



恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044



INTERIM REPORT
2016

Corporate Mission

“GROWING WITH YOU FOR A BETTER LIFE”

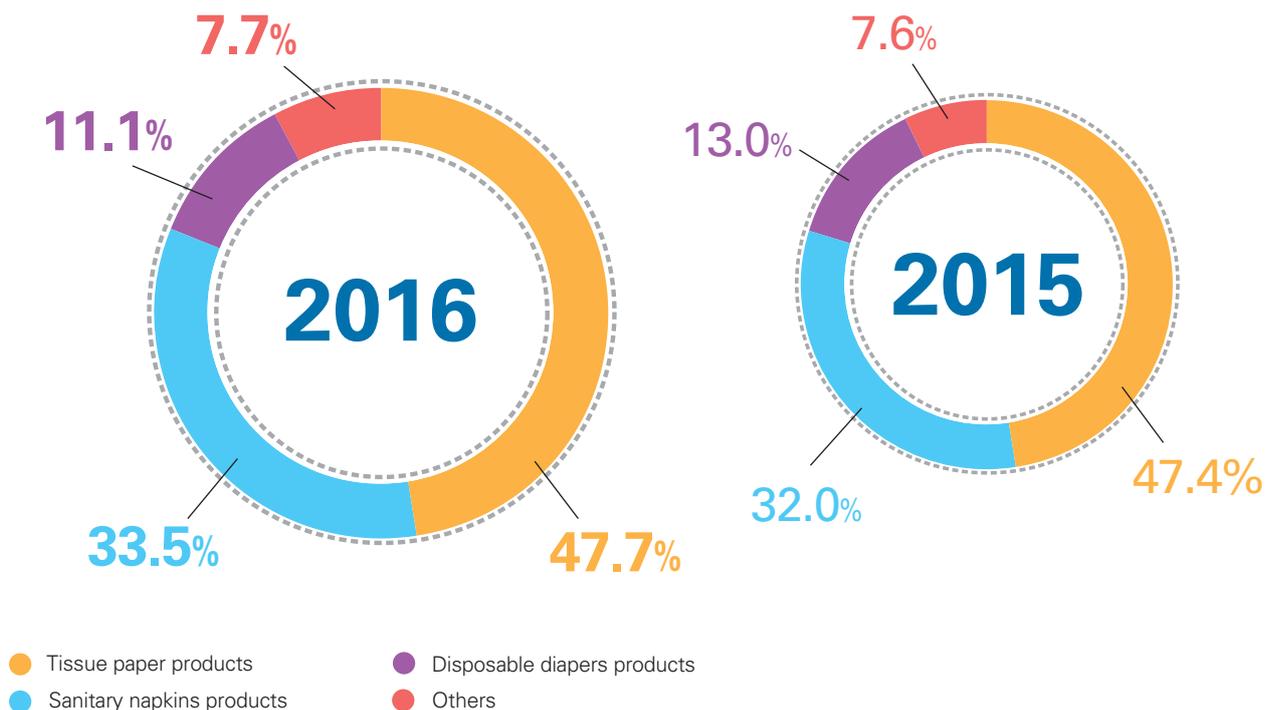
has always been the mission of Hengan International. We will continue to adhere to our corporate spirit of “Integrity, Diligence, Innovation and Dedication”. Our goal is “to build an effective corporate management and to develop a quality, ethical and enthusiastic staff team”. By building an excellent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



Financial Highlights

	Unaudited		% of change
	Six months ended 30 June		
	2016	2015	
	RMB'000	RMB'000	
Continuing operations			
Revenue	9,577,341	9,196,090	4.1%
Gross profit margin	48.1%	46.7%	
Operating profit	2,301,451	2,243,918	2.6%
Profit attributable to shareholders	1,627,500	1,538,882	5.8%
Earnings per share — basic	RMB1.340	RMB1.257	
Discontinued operations			
Profit attributable to shareholders	7,540	15,893	(52.6%)
Earnings per share — basic	RMB0.006	RMB0.013	
Overall profit attributable to shareholders	1,635,040	1,554,775	5.2%
Overall earnings per share — basic	RMB1.346	RMB1.270	
Continuing operations			
Finished goods turnover	44 days	44 days	
Trade receivables turnover	43 days	39 days	

ANALYSIS OF REVENUE BY PRODUCT



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 statements of income, comprehensive income, changes in equity and cash flows of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2016, and the unaudited interim condensed consolidated balance sheet of the Group as at 30 June 2016, 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.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

For the six months ended 30 June 2016

	Note	Unaudited Six months ended 30 June	
		2016 RMB'000	2015 RMB'000 (Restated)
Continuing operations			
Revenue	6	9,577,341	9,196,090
Cost of goods sold		(4,968,449)	(4,900,946)
Gross profit		4,608,892	4,295,144
Other income and other gains — net		264,025	331,356
Distribution costs		(1,897,624)	(1,713,801)
Administrative expenses		(673,842)	(668,781)
Operating profit		2,301,451	2,243,918
Finance income		52,372	87,040
Finance costs		(235,721)	(273,632)
Finance costs — net		(183,349)	(186,592)
Profit before income tax	7	2,118,102	2,057,326
Income tax expense	8	(487,325)	(517,477)
Profit for the period from continuing operations		1,630,777	1,539,849
Discontinued operations			
Profit for the period from discontinued operations	18	14,785	31,162
Net profit for the period		1,645,562	1,571,011

The notes on pages 10 to 33 form an integral part of this interim condensed financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME *(continued)*

For the six months ended 30 June 2016

		Unaudited	
		Six months ended 30 June	
		2016	2015
<i>Note</i>		RMB'000	RMB'000
			(Restated)
Profit attributable to:			
	Shareholders of the Company	1,635,040	1,554,775
	Non-controlling interests	10,522	16,236
		1,645,562	1,571,011
Profit attributable to shareholders of the Company arising from:			
	Continuing operations	1,627,500	1,538,882
	Discontinued operations	7,540	15,893
		1,635,040	1,554,775
Earnings per share from continuing operations and discontinued operations attributable to shareholders of the Company			
Basic earnings per share			
	— From continuing operations	9 RMB1.340	RMB1.257
	— From discontinued operations	9 RMB0.006	RMB0.013
Diluted earnings per share			
	— From continuing operations	9 RMB1.340	RMB1.254
	— From discontinued operations	9 RMB0.006	RMB0.013

The notes on pages 10 to 33 form an integral part of this interim condensed financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the six months ended 30 June 2016*

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
		(Restated)
Profit for the period	1,645,562	1,571,011
Other comprehensive income:		
Items that may be reclassified to profit or loss		
— Currency translation differences	(64,679)	6,140
Total comprehensive income for the period	1,580,883	1,577,151
Attributable to:		
Shareholders of the Company	1,569,062	1,560,921
Non-controlling interests	11,821	16,230
	1,580,883	1,577,151
Attributable to shareholders of the Company arising from:		
Continuing operations	1,560,316	1,545,023
Discontinued operations	8,746	15,898
	1,569,062	1,560,921

The notes on pages 10 to 33 form an integral part of this interim condensed financial information.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2016

	Note	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	11	7,240,012	7,468,314
Construction-in-progress	11	1,183,818	1,089,602
Investment properties	11	183,751	185,886
Land use rights	11	765,443	858,708
Intangible assets	11	498,898	599,356
Prepayments for non-current assets		156,224	151,924
Deferred income tax assets		238,674	186,094
Long-term bank deposits	13	1,491,238	850,000
		11,758,058	11,389,884
Current assets			
Inventories		2,898,694	3,296,015
Trade and bills receivables	12	2,339,784	2,216,559
Other receivables, prepayments and deposits		853,512	1,065,537
Tax recoverable		296,646	109,141
Restricted bank deposits	13	15,794	21,132
Cash and bank balances	13	11,016,984	14,866,085
		17,421,414	21,574,469
Assets held for distribution	18	973,700	–
		18,395,114	21,574,469
Total assets		30,153,172	32,964,353
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	17	127,705	128,132
Other reserves		2,994,513	3,044,503
Retained earnings		11,135,463	11,538,232
		14,257,681	14,710,867
Non-controlling interests		(121,669)	380,928
Total equity		14,136,012	15,091,795

The notes on pages 10 to 33 form an integral part of this interim condensed financial information.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET *(continued)**As at 30 June 2016*

	<i>Note</i>	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000 (Restated)
LIABILITIES			
Non-current liabilities			
Bank borrowings	15	512,820	–
Convertible bonds	16	444,798	–
Deferred income tax liabilities		176,471	159,563
		1,134,089	159,563
Current liabilities			
Trade and bills payables	14	1,804,609	2,277,890
Other payables and accrued charges	14	2,096,489	992,084
Derivative financial instruments		9,281	30,084
Current income tax liabilities		67,631	59,737
Bank borrowings	15	10,715,250	9,696,293
Convertible bonds	16	–	4,656,907
		14,693,260	17,712,995
Liabilities held for distribution	18	189,811	–
		14,883,071	17,712,995
Total liabilities		16,017,160	17,872,558
Total equity and liabilities		30,153,172	32,964,353

The notes on pages 10 to 33 form an integral part of this interim condensed financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Unaudited					
	Attributable to the Company's shareholders				Non-controlling interests	Total equity
	Share capital	Other reserves	Retained earnings	Total		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2016 (Restated)	128,132	3,044,503	11,538,232	14,710,867	380,928	15,091,795
Profit for the period	–	–	1,635,040	1,635,040	10,522	1,645,562
Currency translation differences	–	(65,978)	–	(65,978)	1,299	(64,679)
Total comprehensive income	–	(65,978)	1,635,040	1,569,062	11,821	1,580,883
Transactions with owners						
2015 final dividends paid	–	–	(1,166,057)	(1,166,057)	–	(1,166,057)
2016 distribution in specie	–	–	(536,010)	(536,010)	(514,990)	(1,051,000)
Buy-back of shares	(428)	(1,199)	(275,170)	(276,797)	–	(276,797)
Early redemption of convertible bonds	–	(127,668)	55,827	(71,841)	–	(71,841)
Change in ownership interests in subsidiaries without change of control	–	(572)	–	(572)	572	–
Share-based compensation						
— Value of employee services	–	28,167	–	28,167	–	28,167
— Proceeds from shares issued	1	861	–	862	–	862
Total of transactions with owners	(427)	(100,411)	(1,921,410)	(2,022,248)	(514,418)	(2,536,666)
Appropriation to statutory reserves	–	116,399	(116,399)	–	–	–
Balance at 30 June 2016	127,705	2,994,513	11,135,463	14,257,681	(121,669)	14,136,012
Balance at 1 January 2015 (Restated)	128,649	3,096,726	10,832,836	14,058,211	340,378	14,398,589
Profit for the period	–	–	1,554,775	1,554,775	16,236	1,571,011
Currency translation differences	–	6,146	–	6,146	(6)	6,140
Total comprehensive income	–	6,146	1,554,775	1,560,921	16,230	1,577,151
Transactions with owners						
2014 final dividends paid	–	–	(1,115,477)	(1,115,477)	–	(1,115,477)
Share-based compensation						
— Value of employee services	–	28,071	–	28,071	–	28,071
— Proceeds from shares issued	3	1,537	–	1,540	–	1,540
Total of transactions with owners	3	29,608	(1,115,477)	(1,085,866)	–	(1,085,866)
Appropriation to statutory reserves	–	101,563	(101,563)	–	–	–
Balance at 30 June 2015 (Restated)	128,652	3,234,043	11,170,571	14,533,266	356,608	14,889,874

The notes on pages 10 to 33 form an integral part of this interim condensed financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2016

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
		(Restated)
Continuing operations		
Cash flows from operating activities		
Cash generated from operations	2,573,513	2,408,666
Income tax paid	(674,475)	(551,945)
Net cash generated from operating activities	1,899,038	1,856,721
Cash flows from investing activities		
Purchase of property, plant and equipment, including additions of construction-in-progress	(490,572)	(447,808)
Additions of land use rights	–	(1,538)
Proceeds on disposal of property, plant and equipment	1,269	3,041
(Increase)/decrease in prepayments for non-current assets	(5,167)	45,138
Decrease/(increase) in long-term and short-term bank deposits	1,739,796	(225,601)
Interest received	189,199	274,700
Dividends received from discontinued operations	3,102	31,192
Loan to discontinued operations	–	(61,140)
Net cash generated from/(used in) investing activities	1,437,627	(382,016)
Cash flows from financing activities		
Proceeds from bank borrowings	9,020,876	7,393,848
Repayment of bank borrowings	(7,645,764)	(7,579,791)
Decrease in restricted bank deposits	5,338	5,977
Interest paid	(139,157)	(146,815)
Dividends paid	(1,166,057)	(1,115,477)
Dividends paid to non-controlling interests	(1,525)	(8,961)
Early redemption of convertible bonds	(4,403,385)	–
Proceeds from shares issued under the employee share option scheme	862	1,540
Buy-back of shares	(276,797)	–
Net cash used in financing activities	(4,605,609)	(1,449,679)
(Decrease)/increase in cash and cash equivalents from continuing operations	(1,268,944)	25,026

The notes on pages 10 to 33 form an integral part of this interim condensed financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW *(continued)*

For the six months ended 30 June 2016

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
		(Restated)
Discontinued operations		
Increase in cash and cash equivalents from discontinued operations	113,320	111,818
(Decrease)/increase in cash and cash equivalents	(1,155,624)	136,844
Cash and cash equivalents at 1 January		
Continuing operations	5,673,305	8,472,622
Discontinued operations	220,395	250,975
	5,893,700	8,723,597
Effect of foreign exchange rate changes	23,846	(425)
Cash and cash equivalents transferred to assets held for distribution	(336,289)	–
Ending cash and cash equivalents at 30 June	4,425,633	8,860,016

The notes on pages 10 to 33 form an integral part of this interim condensed financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2016

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 (the "Stock Exchange") since December 1998.

This interim condensed consolidated financial information was approved for issue by the Board of Directors on 25 August 2016.

This interim condensed consolidated financial information has been reviewed, not audited.

Key events and discontinued operations

On 5 February 2016, the Company submitted a proposal to the Stock Exchange in accordance with Practice Note 15 of the Listing Rules for the spin-off of the food and snacks operations of the Group under Qinqin Foodstuffs Group (Caymen) Company Limited (the "Qinqin Group") by way of introduction achieved by distribution in specie of the entire shares of the Qinqin Group. On 31 March 2016, the Company submitted the listing application form (Form A1) to the Stock Exchange to apply for the listing of, and permission to deal in, the shares of the Qinqin Group on the Main Board of the Stock Exchange. On 17 June 2016, the Board of Directors declared a conditional distribution in specie of all of the issued share capital of the Qinqin Group. On 24 June 2016, the approval of the spin-off and separate listing of the Qinqin Group was granted by the Stock Exchange. On 8 July 2016, the shares of the Qinqin Group were listed on the Stock Exchange.

The financial results of the Qinqin Group were presented as discontinued operations in this interim condensed financial information for the six months ended 30 June 2016 and the prior period comparatives have been restated accordingly.

2. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2016 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 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

During the six months ended 30 June 2016, the Group changed the presentation currency for the financial statements of the Group from Hong Kong dollars ("HK\$") to Renminbi ("RMB"). Having considered that the principal activities of the Group are mainly conducted in the PRC and the functional currency of the subsidiaries of the Group in the PRC are denominated in RMB, the directors of the Company considered that the change of presentation currency of the financial statements to RMB would result in a more appropriate presentation of the Group's results, financial positions and cash flows of the Group's activities in its financial statements. This constituted a change in accounting policy of the Group and accordingly retrospective application of the change was applied to the comparative figures for the six months ended 30 June 2015 in this interim condensed consolidated financial information. The comparative figures were translated from HK\$ to RMB using the applicable closing rate at the date of the balance sheet as at 30 June 2015 for the assets and liabilities in the interim condensed consolidated balance sheet, and the applicable average rate during the six months then ended for income and expenses in the interim condensed consolidated statement of income. The resulting currency translation differences were recognized in other comprehensive income.

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual consolidated financial statements of the Group for the year ended 31 December 2015, as described in those annual financial statements except for the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2016.

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

(a) New and amended standards adopted by the Group

- Annual improvements 2014 include changes from the 2012-2014 cycle of the annual improvements project, that affect 4 standards, only the below are effective for relevant transactions on or after 1 January 2016:
 - Amendment to HKFRS 5, 'Non-current assets held for sale and discontinued operations' clarifies that when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution', or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as 'held for sale' or 'held for distribution' simply because the manner of disposal has changed. It also explains that the guidance on changes in a plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not classified as 'held for sale'.
 - Amendment to HKFRS 7, 'Interim financial statements' clarifies the additional disclosure required by the amendments to HKFRS 7, 'Disclosure — offsetting financial assets and financial liabilities' is not specifically required for all interim periods, unless required by HKAS 34.
 - Amendment to HKFRS 19, 'Employee benefits' clarifies when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used.
 - Amendment to HKFRS 34, 'Interim financial reporting' clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. It also amends HKAS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective.

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

(b) Standards, amendments and interpretations to existing standards effective in 2016 but not relevant to the Group

- HKFRS 14 'Regulatory Deferral Accounts', effective for annual periods beginning on or after 1 January 2016.
- Amendment to HKFRS 11 'Accounting for acquisitions of interests in joint operations', effective for annual periods beginning on or after 1 January 2016.

3. ACCOUNTING POLICIES *(continued)*

(b) Standards, amendments and interpretations to existing standards effective in 2016 but not relevant to the Group *(continued)*

- Amendments to HKAS 16 and HKAS 38 'Clarification of acceptable methods of depreciation and amortisation', effective for annual periods beginning on or after 1 January 2016.
- Amendments to HKAS 16 and HKAS 41 'Agriculture: bearer plants', effective for annual periods beginning on or after 1 January 2016.
- Amendments to HKAS 27 'Equity method in separate financial statements', effective for annual periods beginning on or after 1 January 2016.
- Annual improvements 2014 that affect HKFRS 7, 'Financial instruments: Disclosures — application of the disclosure requirements to a servicing contract', effective for annual periods beginning on or after 1 January 2016.
- Amendments to HKFRS 10, HKFRS 12 and HKAS 28 'Investment entities: applying the consolidation exception', effective for annual periods beginning on or after 1 January 2016.
- Amendments to HKAS 1 'Disclosure initiative', effective for annual periods beginning on or after 1 January 2016.

(c) New and amendments standards that might be relevant to the Group have been issued but are not effective for the financial year beginning 1 January 2016 and have not been early adopted by the Group

- HKFRS 9 'Financial Instruments', effective for annual periods beginning on or after 1 January 2018.
- HKFRS 15 'Revenue from Contracts with Customers', effective for annual periods beginning on or after 1 January 2018.
- HKFRS 16 'Leases', effective for annual periods beginning on or after 1 January 2019.
- Amendments to HKFRS 10 and HKAS 28 'Sale or contribution of assets between an investor and its associate or joint venture', effective date to be determined.

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 judgments, 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 judgments 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 2015.

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 2015.

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

5.2 Liquidity risk

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

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Total RMB'000
At 30 June 2016 (Unaudited)				
Bank borrowings	10,715,250	76,923	435,897	11,228,070
Interest payables of bank borrowings	120,273	4,396	1,632	126,301
Convertible bonds	–	472,996	–	472,996
Net settled derivative financial instruments	9,281	–	–	9,281
Trade and other payables	3,703,887	–	–	3,703,887
Total	14,548,691	554,315	437,529	15,540,535
At 31 December 2015 (Audited) (Restated)				
Bank borrowings	9,696,293	–	–	9,696,293
Interest payables of bank borrowings	90,858	–	–	90,858
Convertible bonds	4,832,590	–	–	4,832,590
Net settled derivative financial instruments	30,084	–	–	30,084
Trade and other payables	3,006,774	–	–	3,006,774
Total	17,656,599	–	–	17,656,599

5. FINANCIAL RISK MANAGEMENT *(continued)***5.2 Liquidity risk** *(continued)*

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Total RMB'000
At 30 June 2016 (Unaudited)				
Bank borrowings	10,715,250	76,923	435,897	11,228,070
Interest payables of bank borrowings	120,273	4,396	1,632	126,301
Convertible bonds	–	472,996	–	472,996
Net settled derivative financial instruments	9,281	–	–	9,281
Trade and other payables	3,703,887	–	–	3,703,887
Total	14,548,691	554,315	437,529	15,540,535
At 31 December 2015 (Audited) (Restated)				
Bank borrowings	9,696,293	–	–	9,696,293
Interest payables of bank borrowings	90,858	–	–	90,858
Convertible bonds	–	–	5,028,808	5,028,808
Net settled derivative financial instruments	30,084	–	–	30,084
Trade and other payables	3,006,774	–	–	3,006,774
Total	12,824,009	–	5,028,808	17,852,817

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).

5. FINANCIAL RISK MANAGEMENT *(continued)*

5.3 Fair value estimation *(continued)*

The following table presents the Group's financial instruments that are measured at fair value at 30 June 2016.

	Unaudited 30 June 2016 Level 2 RMB'000	Audited 31 December 2015 Level 2 RMB'000 (Restated)
Financial liabilities fair value through profit or loss		
— Derivative financial instruments	9,281	30,084

During the six months ended 30 June 2016, there were 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 liabilities.

Level 2 trading derivatives comprise forward foreign exchange contracts and interest rate swaps. These forward foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. Interest rate swaps are fair valued with reference to quotations provided by various banks. The effects of discounting are generally insignificant for Level 2 derivatives.

5.4 Fair value of financial assets and liabilities measured at amortised cost

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

- Trade and bills receivables
- Other receivables and deposits
- Long-term bank deposits
- Restricted bank deposits
- Cash and bank balances
- Trade and bills payables
- Other payables and accrued charges
- Bank 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. From a product perspective, management assesses the performance of sanitary napkin, disposable diaper, tissue paper and others. 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.

As mentioned in Note 1, the Group spun off its food and snacks business, namely, the Qinqin Group, via a distribution in specie on 7 July 2016. After the spin-off, the Group will continue to engage in the manufacturing, distribution and sale of personal hygiene products including sanitary napkin products, disposable diaper products and tissue paper products. The food and snack products segment was classified as discontinued operations of the Group. Prior period comparative segment information has been restated to conform with the current period's presentation accordingly.

Sales between segments are carried out on terms mutually agreed amongst these business segments. Revenue from external parties reported to the Executive Directors is 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 2016 is as follows:

	Unaudited				Group RMB'000
	Sanitary napkin products RMB'000	Disposable diaper products RMB'000	Tissue paper products RMB'000	Others RMB'000	
Continuing operations:					
Segment revenue	3,429,223	1,074,217	4,714,267	1,000,415	10,218,122
Inter-segment sales	(221,010)	(6,833)	(146,632)	(266,306)	(640,781)
Revenue of the Group	3,208,213	1,067,384	4,567,635	734,109	9,577,341
Segment profit	1,358,982	211,769	487,582	17,308	2,075,641
Unallocated costs					(38,215)
Other income and other gains — net					264,025
Operating profit					2,301,451
Finance income					52,372
Finance costs					(235,721)
Profit before income tax					2,118,102
Income tax expense					(487,325)
Profit for the period					1,630,777
Non-controlling interests					(3,277)
Profit attributable to shareholders of the Company					1,627,500
Addition to non-current assets	60,619	61,507	387,218	41,052	550,396
Depreciation charge	65,768	24,900	204,592	9,530	304,790
Amortisation charge	4,654	1,848	6,664	223	13,389
Continuing operations:					
Segment assets	4,297,113	3,030,164	15,566,029	5,594,371	28,487,677
Deferred income tax assets					238,674
Tax recoverable					296,646
Unallocated assets					156,475
Assets held for distribution					973,700
Total assets					30,153,172
Segment liabilities	1,324,746	622,080	3,182,497	977,747	6,107,070
Deferred income tax liabilities					176,471
Current income tax liabilities					67,631
Unallocated liabilities					9,476,177
Liabilities held for distribution					189,811
Total liabilities					16,017,160

6. SEGMENT INFORMATION *(continued)*

The segment information for the six months ended 30 June 2015 is as follows:

	Unaudited				Group RMB'000 (Restated)
	Sanitary napkin products RMB'000 (Restated)	Disposable diaper products RMB'000 (Restated)	Tissue paper products RMB'000 (Restated)	Others RMB'000 (Restated)	
Continuing operations:					
Segment revenue	2,965,502	1,195,722	4,508,817	905,474	9,575,515
Inter-segment sales	(24,446)	(2,533)	(148,182)	(204,264)	(379,425)
Revenue of the Group	<u>2,941,056</u>	<u>1,193,189</u>	<u>4,360,635</u>	<u>701,210</u>	<u>9,196,090</u>
Segment profit	<u>1,269,050</u>	<u>237,240</u>	<u>437,932</u>	<u>3,197</u>	<u>1,947,419</u>
Unallocated costs					(34,857)
Other income and other gains — net					<u>331,356</u>
Operating profit					2,243,918
Finance income					87,040
Finance costs					<u>(273,632)</u>
Profit before income tax					2,057,326
Income tax expense					<u>(517,477)</u>
Profit for the period					1,539,849
Non-controlling interests					<u>(967)</u>
Profit attributable to shareholders of the Company					<u>1,538,882</u>
Addition to non-current assets	181,457	11,057	259,000	66,150	517,664
Depreciation charge	61,684	16,796	198,896	10,103	287,479
Amortisation charge	4,414	675	6,699	349	12,137

6. SEGMENT INFORMATION (continued)

	Audited					
	Continuing operations			Discontinued operations		
	Sanitary napkin products RMB'000 (Restated)	Disposable diaper products RMB'000 (Restated)	Tissue paper products RMB'000 (Restated)	Others RMB'000 (Restated)	Food and snack products RMB'000 (Restated)	Group RMB'000 (Restated)
As at 31 December 2015						
Segment assets	5,867,168	3,533,031	15,126,325	7,044,944	916,135	32,487,603
Deferred income tax assets						186,094
Tax recoverable						109,141
Unallocated assets						181,515
Total assets						<u>32,964,353</u>
Segment liabilities	1,931,377	682,313	3,518,686	1,887,402	118,176	8,137,954
Deferred income tax liabilities						159,563
Current income tax liabilities						59,737
Unallocated liabilities						9,515,304
Total liabilities						<u>17,872,558</u>

7. PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS

Profit before income tax from continuing operations is stated after crediting and charging the following:

	Unaudited Six months ended 30 June	
	2016 RMB'000	2015 RMB'000 (Restated)
Crediting		
Government grant income	195,803	187,034
Interests income from long-term and short-term bank deposits	137,640	156,962
Interests income from cash and cash equivalents	52,372	87,040
Net gain on derivative financial instruments	20,803	27,962
Exchange gain from financing activities — net	1,480	—
Charging		
Depreciation of property, plant and equipment (Note 11)	302,655	285,336
Depreciation of investment properties (Note 11)	2,135	2,143
Amortisation of land use rights (Note 11)	12,068	10,816
Amortisation of intangible assets (Note 11)	1,321	1,321
Employee benefit expense, including directors' emoluments	737,222	699,910
Loss on disposal of property, plant and equipment	4,228	2,178
Loss on early redemption of convertible bonds	18,544	—
Operating lease rentals	37,635	41,432
Provision for impairment of trade receivables	8,891	25,145
Provision for decline in value of inventories	2,258	4,150
Exchange loss from operating activities — net	42,595	42,726
Exchange loss from financing activities — net	—	67,587
Interest expenses on bank borrowings, before deducting interest expenses of RMB:– (2015(restated): RMB9,761,000) capitalized in construction-in-progress	152,068	139,942
Interest expenses on convertible bonds	72,448	65,981
Miscellaneous taxes and levies	75,684	61,807

8. INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2016 RMB'000	2015 RMB'000 (Restated)
Continuing operations:		
Current income tax		
— Current tax on profits	457,720	428,023
— PRC withholding income tax	41,854	—
Deferred income tax, net	(12,249)	89,454
Income tax expense	487,325	517,477

8. INCOME TAX EXPENSE *(continued)*

Hong Kong profits tax has been provided for at the rate of 16.5% (2015: 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% (2015: 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 RMB90,985,000 (2015(restated): RMB37,348,000) for the six months ended 30 June 2016 from continuing operations 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 by the weighted average number of ordinary shares in issue during the period.

	Unaudited	
	Six months ended 30 June	
	2016	2015
		(Restated)
From continuing operations:		
Profit attributable to shareholders of the Company (RMB'000)	1,627,500	1,538,882
Weighted average number of ordinary shares in issue (thousands)	1,214,808	1,224,407
Basic earnings per share (RMB)	RMB1.340	RMB1.257
From discontinued operations:		
Profit attributable to shareholders of the Company (RMB'000)	7,540	15,893
Weighted average number of ordinary shares in issue (thousands)	1,214,808	1,224,407
Basic earnings per share (RMB)	RMB0.006	RMB0.013

(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 diluted earnings per share is the same as the basic earnings per share for the six months ended 30 June 2016 as the potential ordinary shares in respect of outstanding share options and convertible bonds are anti-dilutive.

For the six months ended 30 June 2015, the Company's share options are regarded as dilutive potential ordinary shares while convertible bonds have no dilutive effect on the earnings per share. 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 2015) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

9. EARNINGS PER SHARE *(continued)***(b) Diluted** *(continued)*

	Unaudited Six months ended 30 June	
	2016 RMB'000	2015 RMB'000 (Restated)
From continuing operations:		
Profit attributable to shareholders of the Company (RMB'000)	1,627,500	1,538,882
Weighted average number of ordinary shares in issue (thousands)	1,214,808	1,224,407
Adjusted for share options (thousands)	–	3,073
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,214,808	1,227,480
Diluted earnings per share (RMB)	RMB1.340	RMB1.254
From discontinued operations:		
Profit attributable to shareholders of the Company (RMB'000)	7,540	15,893
Weighted average number of ordinary shares in issue (thousands)	1,214,808	1,224,407
Adjusted for share options (thousands)	–	3,073
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,214,808	1,227,480
Diluted earnings per share (RMB)	RMB0.006	RMB0.013

10. DIVIDENDS

	Unaudited Six months ended 30 June	
	2016 RMB'000	2015 RMB'000 (Restated)
Proposed, distribution in specie <i>(Note(a))</i>	1,051,000	–
Interim, proposed/paid, RMB0.85 (2015 (restated): RMB0.78) per share <i>(Note(b))</i>	1,031,072	953,165
	2,082,072	953,165

Notes:

- (a) As mentioned in Note I above, on 17 June 2016, the Board of Directors declared a conditional distribution in specie of all of the issued share capital of the Qinqin Group. The fair value of the net assets value attributable to the Qinqin Group subject to the distribution in specie, amounted to approximately RMB1,051,000,000 as at 30 June 2016.
- (b) A final dividend of HK\$1,394,972,000, equivalent to RMB1,166,057,000 (2015: HK\$1,408,075,000, equivalent to RMB1,115,477,000) related to the period up to 31 December 2015 was paid in May 2016.

An interim dividend of RMB0.85 (2015 (restated): RMB0.78) per share was proposed by the Board of Directors on 25 August 2016. This interim dividend, amounting to RMB1,031,072,000, has not been recognised as a liability in this interim condensed consolidated financial information.

11. CAPITAL EXPENDITURE — NET BOOK VALUE

	Unaudited				
	Property, plant and equipment RMB'000	Investment properties RMB'000	Construction- in-progress RMB'000	Land use rights RMB'000	Intangible assets RMB'000
Continuing operations					
At 1 January 2016 (Restated)	7,092,704	185,886	1,087,821	777,511	500,219
Additions	33,708	–	516,688	–	–
Transfer from construction-in-progress	420,691	–	(420,691)	–	–
Disposals	(5,497)	–	–	–	–
Depreciation/amortisation	(302,655)	(2,135)	–	(12,068)	(1,321)
Currency translation differences	1,061	–	–	–	–
At 30 June 2016	7,240,012	183,751	1,183,818	765,443	498,898
Discontinued operations					
At 1 January 2016 (Restated)	375,610	–	1,781	81,197	99,137
Additions	1,720	–	1,710	–	–
Transfer from construction-in-progress	578	–	(578)	–	–
Disposals	(283)	–	–	–	–
Depreciation/amortisation	(19,479)	–	–	(1,083)	(4,416)
At 30 June 2016	358,146	–	2,913	80,114	94,721
Transfer to assets held for distribution	(358,146)	–	(2,913)	(80,114)	(94,721)
At 30 June 2016	7,240,012	183,751	1,183,818	765,443	498,898
Continuing operations					
At 1 January 2015 (Restated)	6,593,127	188,542	1,089,574	798,484	502,862
Additions	57,435	–	458,691	1,538	–
Transfer from construction-in-progress	288,373	–	(288,373)	–	–
Disposals	(5,219)	–	–	–	–
Depreciation/amortisation	(285,336)	(2,143)	–	(10,816)	(1,321)
Currency translation differences	(21)	–	3	–	–
At 30 June 2015 (Restated)	6,648,359	186,399	1,259,895	789,206	501,541
Discontinued operations					
At 1 January 2015 (Restated)	403,713	–	2,137	83,371	107,113
Additions	3,332	–	1,656	–	422
Transfer from construction-in-progress	2,205	–	(2,205)	–	–
Disposals	(428)	–	–	–	–
Depreciation/amortisation	(20,385)	–	–	(1,088)	(4,397)
At 30 June 2015 (Restated)	388,437	–	1,588	82,283	103,138
At 30 June 2015 (Restated)	7,036,796	186,399	1,261,483	871,489	604,679

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

12. TRADE AND BILLS RECEIVABLES

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000 (Restated)
Trade receivables	2,267,040	2,152,090
Bills receivables	105,427	88,472
	2,372,467	2,240,562
Less: provision for impairment	(32,683)	(24,003)
Trade and bills receivables, net	2,339,784	2,216,559

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

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000 (Restated)
Within 30 days	844,018	985,094
31 to 180 days	1,401,279	1,172,913
181 to 365 days	78,927	41,668
Over 365 days	48,243	40,887
	2,372,467	2,240,562

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 approximated their fair values as at the balance sheet date.

13. LONG-TERM BANK DEPOSITS, RESTRICTED BANK DEPOSITS AND CASH AND BANK BALANCES

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000 (Restated)
Long-term bank deposits		
Term deposits with initial term over one year	1,491,238	850,000
Restricted bank deposits	15,794	21,132
Cash and bank balances		
— Term deposits with initial term over three months and within one year	6,591,351	8,972,385
— Cash and cash equivalents	4,425,633	5,893,700
	11,016,984	14,866,085
Total	12,524,016	15,737,217

The cash and cash equivalents represented cash deposits held at call with banks and in hand and term deposits with initial term within three months.

14. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000 (Restated)
Trade and bills payables	1,804,609	2,277,890
Other payables and accrued charges		
— Dividend payables	1,051,000	4,509
— Payables for purchase of property, plant and equipment	538,770	478,946
— Accrued expenses	270,371	210,844
— Advance receipts from customers	76,509	138,406
— Staff salaries payables	102,345	94,504
— Other taxes payables	18,357	30,290
— Others	39,137	34,585
	2,096,489	992,084
Total payables and accrued charges	3,901,098	3,269,974

14. TRADE AND OTHER PAYABLES *(continued)*

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

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000 (Restated)
Within 30 days	1,084,805	1,608,870
31 to 180 days	694,570	654,270
181 to 365 days	15,527	2,327
Over 365 days	9,707	12,423
	1,804,609	2,277,890

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

15. BANK BORROWINGS

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000 (Restated)
Non-current		
Long-term bank loans — unsecured	512,820	—
Current		
Trust receipt bank loans	574,928	718,960
Short-term bank loans — unsecured	10,140,322	8,977,333
	10,715,250	9,696,293
Total bank borrowings	11,228,070	9,696,293

As at 30 June 2016, the effective interest rate of the Group's bank borrowings was approximately 3.06% (31 December 2015: 2.32%) per annum.

15. BANK BORROWINGS *(continued)*

Movements in bank borrowings are analysed as follows:

	Unaudited RMB'000
At 1 January 2016 (Restated)	9,696,293
New bank borrowings	9,020,876
Repayments of bank borrowings	(7,645,764)
Currency translation differences	156,665
At 30 June 2016	11,228,070
At 1 January 2015 (Restated)	11,963,184
New bank borrowings	7,393,848
Repayments of bank borrowings	(7,579,791)
Currency translation differences	1,275
At 30 June 2015 (Restated)	11,778,516

16. CONVERTIBLE BONDS

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000 (Restated)
Fair value of convertible bonds issued on 27 June 2013	4,328,181	4,328,181
Issuing expenses	(87,625)	(87,625)
Equity component	(140,634)	(140,634)
Liability component on initial recognition on 27 June 2013	4,099,922	4,099,922
Accumulated finance costs	400,741	328,293
Early redemption of convertible bonds	(4,313,000)	–
Currency translation difference	257,135	228,692
Liability component		
— Current	–	4,656,907
— Non-current	444,798	–
	444,798	4,656,907

16. CONVERTIBLE BONDS *(continued)*

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, equivalent to RMB4,328 million with an initial conversion price of HK\$120.0825, equivalent to RMB95.6457 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.

During the period ended 30 June 2016, the Group early redeemed the convertible bonds with principal amount of HK\$4,933 million, equivalent to RMB3,929 million. Upon redemption, the redemption consideration of RMB4,403,385,000 was allocated as to RMB4,313,000,000 to the liability component and RMB71,841,000 to the equity component. The difference between the redemption consideration allocated to the liability component and the carrying amount of the liability component of the bonds redeemed as at the redemption date of RMB18,544,000 is recognised in profit or loss as "loss on early redemption of convertible bonds". The difference between the redemption consideration and the carrying amount of the equity component amounting to RMB55,827,000 is recognised in retained earnings.

17. SHARE CAPITAL

	Authorised share capital Ordinary shares of HK\$0.10 each	
	Number of shares	HK\$'000
At 1 January 2015 to 30 June 2016	3,000,000,000	300,000

17. SHARE CAPITAL *(continued)*

	Issued and fully paid Ordinary shares of HK\$0.10 each	
	Number of shares	RMB'000
At 1 January 2016 (Restated)	1,218,094,221	128,132
Buy-back of shares <i>(Note)</i>	(5,083,000)	(428)
Share-based compensation		
— Proceeds from shares issued	15,000	1
At 30 June 2016	1,213,026,221	127,705
At 1 January 2015 (Restated)	1,224,384,721	128,649
Share-based compensation		
— Proceeds from shares issued	28,500	3
At 30 June 2015 (Restated)	<u>1,224,413,221</u>	<u>128,652</u>

Note:

The Group acquired 5,083,000 its own ordinary shares through purchases on the Stock Exchange during the period ended 30 June 2016. The shares had been cancelled after buy-back. The total amount paid to acquire the shares was approximately RMB276,797,000 and have been deducted from share capital, other reserves and retained earnings in the amounts of RMB428,000, RMB1,199,000 and RMB275,170,000, respectively.

18. DISCONTINUED OPERATIONS AND ASSETS/LIABILITIES HELD FOR DISTRIBUTION

As described in Note 1, on 24 June 2016, the approval of the spin-off and separate listing of the Qinqin Group was granted by the Stock Exchange, and on 8 July 2016, the shares of the Qinqin Group were listed on the Stock Exchange. The consolidated assets and liabilities related to the Qinqin Group at the date of approval of spin-off have been presented in this interim condensed financial information as held for distribution. The consolidated results of the Qinqin Group are presented in the consolidated statement of income as discontinued operations in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". The interim condensed consolidated statement of income and interim condensed consolidated statement of cash flow distinguish the discontinued operations from the continuing operations, and the comparative figures have been restated accordingly.

18. DISCONTINUED OPERATIONS AND ASSETS/LIABILITIES HELD FOR DISTRIBUTION*(continued)*

The interim financial information of the discontinued operations is set out below:

(a) Interim condensed consolidated statement of income

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Revenue	617,746	687,709
Cost of goods sold	(336,921)	(384,195)
Gross profit	280,825	303,514
Other income and other gains — net	3,514	8,043
Distribution costs	(194,596)	(234,077)
Administrative expenses	(62,632)	(42,323)
Operating profit	27,111	35,157
Finance income	3,812	6,188
Finance costs	(113)	(117)
Finance costs — net	3,699	6,071
Profit before income tax	30,810	41,228
Income tax expense	(16,025)	(10,066)
Net profit for the period	14,785	31,162
Profit attributable to:		
Shareholders of the Company	7,540	15,893
Non-controlling interests	7,245	15,269
	14,785	31,162

18. DISCONTINUED OPERATIONS AND ASSETS/LIABILITIES HELD FOR DISTRIBUTION

(continued)

(b) Assets and liabilities of the discontinued operations

The consolidated assets and liabilities related to the discontinued operations have been presented as held for distribution, following the spin-off and separate listing. The discontinued operations' assets and liabilities were measured at the lower of carrying amount and fair value less cost to sell at the date of held for sale classification. The major classes of assets and liabilities of the discontinued operations are as follows:

		Unaudited 30 June 2016 RMB'000
i)	Assets held for distribution	
	Property, plant and equipment and construction-in-process	361,059
	Intangible assets, including goodwill, and land use rights	174,835
	Inventories	57,161
	Other current assets	363,651
	Other non-current assets	16,994
	Total	973,700
ii)	Liabilities held for distribution	
	Trade and other payables	158,451
	Other current liabilities	5,063
	Other non-current liabilities	26,297
	Total	189,811

(c) Cumulative income recognized in other comprehensive income relating to the discontinued operations

	Unaudited Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Currency translation differences	2,368	9

18. DISCONTINUED OPERATIONS AND ASSETS/LIABILITIES HELD FOR DISTRIBUTION*(continued)***(d) Analysis of the cash flows of the discontinued operation is as follows**

	Unaudited Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Net cash generated from operating activities	125,802	116,173
Net cash used in investing activities	(6,399)	(4,335)
Net cash used in financing activities	(6,083)	(20)
Net increase in cash and cash equivalents	113,320	111,818

(e) Capital commitments

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Contracted but not provided for in respect of:		
Machinery and equipment	6,915	5,712
Leasehold land and buildings	1,726	2,773
	8,641	8,485

19. CAPITAL COMMITMENTS

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000 (Restated)
Contracted but not provided for in respect of:		
Machinery and equipment	388,515	332,558
Leasehold land and buildings	208,022	156,952
Total capital commitment	596,537	489,510

20. CONTINGENT LIABILITIES

At 30 June 2016, the Group had no material contingent liabilities (31 December 2015: Nil).

21. 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	
	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
		(Restated)
Purchases from Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power")		
— electricity energy	48,843	50,132
— heat energy	30,882	33,545
	79,725	83,677

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

(b) For the six months ended 30 June 2016, the key management compensation amounted to approximately RMB5,473,000 (2015 (restated): RMB7,235,000).

22. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

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

(b) As described in Note 1, on 24 June 2016, the approval of the spin-off and separate listing of the Qinqin Group was granted by the Stock Exchange, and on 8 July 2016, the shares of the Qinqin Group were listed on the Stock Exchange. The transaction is expected to give rise to a gain to the Group's results in the second half year of 2016.

BUSINESS REVIEW

In the first half of 2016, economic recovery in the US remained slow and Britain's vote to leave the European Union has increased uncertainties over the Eurozone economy. China's economic growth continued to decelerate. According to the National Bureau of Statistics of China, the country's gross domestic product for the first half of 2016 increased by 6.7% year-on-year, 0.3 percentage point lower than the previous year. Faced with unstable external environment, slowing economic growth in China and intensified competition in China's fast moving consumer goods market, business environment has become more challenging.

For the six months ended 30 June 2016, the Group recorded revenue for continuing operations of approximately RMB9,577,341,000 (2015 first half: RMB9,196,090,000), rose by about 4.1% compared with that of the previous period. Operating profit for continuing operations increased by about 2.6% to approximately RMB2,301,451,000 (2015 first half: RMB2,243,918,000). Profit for continuing operations attributable to the shareholders of the Company was approximately RMB1,627,500,000 (2015 first half: RMB1,538,882,000), an increase of approximately 5.8% compared with that of previous period. Profit for discontinued operations attributable to the shareholders of the Company declined by about 52.6% to approximately RMB7,540,000 (2015 first half: RMB15,893,000). Profit attributable to shareholders increased by approximately 5.2% to RMB1,635,040,000. (2015 first half: RMB1,554,775,000). The Board of Directors declared an interim dividend of RMB0.85 per share for the six months ended 30 June 2016 (2015 first half: RMB0.78).

Despite the fact that market competition remained intense, the Group was benefited from the positive impact of decline in raw material prices, optimized product portfolio and enhanced economies of scale, and hence the gross profit margin for continuing operations increased to approximately 48.1% (2015 first half: 46.7%). Distribution costs and administrative expenses for continuing operations increased to approximately 26.8% (2015 first half: 25.9%) of the Group's revenue for continuing operations, which was attributable to increase in marketing and advertising expenses for some emerging sales channels.

The effective tax rate was lowered to approximately 23.0% (2015 first half: 25.2%). The Group provided a large amount of dividend withholding tax in the second half of 2015 for the dividend which would likely be remitted out of mainland China in the foreseeable future. As such, the provision of dividend withholding tax required for the first half of 2016 became lower.

Sanitary Napkin

Accelerating urbanization and rising living standard continued to support the development of sanitary napkin market and drive the consumption. Although the overstocking issues encountered by distributors were substantially resolved, they still faced the problem of cash crunch, coupled with the impact of intensified market competition, hindering the Group's revenue growth in sanitary napkin sector.

During the period, the revenue of the sanitary napkin business grew by approximately 9.1% to approximately RMB3,208,213,000, which accounted for around 33.5% of the revenue from continuing operations (2015 first half: 32.0%). Despite fierce market competition, the gross profit margin of sanitary napkin business rose to approximately 71.8% (2015 first half: 71.4%), thanks to the persistent decline in the prices of major raw materials, petrochemical products and optimized product portfolio.

The Group expects to see mild improvement in sales performance in the second half of 2016 as it will continue to invest in emerging sales channels, optimize its product mix and launch new and upgraded products, collaborate with distributors on the improvement in inventory management.

Tissue Paper

Mainland China's market for high-quality tissue paper has been expanding on the back of rising living quality and the Chinese people's increasing awareness of health. The market potential is enormous as China's tissue paper consumption per capita still lags behind that of developed countries. However, fierce competition and overall overcapacity in the industry continued to affect the growth rate of the Group's tissue paper business.

The Group's tissue paper sales increased slightly by approximately 4.7% to approximately RMB4,567,635,000, accounting for approximately 47.7% (2015 first half: 47.4%) of the Group's total revenue from continuing operations. Gross profit margin increased to approximately 37.7% (2015 first half: 36.2%) due to the persistent drop in price of tissue wood pulp, a major raw material, in the first half of 2016.

The Group's annualized production capacity was approximately 1,020,000 tons, which is expected to increase to approximately 1,140,000 tons in the fourth quarter of 2016. The Group will expand its production capacity according to the market conditions and sales performance in the future. Besides, the Group expects the sales performance will improve mildly in the second half of the year as the Group will launch various new and upgraded products, and invest in the development of emerging sales channel.

Disposable Diapers

Accelerating urbanization and the people's increasing awareness of personal hygiene continue to fuel the growing demand for diaper products. As many Chinese people still do not regard diapers as daily necessities, the market penetration rate of disposable diaper products is still low in the country, implying huge untapped market potential.

During the period, competition in the disposable diapers market became more intensified. The sales of mid-to-high end diaper products were affected by foreign competitors' expansion into the China's market through cross-border e-commerce platform. Meanwhile, China's economic slowdown and the intense price competition among small and medium enterprises led to a decline in sales of low and mid end disposable diapers. Therefore, for the six months ended 30 June 2016, revenue from the sales of disposable diapers dropped by about 10.5% to approximately RMB1,067,384,000, accounting for approximately 11.1% (2015 first half: 13.0%) of the Group's total revenue from continuing operations.

During the period, the persistent decline in prices of major raw materials, petrochemical products and the optimized product portfolio boosted the gross profit margin to around 49.8% (2015 first half: 47.3%).

In the long term, benefited from China's new two-child policy and improved living standards, the disposable diapers market is expected to grow sustainably going forward. The Group will continue to expand emerging sales channels, step up its advertising and promotion efforts for mid-to-high end products, and strengthen brand competitiveness. Besides, China's government has imposed tax on cross-border e-commerce transactions, which will enhance the competitiveness of the Group's products.

Food and Snacks Products

Please refer to note 1 above. Qinqin Foodstuffs Group (Cayman) Company Limited (“Qinqin Group”, SEHK stock code: 1583) was spun off from the Group and listed on the Main Board of the Stock Exchange. After spinning off the food and snacks business, the Group will focus on the production, distribution and sales of its personal hygiene products in the future.

In view of the above, the operation of Qinqin Group is regarded as discontinued operations, and hence its profit attributable to shareholders of around RMB7,540,000 (2015 first half: RMB15,893,000) was recorded separately as “income from discontinued operations” in the consolidated income statement. Apart from the impact of economic slowdown and intensified market competition, its net profit was also dragged by the one-off listing expense of approximately RMB21,500,000 incurred in the first half of 2016. For the operations and financial information of Qinqin Group, please refer to the announcement of Qinqin Group.

First Aid Products

Sales of first-aid products under the brands of “Banitore” and “Bandi” amounted to approximately RMB14,738,000 (2015 first half: RMB15,118,000). The business only accounted for approximately 0.2% (2015 first half: 0.2%) of the Group’s revenue for continuing operations, and did not have any significant impact on the Group’s overall results.

Foreign currency risks

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

As at 30 June 2016, apart from certain interest rate swap contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

Liquidity, Financial Resources and Bank Loans

The Group maintained a solid financial position. As at 30 June 2016, the Group’s cash and bank balances, long-term bank deposits and restricted bank deposits amounted to approximately RMB12,524,016,000 (31 December 2015: RMB15,737,217,000); the liability component of convertible bonds amounted to approximately RMB444,798,000 (31 December 2015: RMB4,656,907,000), and bank borrowings amounted to approximately RMB11,228,070,000 (31 December 2015: RMB9,696,293,000).

The principal amount of the convertible bonds issued in June 2013 was approximately RMB4,328 million, out of which convertible bonds with principal amount of RMB3,929 million had been early redeemed on 27 June 2016, and the remaining amount will be repaid on 27 June 2018. Please refer to note 16 above for details.

The convertible bonds were subject to a fixed interest rate of 2.7% while the bank borrowings were subject to floating annual interest rates ranging from approximately 0.3% to 4.6% (2015 first half: from 0.4% to 5.2%).

As at 30 June 2016, the Group’s gross gearing ratio decreased to approximately 81.9% (31 December 2015: 97.6%), 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 non-controlling interests), was negative 5.9% (31 December 2015: negative 9.3%) as the Group was in a net cash position.

During the first six months of 2016, the Group’s capital expenditure for continuing operations amounted to approximately RMB550,396,000. As at 30 June 2016, the Group had no material contingent liabilities.

Appointment of professional consultants

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

In addition, the company also hired PricewaterhouseCoopers Consulting (Shanghai) Co., Ltd. in 2016 to provide advisory services regarding the preparation of "Environmental, Social and Governance Report". The detail report is expected to be presented in the 2016 annual report. The Group also collaborated with PricewaterhouseCoopers Consulting (Shanghai) Co., Ltd. to set up a Services Sharing Centre to handle financial, administrative, human resources and logistics work of subsidiaries, branches and sales representatives' offices, in order to improve efficiency and optimize cost structure.

Environmental Protection and Use of Resources

With regards to environmental management, the Group has adopted ISO14001 Environmental Management System for managing the impact of its activities on the environment since 2003, and accepted the supervision of the certification authorities on an annual basis. The Group strictly abided by the China's environmental protection policy, for example, the energy consumption level met the advanced standard of "Norm of energy consumption per unit product of pulp and paper" (GB31825-2015) ($\leq 420\text{kgce/t}$); the emission of sewage met the emission standard stated in "Discharge standard of water pollutants for pulp and paper industry" (GB3544-2008); and the emission of fibrous dust particles also met the standard of "Integrated emission standard of air pollutants" (GB16297-1996) in the first half of 2016.

The Group's dissipation of energy in paper manufacturing is 378kgce/t , which met the advanced requirement of "Norm of energy consumption per unit product of pulp and paper" (GB31825-2015) ($\leq 420\text{kgce/t}$). It sets a leading industry standard with its extraordinary energy utilization rate.

All paper manufacturing companies of the Group have sewage treatment plant, and waste water will be emitted only after the water treatment processes including oblique filter, dissolved air floatation, aerobic aeration, ensuring the waste water to meet the country's emission standard. Some of the paper manufacturing subsidiaries adopted advanced technology to recycle 50% of the waste water for production. Some of the paper manufacturing subsidiaries further applied sand filters after the water recycling process. The recycled water would be used for flushing, greening and washing the production facilities. The quantity of actual emission was only about one-third of the country's benchmark.

Some of the Company's subsidiaries installed waste heat boiler to recycle the waste gas heat arising from natural gas combustion, which could be used in generating steam, thus reducing the purchase of steam. Besides, the subsidiaries also used the insulated Yankee dryer cover to reduce loss of the steam which could save 2% of the steam consumption. In addition, they promoted the use of turbine as a substitute for water ring vacuum pump to reduce steam consumption as well as the variable frequency drivers to reduce electricity consumption.

The Group achieved harmless treatment of its solid wastes. The wet pulp was sold to other carton paper mills for recycling use, while sludge was used in incineration to produce electricity. Domestic wastes were collected by environmental sanitation department and then processed with professional harmless treatment. Meanwhile, gypsums were sold to cement plants for cement manufacturing. Fly ash was sold to other companies for refining rare metals, and cinder could be used for producing brick plate.

For the emission of gas, some of the production processes used advanced foreign equipment to recycle the gas particles generated during the production, in order to maximize the reduction in emissions.

Latest awards

The Group was notified that it would be awarded the “International Carbon-Value Gold Award” at the World Economic and Environmental Conference in September. The award reaffirmed recognitions of the Group’s excellent devotion to environmental protection. The Group will continue to foster the environmental management and lower carbon emission for environment protection.

Product Research and Development

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

Human Resources and Management

As at 30 June 2016, the Group’s continuing operations employed approximately 26,000 staff members. The Group’s remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group’s financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and career opportunities according to their needs.

Outlook

Looking ahead to the second half of 2016, the world economy will remain challenging and China is likely to maintain moderate growth. Notwithstanding that market competition will remain intense in the near term, China’s rising per capital income, accelerating urbanization and consumers’ increasing awareness of health and hygiene will continue to boost the development of the market for personal hygiene product in long term.

In response to changes in the market structure for product sales, the Group will continue to optimize its product portfolio in light of market changes, launch new and upgraded products to cater different needs of consumers. Meanwhile, the Group will also continue to closely monitor the trends of raw material prices, in order to further improve its gross profit margin.

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

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board of Directors has declared an interim dividend of RMB0.85 per share (2015: HK\$0.95 per share which is equivalent to RMB0.78 per share) for the six months ended 30 June 2016 to be paid to shareholders whose names appear on the Register of Members of the Company at the close of business on 23 September 2016. Dividend warrants will be despatched to shareholders on or about 7 October 2016.

Dividends payable to shareholders will be paid in Hong Kong dollars (“HK\$”). The exchange rate adopted by the Company for its dividend payable is the middle exchange rate of HK\$ to RMB announced by the People’s Bank of China for the business day preceding the date of dividend declaration.

The Register of Members of the Company will be closed from 21 September 2016 to 23 September 2016 (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 4:30 p.m. on 20 September 2016.

DIRECTORS' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 30 June 2016, the interests of each director in the shares, short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO and disclosed in accordance with the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange were as follows:

Name of Directors	Capacity/Nature of interest Number of shares		Number of unlisted share (Note 1)		Approximate percentage of shareholding
	Personal interests/ Beneficiary	Family Interest	Personal interests/ Beneficiary	Total	
Mr. Sze Man Bok (Note 2)	228,804,599	–	20,000	228,824,599	18.86%
Mr. Hui Lin Chit (Note 3)	224,669,751	–	148,000	224,817,751	18.53%
Mr. Hung Ching Shan (Note 4)	7,000,000	–	20,000	7,020,000	0.58%
Mr. Xu Shui Shen	–	33,030	180,000	213,030	0.02%
Mr. Xu Da Zuo (Note 5)	19,777,321	–	108,000	19,885,321	1.64%
Mr. Xu Chun Man (Note 6)	14,715,621	–	20,000	14,735,621	1.21%
Mr. Sze Wong Kim	151,700	–	20,000	171,700	0.01%
Mr. Hui Ching Chi	40,000	–	20,000	60,000	0.01%
Mr. Loo Hong Shing Vincent	125,000	–	140,000	265,000	0.02%

Notes:

- (1) Unlisted shares represent share options granted to Directors pursuant to share option scheme of the Company and details of which are set out on pages 42 to 43.
- (2) Out of the 228,804,599 ordinary shares, Tin Lee Investments Limited ("Tin Lee") holds 228,228,999 ordinary shares while Mr. Sze Man Bok has personal interests in 575,600 ordinary shares in the Company. Tin Lee is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Tin Wing Holdings Limited ("Tin Wing"). Tin Wing is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse Trust Limited ("Credit Suisse"), the trustee of the Sze's Family Trust. Mr. Sze Man Bok is the settlor and beneficiary of the Sze's Family Trust.
- (3) An Ping Holdings Limited holds 224,669,751 shares in the Company. It is a company incorporated in the Bahamas and is a wholly owned subsidiary of An Ping Investments Limited ("An Ping Investments"). An Ping Investments is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse, the trustee of the Hui Family Trust. Mr. Hui Lin Chit is the settlor and beneficiary of the Hui Family Trust.
- (4) Wan Li Company Limited holds 7,000,000 shares in the Company. It is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Manley Investments Limited ("Manley"). Manley is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse, the trustee of the Wan Li Trust. Mr. Hung Ching Shan is the settlor and beneficiary of the Wan Li Trust.
- (5) Out of the 19,777,321 ordinary shares, Skyful Holdings Limited holds 17,270,000 shares in the Company. It is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Charter Towers Limited ("Charter Towers"). Charter Towers is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse, the trustee of the Xu Family Trust. Mr. Xu Da Zuo is the settlor and beneficiary of the Xu Family Trust. The remaining 2,507,321 shares are held by Hengan International Investments Limited ("HIIIL"), a nominee company holding shares of the Company on behalf of certain directors and senior management of the Group and their family members.
- (6) Out of the 14,715,621 ordinary shares, Zhong Shen Investment Holdings Limited holds 11,500,000 shares in the Company. It is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Zhong Shen Holdings Limited ("Zhong Shen"). Zhong Shen is a company incorporated in the British Virgin Islands and owned by HSBC International Trustee Limited as nominee and being the trustee of Zhong Shen Trust. Mr. Xu Chun Man is the settlor and beneficiary of Zhong Shen Trust. The remaining 3,215,621 shares are held by HIIIL.
- (7) Interests in shares and share options were long position.

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES OF THE COMPANY

The register of substantial shareholders maintained under section 336 of part XV of the SFO shows that as at 30 June 2016, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

Substantial shareholders	Note	Capacity	Number of ordinary shares beneficially held	Approximate percentage of shareholding
Tin Lee Investments Limited	(1)	Beneficial owner	228,228,999 (L)	18.81%
Tin Wing Holdings Limited	(1)	Interests of controlled corporation	228,228,999 (L)	18.81%
An Ping Holdings Limited	(2)	Beneficial owner	224,669,751 (L)	18.52%
An Ping Investments Limited	(2)	Interests of controlled corporation	224,669,751 (L)	18.52%
Serangoon Limited	(1), (2) & (3)	Interests of controlled corporation	493,375,642 (L)	40.67%
Seletar Limited	(1), (2) & (3)	Interests of controlled corporation	493,375,642 (L)	40.67%
Credit Suisse Trust Limited	(3)	Trustee	493,375,642 (L)	40.67%
JP Morgan Chase & Co	(4)	Beneficial owner	5,275,642 (L)	0.43%
	(4)	Beneficial owner	1,624,406 (S)	0.13%
	(4)	Investment manager	3,386,491 (L)	0.28%
	(4)	Custodian corporation/ approved lending agent	53,065,711 (L)	4.37%

(L) denotes long position

(S) denotes short position

Notes:

- (1) Tin Lee Investments Limited is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Tin Wing Holdings Limited. Tin Wing Holdings Limited is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse Trust Limited, the trustee of the Sze's Family Trust.
- (2) An Ping Holdings Limited, a company incorporated in the Bahamas, is a wholly owned subsidiary of An Ping Investments Limited. An Ping Investments Limited is a company incorporated in the Bahamas and owned by Seletar Limited and Serangoon Limited as nominee in trust for Credit Suisse Trust Limited, the trustee of the Hui Family Trust.
- (3) Credit Suisse Trust Limited is the trustee of the Sze's Family Trust, the Hui Family Trust, the Xu Family Trust, the Wan Li Trust and others and is deemed to be interested in the shares held by these trusts.
- (4) JP Morgan Chase & Co and its various wholly-owned subsidiaries held the shares on behalf of the accounts they managed.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2016, the Company repurchased a total of 5,083,000 ordinary shares on the Stock Exchange at an aggregate consideration of approximately RMB276,797,000 (excluding expenses) for enhancing its per share net asset value and earnings. All the repurchased shares were subsequently cancelled. Details of the repurchase of shares are summarized as follows:

Date of repurchase	Number of shares repurchased	Highest price paid	Lowest price paid
12 January 2016	750,000	65.75	65.45
14 January 2016	208,000	65.75	65.60
15 January 2016	846,500	65.90	65.50
18 January 2016	10,000	65.70	65.70
20 January 2016	1,298,500	65.90	65.50
21 January 2016	282,500	65.95	65.95
24 March 2016	<u>1,687,500</u>	63.00	62.10
	<u><u>5,083,000</u></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 2016.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Scheme") on 26 May 2011 which is valid and effective for a period of 10 years commencing on the respective dates of adoption of the Scheme. The table below sets out movements in the share options granted under the Scheme during the six months ended 30 June 2016:

Eligible person	Number of share options					Balance as at 30/06/2016	Exercise price per share HK\$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
	Balance as at 01/01/2016	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled or lapsed during the period				
Directors									
Mr. Sze Man Bok	10,000	-	-	-	-	10,000	72.75	27/07/2012	28/07/2015-27/07/2022
	5,000	-	-	-	-	5,000	72.75	27/07/2012	28/07/2016-27/07/2022
	5,000	-	-	-	-	5,000	72.75	27/07/2012	28/07/2017-27/07/2022
Mr. Hui Lin Chit	74,000	-	-	-	-	74,000	72.75	27/07/2012	28/07/2015-27/07/2022
	37,000	-	-	-	-	37,000	72.75	27/07/2012	28/07/2016-27/07/2022
	37,000	-	-	-	-	37,000	72.75	27/07/2012	28/07/2017-27/07/2022
Mr. Xu Shui Shen	10,000	-	-	-	-	10,000	68.30	28/07/2011	28/07/2014-27/07/2021
	5,000	-	-	-	-	5,000	68.30	28/07/2011	28/07/2015-27/07/2021
	5,000	-	-	-	-	5,000	68.30	28/07/2011	28/07/2016-27/07/2021
	80,000	-	-	-	-	80,000	72.75	27/07/2012	28/07/2015-27/07/2022
	40,000	-	-	-	-	40,000	72.75	27/07/2012	28/07/2016-27/07/2022
	40,000	-	-	-	-	40,000	72.75	27/07/2012	28/07/2017-27/07/2022
Mr. Hung Ching Shan	10,000	-	-	-	-	10,000	72.75	27/07/2012	28/07/2015-27/07/2022
	5,000	-	-	-	-	5,000	72.75	27/07/2012	28/07/2016-27/07/2022
	5,000	-	-	-	-	5,000	72.75	27/07/2012	28/07/2017-27/07/2022
Mr. Xu Da Zuo	54,000	-	-	-	-	54,000	72.75	27/07/2012	28/07/2015-27/07/2022
	27,000	-	-	-	-	27,000	72.75	27/07/2012	28/07/2016-27/07/2022
	27,000	-	-	-	-	27,000	72.75	27/07/2012	28/07/2017-27/07/2022
Mr. Xu Chun Man	10,000	-	-	-	-	10,000	72.75	27/07/2012	28/07/2015-27/07/2022
	5,000	-	-	-	-	5,000	72.75	27/07/2012	28/07/2016-27/07/2022
	5,000	-	-	-	-	5,000	72.75	27/07/2012	28/07/2017-27/07/2022

Eligible person	Number of share options					Balance as at 30/06/2016	Exercise price per share HK\$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
	Balance as at 01/01/2016	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled or lapsed during the period				
Mr. Sze Wong Kim	10,000	-	-	-	-	10,000	68.30	28/07/2011	28/07/2014-27/07/2021
	5,000	-	-	-	-	5,000	68.30	28/07/2011	28/07/2015-27/07/2021
	5,000	-	-	-	-	5,000	68.30	28/07/2011	28/07/2016-27/07/2021
Mr. Hui Ching Chi	10,000	-	-	-	-	10,000	68.30	28/07/2011	28/07/2014-27/07/2021
	5,000	-	-	-	-	5,000	68.30	28/07/2011	28/07/2015-27/07/2021
	5,000	-	-	-	-	5,000	68.30	28/07/2011	28/07/2016-27/07/2021
Mr. Loo Hong Shing Vincent	70,000	-	-	-	-	70,000	72.75	27/07/2012	28/07/2015-27/07/2022
	35,000	-	-	-	-	35,000	72.75	27/07/2012	28/07/2016-27/07/2022
	35,000	-	-	-	-	35,000	72.75	27/07/2012	28/07/2017-27/07/2022
Participants	1,193,500	-	(10,000)	-	-	1,183,500	68.30	28/07/2011	28/07/2014-27/07/2021
	616,000	-	(5,000)	-	-	611,000	68.30	28/07/2011	28/07/2015-27/07/2021
	619,000	-	-	-	-	619,000	68.30	28/07/2011	28/07/2016-27/07/2021
	5,569,000	-	-	-	-	5,569,000	72.75	27/07/2012	28/07/2015-27/07/2022
	2,785,500	-	-	-	-	2,785,500	72.75	27/07/2012	28/07/2016-27/07/2022
	2,785,500	-	-	-	-	2,785,500	72.75	27/07/2012	28/07/2017-27/07/2022
	2,666,500	-	-	-	-	2,666,500	79.20	05/10/2015	05/10/2018-05/10/2025
	1,333,250	-	-	-	-	1,333,250	79.20	05/10/2015	05/10/2019-05/10/2025
	1,333,250	-	-	-	-	1,333,250	79.20	05/10/2015	05/10/2020-05/10/2025
19,577,500	-	(15,000)	-	-	19,562,500				

According to the Binomial Model, the fair value of the option granted, which had been charged to the consolidated income statement for the six months ended 30 June 2016, amounted to approximately RMB28,167,000 and the remaining unamortised fair value of approximately RMB100,795,000 will be charged to the consolidated income statement in future years.

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

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 2016.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

For the six months ended 30 June 2016, the Company has adopted the Model Code as set out in Appendix 10 to 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 2016, 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 following:

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. Chan Henry, Mr. Wang Ming Fu and Mr. Zhou Fang Sheng, independent non-executive directors of the Company, were unable to attend the annual general meeting of the Company held on 18 May 2016 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, 25 August 2016