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**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”**

**2015 ANNUAL RESULTS ANNOUNCEMENT  
FINANCIAL SUMMARY**

	<b>2015</b>	2014	Change
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Revenue	<b>24,450,468</b>	23,830,778	2.6%
Operating profit	<b>6,151,002</b>	5,750,058	7.0%
Profit attributable to shareholders	<b>4,050,869</b>	3,915,818	3.4%
Gross profit margin (%)	<b>47.6</b>	46.1	
Earnings per share			
— Basic	<b>HK\$3.314</b>	HK\$3.188	4.0%
— Diluted	<b>HK\$3.308</b>	HK\$3.184	3.9%
Dividends			
— Interim (paid)	<b>HK\$0.95</b>	HK\$0.85	
— Final (proposed)	<b>HK\$1.15</b>	HK\$1.15	
Finished goods turnover (days)	<b>41</b>	49	
Accounts receivable turnover (days)	<b>38</b>	36	
Current ratio (times)	<b>1.2</b>	1.5	
Rate of return (%)	<b>23.2</b>	22.2	

\* 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 2015, together with the comparative figures for the previous year, as follows:

### Consolidated income statement

	<i>Note</i>	<b>Year ended 31 December</b>	
		<b>2015</b>	<b>2014</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Revenue</b>	2	<b>24,450,468</b>	23,830,778
Cost of goods sold		<b>(12,810,057)</b>	(12,842,802)
<b>Gross profit</b>		<b>11,640,411</b>	10,987,976
Other income and other gains — net		<b>686,511</b>	1,164,078
Distribution costs		<b>(4,456,283)</b>	(4,840,381)
Administrative expenses		<b>(1,719,637)</b>	(1,561,615)
<b>Operating profit</b>		<b>6,151,002</b>	5,750,058
Finance income		<b>226,655</b>	232,353
Finance costs		<b>(634,853)</b>	(639,525)
Finance costs — net		<b>(408,198)</b>	(407,172)
<b>Profit before income tax</b>	3	<b>5,742,804</b>	5,342,886
Income tax expense	4	<b>(1,639,436)</b>	(1,368,716)
<b>Profit for the year</b>		<b>4,103,368</b>	3,974,170
<b>Profit attributable to:</b>			
Shareholders of the Company		<b>4,050,869</b>	3,915,818
Non-controlling interests		<b>52,499</b>	58,352
		<b>4,103,368</b>	3,974,170
<b>Earnings per share for profit attributable to shareholders of the Company</b>			
— Basic	5	<b>HK\$3.314</b>	HK\$3.188
— Diluted	5	<b>HK\$3.308</b>	HK\$3.184

## Consolidated statement of comprehensive income

	Year ended 31 December	
	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
<b>Profit for the year</b>	<b>4,103,368</b>	3,974,170
<b>Other comprehensive income</b>		
Items that may be reclassified to profit or loss		
— Currency translation differences	<u>(1,317,841)</u>	<u>(72,150)</u>
<b>Total comprehensive income for the year</b>	<b><u>2,785,527</u></b>	<b><u>3,902,020</u></b>
<b>Attributable to:</b>		
Shareholders of the Company	<b>2,757,191</b>	3,844,876
Non-controlling interests	<b><u>28,336</u></b>	<u>57,144</u>
<b>Total comprehensive income for the year</b>	<b><u>2,785,527</u></b>	<b><u>3,902,020</u></b>

## Consolidated balance sheet

	<b>As at 31 December</b>	
	<b>2015</b>	2014
<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	<b>8,910,303</b>	8,861,823
Construction-in-progress	<b>1,302,719</b>	1,383,631
Investment properties	<b>221,874</b>	238,994
Land use rights	<b>1,022,592</b>	1,112,353
Intangible assets	<b>589,261</b>	603,522
Prepayments for non-current assets	<b>181,337</b>	356,534
Deferred income tax assets	<b>222,123</b>	217,229
Long-term bank deposits	<b>1,014,562</b>	1,096,463
	<b>13,464,771</b>	13,870,549
<b>Current assets</b>		
Inventories	<b>3,934,132</b>	3,694,833
Trade and bills receivables	<b>2,645,689</b>	2,455,109
Other receivables, prepayments and deposits	<b>1,263,684</b>	1,219,729
Tax recoverable	<b>130,353</b>	–
Restricted bank deposits	<b>25,224</b>	39,700
Cash and bank balances	<b>17,744,192</b>	21,296,676
	<b>25,743,274</b>	28,706,047
<b>Total assets</b>	<b>39,208,045</b>	42,576,596
<b>Equity and liabilities</b>		
<b>Equity attributable to shareholders of the Company</b>		
Share capital	<b>121,809</b>	122,438
Other reserves	<b>3,710,777</b>	4,815,132
Retained earnings	<b>13,592,124</b>	12,700,070
	<b>17,424,710</b>	17,637,640
<b>Non-controlling interests</b>	<b>452,255</b>	425,419
<b>Total equity</b>	<b>17,876,965</b>	18,063,059

		<b>As at 31 December</b>	
		<b>2015</b>	2014
	<i>Note</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Convertible bonds	8	–	5,390,267
Deferred income tax liabilities		<b>188,808</b>	136,855
		<u><b>188,808</b></u>	<u>5,527,122</u>
<b>Current liabilities</b>			
Trade payables	9	<b>2,718,895</b>	2,299,705
Other payables and accrued charges		<b>1,184,154</b>	1,431,641
Derivative financial instruments		<b>35,908</b>	–
Current income tax liabilities		<b>71,302</b>	90,682
Bank borrowings		<b>11,573,518</b>	15,164,387
Convertible bonds	8	<b>5,558,495</b>	–
		<u><b>21,142,272</b></u>	<u>18,986,415</u>
<b>Total liabilities</b>		<u><b>21,331,080</b></u>	<u>24,513,537</u>
<b>Total equity and liabilities</b>		<u><b>39,208,045</b></u>	<u>42,576,596</u>

## 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 2015:

- Annual improvements 2012 include changes from the 2010–2012 cycle of the annual improvements project that are effective for relevant transactions executed on or after 1 July 2014:
  - Amendment to HKFRS 8 ‘Operating Segments’
  - Amendment to HKAS 24 ‘Related Party Disclosures’
- Annual improvements 2013 include changes from the 2011–2013 cycle of the annual improvements project, that are effective for relevant transactions executed on or after 1 July 2014:
  - Amendment to HKFRS13 ‘Fair Value Measurement’
  - Amendment to HKAS 40 ‘Investment Property’

The following new amendments of HKFRSs are effective for the first time for the financial year beginning on 1 January 2015 and not relevant to the Group’s operations (although they may affect the accounting for future transactions and events):

- Amendment to HKAS 19 regarding defined benefit plans is effective for annual periods beginning on or after 1 July 2014.
- Amendment to HKAS 16 ‘Property, plant and equipment’ and HKAS 38 ‘Intangible assets’ is effective for annual periods beginning on or after 1 July 2014.
- Amendment to HKFRS 3 ‘Business Combinations’ is effective for relevant transactions executed on or after 1 July 2014.

The Group assessed the adoption of these standards and concluded that it did not have a significant impact on the Group’s results and financial position.

***(b) 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 during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

***(c) 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 2015 and have not been early adopted***

- HKFRS 14 Regulatory Deferral Accounts, effective for annual periods beginning on or after 1 January 2016.
- Amendment to HKFRS 11 Accounting for acquisitions of interests in joint operations, effective for annual periods beginning on or after 1 January 2016.
- Amendments to HKAS 16 and HKAS 38 Clarification of acceptable methods of depreciation and amortisation, effective for annual periods beginning on or after 1 January 2016.
- Amendments to HKFRS 10 and HKAS 28 Sale or contribution of assets between an investor and its associate or joint venture, effective date to be determined.
- Amendment to HKAS 27 Equity method in separate financial statements, effective for annual periods beginning on or after 1 January 2016.
- Annual improvements 2014 that affect following standards: HKFRS 5 ‘Non-current assets held for sale and discontinued operations’, 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 HKFRS 10, HKFRS 12 and HKAS 28 Investment entities: applying the consolidation exception, effective for annual periods beginning on or after 1 January 2016.
- Amendments to HKAS 1 Disclosure initiative, effective for annual periods beginning on or after 1 January 2016.
- HKFRS 15 Revenue from Contracts with Customers, effective for annual periods beginning on or after 1 January 2018.
- HKFRS 9 Financial Instruments, effective for annual periods beginning on or after 1 January 2018.

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:

	2015					Group HK\$'000
	Sanitary napkin products HK\$'000	Disposable diaper products HK\$'000	Tissue paper products HK\$'000	Food and snack products HK\$'000	Others HK\$'000	
<b>Consolidated income statement</b>						
<b>for the year ended 31 December 2015</b>						
Segment revenue	7,798,751	3,134,307	11,171,337	1,267,144	2,223,348	25,594,887
Inter-segment sales	(115,352)	(89,568)	(371,146)	–	(568,353)	(1,144,419)
Revenue of the Group	<u>7,683,399</u>	<u>3,044,739</u>	<u>10,800,191</u>	<u>1,267,144</u>	<u>1,654,995</u>	<u>24,450,468</u>
Segment profit	3,558,698	689,983	1,136,682	69,778	92,450	5,547,591
Unallocated costs						(83,100)
Other income and other gains — net						<u>686,511</u>
Operating profit						6,151,002
Finance income						226,655
Finance costs						<u>(634,853)</u>
Profit before income tax						5,742,804
Income tax expense						<u>(1,639,436)</u>
Profit for the year						4,103,368
Non-controlling interests						<u>(52,499)</u>
Profit attributable to shareholders of the Company						<u>4,050,869</u>
<b>Consolidated balance sheet as at</b>						
<b>31 December 2015</b>						
Segment assets	<u>7,003,064</u>	<u>4,217,679</u>	<u>17,937,635</u>	<u>1,084,647</u>	<u>8,404,843</u>	38,647,868
Deferred income tax assets						222,123
Tax recoverable						130,353
Unallocated assets						<u>207,701</u>
Total assets						<u>39,208,045</u>
Segment liabilities	<u>2,305,296</u>	<u>814,410</u>	<u>4,199,914</u>	<u>141,054</u>	<u>2,252,809</u>	9,713,483
Deferred income tax liabilities						188,808
Current income tax liabilities						71,302
Unallocated liabilities						<u>11,357,487</u>
Total liabilities						<u>21,331,080</u>
<b>Other items for the year ended</b>						
<b>31 December 2015</b>						
Additions to non-current assets	374,896	46,422	815,669	16,372	121,980	1,375,339
Depreciation charge	160,701	40,993	489,348	49,846	23,761	764,649
Amortisation charge	<u>14,021</u>	<u>2,891</u>	<u>20,770</u>	<u>12,609</u>	<u>707</u>	<u>50,998</u>



	Sanitary napkin products <i>HK\$'000</i>	Disposable diaper products <i>HK\$'000</i>	Tissue paper products <i>HK\$'000</i>	Food and snack products <i>HK\$'000</i>	Others <i>HK\$'000</i>	Group <i>HK\$'000</i>
<b>Consolidated income statement</b>						
<b>for the year ended 31 December 2014</b>						
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	<u>7,427,740</u>	<u>3,094,573</u>	<u>10,857,293</u>	<u>1,534,749</u>	<u>916,423</u>	<u>23,830,778</u>
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						<u>1,164,078</u>
Operating profit						5,750,058
Finance income						232,353
Finance costs						<u>(639,525)</u>
Profit before income tax						5,342,886
Income tax expense						<u>(1,368,716)</u>
Profit for the year						3,974,170
Non-controlling interests						<u>(58,352)</u>
Profit attributable to shareholders of the Company						<u><u>3,915,818</u></u>
<b>Consolidated balance sheet as at</b>						
<b>31 December 2014</b>						
Segment assets	<u>8,566,777</u>	<u>7,209,298</u>	<u>21,444,153</u>	<u>1,242,236</u>	<u>3,746,643</u>	42,209,107
Deferred income tax assets						217,229
Unallocated assets						<u>150,260</u>
Total assets						<u><u>42,576,596</u></u>
Segment liabilities	<u>1,601,323</u>	<u>846,965</u>	<u>7,584,570</u>	<u>239,103</u>	<u>81,645</u>	10,353,606
Deferred income tax liabilities						136,855
Current income tax liabilities						90,682
Unallocated liabilities						<u>13,932,394</u>
Total liabilities						<u><u>24,513,537</u></u>
<b>Other items for the year ended</b>						
<b>31 December 2014</b>						
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	<u>8,523</u>	<u>1,831</u>	<u>17,929</u>	<u>12,470</u>	<u>935</u>	<u>41,688</u>

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:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
<b>Crediting</b>		
Government grants income (Note (a))	612,666	665,634
Interests income from long-term and short-term bank deposits	388,983	474,319
Interests income from cash and cash equivalents	226,655	232,353
Realised fair value gains on derivative financial instruments	–	39,727
<b>Charging</b>		
Depreciation of property, plant and equipment	758,074	710,419
Depreciation of investment properties included in other income and other gains — net	6,575	2,505
Amortisation of land use rights	37,675	28,676
Amortisation of intangible assets	13,323	13,012
Losses on disposal of property, plant and equipment	19,865	26,651
Employees benefit expense, including directors' emoluments	1,863,003	1,898,803
Marketing and advertising expenses	2,492,449	2,598,962
Operating leases rentals	109,602	107,347
Repairs and maintenance expenses	193,012	201,773
Provision for impairment of trade receivables	28,498	1,700
Unrealised fair value losses on derivative financial instruments	35,908	–
Provision for inventories write-down	10,133	5,634
Exchange loss from operating activities — net	277,773	1,893
Exchange loss from financing activities — net	151,465	130,371
Interest expenses on bank borrowings, before deducting interest expenses of HK\$28,407,000 (2014: HK\$18,649,000) capitalised in construction-in-progress	326,359	347,884
Interest expenses on convertible bonds	168,228	163,137

*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:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Current income tax		
— Current tax on profits for the year	1,358,429	1,249,736
— PRC withholding income tax	240,140	210,414
Deferred income tax, net	40,867	(91,434)
Income tax expense	1,639,436	1,368,716

- (a) Hong Kong profits tax has been provided for at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits for the year.
- (b) 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's entities operate. The Company's subsidiaries incorporated in the PRC are subject to Corporate Income Tax ("CIT") at the rate of 25%.

Certain subsidiaries were approved to be new and high – technology enterprises and are entitled to the tax rate of 15%.

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.

- (c) 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\$4,050,869,000 (2014: HK\$3,915,818,000) by the weighted average number of 1,222,463,762 (2014: 1,228,106,600) ordinary shares in issue during the year.

	2015	2014
Profit attributable to shareholders of the Company (HK\$'000)	<b>4,050,869</b>	3,915,818
Weighted average number of ordinary shares in issue (thousands)	<u>1,222,464</u>	<u>1,228,107</u>
Basic earnings per share (HK\$)	<u><b>HK\$3.314</b></u>	<u>HK\$3.188</u>

**(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 2015. 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 2015) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2015	2014
Profit attributable to shareholders of the Company (HK\$'000)	<u>4,050,869</u>	<u>3,915,818</u>
Weighted average number of ordinary shares in issue (thousands)	1,222,464	1,228,107
Adjusted for:		
— Share options (thousands)	<u>1,927</u>	<u>1,682</u>
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<u>1,224,391</u>	<u>1,229,789</u>
Diluted earnings per share (HK\$)	<u><u>HK\$3.308</u></u>	<u><u>HK\$3.184</u></u>

**6. Dividends**

	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim, paid, HK\$0.95 (2014: HK\$0.85) per ordinary share	1,157,175	1,042,779
Final, proposed/paid, HK\$1.15 (2014: HK\$1.15) per ordinary share	<u>1,400,808</u>	<u>1,408,075</u>
	<u><u>2,557,983</u></u>	<u><u>2,450,854</u></u>

The dividends paid in 2015 amounted to HK\$2,565,250,000 (2015 interim: HK\$0.95 per share, 2014 final: HK\$1.15 per share). 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). A final dividend in respect of the year ended 31 December 2015 of HK\$1.15 per share, amounting to a total dividend of HK\$1,400,808,000, was proposed by the Board of Directors at a meeting held on 22 March 2016, subject to the final approval by the shareholders of the Company at the Annual General Meeting to be held on 18 May 2016. These financial statements do not reflect this dividend payable.

## 7. Trade and bills receivables

Part of the Group's sales are on open account with credit terms ranging from 30 days to 90 days. At 31 December 2015, the ageing analysis of the trade and bills receivables based on invoice date was as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Within 30 days	1,175,807	1,163,679
31–180 days	1,399,992	1,212,946
181–365 days	49,736	54,309
Over 365 days	48,804	30,526
	<u>2,674,339</u>	<u>2,461,460</u>
Less: provision for impairment	(28,650)	(6,351)
	<u><u>2,645,689</u></u>	<u><u>2,455,109</u></u>

## 8. Convertible bonds

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
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)
	<u>5,147,422</u>	<u>5,147,422</u>
Liability component on initial recognition on 27 June 2013	5,147,422	5,147,422
Accumulated finance costs	411,073	242,845
	<u>5,558,495</u>	<u>5,390,267</u>
Liability component		
— Current	5,558,495	—
— Non-current	—	5,390,267
	<u><u>5,558,495</u></u>	<u><u>5,390,267</u></u>

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. According to the terms of the convertible loan agreement, on 27 June 2016 (the “Put Option Date”), the holder of each bond will have the right at such holder's option to require the Company to redeem all or some only of the bonds of such holder on the Put Option Date at 106.15 per cent of their principal amount. Accordingly, the convertible bonds had been reclassified from non-current liabilities to current liabilities as at 31 December, 2015.

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 2015.

From 27 June 2013 to 31 December 2015, no bond holders have converted their bonds into ordinary shares of the Company.

## 9. Trade payables

At 31 December 2015, the ageing analysis of trade payables based on invoice date was as follows:

	<b>2015</b>	2014
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Within 30 days	<b>1,920,352</b>	1,577,367
31–180 days	<b>780,937</b>	694,510
181–365 days	<b>2,778</b>	9,388
Over 365 days	<b>14,828</b>	18,440
	<b><u>2,718,895</u></b>	<u>2,299,705</u>

## **BUSINESS REVIEW**

In 2015, the global economic recovery was tepid. The United States' economy expanded moderately, while the economic recovery in the eurozone remained slow and the overall economic growth in emerging markets further decelerated. Although the People's Bank of China implemented targeted easing policy during the year under review, China's economic growth continued to slow down. According to China's National Bureau of Statistics, China's GDP rose by about 6.9% to about RMB67,670.8 billion in 2015.

For the year ended 31 December 2015, faced with fierce market competition alongside tight cash flow and mounting inventory among some distributors, the Group recorded revenue of approximately HK\$24,450,468,000 (2014: HK\$23,830,778,000), only rose by about 2.6% compared with last year. Operating profit increased by about 7.0% to approximately HK\$6,151,002,000 (2014: HK\$5,750,058,000). During the year under review, Renminbi devalued against the Hong Kong dollar and the US dollar, the Group recorded a foreign exchange loss of approximately HK\$429,238,000 (2014: HK\$132,264,000). Profit attributable to shareholders was approximately HK\$4,050,869,000 (2014: HK\$3,915,818,000), an increase of approximately 3.4% compared with that of last year. The Board of Directors declared a final dividend of HK\$1.15 per share for the year ended 31 December 2015 (2014: HK\$1.15).

During the year under review, the positive impact brought by an optimized product mix, expanding economies of scale, and falling raw material prices, has offset the negative impact of intensifying market competition, and hence the Group's gross profit margin increased to approximately 47.6% (2014: 46.1%).

Distribution costs and administrative expenses decreased as a percentage of revenue, accounting for approximately 25.3% (2014: 26.9%) of the Group's total revenue. The decrease was mainly attributable to the decline in transportation and warehousing costs amid significant falling oil prices and improvement in logistics and warehouse management as well as the drop in marketing and advertising expenses resulted from a switch from distributors to self-operation in some of the emerging maternity stores and online sales channels.

Effective tax rate increased to approximately 28.5% (2014: 25.6%) as the Group has paid dividend withholding tax on the amount of dividend remitted to holding company out of mainland China during the year and has provided dividend withholding tax for the dividend which may be remitted in the foreseeable future.

### **Sanitary Napkins**

Accelerating urbanization and rising living standards raised the market penetration rate of sanitary napkins and promoted consumption upgrade, which continued to drive the development of the sanitary napkin market. However, during the year, there was keen competition in the market. In addition, some of the Group's distributors faced cash crunch and excess inventories, coupled with the devaluation of the Renminbi, limited the growth of the Group's sanitary napkin business.

Revenue of the sanitary napkin business grew by approximately 3.4% to approximately HK\$7,683,399,000, which accounted for around 31.4% of the total revenue (2014: 31.2%). Optimized product portfolio and the continued decline in the prices of major raw materials, petrochemical products, boosted the gross profit margin of sanitary napkin business to approximately 72.6% (2014: 68.5%).

Looking into 2016, the Group expects sales performance to improve as its new and upgraded products received warm response and inventories at distributors have gradually returned to a reasonable level. The sales growth in the first quarter of 2016 is better than the sales growth in 2015. The Group will continue to expand its emerging online sales channels, focus on product innovation, optimize product mix and increase the sales of mid-to-high-end and high-end products to meet the changing needs of the market.

### **Tissue Paper**

Increasing health and hygiene awareness as well as rising living standard of the Chinese people continued to fuel the expansion of high-quality tissue paper market. China's tissue consumption per capita still lags behind that of developed countries, implying enormous market potential. However, the overall overcapacity in the industry, as well as stiff competition and the devaluation of Renminbi continued to impact the growth rate of the Group's tissue paper business. As such, the sales of the Group's tissue paper declined slightly by approximately 0.5% to approximately HK\$10,800,191,000, accounting for approximately 44.2% (2014: 45.6%) of the Group's total revenue. Excluding the sales of low-margin raw paper business (mainly for export purpose), the sales of domestic products increased mildly by about 1.5%.

As the drop in prices of tissue wood pulp used in tissue paper production offset the negative impact of intense market competition and increased efforts in marketing and brand promotions, gross profit margin increased to approximately 35.6% (2014: 34.5%) from last year.

As the newly-packaged products are well accepted by the market, the Group expects tissue sales to improve in 2016. There is a positive overall sales growth in the first quarter of 2016.

The Group's annualized production capacity was approximately 1,020,000 tons in 2015, and it is expected to increase to approximately 1,140,000 tons in the second half of 2016 or in the first half of 2017. The Group will examine future market conditions and sales performance to determine the expansion of its production capacity. In addition, the Group will continue to expand its emerging online sales channels in the future.

### **Disposable Diapers**

In light of urbanization and increasing personal hygiene awareness, the demand for disposable diapers continued to rise. The market penetration rate of disposable diapers is still low as many people in China do not consider diapers as a necessity, which implies a huge untapped market potential. Despite increasing competition brought by a large number of manufacturers entering the market, it is expected that market penetration rate of diapers will continue to grow, thanks to China's new two-child policy and improved living standards.

During the year under review, the Group continued to strengthen promotional efforts for mid-to-high-end products, and actively expanded its presence in the emerging maternity stores and e-commerce sales channels. Sales of mid-to-high-end diapers increased by approximately 21.9%, indicating the rising market demand for higher end products. However, battered by fierce competition in the markets of low-end diapers (i.e. simplified diapers) and mid-end diapers along with the devaluation of Renminbi, its sales dropped by approximately 22.6% and 16.1% respectively. As a result, revenue from the sales of diapers for the year ended 31 December 2015 slightly decreased by approximately 1.6% to approximately HK\$3,044,739,000, accounting for approximately 12.5% of the Group's total revenue (2014: 13.0%).



The optimized product portfolio proved to be effective. This, together with the continued drop in prices of major raw materials, petrochemical products, boosted the gross profit margin to approximately 49.3% (2014: 45.3%)

In 2016, the Group will continue to enhance the promotion of mid-to-high-end products, expand its business presence in maternity stores and e-commerce sales channels in the hope of increasing sales for the long term. Accordingly, the sales performance in the first quarter of 2016 is better than that of 2015.

### **Food and Snack Products**

As the snack products of the Group are not daily necessities, their sales were affected by the economic slowdown. During the year, sales of food and snack products decreased by about 17.4% to approximately HK\$1,267,144,000, accounting for approximately 5.2% of the Group's total revenue (2014: 6.4%). The decline in the costs of major raw materials such as palm oil and packaging materials offset the negative impact of intense market competition. As such, gross profit margin remained stable at approximately 42.2% (2014: 42.4%).

As quality of living in China improves, the Group believes that the snack business will maintain a steady growth in the long term. In 2016, the Group will continue to commit resources to enriching its product portfolio in order to cater to the different tastes of consumers, and hence propel the revenue growth of the business.

With reference to the Company's announcement published on 11 January 2016, the Company plans to spin off its food and snacks business. Related work is in progress and is expected to be completed in 2016. For more details, please refer to the Company's upcoming announcements and circular.

### **First Aid Products**

First-aid product sales under the brands of "Banitore" and "Bandi" amounted to approximately HK\$42,307,000 (2014: HK\$41,334,000). The business only accounted for approximately 0.2% (2014: 0.2%) of the Group's total revenue, and did not have significant impact on the Group's overall results.

### **Exchange Loss and Foreign Currency Risks**

During the year under review, Renminbi devalued against the Hong Kong dollar and the US dollar. The Group's Renminbi-denominated dividend receivables from mainland subsidiaries in the Hong Kong companies' accounts generated a total foreign exchange loss of approximately HK\$227,653,000. In addition, as Hong Kong and Macau companies had Renminbi deposits while the mainland companies had net US dollar bank loans, a total foreign exchange loss of approximately HK\$102,654,000 was generated. The Group has taken appropriate measures by reducing substantially Renminbi-denominated assets in Hong Kong and Macau, and having net US dollar deposits in the mainland companies. As a result, foreign exchange losses arising from possible Renminbi devaluation are expected to decrease in 2016.

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 significant 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 2015, apart from certain forward foreign exchange contracts and interest rate swap contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

### **Appointment of Professional Consultants**

As mentioned in 2014 annual report, to further optimize the operation process of the Group's supply chain, logistics networks, inventory management and information technology planning, the Group appointed IBM (China) Co., Ltd. to give professional advice on the above aspects. In addition, the Group signed a contract with SAP (Beijing) Software Systems Co., Ltd. to use its software to support the evolving business development in the future. The Group is now conducting trials in some provinces, and the entire project is expected to be completed in the second half of 2016 or the first half of 2017.

In addition, the company also hired PricewaterhouseCoopers Consulting (Shanghai) Co., Ltd. in February 2016 to provide advisory services regarding the preparation of "Environmental, Social and Governance Report". The detail report is expected to be presented in 2016 annual report.

### **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 2015, the Group's cash and bank balances, long-term bank deposits and restricted bank deposits amounted to approximately HK\$18,783,978,000 (31 December 2014: HK\$22,432,839,000); the liability component of convertible bonds amounted to approximately HK\$5,558,495,000 (31 December 2014: HK\$5,390,267,000), and bank borrowings amounted to approximately HK\$11,573,518,000 (31 December 2014: HK\$15,164,387,000).

The net proceeds from the issuance of convertible bonds in June 2013 was approximately HK\$5,324 million, of which approximately HK\$3,751 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\$116 million was placed as fixed deposits and approximately HK\$162 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 0.3% to 5.2% (2014: from 1.1% to 5.2%).

As at 31 December 2015, the Group's gross gearing ratio, 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) fell to approximately 98.3% (2014: 116.5%). 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 9.3% (2014: negative 10.4%) as the Group was in a net cash position.

During 2015, the Group's capital expenditure amounted to approximately HK\$1,375,339,000. As at 31 December 2015, the Group had no material contingent liabilities.

## **Human Resources and Management**

As at 31 December 2015, the Group employed approximately 29,700 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 awarded "The Excellence of Listed Enterprise Awards 2015". The accreditation reaffirmed recognitions from all sectors of society of the Group's excellent performance and market position. The Group will continue to do its best and enhance the values of its brands.

## **Outlook**

Looking ahead to 2016, the global economic environment will remain challenging. China's economy has entered into a new normal stage of moderate growth. Nevertheless, China's rising per capita income, accelerated urbanization and consumers' increasing awareness of personal hygiene will continue to bode well for the development of the personal hygiene market.

In response to market consolidation and the changes to the structure of product sales, the Group will continue to optimize its product portfolio in order to maintain its market share. Meanwhile, the Group will strive to improve product quality and management efficiency, thereby strengthening its brand influence as well as increasing profitability and overall competitiveness. The Group will continue to pay close attention to the trends in raw material prices, and optimize product portfolio in light of market changes, further improving its gross profit margin.

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

## **PROPOSED FINAL DIVIDEND**

The directors have resolved to recommend the payment of a dividend of HK\$1.15 (2014: HK\$1.15) per share to shareholders, whose names appear in the register of members of the Company on Monday, 23 May 2016 (the “Proposed Final Dividend”). Subject to the passing of the necessary resolution at the forthcoming annual general meeting to be held on Wednesday, 18 May 2016 (the “2016 AGM”), the Proposed Final Dividend will be payable on Monday, 30 May 2016.

## **CLOSURE OF THE REGISTER OF MEMBERS**

### **(a) For determining the entitlement to attend and vote at the 2016 AGM**

The 2016 AGM is scheduled to be held on Wednesday, 18 May 2016. For determining the entitlement to attend and vote at 2016 AGM, the register of members of the Company will be closed from Monday, 16 May 2016 to Wednesday, 18 May 2016, 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 2016 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, 13 May 2016.

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

The Proposed Final Dividend is subject to the approval of shareholders at the 2016 AGM. For determining the entitlement to the Proposed Final Dividend for the year ended 31 December 2015, the register of members of the Company will also be closed from Tuesday, 24 May 2016 to Wednesday, 25 May 2016, 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 Monday, 23 May 2016.

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

During the year ended 31 December 2015, the Company repurchased a total of 6,340,000 ordinary shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of approximately HK\$470,996,000 (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:

<b>Date of repurchase</b>	<b>Number of shares repurchased</b>	<b>Highest price paid HK\$</b>	<b>Lowest price paid HK\$</b>
7 July 2015	50,000	79.70	79.70
26 August 2015	2,918,500	75.10	71.00
27 August 2015	946,500	74.90	73.20
28 August 2015	201,500	75.95	75.95
31 August 2015	490,000	76.00	74.75
1 September 2015	904,000	76.00	75.00
2 September 2015	628,000	75.00	74.05
4 September 2015	201,500	74.20	73.65
	<u>6,340,000</u>		

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2015.

## 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 throughout the year ended 31 December 2015.

## **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 2015. 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 2015 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, 22 March 2016