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"

2014 ANNUAL RESULTS ANNOUNCEMENT
FINANCIAL SUMMARY

	2014 *HK$'000*	2013 *HK$'000*	Change
Revenue	**23,830,778**	21,186,368	12.5%
Operating profit	**5,750,058**	5,087,848	13.0%
Profit attributable to shareholders	**3,915,818**	3,721,031	5.2%
Gross profit margin (%)	**46.1**	45.1	
Earnings per share			
— Basic	**HK$3.188**	HK$3.024	5.4%
— Diluted	**HK$3.184**	HK$3.021	5.4%
Dividends			
— Interim (paid)	**HK$0.85**	HK$0.85	
— Final (proposed)	**HK$1.15**	HK$1.00	
Finished goods turnover (days)	**49**	55	
Accounts receivable turnover (days)	**36**	35	
Current ratio (times)	**1.5**	1.6	
Rate of return (%)	**22.2**	22.5	

* *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 2014, together with the comparative figures for the previous year, as follows:

Consolidated income statement

		Year ended 31 December	
		2014	2013
	Note	***HK$'000***	*HK$'000*
Revenue	2	**23,830,778**	21,186,368
Cost of goods sold		**(12,842,802)**	(11,626,908)
Gross profit		**10,987,976**	9,559,460
Other income and other gains — net		**1,164,078**	776,472
Distribution costs		**(4,840,381)**	(3,886,428)
Administrative expenses		**(1,561,615)**	(1,361,656)
Operating profit		**5,750,058**	5,087,848
Finance income		**232,353**	291,615
Finance costs		**(639,525)**	(363,992)
Finance costs — net		**(407,172)**	(72,377)
Profit before income tax	3	**5,342,886**	5,015,471
Income tax expense	4	**(1,368,716)**	(1,244,889)
Profit for the year		**3,974,170**	3,770,582
Profit attributable to:			
Shareholders of the Company		**3,915,818**	3,721,031
Non-controlling interests		**58,352**	49,551
		3,974,170	3,770,582
Earnings per share for profit attributable to shareholders of the Company			
— Basic	5	**HK$3.188**	HK$3.024
— Diluted	5	**HK$3.184**	HK$3.021
Dividends	6	**2,450,821**	2,278,062

Consolidated statement of comprehensive income

	Year ended 31 December	
	2014	2013
	HK$'000	*HK$'000*
Profit for the year	**3,974,170**	3,770,582
Other comprehensive income		
Items that may be reclassified to profit or loss		
— Currency translation differences	**(72,150)**	600,526
Total comprehensive income for the year	**3,902,020**	4,371,108
Attributable to:		
Shareholders of the Company	**3,844,876**	4,311,186
Non-controlling interests	**57,144**	59,922
Total comprehensive income for the year	**3,902,020**	4,371,108

Consolidated balance sheet

	Note	As at 31 December **2014** ***HK$'000***	 2013 *HK$'000*
Assets			
Non-current assets			
Property, plant and equipment		**8,861,823**	8,627,200
Construction-in-progress		**1,383,631**	1,204,372
Investment properties		**238,994**	–
Land use rights		**1,112,353**	1,105,298
Intangible assets		**603,522**	581,150
Prepayments for non-current assets		**356,534**	379,463
Deferred income tax assets		**217,229**	157,511
Long-term bank deposits		**1,096,463**	814,042
		13,870,549	12,869,036
Current assets			
Inventories		**3,694,833**	4,385,909
Trade and bills receivables	*7*	**2,455,109**	2,184,484
Other receivables, prepayments and deposits		**1,219,729**	1,127,031
Restricted bank deposits		**39,700**	60,044
Cash and bank balances		**21,296,676**	19,563,983
		28,706,047	27,321,451
Total assets		**42,576,596**	40,190,487
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital		**122,438**	123,138
Other reserves		**4,815,132**	4,521,293
Retained earnings			
— Proposed final dividend		**1,408,042**	1,231,385
— Unappropriated retained earnings		**11,292,028**	10,657,780
		17,637,640	16,533,596
Non-controlling interests		**425,419**	385,070
Total equity		**18,063,059**	16,918,666

	Note	As at 31 December 2014 HK$'000	2013 HK$'000
Liabilities			
Non-current liabilities			
Bank borrowings		**–**	959,643
Convertible bonds	*8*	**5,390,267**	5,227,130
Deferred income tax liabilities		**136,855**	169,146
Deferred income on government grants		**–**	929
		5,527,122	6,356,848
Current liabilities			
Trade payables	*9*	**2,299,705**	2,096,990
Other payables and accrued charges		**1,431,641**	1,271,912
Derivative financial instruments		**–**	39,727
Current income tax liabilities		**90,682**	273,430
Bank borrowings		**15,164,387**	13,232,914
		18,986,415	16,914,973
Total liabilities		**24,513,537**	23,271,821
Total equity and liabilities		**42,576,596**	40,190,487
Net current assets		**9,719,632**	10,406,478
Total assets less current liabilities		**23,590,181**	23,275,514

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 2014:

- Amendment to HKAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities.

- Amendments to HKAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets.

- HK (IFRIC) 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of HKAS 37 'Provisions'.

- Annual improvements 2012 include changes from the 2010-2012 cycle of the annual improvements project, that affect 7 standards, only the below are effective for relevant transactions on or after 1 July 2014:

  Amendment to HKFRS 2, 'Share-based payment' clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition'.

  Amendments to HKFRS 3 'Business combinations', and consequential amendments to HKFRS 9 'Financial instruments', HKAS 37 'Provisions, contingent liabilities and contingent assets', and HKAS 39 'Financial instruments – Recognition and measurement'.

(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 2014 and have not been early adopted

- Amendment to HKAS 19 regarding defined benefit plans, effective for annual periods beginning on or after 1 July 2014.

- Annual improvements 2012 that affect following standards: HKFRS 8 'Operating segments', HKAS 16 'Property, plant and equipment', HKAS 38 'Intangible assets', and HKAS 24 'Related Party Disclosures', effective for annual periods beginning on or after 1 July 2014.

- Annual improvements 2013 that affect following standards: HKFRS 3 'Business combinations', HKFRS 13 'Fair value measurement' and HKAS 40 'Investment property', effective for annual periods beginning on or after 1 July 2014.

- Amendments to HKAS 16 and HKAS 38 on clarification of acceptable methods of depreciation and amortisation, effective for annual periods beginning on or after 1 January 2016.

- Amendment to HKAS 27 on equity method in separate financial statements, effective for annual periods beginning on or after 1 January 2016.

- Annual improvements 2014 that affect following standards: HKFRS 7 'Financial instruments: Disclosures', HKAS 19 'Employee benefits' and HKAS 34 'Interim financial reporting', effective for annual periods beginning on or after 1 January 2016.

- Amendments to HKAS 1 for the disclosure initiative, effective for annual periods beginning on or after 1 January 2016.

- HKFRS 15 'Revenue from Contracts with Customers', effective for annual periods beginning on or after 1 January 2017.

- HKFRS 9 'Financial Instruments', effective for annual periods beginning on or after 1 January 2018.

The Group has started 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.

(c) New Hong Kong Companies Ordinance (Cap. 622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). It has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

2. Revenue and segment information

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

	2014					
	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 2014						
Segment revenue	7,486,151	3,111,730	11,305,616	1,534,749	1,527,515	24,965,761
Inter-segment sales	(58,411)	(17,157)	(448,323)	–	(611,092)	(1,134,983)
Revenue of the Group	7,427,740	3,094,573	10,857,293	1,534,749	916,423	23,830,778
Segment profit	3,132,616	540,592	892,683	115,091	815	4,681,797
Unallocated costs						(95,817)
Other income and other gains — net						1,164,078
Operating profit						5,750,058
Finance income						232,353
Finance costs						(639,525)
Profit before income tax						5,342,886
Income tax expense						(1,368,716)
Profit for the year						3,974,170
Non-controlling interests						(58,352)
Profit attributable to shareholders of the Company						3,915,818
Consolidated balance sheet as at 31 December 2014						
Segment assets	8,566,777	7,209,298	21,444,153	1,242,236	3,746,643	42,209,107
Deferred income tax assets						217,229
Unallocated assets						150,260
Total assets						42,576,596
Segment liabilities	1,601,323	846,965	7,584,570	239,103	81,645	10,353,606
Deferred income tax liabilities						136,855
Current income tax liabilities						90,682
Unallocated liabilities						13,932,394
Total liabilities						24,513,537
Other items for the year ended 31 December 2014						
Additions to non-current assets	357,325	175,502	1,011,305	36,338	174,199	1,754,669
Depreciation charge	131,967	39,295	470,469	53,024	18,169	712,924
Amortisation charge	8,523	1,831	17,929	12,470	935	41,688

	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	2,534,753	605,879	1,142,008	116,841	4,141	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	1,444,725	503,411	6,680,134	346,232	89,173	9,063,675
Deferred income tax liabilities						169,146
Current income tax liabilities						273,430
Unallocated liabilities						13,765,570
Total liabilities						23,271,821
Other items for the year ended 31 December 2013						
Additions to non-current assets	232,375	136,085	627,150	55,175	149,796	1,200,581
Depreciation charge	75,242	59,615	464,748	51,608	13,690	664,903
Amortisation charge	4,642	1,496	17,256	14,043	578	38,015

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. Profit before income tax

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

	2014	2013
	HK$'000	*HK$'000*
Crediting		
Government grants income (Note (a))	**665,634**	404,044
Interests income from long-term and short-term bank deposits	**474,319**	333,695
Interests income from cash and cash equivalents	**232,353**	106,451
Realised fair value gains on derivative financial instruments	**39,727**	1,239
Reversal of inventories write-down	**–**	26,433
Exchange gain from operating activities — net	**–**	94,022
Exchange gain from financing activities — net	**–**	185,164
Charging		
Depreciation of property, plant and equipment	**710,419**	664,903
Depreciation of investment properties included in other income and other gains — net	**2,505**	–
Amortisation of land use rights	**28,676**	28,188
Amortisation of intangible assets	**13,012**	9,827
Losses on disposal of property, plant and equipment and land use rights	**26,651**	27,058
Employees benefit expense, including directors' emoluments	**1,898,803**	1,843,519
Marketing and advertising expenses	**2,598,962**	1,861,319
Operating leases rentals	**107,347**	94,783
Repairs and maintenance expenses	**201,773**	206,166
Provision for impairment of trade receivables	**1,700**	19,643
Unrealised fair value losses on derivative financial instruments	**–**	36,682
Provision for inventories write-down	**5,634**	–
Exchange loss from operating activities — net	**1,893**	–
Exchange loss from financing activities — net	**130,371**	–
Interest expenses on bank borrowings, before deducting interest expenses of HK$18,649,000 (2013: HK$15,821,000) capitalised in construction-in-progress	**347,884**	275,925
Interest expenses on convertible bonds	**163,137**	79,708

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:

	2014	2013
	HK$'000	*HK$'000*
Current income tax		
— Hong Kong profits tax	**240,166**	151,699
— PRC income tax	**1,219,984**	1,114,868
Deferred income tax, net	**(91,434)**	(21,678)
Income tax expense	**1,368,716**	1,244,889

(a) Hong Kong profits tax has been provided for at the rate of 16.5% (2013: 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) Certain subsidiaries were approved to be new and high–technology enterprises and are entitled to the tax rate of 15%.

(d) According to the Caishui (2011) No. 58 "The notice on the tax policies of further implementation of the western region development strategy issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs" (財稅[2011]58號關於深入實施西部大開發戰略有關稅收政策問題的通知), companies set up in the western region and falling into certain encouraged industry catalogue promulgated by the PRC government are entitled to a preferential tax rate of 15%. Some of the Group's subsidiaries in the PRC were set up in the western development region and fall into the encouraged industry catalogue, and therefore they were entitled to the above said preferential tax rate.

(e) 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$3,915,818,000 (2013 HK$3,721,031,000) by the weighted average number of 1,228,106,600 (2013: 1,230,640,954) ordinary shares in issue during the year.

	2014	2013
Profit attributable to shareholders of the Company (HK$'000)	**3,915,818**	3,721,031
Weighted average number of ordinary shares in issue (thousands)	**1,228,107**	1,230,641
Basic earnings per share (HK$)	**HK$3.188**	HK$3.024

(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 2014. Calculations are done to determine the number of shares that could have been acquired at fair value (determined by using average market share price of the Company's shares for the year ended 31 December 2014) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2014	2013
Profit attributable to shareholders of the Company (HK$'000)	**3,915,818**	3,721,031
Weighted average number of ordinary shares in issue (thousands)	**1,228,107**	1,230,641
Adjusted for:		
— Share options (thousands)	**1,682**	1,054
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,229,789**	1,231,695
Diluted earnings per share (HK$)	**HK$3.184**	HK$3.021

6. Dividends

	2014	2013
	HK$'000	*HK$'000*
Interim, paid, HK$0.85 (2013: HK$0.85) per ordinary share	**1,042,779**	1,046,677
Final, proposed, HK$1.15 (2013: HK$1.00) per ordinary share	**1,408,042**	1,231,385
	2,450,821	2,278,062

The dividends paid in 2014 amounted to HK$2,271,013,000 (2014 interim: HK$0.85 per share, 2013 final: HK$1.00 per share). 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). A final dividend in respect of the year ended 31 December 2014 of HK$1.15 per share, amounting to a total dividend of HK$1,408,042,000, was proposed by the Board of Directors at a meeting held on 24 March 2015, subject to the final approval by the shareholders of the Company at the Annual General Meeting to be held on 19 May 2015. These financial statements do not reflect this dividend payable. The aggregate amounts of the dividends paid and proposed during 2014 and 2013 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 are on open account with credit terms ranging from 30 days to 90 days. At 31 December 2014, the ageing analysis of the trade and bills receivables based on invoice date was as follows:

	2014	2013
	HK$'000	*HK$'000*
Within 30 days	**1,163,679**	1,026,891
31–180 days	**1,212,946**	1,064,054
181–365 days	**54,309**	78,450
Over 365 days	**30,526**	21,568
	2,461,460	2,190,963
Less: provision for impairment	**(6,351)**	(6,479)
	2,455,109	2,184,484

8. Convertible bonds

	2014	2013
	HK$'000	*HK$'000*
Face value of convertible bonds issued on 27 June 2013	**5,434,000**	5,434,000
Issuing expenses	**(110,013)**	(110,013)
Equity component	**(176,565)**	(176,565)
Liability component on initial recognition on 27 June 2013	**5,147,422**	5,147,422
Accumulated finance costs	**242,845**	79,708
Liability component	**5,390,267**	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 2014.

From 27 June 2013 to 31 December 2014, no bond holders have converted their bonds into ordinary shares of the Company.

9. Trade payables

At 31 December 2014, the ageing analysis of trade payables was as follows:

	2014	2013
	HK$'000	*HK$'000*
Within 30 days	**1,577,367**	1,527,717
31–180 days	**694,510**	544,042
181–365 days	**9,388**	9,112
Over 365 days	**18,440**	16,119
	2,299,705	2,096,990

BUSINESS REVIEW

In 2014, the global economy sustained moderate growth. The United States' economic recovery was on track, but the eurozone's economy failed to pick up despite several interest rate cuts and governments' bond purchases. The Chinese economy maintained steady growth on the back of the People's Bank of China's loose monetary and fiscal policies in the year. According to data from the National Bureau of Statistics of China, the country's gross domestic product increased by approximately 7.4% to approximately RMB63,646.3 billion.

As a leading company in the market 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 seize market opportunities arising from the booming market, which was driven by the steady economic growth, and achieved steady growth in business.

For the year ended 31 December 2014, the Group's revenue increased by about 12.5% to approximately HK$23,830,778,000 (2013: HK$21,186,368,000). Operating profit rose by about 13.0% to around HK$5,750,058,000 (2013: HK$5,087,848,000). An exchange loss of about HK$132,264,000 was booked because of the depreciation of Renminbi against the Hong Kong dollar and the U.S. dollar during the year while a foreign exchange gain of around HK$279,186,000 was recorded last year. Profit attributable to shareholders grew by about 5.2% to approximately HK$3,915,818,000 (2013: HK$3,721,031,000). The Board of Directors declared a final dividend of HK$1.15 (2013: HK$1.00).

During the year, the negative impact of intensified market competition was offset by optimized product portfolio, enhanced economies of scale and decrease in raw material prices since the second half of the year. As a result, gross profit margin of the Group increased to approximately 46.1% (2013: 45.1%). Distribution costs and administrative expenses increased and accounted for approximately 26.9% (2013: 24.8%) of the Group's total revenue, mainly due to the increase in expenses on marketing and brand promotion, development of new specialty sales channels, research and development as well as enhancement of information system during the year.

Sanitary Napkins

Accelerating urbanization and rising living standard continue to boost demand for high-grade sanitary napkins, triggering market consolidation. The Group continued to improve product quality, optimize product portfolio and increase the proportion of mid-to-high-end products in sales in order to enhance the overall sales growth of the sanitary napkin business. During the year, the Group launched various new products, which were well received by the market, and hence successfully expanded the Group's market share.

The revenue of the sanitary napkin business grew by approximately 24.4% to approximately HK$7,427,740,000, which accounted for around 31.2% of the total revenue (2013: 28.2%). Optimized product portfolio and a decline in the prices of major raw materials, petrochemical products, since the fourth quarter boosted the gross profit margin of sanitary napkin business to approximately 68.5% (2013: 66.3%). Looking ahead, the Group will continue to focus on product innovation, optimize the product mix and increase the sales of mid-to-high-end products in order to satisfy the changing demand of the market.

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 of the Chinese people. China's tissue paper consumption per capita still lags behind that of developed countries, implying enormous market potential. However, overall overcapacity in the industry and fierce competition continued to affect the growth rate of the Group's tissue paper business. In order to ensure that the tissue paper business could maintain a reasonable profit margin, the Group did not step up efforts in marketing and brand promotion in the second half of the year, thus making it more challenging for the sales in the second half of the year. The Group's tissue paper sales increased by approximately 6.4% to approximately HK$10,857,293,000, accounting for approximately 45.6% (2013: 48.2%) of the Group's total revenue.

Gross profit margin remained fairly stable at approximately 34.5% (2013: 34.1%) because the decrease in price of tissue wood pulp, a major raw material, from second half of 2014 offset the impact of such unfavourable factors as intense market competition and overcapacity which led to a decrease in average selling price.

The Group's current annualized production capacity is 1,020,000 tons. The Group will increase production capacity according to market conditions and sales performance in the future.

Disposable Diapers

China's urbanization and the people's increasing awareness of personal hygiene continue to boost the demand for diaper products. The market penetration rate of disposable diaper products is still low, implying potential for further growth in the market for such products. However, China's economic slowdown and intense competition caused by the entry of a large number of manufacturers into the market affected the sales growth of the Group.

During the year, the Group stepped up marketing and brand promotion, and proactively expanded its business presence by gaining footholds in maternity stores and e-commerce sales channels. The Group continued to focus on and launched new mid-end and mid-to-high-end diaper products. The sales of mid-end and mid-to-high-end disposable diapers increased by approximately 11.9%, reflecting an increase in market demand for these products. However, due to persistent market competition, sales of low-end diapers (i.e. simplified diapers) decreased by approximately 15.4%. Overall, revenue from the sales of disposable diapers for the year ended 31 December 2014 increased only by approximately 5.3% to approximately HK$3,094,573,000, accounting for approximately 13.0% (2013: 13.9%) of the Group's total revenue.

The optimized product portfolio proved to be effective. This, coupled with the drop in prices of major raw materials, petrochemical products, since the fourth quarter of 2014, boosted the gross profit margin to approximately 45.3% (2013: 44.5%).

The Group will continue to enhance the promotion of brand and products, expand its business presence in maternity stores and e-commerce sales channels in 2015 in the hope of increasing sales for the long term.

Food and Snacks Products

As the snack products of the Group are not daily necessities, their sales are affected by the economic slowdown. During the year, sales of food and snacks products decreased slightly by about 4.4% to approximately HK$1,534,749,000, accounting for approximately 6.4% (2013: 7.6%) of the Group's total revenue. The decline in the costs of major raw materials such as sugar and palm oil offset the negative impact of intense market competition. As such, gross profit margin remained fairly stable at approximately 42.4% (2013: 42.3%).

As quality of living in China improves, the Group believes that the snack business will keep booming in the long term. In 2015, the Group will continue to commit resources to enriching its product portfolio in order to cater to the different tastes of consumers, and hence boost the revenue growth of the business.

First Aid Products

First-aid product sales under the brands of "Banitore" and "Bandi" amounted to approximately HK$41,334,000 (2013: HK$44,391,000). The business only accounted for approximately 0.2% (2013: 0.2%) of the Group's total revenue, and did not have significant impact on the Group's overall results.

Appointment of Professional Consultants

To further optimize the operation process of the Group's supply chain, logistics networks, inventory management and information technology planning, the Group appointed IBM (China) Co., Ltd. in March 2014 to give professional advice on the above aspects. In addition, the Group signed a contract with SAP (Beijing) Software Systems Co., Ltd. in November 2014 to use the latter's software, and engaged IBM (China) Co., Ltd. to update this software in order to support the evolving business in the future.

Product Research and Development

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

Liquidity, Financial Resources and Bank Loans

The Group maintained a solid financial position. As at 31 December 2014, the Group's cash and bank balances, long-term bank deposits and restricted bank deposits amounted to approximately HK$22,432,839,000 in total (31 December 2013: HK$20,438,069,000); the liability component of convertible bonds amounted to approximately HK$5,390,267,000 (31 December 2013: HK$5,227,130,000), and bank borrowings amounted to approximately HK$15,164,387,000 (31 December 2013: HK$14,192,557,000).

The net proceed from the issuance of convertible bonds in June 2013 was approximately HK$5,324 million, of which approximately HK$3,510 million was used for repayment of bank borrowings, approximately HK$442 million was invested in subsidiaries, approximately HK$302 million was used for share repurchases, approximately HK$551 million was used to pay dividends, approximately HK$358 million was placed as fixed deposits and approximately HK$161 million was used for general working capital purposes.

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 1.1% to 5.2% (2013: from 1.0% to 5.0%).

As at 31 December 2014, the Group's gross gearing ratio was approximately 116.5% (2013: 117.5%), which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including non-controlling interests). The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term time deposits as a percentage of the shareholders' equity (not including non-controlling interests), was approximately negative 10.4% (2013: negative 5.8%) as the Group was in a net cash position.

During 2014, the Group's capital expenditure amounted to approximately HK$1,754,669,000. As at 31 December 2014, the Group had no material contingent liabilities.

Human Resources and Management

As at 31 December 2014, the Group employed approximately 31,000 staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and career opportunities according to their needs.

Latest Awards

During the year, the Group was named by Forbes Magazine as one of the "World's Most Innovative Companies". In addition, the Group was also named as one of the "Top 100 – Hong Kong Listed Companies Selection 2014", and won a number of awards such as "The Excellence of Listed Enterprise Awards 2014" and "2014 Sustainability Leadership Model Enterprise". These awards reaffirm recognitions from all sectors of society of the Group's outstanding performance and leading position in the market. The Group will continue to do its best and enhance the values of its brands.

Foreign Currency Risks

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

As at 31 December 2014, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

Outlook

In 2015, although the United States will speed up its pace of economic recovery, Europe's economy is expected to remain weak, which will affect the speed of China's economic growth. Although the overcapacity in the tissue paper market has intensified the competition in the short term, China's rising per capita income, accelerating urbanization and consumers' increasing awareness of health and hygiene will continue to provide support for the development of the market for personal hygiene products. All these factors, coupled with the benefits from the decline in the cost of raw materials since the second half of 2014 are expected to persist well into 2015, will help to improve the Group's income and gross profit margins.

In order to fit itself better for market consolidation, the Group will continue to enhance product portfolio and increase the market penetration of its products. Meanwhile, the Group is committed to improving product quality in order to strengthen its brand values, overall competitiveness and profit margins. The Group will continue to monitor closely the price trends of raw materials and optimize its product mix to match the changes in the market with a view to improving its gross profit margin.

With its solid business, outstanding corporate governance 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 create greater shareholder value.

PROPOSED FINAL DIVIDEND

The directors have resolved to recommend the payment of a dividend of HK$1.15 (2013: HK$1.00) per share to shareholders, whose names appear in the register of members of the Company on 27 May 2015 (the "Proposed Final Dividend"). Subject to the passing of the necessary resolution at the forthcoming annual general meeting to be held on Tuesday, 19 May 2015 (the "2015 AGM"), the Proposed Final Dividend will be payable on 29 May 2015.

CLOSURE OF THE REGISTER OF MEMBERS

(a) For determining the entitlement to attend and vote at the 2015 AGM

The 2015 AGM is scheduled to be held on Tuesday, 19 May 2015. For determining the entitlement to attend and vote at 2015 AGM, the register of members of the Company will be closed from Monday, 18 May 2015 to Tuesday, 19 May 2015, 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 2015 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 Friday, 15 May 2015.

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

The Proposed Final Dividend is subject to the approval of shareholders at the 2015 AGM. For determining the entitlement to the Proposed Final Dividend for the year ended 31 December 2014, the register of members of the Company will also be closed from Tuesday, 26 May 2015 to Wednesday, 27 May 2015, 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 Friday, 22 May 2015.

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

During the year ended 31 December 2014, the Company repurchased a total of 7,000,000 ordinary shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of approximately HK$547,031,000 (excluding expenses) for enhancing its per share net asset value and earnings. All the repurchased shares were subsequently cancelled. Details of the repurchase of shares are summarized as follows:

Date of repurchase	Number of shares repurchased	Highest price paid	Lowest price paid
		HK$	*HK$*
28 March 2014	500,000	79.95	78.35
31 March 2014	280,000	79.95	78.65
7 May 2014	100,000	79.95	79.60
8 May 2014	171,000	79.75	78.30
9 May 2014	2,100,000	79.50	78.05
16 June 2014	200,000	79.00	78.95
17 June 2014	500,000	78.95	78.70
18 June 2014	485,500	78.70	78.00
19 June 2014	200,000	78.95	78.80
23 June 2014	49,000	78.75	78.70
22 September 2014	150,000	78.65	77.80
23 September 2014	150,000	78.55	78.10
26 September 2014	450,000	78.00	77.15
29 September 2014	770,000	76.75	76.25
30 September 2014	260,000	76.55	75.00
3 October 2014	118,500	75.80	74.45
6 October 2014	162,000	76.80	75.75
7 October 2014	35,000	76.35	75.85
8 October 2014	200,000	77.00	76.65
10 October 2014	119,000	76.90	76.65
	7,000,000		

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2014.

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 2014.

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 2014. 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 2014 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, 24 March 2015