately 1.0% to 5.6% (2016: from 0.3% to 4.6%).

As at 31 December 2017, the Group's gross gearing ratio of continuing operations was approximately 118.5% (31 December 2016: 108.1%), which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including non-controlling interests). The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term bank time deposits as a percentage of the shareholders' equity (not including non-controlling interests), was negative 11.5% (31 December 2016: negative 4.9%) as the Group was in a net cash position.

During the year, the Group's capital expenditure for continuing operations amounted to approximately RMB936,168,000. As at 31 December 2017, the Group had no material contingent liabilities.

APPOINTMENT OF PROFESSIONAL CONSULTANTS

To optimize 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 services have been mostly completed in 2017 and the entire project is expected to be completed by 2018.

Also, the Group continued to hire PricewaterhouseCoopers and its advisory team to provide variety of advisory services, including but not limited to the preparation of "Environmental, Social and Governance Report" in 2017, setting up of Service Sharing Centre, establishing the Group's online and offline strategy during 2017 and the services will be continued in 2018.

LATEST AWARDS

In 2017, the Group has received major awards and honors as below:

Date	Award	Organization
January	The Group was awarded the "International Carbon-Value Gold Award". Chief Executive Officer Mr. Hui Lin Chit was granted "Low Carbon Leadership Award".	The World Economic and Environmental Conference
May	Top 100 Hong Kong Stocks. The Group has received this award for 5 consecutive years.	Finet
June	Hearttex was ranked as the top 10 "most preferred brands for China's consumers". Space 7 is shortlisted as the fast rising brand of fast-moving consumer goods.	Kantar Consumer Index
July	The 12th "Capital China" Outstanding Enterprise Award	Hong Kong Capital Magazine
August	Ranked 286th in the list of "Top 500 Chinese Private Enterprises in 2017"	The All-China Federation of Industry and Commerce
September	"Strategical Charity Enterprise". The Group cooperated with Tencent to organize "99 Charity Day" and initiated the campaign of "Chinese Enterprise's Charitable Internet Laboratory".	Tencent Foundation
	Hearttex was selected as BRICS Xiamen Congress's designated products.	BRICS
	Hearttex and Space 7 were awarded the "Golden Wheat Quality Award", in which this award is influential and authoritative in the e-commerce industry daily household products sector.	Golden Wheat Quality Award
November	"National Brand Campaign 2018"	CCTV
December	Mr. Hui Lin Chit was accredited as "Top 100 CEOs in China"	Harvard Business Review

In November 2017, the Group was included in the "National Brand Campaign" of CCTV, which was the only company of the household products industry in China to receive this honor. As a leading enterprise of household product brand in China, the Group will launch new products with Chinese characteristics to promote China's high quality household products and the brand of Hengan internationally in 2018.

PRODUCT RESEARCH AND DEVELOPMENT

As the first enterprise in the mainland's tissue paper industry accredited by the State as the National Enterprise Technology Centre, 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 satisfy consumers' more sophisticated needs. The move will strengthen the Group's leading position in the personal hygiene product industry.

HUMAN RESOURCES AND MANAGEMENT

Benefitting from the "small sales team" strategy, the Group effectively enhanced the efficiency of human resources. As at 31 December 2017, the Group employed approximately 21,000 staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and career opportunities according to their needs.

OUTLOOK

Looking ahead to 2018, global economic recovery is expected to continue while China's economy will maintain steady growth, supporting the retail market in the country. Improving consumer confidence will also benefit the development of high-end quality product market.

With respect to operating strategies, the Group will extend the initial success of "small sales team" with its motto of "customer first", implementing reform within the Group thoroughly to optimize operational efficiency and enhance sales performance. The Group will also strengthen its foothold in e-commerce to capture the massive market potential.

As for the products, the Group will continue with its upgrade, renewal and innovation to further enhance the position of high-end quality product in the overall product portfolio. Leveraging its production scale, brand influences, perseverance in product quality and strength in constant progression, the Group will consider industrial expansion as the long-term development target, continuing to maintain its leading position in China's personal hygiene product market. The Group will strive to achieve sustainable healthy business.

Hui Lin Chit
Chief Executive Officer

Hong Kong, 22 March 2018

DIRECTORS AND SENIOR MANAGEMENT PROFILES

DIRECTORS

Executive Directors

Mr. Sze Man Bok, aged 68, is the Chairman of the Group. He is responsible for the Group's overall corporate direction and business strategy. Mr. Sze is one of the founding shareholders and a member of the Nomination Committee of the Company. He is the father of Mr. Sze Wong Kim, a Director of the Company. Mr. Sze is currently an non-executive director of Qinqin Foodstuffs Group (Cayman) Company Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Sze was appointed as executive director of Wang Zeng Berhad ("WZB") on 15 June 2017, a company listed on the Main Market of Bursa Malaysia Securities Berhad with a stock code of 7203. He was redesigned as non-independent non-executive director of WZB on 25 September 2017.

Mr. Hui Lin Chit, aged 64, is the Deputy Chairman and Chief Executive Officer of the Group. He is responsible for strategic planning, human resources and the overall management of the Group. Mr. Hui is one of the founding shareholders of the Company, and is also a member of Nomination Committee and Remuneration Committee. Mr. Hui has the title of senior economist in the People's Republic of China ("PRC"). He is also a deputy chairman of All-China General Chamber of Industry and Commerce, chairman of Fujian Province Industry and Trade Association, United Nations Maritime-Continental Silk Road Cities Alliance, and the Jinjiang City Charity Federation.

During the period from 1998 to 2012, Mr. Hui was a member of the Ninth, Tenth and Eleventh National Committee of the Chinese People's Political Consultative Conference. During the period from 1997 to 2011, he was also a member of the Executive Committee (at the Eighth) and Standing Committee (at the Ninth), and deputy chairman (at the Tenth) of All-China Federation of Industry and Commence. He was also a deputy chairman of the Ninth, Tenth and Eleventh Political Consultative Conference in Quanzhou City and the chairman of the Tenth, Eleventh, Twelfth and Thirteenth Quanzhou Federation of Industry and Commence.

He is the father of Mr. Hui Ching Chi, a Director of the Company. Mr. Hui was the Chairman and is currently a non-executive director of Qinqin Foodstuffs Group (Cayman) Company Limited, a company listed on the Main Board of the Stock Exchange. Mr. Hui was appointed as executive director of WZB on 15 June 2017 and redesigned as non-independent non-executive chairman of WZB on 25 September 2017.

Mr. Hung Ching Shan, aged 68, is responsible for supervising the Group's purchasing tender assignments. He has over 39 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 48, the Chief Operating Officer of the Group. In August 2017, he was appointed as the Chief Executive Officer of Operation Service Centre and Sales Director. He is responsible for the development, implementation of the Group's sales strategy, operation, business management and supervision of the operations of the Operation Service Centre. He joined the Group in 1985 and has over 33 years of experience in operation management and business development. He graduated from business administration department in the HuaQiao University and holds the title of economist in the PRC. Mr. Xu is a younger brother of Mr. Xu Da Zuo, a Director of the Company.

Mr. Xu Da Zuo, aged 51, was appointed as the Chief Financial Officer of the Group on 30 November 2016 and appointed as Chief Executive Officer of Services Sharing Centre (in charge of Finance Department, Asset and Property Management Department and Information System Department) appointed in August 2017. Joining the Group in 1985, Mr. Xu has over 33 years of experience in accounting and internal audit. He has the title of senior accountant in the PRC. He is an elder brother of Mr. Xu Shui Shen, a Director of the Company.

Mr. Xu Chun Man, aged 43, 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 27 years of experience in business development and customer service management.

Mr. Sze Wong Kim, aged 42, is responsible for overall strategy of the Group. Before joining the Group on 1 June 2010, Mr. Sze worked in two accountancy firms in Australia and gained extensive experience in assurance and business advisory work. He started his own business in 2005 on wholesale and distribution of branded electronic components and computer accessories products in Hong Kong and overseas markets. Mr. Sze graduated from the University of Technology, Sydney with a Bachelor Degree of Business majoring in accounting and obtained a Master Degree of Commerce in finance from the University of New South Wales, Australia. He was appointed as the Company Secretary and authorised representative of the Company on 30 November 2016 and resigned on 3 January 2017. He is a member of CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants. He is the son of Mr. Sze Man Bok, the Chairman and a Director of the Company.

Mr. Hui Ching Chi, aged 33. He was appointed as Operation Management Department Director and also as the Deputy Chief Executive Officer of Operation Service Centre in August 2017, responsible for supervising and implementing the operations of the Operation Service Centre (including but not limited to sales services, procurement, production, logistic coordination management etc) and the Operations Service Centre business management. He was the Director of Supply Chain Management of the Group from 2015 to 2016, was responsible for the overall strategy relating to the Group's planning and purchasing of raw materials and logistic management. Mr. Hui worked in a major international bank in London prior to joining the Group in February 2008. Mr. Hui holds a Law Degree from the London University. He is a son of Mr. Hui Lin Chit, the Chief Executive Officer and a Substantial shareholder of the Company. Mr. Hui was appointed as executive director of WZB on 25 September 2017.

Mr. Li Wai Leung, aged 39, joined the Group on 3 January 2017 as the Deputy Chief Financial Officer, the Company Secretary and authorized representative of the Company. He was appointed as an executive director of the Company on 21 March 2017. He has over 17 years of experience in accounting, finance and business advisory work. Before joining the Group, Mr. Li was the chief financial officer, company secretary and authorized representative of Evergreen International Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 238). Prior to that, Mr. Li also worked as the chief financial officer of two sizable PRC-based manufacturing companies and as a senior manager in PricewaterhouseCoopers. Mr. Li obtained his bachelor's degree in Business Administration in Accounting and Finance from the University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Li was appointed as executive director of WZB on 15 June 2017.

Independent Non-Executive Directors

Mr. Chan Henry, aged 52, 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 31 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 58, is an Independent Non-executive Director of the Company appointed in 1998. She is also a member of the Audit Committee, Nomination Committee and Remuneration Committee.

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

Mr. Wang Ming Fu, aged 52, 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 23 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 56, 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 23 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 68, 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 24 years of management experience. From 1991 to 1997, Mr. Zhou served as deputy division director and division director in State-owned Assets Administration Bureau, and deputy director in Stated-owned Assets Administration Research Institute. From 1997 to 2001, Mr. Zhou worked as deputy director in difficulty relief working office for state-owned enterprises of State Economic and Trade Commission. From 2001 to 2003, Mr. Zhou served as a director in State-owned Assets Administration Research Section of Research Institute for Fiscal Science of Ministry of Finance. From 2003 to 2009, Mr. Zhou worked as Vice Counsel in charge of state-owned enterprise restructuring and business management in Enterprise Reform Bureau of State-owned Assets Supervision and Administration Commission of the State Council. Mr. Zhou was appointed as a supervisor of Sinotrans Limited, a company listed on the Main Board of the Stock Exchange on 19 November 2011. He has been also appointed an independent non-executive director of Beijing BDStar Navigation Co., Ltd (listed on Shenzhen Stock Exchange) since 16 January 2012.

Senior Management

Ms. Liu Ying, aged 49, was appointed as the a Deputy Chief Executive Officer of Services Sharing Center (in charge of Human Resources Department, Concentrated Operation Centre and Legal Department) in September 2016. She was the Deputy Director of the Human Resources Department and is responsible for the Group's human resources management. Joining the Group in 1995, she has accumulated over 31 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. Xu Zi Dan, aged 50, 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 32 years of experience in management, marketing and sales of consumer products. He obtained his MBA from University of North Virginia in US and has the title of senior economist in the PRC.

Mr. Xu Wen Mo, aged 52, 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 29 years of experience in management, marketing and sales of consumer products. He has the title of senior economist in the PRC.

Mr. Wang Gui Zhong, aged 44, 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 19 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. Wang Xiang Yang, aged 49, is an assistant to Chief Executive Officer and the Director of Purchase Platform. He is responsible for the overall purchasing of raw materials and logistic management. He joined the Group in 1999 and resigned in February 2015. His position before leaving the Group was Director of Supply Chain Management. Prior to joining the Group in 1999, he was a manager of the international business department at Jinjiang branch of the Construction Bank of China. Mr. Wang re-joined the Group in February 2017 and has over 19 years' experience in supply chain and logistic management. Mr. Wang graduated from HuaQiao University with a degree in science. He holds the title of senior economist in the PRC.

Mr. Zhu Jian Shui, aged 43, is the General Manager of Internal Audit Department. He joined the Group in 1998 and has over 22 years of experience in finance and auditing areas. He is a graduate from Tianjin University of Commerce with a degree in international accounting and also holds a bachelor degree in law from law school of Southwest University in China. He also has the title of China certified tax agent, certified auditor, senior economist and corporate legal consulate.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

Pursuant to the requirements of the Environmental, Social and Governance Reporting Guide in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group has prepared the 2017 Environmental, Social and Governance Report ("ESG Report"), covering three major business segments of the Group, being paper production, post-processing of paper, and sanitary products (including sanitary napkins and diapers). The reporting period was from 1 January 2017 to 31 December 2017. This report describes the sustainable development of the Group, and the concept and practice of social responsibilities from both environmental and social areas. In accordance with the requirements of the Guide, the Group has disclosed its key environmental performance indicators for 2017 in the report, covering 28 production companies of three major business segments of the Group, being paper production, post-processing of paper, and sanitary products (including sanitary napkins and diapers).

The Board of Hengan Group supports the Group's commitment made to fulfill the corporate social responsibilities, and takes full responsibilities for the Group's environmental, social and governance strategies and reporting. The Board is responsible for the evaluation and determination of the Group's exposure to environmental, social and governance risks, and ensures that the Group will maintain an appropriate and effective environmental, social and governance risk management and internal control system. The management of the Group is responsible for providing a confirmation to the Board on the effectiveness of the ESG system.

The Group has formulated the Management Measures on Environmental, Social and Governance Report of Hengan Group (《恒安集團環境、社會及管治報告管理辦法》), established an ESG Report workgroup comprised of its major departments and put in place a sound internal communication mechanism for ESG Report to ensure the consummation of the ESG Report. The Group attaches great importance to its communication with stakeholders and has built up effective communication channels with major stakeholders including shareholders, employees, suppliers and customers to conduct discussions on and give response to ESG related issues which are of interest to various stakeholders.

A ENVIRONMENTAL

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

For environmental management, since 2003, Hengan has established and implemented the ISO 14001 environmental management system, and accepted the supervision and review by third party certification institutions and regulatory departments every year. As of 2017, the Group has a total of 16 enterprises which have established and passed the ISO 14001 environmental management system certification.

A1 Emission

Hengan is committed to clean production, complies with the requirements of the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》) and other laws and regulations to reduce the environmental impact caused by waste water, waste gas, greenhouse gases, hazardous and non-hazardous waste during the production and operation process of the Group. The Group has formulated the Monitoring and Measurement Control Procedure of Environment, Safety and Health (《環境安衛監視與測量控制程序》) to monitor and measure key features identified by the Group that may have significant environmental impacts and mid-high risks in order to determine if they comply with environmental objectives, to judge if they comply with the laws and regulations, and to provide a basis for continuous improvement of the management system. Pursuant to the Identification Control Procedure of Environmental Factors (《環境因素識別控制程序》), the Group identifies and evaluates the environmental factors which are able to be controlled and affected, confirms essential environmental factors, and controls those essential factors identified by the Group in accordance with the when necessary, prevents or reduces the environmental impacts due to harmful environmental factors, in order to effectively implement the environmental management principles, objectives and targets of the Group. In 2017, the Group applied for and received the new version of pollutant discharge permit according to the requirements of "Interim Provisions on the Administration of Pollutant Discharge Permits" (《排污許可證管理暫行規定》).

Waste water

The waste water discharged by Hengan is mainly the production waste water and domestic waste water during the production process. In 2017, the Group's aggregate volume of waste water was 3,901,132 tons. The Group strictly complies with the Law of People's Republic of China on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) and other laws and regulations, and has developed the Waste Water Treatment Measure (《廢水處理辦法》). All the paper-manufacturing companies under Hengan have built sewage treatment stations. The waste water is dealt with through slanting, air floatation, aerobic aeration, etc., thus meeting the discharge standard under the Discharge Standard of Water Pollutants for Pulp and Papermaking Industry (《製漿造紙工業水污染排放標準》) (GB3544-2008) before emission and realizing an emission intensity of 2.7 tons per ton of paper.

Waste water emission from papermaking segment	Emission	Emission concentration	National standard GB3544-2008
COD	162 tons	64.2 mg/L	80 mg/L
N-NH_3	8 tons	3.2 mg/L	8 mg/L

In 2017, Chongqing Hengan Paper completed the establishment of the tertiary treatment of waste water: papermaking waste water would enter the tertiary process for further treatment after being treated in the conventional secondary biochemical treatment process, using advanced technologies such as ultrafiltration and reverse osmosis to recover the pure water, which, with a recovery rate of 70%, would be reused in boiler steams and paper manufacturing workshop. The remaining concentrated water would enter an advanced oxidation process, and the final COD of ozone effluent would be lower than 50mg/l, reaching the standard of discharge. The ozone oxidation technology of concentrated water was invented by Hengan ahead of other players in the industry, which has helped overcome the difficulties in concentrated water treatment and received a patent, and waste water treated by such technology could meet the strictest emission standard of the industry.

Waste gas

The main waste gas emission of Hengan is produced from the waste gas emission caused by fossil fuel combustion and the dust particles emission from production workshop during production process. The Group strictly complies with the Law of People's Republic of China on Prevention and Control of Atmospheric Pollution 《中華人民共和國大氣污染防治法》 and other laws and regulations. It seeks to reduce the production and emission of waste gas by using clean natural gas, adopting and using advanced equipment, equipping with desulfurization and denitrification dust removal equipment and water film dust removal device, as well as other approaches. In 2017, SO_2 emission from the papermaking segment of the Group was 1.32 tons per 10,000 tons of products.

Waste gas from papermaking segment	Emission in 2017 (ton)
NO_X	179
SO_2	121
Smoke	7
Dust particles	618

Adopting clean energy and equipment

Each paper manufacturing base is promoting the use of the clean natural gas, and parts of the production processes are using foreign advanced equipment, recovering some of the particles during the production process, in order to reduce the waste gas emission in the greatest degree.

Installing waste gas disposal unit

As for the waste gas emission during boiler combustion, the Group requires each base to install a waste gas disposal unit, which equips with desulfurization and denitrification dust removal equipment in the coal-fired power plant, and effectively disposing the SO_2, NO_x and smoke to reach the standard of emission concentration stipulated in the Emission Standards of Air Pollutants for Thermal Power Plants 《火電廠大氣污染排放標準》 (GB13223-2011) and the Ambient Air Quality Standard《環境空氣質量標準》 (GB3095-2012).

Equipping with water film dust removal device

It equips with water film dust removal device in the paper manufacturing workshop to reach the emission standard of fiber dust particles emission concentration required by the Emission Standards of Air Pollutants 《大氣污染物排放標準》 (GB16297-1996).

Greenhouse gas

The major greenhouse gas emission of Hengan is the energy consumption during the production process, including Scope 1: direct emission (coal and natural gas) and Scope 2: energy indirect emission (electricity and steam). In order to reduce greenhouse gas emission, the Group strictly complies with the rules in respect to the Work Plan for Greenhouse Gas Emission Control during the 13th Five-Year Plan Period (《「十三五」控制溫室氣體排放工作方案》) by enhancing the utilization efficiency of equipment and energy, reducing energy consumption, using clean energy and refining its management in production.

Greenhouse gas	Emission (tCO_2e)	Total emission (tCO_2e)	Emission density (tCO_2e/ RMB10,000 of sales)
Direct emissions (Scope 1)	346,757	1,108,913	0.56
Energy indirect emissions (Scope 2)	762,156		

As the paper making segment is the main source of the Group's greenhouse gas emission, the greenhouse gas emission from paper manufacturing segment and greenhouse gas emission intensity per ton of paper produced are respectively on the right:

Greenhouse gas emission from paper making segment	Emission intensity
943,995 tons	1.03 tCO_2e/ ton of paper

Hazardous waste

Hengan commissions a qualified third party for detoxification treatment of the hazardous waste that falls into the National Catalogue of Hazardous Waste (《國家危險廢物名錄》) based on the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), such as waste ink bottles, waste additive bottles and waste cleaning agent bottles.

Hazardous waste	
Emission in 2017	884 tons
Intensity	0.45 kg/ RMB10,000 of sales

Non-hazardous waste

Hengan strictly complies with the requirements in the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, to detoxify, sort and recycle waste in accordance with the Solid Waste Management Policy (《固體廢棄物管理辦法》):

- selling wet pulp to paper box paper mills for recycling;
- using sludge for incineration to produce electricity;
- selling gypsum to cement factories for cement manufacturing;
- selling fly ash to other companies for refining rare metals;
- selling blast furnace slag for brick tiles production;
- unified selling of production wastes after sorting and recycling for comprehensive use;
- centralized recycling of domestic garbage by the Environment Protection Department for detoxification treatments.

Non-hazardous Waste	
Emission in 2017	345,334 tons
Intensity	0.17 tons/ RMB10,000 of sales

A2 Use of resources

In accordance with the Law of the People's Republic of China on Conserving Energy (《中華人民共和國節約能源法》), the Group has formulated the Hengan Group Energy Conservation and Consumption Reduction Management Policy (《恒安集團節能降耗管理制度》) based on industry characteristics and management practices, guiding the Group to utilize various kinds of energy in a scientific and reasonable way. The relevant functional department designated by the Group has to collect, analyze and consolidate the data regularly, and adopt selective energy and water conservation measures to increase the efficiency of resource usage.

Energy conservation item/technology	Item/technology details
Installing residual heat boiler	Installing residual heat boiler in the production workshop to recycle the residual heat generated from the combustion of natural gas for producing steam which significantly reduce the amount of steam purchased.
Promotion of turbine	Significantly reducing energy consumption by the extensive promotion of replacing water circulation vacuum pump technology with turbine.
Dryer cap heat preservation technology	By using dryer cap heat preservation technology, not only the heat loss of steam is reduced, but also the amount of steam purchased is reduced.
Variable energy conservation technology	Promotion of variable energy conservation technology in all factories to reduce electricity consumption.
Enhanced processing	Hengan adopted an enhanced processing method on the basis of a series of technological improvements to increase the passing rate of one-time manufacturing, prevent re-manufacturing and conserve energy.

Energy conservation

The major energy consumption of Hengan is the electricity, steam, coal and natural gas consumption during the production process. The Group actively adopts various energy-saving measures to increase energy efficiency and reduce energy consumption.

The Group's energy consumption and energy consumption intensity in 2017 are disclosed as follows:

Type of Energy	Consumption	Total energy consumption (MWh)	Energy consumption intensity (MWh/ RMB10,000 of sales)
Natural gas	83,493,209 m^3	3,110,510	1.6
Anthracite coal	86,410 tons		
Electricity purchased	998,720,000 kWh		
Steam and heat purchased	2,364,633 GJ		

As energy consumption by papermaking segment accounts for a large proportion of total energy consumption of the Group, energy consumption by papermaking segment and energy consumption intensity per ton of paper produced are respectively disclosed as below:

Energy consumption by papermaking segment	Energy consumption intensity	National standard cap
340,929 tce	370 kgce/ ton of paper	420 kgce/ ton of paper

The average energy consumption by Hengan's papermaking segment was 370 kgce per ton of paper, meeting the advanced value requirement (≤420kgce/t) in the Cap of Energy Consumption per Unit Product of Pulp and Paper (《製漿造紙單位產品能源消耗限額》) (GB31825-2015), placing us the leading level in the industry.

Water conservation

Most of Hengan's water is from municipal water supply, few from reservoir water. The major water consumption is the water for production and domestic use. The Group strictly complies with the requirements in the Water Law of the People's Republic of China (《中華人民共和國水法》) and other laws and regulations, continuing to assess and apply water conservation technology to reduce water usage. Some of the water conservation measures adopted by Hengan are as follows:

- Using advanced technology to recover 50% of the waste water back to production;
- Reusing the waste water for flushing, greening and cleaning the workshops after treatment and dealing with sand filter device;
- Posting up water conservation logos in each workshop and living area in order to improve the water conservation awareness among all employees.

Total water consumption by the Group	Water consumption intensity
7,166,876 tons	3.6 tons/RMB10,000 of sales

As water consumption by the papermaking segment accounts for a large proportion of total water consumption by the Group, water consumption by papermaking segment and water consumption density per ton of paper produced are respectively disclosed as below:

Water consumption by papermaking segment	Water consumption intensity	National standard cap
5,610,050 tons	6.1 tons of water/ ton of paper	30 tons of water/ ton of paper

Water consumption by Hengan's papermaking segment was 6.1 tons per ton of paper, far below the national standard cap of 30 tons per ton of product as stipulated by GB/T18916.5 Water Consumption Quota – Part 5: Paper Product (《取水定額第5部分：造紙產品》).

Material consumption reduction

Packaging materials consumption (ton)	Intensity (ton/RMB10,000 of sales)
76,282	0.04

For production, the Group has formulated consumption standards for each unit and each unit product of the packaging materials and raw materials to reduce wastage, and to evaluate the key performance indicators on a monthly and annual basis and maintain a reward and punishment system based on the evaluation results. The salary of employees of different positions is directly related to whether their material consumption is over the standard. This policy guides the employee of different positions to control material consumption on their own initiative by using assessment tools, and thus effectively reducing scrap emission.

Measures to reduce the consumption of packaging materials
Fully introduces automatic packaging machines to improve production efficiency and reduce wastes.
Changes medium packaging bags from hand packaging to machine packaging to reduce the cutting edge length of medium packaging bags
Optimises the arrangement patterns of some products in paper boxes to minimize the space used
Checks the inventories of the existing paper boxes, and improve paper boxes with extra height and width to reduce wastage

A3 Environment and natural resources

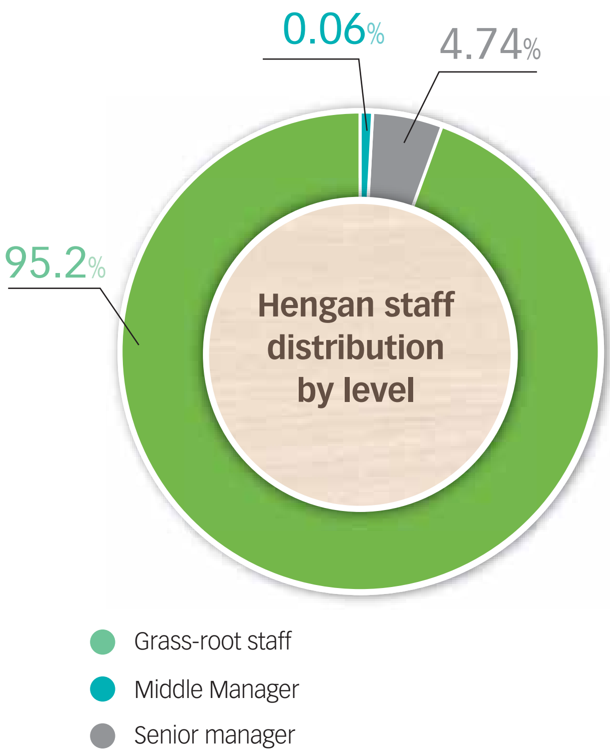
Currently, global forest problem is outstanding. As a papermaking company closely related to forests, Hengan is very concerned about the protection of forest resources and sustainable development. Sticking to the guideline of "sustainable use of resources with strict control; protect the environment and benefit the society", the Group's raw paper products passed the forest certification of the Forest Stewardship Council ("FSC") in 2010, and have also passed the certification by a third party each year. As of the end of 2017, a total of 7 subsidiaries of Hengan International had acquired FSC/COC certification, ensuring they adopt materials from legitimate sources, which are derived from responsibly managed forests.

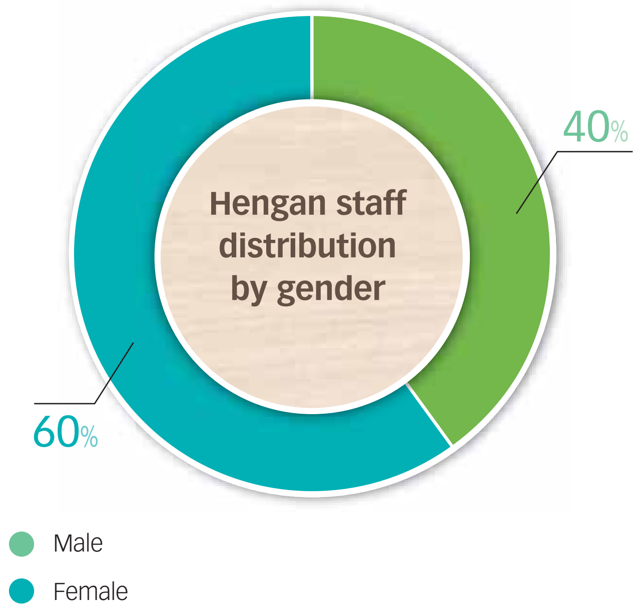
The Group has prepared the FSC/COC Execution Manual (《FSC/COC執行手冊》) according to the certification requirements of FSC/COC, which requires the Group to control the procurement, storage and sales processes as well as the suppliers of the products to meet the FSC's requirements on products procurement, storage and delivery. It stipulates that the Group should control the production process of the products to prevent the unexpected mixing of FSC materials with non-certificated materials.

B SOCIETY

B1 Employment

Human resources are the first resources. Maintaining positive relationships with employees is one of the keys to success of an enterprise. Hengan respects labour, respects talents and strictly abides by the laws and regulations such as the Labour Law of the People's Republic of China (《中華人民共和國勞動法》) and the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》). The Group actively implements a series of personnel management systems such as the Provisions on Personnel Management for Hengan Group (《恒安集團人事管理規定》), the Hengan Group Remuneration Management Policy (《恒安集團薪酬管理規定》) and the Hengan Transparent Management Policy (《恒安陽光管理制度》), providing employees with competitive compensation and benefits and comprehensive training programs to develop the full potential of the employees and bring out the best in them. The Group also pays attention to physical and mental health by carrying out a variety of caring activities to increase the sense of belonging among employees and create a harmonious working environment. In 2017, the Group had a total of approximately 21,000 employees. The staff composition is as follows:





Recruitment and dismissal

The Group strictly follows the principle of openness and equality in the recruitment and promotion process and opposes all forms of discrimination. During the recruitment process, the Group only focuses on the assessment of the individual capacity of the candidates with no regards of their race, colour, gender, age and religious belief. All employees and candidates enjoy equal opportunities. Strictly complying with the relevant requirements of the Labour Contract Law of the People's Republic of China, Hengan will not dismiss employees unreasonably, and will protect the legal rights of the workforce, establishing a harmonious and stable employment relationship.

Remuneration and benefits

The remuneration of the employees of the Group is not less than the local minimum wages, and takes into account factors such as responsibilities, capacity, knowledge and experience of the employees, to confirm a relevant grading of remuneration based on their relevant job titles or grading in the remuneration standard table.

Employee benefits

Provides social assurance for employees; social assurance base, insured items and contribution rate are implemented according to the relevant national requirements. If necessary, commercial insurance will be applied for certain employees

Provides subsidies for high temperature from June to September every year

Production workers are entitled to an allowance for cleaning uniform, which is granted once a month

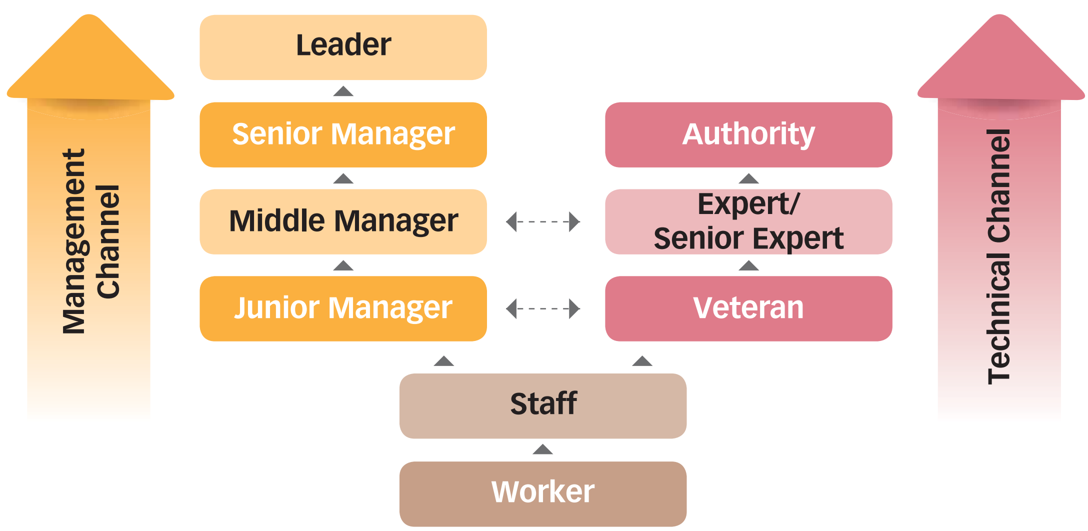
Senior staff or above are entitled to family visit reimbursement

Launched a share option scheme to enable employees to grow with the company

Channel for promotion

Hengan has established the employees' development channels as the management channel and the professional technical channel. Employees can become leaders of departments and the corporation by their effective management of the teams and continuous expansion of the management scope, that is a development of the management channel; while employees become the technical experts with their continuous improvement of professional knowledge and skills, that is the professional technical development.

Promotion Channel for Employees of Hengan



Working hours and holidays

Hengan strictly complies with the requirements of the Labour Law of the People's Republic of China and the Labor Contract Law of the People's Republic of China, ensuring sufficient time for employees to rest and achieving a work-life balance. During the New Year's Day, Lunar New Year, Ching Ming Festival, International Labour Day, Dragon Boat Festival, Mid-Autumn Festival, National Day and other statutory holidays, Hengan arranges the employees' holidays according to the laws.

Democratic communications

The Group established the Sunshine Community forum to encourage the employees to provide opinions and suggestions on the management and development of the Group to strengthen the employees' awareness of democracy and ownership, achieving the conversion from management control to flattened management and platform operation.

Colorful life

The Group is a living organism in which caring for employees and enriching employees' lives are essential ways to keep the Group alive and gather employees' power. In 2017, the Group organized a variety of cultural and sports activities and festival celebrations, creating a warm family atmosphere:

Birthday celebrations for employees of Hengan (Hunan) production company

Rice dumplings-making activity for Dragon Boat Festival in Hengan production company

Hengan Group's reunion dinner of 2017

B2 Health and safety

Healthy employees are beneficial to enhancing productivity and achieving sustainable development of the enterprise. The Group complies with the relevant laws and regulations such as the Labour Law of the People's Republic of China, Law on the Safe Production of the People's Republic of China《中華人民共和國安全生產法》and Law of the People's Republic of China on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), devoting its efforts to provide a work environment without damages and accidents and encourage employees to improve the physical and health level. The Group has formulated policies and systems, such as the Policy on Staff Occupational Health Management, and established and implemented the OHSAS 18001 Occupational Health and Safety Management System, which is subjected to annual supervision and review from a certified third party and regulatory departments. As at the end of 2017, Hengan has a total of 14 enterprises which have established and obtained the OHSAS 18001 System accreditation.

Hengan identifies the danger factors existing in the current workplace of the Group and conducts risk evaluation on a regular basis, so as to adopt necessary control measures to eliminate and reduce such risks. The Group identifies the equipment, facilities, working environment and hazardous matters in the workplace according to the classification of physical, chemical, biological and social psychological danger sources, and adopts different control measures:

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

Furthermore, the Group entrusts a third-party inspection institution to inspect the air and noise of the plants on site every year; installs dust removal and waste discharging units on facilities that produce dust and exhaust gases; considers the elimination or reduction of noise sources from equipments which exceed the noise limit on priority, secondly, considers to control noise transmission, and lastly considers to wear protection gears, thereby ensuring a safe and healthy working environment.

In addition, the Group has formulated the Measures on Oils and Chemicals Management (《油類、化學品管理辦法》), stipulating that oils and chemicals should be purchased from the qualified entities and set up special storage warehouse equipped with the corresponding equipment and managed by specific personnel; hazardous chemicals should be strictly distributed with specific quantity and well documented with its distribution. The Group shall inform suppliers of hazardous chemicals, transport companies and supply chains of applicable requirements and exert impact. The storage, handling, package and labelling of dangerous chemicals are implemented in accordance with Warehouse Management Policy on Hazardous Chemicals (《危險化學品倉庫管理規定》).

The Group has established a safety team in charge of activities such as organizing training of safety codes, fire training and drill and arranging medical check-ups, enhancing the safety prevention awareness and self-protection abilities of all employees: the Group carried out a series of activities related to health and safety in 2017.

Lectures on psychological health knowledge

Lectures on traffic safety knowledge

Fire drill

Fire training

B3 Development and training

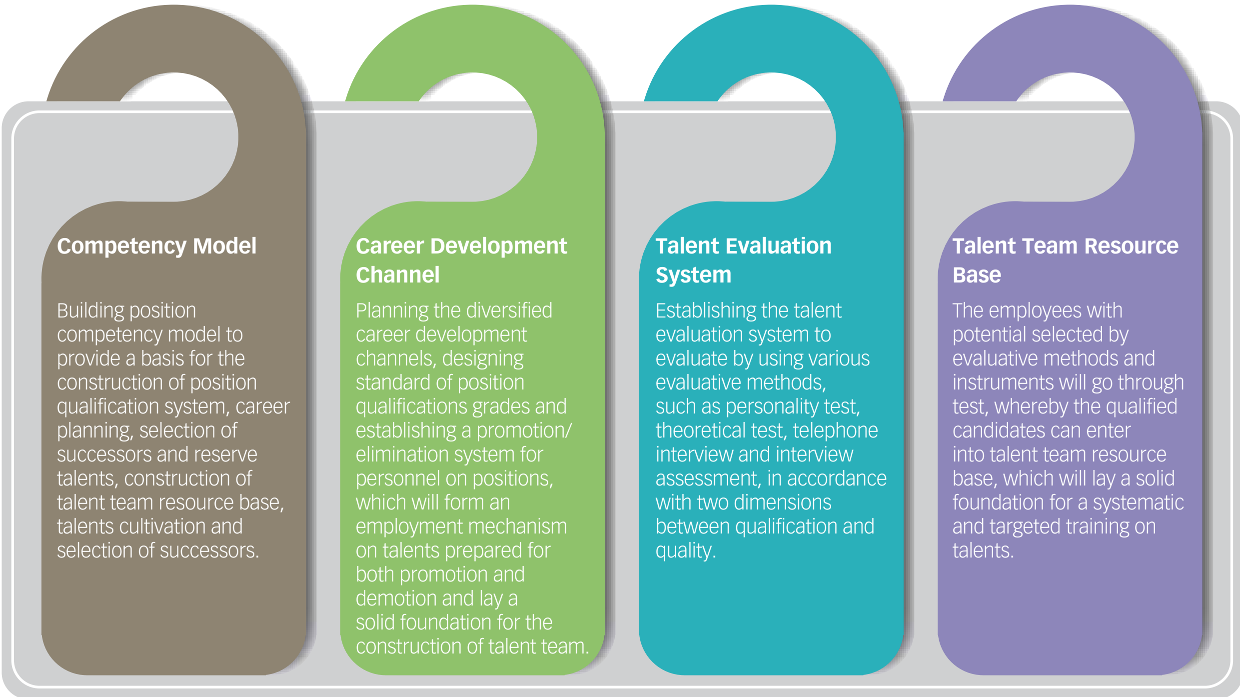
Hengan promotes the "people-oriented" management philosophy, establishes Policy on Hengan Group Training Management (《恒安集團培訓管理規定》) and a unique system for the construction of talent team and talent training, encourages employees to continuously enhance the comprehensive quality and maintains a powerfully "metabolic" hematopoietic function, which provides vigorous talent support for sustainable development.

Hengan Management College

Leveraging the Hengan Management College, the Group cultivates talents and creates "two bases, one platform" to train and provide talents by two channels, "Management" and "Technology", which forms the systematic talents team and cycle mechanism of Hengan Group. At present, the college has formed a team of more than 400 internal trainers. Those internal trainers are from ordinary positions, including managers and workers at the production line. Such internal trainers are not isolated from the lines of business and will focus more on how to use knowledge to solve practical problems better.

The Group actively carries out various works, such as review of talents on positions, competency modeling and talent identification and evaluation, establishing a comprehensive talent team across the Group to create Hengan's core competitiveness of talents.

System of construction of talent team

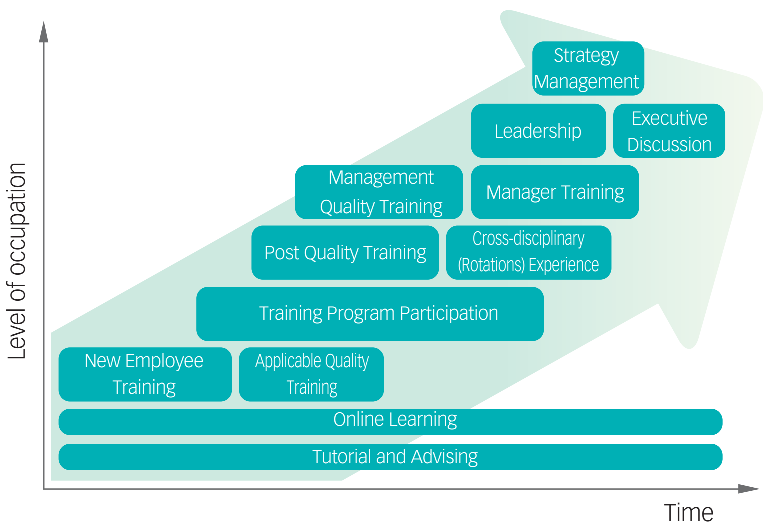


System of construction of talent team

In the light of the above employee-post competency model, the Group will establish the Hengan's characteristic training system classifying employees by A/B/C types of talents and combining the employees' career development paths. The new employees training program established for the competence and direction of the professional development of all types of talents. In the employees' advancing stage, the professional competence training and management ability training and are set up for improving the ability of the corresponding employees according to their different directions of the career development, and for higher stage, the strategic management ability training will be carried out.

In 2017, Hengan provided the staff a variety of trainings according to the actual needs, such as professional skill training, management ability training and employee quality training, which deliver updated knowledge, information and skills and promote the competitiveness of the staff.

Talent Training System



Promoting Training of Services Sharing Centre (SSC)

In order to promote the new procedure and rules on attendance and payroll processing in the SSC, the Group carried out the relevant training in various regions of each production company to offer guidance on attendance, payroll processing, procedure and system operation of SSC and UFIDA NC System from March to June in 2017.

Training for soft packing skills of paper products

From 17 to 22 April, Hengan Chongqing Production Company* (恒安重慶生產公司) carried out knowledge teaching and on-site operation training for the relevant personnel of soft packing equipment to enhance the operation skills of employees.

"Dual-system" vocational education

In order to promote the level of education attainment and professional skills of grass-roots employees, the Group cooperates with Fujian College of Water Conservancy and Electric Power and Quanzhou College of Technology to continuously provide "Dual-system" of mechanical & electrical integration and electrical automation.

Training classes for improvement of education attainment

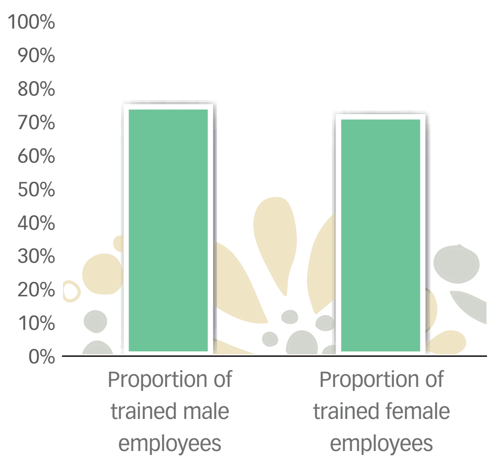
In order to promote the level of education attainment and professional skills of the Group's grass-roots staff, the Group imparts knowledge to the grass-roots employees at Wuli Training Base of the headquarter.

2017 Teacher's Day carnival of Hengan Management College

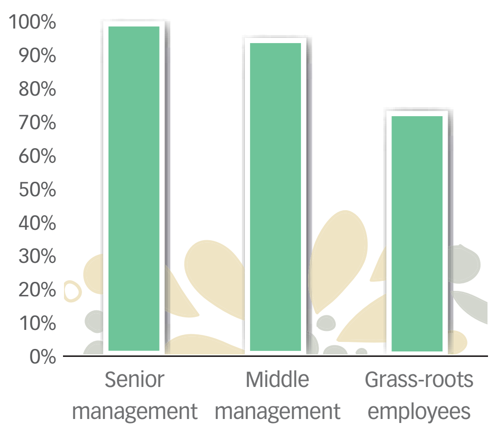
The annual "Teacher's Day Carnival" is themed with "Change" and calls for management "Reform ". Hui Lin Chit, the Chief Executive Officer of Hengan Group, personally issued the appointment letter for the newly-appointed mid – and senior-level engineers and lecturers.

In 2017, the total number of hours trained of the Group was 23,414 hours, and more than 75% of the employees were trained.

Proportion of trained male and female employees in 2017



Proportion of trained employees at different levels in 2017



B4 Labour standards

Hengan complied with the requirements of the laws and regulations of the Labour Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and the Provisions on the Prohibition of Using Child Labor《禁止使用童工規定》, and developed the personnel management systems such as the Provisions on Personnel Management for Hengan Group (《恒安集團人事管理規定》) to eradicate the use of child labour and forced labour.

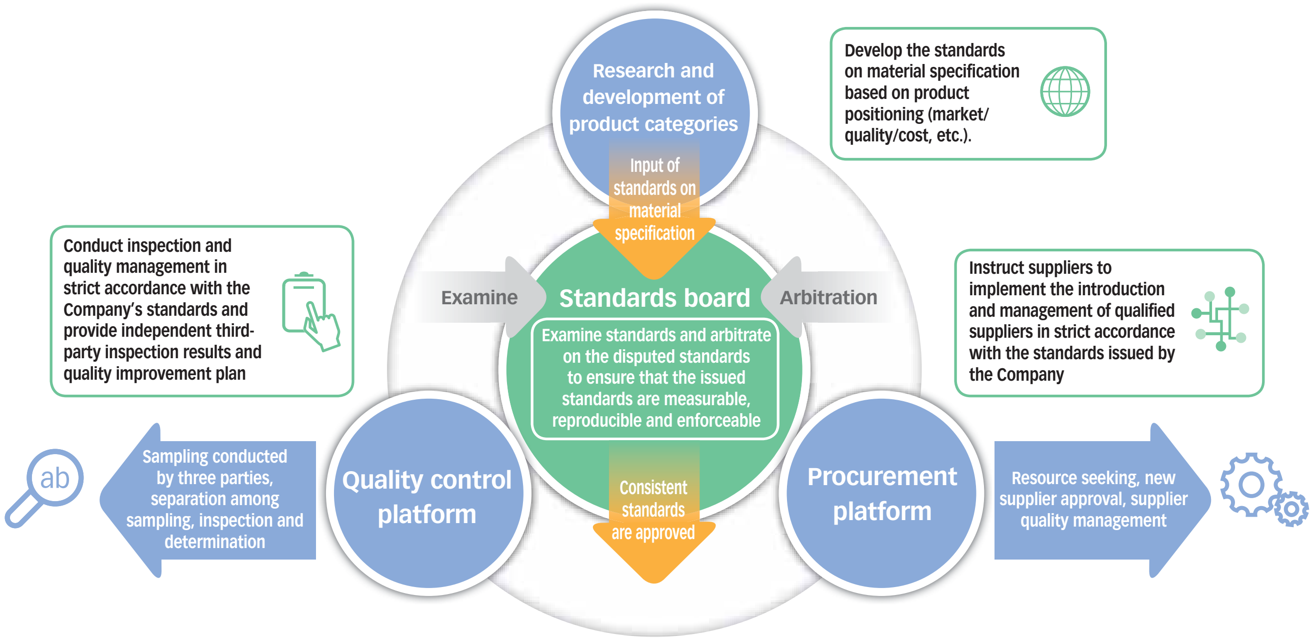
The Group requires that candidates under the age of 16 shall absolutely not be recruited during the talent recruitment and selection process; the information system of the human resource is also set to reject any data entry for candidates under the age of 16. The Group respects the employees' resting time. Any necessary arrangements of overtime must be agreed by the employees voluntarily. Overtime payments are in line with the relevant regulations.

B5 Supply chain management

Supplier management

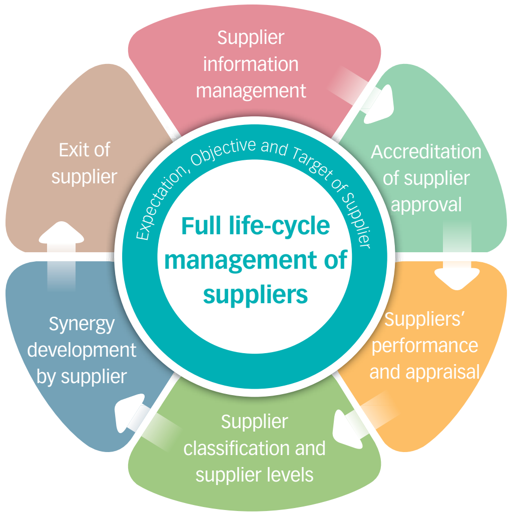
To improve supplier quality and convey its culture and values, the Group established a fair and equitable, open and transparent procurement platform, of which covers production materials, finished products outsourcing, spare parts and non-production materials, and the core functions are procurement strategies, supplier management and procurement execution. The Group adopts the strategic thinking of separation of powers among the standards board, quality control platform and procurement platform, striving to build the iron triangle to support the fair and equitable supplier management.

Separation of powers among the standards board, quality control platform and procurement platform



The Group actively promotes the revolution of procurement platform to standardize procurement business module and strengthen the management of procurement demand. It specializes in looking for sources and supplier management functions to divert more efforts in strategic sourcing, focusing on category management and supplier management. The Group has established and improved a full life-cycle management for suppliers, which adopted cross-department supplier approval, performance management and freezing/unfreezing/exit mechanism, introduced high-quality suppliers, formulated a cooperation strategy of differentiation to develop suppliers by evaluating suppliers' performance, and enabled the freezing/unfreezing/exit process for the suppliers who failed to fulfil the requirements, safeguarding the reasonable structure of suppliers of the Group so as to improve the supplier quality and service level and meet the needs for common development between Hengan and its suppliers.

Full life-cycle management of suppliers



As for the part of supplier approval, the Group has developed the Measures for the Administration of Site Visits to Suppliers (《供應商現場考察管理辦法》) that requires suppliers to provide information on the current conditions of their factory, quality policy and objectives, organizational structure and personnel deployment, production processes, facilities and structure of customers, and the relevant documents and records such as qualifications of the enterprise, quality management system, production process management, tracing process and recall management, fire management and insect pest control and prevention, as well as chemicals and waste management should be included, so as to conduct assessments in respect of quality management, environmental and social risk, pest management, production management, cost management, delivery management, technology research and development and service management, etc. In terms of environmental and social risks, the Group put its emphases on the aspects that whether the suppliers passed the accreditation of environmental management system, whether the suppliers complied with the environmental and health requirements, whether regulations were formulated under the requirements of the relevant laws and regulations, and whether environmental pollution incidents, gender discrimination in employment or child labor events occurred in the past three years, only suppliers with an average score of over 70 in the final evaluation are selected as qualified suppliers.

As for the part of supplier management, through combining the importance of materials and their dependency with suppliers, the Group made an analysis and classification on the type of suppliers (trade-driven suppliers, cooperation-driven suppliers and strategy-driven suppliers), and by taking into consideration of the grades of their annual performance(poor, good and excellent), divided suppliers into four levels, being eliminable suppliers, developable suppliers, preferred suppliers and core suppliers, laying foundation for realization of the supplier differentiation management:

The Group developed the Measures for the Administration of Site Visits to Suppliers (《供應商現場考察管理辦法》) for conducting monthly performance evaluation as to suppliers and promoting the sustained improvement in suppliers' performance based on evaluation results. For the qualified OEM suppliers, the Group conducts the on-site examination annually so as to promote the improvement of suppliers and avoid cooperation risks; for the qualified suppliers with quality/delivery problems, the Group controls the risks of quality and supply through the daily inspection so as to provide assistance to suppliers for their continuous improvement.

For the suppliers failed in the daily inspection/on-site annual examination, monthly/annual performance evaluation, and with major quality problems or the violation of laws and regulations, the Group would initiate the supplier freezing or exit process. Such suppliers will be removed from the list of qualified suppliers of the Group and their re-entry into the list of qualified suppliers shall go through the process of supplier approval.

Responsible sourcing

The Group strictly enforces the Procurement Control Procedures (《採購控制程序》) with respect to procurement of chemicals that the non-toxic, harmless and less polluting chemicals shall be purchased on a priority basis, and the imported hazardous chemicals should be attached with the corresponding Chinese label or instructions; at the same time, to ensure the product quality, the Material Safety Data Sheet (MSDS) of hazardous chemicals shall be obtained from suppliers, which contains the hazard prevention measures, first-aid measures, accidental leakage measures, handling and storage, toxicological information. The Group also requires suppliers to provide the third-party test reports on chemicals, and each indicator shall meet the requirements of relevant national industry standards.

B6 Product responsibility

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

In 2017, the Group obtained various accreditations and awards. For example, on 5 November, the National Standards and Certification Committee for Health Industry Enterprise Management Associations was established in Beijing. Hengan Group is one of the first companies to obtain safety certification and served as a director; on 8 November, Hengan Group was selected into the 2018 "National Branding Program". Hengan Group is also the first and the only enterprise in tissue paper industry recommended by the 7th World Economic and Environmental Conference. As the designated tissue paper for the meeting, the Tea-fragrant and Silk-like tissue paper of HEARTEX was widely appreciated by guests from all walks of life. All of these are a good demonstration of the Hengan's leading position and its excellent quality in China's staples market, and greatly encouraged Hengan to continuously improve its product quality, technological innovation and service while always taking environmental protection as its responsibility.

Green product

Hengan is committed to developing healthy and safe product to reduce the environmental impact from production and usage process.

Minions-themed tissue paper series

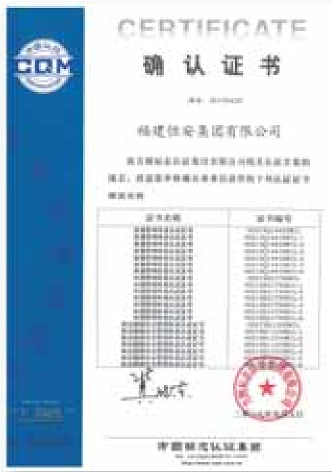
Made from environmentally friendly food-class natural wood pulp which is free from fluorescer, Minions-themed tissue paper series of HEARTEX are skin friendly and harmless to the skin.

ZHU PAI bamboo handkerchief

With utilization of natural bamboo pulp and no fluorescer or brightener, ZHU PAI bamboo handkerchief has passed the food grade level testing of FDA and European Union, and is jointly recognized as the sole recommended product of the 11th World Economic and Environmental Conference by the Organizing Committee with Hengan's other products such as "HEARTEX" and "PINO".

Quality Assurance

- Quality system operation

  Hengan strictly follows the requirements under laws and regulations such as "Product Quality Law of the People's Republic of China"(《中華人民共和國產品質量法》). Capitalized on the qualitative approach of "bearing a responsibility of pursuing the health and happiness as human beings, producing hygienic, comfortable and quality daily products", the Group maintains momentum of pursuing technology innovation. We adhere to the "consumer orientated" market concept, constantly enhancing the research and development of the products. We co-operate with the domestic and international research institutions and professional schools, so as to increase the competitiveness of the new products by using technology and new processes. Hengan is the only exemplary enterprises of the National Trademark Strategy in the Fujian Province, and the Hengan Technology Center is also a national and provincial enterprise technology centre in Fujian.

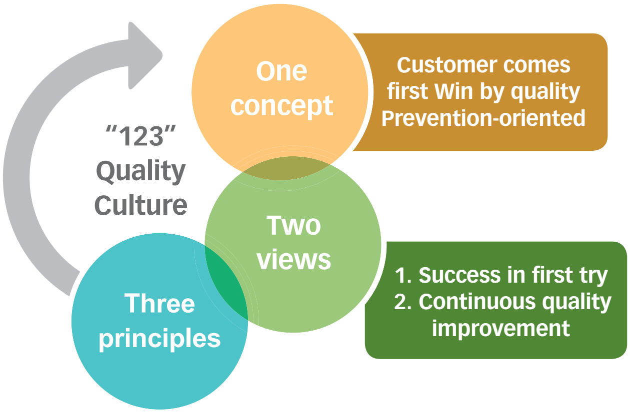
  In 1996, Hengan's sanitary napkin products passed the ISO9002 Quality Management System and Product Quality Certificate for the first time. We perform systematic verification and voluntary product verification every year, covering diapers, sanitary napkins, tissues, toilet paper, and wipes. Currently, Hengan has structured an integrated system with quality based on ISO 9001, ISO 14001 and OHSAS 18001. The Group is consumer-oriented, implementing comprehensive quality management. In addition, the Group passed the European Union CE Certificate for all categories in 2010, passed the FDA Certificate in 2014, and passed the MSDS Certificate in 2015. As at 2017, there were 24 enterprises established under the Group, which have passed the GB/T19001/ISO9001 quality management system certification.

  The Group introduced Management by Objective, announces yearly qualitative target regularly, standardizes and tracks the attainment level, and analyzes the reasons for the failed items, formulates a reform resolution and actively implements it. The Group highly emphasizes education training and has built cross-departmental quality education training system. The Group provides corresponding quality trainings to new staff members before they enter the Group, as they change their positions and when they have a promotion. At the same time, the Group set up class such as quality young eagle class and quality diving dragon class, which are beginning and intermediate training classes for quality experts. In order to keep abreast with the actual situations and to tackle the high turnover rate of the staff, the Group has developed a "Hengan Group's quality management liberal platform", so as to facilitate the rapid growth of the staff members. The Group has been complying to laws and regulations. Led by the chief quality officer, the team strictly complies with all laws, regulations and standards in processes including product design, contract formulation and production procedure. The Group set up "Control Procedures for Acquiring and Identifying Information about Laws and Regulations" (《法律法規的獲取、識別控制程序》), which collects and evaluates quality laws and regulations regularly. A quality compliance evaluation report will be formulated and evaluated on operation meetings.

- Product inspection and recall

  The Group has formulated systems such as the "Monitoring and Measurement Control Procedure of Process and Production" (《過程和產品的監視與測量控制程序》) to monitor and measure the management system process and production to ensure that the management system is operated effectively on a continuous basis and that the unchecked or unqualified products are not put into use, transferred or delivered out of the factory. For process monitoring and measurement, the Group carries out internal audit, external audit and routine inspection of various departments. For Product monitoring and measurement, sampling inspection on raw materials, processed products and finished products is conducted by relevant departments based on corresponding inspection standards. Unqualified products identified during the inspection should be handled in accordance with the Accident, Incident, Inconformity Controlling Procedures《事故、事件、不符合控制程序》.

- Building a quality culture
  During its long-term quality management practices, Hengan has been a good learner from external parties by incorporating scientific quality management methods and successful experience into its management system for its own benefits, which not only enriches the content of its quality culture, but also contributes to the gradual formation of the Group's unique "123" quality culture.



Principles of product design	Principles of production quality	Principles of complaint handling
Customer-oriented	Do not accept defective products	Fulfill the needs of customers since they are always right
Production-oriented	Do not manufacture defective products	Find out the root causes of issues to prevent them from happening again
Supplier-oriented	Do not release defective products	Learn from previous experience as problems are learning opportunities

- Chemicals management
  The Group has strictly complied with relevant international, national and industrial regulations on chemicals management, and formulated the List of Material Safety Indicators (《材料安全指標清單》) and the List of Additives Limit (《添加物限度清單》) for the Group with reference to international standards. It has strict control of each chemical, microorganism and other indicators in the raw materials and products, improves testing during the raw material procurement, production and processing stages and requires the suppliers to provide qualified third-party reports in their safety reports. The Group's requirements on chemicals safety management include:

1) no hazardous substances shall be used during the production process;
2) the raw materials and auxiliary materials used should comply with the relevant national safety indicators, and the List of Material Safety Indicators is taken as the equivalent requirement to the upstream suppliers;
3) transportation vehicles should be hygienic and safe;
4) all liquid medicines and additives used during all processes shall adhere to the List of Additives Limit. The Company resolutely refuses to use chemicals harmful to human such as nonylphenol ethoxylates (NPE), and requires that all raw materials produced by the Group shall not contain NPE.

Quality customer service

The Group has strictly complied with the Law of the People's Republic of China on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》) and has established a series of policies, such as the Customer Complaint Controlling Procedure (《顧客投訴控制程序》), Service Standard of the Customer Service Position (《客服崗位服務標準》), Customer Complaint Handling Profile (《客訴處理履歷》), Customer Complaint Revise System (《客訴回訪制度》), Information Analysis (《信息分析》), Product Recall System (《產品召回制度》) and Accountability Policy of Quality Issues (《質量問題責任落實到人》), so as to handle customer complaints in a quick and effective manner. The Group regulates the product recall in accordance with relevant laws and regulations, such as the Law of the People's Republic of China on the Protection of Consumer Rights and Interests, and the systems of the Group, such as Accident, Incident, Inconformity Controlling Procedures (《事故、事件、不符合控制程序》) and Product Recall Management System.

Customer Complaint

1. Official Weibo customer service;
2. Customer service e-mail on the Group's website;
3. Customer service waiting system to register voice messages of all incoming calls from customers;
4. Service hotlines: 800 hotline, 400 hotline

Market Tracking

Market monitoring and sampling mechanism for products: sampling of the first-hand market information such as the items sold by each production company in the market;

Competitive product analysis mechanism: analyzing the evaluation standard and the product quality of major competitors to improve our own quality standard.

Complaint Handling

Collecting, compiling and providing feedbacks of customers' complaint in accordance with the Customer Complaint Controlling Procedure, informing the quality complaint problems to the production company for rectification and prevention, and verifying the effectiveness of the rectification and prevention measures.

Product Recall

In case there are products not meeting the safety standards or defective products in the market, proactively and timely disclosing information to related parties to inform them to cease the production and sales of such product, and recalling defective products that have been distributed.

Advertisement and labeling

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

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

Trademark and packaging design

The Trademark Management Policy of Hengan Group (《恒安集團商標管理制度》) provides that, in the stage of product R&D, each trademark application department shall seek advice from the Group's legal supervision department and communicates with it for the design of new trademark, including the trademark's name, logo, portfolio and use standards (such as proportion and colour) and scope of trademark, and whether the logo and scope of the trademark violates legal prohibitions. The Group set up a special anti-counterfeiting team to carry out anti-counterfeiting and rights protection tasks to deal with fake and counterfeit products with the Group's trademark that are found in the market circulation field, in order to minimize the negative consequences due to fake and counterfeit infringements.

The Group has formulated the Management Measures on Packaging Design (《包裝設計管理辦法》), which clarifies the responsibilities of each department in reviewing and confirming the design style and graphic, colour, product brand, name and product function demand, to ensure the accuracy of the Group's product packaging from final design to plate printing.

Privacy protection

Hengan highly emphasizes on consumers' information and privacy protection and strictly complies with the relevant requirements under the Law of the People's Republic of China on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》) to keep the personal information collected from customers strictly confidential. In accordance with the Provisions on Personnel Management of Hengan Group (《恒安集團人事管理規定》), no employee shall disclose any confidential commercial information, such as business information, production formula, technical data and documents. For those who intentionally disclose confidential operational and technological information of the Group, causing or possibly causing damages to the Group, they shall be deemed to have materially violate the enterprise rule system, and their employment contract shall be terminated accordingly.

B7 Anti-corruption

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

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

Code of conduct for staff members during the tendering and bidding process, requirements of economic incentives during construction works, and code of conduct for procurement staff have also been stipulated by Hengan in documents, including the Management Policy for Tendering and Bidding of Hengan Group (《恒安集團招投標管理制度》), the Management Provisions on Construction and Engineering of Hengan Group (《恒安集團工程建設管理規定》) and the Procurement Policy of Hengan Group (《恒安集團採購制度》), for the prevention of bribery or corruption. Based on the management philosophy of office integrity and collective learning and growth, Hengan has also adopted various measures, including rotation system, avoidance of relative recruiting, off-office auditing system, procurement pricing meetings, suppliers evaluation system, quality analysis meetings, competitive products analysis meetings, as well as President's mailbox, Auditing mailbox, and 800 service hotline and business review meetings, to safeguard and promote the level of integrity in operation of the Group.

In order to simplify the procedure of review and approval, in 2017, the Group has adopted the Ameoba Operating Model and allocated authorities as maximum as possible, including the authority of personnel, operations and financial review and approval, to heads of Ameoba who, in their discretions, determine to review and approve based on their own conditions of operation. In order to avoid the potential risk of corruption in this model, the Group has specified the authorities and obligations of Ameoba review and approval and set limits of legality, confidentiality, integrity, corruption and professional codes and accordingly carried out relevant trainings.

B8 Community investment

Based on the Management Policy for Hengan Group's Charity and Voluntary Activities (《恒安集團慈善與公益活動管理制度》), the Group assesses the relationship between business activities and community benefit on a regular basis and promote social development and progress through aspects such as charitable donation, support to cultural and sporting activities, voluntary activities, and caring for elderly and children, so as to perform its social responsibility as a corporate civil.

Since the early 1990s, Hengan has invested in the Midwest areas and established dozens of branches to deal with the employment issue of thousands of people in mainland, while guard against the forefront of poverty alleviation with active engagement in social charitable and benevolent works. Since the establishment of the Group, Hengan Group together with its shareholders have donated over RMB1 billion. The youth voluntary service team of the Group, founded in 2011, with current volunteer members reaching around 300 has been working in long-term voluntary service activity "Love, Changing Life (愛•改變生活)". The Group was successively awarded with numbers of national honors, including China Charity Award (中華慈善獎), National Advanced Unit of Employment and Labor Security (全國就業和勞動保障先進單位), National Advanced Unit of Employment (全國就業先進單位), and National Outstanding "Worker's House" (全國優秀「職工之家」). Mr. Hui Lin Chit, the Chief Executive Officer of the Group, was awarded "Guangcai Program Medal (光彩事業獎章)" by China Society for Promotion of Guangcai Program, and granted the "Award for Outstanding Contribution in China Charity (中華慈善突出貢獻獎)" by China Charity Federation for two consecutive sessions.

Advocacy of low-carbon

Hengan Group sets an example by leading the green and low-carbon development as well as advocating the concept of sustainable development. On 13 January 2017, on the 2016 Green Low Carbon Development and Reform Forces Summit (2016年度綠色低碳發展變革力峰會) sponsored by World Economic and Environmental Conference (WEC), Hengan Group was granted the "International Carbon-Value Award (國際碳金獎)", and Mr. Hui Lin Chit, the Chief Executive Officer of Hengan Group, was awarded "Carbon-Value Reformer Award (碳金變革者獎)".

Charity

Hengan has integrated charity into corporate culture and has taken advantages of its own resources to formulate and push forward its corporate strategies of charity so as to promote the development of social charity business.

In 2017, the Group repeatedly commenced charitable donation activities, during which accumulative donation was a total of RMB40,659,000, including RMB40,000,000 to Jinjiang City Charity Federation and RMB455,775 to Neikeng Central Elementary School (內坑中心小學) for building multi-functional activities hall.

During the year, the Group participated innovatively in the activity of the "99 Charity Day" originated by Tencent Charity Foundation and made use of mobile Internet to create various charity scenarios for users so as to establish an Internet charity brand for Hengan Group.

01 **Launch an online special activity of "Surprising Hours" of Hengan Group.** Starting at 9:09pm every night from 7 to 9 September this year, Hengan provided matching donation for the top 99 of quality charity projects which are raising fund on that day.

02 **Enterprise goodwill ambassador spreads the concept of charity.** Sze Man Bok, the chairman of the Board of Hengan Group and Hui Lin Chit, the Chief Executive Officer of Hengan Group, as the representatives, advocate charity and encourage consumers and employees to take part in charity.

03 **Explore brand stories and endorse for charity projects.** The charity projects were selected and sponsored by brands of the Group according to their position. Special webpages of those projects are to be built up for accessing net users through advertisements in Circle of Friends, etc.

04 **Online and offline integration creates charity scenarios for consumers.** Charity ambiences were created in more than 30,000 stores around the country and enabled consumers to feel the ambiences of charity, and then pay attention and take action.

Project Results:

Donation from users on "99 Charity Day" **RMB829,000,000** Number of donating people on "99 Charity Day" **12,680,000** Total interactions on "99 Charity Day" **180,000,000**	Matching donation projects of "Surprising Hours" **134** Matching donation amount **RMB20,000,000**	Total advertisements placed in Tencent platform **32** Total exposure of advertising space **1,529,000,000** Total clicks on advertisements **2,350,000**

Caring for the elderly

Hengan carries forward the traditional virtue of respecting and loving the elderly, and sends material assistance as well as care and comfort of spirit to the elderly.

On 26 October 2017, the Volunteers Association of Hengan paid a visit to the Minnan Filial Piety Sanatorium (閩南孝親安養院).

On 27 October 2017, the theme activity "Warming the Elderly, Caring for the Elderly" was held by Hengan, to deliver tissue products to the elderly in Neikeng.

Healthy life

Hengan sponsors and participates in various sports events of local community, to showcase the spirit of optimism of the Group and deliver healthy life concepts.

On 10 December 2017, Hengan, as the official sponsor of Jinjiang International Marathon, provides the race with "HEARTTEX" tissue products and organizes the staff to enroll in the event.

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 "Corporate Governance Code") set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2017, except that:

under Code Provision A.6.7 stipulates Independent non-executive directors and other non-executive directors, should also attend general meetings and develop a balanced understanding of the views of shareholders. Miss Ada Ying Kay Wong, Mr. Wang Ming Fu and Mr. Zhou Fang Sheng, the independent non-executive directors of the Company, were unable to attend the annual general meeting of the Company held on 21 May 2017 because they had other urgent business engagement.

BOARD OF DIRECTORS

During the year ended 31 December 2017, 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 19 to 22.

The Board is responsible for approving and monitoring the Group's strategies and policies, approval of annual budgets and business plans, revaluating the performance of the Group and supervising the work of management. The management is responsible for the daily operations of the Group under the leadership of the Chief Executive Officer. It is mindful of the need to uphold the corporate governance principles set out in the Company's Code of Practice for the Board and responsible for performing corporate governance duties of the Company, including the duties specified in code provision D.3.1 of the Corporate Governance Code. The management is delegated with the authority and responsibility by the Board for the management of the Group.

During the year ended 31 December 2017, the Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code for Securities Transactions by directors of the Company (the "Model Code"), and the Company's compliances with the Corporate Governance Code and disclosures in the 2017 Corporate Governance Report.

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

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

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

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT PROGRAMME

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

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

During the year ended 31 December 2017, 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 2017, the Directors also participated in the following trainings:

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

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

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year, and they all confirmed that they have fully complied with the required standard set out in the Model Code.

REMUNERATION COMMITTEE

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

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

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

No Directors can determine their own remuneration package. The Committee will meet at least once a year to discharge its responsibilities in accordance with its terms of reference which are set out in accordance with the requirements of the Listing Rules. During the year ended 31 December 2017, 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 2017 are showed in Note 40 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 2017 overall salary increment of the Group.

AUDIT COMMITTEE

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

Its terms of reference are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Corporate Governance Code. The Audit Committee is required, amongst other things, to oversee the relationship with the external auditors, to review the Group's interim and annual results, to review the scope, extent and effectiveness of the risk management and internal controls systems of internal controls of the Group, to review accounting policies and practices adopted by the Group, to engage independent legal or other advisers as it determines is necessary and to perform investigations.

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

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

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

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

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

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

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

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

— reviewed the connected transactions entered into by the Group.

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

NOMINATION COMMITTEE

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

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

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

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

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

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

In accordance with Article 116 of the Articles of Association of the Company, Mr. Xu Shui Shen, Mr. Xu Da Zuo, Mr. Sze Wong Kim, Mr. Hui Ching Chi and Mr. Ada Ying Kay Wong will retire office at the Company's annual general meeting, and being eligible, offer themselves for re-election.

Directors' attendance at the Board, Remuneration Committee, Nomination Committee, Audit Committee and general meetings in 2017:

Directors	Full Board Meeting	Attendance/Number of Meetings Held Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Annual General Meeting
Executive Directors					
Mr. Sze Man Bok *(Chairman)*	4/4	N/A	N/A	2/2	1/1
Mr. Hui Lin Chit *(Vice-chairman and Chief Executive Officer)*	4/4	N/A	1/1	2/2	1/1
Mr. Hung Ching Shan	4/4	N/A	N/A	N/A	1/1
Mr. Xu Shui Shen	4/4	N/A	N/A	N/A	1/1
Mr. Xu Da Zuo	4/4	N/A	N/A	N/A	1/1
Mr. Xu Chun Man	4/4	N/A	N/A	N/A	1/1
Mr. Sze Wong Kim	4/4	N/A	N/A	N/A	1/1
Mr. Hui Ching Chi	4/4	N/A	N/A	N/A	1/1
Mr. Li Wai Leung (appointed on 21 March 2017)	4/4	2/2*	1/1	2/2*	1/1
Independent Non-executive Directors					
Mr. Chan, Henry	4/4	2/2	1/1	2/2	1/1
Ms. Ada Ying Kay Wong	4/4	2/2	1/1	2/2	0/1
Mr. Wang Ming Fu	2/4	0/2	1/1	1/2	0/1
Mr. Ho Kwai Ching, Mark	4/4	2/2	1/1	2/2	1/1
Mr. Zhou Fang Sheng	4/4	1/2	1/1	1/2	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 RMB5,600,000 and RMB13,327,000 (RMB10,771,000 is capitalized in construction-in-progress) by the Company's external auditor, PricewaterhouseCoopers, for auditing and non-auditing services respectively for the year ended 31 December 2017. Non-auditing services mainly included services provided for tax advisory services, professional services in accordance with the Hong Kong Standard on Related services 4400 "Engagement to Perform Agreed-Upon Procedures Regarding Financial Information" for continuing connected transaction on sample basis, preliminary announcements of results provided, prepare for "Environmental, Social and Governance Report", assist to set up a Services Sharing Centre and establish the Group's online and offline strategy etc during the year. The Audit Committee is of the view that the auditors' independence is not affected by the services rendered.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

INTERNAL CONTROLS

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

The Group has an independent and subjective internal audit department which critically reviews and monitors all critical aspects of the Group's authorities and its internal controls. Internal audit reports are presented to the Board and the Audit Committee on a quarterly basis. The Audit Committee has also annually reviewed the adequacy of resources, qualifications, experience and training programs of the Group's internal audit staff and accounting and financial reporting staff and considered that the staffing is adequate and the staffs are competent to carry out their roles and responsibilities.

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

In 2017, the internal audit department of the Group had performed a review to ensure that the recommendations made by the independent international accounting firm, Booz & Company and HMCT had been implemented accordingly and proper internal control policies, procedures and practices were in place.

Through the Audit Committee, the Board has conducted annual review of the effectiveness of the Group's internal control systems for the year ended 31 December 2017 and considered that the Group's internal control systems effective and adequate and is of the view that the system of internal control adopted for the year ended 31 December 2017 is sound and effective to safeguard the interests of the shareholders' investments and the Group's assets.

RISK MANAGEMENT

In 2017, a risk checklist with risk mitigation actions and risk owners was compiled by taking emerging risks into account for continuous risk assessment purpose. Risk owners are required to take mitigating actions to address the identified risks. Such actions are integrated in the day-to-day activities and their effectiveness is closely monitored. The risk checklist has been tabled for discussion by the Audit Committee, a summary of the identified key risks and related risk mitigating actions have also been reported to the Board through the Audit Committee members. The summary facilitates the Board in considering the changes in the nature and extent of significant risks, the Group's ability to respond to changes in its business and the external environment, as well the scope and quality of management's ongoing risk monitoring and related mitigating internal control measures.

Through the Audit Committee, the Board has conducted annual review of the effectiveness of the Group's risk management for the year ended 31 December 2017 and considered the Group's risk management effective and adequate.

INVESTOR RELATIONS

(i) Communication with Shareholders

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

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

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

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

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

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

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

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

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

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

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

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

CONSTITUTIONAL DOCUMENTS

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

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting herewith their report together with the audited accounts of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

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

	2017		2016	
	Revenue RMB'000	Contribution to operating profit RMB'000	Revenue RMB'000	Contribution to operating profit RMB'000
Personal hygiene products				
— Sanitary napkin products	**6,972,405**	**3,195,717**	6,568,885	2,850,758
— Disposable diaper products	**1,999,325**	**326,921**	2,150,252	434,568
— Tissue paper products	**9,390,072**	**545,403**	9,066,499	987,023
Others	**1,463,229**	**106,993**	1,491,761	32,565
	19,825,031	**4,175,034**	19,277,397	4,304,914

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

	2017		2016	
	Revenue RMB'million	Percentage of total revenue (%)	Revenue RMB'million	Percentage of total revenue (%)
PRC				
Fujian and Guangdong	**5,580**	**28.2**	4,897	25.4
North-western	**935**	**4.7**	932	4.8
South-western	**1,217**	**6.1**	1,021	5.3
Sichuan	**1,576**	**8.0**	1,599	8.3
North-eastern	**786**	**4.0**	830	4.3
Northern	**1,305**	**6.6**	1,476	7.7
Shandong	**1,685**	**8.5**	1,848	9.6
Eastern	**2,975**	**15.0**	2,988	15.5
Central	**2,160**	**10.9**	2,425	12.6
Overseas	**1,606**	**8.0**	1,261	6.5
	19,825	**100**	19,277	100

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of profit or loss on pages 72 to 73.

The Directors declared an interim dividend of RMB0.95 (2016: RMB0.85) per ordinary share, totalling RMB1,144,644,000 (2016: RMB1,031,079,000), which was paid on 6 October 2017.

The Directors recommend the payment of/paid a final dividend of RMB1.15 (2016: RMB1.10) per ordinary share, totalling RMB2.1 (2016: RMB1.95). Such dividend is to be approved by shareholders of the Company at the annual general meeting to be held on 17 May 2018.

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 77.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately RMB40,659,000 (2016: RMB25,892,000).

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution comprise the share premium account and retained earnings. At 31 December 2017, the reserves of the Company available for distribution to shareholders amounted to RMB6,107,444,000 (2016: RMB5,095,117,000), subject to the restrictions stated in Note 27 to the accounts.

FIVE-YEAR FINANCIAL SUMMARY

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

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem any of the Company's shares during the year. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the year.

DIRECTORS

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

Executive Directors
Mr. Sze Man Bok
Mr. Hui Lin Chit
Mr. Hung Ching Shan
Mr. Xu Shui Shen
Mr. Xu Da Zuo
Mr. Xu Chun Man
Mr. Sze Wong Kim
Mr. Hui Ching Chi
Mr. Li Wai Leung (appointed on 21 March 2017)

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. Xu Shui Shen, Mr. Xu Da Zuo, Mr. Sze Wong Kim, Mr. Hui Ching Chi and Ms. Ada Ying Kay Wong retire, and being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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

Independent Non-Executive Directors were appointed for a 3-year term. The letters of appointment of Mr. Chan Henry and Ms. Ada Ying Kay Wong shall expire on 15 December 2020, while Mr. Wang Ming Fu, Mr. Ho Kwai Ching Mark and Mr. Zhou Fang Sheng shall expiry on 31 December 2018.

BIOGRAPHICAL AND EMOLUMENT DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and senior management are set out on pages 19 to 22.

Directors' and Senior Management Emoluments

Directors' emoluments are set out on pages 147 to 148. The emoluments payable to six senior management (2016: eight senior management) during the year fell within the following bands:

	Number of individuals	
	2017	2016
Emolument bands		
Below HK$500,000 (equivalent to below RMB432,500)	**1** *(Note)*	2
HK$500,001 to HK$1,000,000 (equivalent to RMB432,501 to RMB865,000)	**5** *(Note)*	5
HK$1,000,001 to HK$1,500,000 (equivalent to RMB865,001 to RMB1,297,500)	–	1

Note: One senior management had rejoined the Company during 2017.

Three senior management had resigned during 2017.

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 37 to the accounts.

	2017 **RMB'000**	2016 RMB'000
Purchases from Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power")		
— Electricity energy	**94,527**	100,373
— Heat energy	**60,136**	61,130

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 was beneficially owned by Mr. Sze Wong Kim, an Executive Director of the Company, and the sons of Mr. Hui Lin Chit and Mr. Hung Ching Shan, Executive Directors of the Company.

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

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in page 139 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.

On 27 December 2017, Hengan Mega Jumbo Investments Limited and 恒安(中國)投資有限公司 (Hengan (China) Investment Co., Ltd.), (each a wholly owned subsidiary of the Company), entered into the equity transfer agreement (the "Agreement") to collectively acquire the entire equity interest in Weifang Power for a total consideration of RMB150 million, which was determined and agreed between the parties based on arm's length negotiations and with reference to the valuation of Weifang Power issued by an independent valuer as at 27 December 2017. The consideration was paid in cash.

Upon signing of the Agreement, Weifang Power is no longer a connected person of the Group and services provided by it to the Group are no longer considered as connected transactions under the Listing Rules. Weifang Power will continue to provide electricity and heat energy to the Group as a subsidiary of the Company.

The Board had assessed that Weifang Power is expected to increase its rates in 2018 based on market conditions if it was not acquired and acquiring Weifang Power will result in lower rates for the Group than if electricity and heat was continued to be supplied through the continuing connected transactions relationship.

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

At 31 December 2017, the interests of each Director in the shares, short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO and disclosed in accordance with the Listing Rules were as follows:

	Capacity/Nature of Interest Number of shares		Number of unlisted shares (Note (1))		
Name of Directors	Personal interests/ Beneficiary	Family interests	Personal interests/ Beneficiary	Total	Approximate percentage of shareholding
Mr. Sze Man Bok (Note (2))	234,130,099	–	20,000	234,150,099	19.42%
Mr. Hui Lin Chit (Note (3))	242,030,251	–	148,000	242,178,251	20.08%
Mr. Hung Ching Shan (Note (4))	7,100,000	–	–	7,100,000	0.59%
Mr. Xu Shui Shen	–	33,030	180,000	213,030	0.02%
Mr. Xu Da Zuo (Notes (5))	19,777,321	–	108,000	19,885,321	1.65%
Mr. Xu Chun Man (Note (6))	14,715,621	–	20,000	14,735,621	1.22%
Mr. Sze Wong Kim	151,700	–	20,000	171,700	0.01%
Mr. Hui Ching Chi	40,000	–	20,000	60,000	0.01%

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 62 to 64.

(2) Out of the 234,130,099 ordinary shares, Tin Lee Investments Limited ("Tin Lee") held 233,554,499 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 242,030,251 shares in the Company. It is a company incorporated in the Bahamas and is a wholly owned subsidiary of An Ping Investments Limited ("An Ping Investments"). An Ping Investments is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse, the trustee of the Hui Family Trust. Mr. Hui Lin Chit is the settlor and beneficiary of the Hui Family Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Hui Family Trust in the Company.

(4) Wan Li Company Limited held 7,100,000 shares in the Company. It is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Manley Investments Limited ("Manley"). Manley is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse, the trustee of the Wan Li Trust. Mr. Hung Ching Shan is the settlor and beneficiary of the Wan Li Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the Wan Li Trust in the Company.

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

(6) Out of the 14,715,621 ordinary shares, Zhong Shen Holdings Limited holds 11,500,000 shares in the Company. It is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Zhong Shen Limited ("Zhong Shen"). Zhong Shen is a company incorporated in the British Virgin Islands and owned by HSBC International Trustee Limited as nominee and being the trustee of Zhong Shen Trust. Mr. Xu Chun Man is the settlor and beneficiary of Zhong Shen Trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of Zhong Shen Trust in the Company. The remaining 3,215,621 shares are held by HIIL.

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

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

SHARE OPTION SCHEMES

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

(i) Purpose of the Scheme

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

(ii) Eligible Persons

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

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

(iii) Subscription Prices

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

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

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

(c) the nominal value of a share.

(iv) Maximum Number of Shares Available for Issue

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

(v) Maximum Entitlement of Each Participant

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

(vi) Time on Exercise of Options

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

(vii) Acceptance of Offer

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

(viii) Remaining Life of the Scheme

The Scheme will remain in force before 26 May 2021.

(2) Details of movements in the share options as at 31 December 2017 which have been granted under the Scheme are as follows:

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

Eligible person	Number of share options: Balance as at 01/01/2017	Granted during the year	Exercised during the year	Reclassified during the year	Cancelled or lapsed during the year	Balance as at 31/12/2017	Exercise price per share HK$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
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
Participants	1,070,000	–	(150,000)	–	–	920,000	68.30	28/07/2011	28/07/2014–27/07/2021
	538,250	–	(51,000)	–	–	487,250	68.30	28/07/2011	28/07/2015–27/07/2021
	523,750	–	(40,000)	–	–	483,750	68.30	28/07/2011	28/07/2016–27/07/2021
	4,403,000	–	(535,500)	–	–	3,867,500	72.75	27/07/2012	28/07/2015–27/07/2022
	2,169,000	–	(126,500)	–	–	2,042,500	72.75	27/07/2012	28/07/2016–27/07/2022
	2,169,000	–	(99,696)	–	–	2,069,304	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
	16,742,000	–	(1,022,696)	–	–	15,719,304			

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 2017, amounted to RMB37,843,000 (2016: RMB51,029,000) and the remaining unamortised fair value of approximately RMB43,195,000 (2016: RMB80,307,000) will be charged to the consolidated statement of profit or loss in the future years.

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

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

The register of substantial shareholders maintained under section 336 of part XV of the SFO shows that as at 31 December 2017, 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	233,554,499 (L)	19.37%
Tin Wing Holdings Limited	*(1)*	Interests of controlled corporation	233,554,499 (L)	19.37%
An Ping Holdings Limited	*(2)*	Beneficial owner	242,030,251 (L)	20.07%
An Ping Investments Limited	*(2)*	Interests of controlled corporation	242,030,251 (L)	20.07%
Serangoon Limited	*(1), (2) & (3)*	Interests of controlled corporation	515,432,154 (L)	42.74%
Seletar Limited	*(1), (2) & (3)*	Interests of controlled corporation	515,432,154 (L)	42.74%
Credit Suisse Trust Limited	*(3)*	Trustee	515,432,154 (L)	42.74%

(L) denotes long position

Notes:

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

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

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

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

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

— the largest supplier	11.4%
— five largest suppliers combined	37.1%

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at 22 March 2018.

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 2018

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of Hengan International Group Company Limited
(incorporated in Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Hengan International Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 72 to 148, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

A key audit matter identified in our audit is summarised as follows:

- Revenue recognition – sales of goods

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition – sales of goods	
Refer to notes 2 (24) (Summary of significant accounting policies) and 5 (Revenue and segment information) to the Group's consolidated financial statements. Revenue from sales of goods from continuing operations amounted to RMB19,825 million for the year ended 31 December 2017. Revenue is recognised when the amount and the related costs are reliably measured, and the risks and rewards of the underlying products have been transferred to the customers. We focused on this area due to the huge volume of revenue transactions generated from sales of numerous kinds of products to a large number of customers, including direct customers and distributors, in many different locations.	We understood, evaluated and validated, on a sample basis, management's key controls in respect of the Group's sales transactions from customer orders' approval, goods delivery, sales recording, obtaining customer's goods receipt notes, cash receipts, through to subsequent settlements of trade receivables. In addition, we tested the general IT control environment of the Group's systems and the specific automatic controls associated with revenue recording to assess the completeness and accuracy of the revenue entries being recorded in the general ledger accounting system. We conducted testing of revenue recorded covering different locations and customers by examining the relevant supporting documents including customer orders, goods delivery notes and customer's receipt notes. In addition, we confirmed selected trade receivables balances as at the balance sheet date. The items tested were selected on a sample basis by considering the amount, nature and characteristics of the customers. Furthermore, we tested sales transactions that took place shortly before and after the balance sheet date to assess whether revenue was recognised in the correct reporting periods. Based on the work performed, we found the Group's revenue from sales of goods being tested were recognised in a manner consistent with the Group's revenue recognition accounting policy.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the Year Ended 31 December 2017

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Continuing operations			
Revenue	5	**19,825,031**	19,277,397
Cost of goods sold	7	**(10,525,679)**	(9,873,445)
Gross profit		**9,299,352**	9,403,952
Other income and other gains – net	6	**1,155,611**	542,971
Selling and distribution costs	7	**(3,891,035)**	(3,720,725)
Administrative expenses	7	**(1,292,354)**	(1,483,329)
Operating profit		**5,271,574**	4,742,869
Finance income	8	**93,653**	176,444
Finance costs	8	**(404,629)**	(360,302)
Finance costs – net		**(310,976)**	(183,858)
Profit before income tax		**4,960,598**	4,559,011
Income tax expense	9	**(1,159,142)**	(1,079,445)
Profit for the year from continuing operations		**3,801,456**	3,479,566
Discontinued operations			
Profit for the year from discontinued operations	5, 24	**–**	281,896
Profit for the year		**3,801,456**	3,761,462
Profit attributable to:			
Shareholders of the Company	28	**3,794,041**	3,596,821
Non-controlling interests		**7,415**	164,641
		3,801,456	3,761,462
Profit attributable to shareholders of the Company arising from:			
Continuing operations		**3,794,041**	3,471,746
Discontinued operations		**–**	125,075
		3,794,041	3,596,821

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Earnings per share from continuing operations and discontinued operations attributable to shareholders of the Company			
Basic earnings per share	*10*		
From continuing operations		**RMB3.149**	RMB2.864
From discontinued operations		–	RMB0.103
From profit for the year		**RMB3.149**	RMB2.967
Diluted earnings per share	*10*		
From continuing operations		**RMB3.149**	RMB2.864
From discontinued operations		–	RMB0.103
From profit for the year		**RMB3.149**	RMB2.967

The notes on pages 79 to 148 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2017

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Profit for the year	**3,801,456**	3,761,462
Other comprehensive income		
Items that may be reclassified to profit or loss		
– Currency translation differences	**(42,651)**	(106,689)
Total comprehensive income for the year	**3,758,805**	3,654,773
Attributable to:		
Shareholders of the Company	**3,749,429**	3,488,705
Non-controlling interests	**9,376**	166,068
Total comprehensive income for the year	**3,758,805**	3,654,773
Attributable to shareholders of the Company arising from:		
Continuing operations	**3,749,429**	3,362,424
Discontinued operations	**–**	126,281
	3,749,429	3,488,705

The notes on pages 79 to 148 are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

	Note	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	13	**8,044,858**	7,344,807
Construction-in-progress	15	**878,088**	1,094,145
Investment properties	14	**216,753**	194,848
Land use rights	16	**773,327**	751,308
Intangible assets	17	**503,246**	498,510
Prepayments for non-current assets	18	**141,132**	163,281
Deferred income tax assets	31	**172,244**	210,813
Long-term bank time deposits	23	**2,499,738**	1,760,000
		13,229,386	12,017,712
Current assets			
Inventories	20	**3,435,666**	3,194,641
Trade and bills receivables	21	**2,312,060**	2,743,500
Other receivables, prepayments and deposits	21	**1,406,346**	962,189
Current income tax recoverable		**52,431**	337,187
Derivative financial instruments	22	**29,433**	–
Restricted bank deposits		**3,002**	14,622
Cash and bank balances	23	**18,429,716**	14,874,877
		25,668,654	22,127,016
Total assets		**38,898,040**	34,144,728
Equity			
Equity attributable to shareholders of the company			
Share capital	25	**127,080**	126,991
Other reserves	27	**3,141,363**	2,944,971
Retained earnings	28	**12,837,975**	11,654,829
		16,106,418	14,726,791
Non-controlling interests		**237,883**	34,065
Total equity		**16,344,301**	14,760,856

The notes on pages 79 to 148 are an integral part of the consolidated financial statements.

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	29	**3,247,233**	3,524,687
Convertible bonds	30	**–**	472,719
Finance lease payable		**264**	–
Deferred income tax liabilities	31	**120,007**	106,452
		3,367,504	4,103,858
Current liabilities			
Trade payables	32	**2,128,813**	2,078,591
Other payables and accrued charges	32	**1,199,291**	1,201,870
Derivative financial instruments	22	**6,698**	1,119
Current income tax liabilities		**20,222**	79,860
Borrowings	29	**15,375,385**	11,918,574
Convertible bonds	30	**455,537**	–
Finance lease payable		**289**	–
		19,186,235	15,280,014
Total liabilities		**22,553,739**	19,383,872
Total equity and liabilities		**38,898,040**	34,144,728

The notes on pages 79 to 148 are an integral part of the consolidated financial statements.

The consolidated financial statements on pages 72 to 148 were approved by the Board of Directors on 22 March 2018 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 2017

	Note	Attributable to shareholders of the Company					
		Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017		**126,991**	**2,944,971**	**11,654,829**	**14,726,791**	**34,065**	**14,760,856**
Profit for the year		**–**	**–**	**3,794,041**	**3,794,041**	**7,415**	**3,801,456**
Currency translation differences	*27(c)*	**–**	**(44,612)**	**–**	**(44,612)**	**1,961**	**(42,651)**
Total comprehensive income		**–**	**(44,612)**	**3,794,041**	**3,749,429**	**9,376**	**3,758,805**
Transactions with owners:							
2016 final dividends paid	*11*	**–**	**–**	**(1,325,377)**	**(1,325,377)**	**(11,227)**	**(1,336,604)**
2017 interim dividends paid	*11*	**–**	**–**	**(1,144,644)**	**(1,144,644)**	**–**	**(1,144,644)**
Share-based compensation							
– value of employee services	*26,27*	**–**	**37,843**	**–**	**37,843**	**–**	**37,843**
– proceeds from shares issued	*27*	**89**	**63,341**	**–**	**63,430**	**–**	**63,430**
Acquisition of subsidiaries	*36*	**–**	**–**	**–**	**–**	**184,770**	**184,770**
Disposal of subsidiaries with loss of control		**–**	**(1,054)**	**–**	**(1,054)**	**–**	**(1,054)**
Capital contribution by non-controlling interests		**–**	**–**	**–**	**–**	**20,899**	**20,899**
Total of transactions with owners		**89**	**100,130**	**(2,470,021)**	**(2,369,802)**	**194,442**	**(2,175,360)**
Appropriation to statutory reserves	*27(b)*	**–**	**140,874**	**(140,874)**	**–**	**–**	**–**
Balance at 31 December 2017		**127,080**	**3,141,363**	**12,837,975**	**16,106,418**	**237,883**	**16,344,301**
Balance at 1 January 2016		128,132	3,044,503	11,538,232	14,710,867	380,928	15,091,795
Profit for the year		–	–	3,596,821	3,596,821	164,641	3,761,462
Currency translation differences	*27(c)*	–	(108,116)	–	(108,116)	1,427	(106,689)
Total comprehensive income		–	(108,116)	3,596,821	3,488,705	166,068	3,654,773
Transactions with owners:							
2015 final dividends paid	*11*	–	–	(1,166,057)	(1,166,057)	(8,313)	(1,174,370)
2016 interim dividends paid	*11*	–	–	(1,031,079)	(1,031,079)	–	(1,031,079)
Distribution in specie	*11*	–	–	(536,010)	(536,010)	(514,990)	(1,051,000)
Share-based compensation							
– value of employee services	*26,27*	–	51,029	–	51,029	–	51,029
– proceeds from shares issued	*27*	3	1,315	–	1,318	–	1,318
Early redemption of convertible bonds	*30*	–	(127,668)	55,827	(71,841)	–	(71,841)
Change in ownership interests in subsidiaries without change of control	*27*	–	(572)	–	(572)	572	–
Capital contribution by non-controlling interests		–	–	–	–	9,800	9,800
Buy-back of shares	*27,28*	(1,144)	(2,955)	(715,470)	(719,569)	–	(719,569)
Derecognition upon the spin-off		–	(28,960)	28,960	–	–	–
Total of transactions with owners		(1,141)	(107,811)	(3,363,829)	(3,472,781)	(512,931)	(3,985,712)
Appropriation to statutory reserves	*27(b)*	–	116,395	(116,395)	–	–	–
Balance at 31 December 2016		126,991	2,944,971	11,654,829	14,726,791	34,065	14,760,856

The notes on pages 79 to 148 are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Continuing operations	33(a)	**4,935,631**	5,298,106
Income tax paid		**(909,394)**	(1,337,065)
Discontinued operations		**–**	125,802
Net cash generated from operating activities		**4,026,237**	4,086,843
Cash flows from investing activities			
Continuing operations			
– Purchase of property, plant and equipment and land use rights, including additions of construction-in-progress		**(888,776)**	(901,113)
– Proceeds from disposal of property, plant and equipment and land use rights	33(b)	**84,218**	7,433
– Increase in long-term and short-term bank time deposits		**(3,072,799)**	(1,249,690)
– Acquisition of subsidiaries, net of cash acquired	36	**(79,812)**	–
– Interest received		**409,890**	369,574
– Net proceeds on disposal of subsidiaries		**(642)**	–
Discontinued operations		**–**	(6,399)
Net cash used in investing activities		**(3,547,921)**	(1,780,195)
Cash flows from financing activities			
Continuing operations			
– Proceeds from capital contribution by non-controlling interests		**–**	9,800
– Proceeds from borrowings	33(c)	**22,482,231**	20,445,426
– Repayment of borrowings	33(c)	**(18,766,170)**	(15,183,898)
– Finance lease payments	33(c)	**(319)**	–
– Decrease in restricted bank deposits		**11,620**	6,510
– Payment for early redemption of convertible bonds		**–**	(4,483,151)
– Buy-back of shares		**–**	(719,569)
– Interest paid		**(358,722)**	(261,095)
– Dividends paid		**(2,470,021)**	(2,197,136)
– Dividends paid to non-controlling interests		**(9,434)**	(6,074)
– Proceeds from shares issued under the employee share option scheme		**63,430**	1,318
Discontinued operations		**–**	(2,981)
Net cash generated from/(used in) financing activities		**952,615**	(2,390,850)
Increase/(decrease) in cash and cash equivalents		**1,430,931**	(84,202)
Cash and cash equivalents at 1 January	23	**5,562,802**	5,893,700
Effect of foreign exchange rate changes		**(209,153)**	89,593
Distribution in specie		**–**	(336,289)
Cash and cash equivalents at 31 December	23	**6,784,580**	5,562,802

The notes on pages 79 to 148 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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

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

These consolidated financial statements were approved for issue by the Board of Directors on 22 March 2018.

Discontinued operations in 2016

On 8 July 2016, the Company completed the spin-off of the food and snacks operations of the Group under Qinqin Foodstuffs Group (Cayman) Company Limited (the "Qinqin Group") by way of introduction achieved by distribution in species of the Group's entire shareholding in the Qinqin Group for separate listing on the Main Board of the Stock Exchange. The consolidated results of the Qinqin Group were presented in the consolidated financial statements of the Group for the year ended 31 December 2016 as discontinued operations. The consolidated statement of profit or loss distinguished the discontinued operations from the continuing operations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. 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 judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment 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 amendments to standards relevant to the Group are mandatory adopted for the first time for the financial year beginning on or after 1 January 2017:

- Amendments to HKAS 7, 'Statement of cash flows' introduced an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The following amendments of HKFRSs are effective for the first time for the financial year beginning on 1 January 2017 and not relevant to the Group's operations (although they may affect the accounting for future transactions and events):

- Amendments to HKAS 12, 'Income taxes', amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.

- Amendment to HKFRS 12, 'Disclosure of interest in other entities'.The amendment is part of the annual improvements to HKFRSs 2014-2016 cycle. It clarifies that the disclosure requirement of HKFRS 12 is applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of HKFRS 12). Previously, it was unclear whether all other HKFRS 12 requirements were applicable for these interests.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(1) Basis of preparation *(continued)*

(ii) New and amended standards that might be relevant to the Group have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted by the Group

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017 and have not been early adopted in preparing these consolidated financial statements. The Group has started assessing the full impact of the amendments and standards and intents to adopt the amendments no later than the respective effective dates of the amendments. The new standards and amendments to standards and interpretations are set out below:

- HKFRS 9 'Financial Instruments', effective for annual periods beginning on or after 1 January 2018.[a]
- Amendments to HKFRS 4, 'Insurance Contracts', effective for annual periods beginning on or after 1 January 2018.
- Amendment to HKFRS 1, 'First time adoption of HKFRS', effective for annual periods beginning on or after 1 January 2018.
- Amendment to HKAS 28, 'Investments in associates and joint ventures', effective for annual periods beginning on or after 1 January 2018.
- HKFRS15 'Revenue from Contracts with Customers', effective for annual periods beginning on or after 1 January 2018.[b]
- Amendments to HKFRS 2 'Classification and Measurement of Share-based Payment Transactions', effective for annual periods beginning on or after 1 January 2018.
- Amendments to HKAS 40, 'Transfers of investment property', effective for annual periods beginning on or after 1 January 2018.
- HK (IFRIC) 22, 'Foreign Currency Transactions and Advance Consideration', effective for annual periods beginning on or after 1 January 2018.
- HKFRS 16 'Leases', effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted only if HKFRS 15 is adopted at the same time.[c]
- HK (IFRIC) 23, 'Uncertainty over Income Tax Treatments', effective for annual periods beginning on or after 1 January 2019.
- 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.
- HKFRS 17 'Insurance Contracts', effective for annual period beginning on or after 1 January 2021. Early adoption is permitted only is HKFRS 9 and HKFRS 15 are adopted at the same time.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(1) Basis of preparation *(continued)*

(ii) New and amended standards that might be relevant to the Group have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted by the Group (continued)

(a) HKFRS 9 Financial Instruments

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018.

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets as the Group does not have:

- Debt instrument that are classified as available-for-sale financial assets;

- Debt instrument classified as held-to-maturity and measured at amortised cost;

- Equity investment measured at fair value through profit or loss.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not have any hedge instruments. Therefore, the Group does not expect any impact on the new hedge accounting rules.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect material change to the loss allowance for trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by the Group

Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(1) Basis of preparation *(continued)*

(ii) New and amended standards that might be relevant to the Group have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted by the Group (continued)

(b) HKFRS 15 Revenue from Contracts with Customers

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

When applying HKFRS 15, revenue shall be recognized by applying following steps:

- identify the contract with customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contracts;
- recognize revenue when (or as) the entity satisfies a performance obligation.

The Group is engaged in manufacturing, distribution and sale of personal hygiene products. The Group does not have any customer loyalty programme which is likely to be affected by the new HKFRS 15.

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

- Payment to customer – the application of HKFRS 15 may result in the consideration payable to a customer recorded as a reduction of the arrangement's transaction price, thereby reducing the amount of revenue recognized, unless the payment is for a distinct good or service received from the customer.
- Rights of return – HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation. The Group's historical goods return rate was very low and the financial impact of applying new HKFRS 15 is not expected to be material.
- Presentation of contract assets and contract liabilities on the balance sheet – HKFRS 15 requires separate presentation of contract assets and contract liabilities on the balance sheet. The Group has assessed the adoption of this standard and concluded that it will not have a significant impact on the Group's results and financial position, except that certain new disclosures are introduced.

Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(1) Basis of preparation *(continued)*

(ii) New and amendments standards that might be relevant to the Group have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted by the Group (continued)

(c) HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB30 million.

However, the Group has not yet assessed what other adjustments, if any, are necessary. For example, the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption by the Group

The standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations. According to the preliminary assessment, other than the assessment results of HKFRS 9, 15 and 16 stated above, none of these is expected to have a significant effect on the consolidation financial statements of the Group.

(2) Subsidiaries

(i) Consolidation

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

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.

(a) Business combinations

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(2) Subsidiaries *(continued)*

(i) Consolidation (continued)

(a) Business combinations *(continued)*

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

Acquisition-related costs are expensed as incurred.

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

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (Note 2(8)(i)). 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 statement of profit or loss.

(b) 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.

(c) 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 received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(3) Segment reporting

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

(4) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

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.

(iii) Group companies

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 statement of profit or loss 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 statement of profit or loss.

(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 investment property 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 statement of profit or loss in the period in which the item is derecognised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(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 that are subject to amortisation 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(10) Discontinued operations

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

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

(11) Financial assets

(i) Classification

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

(a) 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.

(b) 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", and "bank deposits" (Note 23) in the balance sheet.

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

(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 statement of profit or loss. 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 statement of profit or loss 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 statement of profit or loss as part of other income when the Group's right to receive payments is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(11) Financial assets *(continued)*

(iii) Offsetting financial instruments

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

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

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

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

For loan and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss. 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 statement of profit or loss.

(12) Derivative financial instruments

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

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

(13) Inventories

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(14) Trade, bills and other receivables

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

Trade, bills and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2(11)(ii) for further information about the Group's accounting for trade receivables and Note 2(11)(iv) for a description of the Group's impairment policies.

(15) Cash and cash equivalents

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

(16) Share capital

Ordinary shares are classified as equity.

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

(17) Trade payables

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

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

(18) Borrowings

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(19) Borrowings costs

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

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

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

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

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

(20) Compound financial instruments

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(21) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss, 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

(a) 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.

(b) Outside basis differences

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

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

(iii) Offsetting

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(22) Employee benefits

(i) Retirement benefits

The Group's companies in Mainland China participate in defined contribution retirement schemes administered by local governments in different locations of the PRC (the "Central Schemes"). The Group's companies and the employees in Mainland China are required to make cash contributions calculated at certain percentages of the employees' basic salaries to the Central Schemes.

The Group also operates the mandatory provident fund scheme (the "MPF Scheme") for its Hong Kong staff. The MPF Scheme is a defined contribution retirement benefit scheme administered by independent trustees. Each of the employer and the employee has to contribute an amount equal to 5% of the relevant income of the employee to the MPF Scheme, subject to a cap of HK$1,500, equivalent to RMB1,298 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 Group's contributions to the defined contribution retirement schemes are expensed as incurred. The Group has no further payment obligations once the contributions have been made.

(ii) Share-based compensation

The Group operates an equity-settled share-based payment plan (Note 26). The fair value of the employee services received in exchange for the grant of the options to purchase shares of the Company is recognised as an expenses. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

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

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

(23) Provisions

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(24) Revenue recognition

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

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

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

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

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

(25) Government grants

Grants from 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 statement of profit or loss 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 statement of profit or loss on a straight-line basis over the expected lives of the related assets.

(26) Operating leases

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

(27) Research and development

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(27) Research and development *(continued)*

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

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

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

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

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

(28) Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

(i) Market risk

(1) Foreign exchange risk

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

The Group considers the risk of movements in exchange rate between HK$ and US$ to be insignificant as HK$ and US$ are pegged. During the year ended 31 December 2017, the fluctuations in exchange rates between RMB(the functional currency of the majority of the Group's entities), US$(the denomination currency of majority of the Group's imports of raw materials and property, plant and equipment and borrowings) and HK$ (the denomination currency of borrowings) from continuing operations resulted in a total exchange gain of RMB98,467,000 (2016: exchange loss of RMB141,602,000). The Group has not 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 2017, if HK$ and US$ had weakened/strengthened by 5% against the RMB with all other variables held constant, the net profit from continuing operations for the year would have been RMB82,568,000 lower/higher (2016: RMB104,049,000 higher/lower).

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(i) Market risk (continued)

(2) Price risk

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

(3) Cash flow and fair value interest rate risk

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

The Group's interest-rate risk mainly arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. The Group manages certain of its cash flow risk by purchasing interest swap contracts. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The interest rates and terms of repayments of borrowings are disclosed in Note 29.

At 31 December 2017, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, the net profit from continuing operations for the year would have been RMB72,776,000 (2016: RMB42,803,000/RMB41,891,000) 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 time 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 time deposits, cash and bank balances, derivative financial instruments, trade receivables and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(ii) Credit risk (continued)

At 31 December 2017, all restricted bank deposits and bank balances were placed with or entered into with highly reputable and sizable banks and financial institutions without significant credit risk. The table below shows the balances with counterparties as at 31 December 2017 and 2016:

	2017 RMB'000	2016 RMB'000
Counterparties		
– Big 4 domestic banks *(Note)*	**2,282,615**	1,614,177
– Other reputable and sizeable domestic commercial banks	**15,325,032**	8,266,262
– Highly reputable and sizeable foreign-owned banks	**3,318,574**	6,765,555
	20,926,221	16,645,994

Note:

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

(iii) Liquidity risk

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

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(iii) Liquidity risk (continued)

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Between 3 and 5 years RMB'000	Total RMB'000
At 31 December 2017					
Borrowings	**15,375,385**	**2,004,021**	**54,021**	**1,198,016**	**18,631,443**
Interest payables of borrowings	**258,180**	**85,128**	**40,282**	**27,093**	**410,683**
Convertible bonds	**462,591**	**–**	**–**	**–**	**462,591**
Net settled derivative financial instruments	**6,698**	**–**	**–**	**–**	**6,698**
Financial lease payables	**289**	**219**	**45**	**–**	**553**
Trade and other payables	**2,926,835**	**–**	**–**	**–**	**2,926,835**
Total	**19,029,978**	**2,089,368**	**94,348**	**1,225,109**	**22,438,803**
At 31 December 2016					
Borrowings	11,918,574	536,700	2,000,000	1,000,000	15,455,274
Interest payables of borrowings	197,401	105,129	77,028	55,693	435,251
Convertible bonds	–	495,020	–	–	495,020
Net settled derivative financial instruments	1,119	–	–	–	1,119
Trade and other payables	2,959,589	–	–	–	2,959,589
Total	15,076,683	1,136,849	2,077,028	1,055,693	19,346,253

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 time deposits and cash and bank balances.

During 2017, the Group's strategy was to maintain a net gearing ratio at or below 20%. The calculation of the gearing ratios at 31 December 2017 was as follows:

	2017 **RMB'000**	2016 RMB'000
Gross gearing ratio:		
Total borrowings and convertible bonds	**19,078,155**	15,915,980
Total equity excluding non-controlling interests	**16,106,418**	14,726,791
Gross gearing ratio	**118.5%**	108.1%
Net gearing ratio:		
Total borrowings and convertible bonds	**19,078,155**	15,915,980
Less: long-term bank time deposits and cash and bank balances	**(20,929,454)**	(16,634,877)
Net debt	**(1,851,299)**	(718,897)
Total equity excluding non-controlling interests	**16,106,418**	14,726,791
Net gearing ratio	**(11.5%)**	(4.9%)

The decrease in net gearing ratio during 2017 resulted primarily from the increase in banks deposit and bank balances.

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 2017 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).

	2017 Level 2 RMB'000	2016 Level 2 RMB'000
Financial assets fair value through profit or loss		
– Derivative financial instruments *(Note 22)*	**29,433**	–
Financial liabilities fair value through profit or loss		
– Derivative financial instruments *(Note 22)*	**(6,698)**	(1,119)

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 2017.

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 2017.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Useful lives of property, plant and equipment

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

(b) Current tax and deferred tax

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

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

(c) Assessment of impairment of goodwill

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

5 REVENUE AND SEGMENT INFORMATION

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

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

5 REVENUE AND SEGMENT INFORMATION *(continued)*

The Group spun off its food and snacks business, named as Qinqin Group, via a distribution in specie on 7 July 2016. After the spin-off, the Group continues to engage in the manufacturing, distribution and sale of personal hygiene products including sanitary napkin products, disposable diaper products and tissue paper products. The food and snack products segment was classified as discontinued operations of the Group.

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 statement of profit or loss. Revenues from sales of goods from continuing operations recognised during the year are as follows:

	2017 **RMB'000**	2016 RMB'000
Personal hygiene products		
– Sanitary napkin products	**6,972,405**	6,568,885
– Disposable diaper products	**1,999,325**	2,150,252
– Tissue paper products	**9,390,072**	9,066,499
Others	**1,463,229**	1,491,761
	19,825,031	19,277,397

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 time deposit) located in the PRC amounted to RMB9,785,538,000 as at 31 December 2017 (2016: RMB9,444,593,000) and the total non-current assets located in other places amounted to RMB771,866,000 (2016: RMB602,306,000).

During the year ended 31 December 2017, there were no customers of the Group from whom revenue amounted to 10% or more of the Group's total revenue was derived (2016: None).

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

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

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

5 REVENUE AND SEGMENT INFORMATION *(continued)*

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

	2017 Continuing operations Sanitary napkins products RMB'000	Disposable diapers products RMB'000	Tissue paper products RMB'000	Others RMB'000	Group RMB'000
Segment revenue	7,024,011	2,010,067	9,670,539	2,021,369	20,725,986
Inter-segment sales	(51,606)	(10,742)	(280,467)	(558,140)	(900,955)
Revenue of the Group	6,972,405	1,999,325	9,390,072	1,463,229	19,825,031
Segment profit	3,195,717	326,921	545,403	106,993	4,175,034
Unallocated costs					(59,071)
Other income and other gains – net					1,155,611
Operating profit					5,271,574
Finance income					93,653
Finance costs					(404,629)
Profit before income tax					4,960,598
Income tax expense					(1,159,142)
Profit for the year					3,801,456
Non-controlling interests					(7,415)
Profit attributable to shareholders of the Company					3,794,041
Other items for the year ended 31 December 2017					
Additions to non-current assets	156,306	70,372	663,115	46,375	936,168
Depreciation charge	159,424	33,454	442,285	36,011	671,174
Amortisation charge	9,204	2,146	13,302	904	25,556
As at 31 December 2017					
Segment assets	6,807,730	3,965,895	11,649,866	5,718,517	28,142,008
Deferred income tax assets					172,244
Current income tax recoverable					52,431
Unallocated assets					10,531,357
Total assets					38,898,040
Segment liabilities	1,602,377	1,501,511	3,044,361	2,239,176	8,387,425
Deferred income tax liabilities					120,007
Current income tax liabilities					20,222
Unallocated liabilities					14,026,085
Total liabilities					22,553,739

5 REVENUE AND SEGMENT INFORMATION *(continued)*

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

6 OTHER INCOME AND OTHER GAINS – NET FROM CONTINUING OPERATIONS

	2017 RMB'000	2016 RMB'000
Government grants income *(Note)*	**484,611**	491,969
Exchange gains/(losses) from operating activities – net	**126,370**	(196,701)
Gains/(losses) on disposal of property, plant and equipment and land use rights	**36,445**	(32,709)
Realised fair value gains on derivative financial instruments	**1,073**	28,906
Unrealised fair value gains/(losses) on derivative financial instruments	**22,781**	(1,073)
Interests income from long-term and short-term bank time deposits	**411,085**	242,425
Loss on early redemption of convertible bonds	**–**	(18,885)
Gains from acquisition of subsidiaries *(Note 36)*	**55,413**	–
Others	**17,833**	29,039
	1,155,611	542,971

Note:

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

7 EXPENSES BY NATURE FROM CONTINUING OPERATIONS

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

	2017 RMB'000	2016 RMB'000
Raw materials and consumables used	**8,642,215**	8,277,728
Changes in inventories of finished goods	**8,067**	(145,250)
Marketing and advertising expenses	**2,016,988**	2,082,303
Employee benefit expense, including Directors' emoluments *(Note 12)*	**1,441,795**	1,458,475
Utilities and various office expenses	**882,482**	789,393
Transportation and packaging expenses	**782,738**	685,307
Depreciation of property, plant and equipment *(Note 13)*	**666,556**	626,162
Research and development expenses	**408,809**	411,361
Tax surcharges	**163,902**	161,490
Repairs and maintenance expenses	**161,304**	148,227
Travelling expenses	**128,196**	143,476
Operating leases rentals	**88,906**	77,539
Amortisation of land use rights *(Note 16)*	**22,347**	24,071
Provision for impairment of trade receivables *(Note 21)*	**15,787**	30,858
Amortisation of intangible assets *(Note 17)*	**3,209**	2,746
Auditor's remuneration		
– Audit services	**5,600**	6,100
– Non-audit services	**2,556**	1,051
Reversal of inventories write-down (*Note 20)*	**(6,539)**	(7,701)
Others	**274,150**	304,163
Total cost of sales, selling and distribution costs and administrative expenses	**15,709,068**	15,077,499

8 FINANCE INCOME AND FINANCE COSTS FROM CONTINUING OPERATIONS

	2017 RMB'000	2016 RMB'000
Finance costs:		
Interest expense		
– Borrowings	**361,079**	278,304
– Convertible bonds	**14,267**	80,690
Exchange loss	**27,903**	–
Other finance charges	**11,554**	15,590
Total finance costs incurred	**414,803**	374,584
Less: Finance costs capitalised in buildings and machinery under construction-in-progress *(Note 15)*	**(10,174)**	(14,282)
	404,629	360,302
Finance income:		
Interest income from cash and cash equivalents	**(93,653)**	(121,345)
Exchange gain	**–**	(55,099)
	(93,653)	(176,444)
Finance costs, net	**310,976**	183,858

For the year ended 31 December 2017, the capitalisation rate applied to funds borrowed generally and used for the development of construction-in-progress was 1.89% (2016: 2.42%) per annum.

9 INCOME TAX EXPENSE FROM CONTINUING OPERATIONS

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

	2017 RMB'000	2016 RMB'000
Current income tax		
– Current tax on profits for the year	**959,294**	921,857
– PRC withholding income tax	**175,257**	211,995
Deferred income tax, net *(Note 31)*	**24,591**	(54,407)
Income tax expense	**1,159,142**	1,079,445

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

(a) 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%.

Also, 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.

(b) Hong Kong and overseas profits tax has been provided at the rates of taxation prevailing in the countries in which the Group operates respectively.

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

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

	2017 RMB'000	2016 RMB'000
Profit before income tax	**4,960,598**	4,559,011
Tax calculated at tax rates applicable to profits of the Group's companies	**1,147,711**	1,062,252
Tax exemption and concession on the profits of certain subsidiaries	**(86,336)**	(144,329)
Utilisation of previously unrecognized tax losses	**–**	44
Withholding tax on distributed profit and unremitted earnings	**161,242**	190,461
Over provision of income tax in the previous year	**(52,370)**	–
Others	**(11,105)**	(28,983)
Income tax expense	**1,159,142**	1,079,445

The weighted average applicable tax rate was 23.1% (2016: 23.3%).

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

10 EARNINGS PER SHARE

(a) Basic

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

	2017	2016
From continuing operations:		
Profit attributable to shareholders of the Company (RMB'000)	**3,794,041**	3,471,746
Weighted average number of ordinary shares in issue (thousands)	**1,204,928**	1,212,364
Basic earnings per share (RMB)	**3.149**	2.864
From discontinued operations:		
Profit attributable to shareholders of the Company (RMB'000)	–	125,075
Weighted average number of ordinary shares in issue (thousands)	–	1,212,364
Basic earnings per share (RMB)	–	0.103

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversation of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The diluted earnings per share is the same as the basic earnings per share for the year ended 31 December 2017 and the year ended 31 December 2016 as the potential ordinary shares in respect of outstanding share options and convertible bonds are anti-dilutive.

11 DIVIDENDS

	2017 RMB'000	2016 RMB'000
Distribution in specie *(Note (a))*	–	1,051,000
Interim, paid, RMB0.95 (2016: RMB0.85) per ordinary share *(Note (b))*	**1,144,644**	1,031,079
Final, proposed/paid, RMB1.15 (2016: RMB1.10) per ordinary share *(Note (b)) (Note (c))*	**1,386,798**	1,325,377
	2,531,442	3,407,456

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

11 DIVIDENDS *(continued)*

(b) The dividends paid in 2017 amounted to RMB2,470,021,000 (2017 interim: RMB0.95 per share, 2016 final: RMB1.1 per share). The dividends paid in 2016 amounted to RMB2,197,136,000 (2016 interim: RMB0.85 per share, 2015 final: RMB0.96 per share). A final dividend in respect of the year ended 31 December 2017 of RMB1.15 per share, amounting to a total dividend of RMB1,386,798,000, was proposed by the Board of Directors at a meeting held on 22 March 2018, subject to the final approval by the shareholders of the Company at the Annual General Meeting to be held on 17 May 2018. These financial statements do not reflect this dividend payable.

(c) A final dividend in respect of the year ended 31 December 2017 of RMB1.15 per share (equivalent to HK$1.423109 per share) (2016: RMB1.10 per share (equivalent to HK$1.237582 per share)) was proposed by the Board of Directors. Dividends payable to shareholders will be paid in HK$. The exchange rate adopted by the Company for its payable is the middle rate of HK$ to RMB announced by the People's Bank of China for the business day preceding the date of dividend declaration. The exchange rate of HK$ to RMB on 21 March 2018 is 0.80809.

12 EMPLOYEE BENEFIT EXPENSE FROM CONTINUING OPERATIONS

	2017 RMB'000	2016 RMB'000
Wages and salaries	**1,200,018**	1,200,841
Retirement and social benefits cost	**203,934**	206,605
Equity-settled share-based payment *(Note 26)*	**37,843**	51,029
Total employee benefit expense	**1,441,795**	1,458,475

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2016: four) Directors whose emoluments are reflected in the analysis shown in Note 40. The emoluments payable to the remaining one (2016: one) individual during the year are as follows:

	2017 RMB'000	2016 RMB'000
Basic salaries, housing allowances, share-based compensation, other allowances and benefits-in-kind	**663**	763
Bonuses	**138**	138
	801	901

The emoluments fell within the following bands:

	Number of individuals	
	2017	2016
Emolument bands		
HK$500,001 to HK$1,000,000 (equivalent to RMB432,501 to RMB865,500)	**1**	–
HK$1,000,001 to HK$1,500,000 (equivalent to RMB865,001 to RMB1,297,500)	**–**	1

13 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Machinery RMB'000	Office equipment, furniture and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2017					
Cost	4,291,548	6,913,988	232,920	39,957	11,478,413
Accumulated depreciation	(1,019,014)	(2,957,086)	(130,141)	(27,365)	(4,133,606)
Opening net book amount	3,272,534	3,956,902	102,779	12,592	7,344,807
Year ended 31 December 2017					
Opening net book amount	3,272,534	3,956,902	102,779	12,592	7,344,807
Continuing operations:					
Additions	21,517	93,226	30,181	3,784	148,708
Transfer from construction-in-progress *(Note 15)*	360,259	610,914	3,295	–	974,468
Acquisition of subsidiaries *(Note 36)*	160,482	130,628	1,960	4,990	298,060
Transfer to investment properties *(Note 14)*	(9,244)	–	–	–	(9,244)
Depreciation for the year *(Note 7)*	(206,923)	(428,145)	(27,739)	(3,749)	(666,556)
Disposals	(19,030)	(17,439)	(1,596)	(4,415)	(42,480)
Disposal of subsidiaries	–	–	(20)	–	(20)
Currency translation differences	(3,136)	191	17	43	(2,885)
Closing net book amount	3,576,459	4,346,277	108,877	13,245	8,044,858
At 31 December 2017					
Cost	4,779,427	7,629,884	261,463	30,753	12,701,527
Accumulated depreciation	(1,202,968)	(3,283,607)	(152,586)	(17,508)	(4,656,669)
Net book amount	3,576,459	4,346,277	108,877	13,245	8,044,858

13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

Depreciation expenses from continuing operations have been charged to the consolidated statement of profit or loss as follows:

	2017 RMB'000	2016 RMB'000
Manufacturing overheads included under cost of goods sold	**482,336**	450,356
Selling and distribution costs	**7,154**	6,811
Administrative expenses	**177,066**	168,995
	666,556	626,162

There was no pledge of property, plant and equipment of the Group as at 31 December 2017 and 2016.

14 INVESTMENT PROPERTIES

	2017 RMB'000	2016 RMB'000
Continuing operations:		
At 1 January		
Opening net book amount	**194,848**	185,886
Currency translation differences	**151**	–
Addition	**1,794**	–
Acquisition of subsidiaries *(Note 36)*	**10,647**	–
Transfer from construction-in-progress *(Note 15)*	**12,404**	–
Transfer from land use rights *(Note 16)*	**–**	2,132
Transfer from property, plant and equipment *(Note 13)*	**9,244**	11,101
Transfer to land use rights *(Note 16)*	**(7,717)**	–
Depreciation for the year	**(4,618)**	(4,271)
Closing net book amount	**216,753**	194,848
At 31 December		
Cost	**236,365**	207,973
Accumulated depreciation	**(19,612)**	(13,125)
Net book amount	**216,753**	194,848

The above investment properties are located in Fujian, the PRC and Selangor and Johor, Malaysia, and depreciated on a straight-line basis over 20 to 40 years.

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

14 INVESTMENT PROPERTIES *(continued)*

Amounts recognised in profit and loss for investment properties are as follow:

	2017 RMB'000	2016 RMB'000
Rental income	**19,949**	15,771
Direct operating expenses	**(4,764)**	(4,271)
Net book amount	**15,185**	11,500

Depreciation expenses from continuing operations have been charged to the consolidated statement of profit or loss as follows:

	2017 RMB'000	2016 RMB'000
Other income and other gains – net	**4,618**	4,271

15 CONSTRUCTION-IN-PROGRESS

	2017 RMB'000	2016 RMB'000
At 1 January	**1,094,145**	1,089,602
Continuing operations:		
Additions	**770,815**	845,861
Transfer to property, plant and equipment *(Note 13)*	**(974,468)**	(838,500)
Transfer to Investment properties *(Note 14)*	**(12,404)**	–
Transfer to Intangible assets *(Note 17)*	**–**	(1,037)
Discontinued operations:		
Additions	**–**	1,710
Transfer to property, plant and equipment *(Note 13)*	**–**	(578)
Distribution in specie	**–**	(2,913)
At 31 December	**878,088**	1,094,145

During the year ended 31 December 2017, finance costs capitalised in construction-in-progress from continuing operations amounted to RMB10,174,000 (2016: RMB14,282,000) (Note 8).

16 LAND USE RIGHTS

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

	2017 RMB'000	2016 RMB'000
At 1 January	**751,308**	858,708
Continuing operations:		
Additions	**14,851**	–
Acquisition of subsidiaries *(Note 36)*	**27,091**	–
Transfer from investment properties *(Note 14)*	**7,717**	–
Transfer to investment properties *(Note 14)*	**–**	(2,132)
Disposals	**(5,293)**	–
Amortisation of prepaid operating leases payments *(Note 7)*	**(22,347)**	(24,071)
Discontinued operations:		
Amortisation of prepaid operating leases payments	**–**	(1,083)
Distribution in specie	**–**	(80,114)
At 31 December	**773,327**	751,308

As at 31 December 2017, land use rights with a carrying amount of RMB27,091,000 (cost of RMB35,345,000) are pledged as collateral for the Group's short-term borrowings of RMB47,000,000 (Note 29) (2016:Nil).

Amortisation has been charged to administrative expenses in the consolidated statement of profit or loss.

17 INTANGIBLE ASSETS

	Goodwill RMB'000	Patents and trademarks RMB'000	Customer relationships RMB'000	Computer softwares RMB'000	Total RMB'000
At 1 January 2017					
Cost	479,713	3,771	–	23,664	507,148
Accumulated amortisation	–	(1,934)	–	(6,704)	(8,638)
Net book amount	479,713	1,837	–	16,960	498,510
Year ended 31 December 2017					
Opening net book amount	479,713	1,837	–	16,960	498,510
Continuing operations:					
Acquisition of subsidiaries *(Note 36)*	–	–	7,945	–	7,945
Amortisation charge *(Note 7)*	–	(380)	(463)	(2,366)	(3,209)
Closing net book amount	479,713	1,457	7,482	14,594	503,246
At 31 December 2017					
Cost	479,713	3,771	7,945	23,664	515,093
Accumulated amortisation	–	(2,314)	(463)	(9,070)	(11,847)
Net book amount	479,713	1,457	7,482	14,594	503,246

17 INTANGIBLE ASSETS *(continued)*

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

Amortisation has been charged to administrative expenses in the consolidated statement of profit or loss.

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 2017 and have concluded that no provision for impairment is required. For the purposes of impairment testing, goodwill acquired has been allocated to the lowest level of CGUs identified by business segments.

A summary of goodwill by reporting segment is presented below:

	2017 RMB'000	2016 RMB'000
Tissue paper products	**479,713**	479,713

The recoverable amount of the CGUs is determined based on value-in-use calculations. The calculation of goodwill on the tissue paper product segment uses cash flow projections based on financial estimates made by the Directors, with reference to the prevailing market conditions, covering a period of five years and assuming revenue growth rate would be consistent with that in 2017 and gross profit margins of 32.9% (2016: revenue growth rate would be consistent with that in 2016 and gross profit margins of 37.9%). 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 10.5% (2016: 10.8%) per annum. Based on management's assessment results, there was no impairment of goodwill as at 31 December 2017 and 2016 and any reasonable change to the key assumptions would not lead to a significant 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

	2017 RMB'000	2016 RMB'000
Loans and receivables		
– Trade and other receivables, excluding advances to suppliers, prepayments and value added tax recoverable	**2,664,389**	2,931,447
– Restricted bank deposits	**3,002**	14,622
– Long-term bank time deposits *(Note 23)*	**2,499,738**	1,760,000
– Cash and bank balances *(Note 23)*	**18,429,716**	14,874,877
	23,596,845	19,580,946
Assets at fair value through profit or loss		
– Derivative financial instruments *(Note 22)*	**29,433**	–
Total	**23,626,278**	19,580,946

19 FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

(b) Liabilities

	2017 RMB'000	2016 RMB'000
Financial liabilities at amortised costs		
– Trade and other payables, excluding non-financial liabilities	**2,926,835**	2,959,589
– Borrowings *(Note 29)*	**18,622,618**	15,443,261
– Convertible bonds *(Note 30)*	**455,537**	472,719
– Finance lease payable	**553**	–
	22,005,543	18,875,569
Liabilities at fair value through profit or loss		
– Derivative financial instruments *(Note 22)*	**6,698**	1,119
Total	**22,012,241**	18,876,688

20 INVENTORIES

	2017 RMB'000	2016 RMB'000
Finished goods	**1,313,397**	1,321,464
Raw materials	**1,958,045**	1,715,351
Spare parts and consumables	**164,224**	157,826
	3,435,666	3,194,641

The cost of inventories from continuing operations recognised as expenses and included in cost of goods sold amounted to RMB8,650,282,000 (2016: RMB8,132,478,000).

The Group reversed a provision for inventories write-down of RMB6,539,000 (2016: RMB7,701,000) from continuing operations. These amounts have been included in cost of sales in the consolidated statement of profit or loss (Note 7).

21 TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2017 RMB'000	2016 RMB'000
Trade receivables	2,339,547	2,731,403
Bills receivable	29,974	61,909
	2,369,521	2,793,312
Less: provision for impairment	(57,461)	(49,812)
Trade and bills receivables	2,312,060	2,743,500
Other receivables, prepayments and deposits		
– Advance payments to suppliers	492,425	300,314
– Interest income receivables	205,672	110,824
– Prepayments for rental fee and utility fee	18,623	28,746
– Value added tax recoverable	542,969	445,182
– Others	146,657	77,123
	1,406,346	962,189
Trade and other receivables, prepayments and deposits	3,718,406	3,705,689

Part of the Group's sales are on open account with credit terms ranging from 30 days to 90 days. At 31 December 2017, the ageing analysis of the trade and bills receivables based on invoice date was as follows:

	2017 RMB'000	2016 RMB'000
Within 30 days	932,311	1,093,677
31–180 days	1,217,240	1,438,602
181–365 days	134,336	218,395
Over 365 days	85,634	42,638
	2,369,521	2,793,312

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

The credit quality of the trade receivables that are neither past due nor impaired totaled RMB2,046,700,000 (2016: RMB2,390,261,000) 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.

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

As at 31 December 2017, trade receivables of RMB265,360,000 (2016: RMB353,239,000) 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 2017 and 2016, the ageing analysis of these trade receivables was as follows:

	2017 RMB'000	2016 RMB'000
Within 30 days	**94,338**	155,627
31–180 days	**138,030**	183,462
181–365 days	**31,993**	14,150
Over 365 days	**999**	–
	265,360	353,239

Trade receivables of RMB57,461,000 (2016: RMB49,812,000) were impaired and fully provided for. The aging of these receivables was as follows:

	2017 RMB'000	2016 RMB'000
181–365 days	**122**	20,118
Over 365 days	**57,339**	29,694
	57,461	49,812

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

	2017 RMB'000	2016 RMB'000
At 1 January	**49,812**	24,003
Continuing operations:		
Provision for impairment of trade receivables *(Note 7)*	**15,787**	30,858
Receivables written-off during the year	**(8,138)**	(5,049)
As 31 December	**57,461**	49,812

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the consolidated statement of profit or loss (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 2017 and 2016, other receivables were neither past due nor impaired.

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

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

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

	2017 RMB'000	2016 RMB'000
RMB	**2,083,237**	2,665,308
Other currencies	**286,284**	128,004
	2,369,521	2,793,312

22 DERIVATIVE FINANCIAL INSTRUMENTS

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

	2017 RMB'000	2016 RMB'000
Assets:		
Interest rate swap contracts	**7,005**	–
Foreign exchange forward contract – held for trading	**22,428**	–
	29,433	–
Liabilities:		
Interest rate swap contracts	**(6,698)**	(1,119)
	22,735	(1,119)

Non-hedging derivatives are classified as current assets or liabilities.

For information about the methods and assumptions used in determining the fair value of derivatives, please refer to Note 3(c).

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

	2017 RMB'000	2016 RMB'000
Long-term bank time deposits	**2,499,738**	1,760,000
Cash and bank balances		
– Bank time deposits	**11,645,136**	9,312,075
– Cash and cash equivalents	**6,784,580**	5,562,802
	18,429,716	14,874,877
Total	**20,929,454**	16,634,877

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 2017 was approximately 2.48% (31 December 2016: 2.38%) per annum.

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

	2017 RMB'000	2016 RMB'000
Long-term bank time deposits		
RMB	**2,499,738**	1,760,000
Cash and bank balances		
RMB	**6,897,083**	5,909,894
US$	**9,633,132**	6,850,982
HK$	**1,683,579**	2,111,953
Others	**215,922**	2,048
Total	**18,429,716**	14,874,877

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

24 DISCONTINUED OPERATIONS

The consolidated results of the Qinqin Group were presented in the 2016 consolidated statement of profit or loss as discontinued operations in accordance with HKFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. The consolidated statement of profit or loss and consolidated cash flow statement distinguish the discontinued operations from the continuing operations.

Results of the discontinued operations have been included in the consolidated statement of profit or loss as follows:

	For the period from 1 January 2016 to 7 July 2016 RMB'000
Revenue	617,746
Cost of goods sold	(336,921)
Gross profit	280,825
Other income and other gains – net	3,514
Selling and distribution costs	(194,596)
Administrative expenses	(62,632)
Operating profit	27,111
Finance income	3,812
Finance costs	(113)
Finance income – net	3,699
Profit before income tax	30,810
Income tax expense	(16,025)
Net profit for the year	14,785
Net gains on distribution in specie	267,111
Profit for the year from discontinued operations	281,896
Profit attributable to:	
Shareholders of the Company	125,075
Non-controlling interests	156,821
	281,896

Details of other financial information of the discontinued operations for the period from 1 January 2016 to 7 July 2016 were set out in 2016 annual report.

25 SHARE CAPITAL

Ordinary shares, issued and fully paid:

	Number of shares	RMB'000
At 1 January 2017	**1,204,888,221**	**126,991**
Employee share option schemes		
– Shares issued upon exercise of share options *(Note 26)*	**1,022,696**	**89**
At 31 December 2017	**1,205,910,917**	**127,080**
At 1 January 2016	1,218,094,221	128,132
Buy-back of shares	(13,228,500)	(1,144)
Employee share option schemes		
– Shares issued upon exercise of share options *(Note 26)*	22,500	3
At 31 December 2016	1,204,888,221	126,991

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

26 SHARE-BASED COMPENSATION

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

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

	2017		2016	
	Average exercise price in HK$ per share	**Options (thousands)**	Average exercise price in HK$ per share	Options (thousands)
At 1 January	**74.22**	**16,742**	73.94	19,577
Forfeited	**–**	**–**	72.75	(2,538)
Forfeited	**–**	**–**	68.30	(274)
Exercised	**68.30**	**(241)**	68.30	(23)
Exercised	**72.75**	**(782)**	–	–
At 31 December	**74.39**	**15,719**	74.22	16,742

Out of the 15,719,000 outstanding options (2016: 16,742,000), 10,386,000 options (2016: 9,121,000) were exercisable as at 31 December 2017.

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)**	
		2017	2016
Expiry date – 27 July 2021	68.30	**1,951**	2,192
Expiry date – 28 July 2022	72.75	**8,435**	9,217
Expiry date – 5 Oct 2025	79.20	**5,333**	5,333
		15,719	16,742

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 2017 amounted to RMB37,843,000 (2016: RMB51,029,000) (Note 12), and the remaining unamortised fair value of approximately RMB43,195,000 (2016: RMB80,307,000) will be charged to the consolidated statement of profit or loss 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 2011 Scheme.

27 OTHER RESERVES

	Share premium RMB'000 (Note(a))	Capital redemption reserve RMB'000	Statutory reserves RMB'000 (Note(b))	Share-based compensation reserve RMB'000	Exchange reserve RMB'000 (Note(c))	Convertible bonds – equity component RMB'000	Total RMB'000
At 1 January 2017	**523,284**	**1,922**	**1,920,751**	**276,361**	**209,687**	**12,966**	**2,944,971**
Other comprehensive income – currency translation differences	**–**	**–**	**–**	**–**	**(44,612)**	**–**	**(44,612)**
Appropriation to statutory reserves	**–**	**–**	**140,874**	**–**	**–**	**–**	**140,874**
Share-based compensation							
– value of employee services	**–**	**–**	**–**	**37,843**	**–**	**–**	**37,843**
– proceeds from shares issued	**63,341**	**–**	**–**	**–**	**–**	**–**	**63,341**
– exercise of share options	**17,340**	**–**	**–**	**(17,340)**	**–**	**–**	**–**
Disposal of subsidiaries with loss of control	**–**	**–**	**(1,054)**	**–**	**–**	**–**	**(1,054)**
At 31 December 2017	**603,965**	**1,922**	**2,060,571**	**296,864**	**165,075**	**12,966**	**3,141,363**
At 1 January 2016	525,098	1,922	1,842,972	225,730	308,147	140,634	3,044,503
Other comprehensive income – currency translation differences	–	–	–	–	(108,116)	–	(108,116)
Appropriation to statutory reserves	–	–	116,395	–	–	–	116,395
Share-based compensation							
– value of employee services	–	–	–	51,029	–	–	51,029
– proceeds from shares issued	1,315	–	–	–	–	–	1,315
– exercise of share options	398	–	–	(398)	–	–	–
Buy-back of shares	(2,955)	–	–	–	–	–	(2,955)
Early redemption of convertible bonds	–	–	–	–	–	(127,668)	(127,668)
Change in ownership interests in subsidiaries without change of control	(572)	–	–	–	–	–	(572)
Derecognition upon the Spin-off	–	–	(38,616)	–	9,656	–	(28,960)
At 31 December 2016	523,284	1,922	1,920,751	276,361	209,687	12,966	2,944,971

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.

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

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

28 RETAINED EARNINGS

	2017 RMB'000	2016 RMB'000
At 1 January	**11,654,829**	11,538,232
Profit for the year	**3,794,041**	3,596,821
Appropriation to statutory reserves	**(140,874)**	(116,395)
2016/2015 final dividends paid	**(1,325,377)**	(1,166,057)
2017/2016 interim dividends paid	**(1,144,644)**	(1,031,079)
Early redemption of convertible bonds	**–**	55,827
Derecognition upon the spin-off	**–**	28,960
Distribution in specie	**–**	(536,010)
Buy-back of shares	**–**	(715,470)
At 31 December	**12,837,975**	11,654,829

29 BORROWINGS

	2017 RMB'000	2016 RMB'000
Non-current		
Long-term bank loans – unsecured (a)	**256,058**	536,700
Medium-term notes (b)	**1,997,174**	1,995,519
Corporate bonds (c)	**994,001**	992,468
	3,247,233	3,524,687
Current		
Trust receipt bank loans (a)	**225,688**	627,870
Short-term bank loans – unsecured (a)	**15,102,697**	11,290,704
Short-term bank loans – secured (a)	**47,000**	–
	15,375,385	11,918,574
Total borrowings	**18,622,618**	15,443,261

29 BORROWINGS *(continued)*

(a) Bank loans

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

	2017 RMB'000	2016 RMB'000
HK$	**8,490,080**	8,945,365
US$	**3,653,449**	1,856,243
RMB	**3,396,780**	1,653,666
Other currencies	**91,134**	–
	15,631,443	**12,455,274**

At 31 December 2017, the Group's long-term bank borrowings are repayable as follows:

	2017 RMB'000	2016 RMB'000
Between 1 and 2 years	**4,021**	536,700
Between 2 and 3 years	**54,021**	–
Between 3 and 5 years	**198,016**	–
	256,058	**536,700**

As at 31 December 2017, the effective interest rate of the Group's bank loans is approximately 1.63% (2016: 2.16%) per annum.

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

As at 31 December 2017, bank borrowings of RMB47,000,000 were pledged by the land use rights (cost of RMB35,345,000 and carrying amount of RMB27,091,000)(Note 16) of certain subsidiary (2016:Nil).

(b) Medium-term notes

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

The fair value of the medium-term notes approximated its carrying amount as at 31 December 2017.

(c) Corporate bonds

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

The fair value of the corporate bonds approximated its carrying amount as at 31 December 2017.

30 CONVERTIBLE BONDS

	2017 RMB'000	2016 RMB'000
Face value of convertible bonds issued on 27 June 2013	**4,328,181**	4,328,181
Issuing expenses	**(87,625)**	(87,625)
Equity component	**(140,634)**	(140,634)
Liability component on initial recognition on 27 June 2013	**4,099,922**	4,099,922
Accumulated finance costs	**423,250**	408,983
Early redemption of convertible bonds	**(4,392,425)**	(4,392,425)
Cumulative currency translation difference	**324,790**	356,239
Liability component		
– Non-current	**–**	472,719
– Current	**455,537**	–
	455,537	472,719

On 27 June 2013, the Company issued zero-coupon convertible bonds with an initial conversion price of HK$120.0825 per share, in the aggregate principal amount of HK$5,434 million, equivalent to RMB4,328 million. The bonds will be due for repayment on 27 June 2018 (the "maturity date"). Unless previously redeemed, converted, purchased or cancelled (subject to redemption conditions), these bonds will be redeemed at 110.46 per cent of their principal amount on the maturity date.

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

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

The fair value of the convertible bonds approximated its carrying amount as at 31 December 2017.

During the year ended 31 December 2017, no bond holders have converted their bonds into ordinary shares of the Company.

31 DEFERRED INCOME TAX

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

	2017 RMB'000	2016 RMB'000
Deferred income tax assets		
– Deferred tax asset to be recovered more than 12 months	**27,129**	73,343
– Deferred tax asset to be recovered within 12 months	**145,115**	137,470
	172,244	210,813
Deferred income tax liabilities		
– Deferred tax liability to be settled more than 12 months	**(23,791)**	–
– Deferred tax liability to be settled within 12 months	**(96,216)**	(106,452)
	(120,007)	(106,452)
Deferred income tax assets – net	**52,237**	104,361

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

	2017 RMB'000	2016 RMB'000
At 1 January	**104,361**	26,531
Continuing operations:		
Credited/(charged) to consolidated statement of profit or loss *(Note 9)*	**(24,591)**	54,407
Acquisition of subsidiaries *(Note 36)*	**(27,494)**	–
Currency translation differences	**(39)**	–
Discontinued operations:		
Credited to consolidated statement of profit or loss	–	8,215
Distribution in specie	–	15,208
At 31 December	**52,237**	104,361

31 DEFERRED INCOME TAX *(continued)*

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

Deferred income tax assets:

	Unrealised profit in inventories arising from intra-group transactions		Provisions		Tax losses		Total	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
At 1 January	**112,396**	108,489	**25,074**	64,714	**73,343**	12,891	**210,813**	186,094
Continuing operations:								
(Charged)/credited to consolidated statement of profit or loss *(Note 9)*	**7,449**	9,310	**196**	(39,640)	**(46,214)**	63,203	**(38,569)**	32,873
Discontinued operations:								
Credited to consolidated statement of profit or loss	**–**	835	**–**	–	**–**	2,100	**–**	2,935
Distribution in specie	**–**	(6,238)	**–**	–	**–**	(4,851)	**–**	(11,089)
At 31 December	**119,845**	112,396	**25,270**	25,074	**27,129**	73,343	**172,244**	210,813

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		Accelerated depreciation		Total	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
At 1 January	**106,452**	131,778	**–**	27,785	**–**	–	**106,452**	159,563
Continuing operations:								
Currency translation differences	**–**	–	**–**	–	**39**	–	**39**	–
Acquisition of subsidiaries *(Note 36)*	**–**	–	**24,486**	–	**3,008**	–	**27,494**	–
Charged/(credited to) consolidated statement of profit or loss *(Note 9)*	**(14,015)**	(21,534)	**(256)**	–	**293**	–	**(13,978)**	(21,534)
Discontinued operations:								
Charged/(credited to) consolidated statement of profit or loss	**–**	(3,792)	**–**	(1,488)	**–**	–	**–**	(5,280)
Distribution in specie	**–**	–	**–**	(26,297)	**–**	–	**–**	(26,297)
At 31 December	**92,437**	106,452	**24,230**	–	**3,340**	–	**120,007**	106,452

31 DEFERRED INCOME TAX *(continued)*

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The deductible losses can be carried forward to subsequent five years for deduction of the taxable profit. There were no unrecognized deferred income tax assets in respect of losses as at 31 December 2017 (2016: unrecognised cumulative deferred income tax assets of RMB155,000 in respect of losses RMB618,000).

The Group has been providing deferred income tax liabilities on the withholding income tax on certain amount of the unremitted earnings of some PRC subsidiaries following the dividend distribution plan of the Company. As at 31 December 2017, deferred income tax liabilities of RMB204,367,000 (2016: RMB204,367,000) have not been recognised for the withholding income tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries in the PRC. The unremitted earnings will be permanently reinvested, amounting to RMB4,087,338,000 (2016: RMB4,087,338,000) as at 31 December 2017.

32 TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

	2017 RMB'000	2016 RMB'000
Trade payables	**2,128,813**	2,078,591
Other payables and accrued charges		
– Payables for purchase of property, plant and equipment	**509,566**	494,573
– Accrued expenses and other payables	**469,731**	540,170
– Advance receipts from customers	**193,559**	145,767
– Other taxes payables	**26,435**	21,360
	1,199,291	1,201,870
Trade and other payables and accrued charges	**3,328,104**	3,280,461

At 31 December 2017, the ageing analysis of trade payables based on invoice date was as follows:

	2017 RMB'000	2016 RMB'000
Within 30 days	**1,361,045**	1,575,813
31–180 days	**733,593**	470,621
181–365 days	**14,364**	14,090
Over 365 days	**19,811**	18,067
	2,128,813	2,078,591

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

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

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

	2017 RMB'000	2016 RMB'000
RMB	**1,021,008**	1,185,564
US$	**1,091,737**	891,468
Other currencies	**16,068**	1,559
	2,128,813	2,078,591

33 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from continuing operations

	2017 RMB'000	2016 RMB'000
Profit before income tax	**4,960,598**	4,559,011
Adjustments for:		
Depreciation of property, plant and equipment *(Note 13)*	**666,556**	626,162
Amortisation of land use rights *(Note 16)*	**22,347**	24,071
Depreciation of investment properties *(Note 14)*	**4,618**	4,271
Amortisation of intangible assets *(Note 17)*	**3,209**	2,746
Unrealised fair value (gains)/losses on derivative financial instruments *(Note 6)*	**(22,781)**	1,073
Realised fair value gains on derivative financial instruments *(Note 6)*	**(1,073)**	(28,906)
(Gains)/losses on disposal of property, plant and equipment and land use rights *(Note 6)*	**(36,445)**	32,709
Share-based compensation expenses *(Note 26)*	**37,843**	51,029
Interest income and other finance income	**(504,738)**	(418,869)
Loss on early redemption of convertible bonds *(Note 6)*	**–**	18,885
Gains from acquisition of subsidiaries	**(55,413)**	–
Finance costs *(Note 8)*	**404,629**	360,302
Operating profit before working capital changes	**5,479,350**	5,232,484
Increase in inventories	**(163,734)**	(38,426)
(Increase)/decrease in trade and bills receivables, other receivables, prepayments and deposits	**(122,851)**	256,211
Decrease in trade payables, other payables and accrued charges	**(257,134)**	(152,163)
Cash generated from operations	**4,935,631**	5,298,106

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

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

	2017 RMB'000	2016 RMB'000
Net book value *(Note 13, 16)*	47,773	40,142
Gains/(losses) on disposal of property, plant and equipment and land use rights *(Note 6)*	36,445	(32,709)
Proceeds from disposal of property, plant and equipment and land use rights	84,218	7,433

(c) Debt reconciliation

	Current borrowings				Non-current borrowings			
	Trust receipt bank loans RMB'000	Short-term bank loans RMB'000	Current finance lease payables RMB'000	Non-current finance lease payebls RMB'000	Long-term bank loans RMB'000	Medium-term notes RMB'000	Corporate bonds RMB'000	Total RMB'000
Debt as at 1 January 2017	627,870	11,290,704	–	–	536,700	1,995,519	992,468	15,443,261
Cash flows	(471,912)	4,469,283	(215)	(104)	(281,310)	–	–	3,715,742
Acquisitions of subsidiaries	80,823	70,975	503	365	18,194	–	–	170,860
Interests expenses amortisation	–	–	–	–	–	1,655	1,533	3,188
Currency translation differences	(11,093)	(681,265)	1	3	(17,526)	–	–	(709,880)
Debt as at 31 December 2017	225,688	15,149,697	289	264	256,058	1,997,174	994,001	18,623,171

34 CONTINGENT LIABILITIES

At 31 December 2017, the Group had no material contingent liabilities (2016: Nil).

35 COMMITMENTS

At 31 December 2017, the Group had the following commitments:

(a) Capital commitments

	2017 RMB'000	2016 RMB'000
Contracted but not provided for in respect of:		
Machinery and equipment	365,058	295,418
Leasehold land and buildings	120,456	166,525
Total capital commitments	485,514	461,943

35 COMMITMENTS *(continued)*

(b) Commitments under operating leases

(i) The Group is the lessee

At 31 December 2017, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land use rights and buildings	
	2017	2016
	RMB'000	RMB'000
Not later than 1 year	**26,317**	28,336
Later than 1 year and not later than 5 years	**4,025**	6,510
Later than 5 years	**–**	13
	30,342	34,859

(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:

	2017	2016
	RMB'000	RMB'000
Not later than 1 year	**20,266**	17,108
Later than 1 year and not later than 5 years	**52,035**	32,591
Later than 5 years	**32,975**	5,701
	105,276	55,400

36 BUSINESS COMBINATION

During the year ended 31 December 2017, the Group had two acquisitions as follows:

(a) Acquisition of 50.45% shares of Wang-Zheng Berhad and its subsidiaries ("Wang Zheng Group")

On 5 June 2017, the Group entered into a sale and purchase agreement to acquire in aggregate 80,000,000 issued shares, representing 50.45% of the shareholding of Wang-Zheng Group, a company listed on the Main Market of Bursa Malaysia Securities Berhad, at a consideration of Malaysian Ringgit ("RM") 91,200,000, equivalent to approximately RMB145,738,000. On 8 June 2017, the shares had been transferred to the Group.

Under the relevant laws and regulations of Malaysia, the Group was obliged to extend an unconditional mandatory take-over. On 19 July 2017, the closing date of the take-over, the Group received valid acceptances of 3,000 offer shares, thereby increased the shares held by the Group to 80,003,000 shares, representing 50.45% of the shareholding of Wang-Zheng Group.

Wang-Zheng Group is principally engaged in investment holding and manufacturing and processing of fibre-based products, which include disposable adult and baby diapers, sanitary protection and tissue products, cotton products and processed papers. The acquisition is expected to enhance the overall growth of the Group as part of the Group's plan to expand business operations and diversify revenue stream outside the PRC.

36 BUSINESS COMBINATION *(continued)*

(a) Acquisition of 50.45% shares of Wang-Zheng Berhad and its subsidiaries ("Wang Zheng Group") *(continued)*

The following table summarises the consideration paid for Wang-Zheng Group, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	At 8 June 2017, the date of acquisition RMB'000
Purchase consideration	
– Cash paid	145,743
Recognised amounts of identifiable assets acquired and liabilities assumed	
Fair value	
Cash and banks	186,534
Property, plant and equipment *(Note 13)*	154,601
Intangible Assets *(Note 17)*	7,945
Investment properties *(Note 14)*	10,647
Prepayments for non-current assets	76
Inventories	80,665
Trade and other receivables	95,193
Trade and other payables	(27,801)
Borrowings *(Note 33 (c))*	(102,992)
Deferred tax liabilities *(Note 31)*	(27,494)
Tax payables	(3,610)
Finance lease payables	(868)
Total identifiable net assets	372,896
Non-controlling interest	(184,770)
Gain from a bargain purchase	(42,383)
	145,743
Acquisition-related costs (included in administrative expenses in the consolidated statement of profit or loss for the year ended 31 December 2017)	1,331

36 BUSINESS COMBINATION *(continued)*

(a) Acquisition of 50.45% shares of Wang-Zheng Berhad and its subsidiaries ("Wang Zheng Group") *(continued)*

	At 8 June 2017, the date of acquisition RMB'000
Inflow of cash to acquire business, net of cash acquired	
– Cash consideration	(145,743)
– Cash and bank balances in the subsidiary acquired	186,534
Cash inflow on acquisition	40,791

(i) *Non-controlling interest*

The Group has chosen to recognise the non-controlling interest which are measured at the proportion of net assets acquired shared by the non-controlling interests.

(ii) *Revenue and profit contribution*

The acquired business contributed revenue of RMB261,477,000 and net profit of RMB7,403,000 to the Group for the period from 8 June 2017 to 31 December 2017. If the acquisition had occurred on 1 January 2017, the consolidated revenue and consolidated net profit of the Group for the year ended 31 December 2017 would have been increased by RMB434,152,000 and RMB15,263,000 respectively.

(b) Acquisition of 100% shares of Weifang Power Hengan Thermal Power Co., Ltd ("Weifang Power")

On 27 December 2017, the Group entered into a sale and purchase agreement to acquire 100% shareholding of Weifang Power.

Weifang Power is an electricity power plant company, the Group used to purchase electricity and heat energy from Weifang Power at prices determined according to the terms of the contracts entered. Weifang Power was beneficially owned by Mr. Sze Wong Kim, an Executive Director of the Company, and the sons of Mr. Hui Lin Chit and Mr. Hung Ching Shan, Executive Directors of the company.

The acquisition is expected to enhance the overall manufacturing cost efficiency by internalizing part of the required electricity and heat energy supply, while securing a steady electricity and heat energy supply to its major manufacturing operations.

36 BUSINESS COMBINATION *(continued)*

(b) Acquisition of 100% shares of Weifang Power Hengan Thermal Power Co., Ltd ("Weifang Power") *(continued)*

The following table summarises the consideration paid for Weifang Power, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	At 27 December 2017, the date of acquisition RMB'000
Purchase consideration	
– Cash paid	150,000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Fair value	
Cash and banks	29,397
Property, plant and equipment *(Note 13)*	143,459
Land use rights *(Note 16)*	27,091
Inventories	15,289
Trade and other receivables	66,257
Trade and other payables	(51,463)
Borrowings *(Note 33 (c))*	(67,000)
Total identifiable net assets	163,030
Gain from a bargain purchase	(13,030)
	150,000

	At 27 December 2017, the date of acquisition RMB'000
Outflow of cash to acquire business, net of cash acquired	
– Cash consideration	(150,000)
– Cash and bank balances in the subsidiary acquired	29,397
Cash outflow on acquisition	(120,603)

(i) *Revenue and profit contribution*

If the acquisition had occurred on 1 January 2017, the consolidated revenue and consolidated net profit for the year ended 31 December 2017 of the Group would have been increased by RMB39,240,000 and decreased by RMB14,237,000 respectively.

37 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 2017:

(a) Purchase of energy

	2017 RMB'000	2016 RMB'000
Weifang Power *(Note 36(b))*		
– Electricity energy	**94,527**	100,373
– Heat energy	**60,136**	61,130
	154,663	161,503

As mentioned in Note 36 (b), from 27 December 2017, Weifang Power was no longer a connected person of the Group and the services provided by it to the Group would no longer be considered as connected transaction thereafter. Accordingly, related party transactions between the Group and Weifang Power only included those from 1 January 2017 to 26 December 2017 and those in 2016.

(b) Key management compensation

	2017 RMB'000	2016 RMB'000
Basic salaries, housing allowances, other allowances and benefits-in-kind	**9,106**	10,526
Share-based compensation	**515**	1,713
Contributions to pension schemes	**82**	82
	9,703	12,321

38 PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries of the Company at 31 December 2017 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 2017 %
Direct subsidiaries:				
Hengan Mega Jumbo Investments Ltd.	Hong Kong, limited liability company	Investment holding, trading and procurement in Hong Kong	9,000 ordinary shares of HK$1,367,302,854	100
Ever Town Investments Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100
Hengan International Holdings Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100
Indirect subsidiaries:				
Anhai (Macao Commercial Offshore) Limited	Macau, limited liability company	Trading and procurement in Macau	MOP100,000	100
Hengan (China) Investment Co., Ltd. *	PRC, wholly foreign-owned enterprise	Investment holding, trading and procurement in the PRC	RMB1,180,000,000	100
Hengan Industrial (Hong Kong) Limited	Hong Kong, limited liability company	Trading and procurement in Hong Kong	2 ordinary shares of HK$2	100
Hengan Pharmacare Company Limited	Hong Kong, limited liability company	Trading, procurement and sales of hygiene products in Hong Kong	10,000 ordinary shares of HK$2,030,786	70

38 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2017 %
Indirect subsidiaries: *(continued)*				
PT.Hengan Global	Indonisa, limited liability company	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
Guangdong Paper Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$18,000,000	100
Hengan (Jinjiang) Household Products Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$15,800,000	100
Fujian Hengan Hygiene Material Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$40,000,000	100
Quanzhou Jinjiang Hengan Hygiene Science and Technology Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB11,100,000	90.1
Hengan (Sichuan) Family Products Co., Ltd. *	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$3,000,000	100
Hengan (Xiaogan) Family Products Co., Ltd. *	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB76,200,200	100
Hengan (Sichuan) Household Products Co., Ltd. *	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$16,380,000	100
Hengan (Fushun) Household Products Co., Ltd. *	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB24,000,000	100

38 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2017 %
Indirect subsidiaries: *(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$94,388,000	100
Hengan (Hefei) Living Co., Ltd. *	PRC, sino-foreign foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB114,300,000	100
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, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	HK$2,778,000	100
Hengan (China) Paper Industry Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$145,760,000	100
Hengan (China) Hygiene Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	US$12,000,000	100
Hengan (Tianjin) Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB105,731,005	100
Hengan Guangxi Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB161,400,000	100
Hengan (Hunan) Hearttex Paper Co., Ltd. *	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB209,000,000	100
Hunan Hengan Living Paper Products Co., Ltd. *	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB852,280,000	100
Hengan (Chongqing) Living Paper Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB959,200,000	100

38 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2017 %
Indirect subsidiaries: *(continued)*				
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$98,660,000	100
Shandong Hengan Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$47,050,000	100
Chongqing Hengan Hearttex Paper Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$21,630,000	100
Fushun Hengan Tissue Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	US$6,000,000	100
Hengan Li Ren Tang (Jian) Cosmetics Co., Ltd.	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of skin care products and daily personal necessities in the PRC	RMB32,000,000	100
Hengan (Wuhu) Paper Co., Ltd. *	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB874,000,000	100
Junichi (Xiamen) Maternal and Child Articles Co., Ltd.	PRC, wholly foreign-owned enterprise	Trading pregnant women, infants and kid's products in the PRC	HK$24,000,000	100
Junichi Co., Ltd.	Japan, limited liability company	Trading the products for ladies and babies in Japan	JPY100,000	100

38 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2017 %
Indirect subsidiaries: *(continued)*				
Hengan (Henan) Hygiene Products Co., Ltd.	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB82,000,000	100
Hengan (Changji) Paper Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB137,000,000	100
Hengan (Zhejiang) Homecare Products Co., Ltd. *	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper in the PRC	USD 70,000,000	100
Fujian Hengan Homecare Products Co., Ltd. *	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB310,000,000	100
Wuhu Hengan Hearttex Paper Products Co., Ltd. *	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB105,000,000	100
Hengan (Sichuan) Maternal and Child Products Co.,Ltd*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of personal hygiene products in the PRC	USD 10,000,000	100
Xiamen Hengan E-commerce Co.,Ltd*	PRC, wholly foreign-owned enterprise	Sales of cosmetic products and personal hygiene products via online in PRC	RMB2,000,000	100
Xiamen Space Seven E-commerce Co.,Ltd*	PRC, wholly foreign-owned enterprise	Sales of cosmetic products and personal hygiene products via online in PRC	RMB2,000,000	100
Hengan Li Ren (Jiangxi) Cosmetics Co., Ltd*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of skin care products and daily personal necessities in the PRC	RMB35,880,000	100
Xinjiang Hengan Paper Co., Ltd*	PRC, wholly foreign-owned enterprise	Manufacturing, distribution and sale of packaged tissue paper products in the PRC	RMB250,000,000	100
Weifang Power Hengan Thermal Power Co., Ltd	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of heating and power in the PRC	US$12,000,000	100

38 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Place of incorporation/ establishment and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2017 %
Indirect subsidiaries: *(continued)*				
Quanzhou Hengan Anle Homecare Products Co., Ltd. *	PRC, sino-foreign equity joint venture	Manufacturing, distribution and sale of personal hygiene products in the PRC	RMB20,000,000	100
Hengan Global hygiene products, PT.	Indonisa, joint venture enterprise	Distribution and sale personal hygiene products in Indonisa	US$10,000,000	70
Hengan (Malaysia) Investments Company Limited	British Virgin Islands, limited liability company	Investment holding in Malaysia	US$1	100
Wang-Zheng Berhad	Malaysia, Public Listed Limited	Investment holding in Malaysia	MYR 80,000,000	50.45
Wang-Zheng Corporation Sdn. Bhd.	Malaysia, limited liability company	Distributor of disposable fibre-based products in Malaysia	MYR 3,325,000	50.45
Quality Hero Corporation Sdn. Bhd.	Malaysia, limited liability company	Manufacturing and sale of adult diaper, baby diaper and sanitary napkins products in Malaysia	MYR 250,000	50.45
Carefeel Cotton Industries (M) Sdn. Bhd.	Malaysia, limited liability company	Manufacturing and sale of facial cotton products in Malaysia	MYR 2,187,500	50.45
New Top Win Corporation Sdn. Bhd.	Malaysia, limited liability company	Importing, processing and trading of papers in Malaysia	MYR 1,000,000	50.45
Modern Alpine Sdn. Bhd.	Malaysia, limited liability company	Trading of papers in Malaysia	MYR 3,000,000	50.45
Mey Paper Industries Sdn. Bhd.	Malaysia, limited liability company	Manufacture, distribution and sale of corrugated paper carton boxes in Malaysia	MYR 1,062,500	50.45

* *For identification purpose only*

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

39 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Assets		
Non-current assets		
Amounts due from subsidiaries	**1,996,693**	1,979,983
Investments in subsidiaries	**5,535,691**	5,679,940
	7,532,384	7,659,923
Current assets		
Inventories	**547**	12,132
Amounts due from subsidiaries	**5,918,625**	4,242,420
Other receivables, prepayments and deposits	**21,396**	177
Derivative financial instruments	**1,155**	–
Cash and bank balances	**159,705**	320,660
	6,101,428	4,575,389
Total assets	**13,633,812**	12,235,312
Equity		
Equity attributable to shareholders of the Company		
Share capital	**127,080**	126,991
Other reserves *(Note (a))*	**387,685**	445,574
Retained earnings *(Note (a))*	**5,431,049**	4,499,403
Total equity	**5,945,814**	5,071,968
Liabilities		
Non-current liabilities		
Borrowings	**1,997,174**	1,995,519
Convertible bonds	**–**	472,719
Amounts due to subsidiaries	**2,392,643**	1,520,691
	4,389,817	3,988,929
Current liabilities		
Trade payables	**21,748**	21,798
Amounts to subsidiaries	**48,701**	39,399
Other payables and accrued charges	**24,050**	358
Derivative financial instruments	**33**	–
Borrowings	**2,748,112**	3,112,860
Convertible bonds	**455,537**	–
	3,298,181	3,174,415
Total liabilities	**7,687,998**	7,163,344
Total equity and liabilities	**13,633,812**	12,235,312

The balance sheet of the Company was approved by the Board of Directors on 22 March 2018 and was signed on its behalf.

Director	*Director*
Sze Man Bok	Hui Lin Chit

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

Note (a) Reserve movement of the Company

	Retained earnings RMB'000	Other reserves RMB'000
At 1 January 2017	**4,499,403**	**445,574**
Profit for the year	**3,401,667**	
Currency translation differences	**–**	**(159,073)**
2016 final dividend paid	**(1,325,377)**	**–**
2017 interim dividend paid	**(1,144,644)**	**–**
Share-based compensation		
– value of employee services	**–**	**37,843**
– proceeds from shares issued	**–**	**63,341**
At 31 December 2017	**5,431,049**	**387,685**
At 1 January 2016	2,912,094	445,090
Profit for the year	4,980,098	–
Currency translation differences	–	78,763
2015 final dividend paid	(1,166,057)	–
2016 interim dividend paid	(1,031,079)	–
Share-based compensation		
– value of employee services	–	51,029
– proceeds from shares issued	–	1,315
Buy-back of shares	(715,470)	(2,955)
Redemption of convertible bonds	55,827	(127,668)
Distribution in specie	(536,010)	–
At 31 December 2016	4,499,403	445,574

40 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 2017 is set out below:

Name of Director	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Share-based compensation RMB'000	Housing allowance and payment in lieu of annual leave RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Director							
Mr. Sze Man Bok	52	307	–	15	–	16	390
Mr. Hui Lin Chit	52	662	450	108	–	16	1,288
Mr. Xu Shui Shen	52	1,058	295	117	–	3	1,525
Mr. Hung Ching Shan	52	120	8	15	–	9	204
Mr. Xu Da Zuo	52	595	64	79	–	3	793
Mr. Xu Chun Man	52	–	–	15	–	3	70
Mr. Sze Wong Kim	52	–	–	–	–	3	55
Mr. Hui Ching Chi	52	399	122	–	–	16	589
Mr. Li Wai Leung *(Note (i))*	40	1,012	130	–	–	16	1,198
Independent Non-Executive Director							
Mr. Chan Henry	104	–	–	–	–	–	104
Mr. Wang Ming Fu	104	–	–	–	–	–	104
Ms. Ada Ying Kay Wong	104	–	–	–	–	–	104
Mr. Ho Kwai Ching, Mark	104	–	–	–	–	–	104
Mr. Zhou Fang Sheng	104	–	–	–	–	–	104

40 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 2016 is set out below:

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

Note:

(i) Mr. Li Wai Leung has been appointed as deputy chief financial officer, company secretary and authorized representative of the Company with effect from 3 January 2017. Also, he has been appointed as Executive Directors of the Company with effect from 21 March 2017.

(ii) Mr. Loo Hong Shing, Vincent resigned on 29 November 2016.

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

Pursuant to an agreement dated 12 December 2016 (the "Agreement") made between a wholly-owned subsidiary of the Company, and Weifang Power (Note 36), the Group purchased electricity and heat energy from Weifang Power at prices according to the terms of the contracts. As mentioned in Notes 36 and 37, on 27 December 2017, the Group acquired 100% shares of Weifang Power.

Mr. Sze Wong Kim, an Executive Director of the Company, is interested in these transactions 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.