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"

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017
FINANCIAL SUMMARY

	Unaudited		
	2017	2016	% of
	RMB'000	*RMB'000*	change
Continuing operations			
Revenue	**9,562,746**	9,577,341	(0.2%)
Gross profit margin	**48.6%**	48.1%	
Operating profit	**2,616,808**	2,301,451	13.7%
Profit attributable to shareholders	**1,853,935**	1,627,500	13.9%
Earnings per share — basic	**RMB1.539**	RMB1.340	
Discontinued operations			
Profit attributable to shareholders	**–**	7,540	(100%)
Earnings per share — basic	**–**	RMB0.006	
Overall profit attributable to shareholders	**1,853,935**	1,635,040	13.4%
Overall earnings per share — basic	**RMB1.539**	RMB1.346	

INTERIM FINANCIAL INFORMATION

The Board of Directors of Hengan International Group Company Limited ("Hengan International" or the "Company") (the "Board") is pleased to present the unaudited interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017, and the unaudited interim condensed consolidated balance sheet of the Group as at 30 June 2017, together with the comparative figures and selected explanatory notes. The interim financial information has been reviewed by the Company's audit committee and the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

* *for identification purpose only*

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

		Unaudited	
		Six months ended 30 June	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Continuing operations			
Revenue	*6*	**9,562,746**	9,577,341
Cost of goods sold		**(4,911,615)**	(4,968,449)
Gross profit		**4,651,131**	4,608,892
Other income and other gains — net		**429,333**	264,025
Distribution costs		**(1,857,503)**	(1,897,624)
Administrative expenses		**(606,153)**	(673,842)
Operating profit		**2,616,808**	2,301,451
Finance income		**73,135**	52,372
Finance costs		**(234,530)**	(235,721)
Finance costs — net		**(161,395)**	(183,349)
Profit before income tax	*8*	**2,455,413**	2,118,102
Income tax expense	*9*	**(600,538)**	(487,325)
Profit for the period from continuing operations		**1,854,875**	1,630,777
Discontinued operations			
Profit for the period from discontinued operations	*19*	**–**	14,785
Net profit for the period		**1,854,875**	1,645,562
Profit attributable to:			
Shareholders of the Company		**1,853,935**	1,635,040
Non-controlling interests		**940**	10,522
		1,854,875	1,645,562

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(Continued)*

For the six months ended 30 June 2017

		Unaudited	
		Six months ended 30 June	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Profit attributable to shareholders of the Company arising from:			
Continuing operations		**1,853,935**	1,627,500
Discontinued operations		**–**	7,540
		1,853,935	1,635,040
Earnings per share from continuing operations and discontinued operations attributable to shareholders of the Company			
Basic earnings per share			
— From continuing operations	*10*	**RMB1.539**	RMB1.340
— From discontinued operations	*10*	**–**	RMB0.006
Diluted earnings per share			
— From continuing operations	*10*	**RMB1.539**	RMB1.340
— From discontinued operations	*10*	**–**	RMB0.006

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Profit for the period	**1,854,875**	1,645,562
Other comprehensive income:		
Items that may be reclassified to profit or loss		
— Currency translation differences	**(7,411)**	(64,679)
Total comprehensive income for the period	**1,847,464**	1,580,883
Attributable to:		
Shareholders of the Company	**1,848,031**	1,569,062
Non-controlling interests	**(567)**	11,821
	1,847,464	1,580,883
Attributable to shareholders of the Company arising from:		
Continuing operations	**1,848,031**	1,560,316
Discontinued operations	**–**	8,746
	1,848,031	1,569,062

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2017

	Note	**Unaudited 30 June 2017 RMB'000**	Audited 31 December 2016 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*12*	**7,347,820**	7,344,807
Construction-in-progress	*12*	**1,132,098**	1,094,145
Investment properties	*12*	**205,171**	194,848
Land use rights	*12*	**743,999**	751,308
Intangible assets	*12*	**497,136**	498,510
Prepayments for non-current assets		**229,906**	163,281
Deferred income tax assets		**138,574**	210,813
Long-term bank deposits	*14*	**2,499,738**	1,760,000
		12,794,442	12,017,712
Current assets			
Inventories		**2,868,449**	3,194,641
Trade and bills receivables	*13*	**2,506,802**	2,743,500
Other receivables, prepayments and deposits		**1,018,356**	962,189
Tax recoverable		**362,115**	337,187
Derivative financial instruments		**18,351**	–
Restricted bank deposits	*14*	**3,002**	14,622
Cash and bank balances	*14*	**18,397,202**	14,874,877
		25,174,277	22,127,016
Total assets		**37,968,719**	34,144,728
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	*18*	**126,991**	126,991
Other reserves		**3,101,234**	2,944,971
Retained earnings		**12,042,511**	11,654,829
		15,270,736	14,726,791
Non-controlling interests		**202,813**	34,065
Total equity		**15,473,549**	14,760,856

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

As at 30 June 2017

	Note	**Unaudited 30 June 2017** *RMB'000*	Audited 31 December 2016 *RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings	*16*	**3,247,294**	3,524,687
Convertible bonds	*17*	**–**	472,719
Finance lease payables		**363**	–
Deferred income tax liabilities		**60,703**	106,452
		3,308,360	4,103,858
Current liabilities			
Trade payables	*15*	**1,370,615**	2,078,591
Other payables and accrued charges	*15*	**1,081,858**	1,201,870
Current income tax liabilities		**94,130**	79,860
Borrowings	*16*	**16,161,838**	11,918,574
Convertible bonds	*17*	**465,764**	–
Derivative financial instruments		**12,173**	1,119
Finance lease payables		**432**	–
		19,186,810	15,280,014
Total liabilities		**22,495,170**	19,383,872
Total equity and liabilities		**37,968,719**	34,144,728

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Unaudited					
	Attributable to the Company's shareholders					
	Share capital *RMB'000*	**Other reserves** *RMB'000*	**Retained earnings** *RMB'000*	**Total** *RMB'000*	**Non–controlling interests** *RMB'000*	**Total equity** *RMB'000*
Balance at 1 January 2017	**126,991**	**2,944,971**	**11,654,829**	**14,726,791**	**34,065**	**14,760,856**
Profit for the period	**–**	**–**	**1,853,935**	**1,853,935**	**940**	**1,854,875**
Currency translation differences	**–**	**(5,904)**	**–**	**(5,904)**	**(1,507)**	**(7,411)**
Total comprehensive income	**–**	**(5,904)**	**1,853,935**	**1,848,031**	**(567)**	**1,847,464**
Transactions with owners						
2016 final dividends paid	**–**	**–**	**(1,325,377)**	**(1,325,377)**	**–**	**(1,325,377)**
Acquisition of subsidiaries	**–**	**–**	**–**	**–**	**146,349**	**146,349**
Capital contribution by non-controlling interests	**–**	**–**	**–**	**–**	**22,966**	**22,966**
Disposal of a subsidiary with loss of control	**–**	**(169)**	**–**	**(169)**	**–**	**(169)**
Share-based compensation						
— Value of employee services	**–**	**21,460**	**–**	**21,460**	**–**	**21,460**
Total of transactions with owners	**–**	**21,291**	**(1,325,377)**	**(1,304,086)**	**169,315**	**(1,134,771)**
Appropriation to statutory reserves	**–**	**140,876**	**(140,876)**	**–**	**–**	**–**
Balance at 30 June 2017	**126,991**	**3,101,234**	**12,042,511**	**15,270,736**	**202,813**	**15,473,549**
Balance at 1 January 2016	128,132	3,044,503	11,538,232	14,710,867	380,928	15,091,795
Profit for the period	–	–	1,635,040	1,635,040	10,522	1,645,562
Currency translation differences	–	(65,978)	–	(65,978)	1,299	(64,679)
Total comprehensive income	–	(65,978)	1,635,040	1,569,062	11,821	1,580,883
Transactions with owners						
2015 final dividends paid	–	–	(1,166,057)	(1,166,057)	–	(1,166,057)
2016 distribution in specie	–	–	(536,010)	(536,010)	(514,990)	(1,051,000)
Buy-back of shares	(428)	(1,199)	(275,170)	(276,797)	–	(276,797)
Early redemption of convertible bonds	–	(127,668)	55,827	(71,841)	–	(71,841)
Change in ownership interests in subsidiaries without change of control	–	(572)	–	(572)	572	–
Share-based compensation						
— Value of employee services	–	28,167	–	28,167	–	28,167
— Proceeds from shares issued	1	861	–	862	–	862
Total of transactions with owners	(427)	(100,411)	(1,921,410)	(2,022,248)	(514,418)	(2,536,666)
Appropriation to statutory reserves	–	116,399	(116,399)	–	–	–
Balance at 30 June 2016	127,705	2,994,513	11,135,463	14,257,681	(121,669)	14,136,012

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2017

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Cash flows from operating activities		
Continuing operations	**2,339,692**	2,573,513
Income tax paid	**(591,303)**	(674,475)
Discontinued operations	**–**	125,802
Net cash generated from operating activities	**1,748,389**	2,024,840
Cash flows from investing activities		
Continuing operations		
— Acquisition of a subsidiary, net of cash acquired	**40,796**	–
— Net proceeds on disposal of subsidiary	**(642)**	–
— Purchase of property, plant and equipment, including additions of construction-in-progress	**(332,494)**	(490,572)
— Proceeds on disposal of property, plant and equipment and land use rights	**31,811**	1,269
— Increase in prepayments for non-current assets	**(70,531)**	(5,167)
— (Increase)/decrease in long-term and short-term bank deposits	**(3,662,844)**	1,739,796
— Interest received	**143,967**	189,199
Discontinued operations	**–**	(6,399)
Net cash (used in)/generated from investing activities	**(3,849,937)**	1,428,126
Cash flows from financing activities		
Continuing operations		
— Proceeds from borrowings	**15,631,412**	9,020,876
— Repayment of borrowings	**(11,446,204)**	(7,645,764)
— Decrease in restricted bank deposits	**11,620**	5,338
— Interest paid	**(115,716)**	(139,157)
— Dividends paid	**(1,325,377)**	(1,166,057)
— Dividends paid to non-controlling interests	**(737)**	(1,525)
— Early redemption of convertible bonds	**–**	(4,403,385)
— Proceeds from shares issued under the employee share option scheme	**–**	862
— Buy-back of shares	**–**	(276,797)
Discontinued operations	**–**	(2,981)
Net cash generated from/(used in) financing activities	**2,754,998**	(4,608,590)
Increase/(decrease) in cash and cash equivalents	**653,450**	(1,155,624)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW *(Continued)*

For the six months ended 30 June 2017

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Cash and cash equivalents at 1 January	**5,562,802**	5,893,700
Effect of foreign exchange rate changes	**(54,231)**	23,846
Cash and cash equivalents transferred to assets held for distribution	**–**	(336,289)
Ending cash and cash equivalents at 30 June	**6,162,021**	4,425,633

1. General information

Hengan International Group Company Limited (the "Company") and its subsidiaries (together the "Group") are engaged in the manufacturing, distribution and sale of personal hygiene products in the People's Republic of China (the "PRC"), Hong Kong and certain overseas markets.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, British West Indies, Cayman Islands.

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since December 1998.

This interim condensed consolidated financial information was approved for issue by the Board of Directors on 24 August 2017.

This interim condensed consolidated financial information has been reviewed, not audited.

2. Basis of preparation

This interim condensed consolidated financial information for the six months ended 30 June 2017 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with HKFRSs.

3. Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2017.

(a) New and amended standards adopted by the Group

- Amendments to HKAS 7, 'Statement of cash flows' introduced an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

  The Group assessed the adoption of these amendments and concluded that they did not have a significant impact on the Group's results and financial position.

3. **Accounting policies** *(Continued)*

(b) ***Standards, amendments and interpretations to existing standards effective in 2017 but not relevant to the Group***

- Amendments to HKAS 12, 'Income taxes', effective for annual periods beginning on or after 1 January 2017.

- Amendment to HKFRS 12, 'Disclosure of interest in other entities', effective for annual periods beginning on or after 1 January 2017.

(c) ***New and amendments standards that might be relevant to the Group have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted by the Group***

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

- Amendments to HKFRS 4 'Insurance Contracts', effective for annual periods beginning on or after 1 January 2018.

- Amendment to HKFRS 1 'First time adoption of HKFRS', effective for annual periods beginning on or after 1 January 2018.

- Amendment to HKAS 28 'Investments in associates and joint ventures', effective for annual periods beginning on or after 1 January 2018.

- HK (IFRIC) 22 'Foreign Currency Transactions and Advance Consideration', effective for annual periods beginning on or after 1 January 2018.

- HKFRS15 'Revenue from Contracts with Customers', effective for annual periods beginning on or after 1 January 2018.

- HKFRS 16 'Leases', effective for annual periods beginning on or after 1 January 2019.

- 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.

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations. According to the preliminary assessment, other than the assessment results of HKFRS 9, 15 and 16, none of these is expected to have a significant effect on the consolidation financial statements of the Group.

4. Estimates

The preparation of interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016, with the exception of changes in estimates that are required in determining the provision for income taxes and disclosure of unusual items.

5. Financial risk management and financial instruments

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

There have been no changes in the risk management policies since year end.

5. Financial risk management and financial instruments *(Continued)*

5.2 Liquidity risk

Compared to the year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 3 years *RMB'000*	Between 3 and 5 years *RMB'000*	Above 5 years *RMB'000*	Total *RMB'000*
At 30 June 2017 (Unaudited)						
Borrowings	**16,161,838**	**3,948**	**2,053,948**	**1,197,896**	**1,948**	**19,419,578**
Interest payables of borrowings	**276,824**	**105,807**	**52,661**	**45,690**	**45**	**481,027**
Convertible bonds	**480,300**	**–**	**–**	**–**	**–**	**480,300**
Net settled derivative financial instruments	**12,173**	**–**	**–**	**–**	**–**	**12,173**
Financial lease payables	**432**	**196**	**145**	**22**	**–**	**795**
Trade and other payables	**2,192,009**	**–**	**–**	**–**	**–**	**2,192,009**
Total	**19,123,576**	**109,951**	**2,106,754**	**1,243,608**	**1,993**	**22,585,882**
At 31 December 2016 (Audited)						
Borrowings	11,918,574	536,700	2,000,000	1,000,000	–	15,455,274
Interest payables of borrowings	197,401	105,129	77,028	55,693	–	435,251
Convertible bonds	–	495,020	–	–	–	495,020
Net settled derivative financial instruments	1,119	–	–	–	–	1,119
Trade and other payables	2,959,589	–	–	–	–	2,959,589
Total	15,076,683	1,136,849	2,077,028	1,055,693	–	19,346,253

5. **Financial risk management and financial instruments** *(Continued)*

5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial instruments that are measured at fair value at 30 June 2017.

	Unaudited 30 June 2017 Level 2 *RMB'000*	Audited 31 December 2016 Level 2 *RMB'000*
Financial assets fair value through profit or loss		
— Derivative financial instruments	**18,351**	–
Financial liabilities fair value through profit or loss		
— Derivative financial instruments	**(12,173)**	(1,119)

During the six months ended 30 June 2017, there were no significant transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments, and also no significant changes in the reclassification of financial assets or liabilities.

Level 2 trading derivatives comprise forward foreign exchange contracts and interest rate swaps. These forward foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. Interest rate swaps are fair valued with reference to quotations provided by various banks. The effects of discounting are generally insignificant for level 2 derivatives.

5. Financial risk management and financial instruments *(Continued)*

5.4 Fair value of financial assets and liabilities measured at amortised cost

The fair value of the following financial assets and liabilities approximate their carrying amount as at the balance sheet date:

- Trade and bills receivables
- Other receivables, prepayments and deposits
- Long-term bank deposits
- Restricted bank deposits
- Cash and bank balances
- Trade payables
- Other payables and accrued charges
- Financial lease payables
- Borrowings
- Convertible bonds

6. Segment information

The chief operating decision-makers have been identified as the Executive Directors. The Executive Directors review the Group's internal reports in order to assess performance and allocate resources. Management has determined the operating segments based on the reports reviewed by the Executive Directors.

The Executive Directors consider the performance of the Group from a product perspective. The Executive Directors assess the performance of the operating segments based on a measure of segment profit/(loss) without allocation of other income and other gains – net, finance income/(costs) and income tax expense which is consistent with that in the annual consolidated financial statements.

The Group operations are mainly organised under the segments of manufacturing, distribution and sale of personal hygiene products including sanitary napkin products, disposable diaper products and tissue paper products.

Sales between segments are carried out on terms mutually agreed amongst these business segments. Revenue from external parties reported to the Executive Directors is measured in a manner consistent with that in the consolidated statement of profit or loss.

Most of the Group's companies are domiciled in the PRC. The revenue from external customers in the PRC accounted for more than 90% of the Group's total revenue.

The amounts provided to the Executive Directors with respect to total assets and liabilities are measured in a manner consistent with those of the financial statements. These assets and liabilities are allocated based on the operations of the segment.

Addition to non-current assets comprise addition to property, plant and equipment, investment properties, construction-in-progress, land use rights and intangible assets.

Unallocated costs represent corporate expenses. Unallocated assets comprise corporate assets, including certain cash and bank balances and derivative financial instruments. Unallocated liabilities comprise corporate borrowings.

6. Segment information *(Continued)*

The segment information for the six months ended 30 June 2017 is as follows:

	Unaudited				
	Sanitary napkin products *RMB'000*	**Disposable diaper products** *RMB'000*	**Tissue paper products** *RMB'000*	**Others** *RMB'000*	**Group** *RMB'000*
Segment revenue	**3,455,972**	**1,005,508**	**4,695,677**	**816,764**	**9,973,921**
Inter-segment sales	**(16,356)**	**(4,310)**	**(125,992)**	**(264,517)**	**(411,175)**
Revenue of the Group	**3,439,616**	**1,001,198**	**4,569,685**	**552,247**	**9,562,746**
Segment profit	**1,597,774**	**174,239**	**393,907**	**51,889**	**2,217,809**
Unallocated costs					**(30,334)**
Other income and other gains — net					**429,333**
Operating profit					**2,616,808**
Finance income					**73,135**
Finance costs					**(234,530)**
Profit before income tax					**2,455,413**
Income tax expense					**(600,538)**
Profit for the period					**1,854,875**
Non-controlling interests					**(940)**
Profit attributable to shareholders of the Company					**1,853,935**
Addition to non-current assets	**54,974**	**35,758**	**216,423**	**23,448**	**330,603**
Depreciation charge	**83,626**	**17,757**	**223,535**	**9,948**	**334,866**
Amortization charge	**4,740**	**1,076**	**6,632**	**217**	**12,665**
As at 30 June 2017					
Segment assets	**5,180,894**	**3,234,234**	**11,381,094**	**6,136,045**	**25,932,267**
Deferred income tax assets					**138,574**
Tax recoverable					**362,115**
Unallocated assets					**11,535,763**
Total assets					**37,968,719**
Segment liabilities	**1,474,826**	**1,228,728**	**2,528,563**	**2,075,186**	**7,307,303**
Deferred income tax liabilities					**60,703**
Current income tax liabilities					**94,130**
Unallocated liabilities					**15,033,034**
Total liabilities					**22,495,170**

6. Segment information *(Continued)*

The segment information for the six months ended 30 June 2016 is as follows:

	Unaudited				
	Sanitary napkin products *RMB'000*	Disposable diaper products *RMB'000*	Tissue paper products *RMB'000*	Others *RMB'000*	Group *RMB'000*
Segment revenue	3,429,223	1,074,217	4,714,267	1,000,415	10,218,122
Inter-segment sales	(221,010)	(6,833)	(146,632)	(266,306)	(640,781)
Revenue of the Group	3,208,213	1,067,384	4,567,635	734,109	9,577,341
Segment profit	1,358,982	211,769	487,582	17,308	2,075,641
Unallocated costs					(38,215)
Other income and other gains — net					264,025
Operating profit					2,301,451
Finance income					52,372
Finance costs					(235,721)
Profit before income tax					2,118,102
Income tax expense					(487,325)
Profit for the period					1,630,777
Non-controlling interests					(3,277)
Profit attributable to shareholders of the Company					1,627,500
Addition to non-current assets	60,619	61,507	387,218	41,052	550,396
Depreciation charge	65,768	24,900	204,592	9,530	304,790
Amortisation charge	4,654	1,848	6,664	223	13,389
As at 31 December 2016 (Audited)					
Segment assets	3,968,651	3,927,610	12,320,067	4,247,544	24,463,872
Deferred income tax assets					210,813
Tax recoverable					337,187
Unallocated assets					9,132,856
Total assets					34,144,728
Segment liabilities	887,522	1,057,813	2,500,821	2,263,688	6,709,844
Deferred income tax liabilities					106,452
Current income tax liabilities					79,860
Unallocated liabilities					12,487,716
Total liabilities					19,383,872

7. Business combination

On 5 June 2017, the Group had entered into a sale and purchase agreement to acquire in aggregate 80,000,000 issued shares, representing 50.45% of the shareholding of Wang-Zheng Berhad (together with its subsidiaries, "Wang-Zheng Group"), a company listed on the Main Market of Bursa Malaysia Securities Berhad, at a consideration of RM91,200,000, equivalent to approximately RMB145,738,000. On 8 June 2017, the shares had been transferred to the Group.

Wang-Zheng Group is principally engaged in investment holding and the manufacturing and processing of fibre-based products, which include disposable adult and baby diapers, sanitary protection and tissue products, cotton products and processed papers. The acquisition is expected to enhance the overall growth of the Group and as part of the Group's plan to expand business operations and diversify revenue stream outside the PRC.

The following table summarises the consideration paid for Wang-Zheng Group, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	8 June 2017 ***RMB'000***
Purchase consideration	
— Cash paid	**145,738**
Recognised amounts of identifiable assets acquired and liabilities assumed	
Provisional fair value	
Cash and banks	**186,534**
Property, plant and equipment *(Note 12)*	**60,520**
Investment properties *(Note 12)*	**10,647**
Prepayments for non-current assets	**76**
Inventories	**80,665**
Trade and other receivables	**95,193**
Trade and other payables	**(27,801)**
Borrowings *(Note 16)*	**(102,992)**
Deferred tax liabilities	**(3,008)**
Tax payables	**(3,610)**
Finance lease payables	**(868)**
Total identifiable net assets *(Note)*	**295,356**
Non-controlling interest	**(146,349)**
Gain from a bargain purchase	**(3,269)**
	145,738
Acquisition-related costs (included in administrative expenses in the interim condensed consolidated statement of profit or loss for the period ended 30 June 2017)	**1,331**

7. Business combination *(Continued)*

Note:

The Group has engaged external valuers to perform fair value assessments in accordance with HKFRS 3 'Business Combination'. As at 30 June 2017, verification of individual assets/liabilities of the acquired businesses is in progress and the Group has not finalised the fair value assessments. The relevant fair values of individual assets/liabilities stated above are provisional.

	8 June 2017
	RMB'000
Inflow of cash to acquire business, net of cash acquired	
— cash consideration	**(145,738)**
— cash and banks balance in the subsidiary acquired	**186,534**
Cash inflow on acquisition	**40,796**

(a) Non-controlling interest

The Group has chosen to recognise the non-controlling interest which are measured at the proportion of net assets acquired shared by the non-controlling interests.

(b) Revenue and profit contribution

The acquired business contributed revenue of RMB30,916,000 and net profit of RMB1,838,000 to the Group for the period from 8 June 2017 to 30 June 2017. If the acquisition had occurred on 1 January 2017, consolidated revenue and consolidated net profit for the six months ended 30 June 2017 of the Group would have been increased by RMB203,886,000 and RMB10,267,000 respectively.

8. Profit before income tax from continuing operations

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

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Crediting		
Government grant income	**171,858**	195,803
Interests income from long-term and short-term bank deposits	**150,488**	137,640
Interests income from cash and cash equivalents	**73,135**	52,372
Net gain on derivative financial instruments	**7,351**	20,803
Exchange gain from operating activities — net	**97,343**	–
Exchange gain from financing activities — net	**–**	1,480
Reversal of impairment provision of trade receivables	**3,034**	–
Charging		
Depreciation of property, plant and equipment *(Note 12)*	**332,561**	302,655
Depreciation of investment properties *(Note 12)*	**2,305**	2,135
Amortization of land use rights *(Note 12)*	**11,291**	12,068
Amortization of intangible assets *(Note 12)*	**1,374**	1,321
Employee benefit expense, including directors' emoluments	**713,680**	737,222
Loss on disposal of property, plant and equipment	**7,707**	4,228
Loss on early redemption of convertible bonds	**–**	18,544
Operating lease rentals	**42,386**	37,635
Provision for impairment of trade receivables	**–**	8,891
Provision for decline in value of inventories	**6,722**	2,258
Exchange loss from operating activities — net	**–**	42,595
Exchange loss from financing activities — net	**57,017**	–
Interest expenses on borrowings	**162,668**	152,068
Interest expenses on convertible bonds	**7,219**	72,448
Miscellaneous taxes and levies	**67,806**	75,684

9. Income tax expense

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Continuing operations:		
Current tax on profits for the period	**456,642**	457,720
PRC withholding income tax on profits of the current period	**71,657**	90,985
Deferred income tax on other timing differences, net	**72,239**	(61,380)
Income tax expense	**600,538**	487,325

Hong Kong profits tax has been provided for at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits of the Group's companies in Hong Kong for the period.

Taxation on PRC income has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the PRC in which the Group operates. The Company's subsidiaries incorporated in the PRC are subject to Corporate Income Tax ("CIT") at the rate of 25% (2016:25%). Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

Deferred income tax is calculated in full on temporary differences under the liability method using the prevailing tax rates applicable to the PRC subsidiaries of the Group.

The profits of the PRC subsidiaries of the Group derived since 1 January 2008 are subject to withholding tax at a rate of 5% upon the distribution of such profits to foreign investors. Deferred income tax liabilities of approximately RMB71,657,000 (2016: RMB90,985,000) for the six months ended 30 June 2017 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.

10. Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the Group's profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited Six months ended 30 June	
	2017	2016
From continuing operations:		
Profit attributable to shareholders of the Company (RMB'000)	**1,853,935**	1,627,500
Weighted average number of ordinary shares in issue (thousands)	**1,204,888**	1,214,808
Basic earnings per share (RMB)	**RMB1.539**	RMB1.340
From discontinued operations:		
Profit attributable to shareholders of the Company (RMB'000)	**–**	7,540
Weighted average number of ordinary shares in issue (thousands)	**–**	1,214,808
Basic earnings per share (RMB)	**–**	RMB0.006

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversation of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The diluted earnings per share is the same as the basic earnings per share for the six months ended 30 June 2017 and 2016 as the potential ordinary shares in respect of outstanding share options and convertible bonds are anti-dilutive.

11. Dividends

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Proposed, distribution in specie *(Note (a))*	**–**	1,051,000
Interim, proposed/paid, RMB0.95 (2016: RMB0.85) per share *(Note (b))*	**1,144,644**	1,031,079
	1,144,644	2,082,079

Notes:

(a) On 17 June 2016, the Board of Directors declared a conditional distribution in specie of all of the issued share capital of Qinqin Foodstuffs Group (Caymen) Company Limited ("Qinqin Group", the then subsidiary of the Group). The net assets value attributable to Qinqin Group subject to the distribution in specie amounted to approximately RMB1,051,000,000 as at 30 June 2016. The distribution of share was completed on 7 July 2016 and Qinqin Group was successfully listed on the main board of the Stock Exchange on 8 July 2016.

(b) An interim dividend of RMB0.95 (2016: RMB0.85) per share was proposed by the Board of Directors on 24 August 2017. This interim dividend, amounting to RMB1,144,644,000, has not been recognised as a liability in this interim condensed consoliated financial information.

Dividends payable to shareholders will be paid in HK$. The exchange rate adopted by the Company for its dividend payable is the middle rate of HK$ to RMB announced by the People's Bank of China for the business day preceding the date of dividend declaration. The exchange rate of HK$ to RMB on 23 August 2017 is 0.8514.

(c) A final dividend of RMB1,325,377,000 (2016: HK$1,394,972,000, equivalent to RMB1,166,057,000) related to the period up to 31 December 2016 was paid in May 2017.

12. Capital expenditure – net book value

	Unaudited				
	Property, plant and equipment *RMB'000*	Investment properties *RMB'000*	Construction-in progress *RMB'000*	Land use rights *RMB'000*	Intangible assets *RMB'000*
Continuing operations					
At 1 January 2017	**7,344,807**	**194,848**	**1,094,145**	**751,308**	**498,510**
Acquisition of subsidiaries *(Note 7)*	**60,520**	**10,647**	**–**	**–**	**–**
Additions	**41,085**	**1,019**	**284,517**	**3,982**	**–**
Transfer from construction-in-progress	**246,564**	**–**	**(246,564)**	**–**	**–**
Transfer from property, plant and equipment	**(1,046)**	**1,046**	**–**	**–**	**–**
Disposals	**(9,518)**	**–**	**–**	**–**	**–**
Depreciation/amortization	**(332,561)**	**(2,305)**	**–**	**(11,291)**	**(1,374)**
Currency translation differences	**(2,031)**	**(84)**	**–**	**–**	**–**
At 30 June 2017	**7,347,820**	**205,171**	**1,132,098**	**743,999**	**497,136**
Continuing operations					
At 1 January 2016	7,092,704	185,886	1,087,821	777,511	500,219
Additions	33,708	–	516,688	–	–
Transfer from construction-in-progress	420,691	–	(420,691)	–	–
Disposals	(5,497)	–	–	–	–
Depreciation/amortization	(302,655)	(2,135)	–	(12,068)	(1,321)
Currency translation differences	1,061	–	–	–	–
At 30 June 2016	7,240,012	183,751	1,183,818	765,443	498,898
Discontinued operations					
At 1 January 2016	375,610	–	1,781	81,197	99,137
Additions	1,720	–	1,710	–	–
Transfer from construction-in-progress	578	–	(578)	–	–
Disposals	(283)	–	–	–	–
Depreciation/amortization	(19,479)	–	–	(1,083)	(4,416)
At 30 June 2016	358,146	–	2,913	80,114	94,721
Transfer to assets held for distribution	(358,146)	–	(2,913)	(80,114)	(94,721)
At 30 June 2016	7,240,012	183,751	1,183,818	765,443	498,898

The Group's investment properties are stated at historical cost at the end of each reporting period.

13. Trade and bills receivables

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Trade receivables	**2,520,931**	2,731,403
Bills receivables	**32,720**	61,909
	2,553,651	2,793,312
Less: provision for impairment	**(46,849)**	(49,812)
Trade and bills receivables, net	**2,506,802**	2,743,500

The ageing analysis of trade and bills receivables based on invoice date is as follows:

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Within 30 days	**895,958**	1,093,677
31 to 180 days	**1,366,181**	1,438,602
181 to 365 days	**230,135**	218,395
Over 365 days	**61,377**	42,638
	2,553,651	2,793,312

There is no concentration of credit risk with respect to trade and bills receivables as the Group has a large number of customers. As credit terms are short and most of the trade and bills receivables are due for settlement within one year, the carrying amounts of these balances approximated their fair values as at the balance sheet date.

14. Long-term bank deposits, restricted bank deposits and cash and bank balances

	Unaudited 30 June 2017 ***RMB'000***	Audited 31 December 2016 *RMB'000*
Long-term bank deposits		
Term deposits with initial term over one year	**2,499,738**	1,760,000
Restricted bank deposits	**3,002**	14,622
Cash and bank balances		
— Term deposits with initial term over three months and within one year	**12,235,181**	9,312,075
— Cash and cash equivalents	**6,162,021**	5,562,802
	18,397,202	14,874,877
Total	**20,899,942**	16,649,499

The cash and cash equivalents represented cash deposits held at call with banks and in hand and term deposits with initial term within three months.

15. Trade and other payables

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Trade payables	**1,370,615**	2,078,591
Other payables and accrued charges		
— Payables for purchase of property, plant and equipment	**488,700**	494,573
— Accrued expenses and other payables	**441,975**	540,170
— Advance receipts from customers	**129,789**	145,767
— Other taxes payables	**21,394**	21,360
	1,081,858	1,201,870
Total payables and accrued charges	**2,452,473**	3,280,461

The ageing analysis of trade payables based on invoice date is as follows:

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Within 30 days	**920,317**	1,575,813
31 to 180 days	**418,476**	470,621
181 to 365 days	**17,150**	14,090
Over 365 days	**14,672**	18,067
	1,370,615	2,078,591

The carrying amounts of trade payables approximated their fair values as at the balance sheet date due to short-term maturity.

16. Borrowings

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Non-current		
Long-term bank loans — unsecured	**257,740**	536,700
Medium-term notes	**1,996,332**	1,995,519
Corporate bonds	**993,222**	992,468
	3,247,294	3,524,687
Current		
Trust receipt bank loans	**189,304**	627,870
Short-term bank loans — unsecured	**15,972,534**	11,290,704
	16,161,838	11,918,574
Total Borrowings	**19,409,132**	15,443,261

As at 30 June 2017, the effective interest rate of the Group's bank borrowings was approximately 1.39% (31 December 2016: 2.16%) per annum.

Movements in borrowings are analysed as follows:

	Unaudited *RMB'000*
At 1 January 2017	**15,443,261**
Acquisition of subsidiaries *(Note 7)*	**102,992**
New borrowings	**15,631,412**
Repayments of borrowings	**(11,446,204)**
Bonds payable — interest adjustment	**1,567**
Currency translation differences	**(323,896)**
At 30 June 2017	**19,409,132**
At 1 January 2016	9,696,293
New borrowings	9,020,876
Repayments of borrowings	(7,645,764)
Currency translation differences	156,665
At 30 June 2016	11,228,070

17. Convertible bonds

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Fair value of convertible bonds issued on 27 June 2013	**4,328,181**	4,328,181
Issuing expenses	**(87,625)**	(87,625)
Equity component	**(140,634)**	(140,634)
Liability component on initial recognition on 27 June 2013	**4,099,922**	4,099,922
Accumulated finance costs	**416,201**	408,983
Early redemption of convertible bonds	**(4,392,425)**	(4,392,425)
Cumulative currency translation difference	**342,066**	356,239
	465,764	472,719
Liability component		
— Non-current	**–**	472,719
— Current	**465,764**	–
	465,764	472,719

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, equivalent to RMB4,328 million with an initial conversion price of HK$120.0825, equivalent to RMB95.6457 per ordinary share of the Company (subject to adjustment). Unless previously redeemed, converted, purchased or cancelled (subject to redemption conditions), these bonds will be redeemed at 110.46 per cent of their principal amount on the maturity date.

The fair values of the liability component and the equity conversion component were determined upon the issuance of the convertible bonds.

The fair value of the liability component was calculated using a market interest rate of 2.7% for an equivalent non-convertible bond. The residual amount, representing the value of equity conversion component, is included in shareholders' equity in other reserves.

The fair value of the convertible bonds approximated its carrying amount as at 30 June 2017.

During the period ended 30 June 2017, no bond holders have converted their bonds into ordinary shares of the Company.

18. Share capital

Ordinary shares, issued and fully paid

	Number of shares	*RMB'000*
At 30 June 2017 and 1 January 2017	**1,204,888,221**	**126,991**
At 1 January 2016	1,218,094,221	128,132
Buy-back of shares	(5,083,000)	(428)
Share-based compensation		
– Proceeds from shares issued	15,000	1
At 30 June 2016	1,213,026,221	127,705

19. Discontinued operations

The Group spun off its food and snack business, named as Qinqin Group, via a distribution in specie on 7 July 2016. The consolidated results of Qinqin Group for the six months ended 30 June 2016 were presented in the interim condensed consolidated statement of profit or loss as discontinued operations in accordance with HKFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. The interim condensed consolidated statement of profit or loss and interim condensed consolidated statement of cash flow distinguish the discontinued operations from the continuing operations.

Results of the discontinued operations have been included in the interim condensed consolidated statement of profit or loss as follows:

	Unaudited Six months ended 30 June 2016 *RMB'000*
Revenue	617,746
Cost of goods sold	(336,921)
Gross profit	280,825
Other income and other gains — net	3,514
Distribution costs	(194,596)
Administrative expenses	(62,632)
Operating profit	27,111
Finance income	3,812
Finance costs	(113)
Finance costs — net	3,699
Profit before income tax	30,810
Income tax expense	(16,025)
Net profit for the period	14,785
Profit attributable to:	
Shareholders of the Company	7,540
Non-controlling interests	7,245
	14,785

Details of other financial information of the discontinued operations for the six months ended 30 June 2016 were set out in 2016 interim report.

20. Capital commitments

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Contracted but not provided for in respect of:		
Machinery and equipment	**391,553**	295,418
Leasehold land and buildings	**189,631**	166,525
Total capital commitment	**581,184**	461,943

21. Contingent liabilities

At 30 June 2017, the Group had no material contingent liabilities (31 December 2016: Nil).

22. Significant related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

(a) During the period, the Group had the following significant related party transactions:

	Unaudited Six months ended 30 June	
	2017 *RMB'000*	2016 *RMB'000*
Purchases from Weifang Hengan Thermal Power Co., Ltd. ("Weifang Power")		
— electricity energy	**44,971**	48,843
— heat energy	**30,863**	30,882
	75,834	79,725

Pursuant to agreements entered between a wholly-owned subsidiary of the Company and Weifang Power, an electricity generation company, the Group purchased electricity and heat energy from Weifang Power at prices determined according to the terms of the contracts. Weifang Power is beneficially owned by Mr. Sze Wong Kim, an executive director, and a son (the latter is an elder brother of Hui Ching Chi, an executive director of the Company) of Mr. Hui Lin Chit, an executive director and a substantial shareholder of the Company, and a son of Mr. Hung Ching Shan, an executive director of the company.

(b) For the six months ended 30 June 2017, the key management compensation amounted to approximately RMB4,263,000 (2016: RMB5,473,000).

BUSINESS REVIEW

In the first half of 2017, China's economic growth remained steady. According to the National Bureau of Statistics of China, the country's gross domestic product for the first half of 2017 increased by 6.9% year-on-year, better than market expectations and well above the government's annual growth target of 6.5%. Momentum in China's retail market began to pick up with retail sales of consumer goods for the first half of 2017 increased by 10.4% year-on-year, the growth rate was 0.4 percentage point higher than the first quarter.

During the period, it was the crucial stage for the Group's implementation of the "small sales team" operating model (also known as "Hengan's Amoeba model"). The layout and full rollout of this operating model was completed at the end of April 2017, with the Group began to see some benefits in the second quarter. During the reform of sales structure, the Group's overall sales were a bit affected, coupled with the intense competition in the personal hygiene product market. For the six months ended 30 June 2017, the Group recorded revenue for continuing operations of approximately RMB9,562,746,000 (2016 first half: RMB9,577,341,000), slightly dropped by about 0.2% compared with that of the previous period. The Group anticipated there will be positive impact brought by the "small sales team" operating model along with the launch of new and upgraded products across China in the second half of this year together with the continuous rapid growth in e-commerce sales, the sales performance is expected to improve in the second half of this year.

During the period, the Group optimized its product portfolio and expanded the economies of scale. The aforementioned efforts helped offset the negative effects of intensifying market competition and rising wood pulp prices, gross profit margin rose to about 48.6% (2016 first half: 48.1%). Distribution costs and administrative expenses decreased to approximately 25.8% (2016 first half: 26.8%) of the Group's revenue, which was attributable to the implementation of operating model as it effectively controlled the marketing and advertising expenses for sales channels and lowered labor costs.

For the six months ended 30 June 2017, operating profit for continuing operations, rose by about 13.7% to approximately RMB2,616,808,000 (2016 first half: RMB2,301,451,000). Profit attributable to shareholders of the Company increased by about 13.4% to approximately RMB1,853,935,000 (2016 first half: RMB1,635,040,000). The Board of Directors declared an interim dividend of RMB0.95 per share for the six months ended 30 June 2017 (2016 first half: RMB0.85).

The effective tax rate was approximately 24.5% (2016 first half: 23.0%).

Sanitary Napkin

Against the backdrop of accelerating urbanization and rising social and economic status of women in China, Chinese women's awareness of and demand for personal health continued to increase, thus facilitating the stable development of the sanitary napkins market. Although the penetration of the sanitary napkins market in China has been very high and the competition has been intense, the Group continued to optimize its product portfolio, such as Sweet Sleeping Panty series, which caters to female needs at night, and have been well received by market. Coupled with the robust e-commerce sales, the Group's sanitary napkins business managed to maintain stable growth and strengthened the Group's leading market position.

During the period, revenue of the sanitary napkins business grew by approximately 7.2% to approximately RMB3,439,616,000, which accounted for around 36.0% of the revenue (2016 first half: 33.5%). The gross profit margin increased to approximately 72.1% (2016 first half: 71.8%), as a result of the persistent decline in the prices of petrochemical raw materials products (such as non-woven fabric), a major raw material for sanitary napkins in the first half of 2017, coupled with the benefits of product portfolio optimization.

In the future, the Group will launch new and upgraded products with an aim of further developing the mid-to-high-end and high-end markets, consolidating its existing customer base and attracting new customers. Meanwhile, the Group will continue to develop its online sales channels, such as online stores and Wechat stores for more effective sales and introduce online exclusive brands to further expand the Group's online presence in the personal hygiene segment. Sales performance is expected to continue to grow steadily in 2017.

Tissue Paper

In light of stable economic growth in China, coupled with improving hygiene education and rising income level, the market's consumption upgrade has continued. Also, China's tissue consumption per capita still lags behind that of developed countries, implying enormous market potential. Despite vigorous competition, the Group, with its strong brand and production scale, will benefit from the sustainable market development in the long term.

In the first half of 2017, accelerating sales growth in e-commerce sales channel effectively offset the negative impacts from the intense market competition. During the period, revenue from tissue paper segment was similar to that in the same period of last year.

During the period, revenue from the Group's tissue paper segment increased by about 0.1% to approximately RMB4,569,685,000 accounting for approximately 47.8% (2016 first half: 47.7%) of the Group's total revenue. Gross profit margin of tissue paper business was affected by the persistent increase in the price of wood pulp, a raw material for tissue paper production and intense market competition. Gross profit margin decreased to approximately 35.3% (2016 first half: 37.7%). In the second half of 2017, the Group will launch numerous new high-end products and leverage on the sales improvement brought by "small sales team" business strategy, to mitigate the pressure from rising raw material costs.

The Group's annualized production capacity was approximately 1,260,000 tons during the year, it is expected to increase to approximately 1,430,000 tons by the fourth quarter of 2017 or the first half of 2018. The Group will expand its production capacity according to the market conditions and sales performance in the future. The Group is expected to launch series of new products in the second half of 2017, including famous animated character, Minions-themed tissue paper series, Hearttex-customized edition of product series under the theme of Hearttex's spokesperson, Hebe Tien. The Group will also further promote the simple and handy "super mini" wet wipes series to step up its efforts in the development of younger generation's market. On the other hand, the Group will continue to cater for consumption habit of e-commerce market, introduce online exclusive products and leverage on the "small sales team" business strategy, the Group believes that the sales performance of tissue paper segment will maintain steady growth.

Disposable Diapers

Urbanization has been the major driving force behind the development of disposable diapers market. With rising disposable personal income and consumers' pursuit of higher living standards, the demand for disposable diapers has continued to increase. Notwithstanding the rapid development of China's disposable diapers market in recent years, the market penetration rate of disposable diapers in China is still relatively low compared with that in the developed countries, implying huge untapped market potential.

During the period, competition in the diapers market intensified. The Group strategically stepped up its efforts to develop disposable diapers business through online sales channels and maternity stores. The Group focused on selling exclusive products for online sales channels and maternity stores, in accordance with the targeted customer groups. Hence, sales performance gradually improved during the period, with sales from online sales channels achieved triple-digit growth year-on-year, which effectively eased the decline in overall sales of disposable diapers.

For the year ended 30 June 2017, revenue from the sales of diapers decreased by approximately 6.2% to approximately RMB1,001,198,000, accounting for approximately 10.5% (2016 first half: 11.1%) of the Group's revenue.

During the period, as the prices of petrochemical products (such as super absorbent polymer), a major raw material for disposable diapers increased and market competition intensified, gross profit margin dropped to around 46.5% (2016 first half: 49.8%). In the second half of this year, the Group will further promote the high-ended brand Q•MO and continue to enhance the existing mid-to-high-end products to improve its gross profit margin. In addition, the Group will stay focused on producing and developing disposable diapers touting safety and quality as well as leveraging on its national and international certification to strengthen consumers' confidence in the Group's disposable diapers and increase its competitiveness, in order to stand out among the competitors.

After the implementation of China's "two-child" policy in 2016, the national population and birth rate will increase gradually, which will drive the long-term growth of the diapers market in China. The Group will continue to set sights on developing mid-high-end and high-end markets in the long run, strive to upgrade existing products and launch new products, step up investments in maternity stores and online sales channels to tap into the huge potential market.

First Aid Products

Sales of first-aid products under the brands of "Banitore" and "Bandi" amounted to approximately RMB12,704,000 (2016 first half: RMB14,738,000). The business only accounted for approximately 0.1% (2016 first half: 0.2%) of the Group's revenue from continuing operations, and did not have any significant impact on the Group's overall results.

E-Commerce

In response to the changes in personal and hygiene products consumption habits, the Group has gradually accelerated the development of its e-commerce sales channels including online stores and Wechat stores, in the aspects of product type, sales model and product promotion. During the period, the Group's e-commerce business achieved extraordinary growth. The Group's core business segments, including sanitary napkins, tissue paper and disposable diapers, were benefited from the rapid expansion of e-commerce sales channels. For the six months ended 30 June 2017, revenue from e-commerce reached about RMB840 million, up by more than 160% over the same period last year. E-commerce's contribution to total sales revenue also rose to about 8.8% (first half of 2016: 3.3%).

Online sales channel has become mainstream in the personal hygiene product industry. The Group's sales channel reform and warehouse adjustment will help enhance the efficiency of e-commerce sales channels, so as to deliver goods in an efficient manner and save distribution costs. As the second half of the year is the peak season of e-commerce business, the Group is confident in the sales performance of its e-commerce channels in the second half of 2017. The Group will grasp the opportunities of peak season through efficient goods delivery and effective online promotion activities.

Hengan's Amoeba Model

From January 2017 onwards, the Group started the implementation of the "small sales team" business strategy (also known as "Hengan's Amoeba model") nationally to break its original management model and transform it into a flattened and streamlined service model which gives its sales team sufficient autonomy. The nationwide rollout of the aforementioned new strategy was completed at the end of April. After the transition period in the first four months of 2017, the positive impact of "small sales team" strategy on sales and expense ratio has been reflected gradually in May and June. Expense ratio also improved by about 1% in the first half of 2017. Meanwhile, the nationwide "small sales team" was able to meet the needs of consumers from different regions.

In the future, the Group will provide more operational and distribution support to "small sales team" to achieve more satisfactory outcomes for sales growth and improvement in expense ratio. The Group will carefully conceive product sales and development direction according to consumer feedbacks reported by small sales team.

Acquisition of Wang-Zheng Group

On 5 June 2017, the Group announced that it acquired an aggregate of 80 million shares of Wang-Zheng Berhad (Stock code: 7203), a company listed on the Main Market of Bursa Malaysia Securities Berhad. The Sale Shares represented approximately 50.45% of the equity interest in Wang-Zheng. The transaction price amounted RM91.2 million (equivalent to approximately RMB146 million). On 19 July 2017, the Group closed the unconditional mandatory takeover offer. Taking into account the valid acceptances under the offer, the Group is interested in an aggregate of 80,003,000 shares in Wang-Zheng, representing approximately 50.45% of the equity interest in Wang-Zheng.

Wang-Zheng and its subsidiaries are principally engaged in investment holding and the manufacturing and processing of fibre-based products, which include disposable adult and baby diapers, sanitary protection and tissue products, cotton products and processed papers. The Group believes that the acquisition is undertaken as part of its plan to expand its business operations and diversify its revenue stream outside the People's Republic of China. The Group will seek to leverage on its extensive experience and work with the existing management team of Wang-Zheng to grow the Wang-Zheng Group. Meanwhile, Wang-Zheng's sales network covers the major sales channels in Southeast Asia, such as large-scale supermarkets and personal hygiene product stores. The Group will make good use of Wang-Zheng's current network to bring its products to the Southeast Asian region.

Foreign currency risks

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

As at 30 June 2017, apart from certain forward 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.

Liquidity, financial resources and bank loans

The Group maintained a solid financial position. As at 30 June 2017, the Group's cash and bank balances, long-term bank deposits and restricted bank deposits amounted to approximately RMB20,899,942,000 (31 December 2016: RMB16,649,499,000); the liability component of convertible bonds amounted to approximately RMB465,764,000 (31 December 2016: RMB472,719,000); medium-term notes (panda bonds) and domestic bonds of approximately RMB2,989,554,000 (31 December 2016: RMB2,987,987,000), and bank borrowings amounted to approximately RMB16,419,578,000 (31 December 2016: RMB12,455,274,000).

In the second half of 2016, the Group successfully registered for the proposed issue of RMB5 billion medium-term notes (panda bonds) and RMB5.75 billion domestic corporate bonds. The Group also completed the issue of the first tranche 3-year panda bonds of RMB2 billion and the issue of the first tranche of 5-year domestic bonds of RMB1 billion in September 2016, with a coupon rate of 3.24% and 3.3% per annum respectively.

In addition, the Group successfully registered for the proposed issue of RMB5 billion super & short-term commercial paper during the period. The Group may issue super & short-term commercial paper in batches within two years from the date of acceptance of the registration notice. The suggested amount of the first issuance of super & short-term commercial paper is expected to be approximately RMB1 billion (the exact amount will be finalized by the Group at the time of issuance).

The principal amount of the convertible bonds issued in June 2013 was approximately RMB4,328 million, out of which part of the convertible bonds had been partly redeemed on 27 June 2016, and the remaining amount will be repaid on 27 June 2018. Please refer to note 17 above for details.

The convertible bonds were subject to a fixed interest rate of 2.7% while the bank borrowings were subject to floating annual interest rates ranging from approximately 1.0% to 4.4% (2016 first half: from 0.3% to 4.6%).

As at 30 June 2017, the Group's gross gearing ratio of continuing operations was approximately 130.2% (31 December 2016: 108.1%), which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including non-controlling interests). The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term time deposits as a percentage of the shareholders' equity (not including non-controlling interests), was negative 6.7% (31 December 2016: negative 4.9%) as the Group was in a net cash position.

During the year, the Group's capital expenditure for continuing operations amounted to approximately RMB330,603,000. As at 30 June 2017, the Group had no material contingent liabilities.

Appointment of professional consultants

To further optimize the operation process of the Group's supply chain, logistics networks, inventory management and information technology planning, the Group appointed IBM (China) Co., Ltd. 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 services have been mostly completed in the first half of 2017 and the entire project is expected to be completed by 2017.

In addition, the company continued to hire PricewaterhouseCoopers Consulting (Shanghai) Co., Ltd. to provide advisory services regarding the preparation of "Environmental, Social and Governance Report" in 2017. The detail report is disclosed to the public. The Group also collaborated with PricewaterhouseCoopers Management Consulting (Shanghai) Co., Ltd. to set up a Services Sharing Centre to handle financial, administrative, human resources and logistics work of subsidiaries, branches and sales representatives' offices, in order to optimize the cost structure. The entire service is expected to be completed by 2017.

Latest awards

The Group was awarded the "International Carbon-Value Gold Award" by the World Economic and Environmental Conference during the period. Meanwhile, the Group's Chief Executive Officer Mr. Hui Lin Chit was also granted "Low Carbon Leadership Award" by the World Economic and Environmental Conference, to commend his adherence to "green, low carbon and sustainable development" concepts in the Group's development for 32 years, setting the industry benchmark. The awards reaffirmed the Group's commitment to operate on the grounds of environmental protection, and its development of green, sustainable production technology. The Group will continue to foster the environmental management and reduce carbon emission for environment protection.

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 period 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.

Human resources and management

As at 30 June 2017, the Group employed approximately 22,000 staff members. The Group's remuneration package is determined with reference to the experience and qualifications of the individual employees and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and career opportunities according to their needs.

Outlook

Looking ahead to the second half of 2017, China's rising per capital income and consumption upgrade will drive consumer's new demand for personal hygiene products and facilitate market development in the long term.

With a view to seizing market opportunities and enhancing its competitiveness, the Group will continue to enhance operational efficiency, flexibly optimize its product mix according to the changing market conditions and launch new and upgraded products to cater to different consumer needs. Meanwhile, the Group will also closely monitor the trends of raw material prices to further improve its gross profit margin.

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

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board of Directors has declared an interim dividend of RMB0.95 per share (2016: RMB0.85 per share) for the six months ended 30 June 2017 to be paid to shareholders whose names appear on the Register of Members of the Company at the close of business on 22 September 2017. Dividend warrants will be despatched to shareholders on or about 6 October 2017.

Dividends payable to shareholders will be paid in Hong Kong dollars ("HK$"). The exchange rate adopted by the Company for its dividend payable is the middle exchange rate of HK$ to RMB announced by the People's Bank of China for the business day preceding the date of dividend declaration.

The Register of Members of the Company will be closed from 20 September 2017 to 22 September 2017 (both days inclusive), during which no transfer of shares will be effected. In order to be qualified for the interim dividend, all transfers accompanied by the relevant share certificates shall be lodged with the Company's branch share registrar, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on 19 September 2017.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not redeem any of the Company's shares during the six months ended 30 June 2017. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the period.

AUDIT COMMITTEE

The Audit Committee is chaired by an independent non-executive director and comprises five independent non-executive directors. It meets at least two times a year. The Audit Committee provides an important link between the Board and the Company's external and internal auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation, including the interim report for the six months ended 30 June 2017.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

For the six months ended 30 June 2017, the Company has adopted the Model Code as set out in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the six months ended 30 June 2017, and they all confirmed that they had fully complied with the required standard set out in the Model Code.

CORPORATE GOVERNANCE

The Board is committed to maintaining high standards of corporate governance. The Company has complied with all the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules of the Stock Exchange during the period, except the following:

Under Code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Ms. Ada Ying Kay Wong, Mr. Wang Ming Fu and Mr. Zhou Fang Sheng, independent non-executive directors of the Company, were unable to attend the annual general meeting of the Company held on 17 May 2017 due to other engagements at that time.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I extend my gratitude to all our staff for their hard work and dedication.

By Order of the Board
Hengan International Group Company Limited
Sze Man Bok
Chairman

As at the date of this report, 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. Li Wai Leung 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.

Hong Kong, 24 August 2017