【For Immediate Release】

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

Hengan International Announces 2016 Annual Results

Achieved Steady Growth in Continuing Operations
Net Profit Increased 10.3% to RMB3.59 billion
Annual Dividend at RMB1.95Per Share

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Reinforced E-commerce Product Development
Launched Revolutionary Hengan's Amoeba Sales Model

Financial Highlights

	For the year ended 31 December		
	2016 RMB'000	2015 RMB'000 (Restated)	**Change**
***Revenue**	**19,277,397**	18,662,576	**3.3%**
***Gross profit margin**	**48.8%**	47.9%	**+0.9p.p**
***Profit attributable to shareholders**	**3,471,746**	3,233,204	**7.4%**
Overall Profit attributable to shareholders	**3,596,821**	3,259,863	**10.3%**
Basic earnings per share (RMB)	**2.967**	2.667	**11.2%**
Diluted earnings per share (RMB)	**2.967**	2.663	**11.4%**
Interim dividend per share (RMB)	**0.85**	0.78	**9.0%**
Final dividend per share (RMB)	**1.10**	0.96	**14.6%**
Annual dividend per share (RMB)	**1.95**	1.74	**12.1%**

*Remarks: *Continuing operations excluding Qinqin Group*

(21 March 2017 - Hong Kong) – **Hengan International Group Company Limited** ("Hengan International" or the "Company", SEHK stock code: 1044, together with its subsidiaries, the "Group") announces today its annual results for the year ended 31 December 2016.

On 8 July 2016, Qinqin Foodstuffs Group (Cayman) Company Limited ("Qinqin Group", SEHK stock code: 1583) was spun off from the Group and listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). After spinning off the food and snacks business, the Group will focus on the production, distribution and sales of its personal hygiene products in the future.

For the year ended 31 December 2016, excluding Qinqin Group, the Group recorded revenue of approximately RMB19,277,397,000 (2015: RMB18,662,576,000), an increase by about 3.3% compared with that of last year. Overall profit attributable to shareholders increased by about 10.3% to approximately RMB3,596,821,000 (2015: RMB3,259,863,000). The Board of Directors declared a final dividend of RMB 1.10 per share for the year ended 31 December 2016 (2015: RMB0.96).

Despite intensifying market competition, the prices of major raw materials maintained at a low level for most of the year. Coupled with the Group's product optimization measures, gross profit margin for continuing operations rose to about 48.8% (2015: 47.9%). Distribution costs and administrative expenses for continuing operations increased to approximately 27.0% (2015: 24.6%) of the Group's revenue for continuing operations, which was attributable to increase in marketing and advertising expenses, as well as the rise in transportation costs as a result of the implementation of new regulations on road transport in September, which imposes strict limitations on the loading capacity of cargo vehicles.

The effective tax rate for continuing operations decreased to approximately 23.7% (2015: 28.6%). The Group provided a large amount of dividend withholding tax in the second half of 2015 for the dividend which would likely be remitted out of mainland China in the foreseeable future. As such, the provision of dividend withholding tax required for 2016 became lower.

Mr. Sze Man Bok, Chairman of Hengan International, said, "In 2016, the global economic recovery remained muted, with the Brexit referendum bringing uncertainties to the economy of the euro zone. China's economy recorded the lowest growth rate in twenty six years, according to China's National Bureau of Statistics, China's gross domestic product grew by 6.7% in 2016, down 0.2 percentage points from the previous year. Renminbi depreciation trend has not yet stabilized, with the currency fell 6.6% against the US dollar in the year under review. Faced with turbulent external environment, coupled with the slowdown in China's economic growth and volatile exchange rate, the operating environment was challenging."

Sanitary Napkin

Accelerating urbanization and rising national income have raised overall living standards and spurred consumption of personal hygiene products. However, the intense competition as a result of the high market penetration of the sanitary napkins market in China has to a certain extent limited the sales growth of the Group's sanitary napkin business. During the year, revenue of the

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sanitary napkin business grew by approximately 6.2% to approximately RMB6,568,885,000, which accounted for around 34.1% (2015: 33.1%) of the revenue from continuing operations. Despite the fierce market competition, the gross profit margin remained stable at approximately 72.6% (2015: 72.6%), as a result of the persistently low prices of major raw materials and petrochemical products during the year and benefit from the optimized product portfolio as well as the active expansion of online exclusive product line.

In addition to the Space 7 Wow + Miow series and Space 7 Candy series launched in year 2016, the Group will launch a series of new e-commerce and Wechat store exclusive series, and continue to develop online sales channels to meet the needs of the market. In addition, the Group will continue to optimize its product portfolio and launch new and upgraded products with an aim of increasing the mid-to-high end and high end market development and maintenance. It is expected that sales will grow steadily in 2017.

Tissue Paper

With increasing hygiene awareness in China, the addressable market of high-quality tissue paper has extended from first- and second-tier cities to third- and fourth-tier cities. China's tissue consumption per capita still lags behind that of developed countries, implying enormous market potential. Even though the industry still faces overcapacity, the Chinese government's implementation of environmentally friendly manufacturing regulations will help eliminate small and medium enterprises that fail to meet the standard, and is expected to further enhance the industry concentration and benefit the Group and other large-scale manufacturers in the long term.

During the year, revenue from the Group's tissue paper segment increased by about 4.3% to approximately RMB9,066,499,000, accounting for approximately 47.0% (2015: 46.6%) of the Group's total revenue from continuing operations. Gross profit margin increased to approximately 37.9% (2015: 35.6%) due to the persistent drop in price of wood pulp, a major raw material for tissue paper production and the optimized product portfolio.

The Group's annualized production capacity was approximately 1,140,000 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. In addition, the Group will continue to launch new and upgraded products, the packaging and quality of which will be further enhanced. The group will also step up its efforts in marketing and brand promotions, sales performance in 2017 is expected to achieve steady growth.

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Disposable Diapers

In light of urbanization, coupled with increasing personal hygiene awareness and pursuit of higher living standards, the demand for disposable diapers continued to rise. However, the market penetration of disposable diapers is still low as many Chinese people still do not regard diapers as a necessity, which implies the Chinese diaper market still has massive growth potential.

During the year, competition in the diapers market intensified. The entrance of a large number of small and medium manufacturers into the market further intensified the price competition of low- and mid-end products. On the other hand, with the rise of cross-border e-commerce in recent years, foreign brands hit the Chinese market and affected the sales of the Group's mid-to-high-end diapers. As a result, revenue from the sales of diapers for the year ended 31 December 2016 decreased by approximately 12.3% to approximately RMB2,150,252,000, accounting for approximately 11.2% (2015: 13.1%) of the Group's revenue from continuing operations.

During the year, prices of major raw materials and petrochemical products continued to remain at a low level, together with the optimized product portfolio, gross profit margin rose to approximately 50.8% (2015: 49.3%). During the year, the Group's disposable diapers products were accredited several safety certificates from domestic and overseas organizations. These certificates assured the quality of the Group's diaper products, strengthened the public's confidence in the Group's products and enhanced the competitiveness of its products.

China has fully implemented the "two-child" policy, a baby boom will gradually emerge in the long run, which in turn bringing huge development opportunities to the domestic diaper market and driving the long-term growth of the diaper market. Besides, the Chinese government has imposed tax on cross-border e-commerce transactions in 2016, which will enhance the competitiveness of the Group's products. The Group will continue to upgrade existing products, develop high-end products and further expand in maternity stores and online sales channels in order to outshine the competition with quality products.

Food and Snack Products

On 8 July 2016, Qinqin Group (SEHK stock code: 1583) was spun off from the Group and listed on the Main Board of the Stock Exchange. After spinning off the food and snacks business, the Group will focus on the production, distribution and sales of its personal hygiene products in the future.

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In view of the above, the operation of Qinqin Group is regarded as "discontinued operations", and hence its profit for the year around RMB281,896,000 (2015: RMB52,272,000) was recorded separately as "profit for the year from discontinued operations" in the consolidated income statement. Included in the amount, the Group recorded a one-off gain of approximately RMB267,111,000 from the spin-off of Qinqin Group and net profit of the Qinqin Group for the period from 1 January 2016 to 7 July 2016 of around RMB14,785,000 (2015: RMB52,272,000). The decrease in the net profit of the Qinqin Group for the period was mainly due to the impact of slowdown in economic growth and intensified market competition, and was also dragged by the one-off listing expense of approximately RMB21,500,000 incurred in first half of 2016. For the operations and financial information of Qinqin Group, please refer to the announcement of Qinqin Group.

The Group's profit attributable to shareholders of the Company arising from discontinued operations in 2016 of about RMB125,075,000 (2015: RMB26,659,000).

E-commerce

Group observed the changes in the consumption habit of fast moving consumer goods in recent years, and planned its e-commerce business accordingly. In 2016, the Group's e-commerce business grew rapidly, revenue from e-commerce reached about RMB1.1 billion, up by more than 58% over the same period last year.

The Group plans to further expand its e-commerce business in 2017. The Group will precisely position its e-commerce products according to the preferences and needs of consumers, introduce e-commerce and Wechat store exclusive products and make good use of online promotion activities, with the aim of improving its market share in the field of fast moving consumer goods. At the same time, the e-commerce business will work in concert with the Group's sales channel reform and warehouse adjustment to deliver goods in an efficient manner and save distribution costs.

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 31 December 2016, apart from certain 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.

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Liquidity, Financial Resources and Bank Loans

The Group maintained a solid financial position. As at 31 December 2016, the Group's cash and bank balances, long-term bank deposits and restricted bank deposits amounted to approximately RMB16,649,499,000 (31 December 2015: RMB15,737,217,000); the liability component of convertible bonds amounted to approximately RMB472,719,000 (31 December 2015: RMB4,656,907,000), medium-term notes (panda bonds) and domestic bonds of approximately RMB2,987,987,000 (31 December 2015: RMB Nil), and bank borrowings amounted to approximately RMB12,455,274,000 (31 December 2015: RMB9,696,293,000).

In the second half of 2016, the Group successfully registered for the proposed issue of RMB5 billion medium-term notes (panda bonds) and completed the issue of the first tranche 3-year panda bonds, with a coupon rate of 3.24% per annum. The Group used the proceeds to repay the Group's bank loans during the year.

In addition, the Group successfully registered for the proposed issue of RMB5.75 billion domestic corporate bonds, and completed in September the issue of the first tranche of 5-year one billion domestic bonds with a coupon rate of 3.3% per annum. The Group plans to use the proceeds to repay the Group's debt and supplement its working capital requirements.

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.

The convertible bonds were subject to a fixed interest rate of 2.7% while the bank borrowings were subject to floating annual interest rates ranging from approximately 0.3% to 4.6% (2015: from 0.3% to 5.2%).

As at 31 December 2016, the Group's gross gearing ratio of continuing operations was approximately 108.1% (31 December 2015: 98.8%), 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 approximately negative 4.9% (31 December 2015: negative 7.9%) as the Group was in a net cash position.

During the year of 2016, the Group's capital expenditure for continuing operations amounted to approximately RMB933,348,000. As at 31 December 2016, the Group had no material contingent liabilities.

Outlook

Looking ahead to 2017, Mr. Sze said, "The economic outlook is clouded by uncertainties. The Chinese economy is still going through the adjustment period, slowdown in its growth is expected to continue in the short run. However, ongoing urbanization, continuous increase in national income, consumers' increasing pursuit of a quality life and improved awareness of hygiene will continue to boost the development of the market for personal hygiene product in the long term."

"In response to the ever-changing business environment in recent years, the Group has begun its third management reform with end-to-end supply chain informatisation and visualisation. The Group consolidated its existing team structure by establishing an Operation Services Headquarters, and nine Regional Operation Services Centers. The Group has also integrated various local warehouses nationwide and set up Regional Distribution Centers ('RDC'), to enhance storage capacity and speed up the logistics and distribution processes. The Group has also built a services sharing centre. Riding on this reformed structure, the Group flattened the structure of sales team and established the 'small sales team' model (also known as 'Hengan's Amoeba model'). The "small sales teams" have sufficient autonomy and access to the Group's digitalized platforms."

"From 2017 onwards, the Group will fully implement the aforementioned new strategies. With the use of the efficient and responsive information-based operations platform, which will enable the Group to increase its core competitiveness and create synergies between online and offline systems. The Group will continue to provide our customers with good quality products at greater value and is confident to lead the sustainable development of the staples market. The Group is confident of maintaining its leading position in China's personal hygiene product market. It will strive to achieve steady business growth and create greater value for 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 in mainland 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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