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"

2012 ANNUAL RESULTS ANNOUNCEMENT
FINANCIAL SUMMARY

	2012	2011	Change
	HK$'000	*HK$'000*	
Revenue	**18,524,233**	17,050,557	8.6%
Profit attributable to shareholders	**3,518,705**	2,648,839	32.8%
Gross profit margin (%)	**44.9**	39.9	
Earnings per share			
— Basic	**HK$2.863**	HK$2.160	32.5%
— Diluted	**HK$2.861**	HK$2.156	32.7%
Dividends			
— Interim (paid)	**HK$0.75**	HK$0.60	
— Final (proposed)	**HK$0.95**	HK$0.75	
Finished goods turnover (days)	**47**	44	
Accounts receivable turnover (days)	**37**	35	
Current ratio (times)	**1.5**	1.4	
Gross gearing ratio (%)	**79.8**	58.5	
Net gearing ratio (%)	**(1.1)**	(10.8)	
	(at net cash position)		

* *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 2012, together with the comparative figures for the previous year, as follows:

Consolidated income statement

		Year ended 31 December	
		2012	2011
	Note	***HK$'000***	*HK$'000*
Revenue	2	**18,524,233**	17,050,557
Cost of goods sold		**(10,209,030)**	(10,250,259)
Gross profit		**8,315,203**	6,800,298
Other gains — net		**564,833**	456,083
Distribution costs		**(3,240,815)**	(3,211,723)
Administrative expenses		**(898,386)**	(750,882)
Operating profit	3	**4,740,835**	3,293,776
Finance income		**37,709**	109,406
Finance costs		**(239,590)**	(147,807)
Finance costs — net		**(201,881)**	(38,401)
Profit before income tax		**4,538,954**	3,255,375
Income tax expense	4	**(1,001,235)**	(569,929)
Profit for the year		**3,537,719**	2,685,446
Profit attributable to:			
Shareholders of the Company		**3,518,705**	2,648,839
Non-controlling interests		**19,014**	36,607
		3,537,719	2,685,446
Earnings per share for profit attributable to shareholders of the Company			
— Basic	5	**HK$2.863**	HK$2.160
— Diluted	5	**HK$2.861**	HK$2.156
Dividends	6	**2,089,352**	1,659,137

Consolidated statement of comprehensive income

	Year ended 31 December	
	2012	2011
	HK$'000	*HK$'000*
Profit for the year	**3,537,719**	2,685,446
Other comprehensive income		
— Currency translation differences	**9,877**	659,552
Total comprehensive income for the year	**3,547,596**	3,344,998
Attributable to:		
Shareholders of the Company	**3,526,426**	3,288,809
Non-controlling interests	**21,170**	56,189
Total comprehensive income for the year	**3,547,596**	3,344,998

Consolidated balance sheet

	Note	As at 31 December 2012 HK$'000	2011 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**7,815,553**	5,203,336
Construction-in-progress		**1,301,331**	2,053,903
Land use rights		**1,032,792**	850,365
Intangible assets		**590,822**	601,212
Prepayments for non-current assets		**275,625**	439,325
Deferred income tax assets		**152,116**	131,110
Long-term bank deposits		**1,845,231**	296,040
		13,013,470	9,575,291
Current assets			
Inventories		**3,830,502**	2,934,323
Trade and bills receivables	7	**1,870,481**	1,892,632
Other receivables, prepayments and deposits		**882,063**	589,734
Derivative financial instruments		**1,382**	258
Restricted bank deposits		**62,539**	68,640
Cash and bank balances		**9,544,379**	8,258,202
		16,191,346	13,743,789
Total assets		**29,204,816**	23,319,080
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		**122,903**	122,901
Other reserves		**3,220,065**	3,489,931
Retained earnings			
— Proposed final dividend		**1,167,576**	921,756
— Unappropriated retained earnings		**9,567,648**	7,806,825
		14,078,192	12,341,413
Non-controlling interests		**330,048**	377,334
Total equity		**14,408,240**	12,718,747

		As at 31 December	
		2012	2011
	Note	***HK$'000***	*HK$'000*
LIABILITIES			
Non-current liabilities			
Bank borrowings		**3,787,218**	403,735
Deferred income tax liabilities		**185,801**	180,903
Deferred income on government grants		**2,070**	3,807
		3,975,089	588,445
Current liabilities			
Trade payables	8	**1,803,054**	1,881,313
Other payables and accrued charges		**1,217,375**	968,976
Derivative financial instruments		**5,666**	1,869
Current income tax liabilities		**354,814**	345,102
Bank borrowings		**7,440,578**	6,814,628
		10,821,487	10,011,888
Total liabilities		**14,796,576**	10,600,333
Total equity and liabilities		**29,204,816**	23,319,080
Net current assets		**5,369,859**	3,731,901
Total assets less current liabilities		**18,383,329**	13,307,192

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

There are no amended standard and interpretation that are effective for the first time for the whole year that could be expected to have a material impact to the Group.

(b) New and amended standards that have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted

- Amendments to HKFRS 7 'Financial instruments: Disclosures' on asset and liability offsetting, effective for annual periods beginning on or after 1 January 2013.

- HKFRS 9, 'Financial instruments', effective for annual periods beginning on or after 1 January 2015.

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

- HKFRS 11, 'Joint arrangements', effective for annual periods beginning on or after 1 January 2013.

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

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

- Amendments to HKAS 1 'Presentation of financial statements' regarding other comprehensive income, effective for annual periods beginning on or after 1 July 2012.

- HKAS 19 (Amendment) 'Employee benefits', effective for annual periods beginning on or after 1 January 2013.

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

- HKAS 28 (revised 2011), 'Associates and joint ventures', effective for annual periods beginning on or after 1 January 2013.

- Amendments to HKAS 32 'Financial instruments: Presentation' on asset and liability offsetting, effective for annual periods beginning on or after 1 January 2014.

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

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:

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

	2011					
	Sanitary napkins products *HK$'000*	Disposable diapers products *HK$'000*	Tissue paper products *HK$'000*	Food and snacks products *HK$'000*	Skin care products and others *HK$'000*	Group *HK$'000*
Consolidated income statement for the year ended 31 December 2011						
Segment revenue	4,309,922	2,757,763	8,357,761	1,542,511	931,750	17,899,707
Inter-segment sales	(195,497)	(34,749)	(340,241)	—	(278,663)	(849,150)
Revenue of the Group	4,114,425	2,723,014	8,017,520	1,542,511	653,087	17,050,557
Segment profit	1,456,729	360,040	783,446	88,501	191,295	2,880,011
Unallocated costs						(42,318)
Other gains — net						456,083
Operating profit						3,293,776
Finance income						109,406
Finance costs						(147,807)
Profit before income tax						3,255,375
Income tax expense						(569,929)
Profit for the year						2,685,446
Non-controlling interests						(36,607)
Profit attributable to shareholders of the Company						2,648,839
Consolidated balance sheet as at 31 December 2011						
Segment assets	3,410,775	3,850,847	12,019,993	1,137,165	2,601,479	23,020,259
Deferred income tax assets						131,110
Unallocated assets						167,711
Total assets						23,319,080
Segment liabilities	503,257	555,628	2,492,518	300,001	78,374	3,929,778
Deferred income tax liabilities						180,903
Current income tax liabilities						345,102
Unallocated liabilities						6,144,550
Total liabilities						10,600,333
Other items for the year ended 31 December 2011						
Additions to non-current assets	194,162	162,424	1,763,262	383,000	522,477	3,025,325
Depreciation charge	50,009	52,076	275,365	27,509	9,824	414,783
Amortisation charge	4,127	2,144	7,988	11,516	2,811	28,586

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

3. Operating profit

Operating profit is stated after crediting and charging the following:

	2012	2011
	HK$'000	*HK$'000*
Crediting		
Government grants income (Note)	**337,036**	275,034
Amortisation of deferred income on government grants	**1,731**	1,701
Realised fair value gains on derivative financial instruments	**100**	—
Operating exchange gain — net	**—**	44,033
Charging		
Depreciation of property, plant and equipment	**527,380**	414,783
Amortisation of land use rights	**22,987**	18,556
Amortisation of intangible assets	**10,386**	10,030
Losses on disposal/write-off of property, plant and equipment and land use rights	**2,524**	2,285
Employees benefit expense, including directors' emoluments	**1,511,983**	1,265,593
Operating leases rentals	**87,796**	76,624
Repairs and maintenance expenses	**157,382**	128,124
Provision for impairment of trade receivables	**2,927**	1,832
Provision for impairment of inventories	**14,876**	19,263
Unrealised fair value losses on derivative financial instruments	**2,623**	1,611
Realised fair value losses on derivative financial instruments	**—**	7,582
Operating exchange loss — net	**12,286**	—

Note: These 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:

	2012	2011
	HK$'000	*HK$'000*
Current income tax		
— Hong Kong profits tax	**102,635**	37,288
— PRC income tax	**914,700**	558,027
Deferred income tax, net	**(16,100)**	(25,386)
Income tax expense	**1,001,235**	569,929

(a) Hong Kong profits tax has been provided for at the rate of 16.5% (2011: 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 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) Enterprises incorporated in Hong Kong and other places are subject to income tax at the prevailing rates ranging from 0% to 16.5%.

(d) According to the PRC CIT Law, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors incorporated 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$3,518,705,000 (2011: HK$2,648,839,000) by the weighted average number of 1,229,021,819 (2011: 1,226,448,622) ordinary shares in issue during the year.

	2012	2011
Profit attributable to shareholders of the Company (HK$'000)	**3,518,705**	2,648,839
Weighted average number of ordinary shares in issue (thousands)	**1,229,022**	1,226,449
Basic earnings per share (HK$)	**HK$2.863**	HK$2.160

(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's share options are regarded as dilutive potential ordinary shares as at 31 December 2012. 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 2012) 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.

	2012	2011
Profit attributable to shareholders of the Company (HK$'000)	**3,518,705**	2,648,839
Weighted average number of ordinary shares in issue (thousands)	**1,229,022**	1,226,449
— Share options (thousands)	**974**	2,154
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,229,996**	1,228,603
Diluted earnings per share (HK$)	**HK$2.861**	HK$2.156

6. Dividends

	2012	2011
	HK$'000	*HK$'000*
Interim, paid, HK$0.75 (2011: HK$0.60) per ordinary share	**921,776**	737,381
Final, proposed, HK$0.95 (2011: HK$0.75) per ordinary share	**1,167,576**	921,756
	2,089,352	1,659,137

The dividends paid in 2012 amounted to HK$1,843,543,000 (2012 interim: HK$0.75 per share, 2011 final: HK$0.75 per share). The dividends paid in 2011 amounted to HK$1,594,334,000 (2011 interim: HK$0.60 per share, 2010 final: HK$0.70 per share). A dividend in respect of the year ended 31 December 2012 of HK$0.95 per share, amounting to a total dividend of HK$1,167,576,000, is proposed by Directors at a meeting held on 26 March 2013 and to be approved by the shareholders of the Company at the Annual General Meeting to be held on 23 May 2013. These financial statements do not reflect this dividend payable. The aggregate amounts of the dividends paid and proposed during 2012 and 2011 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

7. Trade and bills receivables

The majority of the Group's sales is on open account with credit terms ranging from 30 days to 90 days. At 31 December 2012, the ageing analysis of the trade and bills receivables based on invoice date was as follows:

	2012	2011
	HK$'000	*HK$'000*
Within 30 days	**912,811**	1,003,328
31–180 days	**913,629**	841,474
181–365 days	**19,903**	35,028
Over 365 days	**24,138**	12,802
	1,870,481	1,892,632

8. Trade payables

At 31 December 2012, the ageing analysis of the trade payables was as follows:

	2012	2011
	HK$'000	*HK$'000*
Within 30 days	**1,193,981**	1,002,675
31–180 days	**583,037**	851,895
181–365 days	**10,939**	14,930
Over 365 days	**15,097**	11,813
	1,803,054	1,881,313

BUSINESS OVERVIEW

In 2012, although the Eurozone debt crisis eased and the fiscal cliff in the US was partly resolved by the end of the year, global economy as a whole remained weak. In addition, the change of leadership in various countries in the second half year brought uncertainties to the global political landscape, leading to slow economic growth in major economies and in turn affected mainland China's economy. In response to such complex economic situation, the Chinese Government implemented a number of economic measures to foster economic growth while stabilizing commodity prices, which successfully maintained a stable and steadfast growth. In 2012, mainland China's GDP grew by 7.8% year on year to reach a total of RMB51,932.2 billion, which exceeded the targeted growth of 7.5%. Thanks to the country's continuous economic growth and rapid urbanisation, mainland China's urban and rural residents' income have been growing. The constantly improving living standard and people's increasing awareness of health and hygiene have promoted the development of high-quality personal care and family hygiene products market, yet market competition is also intensifying at the same time. As the leading company in the personal care and family hygiene products market in mainland China, the Group is drawing on its economy of scale and cost-control measures to overcome the challenges brought by changing market environment to achieve steady business growth.

For the year ended 31 December 2012, the Group's revenue amounted to approximately HK$18,524,233,000, representing about 8.6% increase from that for last year. Profit attributable to shareholders grew by approximately 32.8% to about HK$3,518,705,000. The Directors declared a final dividend of HK$0.95 (2011: HK$0.75).

Benefited from the decrease in raw material prices, optimisation of product portfolio and the scale effect brought by the expansion of business, as well as the Group's stringent cost-control measures, the overall gross profit margin of the Group increased to 44.9% (2011: 39.9%). During the year, distribution costs and administrative expenses accounted for approximately 22.3% (2011: 23.2%) of revenue, which remained fairly stable as compared with that of previous year.

Tissue Papers

On the back of a significant improvement in quality of life as well as increased health and hygiene awareness of Chinese people, mainland China's high-quality tissue paper market is experiencing a rapid growth. Nonetheless, the annual tissue paper consumption per capita of Chinese people is still much lower than that of other developed countries, indicating enormous market potentials. At the same time, with the gradual increase in overall supply and major competitors' stronger marketing efforts to boost sales, competition in the tissue paper market has intensified.

A slowdown in growth was recorded in the first half of 2012 due to the delay in completion in the Group's new production lines, resulting in insufficient production capacity. Moving on to the second half, the Group's new manufacturing facilities located in Jinjiang and Wuhu, each with an annualised production capacity of 120,000 tonnes, were put into operation in the third and fourth quarters of the year respectively, resolving the raw papers shortage issue. Revenue from the tissue paper business for the year grew by about 14.1% to approximately HK$9,146,766,000, accounting for approximately 49.4% of the total revenue (2011: 47.0%). In 2013, the Group plans to launch a number of upgraded versions of existing products, strengthen distribution network management and increase marketing and brand promotion efforts. After taking these measures, management expects the growth of revenue in 2013 to be better than that for 2012.

This segment's gross profit margin for the year rebounded to about 35.4% (2011: 31.4%), factoring in the decrease in production costs resulted from the drop in prices of wood pulp, the major raw materials. In the first half of 2012, the Group adjusted its sales mix and decreased the proportion of sales of products with low gross profit margins. Although the sales mix had gradually returned to normal when new production capacity became available in the second half of the year, the sales of toilet roll products as a percentage of total tissue paper sales still fell slightly to about 30.5% (2011: 31.7%).

As at the end of 2012, the Group had an annualised production capacity of approximately 900,000 tonnes, which is sufficient for production in 2013. In 2014 and 2015, the Group plans to increase its annualised production capacity by 360,000 tonnes and 120,000 tonnes respectively so as to meet the market demand. The additional capacity involves eight production lines located in Chongqing, Hunan, Shandong and Wuhu, and the total annualised production capacity will reach 1,380,000 tonnes by the end of 2015.

Sanitary Napkins

Accelerating urbanization alongside improving living standard, continue to drive the demand for sanitary napkins with a gradually rising market penetration. The lucrative market has also drawn more competition from international players. In order to seize the opportunities brought by market expansion, the Group continues to invest resources to develop new products, optimize product mix and enhance brand awareness in order to improve the sanitary napkin business sales growth.

In 2012, the Group's sanitary napkin business continued to have a healthy development, with revenue grew by approximately 19.5% year-over-year to approximately HK$4,915,462,000, which accounted for approximately 26.5% of the Group's total revenue (2011: 24.1%). Thanks to the decrease in prices of main raw materials, petrochemical products and fluff pulp, easing the pressure on the Group's production costs, and partly due to the Group's stringent cost-control measures and efforts to increase sales contribution of high-end products, gross profit margin for the sanitary napkin business increased to approximately 65.8% (2011: 60.4%).

The Group officially rolled out the high-end "Space Seven Princess series" across the country by the end of June 2012. Looking ahead to 2013, the Group will continue to focus on production innovation, optimise existing products and increase the sales of high-end products to meet consumer demand.

Disposable Diapers

The steady economic growth and urbanisation in mainland China continue to unleash the national demand for diaper products. At present, the market penetration for diaper products in mainland China is still low, which implies enormous market potentials in the future. Yet, the diaper market is undergoing intense competition among industry players. On one hand, international operators continued to tap into second-and-third-tier cities, affecting the sales of the Group's mid- to-high-end diapers, with revenue increasing by only about 8.0%. On the other hand, mid and small market players launched aggressive promotions to boost sales when raw material costs were low so that the sales of low-end diapers dropped significantly by around 20.0%. As such, the overall revenue of disposable diaper business in 2012 was only HK$2,685,473,000, representing a slight decline of approximately 1.4% when compared with that of the previous year, and accounting for approximately 14.5% of total revenue (2011: 16.0%).

Benefited from the decline in prices of major raw materials, fluff pulp and petrochemical products, as well as the increase in sales of higher-end products, the gross profit margin of the Group's disposable diaper business increased to approximately 42.9% (2011: 35.2%).

Brand and product promotion play a key role in driving the sales of diaper products. Therefore, in 2013, the Group plans to increase marketing and brand promotion efforts for its high-end diaper products, especially the relatively new product series, in order to boost sales. At the same time, the Group will strengthen its distribution network management and actively expand its presence in new channels (such as maternal stores, hospitals and online sales channel) in order to increase market coverage and improve sales efficiency. With the implementation of the above measures, management remains optimistic about the long-term prospects of its disposable diaper business, and expects revenue of the Group's disposable diaper business to grow in 2013.

Food and Snacks Products

The industrial gelatine issue unfolded in April had a significant impact on the snack industry, especially the fruit jelly industry. Although the Group had never used raw materials with problems in its products and had always endeavoured in ensuring food safety, the Group's annual revenue of jelly products fell by about 18.6% year on year. Despite the revenue increase of other snack products, overall revenue of food and snacks products fell by approximately 10.1% year on year to HK$1,387,487,000 accounting for approximately 7.5% of the Group's total revenue (2011: 9.0%). Due to the decline in costs of major raw materials such as sugar, condiments and flour, and increase in selling price for some products, the gross profit margin of the Group's snacks business increased to approximately 38.2% (2011: 32.4%).

With the improvement of life quality of Chinese people, the Group believes that the snack business in the long term will keep booming. In 2013, with the adverse effect of the gelatine incident gradually easing, and the continuing investment of resources by the Group to enrich its product portfolio to cater to the different tastes of consumers, management expects the revenue of snack business to recover.

First Aid Products

Revenue of the Group's first-aid product business in 2012 under the "Banitore" and "Bandi" brand names amounted to HK$37,473,000 (2011: HK$35,823,000). As this business only accounted for approximately 0.2% (2011: 0.2%) of the Group's total revenue, it had an insignificant impact on the Group's overall results.

Research and Development of Products

The Group is dedicated to excellence. As the leading manufacturer in mainland China's household paper industry, and by far the only enterprise in the industry recognised by the Enterprise Technology Centre by the Government, the Group continued to allocate more resources in product research and development, in order to further enhance efficiency and develop more value-added products to meet the high demand of consumers. These efforts have helped to solidify the Group's leading position in the personal hygiene products industry of mainland China.

Latest Awards

In 2012, the Group was named by Forbes Magazine as one of the "Forbes Asia's Fabulous 50" and also scooped a number of other awards, including the "2012 China Enterprise Reputation and Credibility Award" and "Asia' Best Employer Brand Award 2012 — China". In addition, Mr Hui Lin Chit, the CEO of the Group, was also awarded the "Redbud Outstanding Entrepreneur Award", "2012 RISI Best CEO for Tissue Manufacturing Enterprise — Asia Region" and was selected as one of the "Forbes China Best CEOs". These are recognitions of the Group's outstanding performance and its market position in mainland China's personal hygiene product market.

Liquidity, Financial Resources and Bank Loans

The Group maintained a solid financial position. As at 31 December 2012, the Group's cash and bank balances, long-term bank deposits and restricted bank deposits amounted to approximately HK$11,452,149,000 in total (2011: HK$8,622,882,000); and the Group's total borrowings amounted to approximately HK11,227,796,000 (2011: HK$7,218,363,000). The bank borrowings were subject to floating annual interest rates ranging from approximately 1.0% to 4.8% (2011: 0.8% to 4.0%). As at 31 December 2012, apart from the bank deposits of HK$62,539,000 (2011: HK$68,640,000) deposited in banks as restricted bank deposits for issuing letters of credit, there were no other charges on the Group's assets for its bank loans.

As at 31 December 2012, the Group's gross gearing ratio was approximately 79.8% (2011: 58.5%), 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 negative 1.1% (2011: negative 10.8%) as the Group was in a net cash position.

During the year, the Group's capital expenditure amounted to approximately HK$2,596,914,000. As at 31 December 2012, the Group had no material contingent liabilities.

Human Resources and Management

As at 31 December 2012, the Group employed approximately 33,600 staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employee 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 continued professional opportunities according to their needs.

Foreign Currency Risks

Most of the Group's income is denominated in Renminbi while part of the raw materials purchases are imported and settled in US dollar. The Group has never had any difficulties in getting 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 2012, apart from certain interest rate swap contracts and exchange rate swap contracts entered into with certain large commercial banks, the Group had not issued any significant financial instruments or entered into any significant contracts for foreign currency hedging purposes.

Outlook

Looking ahead to 2013, both mainland China's and global economic outlook remains perplexing. Mainland China will also face many uncertainties over the course of its economic development and reform, which will pose a big challenge for the Group's operation. However, mainland China's strong fundamentals, stable economic growth, continuing urbanisation and growing domestic consumption will continue to drive the growth of the personal hygiene product market. As people's awareness of personal hygiene continues to increase, demand for high-quality hygiene products is set to rise. Therefore, the Group remains optimistic about the prospects for the development of the personal hygiene products market.

To seize the market opportunity and capture the growing consumer demand, the Group is committed to making every effort in achieving the best results. This year, in addition to the plans to invest resources for production capacity expansion of the Group's core businesses, the Group will continue to improve its product quality and at the same time improve management efficiency in order to increase its overall competitiveness, brand influence and market share. Meanwhile, the Group will continue to pay close attention to the prevailing prices of raw materials and quickly respond when needed to raw material prices fluctuation to facilitate product mix optimisation, so as to further improve the gross profit margin.

Leveraging its solid foundation and brand equity, coupled with a country-wide distribution network, the Group is confident in maintaining its leading position in the personal hygiene products market in mainland China, ensuring the healthy growth of its business and creating greater values to its shareholders.

PROPOSED FINAL DIVIDEND

The directors have resolved to recommend the payment of a dividend of HK$0.95 (2011: HK$0.75) per share to shareholders, whose names appear in the register of members of the Company on 28 May 2013 (the "Proposed Final Dividend"). Subject to the passing of the necessary resolution at the forthcoming annual general meeting to be held on Thursday, 23 May 2013 (the "2013 AGM"), the Proposed Final Dividend will be payable on or before 31 May 2013.

CLOSURE OF THE REGISTER OF MEMBERS

(a) For determining the entitlement to attend and vote at the 2013 AGM

The 2013 AGM is scheduled to be held on Thursday, 23 May 2013. For determining the entitlement to attend and vote at 2013 AGM, the register of members of the Company will be closed from Tuesday, 21 May 2013 to Thursday, 23 May 2013, 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 2013 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 20 May 2013.

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

The Proposed Final Dividend is subject to the approval of shareholders at the 2013 AGM. For determining the entitlement to the Proposed Final Dividend for the year ended 31 December 2012, the register of members of the Company will also be closed from Wednesday, 29 May 2013 to Thursday, 30 May 2013, 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 28 May 2013.

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

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

CORPORATE GOVERNANCE

The Board is committed to maintaining high standards of corporate governance. The Company has complied with the applicable code provisions in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) 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 2012.

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 2012. The figures contained in the financial information set out in page 2 to 13 of this announcement of the Group's results for the year ended 31 December 2012 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, 26 March 2013