



# 恒安國際集團有限公司

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Stock code: 1044

INTERIM REPORT  
2017



# CORPORATE MISSION



## “GROWING WITH YOU FOR A BETTER LIFE”

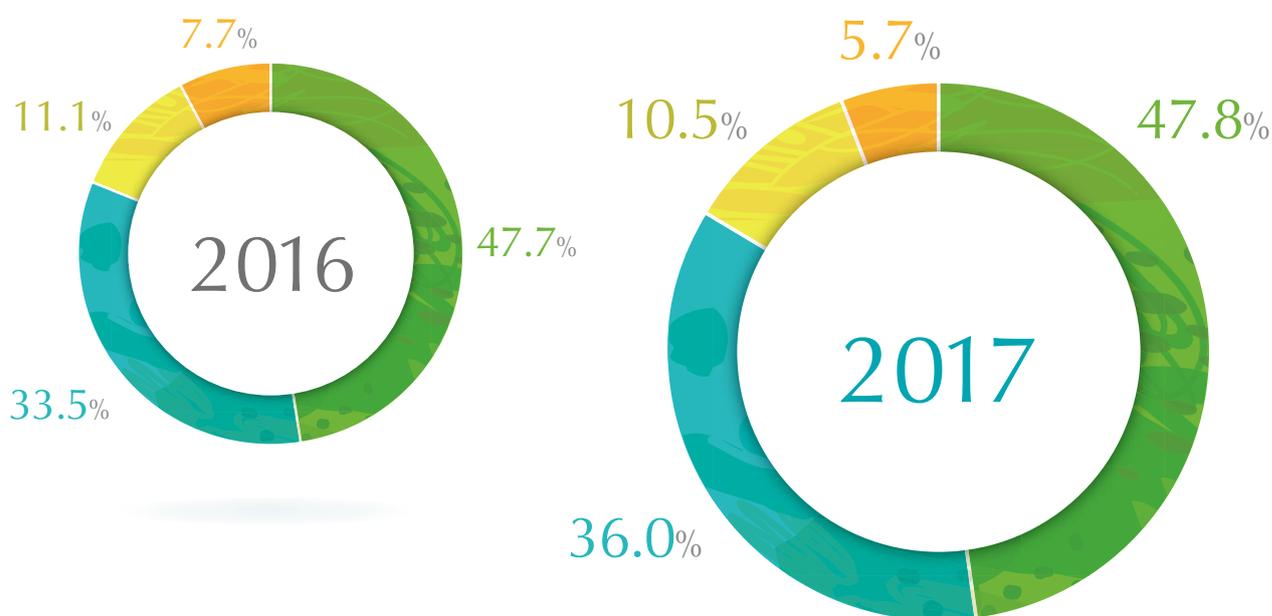
has always been the mission of Hengan International. We will continue to adhere to our corporate spirit of “Integrity, Diligence, Innovation and Dedication”. Our goal is “to build an effective corporate management and to develop a quality, ethical and enthusiastic staff team”. By building an excellent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



# FINANCIAL HIGHLIGHTS

	Unaudited Six months ended 30 June		
	2017 RMB'000	2016 RMB'000	% of change
<b>Continuing operations</b>			
Revenue	9,562,746	9,577,341	(0.2%)
Gross profit margin	48.6%	48.1%	
Operating profit	2,616,808	2,301,451	13.7%
Profit attributable to shareholders	1,853,935	1,627,500	13.9%
Earnings per share — basic	RMB1.539	RMB1.340	
<b>Discontinued operations</b>			
Profit attributable to shareholders	–	7,540	(100%)
Earnings per share — basic	–	RMB0.006	
<b>Overall profit attributable to shareholders</b>	<b>1,853,935</b>	<b>1,635,040</b>	<b>13.4%</b>
<b>Overall earnings per share — basic</b>	<b>RMB1.539</b>	<b>RMB1.346</b>	
<b>Continuing operations</b>			
Finished goods turnover	47 days	44 days	
Trade receivables turnover	50 days	43 days	

## ANALYSIS OF REVENUE BY PRODUCT



- Tissue paper products
- Disposable diapers products
- Sanitary napkins products
- Others

## 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 profit or loss, comprehensive income, changes in equity and cash flows of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2017, and the unaudited interim condensed consolidated balance sheet of the Group as at 30 June 2017, 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 PROFIT OR LOSS

For the six months ended 30 June 2017

	Note	Unaudited Six months ended 30 June	
		2017 RMB'000	2016 RMB'000
<b>Continuing operations</b>			
<b>Revenue</b>	6	<b>9,562,746</b>	9,577,341
Cost of goods sold		<b>(4,911,615)</b>	(4,968,449)
<b>Gross profit</b>		<b>4,651,131</b>	4,608,892
Other income and other gains — net		<b>429,333</b>	264,025
Distribution costs		<b>(1,857,503)</b>	(1,897,624)
Administrative expenses		<b>(606,153)</b>	(673,842)
<b>Operating profit</b>		<b>2,616,808</b>	2,301,451
Finance income		<b>73,135</b>	52,372
Finance costs		<b>(234,530)</b>	(235,721)
Finance costs — net		<b>(161,395)</b>	(183,349)
<b>Profit before income tax</b>	8	<b>2,455,413</b>	2,118,102
Income tax expense	9	<b>(600,538)</b>	(487,325)
<b>Profit for the period from continuing operations</b>		<b>1,854,875</b>	1,630,777
<b>Discontinued operations</b>			
Profit for the period from discontinued operations	19	—	14,785
<b>Net profit for the period</b>		<b>1,854,875</b>	1,645,562

The notes on pages 9 to 30 form an integral part of this interim condensed financial information.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*

For the six months ended 30 June 2017

	Note	Unaudited Six months ended 30 June	
		2017 RMB'000	2016 RMB'000
<b>Profit attributable to:</b>			
Shareholders of the Company		1,853,935	1,635,040
Non-controlling interests		940	10,522
		<b>1,854,875</b>	1,645,562
<b>Profit attributable to shareholders of the Company arising from:</b>			
Continuing operations		1,853,935	1,627,500
Discontinued operations		–	7,540
		<b>1,853,935</b>	1,635,040
<b>Earnings per share from continuing operations and discontinued operations attributable to shareholders of the Company</b>			
<b>Basic earnings per share</b>			
— From continuing operations	10	RMB1.539	RMB1.340
— From discontinued operations	10	–	RMB0.006
<b>Diluted earnings per share</b>			
— From continuing operations	10	RMB1.539	RMB1.340
— From discontinued operations	10	–	RMB0.006

The notes on pages 9 to 30 form an integral part of this interim condensed financial information.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Unaudited Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
<b>Profit for the period</b>	<b>1,854,875</b>	1,645,562
<b>Other comprehensive income:</b>		
Items that may be reclassified to profit or loss		
— Currency translation differences	(7,411)	(64,679)
<b>Total comprehensive income for the period</b>	<b>1,847,464</b>	1,580,883
<b>Attributable to:</b>		
Shareholders of the Company	<b>1,848,031</b>	1,569,062
Non-controlling interests	(567)	11,821
	<b>1,847,464</b>	1,580,883
<b>Attributable to shareholders of the Company arising from:</b>		
Continuing operations	<b>1,848,031</b>	1,560,316
Discontinued operations	—	8,746
	<b>1,848,031</b>	1,569,062

The notes on pages 9 to 30 form an integral part of this interim condensed financial information.

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2017

	Note	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	7,347,820	7,344,807
Construction-in-progress	12	1,132,098	1,094,145
Investment properties	12	205,171	194,848
Land use rights	12	743,999	751,308
Intangible assets	12	497,136	498,510
Prepayments for non-current assets		229,906	163,281
Deferred income tax assets		138,574	210,813
Long-term bank deposits	14	2,499,738	1,760,000
		12,794,442	12,017,712
<b>Current assets</b>			
Inventories		2,868,449	3,194,641
Trade and bills receivables	13	2,506,802	2,743,500
Other receivables, prepayments and deposits		1,018,356	962,189
Tax recoverable		362,115	337,187
Derivative financial instruments		18,351	–
Restricted bank deposits	14	3,002	14,622
Cash and bank balances	14	18,397,202	14,874,877
		25,174,277	22,127,016
<b>Total assets</b>		<b>37,968,719</b>	<b>34,144,728</b>
<b>EQUITY</b>			
<b>Equity attributable to shareholders of the Company</b>			
Share capital	18	126,991	126,991
Other reserves		3,101,234	2,944,971
Retained earnings		12,042,511	11,654,829
		15,270,736	14,726,791
<b>Non-controlling interests</b>		<b>202,813</b>	<b>34,065</b>
<b>Total equity</b>		<b>15,473,549</b>	<b>14,760,856</b>

The notes on pages 9 to 30 form an integral part of this interim condensed financial information.

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (continued)

As at 30 June 2017

	Note	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	16	3,247,294	3,524,687
Convertible bonds	17	–	472,719
Finance lease payables		363	–
Deferred income tax liabilities		60,703	106,452
		<b>3,308,360</b>	4,103,858
<b>Current liabilities</b>			
Trade payables	15	1,370,615	2,078,591
Other payables and accrued charges	15	1,081,858	1,201,870
Current income tax liabilities		94,130	79,860
Borrowings	16	16,161,838	11,918,574
Convertible bonds	17	465,764	–
Derivative financial instruments		12,173	1,119
Finance lease payables		432	–
		<b>19,186,810</b>	15,280,014
<b>Total liabilities</b>		<b>22,495,170</b>	19,383,872
<b>Total equity and liabilities</b>		<b>37,968,719</b>	34,144,728

The notes on pages 9 to 30 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 2017

	Unaudited					
	Attributable to the Company's shareholders				Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000		
<b>Balance at 1 January 2017</b>	126,991	2,944,971	11,654,829	14,726,791	34,065	14,760,856
Profit for the period	–	–	1,853,935	1,853,935	940	1,854,875
Currency translation differences	–	(5,904)	–	(5,904)	(1,507)	(7,411)
<b>Total comprehensive income</b>	–	(5,904)	1,853,935	1,848,031	(567)	1,847,464
<b>Transactions with owners</b>						
2016 final dividends paid	–	–	(1,325,377)	(1,325,377)	–	(1,325,377)
Acquisition of subsidiaries	–	–	–	–	146,349	146,349
Capital contribution by non-controlling interests	–	–	–	–	22,966	22,966
Disposal of a subsidiary with loss of control	–	(169)	–	(169)	–	(169)
Share-based compensation						
— Value of employee services	–	21,460	–	21,460	–	21,460
<b>Total of transactions with owners</b>	–	21,291	(1,325,377)	(1,304,086)	169,315	(1,134,771)
Appropriation to statutory reserves	–	140,876	(140,876)	–	–	–
<b>Balance at 30 June 2017</b>	126,991	3,101,234	12,042,511	15,270,736	202,813	15,473,549
<b>Balance at 1 January 2016</b>	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)
<b>Total comprehensive income</b>	–	(65,978)	1,635,040	1,569,062	11,821	1,580,883
<b>Transactions with owners</b>						
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
<b>Total of transactions with owners</b>	(427)	(100,411)	(1,921,410)	(2,022,248)	(514,418)	(2,536,666)
Appropriation to statutory reserves	–	116,399	(116,399)	–	–	–
<b>Balance at 30 June 2016</b>	127,705	2,994,513	11,135,463	14,257,681	(121,669)	14,136,012

The notes on pages 9 to 30 form an integral part of this interim condensed financial information.

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2017

	Unaudited Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
<b>Cash flows from operating activities</b>		
Continuing operations	2,339,692	2,573,513
Income tax paid	(591,303)	(674,475)
Discontinued operations	–	125,802
Net cash generated from operating activities	<b>1,748,389</b>	2,024,840
<b>Cash flows from investing activities</b>		
Continuing operations		
— Acquisition of a subsidiary, net of cash acquired	40,796	–
— Net proceeds on disposal of subsidiary	(642)	–
— Purchase of property, plant and equipment, including additions of construction-in-progress	(332,494)	(490,572)
— Proceeds on disposal of property, plant and equipment and land use rights	31,811	1,269
— Increase in prepayments for non-current assets	(70,531)	(5,167)
— (Increase)/decrease in long-term and short-term bank deposits	(3,662,844)	1,739,796
— Interest received	143,967	189,199
Discontinued operations	–	(6,399)
Net cash (used in)/generated from investing activities	<b>(3,849,937)</b>	1,428,126
<b>Cash flows from financing activities</b>		
Continuing operations		
— Proceeds from borrowings	15,631,412	9,020,876
— Repayment of borrowings	(11,446,204)	(7,645,764)
— Decrease in restricted bank deposits	11,620	5,338
— Interest paid	(115,716)	(139,157)
— Dividends paid	(1,325,377)	(1,166,057)
— Dividends paid to non-controlling interests	(737)	(1,525)
— Early redemption of convertible bonds	–	(4,403,385)
— Proceeds from shares issued under the employee share option scheme	–	862
— Buy-back of shares	–	(276,797)
Discontinued operations	–	(2,981)
Net cash generated from/(used in) financing activities	<b>2,754,998</b>	(4,608,590)
Increase/(decrease) in cash and cash equivalents	<b>653,450</b>	(1,155,624)
Cash and cash equivalents at 1 January	<b>5,562,802</b>	5,893,700
Effect of foreign exchange rate changes	(54,231)	23,846
Cash and cash equivalents transferred to assets held for distribution	–	(336,289)
<b>Ending cash and cash equivalents at 30 June</b>	<b>6,162,021</b>	4,425,633

The notes on pages 9 to 30 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 2017

## 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 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 24 August 2017.

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 2017 has been prepared in accordance with HKAS 34, ‘Interim financial reporting’. The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with HKFRSs.

## 3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2017.

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

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

The 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.

### 3. ACCOUNTING POLICIES *(continued)*

#### (b) Standards, amendments and interpretations to existing standards effective in 2017 but not relevant to the Group

- Amendments to HKAS 12, 'Income taxes', effective for annual periods beginning on or after 1 January 2017.
- Amendment to HKFRS 12, 'Disclosure of interest in other entities', effective for annual periods beginning on or after 1 January 2017.

#### (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 2017 and have not been early adopted by the Group

- HKFRS 9 'Financial Instruments', effective for annual periods beginning on or after 1 January 2018<sup>(i)</sup>.
- Amendments to HKFRS 4 'Insurance Contracts', effective for annual periods beginning on or after 1 January 2018.
- Amendment to HKFRS 1 'First time adoption of HKFRS', effective for annual periods beginning on or after 1 January 2018.
- Amendment to HKAS 28 'Investments in associates and joint ventures', effective for annual periods beginning on or after 1 January 2018.
- HK (IFRIC) 22 'Foreign Currency Transactions and Advance Consideration', effective for annual periods beginning on or after 1 January 2018.
- HKFRS15 'Revenue from Contracts with Customers', effective for annual periods beginning on or after 1 January 2018<sup>(ii)</sup>.
- HKFRS 16 'Leases', effective for annual periods beginning on or after 1 January 2019<sup>(iii)</sup>.
- 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.

#### Notes

##### (i) HKFRS 9 Financial instruments

HKFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group will adopt the new standard when it's effective on 1 January 2018.

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

- Debt instrument that are classified as available-for-sale financial assets;
- Debt instrument classified as held-to-maturity and measured at amortised cost;
- Equity investment measured at fair value through profit or loss.

### 3. ACCOUNTING POLICIES *(continued)*

#### (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 2017 and have not been early adopted by the Group *(continued)*

Notes *(continued)*

##### (i) **HKFRS 9 Financial instruments** *(continued)*

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

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. The Group does not have any hedge instruments. Therefore, the Group does not expect any impact on the new hedge accounting rules.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The Group is still assessing the actual impact affected by the new model, it may result in an earlier recognition of credit losses for trade receivables. But according to the preliminary result, the financial impact is expected to be immaterial.

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

##### (ii) **HKFRS 15, Revenue from Contracts with Customers**

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

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

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group will adopt the new standard when it's effective on 1 January 2018.

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

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

Management has identified the following areas that are likely to be affected:

- bundle sales – the application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue. The Group is still assessing the financial impact.
- rights of return – HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation. The historical goods return rate is very low and the financial impact of applying new HKFRS 15 is not material.

### 3. ACCOUNTING POLICIES *(continued)*

#### (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 2017 and have not been early adopted by the Group** *(continued)*

*Notes (continued)*

##### (iii) **HKFRS 16 Leases**

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

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at 30 June 2017, the Group has non-cancellable operating lease commitments of RMB43 million. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

Management is still assessing the financial impact. The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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

### 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 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 consolidated financial statements for the year ended 31 December 2016, with the exception of changes in estimates that are required in determining the provision for income taxes and disclosure of unusual items.

## 5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

### 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 do 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 financial statements as at 31 December 2016.

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

### 5.2 Liquidity risk

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Between 3 and 5 years RMB'000	Above 5 years RMB'000	Total RMB'000
<b>At 30 June 2017 (Unaudited)</b>						
Borrowings	16,161,838	3,948	2,053,948	1,197,896	1,948	19,419,578
Interest payables of borrowings	276,824	105,807	52,661	45,690	45	481,027
Convertible bonds	480,300	-	-	-	-	480,300
Net settled derivative financial instruments	12,173	-	-	-	-	12,173
Financial lease payables	432	196	145	22	-	795
Trade and other payables	2,192,009	-	-	-	-	2,192,009
<b>Total</b>	<b>19,123,576</b>	<b>109,951</b>	<b>2,106,754</b>	<b>1,243,608</b>	<b>1,993</b>	<b>22,585,882</b>
<b>At 31 December 2016 (Audited)</b>						
Borrowings	11,918,574	536,700	2,000,000	1,000,000	-	15,455,274
Interest payables of borrowings	197,401	105,129	77,028	55,693	-	435,251
Convertible bonds	-	495,020	-	-	-	495,020
Net settled derivative financial instruments	1,119	-	-	-	-	1,119
Trade and other payables	2,959,589	-	-	-	-	2,959,589
<b>Total</b>	<b>15,076,683</b>	<b>1,136,849</b>	<b>2,077,028</b>	<b>1,055,693</b>	<b>-</b>	<b>19,346,253</b>

## 5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (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 instruments that are measured at fair value at 30 June 2017.

	Unaudited 30 June 2017 Level 2 RMB'000	Audited 31 December 2016 Level 2 RMB'000
Financial assets fair value through profit or loss — Derivative financial instruments	18,351	—
Financial liabilities fair value through profit or loss — Derivative financial instruments	(12,173)	(1,119)

During the six months ended 30 June 2017, 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 assets or 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 approximate their carrying amount as at the balance sheet date:

- Trade and bills receivables
- Other receivables, prepayments and deposits
- Long-term bank deposits
- Restricted bank deposits
- Cash and bank balances
- Trade payables
- Other payables and accrued charges
- Financial lease payables
- Borrowings
- Convertible bonds

## 6. SEGMENT INFORMATION

The chief operating decision-makers have 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 income and other gains – net, finance income/(costs) and income tax expense which is consistent with that in the annual consolidated financial statements.

The Group operations are mainly organised under the segments of manufacturing, distribution and sale of personal hygiene products including sanitary napkin products, disposable diaper products and tissue paper products.

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 consolidated statement of profit or loss.

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 addition to property, plant and equipment, investment properties, construction-in-progress, land use rights and intangible 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 2017 is as follows:

	Unaudited				
	Sanitary napkin products RMB'000	Disposable diaper products RMB'000	Tissue paper products RMB'000	Others RMB'000	Group RMB'000
Segment revenue	3,455,972	1,005,508	4,695,677	816,764	9,973,921
Inter-segment sales	(16,356)	(4,310)	(125,992)	(264,517)	(411,175)
Revenue of the Group	3,439,616	1,001,198	4,569,685	552,247	9,562,746
Segment profit	1,597,774	174,239	393,907	51,889	2,217,809
Unallocated costs					(30,334)
Other income and other gains — net					429,333
Operating profit					2,616,808
Finance income					73,135
Finance costs					(234,530)
Profit before income tax					2,455,413
Income tax expense					(600,538)
Profit for the period					1,854,875
Non-controlling interests					(940)
Profit attributable to shareholders of the Company					1,853,935
Addition to non-current assets	54,974	35,758	216,423	23,448	330,603
Depreciation charge	83,626	17,757	223,535	9,948	334,866
Amortization charge	4,740	1,076	6,632	217	12,665
<b>As at 30 June 2017</b>					
Segment assets	5,180,894	3,234,234	11,381,094	6,136,045	25,932,267
Deferred income tax assets					138,574
Tax recoverable					362,115
Unallocated assets					11,535,763
Total assets					37,968,719
Segment liabilities	1,474,826	1,228,728	2,528,563	2,075,186	7,307,303
Deferred income tax liabilities					60,703
Current income tax liabilities					94,130
Unallocated liabilities					15,033,034
Total liabilities					22,495,170

## 6. SEGMENT INFORMATION *(continued)*

The segment information for the six months ended 30 June 2016 is as follows:

	Unaudited				
	Sanitary napkin products RMB'000	Disposable diaper products RMB'000	Tissue paper products RMB'000	Others RMB'000	Group RMB'000
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
<b>As at 31 December 2016 (Audited)</b>					
Segment assets	3,968,651	3,927,610	12,320,067	4,247,544	24,463,872
Deferred income tax assets					210,813
Tax recoverable					337,187
Unallocated assets					9,132,856
Total assets					34,144,728
Segment liabilities	887,522	1,057,813	2,500,821	2,263,688	6,709,844
Deferred income tax liabilities					106,452
Current income tax liabilities					79,860
Unallocated liabilities					12,487,716
Total liabilities					19,383,872

## 7. BUSINESS COMBINATION

On 5 June 2017, the Group had entered into a sale and purchase agreement to acquire in aggregate 80,000,000 issued shares, representing 50.45% of the shareholding of Wang-Zheng Berhad (together with its subsidiaries, “Wang-Zheng Group”), a company listed on the Main Market of Bursa Malaysia Securities Berhad, at a consideration of RM91,200,000, equivalent to approximately RMB145,738,000. On 8 June 2017, the shares had been transferred to the Group.

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

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

	8 June 2017 RMB'000
<b>Purchase consideration</b>	
— Cash paid	145,738
<b>Recognised amounts of identifiable assets acquired and liabilities assumed</b>	
<b>Provisional fair value</b>	
Cash and banks	186,534
Property, plant and equipment ( <i>Note 12</i> )	60,520
Investment properties ( <i>Note 12</i> )	10,647
Prepayments for non-current assets	76
Inventories	80,665
Trade and other receivables	95,193
Trade and other payables	(27,801)
Borrowings ( <i>Note 16</i> )	(102,992)
Deferred tax liabilities	(3,008)
Tax payables	(3,610)
Finance lease payables	(868)
Total identifiable net assets ( <i>Note</i> )	295,356
Non-controlling interest	(146,349)
Gain from a bargain purchase	(3,269)
	145,738
Acquisition-related costs (included in administrative expenses in the interim condensed consolidated statement of profit or loss for the period ended 30 June 2017)	1,331

## 7. BUSINESS COMBINATION *(continued)*

Note:

The Group has engaged external valuers to perform fair value assessments in accordance with HKFRS 3 'Business Combination'. As at 30 June 2017, verification of individual assets/liabilities of the acquired businesses is in progress and the Group has not finalised the fair value assessments. The relevant fair values of individual assets/liabilities stated above are provisional.

	8 June 2017 RMB'000
Inflow of cash to acquire business, net of cash acquired	
— cash consideration	(145,738)
— cash and banks balance in the subsidiary acquired	186,534
Cash inflow on acquisition	40,796

### (a) Non-controlling interest

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

### (b) Revenue and profit contribution

The acquired business contributed revenue of RMB30,916,000 and net profit of RMB1,838,000 to the Group for the period from 8 June 2017 to 30 June 2017. If the acquisition had occurred on 1 January 2017, consolidated revenue and consolidated net profit for the six months ended 30 June 2017 of the Group would have been increased by RMB203,886,000 and RMB10,267,000 respectively.

## 8. 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	
	2017 RMB'000	2016 RMB'000
<b>Crediting</b>		
Government grant income	171,858	195,803
Interests income from long-term and short-term bank deposits	150,488	137,640
Interests income from cash and cash equivalents	73,135	52,372
Net gain on derivative financial instruments	7,351	20,803
Exchange gain from operating activities — net	97,343	–
Exchange gain from financing activities — net	–	1,480
Reversal of impairment provision of trade receivables	3,034	–
<b>Charging</b>		
Depreciation of property, plant and equipment (Note 12)	332,561	302,655
Depreciation of investment properties (Note 12)	2,305	2,135
Amortization of land use rights (Note 12)	11,291	12,068
Amortization of intangible assets (Note 12)	1,374	1,321
Employee benefit expense, including directors' emoluments	713,680	737,222
Loss on disposal of property, plant and equipment	7,707	4,228
Loss on early redemption of convertible bonds	–	18,544
Operating lease rentals	42,386	37,635
Provision for impairment of trade receivables	–	8,891
Provision for decline in value of inventories	6,722	2,258
Exchange loss from operating activities — net	–	42,595
Exchange loss from financing activities — net	57,017	–
Interest expenses on borrowings	162,668	152,068
Interest expenses on convertible bonds	7,219	72,448
Miscellaneous taxes and levies	67,806	75,684

## 9. INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
<b>Continuing operations:</b>		
Current tax on profits for the period	456,642	457,720
PRC withholding income tax on profits of the current period	71,657	90,985
Deferred income tax on other timing differences, net	72,239	(61,380)
Income tax expense	600,538	487,325

## 9. INCOME TAX EXPENSE (continued)

Hong Kong profits tax has been provided for at the rate of 16.5% (2016: 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% (2016: 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 RMB71,657,000 (2016: RMB90,985,000) for the six months ended 30 June 2017 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.

## 10. 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	
	2017	2016
<b>From continuing operations:</b>		
Profit attributable to shareholders of the Company (RMB'000)	1,853,935	1,627,500
Weighted average number of ordinary shares in issue (thousands)	1,204,888	1,214,808
Basic earnings per share (RMB)	RMB1.539	RMB1.340
<b>From discontinued operations:</b>		
Profit attributable to shareholders of the Company (RMB'000)	–	7,540
Weighted average number of ordinary shares in issue (thousands)	–	1,214,808
Basic earnings per share (RMB)	–	RMB0.006

## 10. 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 diluted earnings per share is the same as the basic earnings per share for the six months ended 30 June 2017 and 2016 as the potential ordinary shares in respect of outstanding share options and convertible bonds are anti-dilutive.

## 11. DIVIDENDS

	Unaudited	
	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Proposed, distribution in specie (Note (a))	–	1,051,000
Interim, proposed/paid, RMB0.95 (2016: RMB0.85) per share (Note (b))	<b>1,144,644</b>	1,031,079
	<b>1,144,644</b>	2,082,079

Notes:

(a) On 17 June 2016, the Board of Directors declared a conditional distribution in specie of all of the issued share capital of Qinqin Foodstuffs Group (Caymen) Company Limited ("Qinqin Group", the then subsidiary of the Group). The net assets value attributable to Qinqin Group subject to the distribution in specie amounted to approximately RMB1,051,000,000 as at 30 June 2016. The distribution of share was completed on 7 July 2016 and Qinqin Group was successfully listed on the main board of the Stock Exchange on 8 July 2016.

(b) An interim dividend of RMB0.95 (2016: RMB0.85) per share was proposed by the Board of Directors on 24 August 2017. This interim dividend, amounting to RMB1,144,644,000, has not been recognised as a liability in this interim condensed consolidated financial information.

Dividends payable to shareholders will be paid in HK\$. The exchange rate adopted by the Company for its dividend payable is the middle rate of HK\$ to RMB announced by the People's Bank of China for the business day preceding the date of dividend declaration. The exchange rate of HK\$ to RMB on 23 August 2017 is 0.8514.

(c) A final dividend of RMB1,325,377,000 (2016: HK\$1,394,972,000, equivalent to RMB1,166,057,000) related to the period up to 31 December 2016 was paid in May 2017.

## 12. 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
<b>Continuing operations</b>					
At 1 January 2017	7,344,807	194,848	1,094,145	751,308	498,510
Acquisition of subsidiaries (Note 7)	60,520	10,647	–	–	–
Additions	41,085	1,019	284,517	3,982	–
Transfer from construction-in-progress	246,564	–	(246,564)	–	–
Transfer from property, plant and equipment	(1,046)	1,046	–	–	–
Disposals	(9,518)	–	–	–	–
Depreciation/amortization	(332,561)	(2,305)	–	(11,291)	(1,374)
Currency translation differences	(2,031)	(84)	–	–	–
At 30 June 2017	7,347,820	205,171	1,132,098	743,999	497,136
<b>Continuing operations</b>					
At 1 January 2016	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/amortization	(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
<b>Discontinued operations</b>					
At 1 January 2016	375,610	–	1,781	81,197	99,137
Additions	1,720	–	1,710	–	–
Transfer from construction-in-progress	578	–	(578)	–	–
Disposals	(283)	–	–	–	–
Depreciation/amortization	(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

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

### 13. TRADE AND BILLS RECEIVABLES

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
Trade receivables	2,520,931	2,731,403
Bills receivables	32,720	61,909
	<b>2,553,651</b>	2,793,312
Less: provision for impairment	(46,849)	(49,812)
Trade and bills receivables, net	<b>2,506,802</b>	2,743,500

The ageing analysis of trade and bills receivables based on invoice date is as follows:

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
Within 30 days	895,958	1,093,677
31 to 180 days	1,366,181	1,438,602
181 to 365 days	230,135	218,395
Over 365 days	61,377	42,638
	<b>2,553,651</b>	2,793,312

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.

#### 14. LONG-TERM BANK DEPOSITS, RESTRICTED BANK DEPOSITS AND CASH AND BANK BALANCES

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
<b>Long-term bank deposits</b>		
Term deposits with initial term over one year	2,499,738	1,760,000
<b>Restricted bank deposits</b>	3,002	14,622
<b>Cash and bank balances</b>		
— Term deposits with initial term over three months and within one year	12,235,181	9,312,075
— Cash and cash equivalents	6,162,021	5,562,802
	18,397,202	14,874,877
<b>Total</b>	<b>20,899,942</b>	<b>16,649,499</b>

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.

#### 15. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
<b>Trade payables</b>	1,370,615	2,078,591
<b>Other payables and accrued charges</b>		
— Payables for purchase of property, plant and equipment	488,700	494,573
— Accrued expenses and other payables	441,975	540,170
— Advance receipts from customers	129,789	145,767
— Other taxes payables	21,394	21,360
	1,081,858	1,201,870
Total payables and accrued charges	2,452,473	3,280,461

## 15. TRADE AND OTHER PAYABLES (continued)

The ageing analysis of trade payables based on invoice date is as follows:

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
Within 30 days	920,317	1,575,813
31 to 180 days	418,476	470,621
181 to 365 days	17,150	14,090
Over 365 days	14,672	18,067
	<b>1,370,615</b>	<b>2,078,591</b>

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

## 16. BORROWINGS

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
<b>Non-current</b>		
Long-term bank loans — unsecured	257,740	536,700
Medium-term notes	1,996,332	1,995,519
Corporate bonds	993,222	992,468
	<b>3,247,294</b>	<b>3,524,687</b>
<b>Current</b>		
Trust receipt bank loans	189,304	627,870
Short-term bank loans — unsecured	15,972,534	11,290,704
	<b>16,161,838</b>	<b>11,918,574</b>
<b>Total Borrowings</b>	<b>19,409,132</b>	<b>15,443,261</b>

As at 30 June 2017, the effective interest rate of the Group's bank borrowings was approximately 1.39% (31 December 2016: 2.16%) per annum.

## 16. BORROWINGS (continued)

Movements in borrowings are analysed as follows:

	Unaudited RMB'000
<b>At 1 January 2017</b>	<b>15,443,261</b>
Acquisition of subsidiaries (Note 7)	102,992
New borrowings	15,631,412
Repayments of borrowings	(11,446,204)
Bonds payable — interest adjustment	1,567
Currency translation differences	(323,896)
<b>At 30 June 2017</b>	<b>19,409,132</b>
At 1 January 2016	9,696,293
New borrowings	9,020,876
Repayments of borrowings	(7,645,764)
Currency translation differences	156,665
At 30 June 2016	11,228,070

## 17. CONVERTIBLE BONDS

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
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	416,201	408,983
Early redemption of convertible bonds	(4,392,425)	(4,392,425)
Cumulative currency translation difference	342,066	356,239
	<b>465,764</b>	472,719
Liability component		
— Non-current	—	472,719
— Current	465,764	—
	<b>465,764</b>	472,719

## 17. 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.

The fair value of the convertible bonds approximated its carrying amount as at 30 June 2017.

During the period ended 30 June 2017, no bond holders have converted their bonds into ordinary shares of the Company.

## 18. SHARE CAPITAL

### Ordinary shares, issued and fully paid

	Number of shares	RMB'000
<b>At 30 June 2017 and 1 January 2017</b>	<b>1,204,888,221</b>	<b>126,991</b>
At 1 January 2016	1,218,094,221	128,132
Buy-back of shares	(5,083,000)	(428)
Share-based compensation		
— Proceeds from shares issued	15,000	1
At 30 June 2016	1,213,026,221	127,705

## 19. DISCONTINUED OPERATIONS

The Group spun off its food and snack business, named as Qinqin Group, via a distribution in specie on 7 July 2016. The consolidated results of Qinqin Group for the six months ended 30 June 2016 were presented in the interim condensed consolidated statement of profit or loss as discontinued operations in accordance with HKFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. The interim condensed consolidated statement of profit or loss and interim condensed consolidated statement of cash flow distinguish the discontinued operations from the continuing operations.

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

	Unaudited Six months ended 30 June 2016 RMB'000
<b>Revenue</b>	617,746
Cost of goods sold	(336,921)
<b>Gross profit</b>	280,825
Other income and other gains — net	3,514
Distribution costs	(194,596)
Administrative expenses	(62,632)
<b>Operating profit</b>	27,111
Finance income	3,812
Finance costs	(113)
Finance costs — net	3,699
<b>Profit before income tax</b>	30,810
Income tax expense	(16,025)
<b>Net profit for the period</b>	14,785
<b>Profit attributable to:</b>	
Shareholders of the Company	7,540
Non-controlling interests	7,245
	14,785

Details of other financial information of the discontinued operations for the six months ended 30 June 2016 were set out in 2016 interim report.

## 20. CAPITAL COMMITMENTS

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
Contracted but not provided for in respect of:		
Machinery and equipment	391,553	295,418
Leasehold land and buildings	189,631	166,525
<b>Total capital commitment</b>	<b>581,184</b>	461,943

## 21. CONTINGENT LIABILITIES

At 30 June 2017, the Group had no material contingent liabilities (31 December 2016: Nil).

## 22. 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	
	2017 RMB'000	2016 RMB'000
Purchases from Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power")		
— electricity energy	44,971	48,843
— heat energy	30,863	30,882
	<b>75,834</b>	79,725

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 (the latter is an elder brother of Hui Ching Chi, an executive director of the Company) of Mr. Hui Lin Chit, an executive director and a substantial shareholder of the Company, and a son of Mr. Hung Ching Shan, an executive director of the company.

- (b) For the six months ended 30 June 2017, the key management compensation amounted to approximately RMB4,263,000 (2016: RMB5,473,000).

## BUSINESS REVIEW

In the first half of 2017, China's economic growth remained steady. According to the National Bureau of Statistics of China, the country's gross domestic product for the first half of 2017 increased by 6.9% year-on-year, better than market expectations and well above the government's annual growth target of 6.5%. Momentum in China's retail market began to pick up with retail sales of consumer goods for the first half of 2017 increased by 10.4% year-on-year, the growth rate was 0.4 percentage point higher than the first quarter.

During the period, it was the crucial stage for the Group's implementation of the "small sales team" operating model (also known as "Hengan's Amoeba model"). The layout and full rollout of this operating model was completed at the end of April 2017, with the Group began to see some benefits in the second quarter. During the reform of sales structure, the Group's overall sales were a bit affected, coupled with the intense competition in the personal hygiene product market. For the six months ended 30 June 2017, the Group recorded revenue for continuing operations of approximately RMB9,562,746,000 (2016 first half: RMB9,577,341,000), slightly dropped by about 0.2% compared with that of the previous period. The Group anticipated there will be positive impact brought by the "small sales team" operating model along with the launch of new and upgraded products across China in the second half of this year together with the continuous rapid growth in e-commerce sales, the sales performance is expected to improve in the second half of this year.

During the period, the Group optimized its product portfolio and expanded the economies of scale. The aforementioned efforts helped offset the negative effects of intensifying market competition and rising wood pulp prices, gross profit margin rose to about 48.6% (2016 first half: 48.1%). Distribution costs and administrative expenses decreased to approximately 25.8% (2016 first half: 26.8%) of the Group's revenue, which was attributable to the implementation of operating model as it effectively controlled the marketing and advertising expenses for sales channels and lowered labor costs.

For the six months ended 30 June 2017, operating profit for continuing operations, rose by about 13.7% to approximately RMB2,616,808,000 (2016 first half: RMB2,301,451,000). Profit attributable to shareholders of the Company increased by about 13.4% to approximately RMB1,853,935,000 (2016 first half: RMB1,635,040,000). The Board of Directors declared an interim dividend of RMB0.95 per share for the six months ended 30 June 2017 (2016 first half: RMB0.85).

The effective tax rate was approximately 24.5% (2016 first half: 23.0%).

## Sanitary Napkin

Against the backdrop of accelerating urbanization and rising social and economic status of women in China, Chinese women's awareness of and demand for personal health continued to increase, thus facilitating the stable development of the sanitary napkins market. Although the penetration of the sanitary napkins market in China has been very high and the competition has been intense, the Group continued to optimize its product portfolio, such as Sweet Sleeping Panty series, which caters to female needs at night, and have been well received by market. Coupled with the robust e-commerce sales, the Group's sanitary napkins business managed to maintain stable growth and strengthened the Group's leading market position.

During the period, revenue of the sanitary napkins business grew by approximately 7.2% to approximately RMB3,439,616,000, which accounted for around 36.0% of the revenue (2016 first half: 33.5%). The gross profit margin increased to approximately 72.1% (2016 first half: 71.8%), as a result of the persistent decline in the prices of petrochemical raw materials products (such as non-woven fabric), a major raw material for sanitary napkins in the first half of 2017, coupled with the benefits of product portfolio optimization.

In the future, the Group will launch new and upgraded products with an aim of further developing the mid-to-high-end and high-end markets, consolidating its existing customer base and attracting new customers. Meanwhile, the Group will continue to develop its online sales channels, such as online stores and Wechat stores for more effective sales and introduce online exclusive brands to further expand the Group's online presence in the personal hygiene segment. Sales performance is expected to continue to grow steadily in 2017.

## Tissue Paper

In light of stable economic growth in China, coupled with improving hygiene education and rising income level, the market's consumption upgrade has continued. Also, China's tissue consumption per capita still lags behind that of developed countries, implying enormous market potential. Despite vigorous competition, the Group, with its strong brand and production scale, will benefit from the sustainable market development in the long term.

In the first half of 2017, accelerating sales growth in e-commerce sales channel effectively offset the negative impacts from the intense market competition. During the period, revenue from tissue paper segment was similar to that in the same period of last year.

During the period, revenue from the Group's tissue paper segment increased by about 0.1% to approximately RMB4,569,685,000 accounting for approximately 47.8% (2016 first half: 47.7%) of the Group's total revenue. Gross profit margin of tissue paper business was affected by the persistent increase in the price of wood pulp, a raw material for tissue paper production and intense market competition. Gross profit margin decreased to approximately 35.3% (2016 first half: 37.7%). In the second half of 2017, the Group will launch numerous new high-end products and leverage on the sales improvement brought by "small sales team" business strategy, to mitigate the pressure from rising raw material costs.

The Group's annualized production capacity was approximately 1,260,000 tons during the year, it is expected to increase to approximately 1,430,000 tons by the fourth quarter of 2017 or the first half of 2018. The Group will expand its production capacity according to the market conditions and sales performance in the future. The Group is expected to launch series of new products in the second half of 2017, including famous animated character, Minions-themed tissue paper series, Hearttex-customized edition of product series under the theme of Hearttex's spokesperson, Hebe Tien. The Group will also further promote the simple and handy "super mini" wet wipes series to step up its efforts in the development of younger generation's market. On the other hand, the Group will continue to cater for consumption habit of e-commerce market, introduce online exclusive products and leverage on the "small sales team" business strategy, the Group believes that the sales performance of tissue paper segment will maintain steady growth.

## Disposable Diapers

Urbanization has been the major driving force behind the development of disposable diapers market. With rising disposable personal income and consumers' pursuit of higher living standards, the demand for disposable diapers has continued to increase. Notwithstanding the rapid development of China's disposable diapers market in recent years, the market penetration rate of disposable diapers in China is still relatively low compared with that in the developed countries, implying huge untapped market potential.

During the period, competition in the diapers market intensified. The Group strategically stepped up its efforts to develop disposable diapers business through online sales channels and maternity stores. The Group focused on selling exclusive products for online sales channels and maternity stores, in accordance with the targeted customer groups. Hence, sales performance gradually improved during the period, with sales from online sales channels achieved triple-digit growth year-on-year, which effectively eased the decline in overall sales of disposable diapers.

For the year ended 30 June 2017, revenue from the sales of diapers decreased by approximately 6.2% to approximately RMB1,001,198,000, accounting for approximately 10.5% (2016 first half: 11.1%) of the Group's revenue.

During the period, as the prices of petrochemical products (such as super absorbent polymer), a major raw material for disposable diapers increased and market competition intensified, gross profit margin dropped to around 46.5% (2016 first half: 49.8%). In the second half of this year, the Group will further promote the high-ended brand Q•MO and continue to enhance the existing mid-to-high-end products to improve its gross profit margin. In addition, the Group will stay focused on producing and developing disposable diapers touting safety and quality as well as leveraging on its national and international certification to strengthen consumers' confidence in the Group's disposable diapers and increase its competitiveness, in order to stand out among the competitors.

After the implementation of China's "two-child" policy in 2016, the national population and birth rate will increase gradually, which will drive the long-term growth of the diapers market in China. The Group will continue to set sights on developing mid-high-end and high-end markets in the long run, strive to upgrade existing products and launch new products, step up investments in maternity stores and online sales channels to tap into the huge potential market.

## First Aid Products

Sales of first-aid products under the brands of "Banitore" and "Bandi" amounted to approximately RMB12,704,000 (2016 first half: RMB14,738,000). The business only accounted for approximately 0.1% (2016 first half: 0.2%) of the Group's revenue from continuing operations, and did not have any significant impact on the Group's overall results.

## E-Commerce

In response to the changes in personal and hygiene products consumption habits, the Group has gradually accelerated the development of its e-commerce sales channels including online stores and Wechat stores, in the aspects of product type, sales model and product promotion. During the period, the Group's e-commerce business achieved extraordinary growth. The Group's core business segments, including sanitary napkins, tissue paper and disposable diapers, were benefited from the rapid expansion of e-commerce sales channels. For the six months ended 30 June 2017, revenue from e-commerce reached about RMB840 million, up by more than 160% over the same period last year. E-commerce's contribution to total sales revenue also rose to about 8.8% (first half of 2016: 3.3%).

Online sales channel has become mainstream in the personal hygiene product industry. The Group's sales channel reform and warehouse adjustment will help enhance the efficiency of e-commerce sales channels, so as to deliver goods in an efficient manner and save distribution costs. As the second half of the year is the peak season of e-commerce business, the Group is confident in the sales performance of its e-commerce channels in the second half of 2017. The Group will grasp the opportunities of peak season through efficient goods delivery and effective online promotion activities.

## Hengan's Amoeba Model

From January 2017 onwards, the Group started the implementation of the "small sales team" business strategy (also known as "Hengan's Amoeba model") nationally to break its original management model and transform it into a flattened and streamlined service model which gives its sales team sufficient autonomy. The nationwide rollout of the aforementioned new strategy was completed at the end of April. After the transition period in the first four months of 2017, the positive impact of "small sales team" strategy on sales and expense ratio has been reflected gradually in May and June. Expense ratio also improved by about 1% in the first half of 2017. Meanwhile, the nationwide "small sales team" was able to meet the needs of consumers from different regions.

In the future, the Group will provide more operational and distribution support to "small sales team" to achieve more satisfactory outcomes for sales growth and improvement in expense ratio. The Group will carefully conceive product sales and development direction according to consumer feedbacks reported by small sales team.

## Acquisition of Wang-Zheng Group

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

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

### 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 2017, apart from certain forward exchange contracts and interest rate swap contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

### Liquidity, financial resources and bank loans

The Group maintained a solid financial position. As at 30 June 2017, the Group's cash and bank balances, long-term bank deposits and restricted bank deposits amounted to approximately RMB20,899,942,000 (31 December 2016: RMB16,649,499,000); the liability component of convertible bonds amounted to approximately RMB465,764,000 (31 December 2016: RMB472,719,000); medium-term notes (panda bonds) and domestic bonds of approximately RMB2,989,554,000 (31 December 2016: RMB2,987,987,000), and bank borrowings amounted to approximately RMB16,419,578,000 (31 December 2016: RMB12,455,274,000).

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

In addition, the Group successfully registered for the proposed issue of RMB5 billion super & short-term commercial paper during the period. The Group may issue super & short-term commercial paper in batches within two years from the date of acceptance of the registration notice. The suggested amount of the first issuance of super & short-term commercial paper is expected to be approximately RMB1 billion (the exact amount will be finalized by the Group at the time of issuance).

The principal amount of the convertible bonds issued in June 2013 was approximately RMB4,328 million, out of which part of the convertible bonds had been partly redeemed on 27 June 2016, and the remaining amount will be repaid on 27 June 2018. Please refer to note 17 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 1.0% to 4.4% (2016 first half: from 0.3% to 4.6%).

As at 30 June 2017, the Group's gross gearing ratio of continuing operations was approximately 130.2% (31 December 2016: 108.1%), which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including non-controlling interests). The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term time deposits as a percentage of the shareholders' equity (not including non-controlling interests), was negative 6.7% (31 December 2016: negative 4.9%) as the Group was in a net cash position.

During the period, the Group's capital expenditure for continuing operations amounted to approximately RMB330,603,000. As at 30 June 2017, 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 services have been mostly completed in the first half of 2017 and the entire project is expected to be completed by 2017.

In addition, the company continued to hire PricewaterhouseCoopers Consulting (Shanghai) Co., Ltd. to provide advisory services regarding the preparation of "Environmental, Social and Governance Report" in 2017. The detail report is disclosed to the public. The Group also collaborated with PricewaterhouseCoopers Management 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 optimize the cost structure. The entire service is expected to be completed by 2017.

### **Latest awards**

The Group was awarded the "International Carbon-Value Gold Award" by the World Economic and Environmental Conference during the period. Meanwhile, the Group's Chief Executive Officer Mr. Hui Lin Chit was also granted "Low Carbon Leadership Award" by the World Economic and Environmental Conference, to commend his adherence to "green, low carbon and sustainable development" concepts in the Group's development for 32 years, setting the industry benchmark. The awards reaffirmed the Group's commitment to operate on the grounds of environmental protection, and its development of green, sustainable production technology. The Group will continue to foster the environmental management and reduce 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 2017, the Group employed approximately 22,000 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 2017, China's rising per capital income and consumption upgrade will drive consumer's new demand for personal hygiene products and facilitate market development in the long term.

With a view to seizing market opportunities and enhancing its competitiveness, the Group will continue to enhance operational efficiency, flexibly optimize its product mix according to the changing market conditions and launch new and upgraded products to cater to different consumer needs. Meanwhile, the Group will also closely monitor the trends of raw material prices to further improve its gross profit margin.

With its strong brand equity and a high level of corporate governance, as well as a nationwide distribution network, the Group is confident of maintaining its leading position in China's personal hygiene product market. It will strive to achieve continuous healthy 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 RMB0.95 per share (2016: RMB0.85 per share) for the six months ended 30 June 2017 to be paid to shareholders whose names appear on the Register of Members of the Company at the close of business on 22 September 2017. Dividend warrants will be despatched to shareholders on or about 6 October 2017.

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 20 September 2017 to 22 September 2017 (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 19 September 2017.

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

At 30 June 2017, the interests of each director in the shares, short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO and disclosed in accordance with the 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)	234,130,099	–	20,000	234,150,099	19.43%
Mr. Hui Lin Chit (Note 3)	242,030,251	–	148,000	242,178,251	20.10%
Mr. Hung Ching Shan (Note 4)	7,100,000	–	20,000	7,120,000	0.59%
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	1.65%
Mr. Xu Chun Man (Note 6)	14,715,621	–	20,000	14,735,621	1.22%
Mr. Sze Wong Kim	151,700	–	20,000	171,700	0.01%
Mr. Hui Ching Chi	40,000	–	20,000	60,000	0.01%

Notes:

- 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 40 to 41.
- Out of the 234,130,099 ordinary shares, Tin Lee Investments Limited ("Tin Lee") holds 233,554,499 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 Credit Suisse Trust Limited ("Credit Suisse") as nominee and being the trustee of the Sze's Family Trust. Mr. Sze Man Bok is the settlor and beneficiary of the Sze's Family Trust.
- An Ping Holdings Limited holds 242,030,251 shares in the Company. It is a company incorporated in the Bahamas and is a wholly owned subsidiary of An Ping Investments Limited ("An Ping Investments"). An Ping Investments is a company incorporated in the Bahamas and owned by Credit Suisse as nominee and being the trustee of the Hui Family Trust. Mr. Hui Lin Chit is the settlor and beneficiary of the Hui Family Trust.
- Wan Li Company Limited holds 7,100,000 shares in the Company. It is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Manley Investments Limited ("Manley"). Manley is a company incorporated in the Bahamas and owned by Credit Suisse as nominee and being the trustee of the Wan Li Trust. Mr. Hung Ching Shan is the settlor and beneficiary of the Wan Li Trust.
- 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 Credit Suisse as nominee and being 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 ("HIIL"), a nominee company holding shares of the Company on behalf of certain directors and senior management of the Group and their family members.
- 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 HIIL.
- 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 2017, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

Substantial shareholders	Note	Capacity	Number of ordinary shares beneficially held	Approximate percentage of shareholding
Tin Lee Investments Limited	(1)	Beneficial owner	233,554,499 (L)	19.38%
Tin Wing Holdings Limited	(1)	Interests of controlled corporation	233,554,499 (L)	19.38%
An Ping Holdings Limited	(2)	Beneficial owner	242,030,251 (L)	20.09%
An Ping Investments Limited	(2)	Interests of controlled corporation	242,030,251 (L)	20.09%
Credit Suisse Trust Limited	(3)	Trustee	515,959,154 (L)	42.82%

(L) denotes long position

Notes:

- (1) Tin Lee Investments Limited is a company incorporated in the British Virgin Islands and is a wholly owned subsidiary of Tin Wing Holdings Limited. Tin Wing Holdings Limited is a company incorporated in the Bahamas and owned by Credit Suisse Trust Limited as nominee and being 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 Credit Suisse Trust Limited as nominee and being 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.

## PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem any of the Company's shares during the six months ended 30 June 2017. Neither the Company nor any of its subsidiaries had purchased or sold any of the listed securities of the Company during the period.

## 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 2017:

Eligible person	Number of share options					Balance as at 30/06/2017	Exercise price per share HK\$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
	Balance as at 01/01/2017	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled or lapsed during the period				
<b>Directors</b>									
Mr. Sze Man Bok	10,000	-	-	-	-	10,000	72.75	27/07/2012	28/07/2015-27/07/2022
	5,000	-	-	-	-	5,000	72.75	27/07/2012	28/07/2016-27/07/2022
	5,000	-	-	-	-	5,000	72.75	27/07/2012	28/07/2017-27/07/2022
Mr. Hui Lin Chit	74,000	-	-	-	-	74,000	72.75	27/07/2012	28/07/2015-27/07/2022
	37,000	-	-	-	-	37,000	72.75	27/07/2012	28/07/2016-27/07/2022
	37,000	-	-	-	-	37,000	72.75	27/07/2012	28/07/2017-27/07/2022
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

Eligible person	Number of share options					Balance as at 30/06/2017	Exercise price per share HK\$	Date of grant (DD/MM/YYYY)	Exercisable period (DD/MM/YYYY)
	Balance as at 01/01/2017	Granted during the period	Exercised during the period	Reclassified during the period	Cancelled or lapsed during the period				
Mr. Xu Chun Man	10,000	-	-	-	-	10,000	72.75	27/07/2012	28/07/2015-27/07/2022
	5,000	-	-	-	-	5,000	72.75	27/07/2012	28/07/2016-27/07/2022
	5,000	-	-	-	-	5,000	72.75	27/07/2012	28/07/2017-27/07/2022
Mr. Sze Wong Kim	10,000	-	-	-	-	10,000	68.30	28/07/2011	28/07/2014-27/07/2021
	5,000	-	-	-	-	5,000	68.30	28/07/2011	28/07/2015-27/07/2021
	5,000	-	-	-	-	5,000	68.30	28/07/2011	28/07/2016-27/07/2021
Mr. Hui Ching Chi	10,000	-	-	-	-	10,000	68.30	28/07/2011	28/07/2014-27/07/2021
	5,000	-	-	-	-	5,000	68.30	28/07/2011	28/07/2015-27/07/2021
	5,000	-	-	-	-	5,000	68.30	28/07/2011	28/07/2016-27/07/2021
Participants	1,070,000	-	-	-	-	1,070,000	68.30	28/07/2011	28/07/2014-27/07/2021
	538,250	-	-	-	-	538,250	68.30	28/07/2011	28/07/2015-27/07/2021
	523,750	-	-	-	-	523,750	68.30	28/07/2011	28/07/2016-27/07/2021
	4,403,000	-	-	-	-	4,403,000	72.75	27/07/2012	28/07/2015-27/07/2022
	2,169,000	-	-	-	-	2,169,000	72.75	27/07/2012	28/07/2016-27/07/2022
	2,169,000	-	-	-	-	2,169,000	72.75	27/07/2012	28/07/2017-27/07/2022
	2,666,500	-	-	-	-	2,666,500	79.20	05/10/2015	05/10/2018-05/10/2025
	1,333,250	-	-	-	-	1,333,250	79.20	05/10/2015	05/10/2019-05/10/2025
	1,333,250	-	-	-	-	1,333,250	79.20	05/10/2015	05/10/2020-05/10/2025
16,742,000	-	-	-	-	16,742,000				

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 2017, amounted to approximately RMB21,460,000 and the remaining unamortised fair value of approximately RMB61,180,000 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 2017.

## COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

For the six months ended 30 June 2017, 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 2017, 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. Ms. Ada Ying Kay Wong, 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 17 May 2017 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. Li Wai Leung 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, 24 August 2017