【For Immediate Release】

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

Hengan International Announces 2017 Annual Results

Profit from Continuing Operations Attributable to Shareholders Increased by 9.3%
Annual Dividend at RMB2.1 Per Share

*** ***

Deepened Hengan's Amoeba Sales Reform
Bolstered E-commerce Sales Channel

Financial Highlights

	For the year ended 31 December		Change
	2017 RMB'000	2016 RMB'000	
***Revenue**	**19,825,031**	19,277,397	**+2.8%**
***Gross profit margin**	**46.9%**	48.8%	**-1.9p.p.**
***Operating profit**	**5,271,574**	4,742,869	**+11.1%**
***Profit attributable to shareholders**	**3,794,041**	3,471,746	**+9.3%**
Overall Profit attributable to shareholders	**3,794,041**	3,596,821	**+5.5%**
Overall Basic earnings per share (RMB)	**3.149**	2.967	**+6.1%**
Overall Diluted earnings per share (RMB)	**3.149**	2.967	**+6.1%**
Interim dividend per share (RMB)	**0.95**	0.85	**+0.10**
Final dividend per share (RMB)	**1.15**	1.10	**+0.05**
Annual dividend per share (RMB)	**2.10**	1.95	**+0.15**

*Remarks: *Continuing operations*

(22 March 2018 - 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 2017.

During the year under review, the Group implemented the "small sales team" operating model (also known as "Hengan's Amoeba model") at its sales system. The layout and full rollout of this operating model was completed at the end of April 2017. The sales network was successfully "vitalized" in the following eight months, and the Group began to see the benefits in the second half of the year. During the adjustment period of sales structure, the Group's overall sales were mildly affected and decreased slightly in the first half of 2017. Nevertheless, for the year ended 31 December 2017, the Group retrieved a positive growth of revenue from continuing operations, which increased by 2.8% to approximately RMB19,825,031,000 (2016: RMB19,277,397,000) compared with that of the previous year.

During the year, due to the increase in the prices of wood pulp, the Group's production cost of tissue business increased. The Group's gross profit margin dropped to about 46.9% during the year under review (2016: 48.8%). As the percentage of the revenue, selling and distribution costs and administrative expenses decreased to approximately 26.1% (2016: 27.0%) of the Group's revenue. The decrease was mainly attributable to the implementation of "small sales team" operating model which effectively controlled the marketing and advertising expenses of sales channels.

Profit from continuing operations attributable to the shareholders of the Company and overall profit attributable to shareholders of the Company increased by about 9.3% and 5.5% respectively to approximately RMB3,794,041,000 (2016: RMB3,471,746,000 and 3,596,821,000). The Board of Directors declared a final dividend of RMB1.15 per share (2016: RMB1.1).

Regarding the Group's annual results, Mr. Sze Man Bok, Chairman of Hengan International, said, "Looking back on 2017, China's economic growth remained steady. According to the National Bureau of Statistics of China, the country's gross domestic product for 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 the implementation of the "small sales team" operating model, the Group's operating environment is stable and positive.

Sanitary Napkin

Against the backdrop of rising education level, social status as well as consumption power of women in China, their awareness of and demand for personal health continued to increase, thus facilitating the stable development of the sanitary napkins market. The Group flexibly adapted to the change in purchasing power and consumption patterns. The Group's sanitary napkins business managed to maintain stable growth and strengthened its leading market position in the year.

During the year, revenue of the sanitary napkins business grew by approximately 6.1% to approximately RMB6,972,405,000, which accounted for around 35.2% of the Group's revenue (2016: 34.1%). The gross profit margin of the sanitary napkins business remained stable at

- Con't –

approximately 72.2% (2016: 72.6%) as the gain brought by the Group's upgraded product portfolio partially offset the impact of increasing raw material cost.

In 2017, the Group continues to optimize its product portfolio, launching Space 7 series, which targets mature female market, and constantly promoting Sweet Sleeping Panty series, which caters to female needs at night. Both products were well received by market. In the future, the Group will continue to make more breakthroughs on packaging, functionality and materials. Capitalising on its leading position in the teenage market, the Group will launch more new products and upgrade products to further develop the mature women and white-collar market. The Group will also leverage on the speedy market response of "small sales team", adjusting its product mix, and further expand its market share in the ecommerce market. It is expected to maintain steady growth in sales performance in 2018.

Tissue Paper

Accelerating urbanization has enhanced the national hygiene standard. China's tissue consumption per capita still lags behind that of developed countries, implying enormous market potential. In 2017, revenue from the Group's tissue paper segment increased by about 3.6% to approximately RMB9,390,072,000 accounting for approximately 47.4% (2016: 47.0%) of the Group's total revenue. Sales of traditional channels gradually improved and strong sales growth of e-commerce channel continued, which was attributable to the "small sales team operation" strategies, the tissue paper segment recorded an increase of above 7.0% in revenue in the second half of 2017.

During the year, gross profit margin of tissue paper business was affected by the persistent increase in the prices of wood pulp, a raw material for tissue paper production. Gross profit margin decreased to approximately 32.9% (2016: 37.9%). However, the Group is confident that the positive effect of "small sales team" operating model will become more evident in 2018 which would mitigate the pressure from rising raw material costs.

The Group's annualized production capacity was approximately 1,300,000 tons during the year. The production capacity is expected to increase to approximately 1,420,000 tons by the first half of 2018. The Group will consider expanding its production capacity according to the market conditions and sales performance in the future.

In 2018, the Group will increase the supply of the popular products such as Minions-themed tissue paper series and Hearttex customized series of Hebe Tien. Meanwhile, the Group will

- Con't -

launch new products such as “Talking tissue paper” and new packings for online exclusive products, and introduce more new packings for “super mini” and “wake up” series wet wipes to allocate different product mix to specific market. The Group believes that tissue paper segment will accelerate its sales growth and improve its gross profit margin in 2018.

Disposable Diapers

Chinese government implemented the “two-child” policy, expanding the development potential of infant products. The rising income of citizens is also beneficial to the high-quality baby diapers market. In addition, the market penetration rate of disposable diapers in China is still relatively low compared with that in the developed countries, implying huge market potential.

During the year, the benefits of the Group's strategic investment in e-commerce and maternity stores began to emerge. Diapers sales in both channels recorded significant growth. Sales from e-commerce channels reached a year-on-year growth of 70% and accounted for over 25% of the overall diapers sales in 2017, effectively alleviating the decline in the Group's overall diapers sales. For the year ended 31 December 2017, revenue from the sales of diapers decreased by approximately 7.0% to approximately RMB1,999,325,000, accounting for approximately 10.1% (2016: 11.2%) of the Group's revenue.

During the year, as the prices of petrochemical products like superabsorbent polymer, a major raw material for disposable diapers increased, gross profit margin of disposable diapers business dropped to around 46.9% (2016: 50.8%). However, the Group took appropriate measures to adjust the price of e-commerce products in the second half of 2017 and launched high-end and optimized products, thus the gross profit margin for the year 2017 slightly improved comparing to the first half of 2017.

The Group expected that the new high-end product “Q•MO”, which has established its market reputation and its image as quality diaper, will help enhance the sales performance of overall diapers business and the positive influence will be gradually reflected in 2018. In 2018, the Group will continue to enrich “Q•MO” series and constantly promote “Ultra Soft”, “Natural Cotton” and “Fresh Air” series to cater to the market demand for high-quality products. The Group will use quality overseas raw materials and technology and leverage on its national and international certification to strengthen consumer confidence in the Group's disposable diapers and increase its competitiveness in order to stand out from the competition with high-quality products.

- Con't -

E-commerce

To further enhance the sales performance and market share of the e-commerce channel, the Group has 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 year, the Group's e-commerce business achieved extraordinary growth. As at 31 December 2017, revenue from e-commerce reached about RMB2.02 billion, up by more than 80% over the same period last year. E-commerce's contribution to total sales revenue also rose to approximately 10.0% (2016: 6.0%).

The Group's sales channel reform and warehouse adjustment helped enhance the efficiency of e-commerce sales channels. Meanwhile, the Group will continue to develop exclusive products for e-commerce sales channels to enhance their competitiveness. The Group has started strategic collaborations with several e-commerce operators since 2018, increasing cooperation in the aspects of product development, marketing and supply chain. It is anticipated that the e-commerce sales will be further accelerated in 2018.

Hengan's Amoeba Model

From January 2017 onwards, the Group started the implementation of the "small sales team" business strategy 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 "small sales team" strategy was completed at the end of April.

Leveraging on the agility and market responsiveness of the "small sales team", the Group has effectively formulated sales strategies and adjust product mix according to consumer needs of each regional market. With the motto of "customer-first", it successfully revitalized the sales of traditional channels, leading to a win-win situation for both the Group and consumers. The Group's expense ratio also improved by about 0.9% in 2017 comparing to last year.

The Group will continue to deepen its reform to enhance the operating efficiency of small sales team in 2018 and will gradually extend to other operating divisions of the Group, strengthening the agility and market responsiveness of the Group. The Group also put forward the development philosophy of "create the value together, shoulder the responsibility together, share the interest", which was accepted by all employees. The "small team sales operating" model will continue to revitalize and reform the whole Group. It is expected that the Group's overall revenue will grow rapidly in 2018 and it will continue to enhance its operating efficiency.

- Con't -

Acquisition of Wang-Zheng

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 (the "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.

During the year, the revenue and net profit of Wang-Zheng amounted to RMB434,152,000 and RMB15,263,000 respectively. From the date of acquisition completed (8 June 2017), the contribution to the Group's revenue during the period amounted to approximately RMB261,477,000 and the net profit amounted to RMB49,786,000, (including negative goodwill of about RMB42,383,000 million), accounting for approximately 1.3% and 1.3% of the Group's total revenue and net profit respectively.

Wang-Zheng and its subsidiaries are principally engaged in investment holding and the manufacturing and processing of fibre-based products. The acquisition was undertaken as part of the Group's 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, and 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 31 December 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.

- Con't -

Liquidity, Financial Resources and Bank Loans

The Group maintained a solid financial position. As at 31 December 2017, the Group's cash and bank balances, long-term bank time deposits and restricted bank deposits amounted to approximately RMB20,932,456,000 (31 December 2016: RMB16,649,499,000); the liability component of convertible bonds amounted to approximately RMB455,537,000 (31 December 2016: RMB472,719,000); medium-term notes (panda bonds) and domestic bonds of approximately RMB2,991,175,000 (31 December 2016: RMB2,987,987,000), and bank borrowings amounted to approximately RMB15,631,443,000 (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 RMB 5.75 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 year. 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 10 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. 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 5.6% (2016: from 0.3% to 4.6%).

As at 31 December 2017, the Group's gross gearing ratio of continuing operations was approximately 118.5% (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 bank time deposits as a percentage of the shareholders' equity (not including non-controlling interests), was approximately negative 11.5% (31 December 2016: negative 4.9%) as the Group was in a net cash position.

- Con't -

During the year, the Group's capital expenditure for continuing operations amounted to approximately RMB936,168,000. As at 31 December 2017, the Group had no material contingent liabilities.

Outlook

Looking ahead to 2018, Mr. Sze Man Bok, said, "Global economic recovery is expected to continue while China's economy will maintain steady growth, supporting the retail market in the country and benefiting the development of high-end quality product market."

"The Group will extend the initial success of "small sales team" with its motto of "customer first", revitalizing and implementing reform within the Group thoroughly. It will also strengthen its foothold in e-commerce to capture the massive market potential and further enhance the position of high-end quality product in the overall product portfolio. Leveraging its production scale, brand influences, perseverance in product quality, the Group will consider industrial expansion as the long-term development target, continuing to maintain its leading position in China's personal hygiene product market, achieve sustainable healthy business growth and create greater value for shareholders."

– End –

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.

For further information, please contact:
iPR Ogilvy & Mather
Callis Lau / Tina Law / Lorraine Luk / Charmaine Siu / Yana Choi
Tel : (852) 2136 6952/ 2136 6181/ 2169 0467/2169 0646/ 3920 7645
Fax : (852) 3170 6606
E-mail: hengan@iprogilvy.com