【For Immediate Release】

恒安國際集團有限公司
HENGAN INTERNATIONAL GROUP COMPANY LIMITED

Hengan International Announces 2014 Interim Results
Turnover Rises by 16.2% to HK$12.1 billion
Interim Profit Attributable to Shareholders Amounts to HK$1.8 billion
Declares Interim Dividend of HK$0.85 Per Share

Financial Highlights

	For the six months ended 30 June		Change
	2014 HK$'000	2013 HK$'000	
Revenue	**12,098,064**	10,414,826	**+16.2%**
Gross profit	**5,433,840**	4,711,016	**+15.3%**
Gross profit margin	**44.9%**	45.2%	**-0.3%pt**
Operating profit	**2,650,479**	2,506,009	**+5.8%**
Profit attributable to shareholders	**1,775,303**	1,858,854	**-4.5%**
Basic earnings per share (HK dollars)	**1.443**	1.511	**-4.5%**
Diluted earnings per share (HK dollars)	**1.441**	1.510	**-4.6%**
Interim dividend per share (HK dollars)	**0.85**	0.85	**-**

(27 August 2014 - Hong Kong) – **Hengan International Group Company Limited** ("Hengan International" or the "Company", SEHK stock code: 1044, together with its subsidiaries, the "Group") announces today its interim results for the six months ended 30 June 2014.

For the six months ended 30 June 2014, the Group's revenue increased by about 16.2% to approximately HK$12,098,064,000 (2013 first half: HK$10,414,826,000). Operating profit increased by about 5.8% to around HK$2,650,479,000 (2013 first half: HK$2,506,009,000). During the period, there was an exchange loss of about HK$177,456,000, as a result of the depreciation of renminbi against major currencies, while a foreign exchange gain of around HK$88,102,000 was recorded for the same period last year. Profit attributable to shareholders dropped by about 4.5% to approximately HK$1,775,303,000 (2013 first half: HK$1,858,854,000). The Board of Directors declared an interim dividend of HK$0.85 (2013 first half: HK$0.85) per share.

Gross profit margin reached approximately 44.9% (2013 first half: 45.2%), which remained fairly stable as compared with that of the previous year. Slight increase in raw material prices and negative impact of intensified market competition were partially offset by optimized product portfolio, effective cost control measures and enhanced economies of scale. Distribution costs and administrative expenses increased and accounted for approximately 27.0% (2013 first half: 24.1%) of the Group's total revenue, mainly due to the increase in expenses for marketing and brand promotion, development of new specialty sales channels as well as research and development during the period.

Commenting on the Group's interim results, Mr. Sze Man Bok, Chairman of Hengan International, said, "The world sustained its economic recovery in the first half of 2014. Although the global economy remained complicated at a time when the United States Federal Reserve is trimming stimulus and the European Central Bank is fighting inflation, China still maintained its steady economic growth as the Chinese government continued its efforts to restructure its economy. As a leading enterprise in the personal hygiene product industry in mainland China, the Group increased efforts to enhancing its competitive strengths in order to seize market opportunities arising from the booming market, which was driven by economic development and increasing awareness of health and hygiene."

Tissue papers

The Group's tissue paper sales increased by about 11.3% to approximately HK$5,637,708,000, accounting for around 46.6% (2013 first half: 48.6%) of the Group's total revenue. Gross profit margin dropped to approximately 33.2% (2013 first half: 34.9%) due to the slight increase in price of major raw material tissue wood pulp, and enhanced efforts in marketing and brand promotion amid intense competition. As the tissue wood pulp price began to decline from May 2014, the management expects that the upward pressure of raw material costs could be eased in the second half of 2014.

For the period under review, the Group did not add any new production line, and the annualized production capacity remained at approximately 900,000 tons. In view of the ample supply of new production capacity in the market, the Group decided to adjust the capacity investment plan. According to the revised schedule, the annual production capacity is expected to increase by around 120,000 tons in the second half of 2014, by 240,000 tons in 2015 and by 120,000 tons in 2016. Upon completion, the Group's total annualized production capacity will increase to about 1,380,000 tons by the end of 2016. As new additional production capacity is gradually going on stream, the management is now considering starting overseas market expansion from the fourth quarter of 2014 while consolidating its presence in mainland China in order to increase sales revenue.

Sanitary napkins

Sanitary napkin sales increased by about 25.4% to approximately HK$3,586,092,000, accounting for around 29.6% (2013 first half: 27.5%) of the Group's total revenue. During the period, the Group continued to improve product mix and invest in new product development, and launched "Ultra Thin" products under the "Young Lady" series of the "Space 7" brand.

Benefited from optimizing product portfolio, the gross profit margin of sanitary napkin business increased to approximately 66.9% (2013 first half: 65.1%). Looking ahead, the Group will continue to focus on product innovation, optimize the product mix, improve product quality and increase the sales of mid-to-high-end products in order to satisfy rising market demand.

Disposable diapers

Revenue of disposable diapers increased by about 8.0% to about HK$1,546,057,000, accounting for around 12.8% (2013 first half: 13.7%) of the Group's total revenue. During the period, the Group continued to focus on marketing and promoting mid-end and mid-to-high-end diaper products, and launched the new mid-to-high-end ultra-thin series of products. Sales of mid-end and mid-to-high-end disposable diapers increased by about 16.1% while sales of low-end diapers decreased by about 12.3%, due to persistent market competition.

The effect of an enhanced product mix offset the slight increase in raw material prices during the period. Gross profit margin increased slightly to around 44.2% (2013 first half: 43.5%).

In the second half of 2014, the Group plans to continue to enhance brand and products promotions, expand its presence in maternity stores and e-commerce sales network in order to bring better long term growth in sales.

Food and snacks business

During the period, food and snacks product grew by about 1.6% in sales to approximately HK$946,735,000, accounting for around 7.8% (2013 first half: 8.9%) of Group's total revenue. Gross profit margin increased to approximately 43.6% (2013 first half: 42.6%) due to a decline in the costs of major raw materials, such as sugar and palm oil. In the second half of 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 the business.

Liquidity, Financial Resources and Bank Loans

The Group maintained a solid financial position. As at 30 June 2014, the Group's cash and bank balances, long-term bank deposits and restricted bank deposits amounted to approximately HK$23,736,466,000 in total (31 December 2013: HK$20,438,069,000); convertible bonds liability portion amounted to approximately HK$5,308,072,000 (31 December 2013: HK$5,227,130,000), and bank borrowings amounted to approximately HK$17,075,420,000 (31 December 2013: HK$14,192,557,000). As at 30 June 2014, the Group's gross gearing ratio was approximately

135.2% (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 minority interests), was approximately negative 7.9% (2013: negative 5.8%) as the Group was in a net cash position.

During the first half of 2014, the Group's capital expenditure amounted to approximately HK$728,943,000. As at 30 June 2014, the Group had no material contingent liabilities.

Outlook

Looking ahead to the second half of 2014, Mr. Sze said, "Modest recovery of the global economy and steady expansion of the Chinese economy is expected to continue. Although new production capacity in the tissue paper market goes on stream at the time of a softening market, hence leading to intensified short-term competition in the industry, the people's rising awareness of personal hygiene will support the growth in the market for high-quality hygiene products in the long run. The Group will continue to strengthen product promotion and tap markets with potential for growth. In addition, the Group will also improve product quality and management efficiency in order to increase our brand influence, market share and overall competitiveness. The Group will continue to monitor closely the price trends of raw materials and optimize our product mix based on the changes in the market with a view to improving its gross profit margin. With our solid business, brand equity and nationwide distribution network, the Group is confident of maintaining our leading position in mainland China's personal hygiene product market. We will strive for consistent growth in its business and greater shareholder value."

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Company Background

Hengan Group was established in 1985. It is principally engaged in production, distribution and sales of personal hygiene products and food and snacks products in China. The shares of Hengan International have been listed on the Hong Kong Stock Exchange since 1998. The Group has become a Hang Seng Index constituent since June 2011.

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