恒安國際集團有限公司*

HENGAN INTERNATIONAL GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1044)

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

"Growing with You for a Better Life"

2013 ANNUAL RESULTS ANNOUNCEMENT
FINANCIAL SUMMARY

	2013	2012	Change
	HK$'000	*HK$'000*	
Revenue	**21,186,368**	18,524,233	14.4%
Profit attributable to shareholders	**3,721,031**	3,518,705	5.8%
Gross profit margin (%)	**45.1**	44.9	
Earnings per share			
— Basic	**HK$3.024**	HK$2.863	5.6%
— Diluted	**HK$3.021**	HK$2.861	5.6%
Dividends			
— Interim (paid)	**HK$0.85**	HK$0.75	
— Final (proposed)	**HK$1.00**	HK$0.95	
Finished goods turnover (days)	**55**	47	
Accounts receivable turnover (days)	**35**	37	
Current ratio (times)	**1.6**	1.5	
Rate of return (%)	**22.5**	25.0	

* *For identification purposes only*

RESULTS

The Board of Directors of Hengan International Group Company Limited (the "Company" or "Hengan International") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2013, together with the comparative figures for the previous year, as follows:

Consolidated income statement

		Year ended 31 December	
		2013	2012
	Note	***HK$'000***	*HK$'000*
Revenue	*2*	**21,186,368**	18,524,233
Cost of goods sold		**(11,626,908)**	(10,209,030)
Gross profit		**9,559,460**	8,315,203
Other income and other gains — net		**776,472**	564,833
Distribution costs		**(3,886,428)**	(3,240,815)
Administrative expenses		**(1,361,656)**	(898,386)
Operating profit	*3*	**5,087,848**	4,740,835
Finance income		**291,615**	37,709
Finance costs		**(363,992)**	(239,590)
Finance costs — net		**(72,377)**	(201,881)
Profit before income tax		**5,015,471**	4,538,954
Income tax expense	*4*	**(1,244,889)**	(1,001,235)
Profit for the year		**3,770,582**	3,537,719
Profit attributable to:			
Shareholders of the Company		**3,721,031**	3,518,705
Non-controlling interests		**49,551**	19,014
		3,770,582	3,537,719
Earnings per share for profit attributable to shareholders of the Company			
— Basic	*5*	**HK$3.024**	HK$2.863
— Diluted	*5*	**HK$3.021**	HK$2.861
Dividends	*6*	**2,278,062**	2,089,352

Consolidated statement of comprehensive income

	Year ended 31 December	
	2013	2012
	HK$'000	*HK$'000*
Profit for the year	**3,770,582**	3,537,719
Other comprehensive income		
Items that may be reclassified to profit or loss		
— Currency translation differences	**600,526**	9,877
Total comprehensive income for the year	**4,371,108**	3,547,596
Attributable to:		
Shareholders of the Company	**4,311,186**	3,526,426
Non-controlling interests	**59,922**	21,170
Total comprehensive income for the year	**4,371,108**	3,547,596

Consolidated balance sheet

	Note	As at 31 December 2013 HK$'000	2012 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**8,627,200**	7,815,553
Construction-in-progress		**1,204,372**	1,301,331
Land use rights		**1,105,298**	1,032,792
Intangible assets		**581,150**	590,822
Prepayments for non-current assets		**379,463**	275,625
Deferred income tax assets		**157,511**	152,116
Long-term bank deposits		**814,042**	1,845,231
		12,869,036	13,013,470
Current assets			
Inventories		**4,385,909**	3,830,502
Trade and bills receivables	7	**2,184,484**	1,870,481
Other receivables, prepayments and deposits		**1,127,031**	882,063
Derivative financial instruments		**–**	1,382
Restricted bank deposits		**60,044**	62,539
Cash and bank balances		**19,563,983**	9,544,379
		27,321,451	16,191,346
Total assets		**40,190,487**	29,204,816
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		**123,138**	122,903
Other reserves		**4,521,293**	3,220,065
Retained earnings			
— Proposed final dividend		**1,231,385**	1,167,576
— Unappropriated retained earnings		**10,657,780**	9,567,648
		16,533,596	14,078,192
Non-controlling interests		**385,070**	330,048
Total equity		**16,918,666**	14,408,240

	Note	As at 31 December 2013 HK$'000	2012 HK$'000
LIABILITIES			
Non-current liabilities			
Bank borrowings		**959,643**	3,787,218
Convertible bonds	*8*	**5,227,130**	–
Deferred income tax liabilities		**169,146**	185,801
Deferred income on government grants		**929**	2,070
		6,356,848	3,975,089
Current liabilities			
Trade payables	*9*	**2,096,990**	1,803,054
Other payables and accrued charges		**1,271,912**	1,217,375
Derivative financial instruments		**39,727**	5,666
Current income tax liabilities		**273,430**	354,814
Bank borrowings		**13,232,914**	7,440,578
		16,914,973	10,821,487
Total liabilities		**23,271,821**	14,796,576
Total equity and liabilities		**40,190,487**	29,204,816
Net current assets		**10,406,478**	5,369,859
Total assets less current liabilities		**23,275,514**	18,383,329

1. Basis of preparation and principal accounting policies

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 derivative financial instruments at fair value through profit or loss.

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards relevant to the Group are mandatory adopted for the first time for the financial year beginning on 1 January 2013:

- Amendment to HKAS 1 'Financial statement presentation' is effective for annual periods beginning on or after 1 July 2012.

- Annual improvements 2011 – Amendments to HKAS 1 'Financial statement presentation', HKAS 16 'Property, plant and equipment', HKAS 32 'Financial instruments: Presentation' and HKAS 34 'Interim financial reporting' are effective for annual periods beginning on or after 1 January 2013.

- HKFRS 10 'Consolidated financial statements' is effective for annual periods beginning on or after 1 January 2013.

- HKAS 27 (revised 2011) 'Separate financial statements' is effective for annual periods beginning on or after 1 January 2013.

- HKFRS 12 'Disclosure of interests in other entities' is effective for annual periods beginning on or after 1 January 2013.

- HKFRS 13 'Fair value measurements' is effective for annual periods beginning on or after 1 January 2013.

- Amendment to HKFRS 7 'Financial instruments: Disclosures – Offsetting financial assets and financial liabilities' is effective for annual periods beginning on or after 1 January 2013.

- Annual improvement 2012 – Amendment to HKFRS 13, 'Fair value measurement' is effective for annual periods beginning on or after 1 January 2013.

(b) New and amended standards that might be relevant to the Group have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted

- Amendment to HKAS 32 'Financial instruments: Presentation' is effective for annual periods beginning on or after 1 January 2014.

- Amendment to HKAS 36 'Impairment of assets' is effective for annual periods beginning on or after 1 January 2014.

- HK(IFRIC) 21 'Levies' is effective for annual periods beginning on or after 1 January 2014.

- Amendment to HKAS 19 regarding defined benefit plans applies to contributions from employees or third parties to defined benefit plans is effective for annual periods beginning on or after 1 July 2014.

- Annual improvements 2012 – Amendments to HKFRS 2 'Share-based payment', HKFRS 3 'Business combinations', HKFRS 9 'Financial instruments', HKAS 37 'Provisions, contingent liabilities and contingent assets', HKAS 39 'Financial instruments – Recognition and measurement', HKFRS 8 'Operating segments' and HKAS 24 'Related Party Disclosures' are effective for annual periods beginning on or after 1 July 2014.

- Annual improvements 2013 – Amendments to HKFRS 3 'Business combinations' and HKFRS 13 'Fair value measurement' are effective for annual periods beginning on or after 1 July 2014.

- HKFRS 9 'Financial instruments'. The mandatory effective date of HKFRS 9 is not yet determined.

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 statements. The Group intends to adopt the amendments no later than the respective effective dates of the amendments.

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

2. Revenue and segment information

An analysis of the Group's revenue and contribution to the operating profit by business segments is as follows:

	2013					
	Sanitary napkins products *HK$'000*	**Disposable diapers products** *HK$'000*	**Tissue paper products** *HK$'000*	**Food and snacks products** *HK$'000*	**Others** *HK$'000*	**Group** *HK$'000*
Consolidated income statement for the year ended 31 December 2013						
Segment revenue	**6,602,275**	**3,196,636**	**10,351,271**	**1,604,655**	**556,675**	**22,311,512**
Inter-segment sales	**(629,580)**	**(258,450)**	**(147,251)**	**—**	**(89,863)**	**(1,125,144)**
Revenue of the Group	**5,972,695**	**2,938,186**	**10,204,020**	**1,604,655**	**466,812**	**21,186,368**
Segment profit	**2,142,995**	**615,721**	**1,513,153**	**116,841**	**14,912**	**4,403,622**
Unallocated costs						**(92,246)**
Other income and other gains — net						**776,472**
Operating profit						**5,087,848**
Finance income						**291,615**
Finance costs						**(363,992)**
Profit before income tax						**5,015,471**
Income tax expense						**(1,244,889)**
Profit for the year						**3,770,582**
Non-controlling interests						**(49,551)**
Profit attributable to shareholders of the Company						**3,721,031**
Consolidated balance sheet as at 31 December 2013						
Segment assets	**8,094,858**	**6,570,494**	**19,821,702**	**1,268,914**	**3,408,743**	**39,164,711**
Deferred income tax assets						**157,511**
Unallocated assets						**868,265**
Total assets						**40,190,487**
Segment liabilities	**1,708,581**	**708,379**	**6,357,441**	**412,532**	**3,170,316**	**12,357,249**
Deferred income tax liabilities						**169,146**
Current income tax liabilities						**273,430**
Unallocated liabilities						**10,471,996**
Total liabilities						**23,271,821**
Other items for the year ended 31 December 2013						
Additions to non-current assets	**263,456**	**64,241**	**628,691**	**55,175**	**189,018**	**1,200,581**
Depreciation charge	**169,294**	**38,472**	**348,263**	**46,828**	**62,046**	**664,903**
Amortisation charge	**10,338**	**2,950**	**20,680**	**1,133**	**2,914**	**38,015**

	2012					
	Sanitary napkins products *HK$'000*	Disposable diapers products *HK$'000*	Tissue paper products *HK$'000*	Food and snacks products *HK$'000*	Others *HK$'000*	Group *HK$'000*
Consolidated income statement for the year ended 31 December 2012						
Segment revenue	5,246,531	2,939,992	9,426,432	1,387,487	402,564	19,403,006
Inter-segment sales	(331,069)	(254,519)	(279,666)	—	(13,519)	(878,773)
Revenue of the Group	4,915,462	2,685,473	9,146,766	1,387,487	389,045	18,524,233
Segment profit	2,128,709	604,135	1,410,848	51,603	46,154	4,241,449
Unallocated costs						(65,447)
Other income and other gains — net						564,833
Operating profit						4,740,835
Finance income						37,709
Finance costs						(239,590)
Profit before income tax						4,538,954
Income tax expense						(1,001,235)
Profit for the year						3,537,719
Non-controlling interests						(19,014)
Profit attributable to shareholders of the Company						3,518,705
Consolidated balance sheet as at 31 December 2012						
Segment assets	4,715,519	4,039,846	16,529,839	1,129,447	2,353,637	28,768,288
Deferred income tax assets						152,116
Unallocated assets						284,412
Total assets						29,204,816
Segment liabilities	1,091,254	315,553	4,681,658	320,106	166,831	6,575,402
Deferred income tax liabilities						185,801
Current income tax liabilities						354,814
Unallocated liabilities						7,680,559
Total liabilities						14,796,576
Other items for the year ended 31 December 2012						
Additions to non-current assets	108,584	15,816	2,162,901	132,934	176,679	2,596,914
Depreciation charge	60,080	41,835	377,929	38,300	9,236	527,380
Amortisation charge	3,467	1,450	16,579	11,562	315	33,373

No geographical analysis is provided as less than 10% of the Group's revenue and consolidated results are attributable to markets outside the People's Republic of China (the "PRC" or "mainland China").

3. Operating profit

Operating profit is stated after crediting and charging the following:

	2013	2012
	HK$'000	*HK$'000*
Crediting		
Government grants income (Note (a))	**404,044**	337,036
Interests income from long-term and short-term bank deposits	**333,695**	237,910
Realised fair value gains on derivative financial instruments	**1,239**	100
Reversal of inventories write-down	**26,433**	–
Exchange gain from operating activities – net	**94,022**	–
Charging		
Depreciation of property, plant and equipment	**664,903**	527,380
Amortisation of land use rights	**28,188**	22,987
Amortisation of intangible assets	**9,827**	10,386
Losses on disposal of property, plant and equipment and land use rights	**27,058**	2,524
Employees benefit expense, including directors' emoluments	**1,843,519**	1,511,983
Marketing and advertising expenses	**1,861,319**	1,522,239
Operating leases rentals	**94,783**	87,796
Repairs and maintenance expenses	**206,166**	157,382
Provision for impairment of trade receivables	**19,643**	2,927
Unrealised fair value losses on derivative financial instruments	**36,682**	2,623
Provision for inventories write-down	**–**	14,876
Exchange loss from operating activities – net	**–**	12,286

Note(a): These mainly represented grants received from certain municipal governments of the PRC as an encouragement of the Group's contributions to the development of the local economy.

4. Income tax expense

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

	2013	2012
	HK$'000	*HK$'000*
Current income tax		
— Hong Kong profits tax	**151,699**	102,635
— PRC income tax	**1,114,868**	914,700
Deferred income tax, net	**(21,678)**	(16,100)
Income tax expense	**1,244,889**	1,001,235

(a) Hong Kong profits tax has been provided for at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the year. Taxation on PRC income has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC in which the Group operates.

(b) The Company's subsidiaries incorporated in the PRC are subject to Corporate Income Tax ("CIT") at the rate of 25%. Certain subsidiaries are entitled to exemptions or reductions from the standard income tax rate according to the CIT law approved by the National People's Congress on 16 March 2007.

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

5. Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the Group's profit attributable to the Company's shareholders of HK$3,721,031,000 (2012: HK$3,518,705,000) by the weighted average number of 1,230,640,954 (2012: 1,229,021,819) ordinary shares in issue during the year.

	2013	2012
Profit attributable to shareholders of the Company (HK$'000)	**3,721,031**	3,518,705
Weighted average number of ordinary shares in issue (thousands)	**1,230,641**	1,229,022
Basic earnings per share (HK$)	**HK$3.024**	HK$2.863

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The Company's share options are regarded as dilutive potential ordinary shares while convertible bonds have no dilutive effect on the earnings per share as at 31 December 2013. Calculations are done to determine the number of shares that could have been acquired at fair value (determined by using average market share price of the Company's shares for the year ended 31 December 2013) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2013	2012
Profit attributable to shareholders of the Company (HK$'000)	**3,721,031**	3,518,705
Weighted average number of ordinary shares in issue (thousands)	**1,230,641**	1,229,022
— Share options (thousands)	**1,054**	974
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,231,695**	1,229,996
Diluted earnings per share (HK$)	**HK$3.021**	HK$2.861

6. Dividends

	2013	2012
	HK$'000	*HK$'000*
Interim, paid, HK$0.85 (2012: HK$0.75) per ordinary share	**1,046,677**	921,776
Final, proposed, HK$1.00 (2012: HK$0.95) per ordinary share	**1,231,385**	1,167,576
	2,278,062	2,089,352

The dividends paid in 2013 amounted to HK$2,216,492,000 (2013 interim: HK$0.85 per share, 2012 final: HK$0.95 per share). The dividends paid in 2012 amounted to HK$1,843,543,000 (2012 interim: HK$0.75 per share, 2011 final: HK$0.75 per share). A final dividend in respect of the year ended 31 December 2013 of HK$1.00 per share, amounting to a total dividend of HK$1,231,385,000, was proposed by the Board of Directors at a meeting held on 25 March 2014, subject to the final approval by the shareholders of the Company at the Annual General Meeting to be held on 22 May 2014. These financial statements do not reflect this dividend payable. The aggregate amounts of the dividends paid and proposed during 2013 and 2012 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

7. Trade and bills receivables

The majority of the Group's sales is on open account with credit terms ranging from 30 days to 90 days. At 31 December 2013, the ageing analysis of the trade and bills receivables based on invoice date was as follows:

	2013	2012
	HK$'000	*HK$'000*
Within 30 days	**1,026,891**	912,811
31–180 days	**1,064,054**	914,144
181–365 days	**78,450**	19,903
Over 365 days	**21,568**	32,086
	2,190,963	1,878,944
Less: provision for impairment	**(6,479)**	(8,463)
	2,184,484	1,870,481

8. Convertible bonds

	2013	2012
	HK$'000	*HK$'000*
Face value of convertible bonds issued on 27 June 2013	**5,434,000**	—
Issuing expenses	**(110,013)**	—
Equity component	**(176,565)**	—
Liability component on initial recognition on 27 June 2013	**5,147,422**	—
Accumulated finance costs	**79,708**	—
Liability component	**5,227,130**	—

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

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

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

The fair value of the convertible bonds approximated its carrying amounts as at 31 December 2013.

From 27 June 2013 to 31 December 2013, no bond holders have converted their bonds into ordinary shares of the Company.

9. Trade payables

At 31 December 2013, the ageing analysis of trade payables was as follows:

	2013	2012
	HK$'000	*HK$'000*
Within 30 days	**1,527,717**	1,193,981
31–180 days	**544,042**	583,037
181–365 days	**9,112**	10,939
Over 365 days	**16,119**	15,097
	2,096,990	1,803,054

BUSINESS OVERVIEW

In 2013, the global economy remained complicated but was improving. Although the United States and Europe had yet to solve their economic problems, their economies seemed to have bottomed, with the former recovering slowly while the latter showing signs of stabilization. In response to the complex global economic situation, the Chinese government implemented various measures to foster its own economic development, and succeeded in maintaining steady growth. According to the data from the National Bureau of Statistics of China, the country's gross domestic product grew by 7.7% year on year to RMB56,884.5 billion in 2013. Thanks to the country's continuous economic growth and rapid urbanisation, its urban and rural residents' income have been growing. The improving living standard and people's increasing awareness of health and hygiene have promoted the development of the markets for high-quality personal care and family hygiene products. Nevertheless, market competition is also intensifying at the same time. As the leading company in the markets for personal care and family hygiene products in mainland China, the Group draws on its economies of scale and adopts effective cost-control measures to overcome the challenges brought by the changing market environment and achieve steady growth in business.

For the year ended 31 December 2013, the Group's revenue increased by about 14.4% to approximately HK$21,186,368,000 (2012: HK$18,524,233,000). Profit attributable to shareholders grew by about 5.8% to approximately HK$3,721,031,000 (2012: HK$3,518,705,000). The Board of Directors declared a final dividend of HK$1.00 (2012: HK$0.95).

During the year, the pressure from slight increase in raw material prices and negative impact of intensified market competition were offset by the Group's optimized product portfolio, effective cost control measures and enhanced economies of scale that resulted from business expansion. The overall gross profit margin of the Group was approximately 45.1% (2012: 44.9%), which remained fairly stable as compared with that of the previous year. During the year, distribution costs and administrative expenses increased and accounted for approximately 24.8% (2012: 22.3%) of turnover, mainly due to the increased investment in marketing and brand promotion as well as research and development.

Tissue Paper

Mainland China's market for high-quality tissue paper was expanding on the back of rising living standard and increasing awareness of health and hygiene. However, the country's annual tissue paper consumption per capita is still far behind that of other developed countries, indicating enormous market potentials. In order to capture the opportunity, the country's tissue-paper production capacity investment has been increasing, thus resulting in over capacity and intensifying competition in the short term.

In 2013, the Group's tissue paper business launched upgraded products and continued to take advantage of the Group's brand and sales network as its development strategy to drive sales growth. The Group strengthened marketing and brand promotion in the second half of the year to cope with the intensified competition, which had restricted the growth in the tissue paper business. The total revenue from the sales of the Group's tissue paper increased by approximately 11.6% to approximately HK$10,204,020,000, accounting for approximately 48.2% of the total revenue

(2012: 49.4%). In 2013, the Group's revenue from tissue paper sales in the mainland China market increased by approximately 14.2% Nevertheless, the raw paper export sales, which had a lower margin relatively, saw a double-digit decline in revenue due to keen price competition and hence dragged down the growth rate of total revenue.

In 2013, the gross profit margin of the tissue paper business dropped to approximately 34.1% (2012: 35.4%), reflecting the increase in production costs as a result of the slight increase in prices of tissue wood pulp, the major raw material for manufacturing tissue paper, in the second half of the year, and enhanced efforts in marketing and brand promotion campaigns. As the global supply of tissue wood pulp will begin to rise in 2014, the management expects that the upward pressure of raw material costs could be eased in the second half of 2014.

For the year ended 31 December 2013, the Group did not add any new production line. The annualised production capacity is expected to be approximately 900,000 tons. It is the Group's plan to increase the annualised production capacity by around 360,000 tons in the second half of 2014 and 120,000 tons in 2015. With new additional production capacity gradually bringing on stream, the management now consider beginning overseas market expansion in the second quarter of 2014 while consolidating its presence in mainland China in order to increase sales revenue.

Sanitary Napkins

Accelerating urbanization and rising living standard continue to catalyze the growth of the sanitary napkin market, and increase the product's market penetration rate. This has also attracted foreign competitors to the market. To capture the opportunity for growth, the Group continued to invest in product development, product mix enhancement and promoting its brand, with an aim of boosting the business segment's sales growth.

During the year, the Group's sanitary napkin business grew steadily, with an about 21.5% increase in revenue to approximately HK$5,972,695,000, which accounted for around 28.2% of the total revenue (2012: 26.5%). The Group continued to increase the proportion of mid-priced and high-end products in sales during the year. The gross profit margin of the sanitary napkin business was approximately 66.3% (2012: 65.8%), which remained fairly stable as compared with that of the previous year. This reflected the fact that the pressure from slight increase in raw material prices and negative impact of intensified market competition were offset by the optimisation of product portfolio. Looking ahead, the Group will continue to focus on product innovation, optimize the product mix, improve product quality and increase the sales of mid-priced and high-end products in order to satisfy the demand.

Disposable Diapers

Mainland China's steady economic growth and urbanization, and people's increasing awareness of personal hygiene continue to boost the demand for diaper products. The market penetration rate for diaper products in the country is still low, implying enormous growth potential. Moreover, the Chinese government has adopted a policy of allowing couples to have two children if one of the parents is an only child. This will be conducive to the expansion of the disposable diaper market.

In 2012, the sales of the upgraded versions of diapers were not satisfactory due to the overstocking of the old version products in various distribution channels. Nonetheless, as the inventories of the old versions in the distribution channels were substantially cleared in the first quarter of the year, and the upgraded version products were well accepted by the market, the Group's diaper sales recovered with a growth of about 9.4% to approximately HK$2,938,186,000 in 2013, accounting for approximately 13.9% of the total revenue (2012: 14.5%).

The Group's efforts in strengthening marketing and promotion of mid-price and high-end diaper products, together with the introduction of new products series ("拉拉褲") in the fourth quarter of 2013, resulted in an increase of approximately 17.9% in sales revenue of the mid-priced and high-end diaper products. On the other hand, revenue from sales of low-end diapers decreased by approximately 10.6% as market competition remained fierce. The higher proportion of mid-end and high-end products with higher margins in sales offset the impact of the slight increase in raw material prices during the year. Gross profit margin of the Group's disposable diapers business increased to approximately 44.5% (2012: 42.9%).

Promotion of brand and products plays a key role in boosting the sales of diaper products. Apart from strengthening the existing distribution network management during the year, the Group also actively expanded its presence in new distribution channels by entering various maternity stores and expanding online sales network on a number of platforms, including "yhd.com", "Tmall" and "JD.com", in order to gain more comprehensive market coverage. With the implementation of the above measures, the management is cautiously optimistic about grasping the market opportunities which will arise from China's loosened birth control policy and the products' increasing market penetration.

Food and Snacks Products

The impact of the media exposure of application of industrial gelatine in food in 2012 on the snack industry abated in 2013, and the Group's food and snacks business recovered. In 2013, revenue of the Group's business of food and snacks products grew by about 15.7% to approximately HK$1,604,655,000, accounting for approximately 7.6% of the Group's total revenue (2012: 7.5%). Owing to the decline in costs of major raw materials such as sugar and palm oil during the year, the gross profit margin of the Group's snacks business increased to approximately 42.3% (2012: 38.2%).

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

First Aid Products

Revenue of the Group's first-aid product business under the brands of "Banitore" and "Bandi" amounted to approximately HK$44,391,000 (2012: HK$37,473,000). As the business only accounted for approximately 0.2% (2012: 0.2%) of the Group's total revenue, it did not have any significant impact on the Group's overall results.

Appointment of Professional Consultants

To further optimize the operation process of supply chains, logistics networks, inventory management and information technology planning, the Group engaged IBM China Company Limited in March 2014 to provide professional recommendations in regard to the above aspects.

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

Product Research and Development

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

Latest Awards

In 2013, the Group was named by Forbes Magazine as one of the "Forbes Asia's Fabulous 50" and also scooped a number of other awards, including "Top 500 Private Firms for 2013" and a charity award from All-China Federation of Industry & Commerce and World Federation of Jin Jiang Clan, respectively. The Group won these awards in recognition of its outstanding performance and market position. The Group will keep fulfilling its obligations and social responsibility in the future.

Liquidity, Financial Resources and Bank Loans

The Group maintained a solid financial position. On 27 June 2013, the Group completed the issue of HK$5,434,000,000 zero-coupon convertible bonds due 2018. The Directors intended to use the net proceeds to finance the capital expenditure of the Group, to refinance a portion of the Group's bank borrowings and for working capital and general corporate purposes.

As at 31 December 2013, the Group's cash and bank balances, long-term bank deposits and restricted bank deposits amounted to approximately HK$20,438,069,000 in total (31 December 2012: HK$11,452,149,000); convertible bonds liability portion amounted to approximately HK$5,227,130,000 (31 December 2012: Nil), and bank borrowings amounted to approximately HK$14,192,557,000 (31 December 2012: HK$11,227,796,000).

The convertible bonds were subject to a fixed interest rate of 2.7% while the bank borrowings were subject to floating annual interest rates ranging from approximately 1.0% to 5.0% (2012: 1.0% to 4.8%). As at 31 December 2013, apart from the cash of HK$60,044,000 (31 December 2012: HK$62,539,000) deposited in banks as restricted bank deposits for issuing letters of credit, there were no other charges on the Group's assets for its bank loans.

As at 31 December 2013, the Group's gross gearing ratio was approximately 117.5% (2012: 79.8%), which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including non-controlling interests). The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term time deposits as a percentage of the shareholders' equity (not including minority interests), was approximately negative 5.8% (2012: negative 1.1%) as the Group was in a net cash position.

During the year, the Group's capital expenditure amounted to approximately HK$1,200,581,000. As at 31 December 2013, the Group had no material contingent liabilities.

Human Resources and Management

As at 31 December 2013, the Group employed approximately 34,000 staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and career opportunities according to their needs and capabilities.

Foreign Currency Risks

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

As at 31 December 2013, apart from certain exchange rate swap contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

Outlook

Looking ahead to 2014, the economic improvement of Europe and the US will be favourable to the recovery of global trading. This will set the tone for the development of the world's economy and will be conducive to China's steady economic growth. China's rising per capita income and accelerating urbanization will lay a solid foundation of the development of its market for personal hygiene products. Although the rapid increase in production capacity has led to intensified competition in the tissue paper market in the short term, the people's rising awareness of personal hygiene will support the growth in the market for high-quality hygiene products in the long run. Meanwhile, the Chinese government's loosened birth control policy will start to benefit the development of baby product market from the fourth quarter of 2014 onwards.

In view of the current market situation, the Group will continue to strengthen product promotion and tap markets with potential for growth. In addition to its plan to expand production capacity of the core businesses, the Group will consider expanding its business overseas with its increased production capacity. It will also improve product quality and management efficiency in order to increase its brand influence, market share and overall competitiveness. Meanwhile, the Group will continue to monitor closely the price trends of raw materials and promptly optimize its product mix according to the changes in the market with a view to improving its gross profit margin.

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

PROPOSED FINAL DIVIDEND

The directors have resolved to recommend the payment of a dividend of HK$1.00 (2012: HK$0.95) per share to shareholders, whose names appear in the register of members of the Company on 27 May 2014 (the "Proposed Final Dividend"). Subject to the passing of the necessary resolution at the forthcoming annual general meeting to be held on Thursday, 22 May 2014 (the "2014 AGM"), the Proposed Final Dividend will be payable on 30 May 2014.

CLOSURE OF THE REGISTER OF MEMBERS

(a) For determining the entitlement to attend and vote at the 2014 AGM

The 2014 AGM is scheduled to be held on Thursday, 22 May 2014. For determining the entitlement to attend and vote at 2014 AGM, the register of members of the Company will be closed from Tuesday, 20 May 2014 to Thursday, 22 May 2014, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at 2014 AGM, unregistered holders of shares of the Company should ensure that all the share transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 19 May 2014.

(b) For determining the entitlement to the Proposed Final Dividend

The Proposed Final Dividend is subject to the approval of shareholders at the 2014 AGM. For determining the entitlement to the Proposed Final Dividend for the year ended 31 December 2013, the register of members of the Company will also be closed from Wednesday, 28 May 2014 to Thursday, 29 May 2014, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the Proposed Final Dividend, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 27 May 2014.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

CORPORATE GOVERNANCE

The Board is committed to maintaining high standards of corporate governance. The Company has complied with the applicable code provisions in the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2013.

REVIEW OF ACCOUNTS

The Audit Committee, which is chaired by an independent non-executive director and currently has a membership comprising another four independent non-executive directors, has discussed with management and reviewed the consolidated financial statements for the year ended 31 December 2013. The figures contained in the financial information set out in page 2 to 14 of this announcement of the Group's results for the year ended 31 December 2013 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year as approved by the Board. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

ACKNOWLEDGEMENT

The directors would like to take this opportunity to express our sincere thanks to our shareholders for their support and to our staff for their commitment and diligence during the year.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises Mr. Sze Man Bok, Mr. Hui Lin Chit, Mr. Hung Ching Shan, Mr. Xu Shui Shen, Mr. Xu Da Zuo, Mr. Xu Chun Man, Mr. Sze Wong Kim, Mr. Hui Ching Chi and Mr. Loo Hong Shing Vincent as executive directors, and Mr. Chan Henry, Mr. Wang Ming Fu, Ms. Ada Ying Kay Wong, Mr. Ho Kwai Ching Mark and Mr. Zhou Fang Sheng as independent non-executive directors.

By order of the Board
Sze Man Bok
Chairman

Hong Kong, 25 March 2014