【For Immediate Release】

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

Hengan International Announces 2012 Annual Results
Profit Attributable to Shareholders was HK$3,518 million
Declared Final Dividend of HK$0.95 per Share

Financial Highlights

	For the year ended 31 December		Change
	2012	2011	
	HK$'000	HK$'000	
Revenue	**18,524,233**	17,050,557	+8.6%
Gross profit	**8,315,203**	6,800,298	+22.3%
Gross profit margin	**44.9%**	39.9%	+5.0%pts
Profit attributable to shareholders	**3,518,705**	2,648,839	+32.8%
Earnings per share(HK dollars)			
– Basic	**2.863**	2.160	+32.5%
– Diluted	**2.861**	2.156	+32.7%
Dividend per share(HK dollars)			
– Interim	**0.75**	0.60	+25.0%
– Final	**0.95**	0.75	+26.7%
– Full year	**1.70**	1.35	+25.9%

(26 March 2013 - Hong Kong) – **Hengan International Group Company Limited** ("Hengan International" or the "Company", SEHK stock code: 1044, together with its subsidiaries, the "Group") announced today its annual results for the year ended 31 December 2012.

For the year ended 31 December 2012, the Group's business sustained its growth with revenue increased by 8.6% year on year, to approximately HK$18,524,233,000. Profit attributable to shareholders rose by about 32.8% to approximately HK$3,518,705,000. Basic earnings per share were HK$2.863 (2011: HK$2.160). The Board of Directors has declared a final dividend of HK$0.95 (2011: HK$0.75) per share for the year ended 31 December 2012. Taking into account the interim dividend of HK$0.75 per share, the annual dividend amounted to HK$1.70 per share (2011: HK$1.35).

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% in 2012 (2011: 39.9%). Distribution costs and administrative expenses accounted for approximately 22.3% (2011: 23.2%) of the total revenue, which remained at a fairly stable level.

During the year, the Group continued to maintain a solid financial position. As at 31 December 2012, the Group's cash and cash equivalents, long-term time deposits and restricted bank deposits totalled to approximately HK$11,452,149,000 (31 December 2011: HK$8,622,882,000). As at 31 December 2012, the Group's gross gearing ratio[1] was about 79.8% (31 December 2011: 58.5%), and the net gearing ratio was negative as the Group was in a net cash position.

Commenting on the Group's annual results, Mr. Sze Man Bok, Chairman of Hengan International, said, "During the year, although the European debt crisis and the U.S. fiscal cliff eased, recovery of the global economy remained slow. Faced with the complex economic environment, the Chinese government implemented a number of active measures to keep the domestic economy steadily growing at a relatively rapid pace. On the back of China's growing gross domestic product, the people's income and living standards continued to improve, driving the market demand for high-quality personal hygiene and care products."

Tissue papers

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%). 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. 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 in 2012.

For the year, gross profit margin of the tissue business 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 sales had gradually returned to normal in the second half of the year, the sales of toilet roll products to 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

1 Calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including non-controlling interests).

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

In 2012, revenue of the Group's sanitary napkin business grew by about 19.5% 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 revenue of disposable diaper business in 2012 was only HK$2,685,473,000, representing a slight decline of approximately 1.4%, and accounting for approximately 14.5% of total revenue (2011: 16.0%). 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 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 about 20.0%.

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%).

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 business

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%). The Group’s annual revenue of jelly products fell by about 18.6% year on year, despite the revenue increase of other snack products. 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. The management expects the revenue of snack business to recover in 2013.

Outlook

Mr. Sze said, “”Looking ahead to 2013, the Group remains optimistic about the prospects for the development of the personal hygiene products market. 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. ”

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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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