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**恒安國際集團有限公司\***

**HENGAN INTERNATIONAL GROUP COMPANY LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1044)**

Websites: <http://www.hengan.com>

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

**“Growing with You for a Better Life”**

## **INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 FINANCIAL SUMMARY**

|                                     | <b>Unaudited<br/>2014<br/>HK\$'000</b> | <b>2013<br/>HK\$'000</b> | <b>% of<br/>change</b> |
|-------------------------------------|----------------------------------------|--------------------------|------------------------|
| Revenue                             | <b>12,098,064</b>                      | 10,414,826               | 16.2%                  |
| Operating profit                    | <b>2,650,479</b>                       | 2,506,009                | 5.8%                   |
| Profit attributable to shareholders | <b>1,775,303</b>                       | 1,858,854                | -4.5%                  |
| Gross profit margin                 | <b>44.9%</b>                           | 45.2%                    |                        |
| Earnings per share                  |                                        |                          |                        |
| — Basic                             | <b>HK\$1.443</b>                       | HK\$1.511                |                        |
| — Diluted                           | <b>HK\$1.441</b>                       | HK\$1.510                |                        |
| Finished goods turnover             | <b>49 days</b>                         | 46 days                  |                        |
| Trade receivables turnover          | <b>34 days</b>                         | 34 days                  |                        |
| Rate of return (annualised)         | <b>21.4%</b>                           | 24.1%                    |                        |

## **INTERIM FINANCIAL INFORMATION**

The Board of Directors of Hengan International Group Company Limited (“Hengan International” or the “Company”) (the “Board”) is pleased to present the unaudited interim condensed consolidated statement of income, the unaudited interim condensed consolidated statement of comprehensive income, the unaudited interim condensed consolidated statement of changes in equity and the unaudited interim condensed consolidated statement of cash flow of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2014, and the unaudited interim condensed consolidated balance sheet of the Group as at 30 June 2014, together with the comparative figures and selected explanatory notes. The interim financial information has been reviewed by the Company’s audit committee and the Company’s auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

\* For identification purposes only

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

For the six months ended 30 June 2014

|                                                                                  |      | Unaudited                |                    |
|----------------------------------------------------------------------------------|------|--------------------------|--------------------|
|                                                                                  |      | Six months ended 30 June |                    |
|                                                                                  |      | 2014                     | 2013               |
|                                                                                  | Note | HK\$'000                 | HK\$'000           |
| <b>Revenue</b>                                                                   | 6    | <b>12,098,064</b>        | 10,414,826         |
| Cost of goods sold                                                               |      | <u>(6,664,224)</u>       | <u>(5,703,810)</u> |
| <b>Gross profit</b>                                                              |      | <b>5,433,840</b>         | 4,711,016          |
| Other income and other gains – net                                               |      | <b>477,291</b>           | 305,382            |
| Distribution costs                                                               |      | <b>(2,567,835)</b>       | (1,918,172)        |
| Administrative expenses                                                          |      | <u><b>(692,817)</b></u>  | <u>(592,217)</u>   |
| <b>Operating profit</b>                                                          | 7    | <b>2,650,479</b>         | 2,506,009          |
| Finance income                                                                   |      | <b>60,587</b>            | 97,679             |
| Finance costs                                                                    |      | <u><b>(361,331)</b></u>  | <u>(136,820)</u>   |
| Finance costs – net                                                              |      | <u><b>(300,744)</b></u>  | <u>(39,141)</u>    |
| <b>Profit before income tax</b>                                                  |      | <b>2,349,735</b>         | 2,466,868          |
| Income tax expense                                                               | 8    | <u><b>(549,079)</b></u>  | <u>(583,931)</u>   |
| <b>Profit for the period</b>                                                     |      | <u><b>1,800,656</b></u>  | <u>1,882,937</u>   |
| <b>Profit attributable to:</b>                                                   |      |                          |                    |
| Shareholders of the Company                                                      |      | <b>1,775,303</b>         | 1,858,854          |
| Non-controlling interests                                                        |      | <u><b>25,353</b></u>     | <u>24,083</u>      |
|                                                                                  |      | <u><b>1,800,656</b></u>  | <u>1,882,937</u>   |
| <b>Earnings per share for profit attributable to shareholders of the Company</b> |      |                          |                    |
| — Basic                                                                          | 9    | <u><b>HK\$1.443</b></u>  | <u>HK\$1.511</u>   |
| — Diluted                                                                        | 9    | <u><b>HK\$1.441</b></u>  | <u>HK\$1.510</u>   |
| <b>Dividends</b>                                                                 | 10   | <u><b>1,042,779</b></u>  | <u>1,046,677</u>   |

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 June 2014*

|                                                  | <b>Unaudited</b>                |                        |
|--------------------------------------------------|---------------------------------|------------------------|
|                                                  | <b>Six months ended 30 June</b> |                        |
|                                                  | <b>2014</b>                     | <b>2013</b>            |
|                                                  | <b><i>HK\$'000</i></b>          | <b><i>HK\$'000</i></b> |
| <b>Profit for the period</b>                     | <b>1,800,656</b>                | <b>1,882,937</b>       |
| <b>Other comprehensive income:</b>               |                                 |                        |
| Items that may be reclassified to profit or loss |                                 |                        |
| — Currency translation differences               | <b>(202,777)</b>                | <b>326,387</b>         |
| <b>Total comprehensive income for the period</b> | <b>1,597,879</b>                | <b>2,209,324</b>       |
| <b>Attributable to:</b>                          |                                 |                        |
| Shareholders of the Company                      | <b>1,576,197</b>                | <b>2,179,560</b>       |
| Non-controlling interests                        | <b>21,682</b>                   | <b>29,764</b>          |
| <b>Total comprehensive income for the period</b> | <b>1,597,879</b>                | <b>2,209,324</b>       |

# INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2014

|                                                                        |      | Unaudited<br>30 June<br>2014<br>HK\$'000 | Audited<br>31 December<br>2013<br>HK\$'000 |
|------------------------------------------------------------------------|------|------------------------------------------|--------------------------------------------|
|                                                                        | Note |                                          |                                            |
| <b>ASSETS</b>                                                          |      |                                          |                                            |
| <b>Non-current assets</b>                                              |      |                                          |                                            |
| Property, plant and equipment                                          | 11   | 8,483,596                                | 8,627,200                                  |
| Construction-in-progress                                               | 11   | 1,519,605                                | 1,204,372                                  |
| Land use rights                                                        | 11   | 1,130,886                                | 1,105,298                                  |
| Intangible assets                                                      | 11   | 609,913                                  | 581,150                                    |
| Prepayments for non-current assets                                     |      | 418,992                                  | 379,463                                    |
| Deferred income tax assets                                             |      | 279,062                                  | 157,511                                    |
| Long-term bank deposits                                                | 13   | 1,045,603                                | 814,042                                    |
|                                                                        |      | <u>13,487,657</u>                        | <u>12,869,036</u>                          |
| <b>Current assets</b>                                                  |      |                                          |                                            |
| Inventories                                                            |      | 3,679,777                                | 4,385,909                                  |
| Trade and bills receivables                                            | 12   | 2,294,547                                | 2,184,484                                  |
| Other receivables, prepayments and deposits                            |      | 1,181,807                                | 1,127,031                                  |
| Restricted bank deposits                                               | 13   | 50,646                                   | 60,044                                     |
| Cash and bank balances                                                 | 13   | 22,640,217                               | 19,563,983                                 |
|                                                                        |      | <u>29,846,994</u>                        | <u>27,321,451</u>                          |
| <b>Total assets</b>                                                    |      | <u><u>43,334,651</u></u>                 | <u><u>40,190,487</u></u>                   |
| <b>EQUITY</b>                                                          |      |                                          |                                            |
| <b>Capital and reserves attributable to the Company's shareholders</b> |      |                                          |                                            |
| Share capital                                                          | 17   | 122,680                                  | 123,138                                    |
| Other reserves                                                         |      | 4,638,020                                | 4,521,293                                  |
| Retained earnings                                                      |      |                                          |                                            |
| — Proposed dividend                                                    |      | 1,042,779                                | 1,231,385                                  |
| — Unappropriated retained earnings                                     |      | 10,756,902                               | 10,657,780                                 |
|                                                                        |      | <u>16,560,381</u>                        | <u>16,533,596</u>                          |
| <b>Non-controlling interests</b>                                       |      | <u>406,752</u>                           | <u>385,070</u>                             |
| <b>Total equity</b>                                                    |      | <u><u>16,967,133</u></u>                 | <u><u>16,918,666</u></u>                   |

# INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (*Continued*)

As at 30 June 2014

|                                              |             | Unaudited<br>30 June<br>2014<br><i>HK\$'000</i> | Audited<br>31 December<br>2013<br><i>HK\$'000</i> |
|----------------------------------------------|-------------|-------------------------------------------------|---------------------------------------------------|
|                                              | <i>Note</i> |                                                 |                                                   |
| <b>LIABILITIES</b>                           |             |                                                 |                                                   |
| <b>Non-current liabilities</b>               |             |                                                 |                                                   |
| Borrowings                                   | 15          | –                                               | 959,643                                           |
| Convertible bonds                            | 16          | 5,308,072                                       | 5,227,130                                         |
| Deferred income tax liabilities              |             | 184,153                                         | 169,146                                           |
| Deferred income on government grants         |             | 460                                             | 929                                               |
|                                              |             | <u>5,492,685</u>                                | <u>6,356,848</u>                                  |
| <b>Current liabilities</b>                   |             |                                                 |                                                   |
| Trade payables                               | 14          | 1,890,802                                       | 2,096,990                                         |
| Other payables and accrued charges           |             | 1,647,586                                       | 1,271,912                                         |
| Derivative financial instruments             |             | 21,295                                          | 39,727                                            |
| Current income tax liabilities               |             | 239,730                                         | 273,430                                           |
| Borrowings                                   | 15          | 17,075,420                                      | 13,232,914                                        |
|                                              |             | <u>20,874,833</u>                               | <u>16,914,973</u>                                 |
| <b>Total liabilities</b>                     |             | <u>26,367,518</u>                               | <u>23,271,821</u>                                 |
| <b>Total equity and liabilities</b>          |             | <u>43,334,651</u>                               | <u>40,190,487</u>                                 |
| <b>Net current assets</b>                    |             | <u>8,972,161</u>                                | <u>10,406,478</u>                                 |
| <b>Total assets less current liabilities</b> |             | <u>22,459,818</u>                               | <u>23,275,514</u>                                 |

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

|                                          | Unaudited                                  |                            |                               |                   |                           |                   |
|------------------------------------------|--------------------------------------------|----------------------------|-------------------------------|-------------------|---------------------------|-------------------|
|                                          | Attributable to the Company's shareholders |                            |                               |                   | Non-controlling interests | Total equity      |
|                                          | Share capital<br>HK\$'000                  | Other reserves<br>HK\$'000 | Retained earnings<br>HK\$'000 | Total<br>HK\$'000 | HK\$'000                  | HK\$'000          |
| <b>Balance at 1 January 2013</b>         | 122,903                                    | 3,220,065                  | 10,735,224                    | 14,078,192        | 330,048                   | 14,408,240        |
| Profit for the period                    | –                                          | –                          | 1,858,854                     | 1,858,854         | 24,083                    | 1,882,937         |
| Currency translation differences         | –                                          | 320,706                    | –                             | 320,706           | 5,681                     | 326,387           |
| Total comprehensive income               | –                                          | 320,706                    | 1,858,854                     | 2,179,560         | 29,764                    | 2,209,324         |
| <b>Transactions with owners</b>          |                                            |                            |                               |                   |                           |                   |
| 2012 final dividends paid                | –                                          | –                          | (1,169,815)                   | (1,169,815)       | (2,328)                   | (1,172,143)       |
| Share-based compensation                 |                                            |                            |                               |                   |                           |                   |
| — Value of employee services             | –                                          | 40,385                     | –                             | 40,385            | –                         | 40,385            |
| — Proceeds from shares issued            | 235                                        | 102,470                    | –                             | 102,705           | –                         | 102,705           |
| Convertible bonds – equity component     | –                                          | 176,565                    | –                             | 176,565           | –                         | 176,565           |
| <b>Total of transactions with owners</b> | 235                                        | 319,420                    | (1,169,815)                   | (850,160)         | (2,328)                   | (852,488)         |
| Appropriation to statutory reserves      | –                                          | 342,876                    | (342,876)                     | –                 | –                         | –                 |
| <b>Balance at 30 June 2013</b>           | <u>123,138</u>                             | <u>4,203,067</u>           | <u>11,081,387</u>             | <u>15,407,592</u> | <u>357,484</u>            | <u>15,765,076</u> |
| <b>Balance at 1 January 2014</b>         | <b>123,138</b>                             | <b>4,521,293</b>           | <b>11,889,165</b>             | <b>16,533,596</b> | <b>385,070</b>            | <b>16,918,666</b> |
| Profit for the period                    | –                                          | –                          | 1,775,303                     | 1,775,303         | 25,353                    | 1,800,656         |
| Currency translation differences         | –                                          | (199,106)                  | –                             | (199,106)         | (3,671)                   | (202,777)         |
| Total comprehensive income               | –                                          | (199,106)                  | 1,775,303                     | 1,576,197         | 21,682                    | 1,597,879         |
| <b>Transactions with owners</b>          |                                            |                            |                               |                   |                           |                   |
| 2013 final dividends paid                | –                                          | –                          | (1,228,234)                   | (1,228,234)       | –                         | (1,228,234)       |
| Buy-back of shares                       | (458)                                      | (133,356)                  | (227,749)                     | (361,563)         | –                         | (361,563)         |
| Share-based compensation                 |                                            |                            |                               |                   |                           |                   |
| — Value of employee services             | –                                          | 40,385                     | –                             | 40,385            | –                         | 40,385            |
| <b>Total of transactions with owners</b> | (458)                                      | (92,971)                   | (1,455,983)                   | (1,549,412)       | –                         | (1,549,412)       |
| Appropriation to statutory reserves      | –                                          | 408,804                    | (408,804)                     | –                 | –                         | –                 |
| <b>Balance at 30 June 2014</b>           | <u>122,680</u>                             | <u>4,638,020</u>           | <u>11,799,681</u>             | <u>16,560,381</u> | <u>406,752</u>            | <u>16,967,133</u> |

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2014

|                                                                                            | Unaudited                |             |
|--------------------------------------------------------------------------------------------|--------------------------|-------------|
|                                                                                            | Six months ended 30 June |             |
|                                                                                            | 2014                     | 2013        |
|                                                                                            | HK\$'000                 | HK\$'000    |
| <b>Cash flows from operating activities</b>                                                |                          |             |
| Cash generated from operations                                                             | 3,251,940                | 3,062,190   |
| Income tax paid                                                                            | (687,948)                | (511,986)   |
| Net cash generated from operating activities                                               | 2,563,992                | 2,550,204   |
| <b>Cash flows from investing activities</b>                                                |                          |             |
| Purchase of property, plant and equipment, including additions of construction-in-progress | (433,024)                | (578,389)   |
| Additions of land use rights                                                               | (49,615)                 | (2,441)     |
| Additions of intangible assets                                                             | (35,032)                 | –           |
| Proceeds on disposal of property, plant and equipment and land use rights                  | 13,207                   | 25,050      |
| Increase in prepayments for non-current assets                                             | (43,260)                 | (55,714)    |
| Decrease/(increase) in restricted bank deposits                                            | 8,843                    | (11)        |
| Decrease/(increase) in long-term and short-term bank deposits                              | 1,053,235                | (1,817,698) |
| Interest received                                                                          | 380,645                  | 201,853     |
| Net cash generated from/(used in) investing activities                                     | 894,999                  | (2,227,350) |
| <b>Cash flows from financing activities</b>                                                |                          |             |
| Proceeds from borrowings                                                                   | 8,449,123                | 7,395,004   |
| Repayment of borrowings                                                                    | (5,509,623)              | (4,045,677) |
| Proceeds from issuance of convertible bonds                                                | –                        | 5,331,080   |
| Interest paid                                                                              | (145,401)                | (145,194)   |
| Dividends paid                                                                             | (1,228,234)              | (1,169,815) |
| Dividends paid to non-controlling interest                                                 | (66,296)                 | (2,328)     |
| Proceeds from shares issued under the employee share option schemes                        | –                        | 102,705     |
| Buy-back of shares                                                                         | (361,563)                | –           |
| Net cash generated from financing activities                                               | 1,138,006                | 7,465,775   |
| Net increase in cash and cash equivalents                                                  | 4,596,997                | 7,788,629   |
| Cash and cash equivalents at 1 January                                                     | 10,711,251               | 6,098,604   |
| Effect of foreign exchange rate changes                                                    | (22,434)                 | 43,995      |
| Cash and cash equivalents at 30 June                                                       | 15,285,814               | 13,931,228  |

## **Notes to the interim condensed consolidated financial information**

*For the six months ended 30 June 2014*

### **1. General information**

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

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

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

This interim condensed consolidated financial information is presented in units of thousands HK dollars (HK\$’000), unless otherwise stated. This interim condensed consolidated financial information was approved for issue by the Board of Directors on 27 August 2014. This interim condensed consolidated financial information has been reviewed, not audited.

### **2. Basis of preparation**

This interim condensed consolidated financial information for the six months ended 30 June 2014 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting”. The interim condensed consolidated financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

### **3. Accounting policies**

Except as described below, the accounting policies adopted are consistent with those of the annual consolidated financial statements of the Group for the year ended 31 December 2013, as described in the annual consolidated financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

### **3. Accounting policies (*Continued*)**

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2014.

- Amendment to HKAS 32 ‘Financial instruments: Presentation – on assets and liability offsetting’. It clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. It is not expected to have any significant impact on the Group’s financial statements.
- Amendment to HKAS 36, ‘Impairment of assets’ on recoverable amount disclosures. It addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. It is not expected to have any significant impact on the Group’s financial statements.
- HK(IFRIC) 21 ‘Levies’. It is an interpretation of HKAS 37 ‘Provisions, contingent liabilities and contingent assets’. HKAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. It is not expected to have any significant impact on the Group’s financial statements.

#### ***(b) Standards, amendments and interpretations to existing standards effective in 2014 but not relevant to the Group***

- Amendment to HKAS 39 ‘Financial Instruments: Recognition and measurement, on novation of derivatives’.
- HKFRS 10, 12 and HKAS 27 (Amendment) ‘Consolidation for investment entities’.

### 3. Accounting policies (*Continued*)

***(c) The following new standards and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted***

- Amendment to HKAS 19 regarding defined benefit plans, effective for annual periods beginning on or after 1 July 2014.
- Annual improvements 2012: HKFRS 2 ‘Share-based payment’, HKFRS 3, ‘Business combinations’, HKFRS 9, ‘Financial instruments’, HKAS 37, ‘Provisions, contingent liabilities and contingent assets’, HKAS 39, ‘Financial instruments – Recognition and measurement’, HKFRS 8, ‘Operating segments’, HKAS 16, ‘Property, plant and equipment’, HKAS 38, ‘Intangible assets’ and HKAS 24, ‘Related Party Disclosures’, effective for annual periods beginning on or after 1 July 2014.
- Annual improvements 2013: HKFRS 3 ‘Business combinations’, HKFRS 13 ‘Fair value measurement’ and HKAS 40, ‘Investment property’, effective for annual periods beginning on or after 1 July 2014.
- HKFRS 14 ‘Regulatory Deferral Accounts’, effective for annual periods beginning on or after 1 January 2016.
- Amendment to HKFRS 11 on accounting for acquisitions of interests in joint operation, effective for annual periods beginning on or after 1 January 2016.
- Amendments to HKAS 16 and HKAS 38 on clarification of acceptable methods of depreciation and amortisation, effective for annual periods beginning on or after 1 January 2016.
- HKFRS 15 ‘Revenue from Contracts with Customers’, effective for annual periods beginning on or after 1 January 2017.
- HKFRS 9 ‘Financial Instruments’. The mandatory effective date of HKFRS 9 is not yet determined.

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

### 4. Estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended 31 December 2013.

## 5. Financial risk management

### 5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2013.

There have been no changes in the risk management department since year end or in any risk management policies since the year end.

### 5.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

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

|                                                 | Less than<br>1 year<br>HK\$'000 | Between<br>1 and 2 years<br>HK\$'000 | Between<br>3 and 5 years<br>HK\$'000 | Total<br>HK\$'000 |
|-------------------------------------------------|---------------------------------|--------------------------------------|--------------------------------------|-------------------|
| <b>At 30 June 2014 (unaudited)</b>              |                                 |                                      |                                      |                   |
| Borrowings                                      | 17,075,420                      | –                                    | –                                    | 17,075,420        |
| Convertible bonds                               | –                               | –                                    | 6,002,396                            | 6,002,396         |
| Interest payables                               | 258,523                         | –                                    | –                                    | 258,523           |
| Net settled derivative financial<br>instruments | 21,295                          | –                                    | –                                    | 21,295            |
| Trade and other payables                        | 3,269,211                       | –                                    | –                                    | 3,269,211         |
|                                                 | <u>20,624,449</u>               | <u>–</u>                             | <u>6,002,396</u>                     | <u>26,626,845</u> |
| <b>At 31 December 2013 (audited)</b>            |                                 |                                      |                                      |                   |
| Borrowings                                      | 13,232,914                      | 959,643                              | –                                    | 14,192,557        |
| Convertible bonds                               | –                               | –                                    | 6,002,396                            | 6,002,396         |
| Interest payables                               | 162,037                         | 8,087                                | –                                    | 170,124           |
| Net settled derivative financial<br>instruments | 39,727                          | –                                    | –                                    | 39,727            |
| Trade and other payables                        | 2,926,386                       | –                                    | –                                    | 2,926,386         |
|                                                 | <u>16,361,064</u>               | <u>967,730</u>                       | <u>6,002,396</u>                     | <u>23,331,190</u> |

## 5. Financial risk management (*Continued*)

### 5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined 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).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2014.

|                                                            | <b>Unaudited</b>       | <b>Audited</b>         |
|------------------------------------------------------------|------------------------|------------------------|
|                                                            | <b>30 June</b>         | <b>31 December</b>     |
|                                                            | <b>2014</b>            | <b>2013</b>            |
|                                                            | <b>Level 2</b>         | <b>Level 2</b>         |
|                                                            | <b>HK\$'000</b>        | <b>HK\$'000</b>        |
| Financial liabilities at fair value through profit or loss |                        |                        |
| — Derivative financial instruments                         | <u><b>(21,295)</b></u> | <u><b>(39,727)</b></u> |

During the six months ended 30 June 2014, there are no significant transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments, and also no significant changes in the reclassification of financial assets.

### 5.4 Valuation techniques used to derive Level 2 fair values

Level 2 trading derivatives comprise currency swaps and interest rate swaps. These currency swaps and interest rate swaps are fair valued using market-based rates from observable yield curves. The effects of discounting are generally insignificant for Level 2 derivatives.

## **5. Financial risk management** *(Continued)*

### **5.5 Fair value of financial assets and liabilities measured at amortised cost**

The fair value of the following financial assets and liabilities approximate their carrying amount as at the balance sheet date:

- Trade and bill receivables
- Other receivables and deposits
- Long-term bank deposits
- Restricted bank deposits
- Cash and bank balances
- Trade payables
- Other payables and accrued charges
- Borrowings
- Convertible bonds

## 6. 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 reports reviewed by the Executive Directors.

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

The Group's operations are mainly organised under the segments of manufacturing, distribution and sale of:

- personal hygiene products including sanitary napkins products, disposable diapers products and tissue paper products; and
- food and snacks products

Sales between segments are carried out on terms mutually agreed amongst these business segments. Revenue from external parties reported to the Executive Directors are measured in a manner consistent with that in the income statement.

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

Addition to non-current assets comprise additions to property, plant and equipment, construction-in-progress, land use rights, intangible assets and prepayments for non-current assets.

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.

## 6. Segment information (Continued)

The segment information for the six months ended 30 June 2014 is as follows:

|                                                                                | Unaudited                                   |                                               |                                         |                                            |                    |                   |
|--------------------------------------------------------------------------------|---------------------------------------------|-----------------------------------------------|-----------------------------------------|--------------------------------------------|--------------------|-------------------|
|                                                                                | Sanitary<br>napkins<br>products<br>HK\$'000 | Disposable<br>diapers<br>products<br>HK\$'000 | Tissue<br>paper<br>products<br>HK\$'000 | Food and<br>snacks<br>products<br>HK\$'000 | Others<br>HK\$'000 | Group<br>HK\$'000 |
| <b>Consolidated income statement for the<br/>six months ended 30 June 2014</b> |                                             |                                               |                                         |                                            |                    |                   |
| Segment revenue                                                                | 3,632,572                                   | 1,556,486                                     | 5,799,257                               | 946,735                                    | 683,052            | 12,618,102        |
| Inter-segment sales                                                            | (46,480)                                    | (10,429)                                      | (161,549)                               | –                                          | (301,580)          | (520,038)         |
| Revenue of the Group                                                           | <u>3,586,092</u>                            | <u>1,546,057</u>                              | <u>5,637,708</u>                        | <u>946,735</u>                             | <u>381,472</u>     | <u>12,098,064</u> |
| Segment profit                                                                 | <u>1,435,969</u>                            | <u>263,618</u>                                | <u>463,140</u>                          | <u>46,153</u>                              | <u>12,537</u>      | 2,221,417         |
| Unallocated costs                                                              |                                             |                                               |                                         |                                            |                    | (48,229)          |
| Other income and other gains – net                                             |                                             |                                               |                                         |                                            |                    | <u>477,291</u>    |
| Operating profit                                                               |                                             |                                               |                                         |                                            |                    | 2,650,479         |
| Finance income                                                                 |                                             |                                               |                                         |                                            |                    | 60,587            |
| Finance costs                                                                  |                                             |                                               |                                         |                                            |                    | <u>(361,331)</u>  |
| Profit before income tax                                                       |                                             |                                               |                                         |                                            |                    | 2,349,735         |
| Income tax expense                                                             |                                             |                                               |                                         |                                            |                    | <u>(549,079)</u>  |
| Profit for the period                                                          |                                             |                                               |                                         |                                            |                    | 1,800,656         |
| Non-controlling interests                                                      |                                             |                                               |                                         |                                            |                    | <u>(25,353)</u>   |
| Profit attributable to shareholders of the<br>Company                          |                                             |                                               |                                         |                                            |                    | <u>1,775,303</u>  |
| <b>Other items for the six months ended<br/>30 June 2014</b>                   |                                             |                                               |                                         |                                            |                    |                   |
| Addition to non-current assets                                                 | 75,766                                      | 126,298                                       | 417,641                                 | 16,604                                     | 92,634             | 728,943           |
| Depreciation charge                                                            | 54,725                                      | 19,009                                        | 240,513                                 | 25,657                                     | 11,145             | 351,049           |
| Amortisation charge                                                            | <u>3,800</u>                                | <u>896</u>                                    | <u>8,657</u>                            | <u>5,989</u>                               | <u>630</u>         | <u>19,972</u>     |
| <b>Consolidated balance sheet as at<br/>30 June 2014</b>                       |                                             |                                               |                                         |                                            |                    |                   |
| Segment assets                                                                 | 8,606,829                                   | 6,719,508                                     | 20,901,537                              | 1,278,923                                  | 4,897,320          | 42,404,117        |
| Deferred income tax assets                                                     |                                             |                                               |                                         |                                            |                    | 279,062           |
| Unallocated assets                                                             |                                             |                                               |                                         |                                            |                    | <u>651,472</u>    |
| Total assets                                                                   |                                             |                                               |                                         |                                            |                    | <u>43,334,651</u> |
| Segment liabilities                                                            | 1,384,262                                   | 578,984                                       | 7,425,487                               | 301,317                                    | 325,880            | 10,015,930        |
| Deferred income tax liabilities                                                |                                             |                                               |                                         |                                            |                    | 184,153           |
| Current income tax liabilities                                                 |                                             |                                               |                                         |                                            |                    | 239,730           |
| Unallocated liabilities                                                        |                                             |                                               |                                         |                                            |                    | <u>15,927,705</u> |
| Total liabilities                                                              |                                             |                                               |                                         |                                            |                    | <u>26,367,518</u> |

## 6. Segment information (Continued)

The segment information for the six months ended 30 June 2013 is as follows:

|                                                                                | Unaudited                                   |                                               |                                         |                                            |                    |                   |
|--------------------------------------------------------------------------------|---------------------------------------------|-----------------------------------------------|-----------------------------------------|--------------------------------------------|--------------------|-------------------|
|                                                                                | Sanitary<br>napkins<br>products<br>HK\$'000 | Disposable<br>diapers<br>products<br>HK\$'000 | Tissue<br>paper<br>products<br>HK\$'000 | Food and<br>snacks<br>products<br>HK\$'000 | Others<br>HK\$'000 | Group<br>HK\$'000 |
| <b>Consolidated income statement for the<br/>six months ended 30 June 2013</b> |                                             |                                               |                                         |                                            |                    |                   |
| Segment revenue                                                                | 3,027,508                                   | 1,518,052                                     | 5,184,934                               | 931,548                                    | 155,001            | 10,817,043        |
| Inter-segment sales                                                            | (167,606)                                   | (86,279)                                      | (119,656)                               | –                                          | (28,676)           | (402,217)         |
| Revenue of the Group                                                           | <u>2,859,902</u>                            | <u>1,431,773</u>                              | <u>5,065,278</u>                        | <u>931,548</u>                             | <u>126,325</u>     | <u>10,414,826</u> |
| Segment profit                                                                 | <u>1,198,659</u>                            | <u>304,208</u>                                | <u>674,500</u>                          | <u>57,039</u>                              | <u>10,394</u>      | 2,244,800         |
| Unallocated costs                                                              |                                             |                                               |                                         |                                            |                    | (44,173)          |
| Other income and other gains – net                                             |                                             |                                               |                                         |                                            |                    | <u>305,382</u>    |
| Operating profit                                                               |                                             |                                               |                                         |                                            |                    | 2,506,009         |
| Finance income                                                                 |                                             |                                               |                                         |                                            |                    | 97,679            |
| Finance costs                                                                  |                                             |                                               |                                         |                                            |                    | <u>(136,820)</u>  |
| Profit before income tax                                                       |                                             |                                               |                                         |                                            |                    | 2,466,868         |
| Income tax expense                                                             |                                             |                                               |                                         |                                            |                    | <u>(583,931)</u>  |
| Profit for the period                                                          |                                             |                                               |                                         |                                            |                    | 1,882,937         |
| Non-controlling interests                                                      |                                             |                                               |                                         |                                            |                    | <u>(24,083)</u>   |
| Profit attributable to shareholders of the<br>Company                          |                                             |                                               |                                         |                                            |                    | <u>1,858,854</u>  |
| <b>Other items for the six months ended<br/>30 June 2013</b>                   |                                             |                                               |                                         |                                            |                    |                   |
| Addition to non-current assets                                                 | 93,188                                      | 23,175                                        | 244,976                                 | 29,418                                     | 84,235             | 474,992           |
| Depreciation charge                                                            | 29,532                                      | 45,068                                        | 224,202                                 | 25,286                                     | 6,361              | 330,449           |
| Amortisation charge                                                            | <u>2,150</u>                                | <u>676</u>                                    | <u>8,653</u>                            | <u>5,836</u>                               | <u>359</u>         | <u>17,674</u>     |
| <b>Consolidated balance sheet as at<br/>30 June 2013</b>                       |                                             |                                               |                                         |                                            |                    |                   |
| Segment assets                                                                 | 6,921,731                                   | 5,232,205                                     | 19,084,352                              | 1,212,073                                  | 1,310,207          | 33,760,568        |
| Deferred income tax assets                                                     |                                             |                                               |                                         |                                            |                    | 121,117           |
| Unallocated assets                                                             |                                             |                                               |                                         |                                            |                    | <u>5,407,848</u>  |
| Total assets                                                                   |                                             |                                               |                                         |                                            |                    | <u>39,289,533</u> |
| Segment liabilities                                                            | 1,203,265                                   | 504,449                                       | 5,599,135                               | 343,943                                    | 74,493             | 7,725,285         |
| Deferred income tax liabilities                                                |                                             |                                               |                                         |                                            |                    | 138,950           |
| Current income tax liabilities                                                 |                                             |                                               |                                         |                                            |                    | 446,371           |
| Unallocated liabilities                                                        |                                             |                                               |                                         |                                            |                    | <u>15,213,851</u> |
| Total liabilities                                                              |                                             |                                               |                                         |                                            |                    | <u>23,524,457</u> |

## 7. Operating profit

Operating profit is stated after crediting and charging the following:

|                                                                  | <b>Unaudited</b>                |                 |
|------------------------------------------------------------------|---------------------------------|-----------------|
|                                                                  | <b>Six months ended 30 June</b> |                 |
|                                                                  | <b>2014</b>                     | <b>2013</b>     |
|                                                                  | <b>HK\$'000</b>                 | <b>HK\$'000</b> |
| <b>Crediting</b>                                                 |                                 |                 |
| Government grant income                                          | 249,417                         | 137,027         |
| Interest income from long-term and short-term bank deposits      | 272,604                         | 150,376         |
| Reversal of provision for decline in value of inventories        | –                               | 15,056          |
| Net exchange gain from operating activities – net                | –                               | 25,269          |
| Net gain on derivative financial instruments                     | 18,432                          | –               |
| <b>Charging</b>                                                  |                                 |                 |
| Depreciation of property, plant and equipment ( <i>Note 11</i> ) | 351,049                         | 330,449         |
| Amortisation of land use rights ( <i>Note 11</i> )               | 13,818                          | 12,764          |
| Amortisation of intangible assets ( <i>Note 11</i> )             | 6,154                           | 4,910           |
| Employee benefit expense, including directors' emoluments        | 951,357                         | 871,044         |
| Loss on disposal of property, plant and equipment                | 14,946                          | 3,518           |
| Operating lease rentals                                          | 52,415                          | 46,290          |
| Provision for impairment of trade receivables                    | 426                             | 764             |
| Provision for decline in value of inventories                    | 7,816                           | –               |
| Net exchange loss from operating activities – net                | 53,806                          | –               |
| Net loss on derivative financial instruments                     | –                               | 36,506          |
| Miscellaneous taxes and levies                                   | 87,704                          | 82,724          |

## 8. Income tax expense

|                          | <b>Unaudited</b>                |                 |
|--------------------------|---------------------------------|-----------------|
|                          | <b>Six months ended 30 June</b> |                 |
|                          | <b>2014</b>                     | <b>2013</b>     |
|                          | <b>HK\$'000</b>                 | <b>HK\$'000</b> |
| Current income tax       |                                 |                 |
| — Hong Kong profits tax  | 63,917                          | 96,673          |
| — PRC income tax         | 592,203                         | 502,924         |
| Deferred income tax, net | (107,041)                       | (15,666)        |
| Income tax expense       | 549,079                         | 583,931         |

## 8. Income tax expense (*Continued*)

Hong Kong profits tax has been provided for at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits of the Group's companies in Hong Kong for the period.

Taxation on PRC income has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the PRC in which the Group operates. The Company's subsidiaries incorporated in the PRC are subject to Corporate Income Tax ("CIT") at the rate of 25%. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

Deferred income tax is calculated in full on temporary differences under the liability method using the prevailing tax rates applicable to the PRC subsidiaries of the Group.

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 the distribution of such profits to foreign investors. Deferred income tax liabilities of approximately HK\$81,006,000 (2013: HK\$95,047,000) for the six months ended 30 June 2014 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.

## 9. Earnings per share

### (a) *Basic*

Basic earnings per share is calculated by dividing the Group's profit attributable to shareholders of the Company of HK\$1,775,303,000 (2013: HK\$1,858,854,000) by the weighted average number of 1,230,449,472 (2013: 1,229,884,859) ordinary shares in issue during the period.

|                                                                    | <b>Unaudited</b>                |                         |
|--------------------------------------------------------------------|---------------------------------|-------------------------|
|                                                                    | <b>Six months ended 30 June</b> |                         |
|                                                                    | <b>2014</b>                     | <b>2013</b>             |
| <b>Basic</b>                                                       |                                 |                         |
| Profit attributable to shareholders of the Company (HK\$'000)      | <u><b>1,775,303</b></u>         | <u>1,858,854</u>        |
| Weighted average number of ordinary shares in issue<br>(thousands) | <u><b>1,230,449</b></u>         | <u>1,229,885</u>        |
| Basic earnings per share (HK\$)                                    | <u><u><b>HK\$1.443</b></u></u>  | <u><u>HK\$1.511</u></u> |

## 9. Earnings per share (Continued)

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The Company's share options are regarded as dilutive potential ordinary shares while convertible bonds have no dilutive effect on the earnings per share as at 30 June 2014. Calculations are done to determine the number of shares that could have been acquired at fair value (determined by using average market share price of the Company's shares for the six months ended 30 June 2014) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

|                                                                                       | <b>Unaudited</b>                |             |
|---------------------------------------------------------------------------------------|---------------------------------|-------------|
|                                                                                       | <b>Six months ended 30 June</b> |             |
|                                                                                       | <b>2014</b>                     | <b>2013</b> |
| <b>Diluted</b>                                                                        |                                 |             |
| Profit attributable to shareholders of the Company (HK\$'000)                         | <b>1,775,303</b>                | 1,858,854   |
| Weighted average number of ordinary shares in issue (thousands)                       | <b>1,230,449</b>                | 1,229,885   |
| Adjusted for:                                                                         |                                 |             |
| — Share options (thousands)                                                           | <b>1,762</b>                    | 529         |
| — Convertible bonds (thousands)                                                       | <b>—</b>                        | 1,000       |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | <b>1,232,211</b>                | 1,231,414   |
| Diluted earnings per share (HK\$)                                                     | <b>HK\$1.441</b>                | HK\$1.510   |

## 10. Dividends

| Unaudited                |          |
|--------------------------|----------|
| Six months ended 30 June |          |
| 2014                     | 2013     |
| HK\$'000                 | HK\$'000 |

Proposed interim dividend of HK\$0.85  
(2013: HK\$0.85) per share

|                  |                  |
|------------------|------------------|
| <b>1,042,779</b> | <b>1,046,677</b> |
|------------------|------------------|

A final dividend of HK\$1,228,234,000 (2013: HK\$1,169,815,000) related to the period up to 31 December 2013 was paid in May 2014.

An interim dividend of HK\$0.85 (2013: HK\$0.85) per share was proposed by the Board of Directors on 27 August 2014. This interim dividend, amounting to HK\$1,042,779,000 (2013: HK\$1,046,677,000), has not been recognised as a liability in this interim financial information. It will be recognised in shareholders' equity in the year ending 31 December 2014.

## 11. Capital expenditure – net book value

|                                        | Unaudited                                       |                                          |                                |                                  |
|----------------------------------------|-------------------------------------------------|------------------------------------------|--------------------------------|----------------------------------|
|                                        | Property,<br>plant and<br>equipment<br>HK\$'000 | Construction<br>-in-progress<br>HK\$'000 | Land use<br>rights<br>HK\$'000 | Intangible<br>assets<br>HK\$'000 |
| At 1 January 2013                      | 7,815,553                                       | 1,301,331                                | 1,032,792                      | 590,822                          |
| Additions                              | 123,902                                         | 348,649                                  | 2,441                          | –                                |
| Transfer from construction-in-progress | 428,636                                         | (428,636)                                | –                              | –                                |
| Disposals                              | (28,102)                                        | –                                        | (466)                          | –                                |
| Depreciation/amortisation              | (330,449)                                       | –                                        | (12,764)                       | (4,910)                          |
| Currency translation differences       | 139,831                                         | 21,626                                   | 17,405                         | 74                               |
| At 30 June 2013                        | <b>8,149,371</b>                                | <b>1,242,970</b>                         | <b>1,039,408</b>               | <b>585,986</b>                   |
| At 1 January 2014                      | <b>8,627,200</b>                                | <b>1,204,372</b>                         | <b>1,105,298</b>               | <b>581,150</b>                   |
| Additions                              | <b>80,200</b>                                   | <b>598,825</b>                           | <b>49,615</b>                  | <b>303</b>                       |
| Transfer from construction-in-progress | <b>237,205</b>                                  | <b>(271,934)</b>                         | <b>–</b>                       | <b>34,729</b>                    |
| Disposals                              | <b>(28,153)</b>                                 | <b>–</b>                                 | <b>–</b>                       | <b>–</b>                         |
| Depreciation/amortisation              | <b>(351,049)</b>                                | <b>–</b>                                 | <b>(13,818)</b>                | <b>(6,154)</b>                   |
| Currency translation differences       | <b>(81,807)</b>                                 | <b>(11,658)</b>                          | <b>(10,209)</b>                | <b>(115)</b>                     |
| At 30 June 2014                        | <b>8,483,596</b>                                | <b>1,519,605</b>                         | <b>1,130,886</b>               | <b>609,913</b>                   |

## 12. Trade and bills receivables

|                                  | Unaudited<br>30 June<br>2014<br>HK\$'000 | Audited<br>31 December<br>2013<br>HK\$'000 |
|----------------------------------|------------------------------------------|--------------------------------------------|
| Trade receivables                | 2,276,253                                | 2,187,373                                  |
| Bills receivables                | <u>24,699</u>                            | <u>3,590</u>                               |
|                                  | <b>2,300,952</b>                         | 2,190,963                                  |
| Less: provision for impairment   | <u>(6,405)</u>                           | <u>(6,479)</u>                             |
| Trade and bills receivables, net | <u><b>2,294,547</b></u>                  | <u>2,184,484</u>                           |

The ageing analysis of trade and bills receivables is as follows:

|                 | Unaudited<br>30 June<br>2014<br>HK\$'000 | Audited<br>31 December<br>2013<br>HK\$'000 |
|-----------------|------------------------------------------|--------------------------------------------|
| Within 30 days  | 964,010                                  | 1,026,891                                  |
| 31 to 180 days  | 1,249,487                                | 1,064,054                                  |
| 181 to 365 days | 54,654                                   | 78,450                                     |
| Over 365 days   | <u>32,801</u>                            | <u>21,568</u>                              |
|                 | <u><b>2,300,952</b></u>                  | <u>2,190,963</u>                           |

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

### 13. Long – term bank deposits, restricted bank deposits, and cash and bank balances

|                                                                            | Unaudited<br>30 June<br>2014<br>HK\$'000 | Audited<br>31 December<br>2013<br>HK\$'000 |
|----------------------------------------------------------------------------|------------------------------------------|--------------------------------------------|
| <b>Long-term bank deposits</b>                                             |                                          |                                            |
| Term deposits with initial term over one year                              | <u>1,045,603</u>                         | <u>814,042</u>                             |
| <b>Restricted bank deposits</b>                                            | <u>50,646</u>                            | <u>60,044</u>                              |
| <b>Cash and bank balances</b>                                              |                                          |                                            |
| — Term deposits with initial term over<br>three months and within one year | 7,354,403                                | 8,852,732                                  |
| — Cash and cash equivalents                                                | <u>15,285,814</u>                        | <u>10,711,251</u>                          |
|                                                                            | <u>22,640,217</u>                        | <u>19,563,983</u>                          |
| <b>Total cash and bank balances</b>                                        | <u><u>23,736,466</u></u>                 | <u><u>20,438,069</u></u>                   |

As at 30 June 2014, approximately HK\$50,646,000 (31 December 2013: HK\$60,044,000) of the bank balances were restricted until certain letters of credit issued by the Group are settled.

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

### 14. Trade payables

The ageing analysis of trade payables is as follows:

|                 | Unaudited<br>30 June<br>2014<br>HK\$'000 | Audited<br>31 December<br>2013<br>HK\$'000 |
|-----------------|------------------------------------------|--------------------------------------------|
| Within 30 days  | 1,216,273                                | 1,527,717                                  |
| 31 to 180 days  | 643,239                                  | 544,042                                    |
| 181 to 365 days | 16,413                                   | 9,112                                      |
| Over 365 days   | <u>14,877</u>                            | <u>16,119</u>                              |
|                 | <u><u>1,890,802</u></u>                  | <u><u>2,096,990</u></u>                    |

The carrying amounts of trade payables approximated their fair values as at the balance sheet dates due to short-term maturity.

## 15. Borrowings

|                                                     | <b>Unaudited</b><br><b>30 June</b><br><b>2014</b><br><b>HK\$'000</b> | <b>Audited</b><br><b>31 December</b><br><b>2013</b><br><b>HK\$'000</b> |
|-----------------------------------------------------|----------------------------------------------------------------------|------------------------------------------------------------------------|
| <b>Non-current</b>                                  |                                                                      |                                                                        |
| Long-term bank loans – unsecured                    | <u>–</u>                                                             | <u>959,643</u>                                                         |
| <b>Current</b>                                      |                                                                      |                                                                        |
| Trust receipt bank loans                            | <b>1,124,857</b>                                                     | 963,996                                                                |
| Current portion of long-term bank loans – unsecured | <b>1,924,321</b>                                                     | 2,456,386                                                              |
| Short-term bank loans – unsecured                   | <b>14,026,242</b>                                                    | 9,812,532                                                              |
|                                                     | <u><b>17,075,420</b></u>                                             | <u>13,232,914</u>                                                      |
| Total borrowings                                    | <u><b>17,075,420</b></u>                                             | <u>14,192,557</u>                                                      |

As at 30 June 2014, the effective interest rate of the Group's borrowings was approximately 1.96% (31 December 2013: 1.92%) per annum.

Movements in borrowings are analysed as follows:

|                                  | <b>Unaudited</b><br><b>HK\$'000</b> |
|----------------------------------|-------------------------------------|
| At 1 January 2013                | 11,227,796                          |
| New borrowings                   | 7,395,004                           |
| Repayments of borrowings         | (4,045,677)                         |
| Currency translation differences | <u>72,686</u>                       |
| At 30 June 2013                  | <u>14,649,809</u>                   |
| At 1 January 2014                | <b>14,192,557</b>                   |
| New borrowings                   | <b>8,449,123</b>                    |
| Repayments of borrowings         | <b>(5,509,623)</b>                  |
| Currency translation differences | <u><b>(56,637)</b></u>              |
| At 30 June 2014                  | <u><b>17,075,420</b></u>            |

## 16. Convertible bonds

|                                                            | <b>Unaudited</b><br><b>30 June</b><br><b>2014</b><br><b>HK\$'000</b> | Audited<br>31 December<br>2013<br>HK\$'000 |
|------------------------------------------------------------|----------------------------------------------------------------------|--------------------------------------------|
| Fair value of convertible bonds issued on 27 June 2013     | <b>5,434,000</b>                                                     | 5,434,000                                  |
| Issuing expenses                                           | <b>(110,013)</b>                                                     | (110,013)                                  |
| Equity component                                           | <b>(176,565)</b>                                                     | (176,565)                                  |
|                                                            | <hr/>                                                                | <hr/>                                      |
| Liability component on initial recognition on 27 June 2013 | <b>5,147,422</b>                                                     | 5,147,422                                  |
| Accumulated finance costs                                  | <b>160,650</b>                                                       | 79,708                                     |
|                                                            | <hr/>                                                                | <hr/>                                      |
| Liability component                                        | <b><u>5,308,072</u></b>                                              | <u>5,227,130</u>                           |

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

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

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

The fair value of the convertible bonds approximated its carrying amounts as at 30 June 2014.

From 27 June 2013 to 30 June 2014, no bond holders have converted their bonds into ordinary shares of the Company.

## 17. Share capital

|                                                           | <b>Authorised share capital</b><br><b>Ordinary shares of</b><br><b>HK\$0.10 each</b> |                       |
|-----------------------------------------------------------|--------------------------------------------------------------------------------------|-----------------------|
|                                                           | <i>Number of</i><br><i>shares</i>                                                    | <i>HK\$'000</i>       |
| At 1 January 2013 to 30 June 2014                         | <b><u>3,000,000,000</u></b>                                                          | <b><u>300,000</u></b> |
|                                                           | <b>Issued and fully paid</b><br><b>Ordinary shares of</b><br><b>HK\$0.10 each</b>    |                       |
|                                                           | <i>Number of</i><br><i>shares</i>                                                    | <i>HK\$'000</i>       |
| At 1 January 2013                                         | 1,229,027,721                                                                        | 122,903               |
| Share-based compensation<br>— Proceeds from shares issued | <u>2,357,000</u>                                                                     | <u>235</u>            |
| At 30 June 2013                                           | <u>1,231,384,721</u>                                                                 | <u>123,138</u>        |
| At 1 January 2014                                         | <b>1,231,384,721</b>                                                                 | <b>123,138</b>        |
| Buy-back of shares ( <i>Note</i> )                        | <u>(4,585,500)</u>                                                                   | <u>(458)</u>          |
| At 30 June 2014                                           | <b><u>1,226,799,221</u></b>                                                          | <b><u>122,680</u></b> |

*Note:*

The Group acquired 4,585,500 of its own shares through purchases on The Stock Exchange of Hong Kong Limited during the period ended 30 June 2014. The Shares had been cancelled after buy-back. The total amount paid to acquire the shares was approximately HK\$361,563,000 and has been deducted from shareholders' equity.

## 18. Capital commitments

|                                                | Unaudited<br>30 June<br>2014<br>HK\$'000 | Audited<br>31 December<br>2013<br>HK\$'000 |
|------------------------------------------------|------------------------------------------|--------------------------------------------|
| Contracted but not provided for in respect of: |                                          |                                            |
| Machinery and equipment                        | 914,490                                  | 1,046,496                                  |
| Leasehold land and buildings                   | 298,335                                  | 493,556                                    |
|                                                | <u>1,212,825</u>                         | <u>1,540,052</u>                           |
| Authorised but not contracted in respect of:   |                                          |                                            |
| Leasehold land and buildings                   | 212,970                                  | 215,029                                    |
|                                                | <u>212,970</u>                           | <u>215,029</u>                             |
| Total capital commitment                       | <u><u>1,425,795</u></u>                  | <u><u>1,755,081</u></u>                    |

## 19. Contingent liabilities

At 30 June 2014, the Group had no material contingent liabilities (31 December 2013: Nil).

## 20. Significant related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to 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.

(a) During the period, the Group had the following significant related party transactions:

|                                                                            | Unaudited<br>Six months ended 30 June<br>2014<br>HK\$'000 | 2013<br>HK\$'000 |
|----------------------------------------------------------------------------|-----------------------------------------------------------|------------------|
| Purchases from Weifang Hengan Thermal Power Co., Ltd.<br>("Weifang Power") |                                                           |                  |
| — electricity energy                                                       | 68,583                                                    | 80,047           |
| — heat energy                                                              | 43,961                                                    | 54,456           |
|                                                                            | <u>112,544</u>                                            | <u>134,503</u>   |

## **20. Significant related party transactions (*Continued*)**

### **(a) (*Continued*)**

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

- (b) For the six months ended 30 June 2014, the key management compensation amounted to approximately HK\$8,740,000 (2013: HK\$8,586,000).

## **21. Events occurring after the balance sheet date**

Details of the interim dividend proposal are described in Note 10.

## BUSINESS REVIEW

The world sustained its economic recovery in the first half of 2014. Although the global economy remained complicated at a time when the United States Federal Reserve is trimming stimulus and the European Central Bank is fighting inflation, China still maintained its steady economic growth as the Chinese government continued its efforts to restructure its economy. According to the data from the National Bureau of Statistics of China, the country's gross domestic product accelerated from 7.4% in the first quarter to 7.5% in the second quarter, ending the first half with 7.4% growth year-on-year to RMB26,904.4 billion.

As a leading enterprise in the personal hygiene product industry in mainland China, the Group increased efforts to enhancing its competitive strengths in order to seize market opportunities arising from the booming market, which was driven by economic development and increasing awareness of health and hygiene.

For the six months ended 30 June 2014, the Group's revenue increased by about 16.2% to approximately HK\$12,098,064,000 (2013 first half: HK\$10,414,826,000). Operating profit increased by about 5.8% to around HK\$2,650,479,000 (2013 first half: HK\$2,506,009,000). There was an exchange loss of about HK\$177,456,000 booked, as a result of the depreciation of renminbi against major currencies during the period while a foreign exchange gain of around HK\$88,102,000 was recorded for the same period last year. Profit attributable to shareholders dropped by about 4.5% to approximately HK\$1,775,303,000 (2013 first half: HK\$1,858,854,000). The Board of Directors declared an interim dividend of HK\$0.85 (2013 first half: HK\$0.85) per share.

Slight increase in raw material prices and negative impact of intensified market competition were partially offset by optimized product portfolio, effective cost control measures and enhanced economies of scale. As a result, gross profit margin contracted slightly to approximately 44.9% (2013 first half: 45.2%), which remained fairly stable as compared with that of the previous year. Distribution costs and administrative expenses increased and accounted for approximately 27.0% (2013 first half: 24.1%) of the Group's total revenue due to the increase in expenses for marketing and brand promotion, development of new specialty sales channels as well as research and development during the period.

### Tissue Paper

China's tissue paper consumption per capita still lags behind that of developed countries, implying enormous market potential, despite prolonged market expansion. However, the increase in new production capacity in the tissue paper market amid a general economic slowdown have led to intense competition in the short term. As such, the Group continued to strengthen marketing and brand promotion to cope with the intense competition. The Group's tissue paper sales increased by approximately 11.3% to approximately HK\$5,637,708,000, accounting for approximately 46.6% (2013 first half: 48.6%) of the Group's total revenue.

Gross profit margin dropped to approximately 33.2% (2013 first half: 34.9%) due to the slight increase in price of major raw material tissue wood pulp, and enhanced efforts in marketing and brand promotion amid intense competition. As the tissue wood pulp price began to decline from May 2014, the management expects that the upward pressure of raw material costs could be eased in the second half of 2014.

For the period under review, the Group did not add any new production line, and the annualised production capacity remained at approximately 900,000 tons. In view of the ample supply of new production capacity in the market, the Group decided to adjust the capacity investment plan. According to the revised schedule, the annual production capacity is expected to increase by around 120,000 tons in the second half of 2014, by 240,000 tons in 2015 and by 120,000 tons in 2016, and will bring the Group's total annualised production capacity to about 1,380,000 tons by the end of 2016. As new additional production capacity is gradually going on stream, the management is now considering overseas market expansion in the fourth quarter of 2014 while consolidating its presence in mainland China in order to increase sales revenue.

### **Sanitary Napkin**

Accelerating urbanization and rising living standard continue to raise the market penetration of sanitary napkins and support consumption upgrades, thus driving the growth in the sanitary napkin market. The sanitary napkin industry landscape remains competitive, triggering market consolidation which is in the Group's favour. During the period, the Group continued to improve product mix and invest in new product development, and launched "Ultra Thin" products under the "Space 7" brand "Young Lady" series. Sanitary napkin sales increased by about 25.4% approximately HK\$3,586,092,000, accounting for around 29.6% (2013 first half: 27.5%) of the Group's total revenue.

Benefited from optimizing product portfolio, the gross profit margin of sanitary napkin business increased to approximately 66.9% (2013 first half: 65.1%). Looking ahead, the Group will continue to focus on product innovation, optimize the product mix, improve product quality and increase the sales of mid-to-high-end products in order to satisfy rising market demand.

### **Disposable Diapers**

The market penetration of disposable diaper products in China is still low. In addition, the steady economic growth, accelerating urbanization, and people's increasing awareness of personal hygiene in mainland China continue to drive market demand, implying potential for growth. However, short-term market outlook remains challenging as a lot of players have entered into this market which intensified the competition in the market and affected the sales growth of the Group. As such, the Group has stepped up marketing campaign in various specialty sales channels during the period.

During the period, the Group continued to focus on marketing and promoting mid-end and mid-to-high-end diaper products, and launched the new mid-to-high-end ultra-thin series of products. Sales of mid-end and mid-to-high-end disposable diapers increased by approximately 16.1% while sales of low-end diapers decreased by approximately 12.3%, due to persistent market competition. Overall, revenue growth for the six months ended 30 June 2014 increased by approximately 8.0% to approximately HK\$1,546,057,000, accounting for approximately 12.8% (2013 first half: 13.7%) of the Group's total revenue.

The effect of an enhanced product mix offset the slight increase in raw material prices during the period. Gross profit margin increased slightly to approximately 44.2% (2013 first half: 43.5%).

In the second half of 2014, the Group will continue to enhance brand and products promotions, expand its presence in maternity stores and e-commerce sales network in order to bring better long term growth in sales.

### **Food and Snacks Products**

As the snack products of the Group are not daily necessities, sales are affected by the economic slowdown. During the period, food and snacks product grew by about 1.6% in sales to approximately HK\$946,735,000, accounting for approximately 7.8% (2013 first half: 8.9%) of Group's total revenue. Gross profit margin increased to approximately 43.6% (2013 first half: 42.6%) due to a decline in the costs of major raw materials, such as sugar and palm oil.

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

### **First Aid Products**

First-aid product sales, under the “Banitore” and “Bandi” brands, amounted to approximately HK\$20,429,000 (2013 first half: HK\$20,999,000). The business only accounted for approximately 0.2% (2013 first half: 0.2%) of the Group's total revenue, and did not have any significant impact on the Group's overall results.

### **Appointment of Professional Consultants**

To further optimize the operation process of its supply chain, logistics networks, inventory management and information technology planning, the Group engaged IBM (China) Co., Ltd. in March 2014 to provide professional recommendations in regard to the above aspects.

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

The above projects are still in progress.

### **Product Research and Development**

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

## **Liquidity, Financial Resources and Bank Loans**

The Group maintained a solid financial position. As at 30 June 2014, the Group's cash and bank balances, long-term bank deposits and restricted bank deposits amounted to approximately HK\$23,736,466,000 in total (31 December 2013: HK\$20,438,069,000); convertible bonds liability portion amounted to approximately HK\$5,308,072,000 (31 December 2013: HK\$5,227,130,000), and borrowings amounted to approximately HK\$17,075,420,000 (31 December 2013: HK\$14,192,557,000).

The net proceed of approximately HK\$5,331 million raised from the issuance of convertible bonds in June 2013 has been used for repayment of bank borrowings of about HK\$3,355 million, investing in subsidiaries of about HK\$442 million, repurchase of the Company's shares of about HK\$249 million, payment of dividend of about HK\$210 million, placing time deposits of about HK\$851 million and as general working capital of about HK\$224 million.

The convertible bonds were subject to a fixed interest rate of 2.7% while the borrowings were subject to floating annual interest rates ranging from approximately 1.1% to 5.2% (2013 first half: 1.0% to 4.8%). As at 30 June 2014, apart from the cash of about HK\$50,646,000 (31 December 2013: HK\$60,044,000) deposited in banks as restricted bank deposits for issuing letters of credit, there were no other charges on the Group's assets for its bank loans.

As at 30 June 2014, the Group's gross gearing ratio was approximately 135.2% (2013: 117.5%), which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including non-controlling interests). The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term time deposits as a percentage of the shareholders' equity (not including minority interests), was approximately negative 7.9% (2013: negative 5.8%) as the Group was in a net cash position.

During the first half of 2014, the Group's capital expenditure amounted to approximately HK\$728,943,000. As at 30 June 2014, the Group had no material contingent liabilities.

## **Human Resources and Management**

As at 30 June 2014, the Group employed approximately 34,000 staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and career opportunities according to their needs.

## **Latest award**

In August 2014, the Group was named by Forbes Magazine as one of the World's Most Innovative Companies.

## **Foreign Currency Risks**

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

As at 30 June 2014, apart from certain exchange rate swap contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

## **Outlook**

Looking ahead to the second half of the year, modest recovery of the global economy and steady expansion of the Chinese economy is expected to continue. China's rising per capita income and accelerating urbanization will provide a solid foundation for the development of its market for personal hygiene products. Although new production capacity in the tissue paper market goes on stream at the time of a softening market has intensified competition in the short term across the business segment, the people's rising awareness of personal hygiene will support the growth in the market for high-quality hygiene products in the long run.

The Group will continue to strengthen product promotion and tap markets with potential for growth. In addition, the Group will also improve product quality and management efficiency in order to increase its brand influence, market share and overall competitiveness. The Group will continue to monitor closely the price trends of raw materials and optimize its product mix based on the changes in the market with a view to improving its gross profit margin.

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

## **ENVIRONMENT PROTECTION AND SOCIAL RESPONSIBILITIES**

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

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

On gas emission, overseas advanced equipment has been employed in various production procedures to recover part of the wastage particulates generated during production process and minimize the emission to the fullest extent. The emission of wastage gas per ton of product is estimated to be lower than the domestic average standard in the same industry.

With regards to power consumption, the Group dedicates to improving equipment efficiency and quality management. The use of electricity power per ton of product is estimated to be lower than the domestic average standard in the same industry.

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

## INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board of Directors has declared an interim dividend of HK\$0.85 (2013: HK\$0.85) per share for the six months ended 30 June 2014 to be paid to shareholders whose names appear on the Register of Members of the Company at the close of business on 26 September 2014. Dividend warrants will be despatched to shareholders on or about 14 October 2014.

The Register of Members of the Company will be closed from 23 September 2014 to 26 September 2014 (both days inclusive), during which no transfer of shares will be effected. In order to be qualified for the interim dividend, all transfers accompanied by the relevant share certificates shall be lodged with the Company's branch share registrar, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:00 p.m. on 22 September 2014.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2014, the Company repurchased a total of 4,585,500 ordinary shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of approximately HK\$361,563,000 (excluding expenses) for enhancing its per share net asset value and earnings. All the repurchased shares were subsequently cancelled. Details of the repurchase of shares are summarized as follows:

| <b>Date of repurchase</b> | <b>Number of<br/>shares<br/>repurchased</b> | <b>Highest<br/>price paid</b> | <b>Lowest<br/>price paid</b> |
|---------------------------|---------------------------------------------|-------------------------------|------------------------------|
| 28 March 2014             | 500,000                                     | 79.95                         | 78.35                        |
| 31 March 2014             | 280,000                                     | 79.95                         | 78.65                        |
| 7 May 2014                | 100,000                                     | 79.95                         | 79.60                        |
| 8 May 2014                | 171,000                                     | 79.75                         | 78.30                        |
| 9 May 2014                | 2,100,000                                   | 79.50                         | 78.05                        |
| 16 June 2014              | 200,000                                     | 79.00                         | 78.95                        |
| 17 June 2014              | 500,000                                     | 78.95                         | 78.70                        |
| 18 June 2014              | 485,500                                     | 78.70                         | 78.00                        |
| 19 June 2014              | 200,000                                     | 78.95                         | 78.80                        |
| 23 June 2014              | 49,000                                      | 78.75                         | 78.70                        |
|                           | <u>4,585,500</u>                            |                               |                              |

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2014.

## AUDIT COMMITTEE

The Audit Committee is chaired by an independent non-executive director and comprises five independent non-executive directors. It meets at least two times a year. The Audit Committee provides an important link between the Board and the Company's external and internal auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation, including the interim report for the six months ended 30 June 2014.

## COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

For the six months ended 30 June 2014, the Company has adopted the Model Code as set out in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30 June 2014, and they all confirmed that they had fully complied with the required standard set out in the Model Code.

## CORPORATE GOVERNANCE

The Board is committed to maintaining high standards of corporate governance. The Company has complied with all the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules of the Stock Exchange during the period, except the followings:

Under Code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Wang Ming Fu and Mr. Zhou Fang Sheng, independent non-executive director of the Company, were unable to attend the annual general meeting of the Company held on 22 May 2014 due to other engagements at that time.

## ACKNOWLEDGEMENT

On behalf of the Board of Directors, I extend my gratitude to all our staff for their hard work and dedication.

By Order of the Board  
**Hengan International Group Company Limited**  
**Sze Man Bok**  
*Chairman*

*As at the date of this report, the Board comprises 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 and Mr. Loo Hong Shing Vincent as executive directors, and Mr. Chan Henry, Mr. Wang Ming Fu, Ms. Ada Ying Kay Wong, Mr. Ho Kwai Ching, Mark and Mr. Zhou Fang Sheng as independent non-executive directors.*

Hong Kong, 27 August 2014