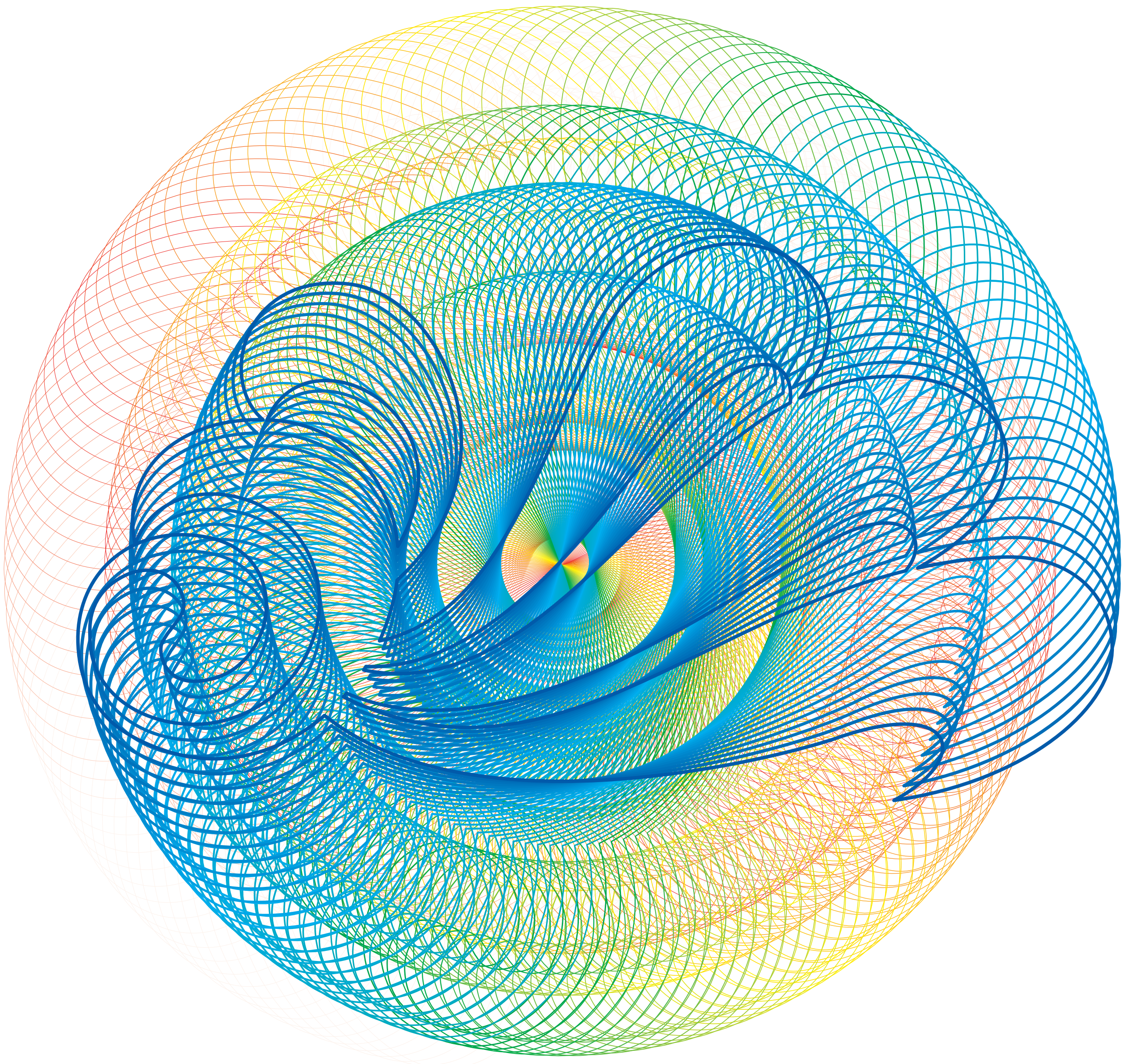
Vinda International Holdings Limited

(incorporated in the Cayman Islands with limited liability) Stock Code: 3331

Annual Report 2012



Healthy Lifestyle Starts from

VINDA


韧在维达
乐在全家 :)
超韧系列 纸面巾
Ultra Strong
3层
超韧细密，湿水不易破
精选
SELECTED
Vinda
维达

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Be Top of Consumer

Mind

Corporate Information

Directors

Executive Directors
Mr. LI Chao Wang (Chairman)
Ms. YU Yi Fang (Vice Chairman)
Ms. ZHANG Dong Fang (Chief Executive Officer)
Mr. DONG Yi Ping (Chief Technology Officer)

Non-Executive Directors
Mr. Johann Christoph MICHALSKI
Mr. Ulf Olof Lennart SODERSTROM

Independent Non-Executive Directors
Dr. CAO Zhen Lei
Mr. KAM Robert
Mr. HUI Chin Tong, Godfrey
Mr. TSUI King Fai

Alternate Director
Mr. CHIU Bun (alternate to Mr. MICHALSKI and Mr. SODERSTROM)

Audit Committee
Mr. KAM Robert (Chairman)
Mr. HUI Chin Tong, Godfrey
Mr. TSUI King Fai

Remuneration Committee
Dr. CAO Zhen Lei (Chairman)
Mr. HUI Chin Tong, Godfrey
Mr. TSUI King Fai

Nomination Committee
Mr. HUI Chin Tong, Godfrey (Chairman)
Mr. LI Chao Wang
Mr. TSUI King Fai

Authorised Representatives
Mr. LI Chao Wang
Mr. TSANG Zee Ho, Paul

Company Secretary
Mr. TSANG Zee Ho, Paul, CPA, FCCA

Auditors
PricewaterhouseCoopers

Legal Advisers to the Company
Stevenson, Wong & Co. (as to Hong Kong law)
Conyers Dill & Pearman (as to Cayman Islands law)

Registered Office
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong
Room 506, Tower 1, South Seas Centre
75 Mody Road, Tsimshatsui East
Kowloon, Hong Kong
Tel: (852) 2366 9853
Fax: (852) 2366 5805

Place of Listing and Stock Code
The Stock Exchange of Hong Kong Limited
Stock Code: 3331

Corporate Information

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre, 183 Queen's Road East
Wanchai, Hong Kong

Principal Bankers

Australia and New Zealand Banking Group Limited
Bank of China Limited
Bank of China (Hong Kong) Limited
China Construction Bank Corporation
Hang Seng Bank Limited
The Hong Kong and
Shanghai Banking Corporation Limited

Website

http://www.vindapaper.com
http://www.hkexnews.hk


Vinda
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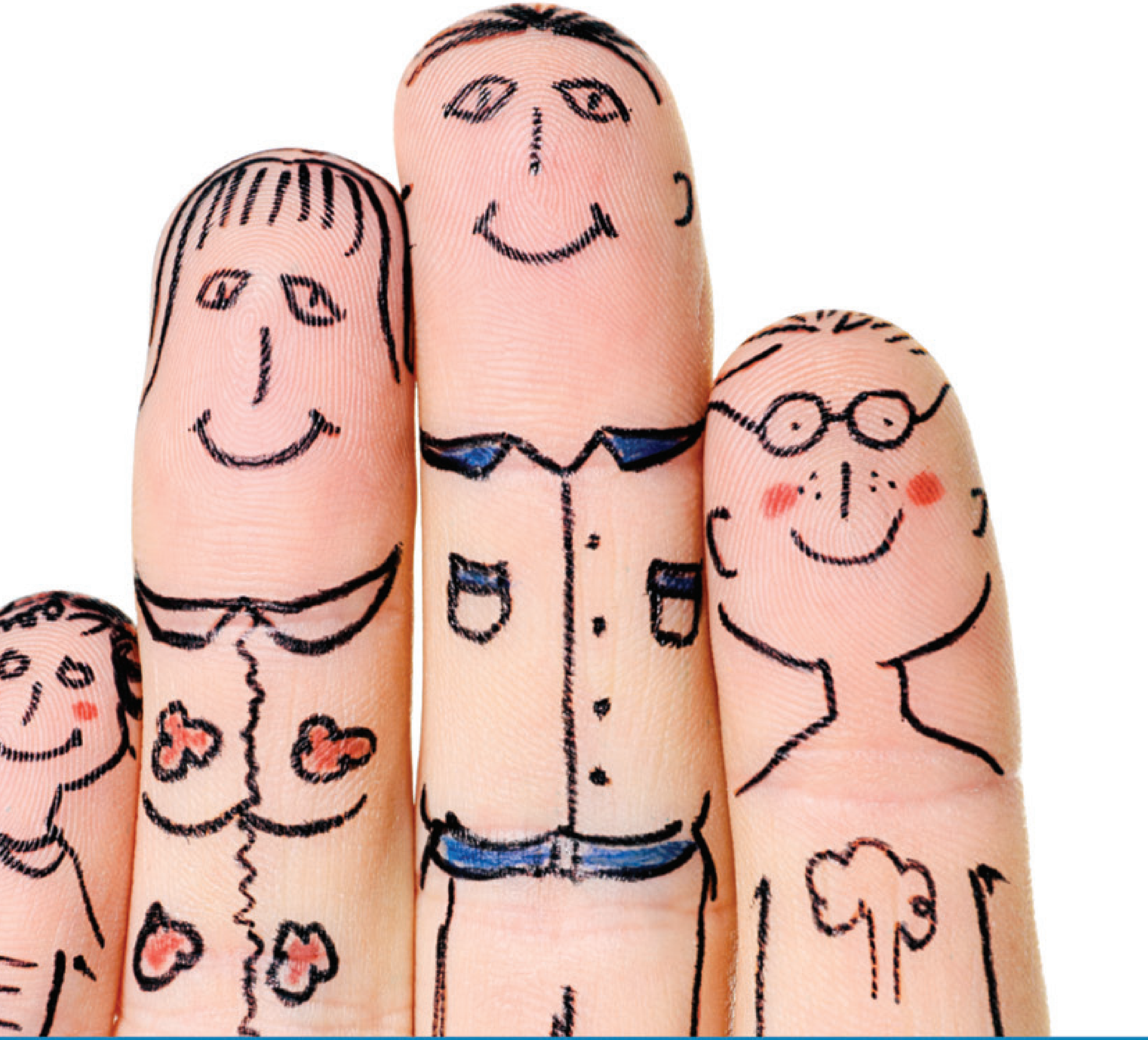
2000 全有倍量装
NEW
150克
10 + 2 卷装
1400



Financial Highlights

	2012	2011
Gross profit margin (%)	**30.8%**	27.2%
Net profit margin (%)	**8.9%**	8.5%
Earnings per share (HK$)	**54.6 cents**	43.3 cents
Dividend per share (HK$)	**15.6 cents**	12.0 cents
— interim dividend (paid) (HK$)	**4.3 cents**	3.3 cents
— final dividend (proposed) (HK$)	**11.3 cents**	8.7 cents
finished goods turnover	**34 days**	33 days
Debtors turnover	**49 days**	48 days
Creditors turnover	**64 days**	69 days
Current ratio (times)	**1.23**	1.48
Gearing ratio (%)[1]	**50.2%**	62.2%
Net gearing ratio (%)[2]	**31.8%**	39.4%

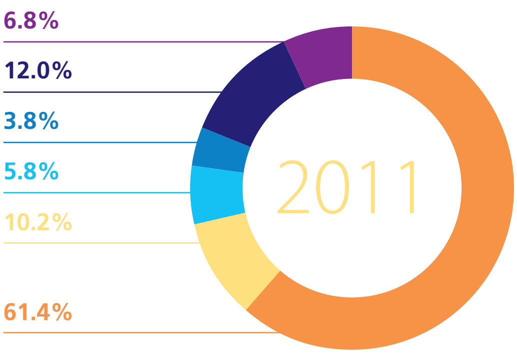
Notes:

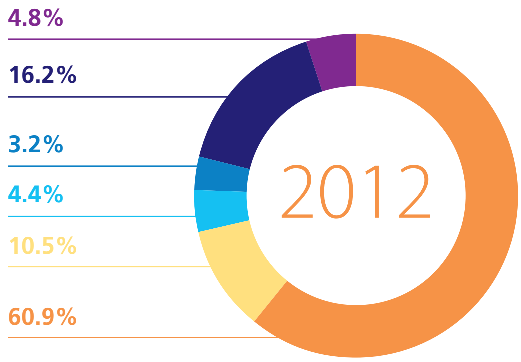
1. Calculated on the basis of the amount of total borrowings as a percentage of the total shareholders' equity.

2. Calculated on the basis of the amount of total borrowings less cash and cash equivalents and restricted bank deposits as a percentage of the total shareholders' equity.

Financial Highlights

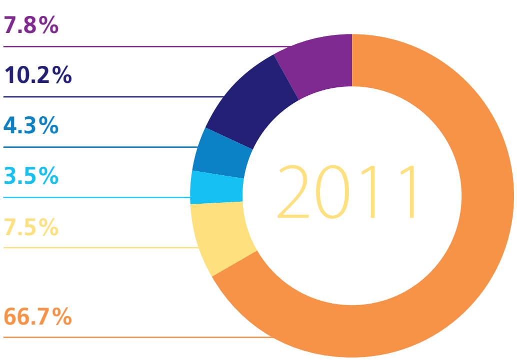
Turnover by Product Categories

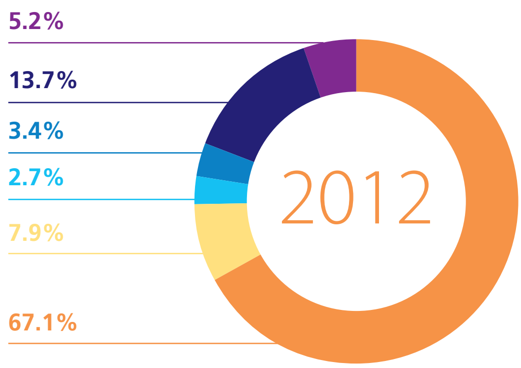




Toilet Roll
Box Tissue
Softpack
Handkerchief Tissue
Paper Napkin
Others

Sales Volume by Product Categories





Toilet Roll
Box Tissue
Softpack
Handkerchief Tissue
Paper Napkin
Others

花の韵
Flower

Chairman's Statement

LI Chao Wang *Chairman*

Vinda International will embrace technological innovation as its core competence, centre around consumers' needs when planning development direction and achieve new heights with its global perspective.

On behalf of the Board of Directors (the "Board") of Vinda International Holdings Limited ("Vinda International" or the "Company", together with its subsidiaries, the "Group"), I am pleased to present the Group's annual report for the year ended 31 December 2012.

2012 has been a year of sluggish growth. Uncertainties cast by the European sovereign debt crisis and the threat of the US economy falling off the fiscal cliff continued to weigh on the world economy, and even China saw a slowdown in its foreign trade growth. In contrast, China's domestic demand continued to exhibit steady development. As China's new leadership assumed office at the end of 2012, the central government has pledged to speed up urbanization with a target of doubling household income in a decade. These efforts will become a major driving force behind the increase in domestic consumption. Household paper, which is not only a fast-moving consumer good but also a daily necessity, will enjoy an increase in demand as the domestic consumption expands. It is expected that people will increasingly look for daily necessities with good quality when their income is on the course to double. This development bodes well for a reputable enterprise with good brand name like Vinda International, well set to tap the opportunities to diversify its businesses for better development.

In the year under review, the Group's revenue increased by 26.4% to HK$6,024,046,812 (2011: HK$4,765,299,413) while gross profit increased by 43.1% to HK$1,854,942,014 (2011: HK$1,296,507,669). Profit attributable to equity holders rose 32.3% to HK$536,561,755 (2011: HK$405,714,390), and basic earnings per share were 54.6 HK cents (2011: 43.3 HK cents).

Chairman's Statement

The Board proposed a payment of a final dividend of 11.3 HK cents per share for the financial year ended 31 December 2012 to reward the shareholders for their continuous support to the Group.

The promising prospect of the household paper industry has attracted more market players. During the year under review, peers of all sizes unveiled plans to expand production capacity, the threat of a vicious competition has become a key concern in the industry. Nevertheless, we believe the industry development is generally healthy and normal. The Chinese government has earlier announced its policy to require a number of industries to shut down obsolete and inefficient production facilities. It is expected that the household paper manufacturing industry has just begun its path of consolidation in light of technology upgrade. The conditions for China's economic development are changing as operating costs such as wages and raw materials costs have been surging, corners companies running on old business models. In order to emerge as a winner amid intensive competition, an enterprise has to advance in the value chain with a focus on product quality and added value. Although household paper is a traditional industry, there is still room for breakthroughs in technology. Vinda International will embrace technological innovation as its core competence, centre around consumers' needs when planning development direction and achieve new heights with its global perspective, aiming to develop the Group into a sizeable and strong enterprise and turn a small paper tissue manufacturing company into a large enterprise for long-term and sustainable development.

"Vinda" has long become a household name and its brand equity is the Group's core competitive strength. Years of remarkable growth in the Group's financial results has boosted the confidence level of the management in implementing business plans for market share expansion. In order to satisfy consumers' strong demand for Vinda's products, the Group has to speed up the construction of new production facilities and the upgrade of its existing ones, with an objective of achieving an annual production capacity of one million tons ahead of the original target set for 2015. During the year, the Group built its eighth plant in Xinhui, Guangdong Province on top of its seven production bases to allay the persistent shortage of our household paper products in Southern China in recent years. As an industry pioneer, Vinda International stays ahead of the competition by pursuing excellence in production technology and improving our logistic capabilities. For instance, the Group acquired the latest models of production and packaging equipment from Italy during the year. Such advanced production facilities, coupled with the excellent logistic and warehousing systems will enable the Group to pull itself up the value chain with innovation, industrial upgrade, maximized efficiency and differentiated quality services.

With 27 years of experience in fast moving consumer goods under its belt, Vinda International has built a solid foundation. China is the fastest growing market of personal care products in the world, the Group is in an advantageous position to reap the benefits which resulted from market expansion and will step up its efforts in diversifying into a wider range of personal care products. The Group, through its 41% held associate V-Care, has embarked on the baby diaper business under the brand "Babifit". Advanced production facilities have been set up in Hubei province. The baby diapers have won market recognition for their quality. V-Care will focus on building sales channels and increasing market penetration for the "Babifit" brand. In 2013, V-Care will enter the high-margin female sanitary napkins market. It will commence sanitary napkins business by outsourcing production initially. An in-house marketing team is being set up for sales of products under its own brand, "VIA". By launching other high-margin products into the market, the Group will maximize synergies among different products, exploit the distribution network, mitigate the impact of price fluctuation which resulted from relying on one single raw material, and enhance its overall profit margin.

Chairman's Statement

We have high hopes of a brighter future for Vinda International and have set up a detailed development plan on market share gains, production capacity expansion, technological upgrade, and diversification into personal care products. To finance the development plan and business expansion, the Group has raised additional capital by way of shares placement in 2012. Meanwhile, SCA, a pioneer of global personal care and hygiene product businesses, has increased its equity interest in the Group, showing its confidence in Vinda International. We look forward to closer cooperation with SCA in the future to speed up the development of our personal care business.

Since becoming a listed company in 2007, Vinda International has gained much support and trust from the investment community in the past five years. In 2012, the Group won a number of accolades including the First Place of "Best Mid-Cap Company (China)" in 2012 Asia's Best Companies Poll conducted by FinanceAsia, an authoritative financial magazine, the "Miracle Awards" in the 2012 "Top 100 Hong Kong Listed Companies" selection jointly organized by QQ.com and Finet. These awards not only signify investor's recognition of the Group's development strategies and innovation, but also applaud its efforts in enhancing corporate governance, investor relations and social responsibility.

Looking ahead, China's urbanization, intensified competition and industry consolidation will pose both opportunities and challenges to the Group. Vinda International will stay vigilant and yet confident in dealing with them. Armed with its strong brand, the Group will endeavour to break new ground in its paper tissue business with an aim to expand market share and bring better returns to its shareholders.

Li Chao Wang
Chairman

Hong Kong
26 March 2013


Bobo Feel


Vinda
Bobo Feel

Chief Executive Officer's Report

ZHANG Dong Fang *Chief Executive Officer*

Vinda International will adopt more and better information technologies, expand its business scale, seek better diversity of its products and business activities, and reinforce its brand with technology and innovation.

2012 kickstarts the Group's 6th five-year plan. The Group made steady progress in its business development, innovations in branding, technology advancement, information technology system upgrade and further fine-tuning of its organizational structure. In parallel, the Group outperforms its competition in gaining market share.

Enormous Growth Potential for the Industry

During the year, the capital market expressed concerns about emergence of an excess capacity situation in the household paper market in China. Nevertheless, the country's per capita consumption of household paper is quite low by world standards at just 4 kilograms a year. This is way below that of developed countries even after factoring in a projected growth to 8 kilograms within three years, driven by ongoing urbanization. This strong demand growth momentum will be able to absorb increases in supply. Meanwhile, on the supply side of the equation, China is gradually shifting its focus of economic development to improving quality and efficiency, thereby driving consolidation within the industry to phase out weaker participants. Local governments are much less tolerant of obsolete and inefficient production facilities.

Competition is a fact of life and what we have been striving to achieve is to compete more wisely. Upon completion of a comprehensive review of the pace and direction of its development blueprint, the Group has concluded that it has to adhere more strictly than ever to its strategies of adopting more and better information technologies, expanding its business scale, seeking better diversity of its products and business activities, and reinforcing its brand with technology and innovation.

Chief Executive Officer's Report

Adhering to Brand-driven Sales and Balanced Sales Network

No fast-moving consumer goods (FMCG) industry can over-emphasize consumers as the true decision maker. Consumers of today increasingly rate their end-user experiences on branding, use perception and product quality, relegating pricing to secondary importance. As such, the Group has been working diligently to develop high quality products for every household user since the inception of its brand. For instance, during the year it launched an "Ultra-Strong" product series and collaborated once again with a world-renowned animation studio for the packaging of its non-roll products. These constituted some of the steps taken aiming at enhancing the Group's brand value and product portfolio. Looking ahead, the Group will focus its branding efforts in the mid- and high-end segments of the market in 2013. Our branding and promotion activities evolved around the "Ultra-Strong" series and "Classic Blue" series as a footing of the core products, while we intensify efforts in promoting softpacks as a market share driver to grow sales of non-roll paper products for better gross margin.

While "Vinda" has already become a national brand, there is still room for the Group in expanding and deepening the reach of its sales network. It will launch different channel sales strategies to accommodate varying paces of development of different cities and regions. It will expand its sales network to pave the way for new business initiatives.

Currently, still about half of China is covered by rural communities. Expansion into third- and fourth-tier cities has evolved as an inevitable step to grow market share further. The Group attaches great importance to comprehensive management of its sales network as it explores further into development of traditional sales channel to cover towns and counties where it has yet to establish any foothold. Meanwhile, we maintain a close scrutiny on the rapid expansion of supermarkets and hypermarkets, which has been boosted by the country's accelerating urbanization development, as these channels see a highest growth rate among all channels. The Group will render full support in the areas of product promotions through and allocation of human resources for the modern channels to craft an all-win equation for the retailers, the consumers and the Group itself.

The emergence of online shopping has ushered retail sales into a new era and has broadened the sales platform for FMCG enterprises. As a leading industry participant, the Group spares no efforts in insights in new marketing. During the year, we put together a team designated for developing electronic commerce and establishing long-term partnerships with various B2C online malls with an aim to tap the young household cluster. The move will help establish a firm footing for Vinda International's future development.

Upgrading Production Equipment and Improving Logistics Management

2012 was a year when Vinda International strengthened its equipment backing to ensure that it has the best facilities available to embrace future business growth. For instance, it procured and installed Crescent Form Model paper-making machineries from Italy to bring its product innovation to the next level. Meanwhile, the Group proactively established the best logistics management practice in the industry through innovation in technology that helped improve operating efficiency. Since traditional warehousing set-up often poses itself as a bottleneck inhibiting efficient fulfillment of sales orders, the Group made a decision to introduce a pilot fully automated warehousing system at its Sanjiang Plant in Southern China. We expect to employ similar practice later in other production bases countrywide.

On the annual production capacity front, although the Group had added a total of 70,000 tons in 2012, demand still severely outstripped supply. Some of the demand had to be filled by sourcing jumbo rolls from third parties, inflating our cost of sales. The need to shift the stock among different regions also resulted in a significant increase in

Chief Executive Officer's Report

transportation cost. Faced with huge market demand, Vinda International has to increase its production capacity in each of the regions. The Group is confident that, with dedication of its staff, new paper-making machineries will be able to kick-start operation as scheduled in the ensuing year, enabling its total annual designed capacity to reach 750,000 tons by the end of 2013. This will fill the gap in demand and reduce the volume and cost of jumbo roll procured from external parties. Consumers' preference for Vinda's products is the motivation underpinning our ongoing pursuit of excellence. We are confident that we will be able to grow our total production capacity to one million tons by 2015 and heighten our efficiency further with better economies of scale.

Embracing Diversification

To fulfill its mission of "providing high quality daily hygiene products for the people", the Group is diversifying from household paper into other mid-range and high-end personal care product segments for babies, female and elderly in general. The move will also help enhance its profitability. During the year, the V-Care team concentrated on rolling out the baby diapers to Central and Southern China markets and successfully completed the product development of feminine care sanitary napkin products. In the next move, we will seek to rapidly enhance the awareness and sales coverage of the "Babifit" brand diapers and the "VIA" brand feminine sanitary napkins, with a view to exploit better diversification for the Group. The personal care business is a cornerstone in the Group's 6th five-year plan. The Group will stay on track in striking breakthroughs as it fully leverages its two core competences of strong sales network and brand influence.

Prospects

Blazing its growth path in the last decade, China has transitioned its development from an export-oriented model to one that hinges on stimulating domestic demand and consumption. The trend has given rise to unprecedented and new opportunities in the household paper industry. Looking ahead, Vinda International will adhere to its principle to "Explore and Innovate". We shall emphasize application and development of new technologies, new products and new production techniques. We shall synergize new business models and sales management in order to stay on the forefront of the industry.

ZHANG Dong Fang
Chief Executive Officer

Hong Kong
26 March 2013

Management Discussion And Analysis

Results Review

In 2012, industry competition remained severe. Despite the headwinds in the market, we took bold steps in achieving the targets set out in our development blueprint and strategy, and thus expanding our market share.

Brand-building as Core Development Strategy and Softpack as Product Focus

Ever since its establishment, the Group has been committed to building its brand and offering products of the best quality to consumers. During the year, the Group has reviewed the consumer loyalty and reputation of its "Vinda" brand, and the ground-breaking "Ultra Strong" series was launched after the brand assessment process. With the slogan "韌在維達，樂在全家", comprehensive marketing campaigns were conducted to promote sales of this new product, thereby successfully extending the Group's product lines and reinforcing the leading position of the "Vinda" brand.

Although tissue rolls category currently accounts for a more than 50% share of the household paper market in China, growth rate of softpack product is the highest among all categories. With an objective of gaining bigger market share in mind, the Group has strived to consolidate its leading position in tissue rolls market and promote sales of its softpack products. In light of the tremendous growth potential of softpack, we endeavoured to nurture a "Star Product" within this category which could enjoy the highest sales and attention. For the year ended 31 December 2012, sales of our softpack products experienced an extraordinary growth rate of 70.1%.

During the year, our cartoon marketing strategy proved to be a huge success. We collaborated with 20th Century Fox Film Corporation, a Hollywood film studio in the United States, to promote the movie "Ice Age: Continental Draft" and launched our "Ice Age" products in order to attract the core customer group of families with children.

Speeding up Network Expansion and Enhancing Frontline Management

As at 31 December 2012, the numbers of our sales offices and distributors have reached 182 (31 December 2011: 155) and 1,374 (31 December 2011: 1,174), respectively. The well-established sales network enabled us to secure our leading positions in Guangdong, Hubei, Beijing and Hong Kong.

In respect of provinces and regions where we have yet to establish our foothold, our sales team has formulated comprehensive expansion strategies, which involve strengthening regional marketing management, establishing clear regional division of sales and marketing, and deepening market penetration through active expansion campaigns. In addition, in order to extend the market coverage of our products, we need to strengthen our control and supervision of the sales channels through more frequent inspections of the points of sale and product display on the shelves.

Management Discussion and Analysis

Strive for Production Capacity Expansion and Logistics Infrastructures

The Group had originally aimed to add a total of 150,000 tons to its annual production capacity in 2012. However, as the Italian TOSCOTEC paper-making machines introduced to the Group for the first time required additional adjustment and testing time, the commencement of operation for certain new capacity was delayed until January 2013. During the year, the Group's annual production capacity has increased by a total of 70,000 tons, which included 30,000 tons at the Anshan plant in Liaoning Province and 40,000 tons at a new plant in Sanjiang County, Jiangmen City, Guangdong Province in Southern China. Despite the increase in production capacity, demand still outstripped supply. With a view to alleviating the imbalance between demand and supply, the Group purchased jumbo rolls from third parties and redeployed products between different provinces, both actions have, in turn, increased the production and transportation costs. Having since advanced up the learning curve for commissioning of the new equipment, the Group is confident of timely completing various capacity expansion projects by end of 2013, including 50,000 tons at the newly built Laiwu plant in Shandong Province, 90,000 tons at the Sanjiang plant in Guangdong Province and 80,000 tons at the Xiaogan plant in Hubei Province. With a view to addressing market demand in an efficient way, the logistics center of the Xiaogan plant is currently under revamp and expansion so as to enhance the efficiency of logistics and distribution in Central China. However, the production of one paper-making machine there with a capacity of 10,000 tons will be affected by this exercise. Taking all of the above factors into consideration, our designed annual production capacity at the end of 2013 is expected to reach 750,000 tons. Our goal is to achieve an annual production capacity target of 1,000,000 tons for 2015 ahead of schedule so as to attain greater economies of scale.

In addition to expanding production capacity, we also attach great importance to efficiency enhancement. The Sanjiang plant boasts fully automated processing and production lines as well as automated stereoscopic warehousing system arrangement. Such designs combined and arranged various advanced automated packing equipment based on a number of state-of-the-art warehouse systems around the world. Upon completion, the plant will be able to save manpower and enhance efficiency of production while greatly increasing the efficiency of logistical supply and delivery, thereby setting a new standard of production and logistics efficiency for the industry.

Adopting Flexible and Efficient Procurement Strategy

Wood pulp is the major raw material used to produce household paper products. During the year, wood pulp prices began to ease as a result of weakening demand from Europe and the United States. Consequently, backed by our strong liquidity, the Group has adopted a flexible and proactive procurement strategy of tuning wood pulp procurement volume ahead of

Management Discussion and Analysis

market price movements. Successful application of such strategy has helped stabilize the Group's gross profit margin to a certain extent.

As the global economy steadily revives and new production capacity for household paper products will emerge in China and abroad, market demand for wood pulp, in particular hardwood pulp, is relatively strong. In terms of supply, new and retired production capacities for softwood largely offset each other, while new capacity for hardwood pulp will only emerge in mid to late 2013. Therefore, we expect the prices of wood pulp in 2013 to fluctuate.

In spite of our flexible and effective procurement policy in place to manage our way through the fluctuation in wood pulp prices, the Group will continue to strengthen our alliances with core suppliers in order to secure stable supply of quality wood pulp and enhance our bargaining power. While ensuring product quality, we will also try out new wood pulp sources so as to reinforce our flexibility in procurement.

Equipping Personal Care Products Business for Expansion

In respect of the personal care products business, baby, feminine and elderly care product businesses are now under the umbrella of V-Care Holdings Limited ("V-Care"), our 41%-held associate. In July 2012, V-Care commenced the self-production of baby diapers under the name of "Babifit" and three production lines were up and running. The marketing campaigns focusing on direct market access and sales through distributors and regional supermarkets resulted in satisfactory sales of V-Care baby diapers. The team of V-Care has also completed a study of feminine care product business during the year. Planning has been made to prepare for the pilot sale of sanitary napkins under the self-developed "VIA" brand in 2013. An asset-light business model has been applied and the products are targeting the middle and upper class young and fashionable female college students and teenagers. It is expected that "VIA" is set to become the Group's new growth driver.

Taking up Corporate Social Responsibility

In accordance with sustainable development principles, the Group always adheres to its commitment to environmental protection and sustaining the ecological system. We actively advocate for carbon reduction policy and collaborate only with suppliers that share the same aspiration for environmental protection. The Group also chooses environmental-friendly coal fuel with low sulfur content as our energy source. Moreover, the Group has effectively cut emissions of sulfur dioxide in our production processes by introducing advanced desulphurization system and precipitator. Meanwhile, we have improved our water recycling rate from 80% last year to over 90% by investing in the upgrades of our water treatment equipment, thus consuming water in a responsible manner. Our production processes are also undergoing energy-saving transformation, thereby reducing standard coal consumption and costs per product unit while improving energy and production efficiency.

The Group has always been equally devoted to the protection of its intellectual properties, such as patents and results of its technological upgrades. During the year, the Group obtained 20 utility model patents and 5 invention patents in respect of various technologies. As at 31 December 2012, the Group had a total of 78 patents.

The Group is also fully committed to corporate social responsibilities. It has set up the "Vinda Environmental Conservation Scholarship" at the Department of Geography and Resource Management in the Chinese University of Hong Kong during the year in order to encourage students aspiring to careers in environmental studies to join environmental protection works in the future, thus working together for the sustainable development of our society.

Management Discussion and Analysis

Strengthening Corporate Governance and Nurturing Human Resources

The Group firmly believes that sound corporate governance is a cornerstone of every successful company and is fundamental to business development and shareholders' value. The Group organized corporate governance training to our directors and senior management from time to time in order to ensure their compliance with the latest listing rules. The Group also reviewed the disclosure systems so as to improve transparency. The Group then reinforced internal control measures through continuous review and optimization of the code of practice for each functional department.

Employees of high caliber are key to the Group's competitiveness and value creation. The Group has persistently enriched its human resources management system through various actions including a revision of the performance management procedures, a reform in our organization structure, a reorganization of job positions and duties and the provision of professional training and education subsidies to employees, with an aim of aligning ourselves with international standards. As at 31 December 2012, the Group had a total of 8,242 employees. Employee remuneration packages are reviewed regularly with reference to local market conditions as well as staff's work experience and performance to ensure the competitiveness of the Group's remuneration policy. Furthermore, the Group maintains a share option scheme to attract and retain talents. During the year, the Group granted 16,771,000 share options to our directors and employees under the share option scheme.

Foreign Exchange and Fair Value Interest Rate Risk

The majority of the Group's assets and sales business are located in the PRC and Hong Kong. Most of our transactions are denominated and settled in Renminbi while most of the key raw materials are imported from overseas and denominated and paid in US dollar. The Group also borrows most of the long term loans and the short term loans denominated in HKD or USD.

Borrowings obtained at variable rates expose the Group to cash flow interest-rate risk. As at 31 December 2012, the Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

Share-Based Payment

As approved by the Board meeting on 24 February 2009, 27,546,000 share options were granted to the directors and certain employees at an exercise price of HK$2.98 per share. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The options are exercisable during the following periods:

(i) in respect of the options granted to directors, on or after 24 February 2009;

(ii) in respect of the options granted to employees,

- (a) up to 20% on or after 24 February 2010;
- (b) up to 50% on or after 24 February 2011;
- (c) all the remaining options on or after 24 February 2012;

and in each case, not later than 23 February 2019.

Management Discussion and Analysis

In February 2009, all the directors and employees accepted the share options.

On 15 April 2010, 3,000,000 share options were granted to a director at an exercise price of HK$5.42 per share. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The options are exercisable during the following periods:

(a) up to 33% on or after 15 April 2010;

(b) up to 67% on or after 15 April 2011;

(c) all the remaining options on or after 15 April 2012;

and in each case, not later than 14 April 2020.

In April 2010, the director accepted the share options.

On 15 April 2011, 4,837,000 share options were granted to the directors and certain employees at an exercise price of HK$8.648 per share. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The options are exercisable on or after 15 April 2011 and no later than 14 April 2021.

In April 2011, all the directors and employees accepted the share options.

On 2 May 2012, 16,771,000 share options were granted to the directors and certain employees at an exercise price of HK$14.06 per share. The Group has no legal or constructive obligation to repurchase or settle the options in cash. All the directors and employees accepted the share options.

The options are exercisable during the following period when the Company meet certain performance conditions as set by the board of director.

(a) The first tranche of 5,313,000 options are exercisable during the period from 2 May 2012 to 1 May 2022;

(b) The second tranche of 5,729,000 options are exercisable during the period from 2 May 2013 to 1 May 2022, subject to vesting;

(c) The third tranche of 5,729,000 options are exercisable during the period from 2 May 2014 to 1 May 2022, subject to vesting.

Future Prospects

Notwithstanding the challenges ahead, the Group is confident of outperforming its peers. In 2013, we will focus on the following tasks:

1. Promote the "Vinda" brand, expand and consolidate our sales network and strengthen our frontline management;

2. Foster the personal care products business and develop "Babifit" and "VIA";

Management Discussion and Analysis

3. Enhance production capacity and equipment comprehensively and systematically, and strive to achieve our annual production capacity target of 1,000,000 tons for 2015 ahead of schedule;

4. Increase the flexibility of our procurement strategy;

5. Perfect our environmental protection projects; and

6. Optimize digitalized management systems.

Liquidity, Financial Resources and Bank Loans

The Group's financial position remained healthy. As at 31 December 2012, the Group's bank and cash balances (including restricted bank deposits of HK$6,101,567 (31 December 2011: HK$1,292,449)) amounted to HK$759,688,218 (31 December 2011: HK$715,904,170), and short-term and long-term loans amounted to HK$2,069,218,272 (31 December 2011: HK$1,952,478,533). 41.1% of the bank borrowings are medium- to long- term (2011: 59.0%). The annual interest rates of bank loans ranged from 0.48% to 6.90%. A syndicated loan of HK$1 billion was concluded in March 2013.

As at 31 December 2012, the gearing ratio was 50.2% (31 December 2011: 62.2%), which was calculated on the basis of the amount of total borrowings as a percentage of the total shareholders' equity. The net gearing ratio, which was calculated on the basis of the amount of total borrowings less cash and cash equivalents and restricted bank deposits as a percentage of the total shareholders' equity, was 31.8% (31 December 2011: 39.4%).

Final Dividend

The Board has resolved to propose to shareholders the distribution of a final dividend for the year ended 31 December 2012 at HK11.3 cents (2011: HK8.7 cents) totaling HK$112,930,244, on the 999,382,686 issued shares outstanding as at 31 December 2012, subject to approval by shareholders at the annual general meeting (the "AGM") on 24 May 2013. If so approved by shareholders, it is expected that the final dividend will be paid on or about 24 June 2013 to shareholders whose names appear on the register of members of the Company on 6 June 2013.

Closure of Register of Members

The register of members of the Company will be closed from 21 May 2013 to 24 May 2013, both dates inclusive, during which period no transfer of shares will be registered in order to ascertain shareholders' eligibility to attend and vote at the AGM, all transfers documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 20 May 2013.

In addition, the register of members of the Company will be closed from 6 June 2013 to 10 June 2013, both dates inclusive, during which period no transfer of shares will be registered in order to ascertain shareholders' entitlement to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 5 June 2013.

Biography of Directors and Senior Management

Biography of Directors

Executive Directors

Mr. LI Chao Wang (李朝旺), aged 54, is a founder of the Group. He was appointed as an Executive Director of the Company on 17 August 1999 and has become the Chairman of the Board since 28 April 2000. In his current capacity, he would spearhead overall corporate development and strategic planning. Formerly until January 2010, he also acted as the Chief Executive Officer of the Group. Mr. LI has over 25 years of experience in the household paper industry and executive business management. He was honoured with the "Ernst and Young Entrepreneur of the Year 2011 China". Mr. LI currently is a member of Guangdong Political Consultative Committee, vice president of the China National Household Paper Industry Association, consultant of the China Paper Industry Chamber of Commerce, vice president of Guangdong Federation of Industry & Commerce and the president of the Jiangmen Federation of Industry and Commerce. Mr. LI graduated from the Guangdong Radio and Television University's business administration program.

Ms. YU Yi Fang (余毅昉), aged 58, is a co-founder of the Group. Ms. YU was appointed as an Executive Director on 1 February 2000 and further appointed as the Vice Chairman of the Board from January 2010 in pursuing strategic development. Ms. YU was formerly the Chief Operating Officer of the Group. She has over 25 years of experience in China's household paper industry and 19 years of financial management experience as manager of financial affairs for the Group. Ms. YU graduated from the Guangdong Radio Television University's accounting program.

Ms. ZHANG Dong Fang (張東方), aged 50, joined Vinda as Chief Executive Officer (the "CEO") and Executive Director in February 2010. Ms. ZHANG has seasoned management experience gained in multi-national enterprise and FCMG industry. Prior to joining Vinda, she was the vice president-North Asia Division of a Swiss multi-national group which is engaged in the production and sales of flavors and fragrances for use in perfumes, cosmetics, food and beverage, as well as household products. Ms. ZHANG acted as the managing director of the said group responsible for its business in Greater China from 1998 to 2008. Ms. ZHANG graduated from Guangdong Foreign Language and Trade University with a bachelor's degree in art in 1983. She also graduated from International Institute for Management Development (IMD) with a diploma in business management in 1993.

Mr. DONG Yi Ping (董義平), aged 50, Senior Engineer, was appointed as an Executive Director on 1 February 2000 and is the Group's Chief Technology Officer (the "CTO"). Mr. DONG joined Vinda Paper (Guangdong) in 1992. Mr. DONG has over 20 years of experience in equipment operations and safety, quality control, and research and development. Prior to joining the Group, he served for senior positions in two other paper manufacturing companies. Mr. DONG graduated in 1991 from the paper manufacturing program of the Tianjin University of Science and Technology (previously the Tianjin Institute of Light Industry), with a master degree in paper-making engineering.

Biography of Directors and Senior Management

Non-Executive Directors

Mr. SODERSTROM, Ulf, aged 49, was appointed as a Non-Executive Director of the Board on 30 March 2011 and he is the President of Svenska Cellulosa Aktiebolaget ("SCA") Asia Pacific based in Shanghai. Mr. SODERSTROM joined SCA in 2009 as Senior Vice President, Business Development and Strategy, responsible for IT, acquisitions, business intelligence and sustainability. He has many years of experience in executive positions in business. He joined SCA from Boliden (leading European metals company) as President of Business Area Market, responsible for marketing and sales, strategy process, market analysis and internal and external communication. His background also includes serving in senior positions at Scania and Forcenergy, among other companies. Mr. SODERSTROM studied economics at the University of Stockholm and received a Master of Business Administration from the Stockholm School of Economics.

Mr. Johann Christoph MICHALSKI, aged 47, was appointed as a Non-Executive Director on 19 April 2008. Since April 2011 Mr. MICHALSKI is President of SCA Global Hygiene Category, the marketing and R&D division of SCA. Previously, Mr. Michalski has been since April 2008 the president of SCA Asia Pacific business unit under the SCA group based in Shanghai, the PRC. Before that he served as senior vice president of Business Development and Strategic Planning in SCA Headquarters. Prior to joining SCA in 2001 he held a number of senior management positions in the New Zealand dairy group Fonterra as well as the global FMCG company, Unilever. He has over 20 years of experience in leadership roles in business development and strategy, consumer marketing and innovation in the consumer goods industry. Mr. MICHALSKI has a master degree in economics from Kiel University, Germany.

Mr. CHIU Bun (趙賓), aged 37, was designated as an Alternate Director of Mr. MICHALSKI and Mr. SODERSTROM on 30 March 2011. Prior to that, Mr. Chiu was a Non-Executive Director of the Group since 19 June 2007. Mr. CHIU joined SCA in 2005 as general counsel of SCA Asia Pacific based in Shanghai. Mr. CHIU previously worked with international law firms including Clifford Chance, Perkin Coie and Morrision & Foerster. He is admitted as a solicitor in Hong Kong and England & Wales. Mr. CHIU received a bachelor's degree in information management from the University College London, the Postgraduate Certificate in Laws (PCLL) from the University of Hong Kong and a master of laws degree from Remin University of China, Beijing.

Independent Non-Executive Directors

Dr. CAO Zhen Lei (曹振雷), aged 54, was appointed as an Independent Non-Executive Director on 19 June 2007. Dr. CAO is the vice president of the Sinolight Corporation. With more than 20 years of experience in research and management in the pulp and paper industry in China, Dr. CAO also serves as secretary-general of the Standing Committee of the China Technical Association of Paper Industry and Senior Advisor of the All-China Federation of Industry and Commerce's Papermakers Association. Dr. CAO is an independent director of Shangdong Huatai Paper Industry Joint Stock Co., Ltd., a company listed in the PRC. Dr. CAO holds a bachelor's degree from the South China University of Technology with a specialization in the pulp and paper industry, a master's degree in paper making from the Light Industry Institute of Science and Technology, a Ph.D. in chemical engineering from the University of Saskatchewan and an Executive M.B.A. from Peking University's Guanghua School of Management.

Biography of Directors and Senior Management

Mr. HUI Chin Tong, Godfrey (許展堂), aged 53, was appointed as an Independent Non-Executive Director on 19 June 2007. Since the 1980's, Mr. HUI has established and managed several businesses in the PRC. He also acted as the executive director of Network CN Inc. Mr. HUI obtained his bachelor's degree in business management from The Chinese University of Hong Kong and a master's degree in business management from the University of Hull in the United Kingdom.

Mr. TSUI King Fai (徐景輝), aged 63, was appointed as an Independent Non-Executive Director on 19 June 2007. Mr. TSUI is a director and senior consultant at WAG Worldsec Corporate Finance Limited, a registered financial services company in Hong Kong. He has over 30 years of extensive experience in accounting, finance and investment management, particularly in investments in the PRC. Mr. TSUI worked for two of the Big Four audit firms in the United States and Hong Kong and served in various public listed companies in Hong Kong in a senior capacity. Mr. TSUI is currently acting as an Independent Non-Executive Director of Lippo Limited, Lippo China Resources Limited, Hongkong Chinese Limited, China Aoyuan Property Group Limited and Newton Resources Limited. He graduated from the University of Houston, Texas, the United States and holds a master of science in accountancy and a bachelor of business administration with first class honors. Mr. TSUI is a fellow of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Accountants in Australia and a member of the American Institute of Certified Public Accountants.

Mr. KAM Robert (甘廷仲), aged 55, was appointed as an Independent Non-Executive Director on 19 June 2007. Mr. KAM started his career with one of the Big Four international accounting firms and currently is a partner in the chartered accountancy firm, Kam & Beadman, based in Sydney, Australia. He has many years of experience in providing audit, tax and accounting services, including public company statutory audits, information systems audits and internal audits. Mr. KAM graduated with a bachelor of commerce degree from the University of Western Australia. Mr. KAM is a chartered accountant and a member of the Institute of Chartered Accountants in Australia, a Registered Auditor in New South Wales, Australia and a Registered Auditor of the Australian Securities Commission. Mr. KAM is also a Justice of the Peace for the State of New South Wales in Australia.

Senior Management

Mr. TSANG Zee Ho, Paul (曾思豪), aged 51, was appointed as the Group's Chief Financial Officer (the "CFO") and Company Secretary since April 2007. Mr. TSANG began his career in tax consulting and later on corporate finance. Having gained much experience, Mr. TSANG then pursued his career at various public and private enterprises throughout Greater China, including taking the roles of Associate Director in Deloitte & Touche Corporate Finance, General Manager of corporate finance in Century City Group, and Chief financial Officer of a private group of companies which has diversified operations and interests in Guangzhou. Mr. TSANG graduated from the University of Hong Kong and is a non-practicing member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the U.K.

Mr. ZHANG Jian (張健), aged 41, is the Chief Operating Officer of the Group. He graduated from Wu Yi University in electronic technology, and joined Vinda Paper Group in 1992. He served as a manager in the production, marketing, and procurement departments, and deputy manager and general manager of the Company. He is an executive director of the Guangdong Paper Association.

Biography of Directors and Senior Management

Mr. Richard SU (蘇洛夫), aged 56, is the Assistant to Chief Executive Officer, responsible for the centralized material procurement of the Group. Mr. SU obtained his bachelor degree from Remin University of China majoring in trade economics in 1983. He joined Vinda Paper Group in September 1999 as Director of Purchase and the Deputy Chief Operating Officer sequentially. He has over 20 years of experience in sourcing and trade management.

Mr. HE Hui Xian (何惠獻), aged 39, is the Vice President of Sales & Marketing for the Group responsible for regional sales management in PRC as well as overseas markets. He graduated from Anhui Finance and Trade College in 1996 majoring in trade and economics and joined Vinda Paper Group in January 1997. He has taken various managerial roles for sales department, including the EVP (domestic sales) of the Group.

Mr. TANG Hai Tang (湯海棠), aged 42, is the Vice President of Sales & Marketing for the Group responsible for the marketing & media as well as key accounts divisions.. Mr. TANG graduated from South China University of Technology in biochemistry in 1994. He joined Vinda Paper Group in August 1995 and served as deputy general manager of Company's subsidiary, marketing director and EVP (marketing & media) for the Group etc..

Mr. HU Yong Jin (胡永進), aged 39, is the Vice President of Sales & Marketing for the Group, taking charge of regional sales management in China. Mr. HU graduated from Anhui Institute of Technology in 1996 as a bachelor majoring in Automobile Design and Manufacturing. He joined Vinda Paper Group in October 1998 and served sequentially as manager and deputy general manager as well as general manager of Company's subsidiary, and EVP (sales of southern region).

Mr. Michael Ouyang (歐陽和平), age 47, was appointed as our Chief Human Resources Officer in June 2011. Prior to joining Vinda, Mr. Ouyang served as General Manager of HR & Administration Center in Goodbaby Group, GM-Human Resources in Shen Zhen Da Chan Bay Modern Port Development Co., Ltd., HR & Administration Director in Lee Kum Kee (Xin Hui) Food Co., Ltd. HR Director in Watsons China, HR Manager in AIG South China, HR & Administration Manager of Owens Corning and HR Manager of Guangdong Nortel, etc. Mr. Ouyang holds MBA degree from Murdoch University of Australia and Bachelor of Arts degree from Xiangtan University.

Ms. ZHANG Cui Ling (張翠玲), aged 45, is the Deputy Director of internal control department for the Group. Ms. ZHANG graduated from Guangdong Mechanical College in industrial management engineering and holds a MBA degree of Wuhan University of Science & Technology. She joined Vinda Paper Group in July 1991 and has served as the manager of finance, purchasing logistics, quality control, and administration department of the Company's subsidiaries.

Corporate Governance Report

Corporate Governance

The Company is committed to maintain a high standard of corporate governance practices by emphasizing a quality board of directors, sound internal control, transparency and accountability to all of the shareholders of the Company. For the year ended 31 December 2012, the Group has complied with and adopted the Code of Corporate Governance Practises (the "CG Code") and the revised version of it which takes effect from 1 April 2012 (the "New CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except the following deviation:

Code Provision A.6.7

The code provision A.6.7 of the Corporate Governance Code provides that independent non-executive directors and other non-executive directors, as equal board members as other directors, should attend general meetings of the company. Due to business commitment, Mr Tsui King Fai, an independent non-executive director of the Company, was unable to attend the annual general meeting of the Company held on 23 May 2012.

Continuous efforts are made to review and enhance the Group's internal controls and procedures in light of changes in regulations and developments in best practices.

Directors' Securities Transactions

The Company has adopted a code for securities transactions by directors of the Company (the "Code of Conduct") on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules on the Stock Exchange. Having made specific enquiry with all the directors of the Company (the "Directors" or individually the "Director"), all of them confirmed that they have complied with the required standard set out in the Model Code and the Code of Conduct regarding securities transactions by the Directors during the year ended 31 December 2012.

Board of Directors

Composition

The board of directors (the "Board") of the Company comprises ten Directors, four of which are Executive Directors, two are Non-Executive Directors and four are Independent Non-Executive Directors. The members of the Board as at the date of this annual report are as follows:

Executive Directors
Mr. LI Chao Wang *(Chairman) (alternate to Ms. YU Yi Fang and Mr. DONG Yi Ping)*
Ms. YU Yi Fang *(Vice Chairman) (alternate to Mr. LI Chao Wang)*
Ms. ZHANG Dong Fang *(Chief Executive Officer)*
Mr. DONG Yi Ping *(Chief Technology Officer) (alternate to Mr. LI Chao Wang)*

Non-Executive Directors
Mr. Johann Christoph MICHALSKI
Mr. Ulf Olof Lennart SODERSTROM
Mr. CHIU Bun (*alternate to Mr. Johann Christoph MICHALSKI and Mr. Ulf Olof Lennart SODERSTROM)*

Corporate Governance Report

Independent Non-Executive Directors
Dr. CAO Zhen Lei
Mr. KAM Robert
Mr. HUI Chin Tong, Godfrey
Mr. TSUI King Fai

The Board formulates overall strategies and policies of the Group. It also ensures the availability of adequate capital and managerial resources to implement the strategies adopted, the adequacy of systems of financial and internal control and the conduct of business in conformity with applicable laws and regulations. The Board members are fully committed to their roles and have always acted in the best interests of the Group and its shareholders at all times. There is no financial, business, family or other material/relevant relationship amongst Directors. The Directors' biographical information is set out on pages 23 to 25 under the section headed "Biography of Directors and Senior Management" of this annual report.

Board meetings are held regularly at approximately quarterly intervals and also held on ad hoc basis as required by business needs. Regular Board meetings and ad hoc Board meetings are attended by a majority of the Directors in person or through other electronic means of communication. In addition, special Board meetings are convened from time to time for the Board to discuss issues that require the Board's timely attention. Since the special Board meetings are concerned with the day-to-day management of the Company which often requires prompt decisions, usually only the Executive Directors and senior management attend the meetings. During the year ended 31 December 2012, other than resolutions passed in writing by all the Directors, the Board held a total of 11 regular and ad hoc Board meetings.

The attendance of each member at the Board meetings is set out below. Figure in brackets indicates maximum number of meetings held in the period in which the individual was a Board member.

Directors	Number of regular and ad hoc Board meetings attended	Number of special Board meetings attended
Executive Directors		
Mr. LI Chao Wang *(Chairman)*	10(11)	32(43)
Ms. YU Yi Fang *(Vice Chairman)*	10(11)	41(43)
Ms. ZHANG Dong Fang *(Chief Executive Officer)*	11(11)	14(43)
Mr. DONG Yi Ping *(Chief Technology Officer)*	9(11)	2(43)
Non-Executive Directors		
Mr. Johann Christoph MICHALSKI	7(11)	
Mr. Ulf Olof Lennart SODERSTROM	10(11)	
Mr. CHIU Bun *(alternate to Mr. MICHALSKI and Mr. SODERSTROM)*	10(11)	
Independent Non-Executive Directors		
Dr. CAO Zhen Lei	11(11)	
Mr. KAM Robert	11(11)	
Mr. HUI Chin Tong, Godfrey	11(11)	
Mr. TSUI King Fai	9(11)	

Corporate Governance Report

Chairman of the Board and Chief Executive Officer

The Chairman of the Board is Mr. LI Chao Wang and the CEO of the Company is Ms. ZHANG Dong Fang. The roles of the Chairman of the Board and the CEO of the Company are segregated to ensure their respective independence, accountability and responsibility. The major duties of the chairman are to provide leadership to the Board and spearhead overall corporate development and strategic planning whilst the chief executive officer is responsible for implementing the decisions and strategy approved by the Board and managing day-to-day operations of the Group with the support of the executive directors.

Executive Directors

The Executive Directors are responsible for running the Group and executing the strategies adopted by the Board. They lead the Group's management team in accordance with the directions set by the Board and are responsible for ensuring that proper internal control system is in place and the Group's business conforms to applicable laws and regulations.

Non-Executive Directors

The Non-Executive Directors provide a wide range of expertise and experience and bring independent judgement on issues relating to the Group's strategies, development, performance and risk management through their contribution at the Board and committee meetings.

Independent Non-Executive Directors

The Independent Non-Executive Directors serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. Their participation provides adequate checks and balances to safeguard the interests of the Group and its shareholders including the review of continuing connected transactions described below. The Board consists of four Independent Non-Executive Directors and two of them have appropriate professional qualifications or accounting or related financial management expertise. The Board confirms that the Company has received from each of the Independent Non-Executive Directors a confirmation of independence for the year ended 31 December 2012 pursuant to Rule 3.13 of the Listing Rules and considers such Directors to be independent.

Appointments, Re-election and Removal of Directors

Each of the Executive Directors, Non-Executive Directors and Independent Non-Executive Directors of the Company has entered into a service contract with the Company for a specific term. Such term is subject to his re-election by the Company at an annual general meeting upon retirement. The Articles of the Company provide that any Director appointed by the Board, either to fill a casual vacancy in the board or as an addition to the existing Board, shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Under the Company's Articles, one-third of all Directors (whether Executive or Non-Executive) is subject to retirement by rotation and re-election at each annual general meeting provided that every Director shall be subject to retirement at least once every three years. A retiring Director is eligible for re-election and continues to act as a Director throughout the meeting at which he retires.

Corporate Governance Report

Members of the Company may, at any general meeting convened and held in accordance with Company's Articles to remove a Director at any time before the expiration of his period of office notwithstanding anything to the contrary in Company's Articles or in any agreement between the Company and such Director.

Company Secretary

Mr. TSANG Zee Ho, Paul (曾思豪) ("Mr. Tsang") was appointed as the company secretary of the Company on 10 April 2007. The biographical details of Mr. Tsang are set out under the section headed "Biography of Directors and Senior Management".

According to the newly introduced Rule 3.29 of the Listing Rules, Mr. Tsang has taken no less than 15 hours of relevant professional training during the financial year ended 31 December 2012.

Corporate Governance Functions

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, etc.

Continuous Professional Development

During the year ended 31 December 2012, the directors have participated in continuous professional development, variously in attending conferences and seminars, in house briefing and/or reading materials relevant to their duties and responsibilities. Based on the information and records provided by the Directors, they have participated in trainings which cover the following topics:

1. corporate governance, rules and regulations including the changes introduced by the New CG Code;

2. implications of price sensitive information and its disclosure; and

3. insider dealing and market misconducts as defined under the Securities and Futures Ordinance (CAP. 571).

All the directors understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

Corporate Governance Report

The Board Committees

Remuneration Committee

The Company established a remuneration committee on 19 June 2007. The Board has adopted the terms of reference for the remuneration committee which are in line with the Code Provisions set out in the New CG Code. The remuneration committee comprises three members and is chaired by Dr. CAO Zhen Lei. The other members are Mr. HUI Chin Tong, Godfrey and Mr. TSUI King Fai.

The remuneration committee is responsible for formulating and making recommendation to the Board on the Group's remuneration policy, the determination of specific remuneration packages of all Executive Directors and senior management and making recommendations to the Board the remuneration of Non-Executive Directors. It takes into consideration on factors such as salaries paid by comparable companies, time commitment and responsibilities of Directors and senior management, employment conditions elsewhere in the Group and desirability of performance-base remuneration.

During the year ended 31 December 2012, the remuneration committee held 3 meetings. The remuneration committee reviewed the remuneration policy of the Company and the remuneration of Directors and senior management and made recommendation to the Board.

The attendance of each member at the remuneration committee meetings is set out below. Figure in brackets indicates maximum number of meetings held in the period in which the individual was a member of the remuneration committee.

Members	**Number of meetings attended**
Dr. CAO Zhen Lei	3(3)
Mr. HUI Chin Tong, Godfrey	3(3)
Mr. TSUI King Fai	3(3)

Nomination Committee

The Company established a nomination committee on 19 June 2007. The Board has adopted the terms of reference for the nomination committee which are in line with the Code Provisions set out in the New CG Code. The nomination committee comprises two Independent Non-Executive Directors, namely Mr. HUI Chin Tong, Godfrey and Mr. TSUI King Fai; and one Executive Director, Mr. LI Chao Wang. Mr. HUI Chin Tong, Godfrey is the chairman of the nomination committee.

The nomination committee considers and recommends to the Board suitably qualified persons to become Directors and is responsible for reviewing the structure, size and composition of the Board on a regular basis.

Corporate Governance Report

Before a prospective Director's name is formally proposed, the opinions of the existing Directors (including the Independent Non-Executive Directors) are sought. The selection criteria of the qualified candidates are mainly based on the assessment of their qualifications, experience and expertise as well as the requirements under the Listing Rules. The nomination committee selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business. During the year ended 31 December 2012, the nomination committee reviewed the current structure, size and composition of the Board and the remuneration of the senior management.

The attendance of each member at the nomination committee meetings is set out below. Figure in brackets indicates maximum number of meetings held in the period in which the individual was a member of the nomination committee.

Members	Number of meetings attended
Mr. HUI Chin Tong, Godfrey	1(1)
Mr. TSUI King Fai	1(1)
Mr. LI Chao Wang	1(1)

Audit Committee

The Company established an audit committee on 19 June 2007. The Board has adopted the terms of reference for the audit committee which are in line with the Code Provisions set out in the New CG Code. The audit committee comprises Independent Non-Executive Directors, namely Mr. KAM Robert, Mr. HUI Chin Tong, Godfrey and Mr. TSUI King Fai. Mr. KAM Robert is the chairman of the audit committee.

The audit committee is accountable to the Board and the principal duties of the audit committee include the review and supervision of the financial reporting process and internal control system of the Group.

During the year ended 31 December 2012 the audit committee held 2 meetings. The audit committee reviewed with the senior management and auditors of the Company the accounting policies and practices adopted by the Group and discussed auditing, the internal control system and financial reporting matters. It also reviewed the financial statements of the Company and the Company's annual and interim reports, the management letter from the auditors of the Company and the audit scope and fees for the year ended 31 December 2012.

The attendance of each member at the audit committee meetings is set out below. Figure in brackets indicates maximum number of meetings held in the period in which the individual was a member of the audit committee.

Members	Number of meetings attended
Mr. KAM Robert	2(2)
Mr. HUI Chin Tong, Godfrey	2(2)
Mr. TSUI King Fai	2(2)

Corporate Governance Report

Accountability and Audit

Financial Reporting

The Directors acknowledge their responsibility for preparing all information and representations contained in the financial statements for the year ended 31 December 2012 as disclosed in this annual report. The Directors consider that the financial statements have been prepared in conformity with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and management with an appropriate consideration to materiality. As at 31 December 2012, the Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's and the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements on a going concern basis. The statement of the auditors of the Company regarding their responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 49 to 50 of this annual report.

Internal Controls

The Board is responsible for overseeing the Company's system of internal control. To facilitate the effectiveness and efficient operations and to ensure compliance with relevant laws and regulations, the Group emphasizes the importance of a sound internal control system which is also indispensable for mitigating the Group's risk exposures. The Group's system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of the business objectives. The internal control system is reviewed on an ongoing basis by the Board in order to make it practical and effective in providing reasonable assurance in relation to protection of material assets and identification of business risks. The Board is satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory. The Group is committed to the identification, monitoring and management of risks associated with its business activities and has implemented a practical and effective control system which includes a defined management structure with limits of authority, a sound cash management system and periodic review of the Group's performance by the Audit Committee and the Board. The Board has conducted review of the effectiveness of the system of internal control and is of the view that the system of internal control adopted for the year ended 31 December 2012 is sound and is effective to safeguard the interests of the shareholders' investment and the Company's assets.

Auditors' Remuneration

An analysis of the remuneration of the Company's auditors, Messrs PricewaterhouseCoopers, for the year ended 31 December 2012 is set out as follows:

	Services rendered Fee paid/payable *HK$'000*
Audit services	6,146

Corporate Governance Report

Shareholders' rights

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("EGM").

Right to convene extraordinary general meeting

Any one or more members holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, shall at all times have the right, by written requisition sent to the Board or the company secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition.

The written requisition must state the purposes of the meeting, signed by the requisitionist(s) and deposit it to the Board or the company secretary of the Company at the Company's principal place of business at Room 506, Tower 1, South Seas Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong and such may consist of several documents in like form, each signed by one or more requisitionists.

The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the company secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the request has been verified is not in order, the shareholders will be advised of this outcome and accordingly, an EGM will not be convened as requested. If within twenty-one days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting, the requisitionist(s), may convene a meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company to the requisitionist(s).

The notice period to be given to all the registered members for consideration of the proposal raised by the requisitionist(s) concerned at the EGM varies according to the nature of the proposal, as follows:

— At least 14 clear days' notice in writing (and not less than 10 business days) if the proposal constitutes an ordinary resolution of the Company;

— At least 21 clear days' notice in writing (and not less than 20 business days) if calling for an annual general meeting or the proposal constitutes a special resolution of the Company in EGM.

Right to put enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong for the attention of the company secretary.

Corporate Governance Report

Right to put forward proposals at general meetings

There are no provisions allowing shareholders to purpose new resolutions at the general meetings under the Cayman Islands Companies Law (2011 Revision). However, shareholders are requested to follow Article 58 of the Company's Articles of Association for including a resolution at an EGM. The requirements and procedures are set out above. Pursuant to Article 88 of the Company's Articles of Association, no person, other than a director retiring at a meeting, shall, unless recommended by the directors for election, be eligible for appointment as a director at any general meeting unless there shall have been lodged at the head office or at the registration office notice in writing signed by a shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose that person for election as a director and also notice in writing signed by that person of his willingness to be elected as a director. Unless otherwise determined by the directors and notified by the Company to the shareholders, the period for lodgment of the said notices shall be a seven day period commencing on the day after the dispatch of the notice of the general meeting for such election of director(s) and ending on the date falling seven days after the dispatch of the said notice of the general meeting. The written notice must state that person's biographical details as required by Rule 13.51(2) of the Listing Rules. The procedures for shareholders of the Company to propose a person for election as director is posted on the Company's website.

Communication with Shareholders

The Company endeavors to develop and maintain continuing relationships and effective communications with its shareholders and investors. In an effort to facilitate and enhance the relationships and communication, the Company has established the following various channels:

1. The annual general meeting provides a forum for shareholders of the Company to raise comments and exchange views with the Board. The Chairman and the Directors are available at the annual general meetings of the Company to address shareholders' queries;

2. Separate resolutions are proposed at the general meetings on each substantially separate issue and procedures for demanding a poll in general meetings are included in the circulars to the shareholders of the Company to facilitate the enforcement of shareholders' rights;

3. Interim and annual results are announced as early as possible, to keep shareholders of the Company informed of the Group's performance and operations; and

4. Updated key information of the Group is available on the Company's website to enable the shareholders of the Company and the investors to have timely access to information about the Group.

During the year ended 31 December 2012, there had been no significant change in the Company's constitutional documents.

Report of the Directors

The Directors have pleasure in presenting herewith their report together with the audited accounts for the year ended 31 December 2012.

Principal Activities and Geographical Analysis of Operations

The Company is principally engaged in investment holding. The principal activities of the subsidiaries of the Company and other related information are set out in note 11 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 55.

The Directors recommend the payment of a final dividend of HK11.3 cents (2011: HK8.7 cents) per ordinary share, totaling HK$112,930,244 on the 999,382,686 (31 December 2011: 938,183,686) issued shares outstanding as at 31 December 2012.

Reserves

Details of the movements in the reserves of the Group and of the Company during the year ended 31 December 2012 are set out in Note 18 to the consolidated financial statements.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in Note 7 to the consolidated financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in Note 16 to the consolidated financial statements.

Distributable Reserves

The Company's reserves available for distribution comprise the share premium account and retained profits. At 31 December 2012, the reserves of the Company available for distribution to shareholders amounted to HK$1,788,120,786 (2011: HK$1,256,499,484), stated in Note 16 and Note 18 to the consolidated financial statements.

Five-Year Financial Summary

A summary of the consolidated results of the Group for the last five financial years and of its consolidated assets and liabilities as at the end of the last five financial years is set out on pages 135 to 136 respectively.

Purchase, Sale or Redemption of Securities

During the year ended 31 December 2012, the Company repurchased a total of 661,000 ordinary shares of HK$0.10 each of the Company on the Stock Exchange at an aggregate consideration of HK$7,954,480, excluding transaction cost. The repurchase of the Company's shares during the year was effected by the Board, pursuant to the repurchase mandate granted by the shareholders, with a view to benefit shareholders as a whole by enhancing the net asset value per share and earning per share of the Company.

Details of the shares repurchased are as follows:

Month of Repurchase	Number of ordinary shares repurchased	Purchase price paid per share Highest HK$	Purchase price paid per share Lowest HK$	Aggregate consideration paid HK$ million
August 2012	661,000	12.04	12.00	7.95

The repurchased shares were subsequently cancelled and the issued share capital of the Company was reduced by nominal value of these shares accordingly.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

Directors

The Directors during the year were:

Executive Directors

Mr. LI Chao Wang *(Chairman) (alternate to Ms. YU Yi Fang and Mr. DONG Yi Ping)*
Ms. YU Yi Fang *(Vice Chairman) (alternate to Mr. LI Chao Wang)*
Ms. ZHANG Dong Fang *(Chief Executive Officer)*
Mr. DONG Yi Ping *(Chief Technology Officer) (alternate to Mr. LI Chao Wang)*

Non-Executive Directors

Mr. Johann Christoph MICHALSKI
Mr. Ulf Olof Lennart SODERSTROM
Mr. CHIU Bun *(as alternate to Mr. Johann Christoph MICHALSKI and Mr. Ulf Olof Lennart SODERSTROM)*

Independent Non-Executive Directors

Dr. CAO Zhen Lei
Mr. KAM Robert
Mr. HUI Chin Tong, Godfrey
Mr. TSUI King Fai

Biographical Details of Directors and Senior Management

Brief biographical details of Directors and senior management are set out on pages 23 to 26.

Confirmation of Independence of Independent Non-executive Directors

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of the Independent Non-Executive Directors to be independent.

Directors' Service Contracts

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

Directors' Interests and Controlling Shareholders' Interests in Contracts

Save as the lease agreement entered into between a wholly-owned subsidiary of the Company and Jiangmen Taiyuan Paper Company Limited, details of which is set out in paragraph (D) in the "Continuing Connected Transactions" section on page 40 to 41, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or a controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Continuing Connected Transactions

A) On 15 December 2010, the Company entered into a master supply agreement (the "Master Supply Agreement") with a wholly-owned subsidiary of Svenska Cellulosa Aktiebolaget ("SCA"), a substantial shareholder of the Company and a connected person, whereby members of the Group will sell the Group's household consumable paper products, such as toilet rolls, table napkins, tissue towels and face tissues to SCA and its subsidiaries (excluding (i) SCA Hygiene Australasia Pty Limited and SCA Hygiene Australasia Limited (collectively "SCA HA") which are separately covered under a renewed product supply agreement dated 30 April 2010, details of which have been set out in the announcement of the Company dated 30 April 2010, and (ii) SCA Tissue Hong Kong Limited ("SCA Hong Kong") which is separately covered under a product supply agreement dated 29 June 2010, details of which have been set out in the announcement of the Company dated 30 June 2010) at prices to be determined on an arm's length basis and comparable to the prevailing market rates or at rates similar to those offered by the Group to independent third parties.

   The Master Supply Agreement has a term of 3 years commencing on 1 January 2011 and ending on 31 December 2013 (both dates inclusive).

   The annual caps in relation to the sale of the Group's household consumable paper products to SCA and its subsidiaries under the Master Supply Agreement for the three years ending 31 December 2011, 2012 and 2013 are HK$5.0 million, HK$6.0 million and HK$7.2 million respectively.

   The transactions under the Master Supply Agreement constitute continuing connected transactions under Chapter 14A of the Listing Rules. The applicable percentage ratios (other than the profits ratio) calculated with reference to the individual annual caps on an annual basis was less than 5%. Accordingly, the continuing connected transactions under the Master Supply Agreement were only subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules and exempt from the independent shareholders' approval requirements under Rule 14A.34 of the Listing Rules. The Group has complied with the relevant requirements under the Listing Rules.

Details of the transactions between the Group and SCA's subsidiaries (excluding SCA HA and SCA Hong Kong) are as follows:

Continuing connected transactions	**Proposed cap for the year ended 31 December 2012** HK$	**Actual transaction amount for the year ended 31 December 2012** HK$
Sales of goods by the Group to SCA Trading (Shanghai) Co. Ltd.	6,000,000	2,270,072

B) On 30 April 2010, the Company entered into a renewed master product supply agreement (the "Renewed Supply Agreement") with SCA HA (both as customers) pursuant to which SCA HA will acquire household consumable paper products from the Group at prices to be determined on an arm's length basis and comparable to the prevailing market rates or at rates similar to those offered by the Group to independent third parties and subject to other terms and conditions set out therein. SCA HA are both wholly-owned subsidiaries of SCA which have been the indirect substantial shareholders of the Company since 29 March 2007, and are therefore considered as connected persons of the Company.

The Renewed Supply Agreement has a term of 3 years commencing on 1 January 2010 and ending on 31 December 2012.

The annual caps under the Renewed Supply Agreement for the years ending 31 December 2010, 2011 and 2012 are HK$43 million, HK$43 million and HK$43 million respectively.

The transactions under the Renewed Supply Agreement constitute continuing connection transactions under Chapter 14A of the Listing Rules. Since each of the applicable percentage ratios (other than the profits ratio) calculated with reference to each of the annual caps for the Renewed Supply Agreement was less than 2.5%, the continuing connected transactions contemplated under the Renewed Supply Agreement were only subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules and exempt from the independent shareholders' approval requirements under Rule 14A.34 of the Listing Rules. The Group has complied with the relevant requirements under the Listing Rules.

Details of the transactions between the Group and SCA HA are as follows:

Continuing connected transactions	**Proposed cap for the year ended 31 December 2012** HK$	**Actual transaction amount for the year ended 31 December 2012** HK$
Sales of goods by the Group to SCA HA	43,000,000	9,382,418

C) On 29 June 2010, Vinda Paper Industrial (H.K.) Co. Limited ("Vinda Hong Kong") and Vinda Paper (Guangdong) Company Limited ("Vinda Guangdong"), both wholly-owned subsidiaries of the Company, entered into a new product supply agreement (the "New Product Supply Agreement") with SCA Hong Kong, a connected person, whereby (1) Vinda Guangdong and Vinda Hong Kong agreed to terminate a product supply agreement dated 13 November 2009 effective on signing of the New Product Supply Agreement, and (2) Vinda Hong Kong agreed to manufacture and export the Products to SCA Hong Kong pursuant to the terms and conditions of the New Product Supply Agreement at an agreed processing fee.

The New Product Supply Agreement has a term commencing on 29 June 2010 and ending on 31 December 2012.

The annual cap in relation to the processing fee under the New Product Supply Agreement for the period from 29 June 2010 to 31 December 2010 is HK$8.0 million. The annual caps for the years ending 31 December 2011 and 2012 are HK$13.5 million and HK$16.0 million respectively.

The transactions under the New Product Supply Agreement constitute continuing connected transactions under Chapter 14A of the Listing Rules. Since each of the applicable percentage ratios with reference to each of the annual caps for the New Product Supply Agreement was more than 0.1% but less than 5%, the continuing connected transactions under the New Product Supply Agreement were subject to reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules but exempt from the independent shareholders' approval requirements under Rule 14A.34 of the Listing Rules. The Group has complied with the relevant requirements under the Listing Rules.

Details of the transactions between the Group and SCA Hong Kong are as follows:

Continuing connected transactions	**Proposed cap for the year ended 31 December 2012** HK$	**Actual transaction amount for the year ended 31 December 2012** HK$
Processing trade by the Group to SCA Hong Kong	16,000,000	5,721,610

D) On 22 November 2011, a wholly-owned subsidiary of the Company entered into a lease agreement (the "Lease Agreement") with Jiangmen Taiyuan Paper Company Limited (the "Landlord"), a company indirectly owned as to 74.21% by Mr. Li Chao Wang, 15.79% by Ms. Yu Yi Fang and 10.00% by Mr. Dong Yi Ping and thereby a connected person. Pursuant to the Lease Agreement, the Landlord has agreed to lease to the Group a piece of land located in Xinhui District, Guangdong, the PRC together with a factory and the relevant ancillary infrastructures and facilities to be constructed for an initial term of 15 years commencing on 22 November 2011 with an initial fixed annual rental of RMB29,000,000 until 31 December 2014. The Landlord has agreed to grant to the Group a rent free period from the commencement of the term of the lease until (i) 3 months after the date of delivery of the land, the factory and all incidental facilities for vacant possession, or (ii) 31 December 2012, whichever is later.

The annual caps in relation to the rental under the Lease Agreement for the period between the date of the Lease Agreement to 31 December 2011 and the three years ending 31 December 2012, 2013 and 2014 are nil, nil, RMB29,000,000 and RMB29,000,000 respectively.

Report of the Directors

On 27 March 2012, a wholly-owned subsidiary of the Company entered into a second lease agreement (the "Second Lease Agreement") with the Landlord. Pursuant to the Second Lease Agreement, the Landlord has agreed to lease to the Group a piece of land located in Xinhui District, Guangdong, the PRC together with the building and structure erected thereon for a term commencing on the date of the Second Lease Agreement and ending on the date on which the Lease Agreement expires with an initial fixed annual rental of RMB16,800,000 until 31 December 2014.

The annual caps in relation to the rental under the Second Lease Agreement for the three years ending 31 December 2012, 2013 and 2014 are RMB8,400,000, RMB16,800,000 and RMB16,800,000 respectively.

The transactions under the Lease Agreement and the Second Lease Agreement constitute continuing connected transactions under Chapter 14A of the Listing Rules. Since each of the applicable percentage ratios (other than the profits ratio) calculated with reference to each of the aggregated annual caps for the Lease Agreement and the Second Lease Agreement was less than 5%, the continuing connected transactions contemplated under the Lease Agreement and the Second Lease Agreement were only subject to the reporting, announcement and annual review requirements and exempt from the independent shareholders' approval requirements under Rule 14A.34 of the Listing Rules.

Continuing connected transactions	**Proposed cap for the year ended 31 December 2012**	**Actual transaction amount for the year ended 31 December 2012**
Lease Agreement	—	—
Second Lease Agreement	RMB8,400,000	RMB8,400,000

E) On 30 March 2011, the Company entered into a master agreement (the "Master Agreement") with V-Care Holdings Limited ("V-Care") whereby (a) the Group is appointed by V-Care as its non-exclusive sales agent and be responsible for the sale of V-Care's personal care products in the PRC (including Hong Kong, Macau and Taiwan), in consideration of which V-Care will pay to the Group on a monthly basis a commission based on a market rate of a prescribed percentage of the total net sales value of the sale of V-Care's products solicited or procured by the Group; (b) members of the Group will purchase V-Care's personal care products which the Group will sell to its customers at prices and other terms negotiated between the Company and V-Care on an arm's length basis and on normal commercial terms, comparable to the prevailing market rates or at rates similar to those offered by V-Care to independent third parties; and (c) members of the Group will sell the Group's household consumable paper products, such as packet tissue, box tissue, soft packs and wet wipes to V-Care at prices and other terms negotiated between the Company and V-Care on an arm's length basis and on normal commercial terms, comparable to the prevailing market rates or at rates similar to those offered by the Group to independent third parties.

The Master Agreement has a term commencing on 30 March 2011 and ending on 31 December 2012.

The annual caps under the Master Agreement for the years ending 31 December 2011 and 2012 are HK$39,290,000 and HK$151,210,000 respectively.

Report of the Directors

The transactions under the Master Agreement constitute continuing connected transactions under Chapter 14A of the Listing Rules. Since each of the applicable percentage ratios (other than the profits ratio) calculated with reference to each of the annual caps for the Master Agreement was less than 5%, the continuing connected transactions contemplated under the Master Agreement were only subject to the reporting, announcement and annual review requirements and exempt from the independent shareholders' approval requirements under Rule 14A.34 of the Listing Rules.

Details of the transactions between the Group and V-Care are as follows:

Continuing connected transactions	**Proposed cap for the year ended 31 December 2012** HK$	**Actual transaction amount for the year ended 31 December 2012** HK$
Purchase of goods by the Group from V-Care (China) Limited ("V-Care (China)")	130,000,000	3,196,759
Sales of goods by the Group to V-Care (China)	6,000,000 renewed on 13 November, 2012	5,198,036
Sales commission by the Group from V-Care (China)	15,210,000	678,129

The aforesaid continuing connected transactions have been reviewed by the Independent Non-Executive Directors of the Company. The Independent Non-Executive Directors confirmed that the aforesaid connected transaction were entered into:

(a) in the ordinary and usual course of business of the Group;

(b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditors were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

Directors' Interests in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation

As at 31 December 2012, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 of the Listing Rules were as follows:

Long Positions In Shares, Underlying Shares And Debentures

Name	Company name of associated corporations	Nature of interest	Number of Shares	Number of underlying Shares[4]	Aggregate interest	Approximate percentage of interest
Li Chao Wang [1]	The Company	Interest of controlled company	237,306,235 Shares			
		Personal	936,000 Shares			
			238,242,235 Shares	999,000	239,241,235	23.94%
	Fu An International Company Limited	Interest of controlled company	282 shares of US$1.00 each	—	—	74.21%
	Sentential Holdings Limited	Interest of controlled company	1 share of US$1.00 each	—	—	100%
Yu Yi Fang [2]	The Company	Interest of controlled company	237,306,235 Shares			
		Personal	9,088,000 Shares			
			246,394,235 Shares	360,000	246,754,235	24.69%
	Fu An International Company Limited	Interest of controlled company	60 shares of US$1.00 each	—	—	15.79%
	Join Pride International Limited	Interest of controlled company	10 shares of US$1.00 each	—	—	100%
Dong Yi Ping [3]	The Company	Interest of controlled company	237,306,235 Shares			
		Personal	9,038,000 Shares			
			246,344,235 Shares	360,000	246,704,235	24.69%
	Fu An International Company Limited	Interest of controlled company	38 shares of US$1.00 each	—	—	10.00%
	Daminos Management Limited	Interest of controlled company	10 shares of US$1.00 each	—	—	100%

Report of the Directors

Name	Company name of associated corporations	Nature of interest	Number of Shares	Number of underlying Shares[(4)]	Aggregate interest	Approximate percentage of interest
Zhang Dong Fang	The Company	Personal	—	6,933,000	6,933,000	0.69%
Johann Christoph Michalski	The Company	Personal	—	290,000	290,000	0.03%
Ulf Olof Lennart Soderstrom	The Company	Personal	—	290,000	290,000	0.03%
Cao Zhen Lei	The Company	Personal	—	290,000	290,000	0.03%
Kam Robert	The Company	Personal	—	290,000	290,000	0.03%
Hui Chin Tong, Godfrey	The Company	Personal	100,000	290,000	390,000	0.04%
Tsui King Fai	The Company	Personal	—	290,000	290,000	0.03%

Notes:

1. The Shares are registered in the name of Fu An International Company Limited which is held as to 74.21% by Sentential Holdings Limited, 15.79% by Join Pride International Limited and 10.00% by Daminos Management Limited. The entire issued share capital of Sentential Holdings Limited is held by LI Chao Wang.

2. The Shares are registered in the name of Fu An International Company Limited which is held as to 74.21% by Sentential Holdings Limited, 15.79% by Join Pride International Limited and 10.00% by Daminos Management Limited. The entire issued share capital of Join Pride International Limited is held by YU Yi Fang.

3. The Shares are registered in the name of Fu An International Company Limited which is held as to 74.21% by Sentential Holdings Limited, 15.79% by Join Pride International Limited and 10.00% by Daminos Management Limited. The entire issued share capital of Daminos Management Limited is held by DONG Yi Ping.

4. Details of share options held by the directors are shown in the section of "Share Option Scheme".

Save as disclosed above, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Option Scheme

A long term incentive scheme (the "Scheme") was conditionally approved by a written resolution of the shareholders of the Company passed on 19 June 2007 and was adopted by a resolution of the Board on 19 June 2007. The terms of the Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules, where appropriate.

The purpose of the Scheme is to attract and retain the best available personnel, to provide additional incentive to employees, directors, shareholders of any member of the Group or any holder of any securities issued by any member of the Group, and to promote the success of the Group.

Report of the Directors

The Board may, at its discretion and on such terms as it may think fit, grant an employee, a director and any shareholder of any members of the Group or any holder of any securities issued by any member of the Group an award ("Award"), either by way of option ("Option") to subscribe for Shares, an award of Shares or a grant of a conditional right to acquire Shares as it may determine in accordance with the terms of the Scheme.

The Scheme shall be valid and effective for a period of 10 years commencing from 10 July 2007, after which period no further Awards may be offered or granted. The Board shall, subject to the rules of the Scheme and the Listing Rules, have the right to determine, among others, the exercise price of an Option, the minimum period for which the Award must be held before its vesting, performance, operating and financial targets and other criteria to be satisfied before the vesting of an Award and other terms and conditions of an Award, provided that, in respect of an Award of Option, the exercise price of an Option shall be a price determined by the Board at its absolute discretion but shall not be less than the highest of (i) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer; (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of the offer; or (iii) the nominal value of the Shares on the date of Offer.

Subject to the Listing Rules, the overall limit on the number of Shares subject to Awards from time to time under the Scheme and any other schemes must not, in aggregate, exceed 30% of the Shares in issue from time to time. The total number of Shares issued and to be issued upon exercise of Options or vesting of Awards granted and to be granted to each participant or grantee (including exercised, cancelled and outstanding Options, and vested and outstanding Awards) in any 12-month period shall not exceed 1% of the Shares in issue at the offer date. Any further grant of Awards in excess of the above limit must be subject to shareholders' approval by ordinary resolution in general meeting. Where any offer proposed to be made to a substantial shareholder or an independent non-executive director of the Company or any of his associates would result in such person in any 12-month period up to and including the date of offer: (i) representing in aggregate over 0.1% of the Shares in issue at the date of offer; and (ii) having an aggregate value, based on the closing price of the Shares at the date of offer, in excess of HK$5 million, then such offer and any acceptance thereof must be subject to approval of the shareholders in general meeting taken on a poll.

Details of movements of the options granted under the Share Option Scheme for the year ended 31 December 2012 are as follows:

				Number of Shares issuable under the options					
	Date of Grant	Exercise price per Share HK$	as at 01/01/2012	granted during the period	exercised during the period	forfeited during the period	cancelled during the period	as at 31/12/2012	Exercise period
Directors									
Li Chao Wang	15/04/2011	8.648	936,000	—	(936,000)	—	—	—	15/04/2011 to 14/04/2021
	02/05/2012	14.060	—	999,000	—	—	—	999,000	(Note 3)
Yu Yi Fang	24/02/2009	2.980	9,038,000	—	(9,038,000)	—	—	—	24/02/2009 to 23/02/2019
	02/05/2012	14.060	—	360,000	—	—	—	360,000	(Note 3)
Zhang Dong Fang	15/04/2010	5.420	3,000,000	—	—	—	—	3,000,000	(Note 1)
	15/04/2011	8.648	936,000	—	—	—	—	936,000	15/04/2011 to 14/04/2021
	02/05/2012	14.060	—	2,997,000	—	—	—	2,997,000	(Note 3)
Dong Yi Ping	24/02/2009	2.980	9,038,000	—	(9,038,000)	—	—	—	24/02/2009 to 23/02/2019
	02/05/2012	14.060	—	360,000	—	—	—	360,000	(Note 3)

Report of the Directors

				Number of Shares issuable under the options					
	Date of Grant	Exercise price per Share HK$	as at 01/01/2012	granted during the period	exercised during the period	forfeited during the period	cancelled during the period	as at 31/12/2012	Exercise period
Johann Christoph Michalski	15/04/2011	8.648	80,000	—	—	—	—	80,000	15/04/2011 to 14/04/2021
	02/05/2012	14.060	—	210,000	—	—	—	210,000	(Note 3)
Ulf Olof Lennart Soderstrom	15/04/2011	8.648	80,000	—	—	—	—	80,000	15/04/2011 to 14/04/2021
	02/05/2012	14.060	—	210,000	—	—	—	210,000	(Note 3)
Cao Zhen Lei	15/04/2011	8.648	80,000	—	—	—	—	80,000	15/04/2011 to 14/04/2021
	02/05/2012	14.060	—	210,000	—	—	—	210,000	(Note 3)
Kam Robert	15/04/2011	8.648	80,000	—	—	—	—	80,000	15/04/2011 to 14/04/2021
	02/05/2012	14.060	—	210,000	—	—	—	210,000	(Note 3)
Hui Chin Tong, Godfrey	15/04/2011	8.648	80,000	—	—	—	—	80,000	15/04/2011 to 14/04/2021
	02/05/2012	14.060	—	210,000	—	—	—	210,000	(Note 3)
Tsui King Fai	15/04/2011	8.648	80,000	—	—	—	—	80,000	15/04/2011 to 14/04/2021
	02/05/2012	14.060	—	210,000	—	—	—	210,000	(Note 3)
Employees of the Group									
In aggregate	24/02/2009	2.980	3,574,000	—	(628,000)	—	—	2,946,000	(Note 2)
	15/04/2011	8.648	2,425,000	—	(220,000)	—	—	2,205,000	15/04/2011 to 14/04/2021
	02/05/2012	14.060	—	10,795,000	—	(495,000)	—	10,300,000	(Note 3)
			29,427,000	16,771,000	(19,860,000)	(495,000)	—	25,843,000	

Note 1. (i) Options representing 1,000,000 shares are exercisable from 15 April 2010 to 14 April 2020.

(ii) Options representing 1,000,000 shares are exercisable from 15 April 2011 to 14 April 2020.

(iii) Options representing 1,000,000 shares are exercisable from 15 April 2012 to 14 April 2020.

Note 2. (i) 20% of the option are exercisable on the expiry of 1 year of the date of grant, i.e. on/after 24 February 2010.

(ii) 30% of the option are exercisable on the expiry of 2 years of the date of grant, i.e. on/after 24 February 2011.

(iii) 50% of the option are exercisable on the expiry of 3 years of the date of grant, i.e. on/after 24 February 2012.

and in each case, no later than 23 February 2019.

Note 3. (i) up to 32% on or after 2 May 2012.

(ii) up to 66% on or after 2 May 2013.

(iii) all the remaining options on or after 2 May 2014.

and in each case, not later than 1 May 2022.

Vesting condition for (ii) — on condition that the Board of Directors has confirmed that the Company has met the 2012 (or combined 2012 and 2013) income and profit performance benchmarks as set by the Board and that the performance appraisal of the grantee has satisfied the requirements of the management of the Company.

Vesting condition for (iii) — on condition that the Board of Directors has confirmed that the Company has met the 2013 income and profit performance benchmarks as set by the Board and that the performance appraisal of the grantee has satisfied the requirements of the management of the Company.

Arrangement to Purchase Shares or Debentures

Save as disclosed above, at no time during the year were there any rights to acquire benefits by means of the acquisition of securities of the Company granted to any Director or their respective spouse or children under 18 years of age, or were there any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

As at 31 December 2012, the interests and short positions of the substantial shareholders of the Company in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in shares and underlying shares

Name of shareholder	Nature of interest	Interest in Shares	Interest in underlying shares (4)	Aggregate interest	Percentage of issued share capital
Long position					
Fu An International Company Limited	Beneficial owner	237,306,235	—	237,306,235	23.75%
Sentential Holdings Limited (1)	Interest of controlled company	237,306,235	—	237,306,235	23.75%
Li Chao Wang (1)	Interest of controlled company	237,306,235			
	Personal	936,000	999,000	239,241,235	23.94%
SCA Hygiene Holding AB	Beneficial owner	216,431,897	—	216,431,897	21.66%
SCA Group Holding BV (2)	Interest of controlled company	216,431,897	—	216,431,897	21.66%
Svenska Cellulosa Aktiebolaget (2)	Interest of controlled company	216,431,897	—	216,431,897	21.66%
Value Partners Limited	Beneficial owner	62,365,000	—	62,365,000	6.24%
Value Partners Hong Kong Limited(3)	Interest of controlled company	62,365,000	—	62,365,000	6.24%
Value Partners Group Limited(3)	Interest of controlled company	62,365,000	—	62,365,000	6.24%
Cheah Capital Management Limited(3)	Interest of controlled company	62,365,000	—	62,365,000	6.24%
Cheah Company Limited(3)	Interest of controlled company	62,365,000	—	62,365,000	6.24%
Hang Seng Bank Trustee International Limited(3)	Trustee of The CH Cheah Family Trust	62,365,000	—	62,365,000	6.24%
Cheah Cheng Hye(3)	Founder of a discretionary trust	62,365,000	—	62,365,000	6.24%
To Hau Yiu(3)	Interest of spouse	62,365,000	—	62,365,000	6.24%

Notes:

1. These Shares are registered in the name of Fu An International Company Limited which is held as to 74.21% by Sentential Holdings Limited, 15.79% by Join Pride International Limited and 10.00% by Daminos Management Limited. The entire issued share capital of Sentential Holdings Limited is held by LI Chao Wang. Under the SFO, Sentential Holdings Limited and LI Chao Wang are all deemed to be interested in the Shares held by Fu An International Company Limited.

2. These Shares are registered in the name of SCA Hygiene Holding AB, which is indirectly wholly-owned by Svenska Cellulosa Aktiebolaget, a company whose shares are traded on the Stockholm, London and New York (as ADRs) stock exchanges. Under the SFO, Svenska Cellulosa Aktiebolaget is deemed to be interested in the Shares held by SCA Hygiene Holding AB.

3. These Shares are registered in the name of Value Partners Limited which is indirectly wholly-owned by Value Partners Group Limited which in turn is held as to 28.74% by Cheah Capital Management Limited. The entire issued share capital of Cheah Capital Management Limited is held by Cheah Company Limited, whose entire issued share capital is held by Hang Seng Bank Trustee International Limited in its capacity as trustee of The C H Cheah Family Trust with Cheah Cheng Hye as the founder of the trust. Under the SFO, Value Partners Hong Kong Limited, Value Partners Group Limited, Cheah Capital Management Limited, Cheah Company Limited, Hang Seng Bank Trustee International Limited, Cheah Cheng Hye and To Hau Yin (as spouse of Cheah Cheng Hye) are all deemed to be interested in the Shares held by Value Partners Limited.

4. Details of share options held by the directors are shown in the section of "Share Option Scheme".

Save as disclosed above, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO.

Management Contracts

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

Major Customers and Suppliers

During the year, the percentage of sales of goods attributable to the Group's five largest customers combined are 15.79%.

During the year, the percentages of purchases of goods attributable to the Group's major suppliers are approximately as follows:

—	the largest supplier	13.55%
—	five largest suppliers combined	36.46%

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

Sufficiency of Public Float

Based on the information that is publicly available and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the laws of the Cayman Islands.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for reappointment.

On behalf of the Board
LI Chao Wang
Chairman

Hong Kong, 26 March 2013

Independent Auditor's Report

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羅兵咸永道

Independent Auditor's Report
To the shareholders of Vinda International Holdings Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Vinda International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 51 to 134, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2013

Consolidated Balance Sheet

As at 31 December 2012

	Note	As at 31 December 2012 HK$	2011 HK$
ASSETS			
Non-current assets			
Property, plant and equipment	7	3,987,486,971	3,022,040,685
Leasehold land and land use rights	6	185,167,942	184,797,092
Intangible assets	8	12,954,724	10,445,847
Deferred income tax assets	21	175,685,073	115,700,768
Investment properties	9	32,435,570	—
Investment in an associate	10	64,357,657	59,800,509
		4,458,087,937	3,392,784,901
Current assets			
Inventories	12	1,446,576,241	1,372,221,620
Trade receivables, other receivables and prepayments	13	1,115,984,965	939,353,259
Prepayments to and receivables from related parties	35(c)	42,303,573	43,273,883
Restricted bank deposits	14	6,101,567	1,292,449
Cash and cash equivalents	15	753,586,651	714,611,721
		3,364,552,997	3,070,752,932
Total assets		7,822,640,934	6,463,537,833
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	99,938,269	93,818,369
Share premium	16	1,668,318,024	1,119,423,427
Other reserves	18		
— Proposed final dividend		112,930,244	81,621,981
— Others		2,237,731,131	1,843,730,722
Total equity		4,118,917,668	3,138,594,499

Consolidated Balance Sheet

As at 31 December 2012

	Note	As at 31 December 2012 HK$	2011 HK$
LIABILITIES			
Non-current liabilities			
Borrowings	20	**850,317,747**	1,151,334,272
Deferred government grants	22	**100,597,180**	74,289,746
Derivative financial instruments	23	**15,070,503**	17,424,745
Deferred income tax liabilities	21	**4,491,714**	1,662,617
		970,477,144	1,244,711,380
Current liabilities			
Trade payables, other payables and accrued expenses	19	**1,423,017,885**	1,209,944,172
Borrowings	20	**1,218,900,525**	801,144,261
Due to related parties	35(c)	**2,144,516**	1,779,362
Current income tax liabilities		**89,183,196**	67,364,159
		2,733,246,122	2,080,231,954
Total liabilities		**3,703,723,266**	3,324,943,334
Total equity and liabilities		**7,822,640,934**	6,463,537,833
Net current assets		**631,306,875**	990,520,978
Total assets less current liabilities		**5,089,394,812**	4,383,305,879

The financial statements were approved by the Board of Directors on 26 March 2013 and were signed on its behalf

LI Chao Wang
Director

ZHANG Dong Fang
Director

The notes on pages 58 to 134 are an integral part of these consolidated financial statements.

Company Balance Sheet

As at 31 December 2012

	Note	As at 31 December 2012 HK$	2011 HK$
ASSETS			
Non-current assets			
Investments in and balances with subsidiaries	11	1,327,418,694	1,294,250,921
Current assets			
Trade receivables, other receivables and prepayments		247,333	146,932
Dividends receivable		139,625,183	355,630,067
Due from subsidiaries	35(c)	1,403,318,036	713,137,032
Cash and cash equivalents	15	2,737,595	1,630,628
		1,545,928,147	1,070,544,659
Total assets		2,873,346,841	2,364,795,580
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	99,938,269	93,818,369
Share premium	16	1,668,318,024	1,119,423,427
Other reserves	18		
— Proposed final dividend		112,930,244	81,621,981
— Others		282,867,093	311,943,447
Total equity		2,164,053,630	1,606,807,224

Company Balance Sheet

As at 31 December 2012

	Note	As at 31 December 2012 HK$	2011 HK$
LIABILITIES			
Non-current liabilities			
Borrowings	20	447,029,840	697,475,756
Derivative financial instrument	23	5,616,124	3,423,823
		452,645,964	700,899,579
Current liabilities			
Other payables and accrued expenses	19	3,317,962	12,569,048
Borrowings	20	253,329,285	44,519,729
		256,647,247	57,088,777
Total liabilities		709,293,211	757,988,356
Total equity and liabilities		2,873,346,841	2,364,795,580
Net current assets		1,289,280,900	1,013,455,882
Total assets less current liabilities		2,616,699,594	2,307,706,803

The financial statements were approved by the Board of Directors on 26 March 2013 and were signed on its behalf

LI Chao Wang
Director

ZHANG Dong Fang
Director

The notes on pages 58 to 134 are an integral part of this financial statement.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	For the year ended 31 December 2012 HK$	2011 HK$
Revenue	5	**6,024,046,812**	4,765,299,413
Cost of sales	25	**(4,169,104,798)**	(3,468,791,744)
Gross profit		**1,854,942,014**	1,296,507,669
Selling and marketing costs	25	**(770,366,428)**	(574,773,574)
Administrative expenses	25	**(367,866,260)**	(238,878,433)
Other income and gains — net	24	**58,407,732**	22,786,442
Operating profit		**775,117,058**	505,642,104
Interest income	27	**7,402,715**	4,816,589
Foreign exchange gain, net	27	**208,243**	57,812,949
Finance costs	27	**(48,322,993)**	(43,982,615)
Finance (costs)/income, net	27	**(40,712,035)**	18,646,923
Share of post-tax loss of an associate	10	**(15,934,119)**	(2,358,175)
Profit before income tax		**718,470,904**	521,930,852
Income tax expense	28(a)	**(181,909,149)**	(116,216,462)
Profit attributable to equity holders of the Company		**536,561,755**	405,714,390
Other comprehensive income:			
Currency translation differences		**(357,577)**	137,951,695
Hedging reserve	18	**(2,808,603)**	(3,586,084)
Total comprehensive income attributable to equity holders of the Company		**533,395,575**	540,080,001
Earnings per share for profit attributable to the equity holders of the Company for the year (expressed in HK$ per share)			
— basic	31	**0.546**	0.433
— diluted	31	**0.541**	0.426

The notes on pages 58 to 134 are an integral part of these consolidated financial statements.

	Note	For the year ended 31 December 2012 HK$	2011 HK$
Dividends	32	**155,903,701**	112,559,768

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

		Attributable to equity holders of the Company			
		Share capital	Share premium	Other reserves	Total
	Note	HK$	HK$	HK$	HK$
Balance at 1 January 2011		93,673,169	1,113,265,875	1,481,216,626	2,688,155,670
Profit for the year		—	—	405,714,390	405,714,390
Other comprehensive income					
— Currency translation differences		—	—	137,951,695	137,951,695
— Hedging reserve		—	—	(3,586,084)	(3,586,084)
Total comprehensive income for 2011		—	—	540,080,001	540,080,001
Transaction with owners					
Employees share option scheme					
— Value of employee services	17	—	—	18,183,000	18,183,000
— Exercise of share options	16	145,200	6,157,552	(1,635,712)	4,667,040
Dividends	32	—	—	(112,491,212)	(112,491,212)
Transaction with owners		145,200	6,157,552	(95,943,924)	(89,641,172)
Balance at 31 December 2011		93,818,369	1,119,423,427	1,925,352,703	3,138,594,499
Balance at 1 January 2012		**93,818,369**	**1,119,423,427**	**1,925,352,703**	**3,138,594,499**
Profit for the year		**—**	**—**	**536,561,755**	**536,561,755**
Other comprehensive income					
— Currency translation differences		**—**	**—**	**(357,577)**	**(357,577)**
— Hedging reserve		**—**	**—**	**(2,808,603)**	**(2,808,603)**
Total comprehensive income for 2012		**—**	**—**	**533,395,575**	**533,395,575**
Transaction with owners					
Employees share option scheme					
— Value of employee services	17	**—**	**—**	**46,225,333**	**46,225,333**
— Exercise of share options	16	**1,986,000**	**88,099,125**	**(24,350,117)**	**65,735,008**
Allotment of shares	16	**4,200,000**	**468,712,479**	**—**	**472,912,479**
Repurchases and cancellation of shares	16	**(66,100)**	**(7,917,007)**	**—**	**(7,983,107)**
Dividends	32	**—**	**—**	**(129,962,119)**	**(129,962,119)**
Transaction with owners		**6,119,900**	**548,894,597**	**(108,086,903)**	**446,927,594**
Balance at 31 December 2012		**99,938,269**	**1,668,318,024**	**2,350,661,375**	**4,118,917,668**

The notes on pages 58 to 134 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2012

	Note	For the year ended 31 December 2012 HK$	2011 HK$
Cash flows from operating activities			
Cash generated from operations	33(a)	1,020,976,359	489,872,661
Interest paid		(63,739,339)	(36,272,218)
Income tax paid		(217,100,035)	(131,759,793)
Net cash generated from operating activities		740,136,985	321,840,650
Cash flows from investing activities			
Additional investment in an unlisted associate		(20,500,000)	(61,500,000)
Purchase of property, plant and equipment		(1,216,880,570)	(748,840,772)
Proceeds from disposal of property, plant and equipment	33(b)	657,435	7,468,948
Proceeds from sales of land use rights	6	34,977,264	—
Payment for leasehold land and land use rights	6	(20,902,852)	(20,791,090)
Purchase of intangible assets		(5,814,312)	(2,056,201)
Interest received		7,402,715	4,816,589
Net cash used in investing activities		(1,221,060,320)	(820,902,526)
Cash flows from financing activities			
Proceeds from shares issued		538,647,487	4,667,040
Proceeds from borrowings		1,604,439,718	2,304,597,210
Repayments of borrowings		(1,487,240,556)	(1,383,974,240)
Repurchase and cancellation of shares	16	(7,983,107)	—
Dividends paid		(129,962,119)	(112,491,212)
Net cash generated from financing activities		517,901,423	812,798,798
Net increase in cash and cash equivalents		36,978,088	313,736,922
Effect of foreign exchange rate changes		1,996,842	11,323,017
Cash and cash equivalents, beginning of the year	15	714,611,721	389,551,782
Cash and cash equivalents, end of the year	15	753,586,651	714,611,721

The notes on pages 58 to 134 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

1 General Information

Vinda International Holdings Limited (the "Company") was incorporated on 17 August 1999 in the Cayman Islands with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company acts as an investment holding company and provides management as well as financial support services to its subsidiaries. The principal activities of the subsidiaries are set out in Note 11. The Company and its subsidiaries are collectively referred to as the "Group".

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited ("HKSE") since 10 July 2007.

The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

These consolidated financial statements are presented in Hong Kong dollar ("HK$") unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 26 March 2013.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial liabilities (including derivative instruments) at fair value through consolidated statement of comprehensive income.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures

(a) Amended standards adopted by the Group

The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2012.

Amendment to HKFRS 7 "Financial instruments: Disclosures — Transfers of financial assets" is effective for annual periods beginning on or after 1 July 2011. This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The adoption of this amendment will result in additional disclosures where necessary.

(b) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted.

		Effective for annual periods beginning on or after
HKAS 1 (Amendment)	Financial statements presentation	1 July 2012
HKFRS 1 (Amendment)	'First time adoption', on government loans	1 January 2013
HKFRSs 10, 11 and 12 (Amendment)	Transition guidance	1 January 2013
HKFRS 10	Consolidated financial statements	1 January 2013
HKAS 27 (Revised 2011)	Separate financial statements	1 January 2013
HKFRS 11	Joint arrangements	1 January 2013
HKAS 28 (Revised 2011)	Associates and joint ventures	1 January 2013
HKFRS 12	Disclosure of interests in other entities	1 January 2013
HKFRS 13	Fair value measurements	1 January 2013
HKAS 19 (Amendment)	Employee benefits	1 January 2013
HKFRS 7 (Amendment)	'Financial instruments: Disclosures' on asset and liability offsetting	1 January 2013
HKIFRIC 20	Stripping costs in the production phase of a surface mine	1 January 2013
HKAS 32 (Amendment)	'Financial instruments: Presentation' on asset and liability offsetting	1 January 2014
HKFRS 9	Financial Instruments	1 January 2015
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory effective date and transition disclosures	1 January 2015

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures (continued)

(b) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted. (continued)

The Group is assessing the full impact of the amendments and standards, and according to the preliminary assessment, there is no significant impact on the consolidated financial statement. The Group intends to adopt the amendments no later than the respective effective dates of the amendments.

Apart from the above, the HKICPA has issued the annual improvements project (2011) which addresses several issues in the 2009–2011 reporting cycle, and includes changes to the following standards. The Group has not applied the following revised HKFRSs published in the annual improvements project.

		Effective for annual periods beginning on or after
HKFRS 1	First time adoption	1 January 2013
HKAS 1	Financial statement presentation	1 January 2013
HKAS 16	Property plant and equipment	1 January 2013
HKAS 32	Financial instruments: Presentation	1 January 2013
HKAS 34	Interim financial reporting	1 January 2013

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2 Summary of significant accounting policies *(continued)*

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation (continued)

Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquire and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through consolidated statement of comprehensive income.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in consolidated statement of comprehensive income or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in consolidated statement of comprehensive income (Note 2.8(a)).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2 Summary of significant accounting policies *(continued)*

2.2 Subsidiaries *(continued)*

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

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

2.3 Associate

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the comprehensive income of the investee after the date of acquisition. The Group's investment in an associate includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to consolidated statement of comprehensive income where appropriate.

The Group's share of post-acquisition comprehensive income is recognised in consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in an associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2 Summary of significant accounting policies *(continued)*

2.3 Associate *(continued)*

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associate. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in consolidated statement of comprehensive income.

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is Renminbi ("RMB"). Considering the Company is tax registered in Hong Kong, HK$ is chosen as the presentation currency to present the consolidated financial statements.

(b) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other income and gains — net'.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2 Summary of significant accounting policies *(continued)*

2.5 Foreign currency translation *(continued)*

(c) Group companies

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

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

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

(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the consolidated statement of comprehensive income as part of the gain or loss on sale.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2 Summary of significant accounting policies *(continued)*

2.6 Property, plant and equipment

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

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

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

Leasehold land classified as finance lease	20 to 50 years
Buildings	30 to 50 years
Leasehold improvements	3 to 5 years
Machinery	10 to 15 years
Furniture, fittings and equipment	4 to 5 years
Vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

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

Construction-in-progress ("CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, costs of plant and machinery, and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for the intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2 Summary of significant accounting policies *(continued)*

2.7 Leasehold land and land use rights

All land in the People's Republic of China (the "PRC") is state-owned and no individual land ownership right exists. The Group acquired the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as leasehold land and land use rights, which are amortised over the lease periods using the straight-line method. The leasehold land and land use rights are stated at historical cost less accumulated amortisation and impairment losses.

2.8 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree.

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

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

(b) Computer software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (5 years).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2 Summary of significant accounting policies *(continued)*

2.9 Impairment of non-financial assets

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

2.10 Financial assets

2.10.1 Classification

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

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'restricted bank deposits', 'receivables due from related parties' and 'cash and cash equivalents' in the balance sheet (notes 2.13 and 2.14).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2 Summary of significant accounting policies *(continued)*

2.10 Financial assets *(continued)*

2.10.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Loans and receivables are initially recognised at fair value plus transaction costs and are subsequently carried at amortised cost using the effective interest method. Financial assets carried at fair value through profit or losses are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the loans and receivables have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category other than those related to financing activities are present in the consolidated statement of comprehensive income within 'other gains/(losses) — net' in the period in which they arise, and those related to financing activities, are presented in the consolidated statement of comprehensive income within 'foreign exchange gain, net' in the period in which they arise.

2.10.3 Impairment of financial assets

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2 Summary of significant accounting policies *(continued)*

2.10 Financial assets *(continued)*

2.10.3 Impairment of financial assets (continued)

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

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

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. The fair values of various derivative instruments used for hedging purposes are disclosed in Note 23.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2 Summary of significant accounting policies *(continued)*

2.11 Derivative financial instruments and hedging activities *(continued)*

Cash flow hedge

Amounts accumulated in equity are reclassified to consolidated statement of comprehensive income in the periods when the hedged item affects consolidated statement of comprehensive income. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the consolidated statement of comprehensive income within 'financial costs'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset.

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'other gains/(losses) — net'.

2.12 Inventories

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

2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2 Summary of significant accounting policies *(continued)*

2.15 Share capital

Ordinary shares are classified as equity.

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

2.16 Trade and other payables

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

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

2.17 Borrowings and borrowing costs

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

Borrowings at nil or low interest rates from government are treated as government grants and recognised initially at the cost of consideration received.

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

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

All other borrowing costs are recognised in consolidated statement of comprehensive income in the period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2 Summary of significant accounting policies *(continued)*

2.18 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

(c) Offsetting

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2 Summary of significant accounting policies *(continued)*

2.19 Employee benefits

(a) Pension obligations

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF"), a defined contribution plan. Under the MPF, each of the Group and its Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of HK$1,250 per person per month and any excess contributions are voluntary.

In accordance with the rules and regulations in the PRC, the Group has arranged for its PRC employees to join a defined contribution retirement benefit plan organised by the PRC government. The PRC government undertakes to assume the retirement benefit obligations of all existing and future retired employees payable under this plan. The assets of this plan are held separately from those of the Group in an independent fund managed by the PRC government.

The Group also operates two defined contribution schemes which are available to the employees in Australia and the United States. Contributions are made based on certain percentage of the employees' compensation or a fixed sum.

The Group has no further payment obligations once the contributions have been paid. The Group's contributions to these plans are charged to the consolidated statement of comprehensive income as incurred.

(b) Other employee benefits

In addition to pension obligation, all PRC employees of the Group participate in various employee social security plans, including medical, housing and other welfare benefits, organised and administered by the governmental authorities. According to the relevant regulations, the premiums and welfare benefit contributions that should be borne by the Group are calculated based on percentages of the total salary of employees (or on other basis), subject to a certain ceiling, and are paid to the labour and social welfare authorities.

The Group has no further payment obligations once the contributions have been paid. The Group's contributions to these plans are charged to the consolidated statement of comprehensive income as incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2 Summary of significant accounting policies *(continued)*

2.20 Share-based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and an employee remaining on service of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purpose of recognising the expense during the period between service commencement period and grant date. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

The cash subscribed for the shares issued when the options are exercised is credited to share capital (nominal value) and share premium, net of any directly attributable transaction costs.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an expense for such services rendered by the relevant employee, unless if such expenses are not recharged to the relevant subsidiary, in which case they would be treated as an increase to investment in subsidiary undertakings, with a corresponding credit to equity on the Company's financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2 Summary of significant accounting policies *(continued)*

2.21 Provisions

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

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

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

2.22 Government assistance and grants

Government assistance is the action by government designed to provide an economic benefit specific to an entity. The government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity are not recognised.

Grants from the government are recognised at their fair values where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the acquisition of land use rights and property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2 Summary of significant accounting policies *(continued)*

2.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax ("VAT"), returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Sales of goods are recognised when a Group entity has delivered products to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

(b) Interest income

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

(c) Dividend income

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

2.24 Operating Leases

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

2 Summary of significant accounting policies *(continued)*

2.25 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2.26 Dividend distribution

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

2.27 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3 Financial risk management

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Company and most of its subsidiaries' functional currency is RMB, since majority of the companies' revenues are derived from operations in mainland China. Foreign exchange risk arises when the future commercial transactions of sales to and purchases from overseas recognised assets or liabilities, such as cash and cash equivalents (Note 15), restricted bank deposits (Note 14), trade and other receivables (Note 13), trade and other payables (Note 19), borrowings (Note 20) and due from/to related parties (Note 35(c)), certain of which are denominated in United States dollar (the "US$"), HK$ (pegged with US$) and Australian dollar(the "AU$").

As at 31 December 2012 and 2011, if RMB had strengthened/weakened by 10% against US$ with all other variables held constant, the post-tax profit for each year would have changed mainly as a result of foreign exchange gains/losses on translation of US$ denominated cash and cash equivalents, trade and other receivables, trade and other payables and borrowings. Details of the changes are as follows:

	2012 **HK$**	2011 HK$
For the year ended: Post-tax profit increase/(decrease) — Strengthened by 10%	**54,411,603**	48,534,472
— Weakened by 10%	**(54,411,603)**	(48,534,472)
As at: Owners' equity increase/(decrease) — Strengthened by 10%	**54,411,603**	48,534,472
— Weakened by 10%	**(54,411,603)**	(48,534,472)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(a) ***Market risk*** *(continued)*

(i) Foreign exchange risk (continued)

As at 31 December 2012 and 2011, if RMB had strengthened/weakened by 10% against HK$ with all other variables held constant, the post-tax profit for each year would have changed mainly as a result of foreign exchange gains/losses on translation of HK$ denominated cash and cash equivalents, restricted bank deposits, trade and other receivables, trade and other payables, borrowings and due from/to related parties. Details of the changes are as follows:

	2012 **HK$**	2011 HK$
For the year ended:		
Post-tax profit increase/(decrease)		
— Strengthened by 10%	**92,050,953**	104,571,787
— Weakened by 10%	**(92,050,953)**	(104,571,787)
As at:		
Owners' equity increase/(decrease)		
— Strengthened by 10%	**92,050,953**	104,571,787
— Weakened by 10%	**(92,050,953)**	(104,571,787)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

As at 31 December 2012, the Group hedged the foreign exchange risk on bank borrowings denominated in AU$ to HK$ with cross currency swap (Note 23(a)). After taking the effect of this hedge instrument into consideration, if RMB had strengthened/weakened by 10% against HK$ with all other variables held constant, the post-tax profit for each year would have changed as follows:

	2012 **HK$**	2011 HK$
For the year ended: Post-tax profit increase/(decrease) — Strengthened by 10%	**10,959,375**	12,525,000
— Weakened by 10%	**(10,959,375)**	(12,525,000)
As at: Owners' equity increase/(decrease) — Strengthened by 10%	**10,959,375**	12,525,000
— Weakened by 10%	**(10,959,375)**	(12,525,000)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. Details of the Group's borrowings have been disclosed in Note 20.

Under certain circumstances, the Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

As at 31 December 2012 and 2011, if interest rates on bank borrowings had been 10 basis points higher/lower with all other variables held constant, the post-tax profit for each year would have changed mainly as a result of higher/lower interest expense on floating rate borrowings. Details of the changes are as follows:

	2012 **HK$**	2011 HK$
For the year ended:		
Post-tax profit (decrease)/increase		
— 10 basis points higher	**(966,526)**	(461,335)
— 10 basis points lower	**966,526**	461,335
As at:		
Owners' equity (decrease)/increase		
— 10 basis points higher	**(966,526)**	(461,335)
— 10 basis points lower	**966,526**	461,335

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of cash and cash equivalents, restricted bank deposits, due from related parties, and trade and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

As at 31 December 2012 and 2011, all restricted bank deposits and cash and cash equivalents were deposited in state-owned banks and reputable financial institutions and were hence without significant credit risk. Management does not expect any losses from non-performance by these counterparties.

Credit sales are made to selected customers with good credit history. The Group has policies in place to ensure that outstanding trade receivables are collected on a timely basis.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group's objective is to maintain adequate committed credit lines to ensure sufficient and flexible funding is available to the Group. The Group also considers converting short-term borrowings into long-term borrowings to improve the Group's liquidity.

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 term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates.

Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(c) ***Liquidity risk*** *(continued)*

	On demand HK$	Less than 1 year HK$	Between 1 and 2 years HK$	Between 2 and 5 years HK$
As at 31 December 2012				
Term loans subject to a repayment on demand clause	**77,250,000**	**—**	**—**	**—**
Other bank loans	**—**	**1,141,650,525**	**707,704,776**	**135,529,918**
Other borrowings	**—**	**—**	**—**	**7,083,053**
Interests payable on borrowings (i)	**3,063,585**	**48,736,569**	**28,764,416**	**3,920,859**
Trade payables	**—**	**731,309,628**	**—**	**—**
Notes payable and other payables	**—**	**308,415,053**	**—**	**—**
As at 31 December 2011				
Term loans subject to a repayment on demand clause	155,250,000	—	—	—
Other bank loans	—	645,400,860	444,336,704	685,392,924
Other borrowings	—	493,401	536,431	21,068,213
Interests payable on borrowings (i)	3,252,227	48,781,313	25,199,605	15,061,230
Trade payables	—	702,658,382	—	—
Other payables	—	209,612,929	—	—

(i) The interest on borrowings is calculated based on borrowings held as at 31 December 2012 and 2011 without taking account of future issues. The Group has entered into certain interest rate swap ("IRS") contracts to fix the floating-rate into a fixed rate (Note 23), and the interest on such borrowings is calculated using the fixed rate in the IRS contract. Floating-rate interest is estimated using interest rate prevailing as at 31 December 2012 and 2011 respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3 Financial risk management *(continued)*

3.2 Capital risk management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents and restricted bank deposits. Total capital is calculated as 'equity', as shown in the consolidated balance sheet, plus net debt.

The gearing ratios at 31 December 2011 and 2012 were as follows:

	As at 31 December	
	2012	2011
	HK$	HK$
Total borrowings (Note 20)	**2,069,218,272**	1,952,478,533
Less: Cash and cash equivalents (Note 15)	**(753,586,651)**	(714,611,721)
Restricted bank deposits (Note 14)	**(6,101,567)**	(1,292,449)
Net debt	**1,309,530,054**	1,236,574,363
Total equity	**4,118,917,668**	3,138,594,499
Total capital	**5,428,447,722**	4,375,168,862
Gearing ratio	**24.12%**	28.26%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3 Financial risk management *(continued)*

3.3 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 liabilities that are measured at fair value at 31 December 2012.

	Level 1 HK$	**Level 2 HK$**	**Level 3 HK$**	**Total HK$**
Liabilities				
Derivatives financial instruments	**—**	**—**	**15,070,503**	**15,070,503**

The following table presents the Group's liabilities that are measured at fair value at 31 December 2011.

	Level 1 HK$	Level 2 HK$	Level 3 HK$	Total HK$
Liabilities				
Derivatives financial instruments	—	—	17,424,745	17,424,745

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined with reference to the valuation reports provided by the relevant counterparty banks.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

4 Critical accounting estimates and judgments

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

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

(a) Useful lives of property, plant and equipments

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

(b) Current tax and deferred tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

(c) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter-derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

4 Critical accounting estimates and judgments *(continued)*

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to industry cycles. Management reassesses the estimates at each balance sheet date.

(e) Provision for impairment of trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables based on the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Management reassesses the provision at each balance sheet date.

(f) Estimated impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgments and estimates.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related assets values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

4 Critical accounting estimates and judgments *(continued)*

(g) Share-based payment with specific performance conditions

The Group's share-based payment is exercisable subject to the Group archiving certain non-market performance vesting conditions. The Group recognises an amount for the services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and revises that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates. Where the expectation is different from the original estimate, such difference will impact the recognition of share-based payment expense charge in the period in which such estimate has been changed.

5 Segment information

The Group is principally engaged in the manufacture and sales of household consumable paper. Revenue is analysed as follows:

	For the year ended 31 December	
	2012	2011
	HK$	HK$
Sales of goods	**5,913,271,100**	4,599,009,257
Sales of semi-finished goods and other materials	**104,375,973**	161,117,318
Processing trade	**5,721,610**	3,913,466
Sales commission	**678,129**	1,259,372
Total revenue	**6,024,046,812**	4,765,299,413

The chief operating decision-maker has been identified as the executive committee, which comprises all executive directors and top management. The executive committee reviews the Group's internal reporting in order to assess performance and allocate resources.

The executive committee has determined that no business segment information is presented as over 98% of the Group's sales and operating profits are derived from the sales of paper products, which is considered one business segment with similar economic characteristics.

The executive committee has also determined that no geographical segment information is presented as about 90% of the Group's sales are derived within Mainland China and over 90% of the operating assets of the Group are located in Mainland China, which is considered one geographic location with similar risks and returns.

The Company is domiciled in Hong Kong. The amount of its revenue from external customers in Mainland China, Hong Kong and overseas is HK$ 5,502,930,034 (2011: HK$4,315,161,411), HK$499,181,176 (2011: HK$418,420,353), HK$21,935,602 (2011: HK$31,717,649) respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

5 Segment information *(continued)*

The total non-current assets are analysed as follows:

	As at 31 December	
	2012	2011
	HK$	HK$
Total non-current assets other than deferred tax assets and investment in an associate		
— Mainland China	**4,208,186,522**	3,209,148,713
— Hong Kong and overseas	**9,858,685**	10,134,911
Deferred tax assets	**175,685,073**	115,700,768
Investment in an associate	**64,357,657**	57,800,509
Total non-current assets	**4,458,087,937**	3,392,784,901

6 Leasehold land and land use rights — Group

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

	As at 31 December	
	2012	2011
	HK$	HK$
Outside Hong Kong, held on:		
Lease of between 10 and 50 years	**185,167,942**	184,797,092

	For the year ended 31 December	
	2012	2011
	HK$	HK$
At 1 January	**184,797,092**	160,496,665
Additions	**20,902,852**	20,791,090
Amortisation (Note 25)	**(4,526,495)**	(4,595,187)
Disposal (a)	**(15,740,099)**	—
Exchange differences	**(265,408)**	8,104,524
	185,167,942	184,797,092

(a) On 29 August 2011, Vinda Paper (Guangdong) Company Limited, a subsidiary of the Group, entered into an agreement with Jiangmen Bureau of Land Resources and Finance Bureau of Xinhui District. According to the agreement, Jiangmen Bureau of Land Resources purchased back the land use rights of Vinda Paper (Guangdong) Company limited with a consideration of RMB28,500,000 (HK$34,977,264), which has been received by the end of 2012.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

7 Property, plant and equipment — Group

	Land and buildings HK$	Leasehold improvements HK$	Machinery HK$	Furniture, fittings and equipment HK$	Vehicles HK$	Construction in progress HK$	Total HK$
Year ended 31 December 2011							
Opening net book amount	763,271,988	—	1,178,328,611	16,483,489	6,883,068	307,672,878	2,272,640,034
Additions	20,807,488	—	75,513,329	1,965,291	8,502,468	678,474,723	785,263,299
Disposals	—	—	(7,779,404)	(241,885)	(863,504)	—	(8,884,793)
Reclassification	265,462,284	—	523,886,654	—	—	(789,348,938)	—
Depreciation (Note 25)	(31,958,271)	—	(114,814,385)	(2,873,012)	(2,678,319)	—	(152,323,987)
Exchange differences	42,545,098	—	68,861,242	498,901	536,718	12,904,173	125,346,132
Closing net book amount	1,060,128,587	—	1,723,996,047	15,832,784	12,380,431	209,702,836	3,022,040,685
At 31 December 2011							
Cost	1,232,435,192	1,141,916	2,494,114,668	32,022,877	27,454,277	209,702,836	3,996,871,766
Accumulated depreciation	(172,306,605)	(1,141,916)	(770,118,621)	(16,190,093)	(15,073,846)	—	(974,831,081)
Net book amount	1,060,128,587	—	1,723,996,047	15,832,784	12,380,431	209,702,836	3,022,040,685
Year ended 31 December 2012							
Opening net book amount	1,060,128,587	—	1,723,996,047	15,832,784	12,380,431	209,702,836	3,022,040,685
Additions	5,231,614	8,977,891	5,190,287	3,926,721	13,913,265	1,155,481,621	1,192,721,399
Disposals	—	—	(2,294,355)	(224,523)	(150,934)	—	(2,669,812)
Reclassification	78,689,839	—	308,231,496	20,895	84,724	(387,026,954)	—
Transfer to investment property (Note 9)	—	—	—	—	—	(33,015,552)	(33,015,552)
Depreciation (Note 25)	(35,941,208)	—	(147,425,882)	(3,538,071)	(5,385,511)	—	(192,290,672)
Exchange differences	217,611	—	361,314	2,539	4,013	115,446	700,923
Closing net book amount	1,108,326,443	8,977,891	1,888,058,907	16,020,345	20,845,988	945,257,397	3,987,486,971
At 31 December 2012							
Cost	1,316,356,645	10,119,807	2,805,242,096	35,745,970	41,301,332	945,257,397	5,154,023,247
Accumulated depreciation	(208,030,202)	(1,141,916)	(917,183,189)	(19,725,625)	(20,455,344)	—	(1,166,536,276)
Net book amount	1,108,326,443	8,977,891	1,888,058,907	16,020,345	20,845,988	945,257,397	3,987,486,971

During the year, the Group has capitalized borrowing costs amounting to HK$13,952,054 (2011: HK$1,418,684) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of its general borrowings of 3.34% (2011: 3.26%).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

7 Property, plant and equipment — Group *(continued)*

During the year ended 31 December 2012 and 2011, depreciation expenses have been charged to the consolidated statement of comprehensive income as follows:

	For the year ended 31 December	
	2012	2011
	HK$	HK$
Cost of sales	**174,021,303**	137,646,403
Administrative expenses	**18,269,369**	14,677,584
	192,290,672	152,323,987

8 Intangible assets — Group

	Goodwill	Computer software	Total
	HK$	HK$	HK$
At 1 January 2011			
Cost	2,293,653	15,391,734	17,685,387
Accumulated amortisation and impairment	(2,293,653)	(4,306,414)	(6,600,067)
Net book amount	—	11,085,320	11,085,320
Year ended 31 December 2011			
Opening net book amount	—	11,085,320	11,085,320
Additions	—	2,056,201	2,056,201
Amortisation expense (Note 25)	—	(3,201,389)	(3,201,389)
Exchange differences	—	505,715	505,715
Closing net book amount	—	10,445,847	10,445,847
At 31 December 2011			
Cost	2,293,653	17,447,935	19,741,588
Accumulated amortisation and impairment	(2,293,653)	(7,002,088)	(9,295,741)
Net book amount	—	10,445,847	10,445,847

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

8 Intangible assets — Group *(continued)*

	Goodwill HK$	Computer software HK$	Total HK$
Year ended 31 December 2012			
Opening net book amount	—	10,445,847	10,445,847
Additions	—	5,814,312	5,814,312
Amortisation expense (Note 25)	—	(3,443,122)	(3,443,122)
Exchange differences	—	137,687	137,687
Closing net book amount	—	12,954,724	12,954,724
At 31 December 2012			
Cost	2,293,653	23,262,247	25,555,900
Accumulated amortisation and impairment	(2,293,653)	(10,307,523)	(12,601,176)
Net book amount	—	12,954,724	12,954,724

During the year ended 31 December 2012, amortisation of intangible assets charged to the consolidated statement of comprehensive income is as follow:

	For the year ended 31 December 2012 HK$	2011 HK$
Administrative expenses	3,443,122	3,201,389

9 Investment Properties

	For the year ended 31 December 2012 HK$	2011 HK$
Opening net book amount	—	—
Additions	33,015,552	—
Amortisation expense (Note 24)	(689,911)	—
Exchange differences	109,929	—
Investment Properties	32,435,570	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

9 Investment Properties *(continued)*

On 1 March 2012, the Group entered into a contract with V-Care (China) Limited (a subsidiary of V-Care Holdings Limited, the Group's associate) to lease certain of Group's plant to V-care (China) Limited. The lease term is of 3 years starting from 1 March 2012 to 28 February 2015 with a monthly rent of RMB 138,000. Accordingly, the Group transferred the leased plant from property, plant and equipment to investment property and has accounted for that investment property with cost method.

10 Investment in an associate

	2012 HK$	2011 HK$
1 January	**59,800,509**	—
Share of post-tax loss of an associate	**(15,934,119)**	(2,358,175)
Additional investment in an unlisted associate (i)	**20,500,000**	61,500,000
Exchange differences	**(8,733)**	658,684
31 December	**64,357,657**	59,800,509

(i) On 16 December 2010, the Company entered into the Investment and Shareholders' Agreement with Fu An International Company Limited (a substantial shareholder of the Company, "Fu An"), Dynasty Fortune Partners, L.P. ("Dynasty Fortune"), a related party on which a director of the Company has significant influence, Cathay Capital Holdings II, L.P. ("Cathay Capital"), an independent third party, and V-Care Holdings Limited ("V-Care"), pursuant to which, the Company, Fu An, Dynasty Fortune and Cathay Capital have agreed to invest an aggregate sum of HK$300,000,000 into V-Care by way of subscription of new shares of V-Care. Upon completion of the subscription, V-Care will be held as to 41% by the Company, 39% by Fu An, 7% by Dynasty Fortune and 13% by Cathay Capital.

Up to 31 December 2011, the Company paid HK$61,500,000 in cash for the subscription of the new shares issued by V-Care.

On 16 November 2012, the Company paid HK$20,500,000 in cash for the subscription of the new shares issued by V-Care.

Up to 31 December 2012, the Company has paid capital of HK$82,000,000, representing 41% of V-Care's share capital then outstanding.

The Group's share of the results of its principal associate, and its aggregated assets and liabilities, are as follows:

Name	Place of incorporation	Percentage of equity interest attributable to the Group	Assets HK$	Liabilities HK$	Revenue HK$	Net loss HK$
V-Care	British Virgin Islands	41%	261,392,915	104,223,497	68,312,403	(38,863,705)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

11 Investments in and balances with subsidiaries — Company

(a) Investments in and balances with subsidiaries

	As at 31 December	
	2012	2011
	HK$	HK$
Unlisted investments, at cost	**133,650,015**	100,204,682
Due from subsidiaries (Note (i))	**1,193,768,679**	1,194,046,239
	1,327,418,694	1,294,250,921

(i) Amounts due from subsidiaries represent equity fundings provided by the Company to its subsidiaries and are measured in accordance with the Company's accounting policy for investments in subsidiaries. They are unsecured and non-interest bearing. There's no recoverability risk of due from subsidiaries.

(b) Details of subsidiaries

As at 31 December 2012, the Company had direct and indirect interests in the following subsidiaries:

Name	Place of incorporation/ operation and kind of legal entity	Principal activities	Issued and fully paid capital	Interest held (directly)	Interest held (indirectly)
Vinda Household Paper (China) Limited ("Vinda Household Paper (China)")	British Virgin Islands, limited liability company	Investment holding and trading of wood pulp and machinery	US$1	100%	—
Vinda Household Paper (Hong Kong) Limited ("Vinda Household Paper (Hong Kong)")	British Virgin Islands, limited liability company	Investment holding	US$10,002	100%	—
Vinda Household Paper (U.S.A.) Limited	British Virgin Islands, limited liability company	Investment holding	US$1	100%	—
Vinda Household Paper (Australia) Limited	British Virgin Islands, limited liability company	Investment holding	US$1	100%	—
Vinda Paper (U.S.A.) Inc.	United States of America, limited liability company	Trading of wood pulps	US$1	—	100%
Vinda Paper (Australia) Pty Limited	Australia, limited liability company	Manufacturing and sale of household consumable paper	Australian dollar 100,000	—	100%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

11 Investments in and balances with subsidiaries — Company *(continued)*

(b) Details of subsidiaries *(continued)*

Name	Place of incorporation/ operation and kind of legal entity	Principal activities	Issued and fully paid capital	Interest held (directly)	Interest held (indirectly)
Forton Enterprises Limited ("Forton Enterprises")	Hong Kong, limited liability company	Investment holding and Trading of household consumable paper	HK$10,100	—	100%
Vinda Paper Industrial (H.K.) Company Limited ("Vinda Industrial HK")	Hong Kong, limited liability company	Property investments and trading of household consumable paper	HK$10,000	—	100%
Vinda Investment (China) Limited ("Vinda Investment")	Hong Kong, limited liability company	Investment holding	HK$1	—	100%
Vinda Paper (Guangdong) Company Limited ("Vinda Paper (Guangdong)")	The PRC, limited liability company	Manufacturing and sale of household consumable paper	US$34,550,000	—	100%
Vinda Paper (Sichuan) Company Limited ("Vinda Paper (Sichuan)")	The PRC, limited liability company	Manufacturing and sale of household consumable paper	HK$183,900,000	—	100%
Vinda Paper (Hubei) Company Limited ("Vinda Paper (Hubei)")	The PRC, limited liability company	Manufacturing and sale of household consumable paper	HK$53,030,000	—	100%
Vinda Paper (Beijing) Company Limited ("Vinda Paper (Beijing)")	The PRC, limited liability company	Trading of household consumable paper	US$350,000	—	100%
Vinda North Paper (Beijing) Company Limited ("Vinda Northern Paper")	The PRC, limited liability company	Manufacturing and sale of household consumable paper	HK$75,000,000	—	100%
Vinda Paper (Jiangmen) Company Limited ("Vinda Paper (Jiangmen)")	The PRC, limited liability company	Manufacturing and sale of household consumable paper	US$75,000,000	—	100%
Vinda Paper (Xiaogan) Company Limited ("Vinda Paper (Xiaogan)")	The PRC, limited liability company	Manufacturing and sale of household consumable paper	US$48,211,657 Note (i)	—	100%
Vinda Paper (Zhejiang) Company Limited ("Vinda Paper (Zhejiang)")	The PRC, limited liability company	Manufacturing and sale of household consumable paper	HK$350,000,000	—	100%
Vinda Personal Care (Hong Kong) Limited ("Vinda Personal Care")	Hong Kong, limited liability company	Investment holding and trading of household consumable paper	HK$1	100%	—

Notes to the Consolidated Financial Statements

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11 Investments in and balances with subsidiaries — Company *(continued)*

(b) Details of subsidiaries *(continued)*

Name	Place of incorporation/ operation and kind of legal entity	Principal activities	Issued and fully paid capital	Interest held (directly)	Interest held (indirectly)
Vinda Trading Company Limited ("Vinda Trading")	The PRC, limited liability company	Trading of household consumable paper	RMB50,000,000	—	100%
Vinda Paper (Liaoning) Company Limited ("Vinda Paper (Liaoning)")	The PRC, limited liability company	Manufacturing and sale of household consumable paper	HK$200,000,000 Note (ii)	—	100%
Vinda Investment Group Limited ("Vinda Investment Group", the former name "Green Lane Investment Limited")	Hong Kong, limited liability company	Investment holding and trading of household consumable paper	HK$1	—	100%
Vinda Paper (China) Company Limited ("Vinda Paper (China)", the former name "Vinda Paper (Xinhui) Limited")	The PRC, limited liability company	Trading of household consumable paper	HK$300,000,000 Note (iii)	—	100%
Vinda Paper (Shandong) Company Limited ("Vinda Paper (Shandong)")	The PRC, limited liability company	Manufacturing and sale of household consumable paper	US$16,743,030 Note (iv)	—	100%
Sparkle Sunshine Limited	British Virgin Islands, limited liability company	Investment holding company	US$1	—	100%

(i) The paid in capital of Vinda Paper (Xiaogan) was increased from US$38,410,000 to US$48,211,657 in 2012.

(ii) The paid in capital of Vinda Paper (Liaoning) was increased from HK$110,000,000 to HK$200,000,000 in 2012.

(iii) The registered capital of Vinda Paper (China) was increased from HK$50,000,000 to HK$300,000,000 in 2012.

(iv) The paid in capital of Vinda Paper (Shandong) was increased from US$5,138,517 to US$16,743,030 in 2012.

Notes to the Consolidated Financial Statements

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12 Inventories — Group

	As at 31 December	
	2012	2011
	HK$	HK$
Raw materials	**1,032,319,447**	1,009,075,964
Finished goods	**414,256,794**	363,145,656
	1,446,576,241	1,372,221,620

The cost of inventories recognized as expenses and included in cost of sales amounted to HK$3,430,418,983 (2011: HK$ 2,729,260,066) for the year ended 31 December 2012.

13 Trade receivables, other receivables and prepayments — Group

	As at 31 December	
	2012	2011
	HK$	HK$
Trade receivables	**872,928,805**	734,369,313
Less: Provision for impairment of trade receivables	**(11,321,967)**	(10,834,431)
Trade receivables, net	**861,606,838**	723,534,882
Other receivables		
— creditable input VAT	**197,972,301**	143,966,986
— prepaid income tax recoverable	**2,484,832**	8,715,640
— purchase rebates	**11,701,929**	15,631,760
— others	**24,170,858**	13,625,006
Other receivables	**236,329,920**	181,939,392
Trade and other receivables, net	**1,097,936,758**	905,474,274
Notes receivable	**4,485,197**	902,002
Prepayments		
— purchase of raw materials	**5,686,579**	7,277,991
— prepayment of utility fee	**—**	18,883,572
— others	**1,641,828**	2,599,867
	7,328,407	28,761,430
Prepaid expenses	**6,234,603**	4,215,553
	1,115,984,965	939,353,259

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

13 Trade receivables, other receivables and prepayments — Group *(continued)*

The carrying amounts of trade receivables, other receivables and prepayments are denominated in the following currencies:

	As at 31 December	
	2012	2011
	HK$	HK$
RMB	**1,006,953,848**	845,793,189
HK$	**85,176,449**	73,305,682
US$	**21,393,059**	15,628,860
Other currencies	**2,461,609**	4,625,528
	1,115,984,965	939,353,259

As at 31 December 2012 and 2011, the carrying amounts of the Group's trade and other receivables approximated their fair values due to short duration.

Customers are generally granted with credit terms ranging from 30 to 90 days.

Ageing analyses of trade receivables of the Group based on invoice date as at 31 December 2012 and 2011 are as below:

	As at 31 December	
	2012	2011
	HK$	HK$
Within 3 months	**823,478,886**	686,762,019
4 months to 6 months	**37,906,658**	37,079,956
7 months to 12 months	**6,972,542**	6,215,517
Over 1 year	**4,570,719**	4,311,821
	872,928,805	734,369,313

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

13 Trade receivables, other receivables and prepayments — Group *(continued)*

As of 31 December 2012, trade receivables of HK$38,127,952 (2011: HK$36,772,863) were past due but not impaired. These balances relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables based on invoice date is as follows:

	As at 31 December	
	2012	2011
	HK$	HK$
4 months to 6 months	**34,293,054**	33,382,581
7 months to 12 months	**3,834,898**	3,390,282
	38,127,952	36,772,863

As at 31 December 2012, trade receivables of HK$11,321,967 (2011: HK$10,834,431) were impaired and fully provided for. The individually impaired receivables mainly relate to customers with different credit ratings. The ageing of these receivables is as follows:

	As at 31 December	
	2012	2011
	HK$	HK$
4 months to 6 months	**3,613,604**	3,697,375
7 months to 12 months	**3,137,644**	2,825,235
Over 1 year	**4,570,719**	4,311,821
	11,321,967	10,834,431

The Group recognised provision for impairment of trade and other receivables in the administrative expenses in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

13 Trade receivables, other receivables and prepayments — Group *(continued)*

Movements on the provision for impairment of trade receivables are as follows:

	For the year ended 31 December	
	2012	2011
	HK$	HK$
As at 1 January	**(10,834,431)**	(8,646,148)
Provision for impairment of receivables (Note 25)	**(490,496)**	(2,787,019)
Receivables written off as uncollectible during the year	**—**	1,085,750
Exchange differences	**2,960**	(487,014)
As at 31 December	**(11,321,967)**	(10,834,431)

The maximum exposure to credit risk at the reporting date is the carrying amounts of each category of receivable mentioned above.

14 Restricted bank deposits — Group

	As at 31 December	
	2012	2011
	HK$	HK$
Restricted bank deposits	**6,101,567**	1,292,449

As at 31 December 2012, bank deposits of HK$6,101,567 (2011: HK$1,292,449) were restricted as deposits for the issuance of letters of credit.

The effective annual interest rate on restricted bank deposits was 0.35% (2011: 0.36%) as at 31 December 2012. These deposits mainly have a maturity ranging from 0 to 90 days.

All the restricted bank deposits are denominated in RMB.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

15 Cash and cash equivalents

	Group As at 31 December	
	2012	2011
	HK$	HK$
Cash in hand	**75,637**	148,290
Cash at bank	**753,511,014**	714,463,431
	753,586,651	714,611,721

The effective weighted average annual interest rate on cash at bank was 0.85% (2011: 0.87%) for the year ended 31 December 2012.

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	Group As at 31 December	
	2012	2011
	HK$	HK$
RMB	**490,373,656**	609,454,636
US$	**156,884,224**	46,519,207
HK$	**101,769,108**	51,330,096
Other currencies	**4,559,663**	7,307,782
	753,586,651	714,611,721

	Company As at 31 December	
	2012	2011
	HK$	HK$
Cash at bank — denominated in HK$	**2,737,595**	1,630,628

The effective weighted average annual interest rates on cash at bank were 0.19% (2011: 0.21%) for the year ended 31 December 2012.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

16 Share capital and share premium

	Group & Company				
			Amount		
	Number of authorised shares	Number of issued and fully paid shares	Ordinary shares HK$	Share premium HK$	Total HK$
At 1 January 2011	80,000,000,000	936,731,686	93,673,169	1,113,265,875	1,206,939,044
Employee share option scheme (Note 17)					
— Exercise of share options	—	1,452,000	145,200	6,157,552	6,302,752
At 31 December 2011	80,000,000,000	938,183,686	93,818,369	1,119,423,427	1,213,241,796
Employee share option scheme (Note 17)					
— Exercise of share options	—	19,860,000	1,986,000	88,099,125	90,085,125
Allotment of shares (i)	—	42,000,000	4,200,000	468,712,479	472,912,479
Repurchased and cancelled	—	(661,000)	(66,100)	(7,917,007)	(7,983,107)
At 31 December 2012	80,000,000,000	999,382,686	99,938,269	1,668,318,024	1,768,256,293

(i) On 10 April 2012, the Company, Fu An (together, "the Vendors") and the Placing Agent entered into an agreement, pursuant to which, the Placing Agent agreed to place 42,000,000 existing shares, at the placing price of HK$11.68 per share, to independent investors.

After the placing was completed, the Company issued 42,000,000 new shares on 10 April 2012 (4.39% of the total share capital issued then outstanding) to Fu An. The shares issued have the same rights as the other shares in issue. The fair value of the shares issued amounted to HK$ 490,560,000 (HK$11.68 per share). The related transaction costs of HK$17,647,521 have been netted off with the actual proceeds.

During the year ended 2012, the Company repurchased its own shares of 661,000 shares in aggregate with the price range from HK$12.00 to HK$12.04 per share, together with related expenses , the total consideration is HK$7,983,107. Those repurchased shares were subsequently cancelled and the issued share capital of the Company was reduced by nominal value of these shares accordingly.

As at 31 December 2012 and 2011, the par value of authorised and issued ordinary shares is HK$0.1 per share.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

17 Share-based payment

As approved by the Board meeting on 24 February 2009, 27,546,000 share options were granted to the directors and certain employees at an exercise price of HK$2.98 per share. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The options are exercisable during the following periods:

(i) in respect of the options granted to directors, on or after 24 February 2009;

(ii) in respect of the options granted to employees,

  (a) up to 20% on or after 24 February 2010;

  (b) up to 50% on or after 24 February 2011;

  (c) all the remaining options on or after 24 February 2012;

and in each case, not later than 23 February 2019.

In February 2009, all the directors and employees accepted the share options.

On 15 April 2010, 3,000,000 share options were granted to a director at an exercise price of HK$5.42 per share. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The options are exercisable during the following periods:

(a) up to 33% on or after 15 April 2010;

(b) up to 67% on or after 15 April 2011;

(c) all the remaining options on or after 15 April 2012;

and in each case, not later than 14 April 2020.

In April 2010, the director accepted the share options.

On 15 April 2011, 4,837,000 share options were granted to the directors and certain employees at an exercise price of HK$8.648 per share. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The options are exercisable on or after 15 April 2011 and no later than 14 April 2021.

In April 2011, all the directors and employees accepted the share options.

On 2 May 2012, 16,771,000 share options were granted to the directors and certain employees at an exercise price of HK$14.06 per share. The Group has no legal or constructive obligation to repurchase or settle the options in cash. All the directors and employees accepted the share options.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

17 Share-based payment *(continued)*

The options are exercisable during the following period when the Company meet certain performance conditions as set by the board of director.

(a) The first tranche of 5,313,000 options are exercisable during the period from 2 May 2012 to 1 May 2022;

(b) The second tranche of 5,729,000 options are exercisable during the period from 2 May 2013 to 1 May 2022, subject to vesting;

(c) The third tranche of 5,729,000 options are exercisable during the period from 2 May 2014 to 1 May 2022, subject to vesting;

Movements in the number of share options outstanding and their related weighted average exercise prices for the year ended 31 December 2012 and 2011were as follows:

	For the year ended 31 December			
	2012		2011	
	Weighted average exercise price in HK$	Number of options	Weighted average exercise price in HK$	Number of options
At 1 January	4.15	29,427,000	3.26	26,042,000
Granted	14.06	16,771,000	8.648	4,837,000
Exercised (Note (a))	3.31	(19,860,000)	3.21	(1,452,000)
Forfeited (Note (b))	14.06	(495,000)	—	—
At 31 December	11.04	25,843,000	4.15	29,427,000

(a) Options exercised during the year ended 31 December 2012 resulted in 19,860,000 shares (2011: 1,452,000 shares) being issued with net proceeds of HK$65,735,008 (2011: HK$4,667,040). The related weighted average share price at the time of exercise was HK$11.53 (2011: HK$8.94) per share.

(b) Options were forfeited during the year ended 31 December 2012 due to employee resignation.

Share options outstanding at 31 December 2012 have the following expiry dates and exercise prices:

Expiry date	Exercise price HK$ per share	Number of options
23 February 2019	2.98	2,946,000
14 April 2020	5.42	3,000,000
14 April 2021	8.648	3,621,000
01 May 2022	14.06	16,276,000

Notes to the Consolidated Financial Statements

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17 Share-based payment *(continued)*

The weighted average fair value of options granted in 2009 determined by using the Binomial Model was HK$1.076 per option. The significant inputs into the model were share prices at the grant date, the exercise price shown above, volatility of 40%, dividend yield of 2.0%, and annual risk-free interest rate of 1.56%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices of the Company over the last two years and other comparable companies over the last five years.

The weighted average fair value of options granted in 2010 determined by using the Binomial Model was HK$2.147 per option. The significant inputs into the model were share prices at the grant date, the exercise price shown above, volatility of 40%, dividend yield of 2.0%, and annual risk-free interest rate of 2.62%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices of the Company over the last two years and other comparable companies over the last five years.

The weighted average fair value of options granted in 2011 determined by using the Binomial Model was HK$3.212 per option. The significant inputs into the model were share prices at the grant date, the exercise price shown above, volatility of 40%, dividend yield of 2.0%, and annual risk-free interest rate of 2.42%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices of the Company over the last three years and other comparable companies over the last five years.

The weighted average fair value of options granted in 2012 determined by using the Binomial Model was HK$5.148 per option. The significant inputs into the model were share prices at the grant date, the exercise price shown above, volatility of 40%, dividend yield of 2.0%, and annual risk-free interest rate of 0.84% to 0.95%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices of the Company over the last four years and other comparable companies over the last five years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

18 Other reserves

	Group					
	Statutory reserves (Note (a)) HK$	Translation reserve HK$	Retained earnings HK$	Employee option reserve HK$	Hedging reserve HK$	Total HK$
At 1 January 2011	185,885,576	279,615,534	987,436,656	28,278,860	—	1,481,216,626
Employee share options scheme:						
— Value of employee services	—	—	—	18,183,000	—	18,183,000
— Exercise of options	—	—	—	(1,635,712)	—	(1,635,712)
Profit for the year	—	—	405,714,390	—	—	405,714,390
Appropriation of reserves	62,089,178	—	(62,089,178)	—	—	—
Dividends	—	—	(112,491,212)	—	—	(112,491,212)
Currency translation differences	—	137,951,695	—	—	—	137,951,695
Hedging reserve	—	—	—	—	(3,586,084)	(3,586,084)
At 31 December 2011	247,974,754	417,567,229	1,218,570,656	44,826,148	(3,586,084)	1,925,352,703
At 1 January 2012	**247,974,754**	**417,567,229**	**1,218,570,656**	**44,826,148**	**(3,586,084)**	**1,925,352,703**
Employee share options scheme:						
— Value of employee services	**—**	**—**	**—**	**46,225,333**	**—**	**46,225,333**
— Exercise of options	**—**		**—**	**(24,350,117)**	**—**	**(24,350,117)**
Profit for the year	**—**	**—**	**536,561,755**	**—**	**—**	**536,561,755**
Appropriation of reserves	**94,283,131**	**—**	**(94,283,131)**	**—**	**—**	**—**
Dividends	**—**		**(129,962,119)**	**—**	**—**	**(129,962,119)**
Currency translation differences	**—**	**(357,577)**	**—**	**—**	**—**	**(357,577)**
Hedging reserve	**—**	**—**	**—**	**—**	**(2,808,603)**	**(2,808,603)**
At 31 December 2012	**342,257,885**	**417,209,652**	**1,530,887,161**	**66,701,364**	**(6,394,687)**	**2,350,661,375**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

18 Other reserves *(continued)*

	Company				
	Translation reserve HK$	Retained earnings HK$	Employee option reserve HK$	Hedging reserve HK$	Total
At 1 January 2011	140,849,279	97,289,003	28,278,860	—	266,417,142
Employee share options scheme:					
— Value of employee services	—	—	18,183,000	—	18,183,000
— Exercise of options	—	—	(1,635,712)	—	(1,635,712)
Dividends	—	(112,491,212)	—	—	(112,491,212)
Profit for the year	—	152,278,266	—	—	152,278,266
Currency translation differences	74,237,767	—	—	—	74,237,767
Hedging reserve	—	—	—	(3,423,823)	(3,423,823)
At 31 December 2011	215,087,046	137,076,057	44,826,148	(3,423,823)	393,565,428
At 1 January 2012	**215,087,046**	**137,076,057**	**44,826,148**	**(3,423,823)**	**393,565,428**
Employee share options scheme:					
— Value of employee services	**—**	**—**	**46,225,333**	**—**	**46,225,333**
— Exercise of options	**—**	**—**	**(24,350,117)**	**—**	**(24,350,117)**
Dividends	**—**	**(129,962,119)**	**—**	**—**	**(129,962,119)**
Profit for the year	**—**	**112,688,824**	**—**	**—**	**112,688,824**
Currency translation differences	**(177,711)**	**—**	**—**	**—**	**(177,711)**
Hedging reserve	**—**	**—**	**—**	**(2,192,301)**	**(2,192,301)**
At 31 December 2012	**214,909,335**	**119,802,762**	**66,701,364**	**(5,616,124)**	**395,797,337**

(a) Statutory reserves

In accordance with the "Law of the PRC on Enterprises Operated Exclusively with Foreign Capital" and the Articles of Association of those subsidiaries of the Group, which are wholly foreign owned enterprises in the PRC, an appropriation to the Reserve Fund from the statutory net profit after offsetting accumulated losses of previous years in advance should be made prior to profit distribution to the shareholders. The appropriation for the Reserve Fund is no less than 10% of the statutory net profit and it can cease to accrue when the accumulated appropriation exceeds 50% of the registered capital. For the year ended 31 December 2012, the appropriation for the Reserve Fund is 15% (2011:15%) of the statutory net profits of the year for the subsidiaries in the PRC.

Notes to the Consolidated Financial Statements

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19 Trade payables, other payables and accrued expenses

	Group As at 31 December 2012 HK$	2011 HK$
Trade payables	**731,309,628**	702,658,382
Notes payable	**25,289,873**	18,048,167
Other payables		
— salaries payable	**64,599,665**	52,156,181
— taxes payable other than income tax	**39,761,089**	24,651,661
— advances from customers	**37,164,241**	46,254,981
— payables for property, plant and equipment	**154,135,195**	99,291,083
— others	**128,989,985**	92,273,679
Accrued expenses		
— promotion fees	**130,468,811**	88,936,554
— utility charges	**31,409,261**	23,236,311
— transportation fees	**46,435,257**	34,254,343
— advertising fee	**6,971,406**	5,169,777
— accrued interest	**11,004,129**	10,417,535
— others	**15,479,345**	12,595,518
	1,423,017,885	1,209,944,172

As at 31 December 2012 and 2011, the carrying amounts of the Group's trade payables, notes payables and other payables approximated their fair values.

The carrying amounts of the trade payables, notes payable and other payables are denominated in the following currencies:

	Group As at 31 December 2012 HK$	2011 HK$
RMB	**808,028,996**	556,162,513
US$	**369,952,270**	465,551,451
HK$	**1,429,089**	10,075,582
Other currencies	**1,839,321**	3,544,588
	1,181,249,676	1,035,334,134

Notes to the Consolidated Financial Statements

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19 Trade payables, other payables and accrued expenses *(continued)*

The credit period granted by the creditors generally ranged from 30 to 90 days. Ageing analysis of trade and notes payables as at 31 December 2012 and 2011 are as follows:

	Group As at 31 December	
	2012	2011
	HK$	HK$
Within 3 months	**688,507,764**	702,436,164
4 months to 6 months	**57,299,553**	11,652,403
7 months to 12 months	**9,748,523**	3,059,233
1 year to 2 years	**985,431**	2,988,304
2 years to 3 years	**55,908**	570,445
Over 3 years	**2,322**	—
	756,599,501	720,706,549

	Company As at 31 December	
	2012	2011
	HK$	HK$
Other payables and accrued expenses — denominated in HK$	**3,317,962**	12,569,048

As at 31 December 2012 and 2011, the carrying amount of the Company's other payables and accrued expenses approximated their fair values.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

20 Borrowings

	Group As at 31 December 2012 HK$	2011 HK$
Non-current		
Unsecured bank borrowings	**843,234,694**	1,129,729,628
Unsecured other borrowings (Note (a))	**7,083,053**	21,604,644
Total non-current borrowings	**850,317,747**	1,151,334,272
Current		
Portion of loans from banks due for repayment within one year		
— Unsecured	**1,141,650,525**	645,400,860
Portion of loans from banks due for repayment after one year which contain a repayment on demand clause		
— Unsecured	**77,250,000**	155,250,000
Unsecured other borrowings (Note (a))	**—**	493,401
Total current borrowings	**1,218,900,525**	801,144,261
Total borrowings	**2,069,218,272**	1,952,478,533

(a) Other borrowings are granted by PRC local governments, unsecured and interest-free.

(b) The maturity of borrowings is as follows:

	Bank borrowings As at 31 December 2012 HK$	2011 HK$	Other borrowings As at 31 December 2012 HK$	2011 HK$
Portion of loans due for repayment within 1 year:	**1,141,650,525**	645,400,860	**—**	493,401
Loans due for repayment after 1 year (Note 1):				
Between 1 and 2 years	**761,954,776**	522,336,704	**—**	536,431
Between 2 and 5 years	**158,529,918**	762,642,924	**7,083,053**	21,068,213
	2,062,135,219	1,930,380,488	**7,083,053**	22,098,045

Note 1: The above amounts due are based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

20 Borrowings *(continued)*

(c) The effective interest rates at the balance sheet date were as follows:

	Bank borrowings As at 31 December		Other borrowings As at 31 December	
	2012	2011	**2012**	2011
HK$	**0.48%~2.90%**	1.70~2.78%	**—**	—
US$	**1.31%~3.57%**	1.11~3.49%	**—**	—
RMB	**3.50%~6.90%**	4.86~6.65%	**—**	—
AU$	**1.71%~3.08%**	1.70~2.78%	**—**	—
EU€	**1.51%~1.65%**	—	**—**	—

(d) The carrying values of the borrowings approximate their fair values, as the impact of discounting is not significant.

The fair values are based on cash flows discounted using a rate based on the borrowing rate. The effective interest rates (per annum) at the balance sheet date were as follows:

	Bank borrowings As at 31 December	
	2012	2011
HK$	**2.32%**	2.24%
US$	**2.81%**	2.07%
RMB	**5.41%**	4.95%
AU$	**2.23%**	2.24%
EU€	**1.56%**	—

(e) The carrying amounts of the borrowings are denominated in the following currencies:

	As at 31 December	
	2012	2011
	HK$	HK$
HK$	**1,251,301,737**	1,366,916,926
US$	**459,960,978**	176,208,700
RMB	**225,248,206**	271,462,792
AU$	**123,014,254**	137,890,115
EU€	**9,693,097**	—
	2,069,218,272	1,952,478,533

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

20 Borrowings *(continued)*

(f) Most of the banking facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios. If the Group were to breach the covenants the drawn down facilities would become repayable on demand. In addition, certain of the Group's term loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

The Group regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of the loans and does not consider it probable that the bank will exercise its discretion to demand repayment for so long as the Group continues to meet these requirements.

	Company As at 31 December 2012 HK$	 2011 HK$
Non-current		
Bank borrowings		
— Unsecured	447,029,840	697,475,756
Current		
Portion of loans from banks due for repayment within one year		
— Unsecured	253,329,285	44,519,729
Total borrowings	700,359,125	741,995,485

(a) The maturity of borrowings of the Company is as follows:

	As at 31 December 2012 HK$	 2011 HK$
Portion of loans due for repayment within 1 year	253,329,285	44,519,729
Loans due for repayment after 1 year:		
Between 1 and 2 years	447,029,840	255,000,000
Between 2 and 5 years	—	442,475,756
	700,359,125	741,995,485

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

20 Borrowings *(continued)*

(b) The effective interest rates at the balance sheet date were as follows:

	Bank borrowings As at 31 December 2012	2011
HK$	**2.65%~3.32%**	2.55%~2.62%

(c) The bank borrowings of the Company are all denominated in HK$.

21 Deferred income tax — Group

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes related to the same fiscal authority. The offset amounts are as follows:

	As at 31 December 2012 HK$	2011 HK$
Deferred tax assets		
— Deferred income tax assets to be recovered after 12 months	**33,963,364**	33,302,224
— Deferred income tax assets to be recovered within 12 months	**141,721,709**	82,398,544
	175,685,073	115,700,768
Deferred tax liabilities		
— Deferred income tax liability to be settled after 12 months	**(4,491,714)**	(1,662,617)
— Deferred income tax liability to be settled within 12 months	**—**	—
	(4,491,714)	(1,662,617)
Deferred income tax assets, net	**171,193,359**	114,038,151

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

21 Deferred income tax — Group *(continued)*

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

	For the year ended 31 December 2012 HK$	2011 HK$
Beginning of the year	**114,038,151**	85,974,958
Credited to the consolidated statement of comprehensive income (Note 28)	**57,009,923**	23,248,780
Exchange differences	**145,285**	4,814,413
End of the year	**171,193,359**	114,038,151

The movement of the deferred tax assets is as follows:

	Impairment of assets HK$	Deferred government grants HK$	Unrealised profits — sales of inventories HK$	Unrealised profits — sales of property, plant and equipment HK$	Accrued expenses HK$	Taxable loss carried forward HK$	Share option expenses HK$	Others HK$	Total HK$
At 31 December 2010 and 1 January 2011	4,721,903	17,495,203	14,822,329	17,366,651	29,027,226	1,207,734	—	3,047,548	87,688,594
Credited/(charged) to the consolidated statement of comprehensive income	884,250	(277,813)	(863,242)	(1,365,885)	12,962,431	14,630,978	—	(2,928,370)	23,042,349
Exchange differences	252,904	861,636	716,677	832,177	1,847,139	399,948	—	59,344	4,969,825
At 31 December 2011	5,859,057	18,079,026	14,675,764	16,832,943	43,836,796	16,238,660	—	178,522	115,700,768
At 31 December 2011 and 1 January 2012	**5,859,057**	**18,079,026**	**14,675,764**	**16,832,943**	**43,836,796**	**16,238,660**	**—**	**178,522**	**115,700,768**
Credited/(charged) to the consolidated statement of comprehensive income	**325,003**	**6,511,455**	**13,626,609**	**781,008**	**19,900,532**	**15,433,352**	**1,678,937**	**1,556,789**	**59,813,685**
Exchange differences	**540**	**17,224**	**41,751**	**455**	**55,450**	**47,382**	**5,590**	**2,228**	**170,620**
At 31 December 2012	**6,184,600**	**24,607,705**	**28,344,124**	**17,614,406**	**63,792,778**	**31,719,394**	**1,684,527**	**1,737,539**	**175,685,073**

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$19,575 (2011: HK$896,938) in respect of losses amounting to HK$118,638 (2011: HK$5,435,987) that can be carried forward against future taxable income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

21 Deferred income tax — Group *(continued)*

The movement of the deferred tax liabilities is as follows:

	Accelerated depreciation HK$	Borrowing costs HK$	Interest capitalized HK$	Total HK$
1 January 2011	1,647,219	66,417	—	1,713,636
Credited to the consolidated statement of comprehensive income	(138,169)	(68,262)	—	(206,431)
Exchange differences	153,567	1,845	—	155,412
At 31 December 2011	1,662,617	—	—	1,662,617
At 31 December 2011 and 1 January 2012	**1,662,617**	**—**	**—**	**1,662,617**
Charged to the consolidated statement of comprehensive income	**1,787**	**—**	**2,801,975**	**2,803,762**
Exchange differences	**16,006**	**—**	**9,329**	**25,335**
At 31 December 2012	**1,680,410**	**—**	**2,811,304**	**4,491,714**

Deferred income tax liabilities of HK$76,752,923 (2011: HK$74,985,175) have not been recognised for the withholding tax that would otherwise be payable on the unremitted earnings of certain subsidiaries. Management currently has no intention to remit those earnings,in the foreseeable future. Such unremitted earnings totalled HK$1,535,058,451 as at 31 December 2012 (2011: HK$1,135,871,684).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

22 Deferred government grants — Group

	HK$
At 1 January 2011	
Cost	84,311,880
Accumulated amortisation	(14,331,069)
Net book amount	69,980,811
Year ended 31 December 2011	
Opening net book amount	69,980,811
Additions	5,262,713
Amortisation (Note 24)	(4,421,515)
Exchange differences	3,467,737
Closing net book amount	74,289,746
At 31 December 2011	
Cost	93,867,003
Accumulated amortisation	(19,577,257)
Net book amount	74,289,746
Year ended 31 December 2012	
Opening net book amount	74,289,746
Additions	29,075,917
Amortisation (Note 24)	(2,888,808)
Exchange differences	120,325
Closing net book amount	100,597,180
At 31 December 2012	
Cost	122,449,641
Accumulated amortisation	(21,852,461)
Net book amount	100,597,180

In 2011, Vinda Paper (Zhejiang), Vinda Paper (Xiaogan) and Vinda Paper (Sichuan) received government grants with total amount of RMB4,357,000 (equivalent to HK$5,262,713). The government grant was recorded as deferred government grants and credited to the consolidated statement of comprehensive income on a straight-line basis over the expected useful lives of the corresponding property, plant and equipment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

22 Deferred government grants — Group *(continued)*

In 2012, Vinda Paper (Sichuan), Vinda Paper (Xiaogan) and Vinda Paper (Shandong) received government grants with total amount of RMB23,660,000 (equivalent to HK$29,075,917).The government grant was recorded as deferred government grants and credited to the consolidated statement of comprehensive income on a straight-line basis over the expected useful lives of the corresponding property, plant and equipment.

The balance of deferred government grants as at 31 December 2012 mainly includes the grants from local government related to the land use rights purchased:

	As at 31 December	
	2012	2011
	HK$	HK$
Vinda Paper (Liaoning)	**40,046,062**	40,546,820
Vinda Paper (Hubei)	**5,517,365**	6,674,751
Vinda Paper (Sichuan)	**18,143,032**	10,673,412
Vinda Paper (Xiaogan)	**16,108,317**	8,822,589
Vinda Paper (Shandong)	**19,540,119**	—
	99,354,895	66,717,572
Others	**1,242,285**	7,572,174
	100,597,180	74,289,746

23 Derivative financial instruments

	Group	
	As at 31 December	
	2012	2011
	HK$	HK$
Cross currency swap (Note (a))	**8,675,816**	13,762,577
Interest rate swap (Note (b))		
— cash flow hedge	**6,394,687**	3,662,168
	15,070,503	17,424,745

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

23 Derivative financial instruments *(continued)*

	Company As at 31 December	
	2012	2011
	HK$	HK$
Interest rate swap (Note (c)) — cash flow hedge	**5,616,124**	3,423,823

The full fair value of a derivative financial instrument is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

(a) The cross currency swap is an agreement entered into by the Group and Australia and New Zealand Banking Group Limited ("ANZ Bank") whereby the Group would receive AU$ floating interest and principal amounts while the Group would be obligated to pay HK$ floating interest and principal. The aggregate principal receivable amounts to AU$15,261,273 (2011: AU$17,441,455) while the aggregate principal payable by the Group amounts to HK$131,250,000 (2011: HK$150,000,000). The swap also entitles the Group to receive AU$ floating interest rate at 3 month Bank Bill Swap Rates of Australia plus a certain spread while the Group is obligated to pay interest at 3 month HIBOR plus a certain spread, respectively by reference to initial notional principal amounts of AU$15,261,273 (2011: AU$17,441,455) and HK$131,250,000 (2011: HK$150,000,000), both declining over the term of three years. The schedule of principal and interest exchanges are synchronized with the AU$ 3-year term loan include under non-current bank borrowing described under Note 20 above.

(b) The interest rate swaps are entered into between the Group and various banks whereby the payment of fixed interest is exchanged for the receipt of floating interest. The notional principal amount of the outstanding interest rate swap contract at 31 December 2012 was HK$924,000,000 (2011: HK$1,017,000,000) . At 31 December 2012, the fixed interest rate was from 0.58% to 1.28% per annum and the floating rate was with reference to the 1 month/3 month HIBOR.

(c) The notional principal amount of the outstanding interest rate swap contract at 31 December 2012 was HK$705,000,000 (2011: HK$750,000,000) . At 31 December 2012, the fixed interest rate was from 0.74% to 1.28% per annum and the floating rate was with reference to the 1 month/3 month HIBOR.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

24 Other income and gains, net — Group

	For the year ended 31 December	
	2012	2011
	HK$	HK$
Subsidy income received from local government (Note (a))	**32,303,815**	15,615,468
Amortisation of deferred government grants (Note 22)	**2,888,808**	4,421,515
Loss on disposal of property, plant and equipment	**(2,012,377)**	(1,415,845)
Foreign exchange gains, net (Note 29)	**3,434,145**	4,298,605
Gain from disposal of land use right (Note 6)	**19,237,164**	—
Rent income	**1,696,165**	—
Depreciation of investment property (Note 9)	**(689,911)**	—
Others	**1,549,923**	(133,301)
	58,407,732	22,786,442

(a) In 2012, certain subsidiaries of the Group in the PRC have received subsidy income from government authorities amounting to RMB26,282,382 (equivalent to HK$32,303,815) (2011: RMB12,928,124 (equivalent to HK$15,615,468)).

25 Expenses by nature — Group

	For the year ended 31 December	
	2012	2011
	HK$	HK$
Material costs	**3,160,364,438**	2,729,260,066
Staff costs (Note 26)	**560,611,450**	398,843,794
Utilities	**469,775,992**	346,041,168
Transportation expenses	**248,635,433**	198,781,200
Promotion expenses	**277,334,981**	213,927,598
Depreciation of property, plant and equipment (Note 7)	**192,290,672**	152,323,987
Advertising costs	**58,894,380**	29,906,962
Travel and office expenses	**33,527,811**	29,679,166
Real estate tax, stamp duty and other taxes	**22,504,357**	17,291,351
Operating lease rent	**46,975,882**	16,470,468
Bank charges	**10,106,637**	6,946,156
Provision for impairment of receivables (Note 13)	**490,496**	2,787,019
Auditor's remuneration	**6,145,526**	6,039,377
Amortisation of leasehold land and land use rights (Note 6)	**4,526,495**	4,595,187
Amortisation of intangible assets (Note 8)	**3,443,122**	3,201,389
Provision for (reversal of) inventories	**1,141,009**	(119,746)
Other expenses	**210,568,805**	126,468,609
Total cost of sales, selling and marketing costs and administrative expenses	**5,307,337,486**	4,282,443,751

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

26 Employee benefit expenses — Group

The aggregate amounts of staff costs including directors' emoluments are as follows:

	For the year ended 31 December	
	2012	2011
	HK$	HK$
Defined contribution for Hong Kong employees		
— MPF	**221,706**	369,133
Social security and benefits for the PRC employees	**67,526,395**	38,754,598
	67,748,101	39,123,731
Amortization of fair value costs of employee share options granted	**46,225,333**	18,183,000
Wages, salaries and bonus	**411,689,491**	319,134,274
Staff welfare	**34,948,525**	22,402,789
	560,611,450	398,843,794

(a) Directors' emoluments

	For the year ended 31 December	
	2012	2011
	HK$	HK$
Directors		
— Basic salaries, housing allowances, other allowances and benefits-in-kind	**14,862,694**	12,575,786
— Contributions to retirement plans	**80,496**	78,971
— Fair value of share options granted	**19,970,667**	9,627,005
	34,913,857	22,281,762

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

26 Employee benefit expenses — Group *(continued)*

(a) Directors' emoluments *(continued)*

The emoluments received/receivable by individual directors are as follows:

(i) For the year ended 31 December 2012:

	Basic salaries, housing allowances, other allowances, and benefits-in-kind HK$	Contributions to pension plans HK$	Fair value of share options granted HK$	Total HK$
Directors				
— Mr. Li Chao Wang	4,176,299	13,750	5,230,764	9,420,813
— Ms. Zhang Dong Fang	4,446,299	39,246	9,000,845	13,486,390
— Ms. Yu Yi Fang	2,648,542	13,750	1,043,465	3,705,757
— Mr. Dong Yi Ping	2,648,542	13,750	1,043,465	3,705,757
— Mr. Kam Ting To, Robert	276,000	—	608,688	884,688
— Dr. Cao Zhen Lei	207,000	—	608,688	815,688
— Mr. Hui Chin Tong, Godfrey	207,000	—	608,688	815,688
— Mr. Tsui King Fai	207,000	—	608,688	815,688
— Mr. Johann Christoph Michalski	23,006	—	608,688	631,694
— Mr. Ulf Olof Lennart Soderstrom	23,006	—	608,688	631,694
— Mr. Chiu Bun	—	—	—	—
	14,862,694	80,496	19,970,667	34,913,857

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

26 Employee benefit expenses — Group *(continued)*

(a) Directors' emoluments *(continued)*

(ii) For the year ended 31 December 2011:

	Basic salaries, housing allowances, other allowances, and benefits-in-kind HK$	Contributions to pension plans HK$	Fair value of share options granted HK$	Total HK$
Directors				
— Mr. Li Chao Wang	3,417,571	12,000	3,153,398	6,582,969
— Ms. Zhang Dong Fang	3,417,571	36,511	4,856,403	8,310,485
— Ms. Yu Yi Fang	2,441,297	12,000	—	2,453,297
— Mr. Dong Yi Ping	2,479,347	18,460	—	2,497,807
— Mr. Kam Ting To, Robert	240,000	—	269,534	509,534
— Dr. Cao Zhen Lei	180,000	—	269,534	449,534
— Mr. Hui Chin Tong, Godfrey	180,000	—	269,534	449,534
— Mr. Tsui King Fai	180,000	—	269,534	449,534
— Mr. Johann Christoph Michalski	20,000	—	269,534	289,534
— Mr. Ulf Olof Lennart Soderstrom (a)	14,994	—	269,534	284,528
— Mr. Chiu Bun (b)	5,006	—	—	5,006
	12,575,786	78,971	9,627,005	22,281,762

(a) Mr. Ulf Olof Lennart Soderstrom ("Mr. Soderstrom") was appointed as non-executive directors of the Group with effect from 31 March 2011.

(b) Mr. Chiu Bun was re-designated as an alternate director to Mr. Johann Christoph Michalski and Mr. Soderstrom with effect from 31 March 2011.

For the year ended 31 December 2012 and 2011, no directors of the Company waived any emoluments and no emoluments were paid by the Company to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

26 Employee benefit expenses — Group *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2012 include four directors (2011: four directors) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual (2011: one individual) for the year ended 31 December 2012 is as follows:

	For the year ended 31 December	
	2012	2011
	HK$	HK$
— Basic salaries, housing allowances, other allowances and benefits-in-kind	**2,438,542**	2,291,297
— Contributions to retirement plans	**13,750**	12,000
— Fair value of employee share options granted	**1,485,727**	404,280
	3,938,019	2,707,577

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the year ended 31 December 2012 and 2011.

27 Finance (costs)/income — Group

	For the year ended 31 December	
	2012	2011
	HK$	HK$
Interest expense		
— bank borrowings (a)	**(48,322,993)**	(43,982,615)
Foreign exchange gain, net (Note 29)	**208,243**	57,812,949
Interest income		
— bank deposits	**7,402,715**	4,816,589
Net finance (costs)/income	**(40,712,035)**	18,646,923

(a) During the year, the Group has capitalized borrowing costs amounting to HK$13,952,054 (2011: HK$1,418,684) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of its general borrowings of 3.34% (2011: 3.26%).

Notes to the Consolidated Financial Statements

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28 Taxation — Group

(a) Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profit for the year. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries or cities in which the Group operates.

	For the year ended 31 December	
	2012	2011
	HK$	HK$
Current income tax		
— Hong Kong profits tax	**19,128,001**	9,306,262
— PRC enterprise income tax	**217,053,108**	130,158,980
— Under provision of income tax for prior year	**2,737,963**	—
Deferred income tax (Note 21)	**(57,009,923)**	(23,248,780)
	181,909,149	116,216,462

The tax on the Group's profit before tax differs from the theoretical amount that would arise using weighted average tax rate applicable to profits of the Group as follows:

	For the year ended 31 December	
	2012	2011
	HK$	HK$
Profit before income tax	**718,470,904**	521,930,852
Applicable tax rates	**22.98%**	23.22%
Tax calculated at weighted average tax rate	**165,104,614**	121,205,147
Income not subject to tax	**(1,653,142)**	(13,784,770)
Expenses not deductible for tax purposes	**17,563,994**	7,832,310
Unrecognised tax losses	**11,135**	963,775
Under provision of income tax for prior year	**2,737,963**	—
Utilisation of prior years unrecognized tax losses	**(1,855,415)**	—
Income tax expense	**181,909,149**	116,216,462

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

28 Taxation — Group *(continued)*

(b) VAT

Sales of self-manufactured products of the Company's PRC subsidiaries are subject to VAT. The applicable tax rate for domestic sales is 17%. Vinda Paper (Guangdong) and Vinda Paper (Jiangmen) have received approval to use the "exempt, credit, refund" method on goods exported. The tax refund rate is 5%.

Input VAT on purchases of raw materials, fuel, utilities, certain fixed assets and other production materials (merchandise, transportation costs) are creditable against output VAT. VAT payable is the net difference between output VAT and creditable input VAT.

29 Net foreign exchange gains

	For the year ended 31 December	
	2012	2011
	HK$	HK$
Other income and gains — net (Note 24)	**3,434,145**	4,298,605
Finance income — exchange gain (Note 27)	**208,243**	57,812,949
	3,642,388	62,111,554

30 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$112,688,824 (2011: HK$152,278,266).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

31 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average numbers of ordinary shares in issue during the year.

	For the year ended 31 December	
	2012	2011
Profit attributable to equity holders of the Company (HK$)	**536,561,755**	405,714,390
Weighted average number of ordinary shares in issue	**983,101,828**	937,275,733
Basic earnings per share (HK$ per share)	**0.546**	0.433

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. The Company's potentially dilutive ordinary shares comprised share options.

	For the year ended 31 December	
	2012	2011
Profit attributable to equity holders of the Company (HK$)	**536,561,755**	405,714,390
Weighted average number of ordinary shares in issue	**983,101,828**	937,275,733
Adjustments for share options	**8,459,554**	15,769,809
Weighted average number of ordinary shares for diluted earnings per share	**991,561,382**	953,045,542
Diluted earnings per share (HK$ per share)	**0.541**	0.426

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

32 Dividends

	2012 HK$	2011 HK$
Interim dividend paid of HK$0.043 (2011: HK$0.033) per ordinary share	**42,973,457**	30,937,787
Proposed final dividend of HK$0.113 (2011: HK$0.087) per ordinary share	**112,930,244**	81,621,981

On 26 March 2013, the Board of Directors proposed a final dividend in respect of the year ended 31 December 2012 of HK$112,930,244, representing HK$0.113 per ordinary share based on the 999,382,686 (31 December 2011: 938,183,686) issued shares outstanding as at 31 December 2012. Such dividend is to be approved by the shareholders at the Annual General Meeting of the Company. These financial statements do not reflect this dividend payable.

The actual final dividends paid for the year ended 31 December 2011 was HK$86,988,662 based on the 999,869,686 issued shares outstanding at that time.

The dividends actually paid in 2012 and 2011 were HK$129,962,119 and HK$112,491,212 respectively based on the number of issued shares outstanding at relevant time.

Notes to the Consolidated Financial Statements

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33 Cash generated from operations

(a) Reconciliation of profit before income tax to cash generated from operations

	For the year ended 31 December	
	2012	2011
	HK$	HK$
Profit before income tax	**718,470,904**	521,930,852
Adjustments for:		
— Depreciation of property, plant and equipment	**192,290,672**	152,323,987
— Depreciation of investment property	**689,911**	—
— Amortisation of intangible assets	**3,443,122**	3,201,389
— Gain on disposal of land use rights	**(19,237,164)**	—
— Amortisation of leasehold land and land use rights	**4,526,495**	4,595,187
— Amortisation of deferred government grants	**(2,888,808)**	(4,421,515)
— Loss on disposals of property, plant and equipment	**2,012,377**	1,415,845
— Share-based payment	**46,225,333**	18,183,000
— Provision for impairment of receivables	**490,496**	2,787,019
— Provision for (reversal of)/write-down of inventories	**1,141,009**	(119,746)
— Net finance costs/(income) (Note 27)	**40,712,035**	(18,646,923)
— Share of post-tax loss of an associate (Note 10)	**15,934,119**	2,358,175
	1,003,810,501	683,607,270
Changes in working capital (excluding the effect of exchange differences on consolidation):		
— Increase in inventories	**(75,495,630)**	(50,127,069)
— Increase in trade receivables, other receivables and prepayments	**(176,141,211)**	(291,094,586)
— Increase in restricted bank deposits	**(4,809,118)**	(1,246,760)
— Decrease/(Increase) in amount due from related parties	**970,310**	(42,173,053)
— Increase in trade payables, other payables and accrued expenses	**272,276,353**	189,127,497
— (Decrease)/Increase in amount due to a related party	**365,154**	1,779,362
Cash generated from operations	**1,020,976,359**	489,872,661

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

33 Cash generated from operations *(continued)*

(b) Reconciliation of proceeds from disposal of property, plant and equipment

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	For the year ended 31 December	
	2012	2011
	HK$	HK$
Net book amount (Note 7)	**2,669,812**	8,884,793
Loss on disposal of property, plant and equipment	**(2,012,377)**	(1,415,845)
Proceeds from disposal of property, plant and equipment	**657,435**	7,468,948

34 Commitments

(a) Capital commitments

	As at 31 December	
	2012	2011
	HK$	HK$
Property, plant and equipment and intangible assets	**549,451,691**	488,722,501
Investment in an associate (Note 10)	**41,000,000**	61,500,000
	590,451,691	550,222,501

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

34 Commitments *(continued)*

(b) Commitments under operating leases

As at 31 December 2012, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	As at 31 December	
	2012	2011
	HK$	HK$
Not later than one year	**51,561,971**	1,669,909
Later than one year but not later than two years	**57,335,035**	364,201
Later than two years but not later than five years	**169,608,866**	107,314,666
Later than five years	**458,947,886**	357,715,554
	737,453,758	467,064,330

35 Related party transactions

(a) Information on related parties and their relationships with the Group are as follows:

Name of related party	Relationship
SCA Hygiene Holdings AB ("SCA Hygiene")	Shareholder
SCA Hygiene Australasia Pty Limited ("SCA HA")	Subsidiary of Svenska Cellulosa Aktiebolaget AB (the ultimate holding company of SCA Hygiene)
SCA Tissue Hong Kong Limited ("SCA Hong Kong")	Subsidiary of Svenska Cellulosa Aktiebolaget AB
SCA Trading (Shanghai) Co., Ltd. ("SCA (Shanghai)")	Subsidiary of Svenska Cellulosa Aktiebolaget AB
Fu An International Company Limited ("Fu An")	A substantial shareholder of the Company
V-Care (China) Limited ("V-Care (China)")	Subsidiary of V-Care
Jiangmen Taiyuan Paper Limited ("Taiyuan Paper")	A subsidiary of Fu An

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

35 Related party transactions *(continued)*

(b) Significant related party transactions — the Group

In the opinion of the Company's directors, the related party transactions were conducted in the ordinary and usual course of business. Other than the related party transactions disclosed elsewhere in the consolidated financial statements, significant related party transactions of the Group during the year ended 31 December 2012 also include:

	For the year ended 31 December	
	2012	2011
	HK$	HK$
(1) Sales of products to related parties:		
— SCA HA	**9,382,418**	42,888,828
— SCA (Shanghai)	**2,270,072**	2,936,532
— V-Care (China)	**5,198,036**	1,690,305
	16,850,526	47,515,665
(2) Processing trade to related parties:		
— SCA Hong Kong	**5,721,610**	3,913,466
(3) Purchase of products from related parties:		
— V-Care (China)	**3,196,759**	1,973,143
(4) Sales commission from related parties:		
— V-Care (China)	**678,129**	1,259,372
(5) Rent income from related parties:		
— V-Care (China)	**1,696,165**	—
(6) Rent expense paid and prepaid to related parties:		
— Taiyuan Paper (Note)	**10,324,484**	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

35 Related party transactions *(continued)*

(b) Significant related party transactions — the Group *(continued)*

Note: On 22 November 2011, Vinda Paper (China), entered into the Lease Agreement with Taiyuan Paper, whereby Taiyuan Paper had agreed to lease Vinda Paper (China) a piece of land located in Xinhui District, Guangdong, the PRC, together with a factory and the relevant ancillary infrastructures. The facilities were to be constructed for an initial term of 15 years with an initial fixed annual rent of RMB29,000,000 (HK$35,771,555).

On 27 March 2012, Vinda Paper (China), entered into another Lease Agreement with Taiyuan Paper, whereby Taiyuan Paper had agreed to lease Vinda Paper (China) another piece of land located in Xinhui District, Guangdong, the PRC, together with the building and structure erected thereon for a term commencing on the date of this lease agreement and ending on the date on which the previous agreement expires. The annual rent charge is RMB16,800,000.

During the year ended 31 December 2012, total rental paid to Taiyuan paper was HK$10,324,484. For accounting purpose, as there is a rent-free period under the above lease agreements, the rental expense recorded in the consolidated statement of comprehensive income, after taking into consideration of the rent-free period, is HK$ 17,726,835 for the year ended 31 December 2012.

	For the year ended 31 December	
	2012	2011
	HK$	HK$
(7) Key management compensation:		
Directors		
— Basic salaries, housing allowances, other allowances, benefits-in-kind, pensions and other benefits	**14,943,190**	12,654,757
— Share-based payments	**19,970,667**	9,627,005
Senior management		
— Basic salaries, housing allowances, other allowances, benefits-in-kind, pensions and other benefits	**10,088,230**	5,440,188
— Share-based payments	**7,054,740**	1,886,352
	52,056,827	29,608,302

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

35 Related party transactions *(continued)*

(b) Significant related party transactions — the Group *(continued)*

The emoluments of senior management (excluding directors) fell within the following bands:

	Number of individuals	
	2012	2011
— HK$1,000,000 to HK$1,500,000	**2**	—
— HK$1,500,000 to HK$2,000,000	**2**	—
— Above HK$2,000,000	**1**	1

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the year ended 31 December 2011 and 2012.

(c) Year-end balances with related parties — the Group

	As at 31 December	
	2012	2011
	HK$	HK$
(1) Receivables from related parties		
— SCA HA	**1,869,910**	3,465,914
— SCA Hong Kong	**990,084**	816,989
— SCA (Shanghai)	**110,223**	360,195
— V-Care (China)	**638,798**	2,859,230
	3,609,015	7,502,328

All the above receivables are aged within 3 months as at 31 December 2012 and 2011.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

35 Related party transactions *(continued)*

(c) Year-end balances with related parties — the Group *(continued)*

	As at 31 December	
	2012	2011
	HK$	HK$
(2) Prepayments to related parties		
— Taiyuan Paper	**38,694,558**	35,771,555

	As at 31 December	
	2012	2011
	HK$	HK$
(3) Trade payables to related parties		
— V-Care (China)	**2,144,516**	1,779,362

Aging analyses of trade payable to related parties of the Group based on invoice date as at 31 December 2012 and 2011 are as below:

	As at 31 December	
	2012	2011
	HK$	HK$
Within 3 months	**2,144,516**	1,779,362

Year-end balances with related parties — the Company

	As at 31 December	
	2012	2011
	HK$	HK$
(1) Other receivables due from subsidiaries		
— Forton Enterprises	**1,013,901,553**	225,000,000
— Vinda Household Paper (China)	**170,604,781**	407,437,032
— Vinda Household Paper (Hong Kong)	**72,453,404**	—
— Vinda Investment	**70,379,825**	50,000,000
— Vinda Investment Group	**41,178,937**	—
— Vinda Industrial HK	**34,799,536**	30,700,000
	1,403,318,036	713,137,032

Other receivables of the Company from subsidiaries are interest-free and unsecured. There is no recoverability risk of receivables due from subsidiaries.

Five Year Financial Summary

Consolidated Statement of Comprehensive Income

	For the year ended 31 December				
	2008 HK$	2009 HK$	2010 HK$	2011 HK$	**2012 HK$**
Revenue	2,424,044,090	2,776,116,529	3,602,168,770	4,765,299,413	**6,024,046,812**
Cost of sales	(1,910,939,233)	(1,825,317,921)	(2,540,131,315)	(3,468,791,744)	**(4,169,104,798)**
Gross profit	513,104,857	950,798,608	1,062,037,455	1,296,507,669	**1,854,942,014**
Selling and marketing costs	(181,765,469)	(281,002,421)	(444,985,005)	(574,773,574)	**(770,366,428)**
Administrative expenses	(115,367,807)	(155,651,477)	(181,352,062)	(238,878,433)	**(367,866,260)**
Other income and gains — net	4,041,388	8,601,735	27,769,484	22,786,442	**58,407,732**
Operating profit	220,012,969	522,746,445	463,469,872	505,642,104	**775,117,058**
Finance costs , net	(25,197,726)	(27,502,263)	(3,288,678)	18,646,923	**(40,712,035)**
Share of post-tax loss of an associate	—	—	—	(2,358,175)	**(15,934,119)**
Profit before income tax	194,815,243	495,244,182	460,181,194	521,930,852	**718,470,904**
Income tax expense	(28,903,675)	(97,444,475)	(91,235,087)	(116,216,462)	**(181,909,149)**
Profit attributable to equity holders of the Company	165,911,568	397,799,707	368,946,107	405,714,390	**536,561,755**
Other comprehensive income:					
Currency translation differences	96,467,285	2,494,422	80,850,222	137,951,695	**(357,577)**
Hedging reserve	—	—	—	(3,586,084)	**(2,808,603)**
Total comprehensive income attributable to equity holders of the Company	262,378,853	400,294,129	449,796,329	540,080,001	**533,395,575**
Earnings per share for profit attributable to the equity holders of the Company for the year (expressed in HK$ per share)					
— basic	0.184	0.440	0.404	0.433	**0.546**
— diluted	0.184	0.437	0.398	0.426	**0.541**

Five Year Financial Summary

Consolidated Balance Sheet

	As at 31 December				
	2008 HK$ (restated)	2009 HK$ (restated)	2010 HK$	2011 HK$	**2012 HK$**
ASSETS					
Property, plant and equipment	1,866,288,172	1,838,591,852	2,272,640,034	3,022,040,685	**3,987,486,971**
Leasehold land and land use right	103,381,135	145,408,286	160,496,665	184,797,092	**185,167,942**
Intangible assets	740,895	6,881,218	11,085,320	10,445,847	**12,954,724**
Deferred income tax assets	47,508,724	72,909,571	87,688,594	115,700,768	**175,685,073**
Investment properties	—	—	—	—	**32,435,570**
Investment in an associate	—	—	—	59,800,509	**64,357,657**
Inventories	491,755,387	912,068,945	1,321,689,469	1,372,221,620	**1,446,576,241**
Trade receivables, other receivables and prepayments	259,669,018	409,312,796	647,011,913	939,353,259	**1,115,984,965**
Prepayments to and receivables from related parties	5,300,643	5,458,343	1,100,830	43,273,883	**42,303,573**
Restricted bank deposits	884,454	760,931	45,689	1,292,449	**6,101,567**
Cash and cash equivalents	172,189,258	346,949,107	389,551,782	714,611,721	**753,586,651**
Total Assets	2,947,717,686	3,738,341,049	4,891,310,296	6,463,537,833	**7,822,640,934**
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	90,384,169	90,464,169	93,673,169	93,818,369	**99,938,269**
Share premium	834,834,579	838,018,579	1,113,265,875	1,119,423,427	**1,668,318,024**
Other reserves	783,867,895	1,141,425,655	1,481,158,626	1,925,352,703	**2,350,661,375**
Total equity	1,709,086,643	2,069,908,403	2,688,155,670	3,138,594,499	**4,118,917,668**
LIABILITIES					
Long-term borrowings	308,019,393	350,394,107	530,262,883	1,151,334,272	**850,317,747**
Deferred government grants	33,127,079	63,467,626	69,980,811	74,289,746	**100,597,180**
Derivative financial instruments	—	—	—	17,424,745	**15,070,503**
Deferred income tax liabilities	1,556,700	1,794,270	1,713,636	1,662,617	**4,491,714**
Current liabilities	895,927,871	1,252,776,643	1,601,197,296	2,080,231,954	**2,733,246,122**
Total Liabilities	1,238,631,043	1,668,432,646	2,203,154,626	3,324,943,334	**3,703,723,266**
Total equity and liabilities	2,947,717,686	3,738,341,049	4,891,310,296	6,463,537,833	**7,822,640,934**
Net current assets	33,870,889	421,773,479	758,202,387	990,520,978	**631,306,875**
Total assets less current liabilities	2,051,789,815	2,485,564,406	3,290,113,000	4,383,305,879	**5,089,394,812**