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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018 AND CLARIFICATION ANNOUNCEMENT

"Growing with You for a Better Life"

2018 ANNUAL RESULTS FINANCIAL SUMMARY

	2018 *RMB'000*	2017 *RMB'000* (Restated)	Change
Revenue	**20,513,881**	18,079,560	13.5%
Operating profit	**5,429,224**	5,271,574	3.0%
Profit attributable to shareholders	**3,799,805**	3,794,041	0.2%
**Profit attributable to shareholders excluding non-recurring gains	**3,799,805**	3,702,933	2.6%
Gross profit margin (%)	**38.2%**	41.8%	
Earnings per share			
— Basic	**RMB3.151**	RMB3.149	0.1%
— Diluted	**RMB3.146**	RMB3.149	(0.1%)
Dividends			
— Interim (paid)	**RMB1.00**	RMB0.95	
— Final (proposed/paid)	**RMB1.20**	RMB1.15	
Accounts receivable turnover (days)	**46**	51	
Finished goods turnover (days)	**41**	46	
Current ratio (times)	**1.3**	1.3	
Rate of return (%)	**22.7**	23.6	

* *For identification purposes only*

** Reconciliation of profit attributable to shareholders to profit attributable to shareholders excluding non-recurring gains:

	2018 *RMB'000*	2017 *RMB'000*
Profit attributable to shareholders	3,799,805	3,794,041
Less: Non-recurring items:		
Gains from acquisition of subsidiaries	–	55,413
– Gains before income tax from disposal of properties in Hunan and Zhejiang	–	47,593
– Current income tax	–	(11,898)
Gains from disposal of properties in Hunan and Zhejiang	–	35,695
Profit attributable to shareholders excluding non-recurring items	**3,799,805**	3,702,933

RESULTS

The Board of Directors of Hengan International Group Company Limited (the "Company" or "Hengan International") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018, together with the comparative figures for the previous year, as follows:

Consolidated statement of profit or loss

		Year ended 31 December	
	Note	**2018**	2017
		RMB'000	*RMB'000*
			(Restated)
Revenue	*2*	**20,513,881**	18,079,560
Cost of goods sold		**(12,678,128)**	(10,525,679)
Gross profit		**7,835,753**	7,553,881
Selling and distribution costs		**(2,269,713)**	(2,145,564)
Administrative expenses		**(1,199,406)**	(1,276,567)
Net impairment losses on financial assets		**(10,890)**	(15,787)
Other income and other gains – net		**1,073,480**	1,155,611
Operating profit		**5,429,224**	5,271,574
Finance income		**115,024**	93,653
Finance costs		**(639,854)**	(404,629)
Finance costs – net		**(524,830)**	(310,976)
Profit before income tax	*3*	**4,904,394**	4,960,598
Income tax expense	*4*	**(1,097,261)**	(1,159,142)
Profit for the year		**3,807,133**	3,801,456
Profit attributable to:			
Shareholders of the Company		**3,799,805**	3,794,041
Non-controlling interests		**7,328**	7,415
		3,807,133	3,801,456
Earnings per share for profit attributable to shareholders of the Company			
— Basic	*5*	**RMB3.151**	RMB3.149
— Diluted	*5*	**RMB3.146**	RMB3.149

Consolidated statement of comprehensive income

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit for the year	**3,807,133**	3,801,456
Other comprehensive income		
Items that may be reclassified to profit or loss		
— Currency translation differences	**69,525**	(42,651)
Total comprehensive income for the year	**3,876,658**	3,758,805
Attributable to:		
Shareholders of the Company	**3,867,513**	3,749,429
Non-controlling interests	**9,145**	9,376
Total comprehensive income for the year	**3,876,658**	3,758,805

Consolidated balance sheet

		As at 31 December	
	Note	**2018**	2017
		RMB'000	*RMB'000*
			(Restated)
Assets			
Non-current assets			
Property, plant and equipment		**8,095,356**	8,044,858
Construction-in-progress		**580,790**	878,088
Investment properties		**225,036**	216,753
Land use rights		**844,532**	773,327
Intangible assets		**686,558**	503,246
Prepayments for non-current assets		**124,187**	141,132
Deferred income tax assets		**132,344**	172,244
Investments in associates		**101,670**	–
Long-term bank time deposits		**4,338,000**	2,499,738
		15,128,473	13,229,386
Current assets			
Inventories		**4,285,483**	3,435,666
Trade and bills receivables	*7*	**2,843,532**	2,312,060
Other receivables, prepayments and deposits		**1,701,097**	1,406,346
Current income tax recoverable		**109,145**	52,431
Derivative financial instruments		**2,922**	29,433
Restricted bank deposits		**4,670**	3,002
Cash and bank balances		**21,576,830**	18,429,716
		30,523,679	25,668,654
Total assets		**45,652,152**	38,898,040
Equity			
Equity attributable to shareholders of the Company			
Share capital		**127,092**	127,080
Other reserves		**2,614,789**	3,141,363
Retained earnings		**13,983,279**	12,837,975
		16,725,160	16,106,418
Non-controlling interests		**273,519**	237,883
Total equity		**16,998,679**	16,344,301

	Note	As at 31 December 2018 RMB'000	2017 RMB'000 (Restated)
Liabilities			
Non-current liabilities			
Borrowings	*10*	**4,240,286**	3,247,233
Finance lease payable		**107**	264
Deferred income tax liabilities		**160,170**	120,007
		4,400,563	3,367,504
Current liabilities			
Trade and bills payables	*9*	**2,900,641**	2,128,813
Other payables and accrued charges		**1,192,264**	1,005,732
Contract liabilities		**118,276**	193,559
Derivative financial instruments		**18,603**	6,698
Current income tax liabilities		**890**	20,222
Borrowings	*10*	**20,022,078**	15,375,385
Convertible bonds	*8*	**–**	455,537
Finance lease payable		**158**	289
		24,252,910	19,186,235
Total liabilities		**28,653,473**	22,553,739
Total equity and liabilities		**45,652,152**	38,898,040

1. Basis of preparation and principal accounting policies

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments at fair value through profit or loss.

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards relevant to the Group are mandatory adopted for the first time for the financial year beginning on or after 1 January 2018:

- HKFRS 9 Financial instruments (i),
- HKFRS 15 Revenue from contract's with customers (ii),
- Amendments to HKAS 40 Transfers to investment property,
- Amendments to HKFRS 2 Classification and measurement of share-based payment transactions, and
- HK(IFRIC) 22 Foreign currency transactions and advance consideration

The following amendments of HKFRSs are effective for the first time for the financial year beginning on 1 January 2018 and not relevant to the Group's operations (although they may affect the accounting for future transactions and events):

- Amendments to HKFRS 4 Insurance contracts
- Annual Improvements 2014-2016 cycle

The Group had to change its accounting policies and make certain adjustments following the adoption of HKFRS 9 and HKFRS 15. The other newly adopted standards or amendments listed above did not have material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(i) HKFRS 9 Financial Instruments

HKFRS 9 Financial Instruments was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The Group used modified retrospective approach while adopting HKFRS 9. There was no impact on the consolidated financial statements for the year ended 31 December 2017.

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

There was no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities which are subject to HKFRS 9.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated as the Group does not have any hedge instrument.

The Group has trade and bills receivables for sales of products that are subject to HKFRS 9's new expected credit loss model, and the Group was required to revise its impairment methodology under HKFRS 9 for these receivables.

The Group applied the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade and bills receivables from initial recognition. To measure the expected credit losses, trade and bills receivables have been grouped based on shared credit risk characteristics and the days past due. The adoption of new approach did not result in any significant impact on the amounts reported in the opening balance sheet on 1 January 2018 and the consolidated statement of profit or loss for the year ended 31 December 2018.

Trade and bills receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 30-90 days past due (credit term).

While cash and cash equivalents were also subject to the impairment requirements of HKFRS 9, no impairment loss was identified.

(ii) HKFRS 15, Revenue from Contracts with Customers

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in HKFRS 15, the Group has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year.

(a) Accounting for customer incentives for promotion activities

The Group provided certain customer incentives for promotion activities and recorded such customer incentives as selling and distribution costs under HKAS 18 before 1 January 2018. These incentives did not provide a distinct good or service to the customers and the application of HKFRS 15 resulted in the incentives recorded as a reduction of the arrangement's transaction price. As a consequence compared with HKAS 18, revenue and selling and distribution costs for the year ended 31 December 2017 decreased by RMB1,745,471,000. For the year ended 31 December 2018, revenue and selling and distribution costs decreased by RMB1,882,350,000.

(b) Presentation of liabilities related to contracts with customers

Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under HKFRS 15:

Contract liabilities in relation to advance receipts from customers were previously included in other payables and accrued charges (RMB193,559,000 as at 1 January 2018). The amount of contract liabilities as at 1 January 2017 were not significant for the Group.

Contract liabilities are recognised when the payment is made or the payment is due (whichever is earlier), if customers pay consideration, or have a right to an amount of consideration that is unconditional, before the Group transfers goods or service to the customer.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. There was no impact to the Group's opening retained earnings as at 1 January 2018 and 1 January 2017. The adjustments are explained in more detail by standard below:

	As at 31 December 2017		
Consolidated balance sheet (extract)	**As originally presented**	**HKFRS 15**	**Restated**
	RMB'000	*RMB'000*	*RMB'000*
Other payables and accrued charges	1,199,291	(193,559)	1,005,732
Contract liabilities	–	193,559	193,559

	Year ended 31 December 2017		
Consolidated statement of profit or loss (extract)	**As originally presented**	**HKFRS 15**	**Restated**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	19,825,031	(1,745,471)	18,079,560
Selling and distribution costs	(3,891,035)	1,745,471	(2,145,564)

(b) New and amended standards that might be relevant to the Group have been issued but are not effective for the financial year beginning 1 January 2018 and have not been early adopted by the Group

Standards		**Effective for annual periods beginning on or after**
HKFRS 16 [(i)]	Leases	1 January 2019
HKFRS 17	Insurance contracts	1 January 2022
(HK) Interpretation 23	Uncertainty over income tax treatments	1 January 2019
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Annual Improvements to HKFRS Standards 2015-2017 Cycle		
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Amendments to HKFRS 3	Definition of business	1 January 2020
Amendments to HKAS 1 and HKAS 8	Definition of material	1 January 2020

(i) HKFRS 16 Lease

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB44,066,000. Of these commitments, approximately RMB40,340,000 relate to short-term leases and RMB91,000 to low value leases which will be both recognised on a straight-line basis as expense in consolidated statement of profit or loss.

For the remaining lease commitments, the Group expects to recognise right-of-use assets of approximately RMB3,481,000 on 1 January 2019, lease liabilities of RMB3,481,000 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018).

The Group expects the effect on profit before income tax and cash flows will be insignificant for 2019 as a result of adopting the new rules.

The Group's activities as a lessor are not material hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjust for any prepaid or accrued lease expenses).

Apart from HKFRS 16, there are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2. Revenue and segment information

The segment information provided to the Executive Directors for the reportable segments is as follows:

	2018				
	Sanitary napkins products *RMB'000*	**Disposable diapers products** *RMB'000*	**Tissue paper products** *RMB'000*	**Others** *RMB'000*	**Group** *RMB'000*
Segment revenue	**6,641,286**	**1,815,860**	**10,731,741**	**2,873,176**	**22,062,063**
Inter-segment sales	**(47,576)**	**(279,556)**	**(504,428)**	**(716,622)**	**(1,548,182)**
Revenue of the Group	**6,593,710**	**1,536,304**	**10,227,313**	**2,156,554**	**20,513,881**
Segment profit	**3,366,111**	**281,893**	**578,257**	**175,070**	**4,401,331**
Unallocated costs					**(45,587)**
Other income and other gains – net					**1,073,480**
Operating profit					**5,429,224**
Finance income					**115,024**
Finance costs					**(639,854)**
Profit before income tax					**4,904,394**
Income tax expense					**(1,097,261)**
Profit for the year					**3,807,133**
Non-controlling interests					**(7,328)**
Profit attributable to shareholders of the Company					**3,799,805**
Other items for the year ended 31 December 2018					
Additions to non-current assets	**265,056**	**47,219**	**372,990**	**160,490**	**845,755**
Depreciation charge	**160,802**	**35,810**	**480,736**	**49,293**	**726,641**
Amortisation charge	**19,484**	**2,952**	**13,132**	**6,884**	**42,452**

	2018				
	Sanitary napkins products *RMB'000*	**Disposable diapers products** *RMB'000*	**Tissue paper products** *RMB'000*	**Others** *RMB'000*	**Group** *RMB'000*
As at 31 December 2018					
Segment assets	**6,818,197**	**4,694,476**	**13,572,436**	**3,474,375**	**28,559,484**
Deferred income tax assets					**132,344**
Current income tax recoverable					**109,145**
Investments in associates					**101,670**
Unallocated assets					**16,749,509**
Total assets					**45,652,152**
Segment liabilities	**2,019,664**	**1,123,081**	**4,198,093**	**336,828**	**7,677,666**
Deferred income tax liabilities					**160,170**
Current income tax liabilities					**890**
Unallocated liabilities					**20,814,747**
Total liabilities					**28,653,473**

	2017				
	Sanitary napkins products *RMB'000*	Disposable diapers products *RMB'000*	Tissue paper products *RMB'000*	Others *RMB'000*	Group *RMB'000*
Segment revenue (Restated)	6,266,426	1,804,468	8,890,307	2,019,314	18,980,515
Inter-segment sales	(51,606)	(10,742)	(280,467)	(558,140)	(900,955)
Revenue of the Group (Restated)	6,214,820	1,793,726	8,609,840	1,461,174	18,079,560
Segment profit	3,195,717	326,921	545,403	106,993	4,175,034
Unallocated costs					(59,071)
Other income and other gains – net					1,155,611
Operating profit					5,271,574
Finance income					93,653
Finance costs					(404,629)
Profit before income tax					4,960,598
Income tax expense					(1,159,142)
Profit for the year					3,801,456
Non-controlling interests					(7,415)
Profit attributable to shareholders of the Company					3,794,041
Other items for the year ended 31 December 2017					
Additions to non-current assets	156,306	70,372	663,115	46,375	936,168
Depreciation charge	159,424	33,454	442,285	36,011	671,174
Amortisation charge	9,204	2,146	13,302	904	25,556

	2017				
	Sanitary napkins products *RMB'000*	Disposable diapers products *RMB'000*	Tissue paper products *RMB'000*	Others *RMB'000*	Group *RMB'000*
As at 31 December 2017					
Segment assets	6,807,730	3,965,895	11,649,866	5,718,517	28,142,008
Deferred income tax assets					172,244
Current income tax recoverable					52,431
Unallocated assets					10,531,357
Total assets					38,898,040
Segment liabilities	1,602,377	1,501,511	3,044,361	2,239,176	8,387,425
Deferred income tax liabilities					120,007
Current income tax liabilities					20,222
Unallocated liabilities					14,026,085
Total liabilities					22,553,739

The Group has recognised the following liabilities related to contracts with customers:

	As at 31 December 2018	As at 31 December 2017
	RMB'000	*RMB'000* (Restated)
Contract liabilities-sanitary napkins products	**35,484**	68,162
Contract liabilities-disposable diapers products	**14,025**	25,633
Contract liabilities-tissue paper products	**65,356**	96,971
Contract liabilities-others	**3,411**	2,793
Total contract liabilities	**118,276**	193,559

The following table shows how much of the revenue recognised in the current reporting period related to carried-forward contract liabilities that were satisfied in a prior year.

	2018
	RMB'000
Sanitary napkins products	**68,162**
Disposable diapers products	**25,633**
Tissue paper products	**96,971**
Others	**2,793**
	193,559

The Group selected to choose a practical expedient and omitted disclosure of remaining performance obligations as all related contracts have a duration of one year or less.

No geographical analysis is provided as less than 10% of the Group's revenue and consolidated results are attributable to markets outside Mainland China.

3. Profit before income tax

Profit before income tax expense is stated after crediting and charging the following:

	2018	2017
	RMB'000	*RMB'000*
		(Restated)
Crediting		
Government grants income (Note)	**517,450**	484,611
Interest income from long-term and short-term bank time deposits	**636,790**	411,085
Interest income from cash and cash equivalents	**98,374**	93,653
Gains from acquisition of subsidiaries	**–**	55,413
Gains on disposal of property, plant and equipment and land use rights	**–**	36,445
Exchange gains from financing activities – net	**16,650**	–
Exchange gains from operating activities – net	**–**	126,370
Realised fair value gains on derivative financial instruments	**–**	1,073
Unrealised fair value gains on derivative financial instruments	**–**	22,781
Charging		
Depreciation of property, plant and equipment	**721,393**	666,556
Amortisation of land use rights	**24,465**	22,347
Amortisation of intangible assets	**17,987**	3,209
Losses on disposal of property, plant and equipment	**35,025**	–
Employee benefit expense, including Directors' emoluments	**1,601,043**	1,441,795
Marketing and advertising expenses	**411,327**	271,517
Repairs and maintenance expenses	**145,936**	161,304
Operating lease rentals	**89,708**	88,906
Transportation and packaging expenses	**774,977**	782,738
Utilities and various office expenses	**1,262,947**	882,482
Net impairment losses on financial assets	**10,890**	15,787
Exchange losses from financing activities – net	**–**	27,903
Exchange losses from operating activities – net	**31,978**	–
Realised fair value losses on derivative financial instruments	**20,705**	–
Unrealised fair value losses on derivative financial instruments	**15,147**	–
Reversal of inventories write-down	**29,185**	6,539
Interest expenses on convertible bonds	**6,874**	14,267
Interest expenses on borrowing after deducting interest expenses of RMB10,444,000 (2017: RMB10,174,000) capitalised in construction-in-progress	**612,935**	350,905

Note: These represented government grants received from certain municipal governments of Mainland China as an encouragement to the Group's contributions to the development of the local economy.

4. Income tax expense

The amount of income tax expense charged to the consolidated statement of profit or loss represents:

	2018	2017
	RMB'000	*RMB'000*
Current income tax		
— Current tax on profits for the year	**904,150**	959,294
— PRC withholding income tax	**133,078**	175,257
Deferred income tax, net	**60,033**	24,591
Income tax expense	**1,097,261**	1,159,142

(a) Taxation on Mainland China income has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in Mainland China in which the Group's entities operate. The Company's subsidiaries incorporated in Mainland China are subject to Corporate Income Tax ("CIT") at the rate of 25%.

Certain subsidiaries were approved to be new and high-technology enterprises and are entitled to the tax rate of 15%.

Also, according to the Caishui (2011) No. 58 "The notice on the tax policies of further implementation of the western region development strategy issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs" (財稅[2011]58號 "關於深入實施西部大開發戰略有關稅收政策問題的通知"), companies set up in the western region and falling into certain encouraged industry catalogue promulgated by the PRC government are entitled to a preferential tax rate of 15%. Some of the Group's subsidiaries in Mainland China were set up in the western development region and fall into the encouraged industry catalogue, and therefore they are entitled to the above said preferential tax rate.

(b) Hong Kong and overseas profits tax has been provided at the rates of taxation prevailing in the regions in which the Group operates respectively.

(c) The profits of Mainland China subsidiaries of the Group derived since 1 January 2008 are subject to withholding tax at a rate of 5% upon distribution of such profits to foreign investors in Hong Kong, or at a rate of 10% for other foreign investors. Deferred income tax liabilities have been provided for in this regard based on the expected dividends to be distributed from the Group's Mainland China subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

5. Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the Group's profit attributable to the Company's shareholders by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held as treasury shares.

	2018	2017
Profit attributable to shareholders of the Company (RMB'000)	**3,799,805**	3,794,041
Weighted average number of shares outstanding (thousands)	**1,205,832**	1,204,928
Basic earnings per share (RMB)	**3.151**	3.149

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options, both are regarded as dilutive potential ordinary shares as at 31 December 2018. The profit attributed to shareholders of the Company was adjusted for the interest of convertible bonds charge for the year, and the number of ordinary shares was increased as well assuming the convertible bonds were converted to ordinary shares at 1 January 2018. Calculations are done to determine the number of shares that could have been acquired at fair value (determined by using average market share price of the Company's shares for the year ended 31 December 2018) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as below is compared with the number of shares that would have been issued assuming the exercise of the share options.

The diluted earnings per share is the same as the basic earnings per share for the year ended 31 December 2017 as the potential ordinary shares in respect of outstanding share options and convertible bonds are anti-dilutive.

	2018	2017
Profit attributable to shareholders of the Company (RMB'000)	**3,799,805**	3,794,041
Adjusted for convertible bonds (RMB'000)	**6,875**	–
Profit attributable to shareholders of the Company for diluted earnings (RMB'000)	**3,806,680**	3,794,041
Weighted average number of shares outstanding (thousands)	**1,205,832**	1,204,928
Adjusted for share options (thousands)	**72**	–
Adjusted for convertible bonds (thousands)	**4,172**	–
Weighted average number of shares outstanding (thousands)	**1,210,076**	1,204,928
Diluted earnings per share (RMB)	**3.146**	3.149

6. Dividends

	2018 *RMB'000*	2017 *RMB'000*
Interim, paid, RMB1.00 (2017: RMB0.95) per ordinary share *(Note (a))*	**1,206,068**	1,144,644
Final, proposed/paid, RMB1.20 (2017: RMB1.15) per ordinary share *(Note (b))*	**1,430,182**	1,387,190
	2,636,250	2,531,834

(a) The dividends paid in 2018 amounted to RMB2,593,258,000 (2018 interim: RMB1.00 per share, 2017 final: RMB1.15 per share). The dividends paid in 2017 amounted to RMB2,470,021,000 (2017 interim: RMB0.95 per share, 2016 final: RMB1.10 per share). A final dividend in respect of the year ended 31 December 2018 of RMB1.20 per share, amounting to a total dividend of RMB1,430,182,000, was proposed by the Board of Directors at a meeting held on 19 March 2019, subject to the final approval by the shareholders of the Company at the Annual General Meeting to be held on 17 May 2019. These consolidated financial statements do not reflect this dividend payable.

(b) A final dividend in respect of the year ended 31 December 2018 of RMB1.20 per share (equivalent to HK$1.404051 per share)(2017: RMB1.15 per share (equivalent to HK$1.423109 per share)) was proposed by the Board of Directors. Dividends payable to shareholders will be paid in HK$. The exchange rate adopted by the Company for its 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 18 March 2019 is 0.85467.

7. Trade and bills receivables

Part of the Group's sales are on open account with credit terms ranging from 30 days to 90 days. At 31 December 2018, the ageing analysis of the trade and bills receivables based on invoice date was as follows:

	2018 *RMB'000*	2017 *RMB'000*
Within 30 days	**1,323,082**	932,311
31–180 days	**1,396,744**	1,217,240
181–365 days	**82,109**	134,336
Over 365 days	**109,091**	85,634
	2,911,026	2,369,521
Less: provision for impairment	**(67,494)**	(57,461)
Trade and bills receivables – net	**2,843,532**	2,312,060

8. Convertible bonds

	2018	2017
	RMB'000	*RMB'000*
Face 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	**430,124**	423,250
Early redemption of convertible bonds	**(4,392,425)**	(4,392,425)
Redemption of convertible bonds	**(462,309)**	–
Cumulative currency translation differences	**324,688**	324,790
Liability component		
— Current	**–**	455,537

On 27 June 2013, the Company issued zero-coupon convertible bonds with an initial conversion price of HK$120.0825 per share, in the aggregate principal amount of HK$5,434 million, equivalent to RMB4,328 million. The bonds were due for repayment on 27 June 2018 (the "maturity date"). Unless previously redeemed, converted, purchased or cancelled (subject to redemption conditions), these bonds were 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 2.70% for an equivalent non-convertible bond. The residual amount, representing the value of equity conversion component, is included in shareholders' equity in other reserves.

During the year ended 31 December 2018, no bond holders have converted their bonds into ordinary shares of the Company. All the outstanding convertible bonds brought forward from 31 December 2017, with principal amount of HK$501 million, equivalent to RMB399 million were redeemed at the maturity date, 27 June 2018, resulting in transfer of a sum of RMB12,966,000 from convertible bonds equity reserve to retained earnings.

9. Trade and bills payables

At 31 December 2018, the ageing analysis of trade and bills payables based on invoice date was as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 30 days	**1,241,453**	1,361,045
31–180 days	**1,599,637**	733,593
181–365 days	**29,446**	14,364
Over 365 days	**30,105**	19,811
	2,900,641	2,128,813

The carrying amounts of trade and bills payables are approximately their fair value as at the balance sheet date due to short-term maturity.

10. Borrowings

	2018	2017
	RMB'000	*RMB'000*
Non-current		
Long-term bank loans – unsecured	**252,343**	256,058
Medium-term notes *(a)*	**–**	1,997,174
Corporate bonds *(b)*	**3,987,943**	994,001
	4,240,286	3,247,233
Current		
Trust receipt bank loans	**472,743**	225,688
Short-term bank loans – unsecured	**13,538,454**	15,102,697
Short-term bank loans – secured	**12,000**	47,000
Medium-term notes *(a)*	**1,998,881**	–
Super short-term commercial papers *(c)*	**4,000,000**	–
	20,022,078	15,375,385
Total borrowings	**24,262,364**	18,622,618

(a) Medium-term notes

In September 2016, the Company issued a medium-term note at a par value of RMB2,000,000,000, which was dominated in RMB with a fixed interest of 3.24% per annum. The notes will mature in three years from the issue date. The values of the liability, net of transaction costs of RMB5,000,000, were determined at issuance of the notes.

The fair value of the medium-term notes approximated its carrying amount as at 31 December 2018.

(b) Corporate bonds

In September 2016, Hengan (China) Investment Co., Ltd ("Hengan China Investment" or "恒安中投"), a wholly-owned subsidiary of the Group issued a corporate bond at a par value of RMB1,000,000,000, which was dominated in RMB with a fixed interest of 3.30% per annum. The bonds will mature in five years from the issue date. The values of the liability, net of transaction costs of RMB8,000,000, were determined at issuance of the bonds.

In July 2018, Hengan China Investment issued a corporate bond at a par value of RMB3,000,000,000, which was dominated in RMB with a fixed interest of 4.58% per annum in the first two years. At the end of the second year, the issuer has the option to adjust the coupon rate, while the bond holders have the option to demand early redemption from issuer. The bonds will mature in three years from the issue date. The value of the liability, net transaction cost of RMB9,600,000, were determined at issuance of the bonds.

The fair value of the corporate bonds approximated its carrying amount as at 31 December 2018.

(c) Super short-term commercial papers

As at 31 December 2018, Hengan China Investment issued following super short-term commercial papers:

	Interest rate	**Issue date**	**Expiration term**	**Amount**
				RMB'000
18 恒安中投 SCP001	4.15%	2018-08-28	270 days	1,000,000
18 恒安中投 SCP003	4.07%	2018-10-29	270 days	1,000,000
18 恒安中投 SCP004	3.99%	2018-11-29	270 days	1,000,000
18 恒安中投 SCP005	3.90%	2018-12-05	270 days	1,000,000

BUSINESS REVIEW

In 2018, the global economy experienced slowdown in growth. Due to China-US trade frictions and China's deleveraging effect, the country's gross domestic product for 2018 increased by 6.6% year-on-year, the lowest economic growth rate in 28 years. Despite waning economic momentum dampened consumer sentiment, the per capita consumption expenditure of national residents in the daily necessities and services category increased by 9.1% compared with 2017 which showing that the demand for household goods has continued to grow. As the leading personal and household hygiene-products company in China, Hengan exploited its scale advantages and effective cost control measures to sustain steady growth, during times of domestic economic downturn and vigorous competition in China's fast-moving consumer goods market.

During the year under review, Hengan Group further improved the platform rules of "Fair and Transparent" and continued to deepen the "small sales team operating model" (also known as "Hengan's Amoeba model"). The Group fully exploited Amoeba's advantages of high flexibility and prompt-response, effectively developed sales strategies and adjusted the product mix that are more suitable for different regional markets. During the year, the "small sales team operating model" further optimised sales networks, independently managed the ultimate point of sales network, got closer to consumers, and successfully stimulated the sales growth of various product categories. Coupled with the rapid growth of the Group's tissue business and e-commerce sales, overall sales resumed double-digit growth. During 2018, the Group's revenue increased by approximately 13.5% to approximately RMB20,513,881,000 year on year (2017 (Restated): RMB18,079,560,000). While promoting sales, the Group also focused on improving logistics and administrative efficiency.

In 2018, due to the overall prices of wood pulp remained at historical high, with Renminbi depreciating since the second half of 2018, the Group's production cost was relatively higher compared with the same period of last year and pressured gross profit margin. The Group's gross profit margin dropped to about 38.2% (2017 (Restated): 41.8%). The Group expects its gross profit margin to gradually improve in 2019 as the prices of wood pulp have trended downward since the fourth quarter of 2018, coupled with the Group's continued efforts to optimise its product mix and expand its economies of scale in 2019 so as to mitigate the negative effects of intensified competition in the market. Although the Group strengthened brand promotion during the year which resulted in the increase in selling and distribution costs and administrative expenses by approximately 1.4% compared to last year. In terms of the percentage of total revenue, the proportion of selling and distribution costs and administrative expenses decreased to approximately 16.9% (2017 (Restated): 18.9%) of the Group's revenue. The decrease was mainly attributable to the implementation of "small sales team operating model" which enhanced the sales efficiency.

In 2018, operating profit increased by about 3.0% to approximately RMB5,429,224,000 (2017: RMB5,271,574,000). Profit attributable to shareholders of the Company remained stable at approximately RMB3,799,805,000 (2017: RMB3,794,041,000). Excluding the non-recurring gains, profit attributable to shareholders of the Company rose by about 2.6% year on year, which was attributable to the income of approximately RMB55,413,000 generated from the acquisition of its subsidiaries in 2017, and the gains after current income tax expense recorded as a result of the sale of properties in Hunan and Zhejiang amounted to approximately RMB35,659,000 in 2017 respectively. The Board of Directors declared a final dividend of RMB1.20 per share for the year ended 31 December 2018 (2017: RMB1.15).

Sanitary Napkin

While China has seen steady growth in market demand for sanitary napkin, the market penetration increased year after year with the market entering the stage of saturation. In recent years, the competition in sanitary napkin market heated up. To cater for needs of different ages, the Group actively upgraded and renewed its product mix. The Group focuses on premium high-end products like the Space 7 series which targets the white-collar market and the mature females to further consolidate its market positioning as a high-end brand. The Group continued to upgrade its product mix, such as Space 7, including Super Slim series, Super Long 420 night series and Sweet Sleeping Panty series, which received overwhelming response from the market. The Group made changes to the product packaging according to the needs of consumers in different age groups so as to enhance its market competitiveness. In 2018, the Group's sanitary napkin sales achieved steady growth and continued to maintain its leading position in the market.

During the year, revenue of the sanitary napkins business grew by approximately 6.1% to approximately RMB6,593,710,000, which accounted for approximately 32.1% of the Group's revenue (2017 (Restated): 34.4%). In 2018, the gross profit margin of the sanitary napkins business increased approximately to 69.4% (2017 (Restated): 68.8%) as the result of the increase in the high-end and upgrade products portion in the product portfolio to offset the impact of increasing petrochemical raw material cost.

Looking ahead, as the population's income level continues to increase along with the consumers' pursuit of higher quality of sanitary napkin, product upgrades are expected to continue to boost the sales. Aligning with the Group's revised corporate strategy, the Group will expand to the overall female personal care product industry from a single type of hygiene product. On one hand, the Group will develop more brand new products that are closely aligned to market needs, upgrade existing products in addition to launching brand new packaging, as well as further develop the high-end market. By capitalising on the market trends, the Group aims to increase its market share in this saturated market and further consolidate its brand as a market leader. On the other hand, the Group will actively research and develop female care products that satisfy consumer needs by leveraging the Group's advantages and leadership in the sanitary napkin industry, to extend the female care product portfolio and expand the Group's source of revenue, thus laying the foundation for its foray into the massive female care product market. The Group will continue to utilise its e-commerce channels to serve the younger generation's consumption habits so as to provide more effective sales to these. Steady growth in sales is forecasted for 2019.

Tissue Paper

In light of the persistent consumption upgrade trend in the domestic market, Chinese demand for tissue paper has been shifting towards diversification and mid-to-high-quality products. Given the enormous market potential of household paper industry, enhancing the product quality, reducing the costs of production and developing modernized large-scale production have become the mainstream trends.

In 2018, tissue paper segment was still the largest income source of the Group, which accounted for approximately 49.9% of the revenue. During the year, persistently high raw material cost and tightened environmental policies imposed massive pressure on the industry. Those medium and small sized manufacturers with low pricing power and failed to meet the environmental standard are therefore gradually eliminated from the market, which speeds up the industry consolidation. Leveraging on its scale advantage, the Group maintained a stable price level and along with its leading environmental production technologies, the Group managed to gain market share and increased its product penetration notwithstanding the challenging market environment. In 2018, the upgraded product mix, "Tea Classical series", "Super mini" wet wipes series were popular in the market and its sales continued to record significant growth in the domestic market and outperformed in the market. In which, the "Super mini" wet wipes series were successfully entered the Malaysian market during the year and were well received by local consumers.

During the year under review, revenue from the Group's tissue paper segment largely increased by about 18.8% to approximately RMB10,227,313,000, accounting for approximately 49.9% (2017 (Restated): 47.6%) of the Group's total revenue. Tissue paper segment recorded a substantial increase in revenue, which was mainly attributable to the "small sales team operating model" strategy that improved sales of tissue paper from traditional and modern channels, compared with 2017, rapid growth in sales from e-commerce channels, and the increased market share as a result of market consolidation. On the other hand, wood pulp prices increased compared to last year, and the Renminbi depreciated substantially in the second half of 2018. As wood pulp was mainly imported and settled in US dollars, the overall cost was higher compared with the same period in 2017, thereby weighing on the gross profit margin of the tissue paper business.

During the year, gross profit margin decreased to approximately 22.5% (2017 (Restated): 26.8%). Nevertheless, the Group is confident that following the full-scale implementation of the "small sales team operating model" strategy across all departments, it can optimise product portfolio and increase the cost effectiveness. In addition, the wood pulp prices began to decrease in late 2018, it is expected that the gross profit margin of tissue paper segment will be improved gradually in 2019.

The Group's annualised production capacity was approximately 1,420,000 tons by end of year 2018. Moving forward, the Group will consider the pace of adding production capacity according to the market conditions and sales performance.

Environmental protection has become the lifestyle of today's generation. In 2019, the Group will focus on the promotion of the brand Bamboo π series. The Bamboo π series features natural bamboo fibers with non-colored materials and has a clear concept of environmental protection. The Bamboo π series has been well received by the market since its launch in 2018. In 2019, the product categories of Bamboo π series will be expanded to kitchen paper, paper towels and paper rolls. With the Group's leading production technologies and stringent production procedures, the Group can assure the products that made of recycled pulp will have the same good quality.

In response to the rising market awareness for environmental protection and wild conservation, the Group cooperated with the Shaanxi Qinling Research Base of Giant Panda Breeding in 2018 to adopt two pandas named "Heng Heng" and "An An". In the latest promotional activities in relation to the upcoming upgraded and new Bamboo π series products, the Group will incorporate the elements of "Heng Heng" and "An An" with a view of raising the awareness for conservation while promoting the products. On the other hand, the Group will continue to leverage the market popularity and brand leadership of its and "Super mini" wet wipes series to upgrade and expand its product portfolio, and extend its market reach to Hong Kong, Malaysia and other South East

Asian regions. The Group will also take advantage of the ever-increasing consumer demands from e-commerce channels, by launching e-commerce exclusive themed products, upgraded version of popular products and brand-new repackaged products which cater to the needs of the personal and family consumers. Under the direction of the flexible and consumer-oriented strategy of "small sales team operating model", the Group believes tissue segment will maintain robust sales growth and further enhance its gross profit margin.

Disposable Diapers

Urbanisation has always been a major driving force of the diapers market. Increasing personal hygiene awareness, the pursuit of higher living standards and a rapidly ageing population, would bring great development opportunities to the adult diapers market. In addition, the market penetration rate of disposable diapers in China is still relatively low compared with that in other developed countries, the Group believes there is a huge untapped market potential in China. Also, concerning the business model, the fragmented sales channels including online stores, WeChat stores and overseas buying agents have significantly affected the traditional sales channels such as supermarkets and physical store.

In 2018, revenue from the Group's disposable diapers segment decreased by approximately 14.4% to approximately RMB1,536,304,000, which accounted for approximately 7.5% of the Group's revenue (2017 (Restated): 9.9%). During the year under review, the competition in diapers market intensified, the Group's disposable diapers business strategically increased investment in e-commerce channel and maternity stores while continuously implementing its omni-channel strategy. In particular, the Group expedited its development of disposable diapers sales on e-commerce channel. As at 31 December 2018, sales of disposable diapers through e-commerce channel increased to more than 35% of the overall diaper sales. The sales of e-commerce channel increased by about 10% year-on-year, effectively alleviating the decline in the Group's overall diapers sales. However, the sales through traditional channels recorded a decrease of 35% in revenue, which accounted for approximately 40% of the overall diapers sales. Thus, affected the overall diapers sales of the Group.

In view of the consumers' increasing pursuit of high-quality products, the Group has strived to develop high-quality, high-end and high-margin products. In 2018, the Group continued to focus on developing the high quality brand "Q.MO", driving the sales of "Q.MO" to grow by more than three times compared to the same period of previous year, which accounted for approximately 5% of the disposable diaper's total sales. In October 2018, the "Pure Air" brand under "Q.MO" launched an innovative thin and light new product to replace the traditional thick diapers, to enhance the innovative feature of products.. "Soft and thin", the upgraded product of Anerle, recorded a significant growth in sales in 2018, which rose by over 15%. On the other hand, the Group's revenue of adult diapers amounted to approximately RMB174,963,000 (2017: RMB151,963,000), which accounted for approximately 11.4% of the total revenue of disposable diapers(2017 (Restated): 8.5%). Sales increased by approximately 15.1% compared to the same period of previous year. Adult diaper products also entered the Malaysian market during the year, laying a good foundation for the Group's future development in Malaysia and South East Asia.

During the year, as the prices of petrochemical products increased, coupled with intensified market competition, gross profit margin of disposable diapers business dropped to around 39.2% (2017 (Restated): 40.8%).

The Group will continue to implement the omni-channel strategy. In 2019, the Group will continue to leverage on "small sales team operating model" to improve its understanding of consumers from different channels, adjust the product mix and the pace of supplies, and actively increase the sales of e-commerce and maternity stores. The Group will strive to upgrade existing products and launch new products so as to forge ahead towards the long-term goal of developing high-end market, mitigate the impact on traditional channels and improve the sales performance of traditional channels. The Group will also actively develop baby care products to gradually expand into the baby care industry. In addition, with substantial growth in elderly care demand, the Group will continue to cooperate with elderly homes to supply adult diapers, mattresses and other care products, and develop the care products business in the long term. It believes that the development of the elderly care industry will become the long-term growth driver of the diaper business.

Other Incomes

Revenue from the Group's household products segment amounted to approximately RMB230,423,000 (2017 (Restated): RMB9,851,000), including the revenue of Sunway Kordis Group for the eight months between April to December 2018, which contributed additional revenue of RMB201,343,000. The business accounted for approximately 1.1% (2017 (Restated): 0.1%) of the Group's revenue. Sales of first-aid products under the brands of "Banitore" and "Bandi" amounted to approximately RMB32,717,000 (2017 (Restated): RMB32,451,000). The business accounted for approximately 0.2% (2017 (Restated): 0.2%) of the Group's revenue and did not have any significant impact on the Group's overall results.

In recent years, the Group has stepped up its efforts to develop the household products business so as to expand its market coverage. On 4 April 2018, the Group acquired the entire issued share capital of the Sunway Kordis Holding Limited ("Sunway Kordis") and its subsidiaries. Sunway Kordis is principally engaged in the manufacturing of food wrap film and plastic bags in the PRC which are sold locally and exported to markets in Europe, Australia, North America and Asia. The acquisition will further enhance the overall growth of the Group and is undertaken as part of its plan to expand its household products offerings and diversify its revenue stream inside and outside the PRC. In 2019, the Group will further utilise the experience of Sunway Kordis in household product industry and develop the coverage of Hengan's household product. The Group will also seek to leverage on its overseas sales network to bring Hengan's products to the overseas market.

For the year ended 31 December 2018, revenue of Wang-Zheng Group amounted to RMB425,080,000 (only seven months revenue was recognised in last period amounted to RMB261,477,000). Together with the revenue generated by Sunway Kordis Group, therefore, other income of the Group increased by 47.6% year on year.

E-commerce

In 2018, the national online retail sales of physical goods increased by approximately 25.4% year on year. Its contribution to the total social retail sales of consumer goods increased 18.4%, an increase of 3.4 percentage points when compared to 2017. It reflected the continued shift of consumption from in-store shopping to online shopping. In response to the market changes, the Group has fully implemented the "Omni-Channel Sales" strategy.

To cater to the changes in the consumption patterns and habits of the Chinese consumers, apart from the traditional channels like distributors and supermarkets, the Group has been making use of sales channel like online stores and WeChat stores, to further expand its sales network in China. Through the strategic collaborations with well-known large e-commerce operators in China, the Group has started to make use of big data to more precisely analyse the online shopping habits and preferences of consumers, so that the Group could flexibly allocate the resources used in production, inventory supplies and sales in order to enhance the sales productivity. With the Retail Expert ("零售通") platform, the Group also expanded the customer base of B2B business, enhanced the logistics system, and increased the coverage of its offline sales network.

As at 31 December 2018, revenue from e-commerce (including Retail Export (零售通) and WeChat sales) exceeded approximately 2.9 billion, up by 50% over the previous year. E-commerce's contribution to total sales revenue also rose to approximately 14.4% (2017 (Restated): 10.6%) in which the sales of tissue paper segment continued to benefit from the rapid growth of e-commerce channel. Besides, the Group continued to enhance the profitability of e-commerce sales with targeted investment in e-commerce and continued optimization of the e-commerce product portfolio during the year.

Looking ahead, the Group will continue to expand the coverage of e-commerce channels, launch online exclusive products, such as online combination products, and engage in online promotions. The Group believes that the comprehensive improvements in sales, inventory supplies, logistics and distribution will boost the sales and profit of e-commerce in 2019.

Hengan's Amoeba Model

To cater the rapidly evolving demand of consumers, Hengan Group began to implement the "small sales team operating model" by the end of 2016. Leveraging on the platform and the "Fair and Transparent" platform rules, the Group has fully empowered the employees, motivated the team and stimulated creativity, which enhanced the team flexibility and market responsiveness. Adhering to the "customer-oriented" principle, the Group managed to quickly adjust its supplies, production capacity and product development, effectively formulate unique sales strategy according to the needs of consumers in various markets and launch products and services for different targeted consumer groups.

In 2018, the Group continued to deepen the implementation of the "small sales team operating model" and achieved notable results. Meanwhile, the "small sales team operating model" has gradually extended to all divisions of the Group, including production, products, e-commerce and maternity departments.

In 2018, the Group's total sales resumed double-digit growth, and its expense ratio was 16.9%, decreased by about 2 percentage point year-on-year, effectively alleviating the impact of high raw material costs on the profitability of the Group.

Looking ahead, the Group believes the effectiveness of the "small sales team operating model" at all operation divisions will be further strengthened. The Group will keep upgrading its entire supply chain and deepen the operational efficiency of "small sales team operating model" in order to enhance the agility and market responsiveness of the Group, thereby fully exploiting the potential of the strategy.

International business development

The Group has actively expanded to overseas markets. Currently, the Group sells its products in 43 countries and regions, with 76 direct partnerships with major clients or distributors.

In 2017, the Group acquired an aggregate of 80,003,000 shares of Wang-Zheng Berhad (Stock code: 7203), a company listed on the Main Market of Bursa Malaysia Securities Berhad. The shares brought represented 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. In 2018, Hengan successfully expanded into the Malaysian market by launching the high-end adult diapers and the Banitore brand in order to establish a foothold in the elderly care industry. In the fourth quarter of 2018, the Group launched the "Super mini" wet wipes series in Malaysia which achieved good sales and received great word-of-mouth reviews, laying the foundation for expansion into the domestic market. The Group will continue to utilise the sales network of Wang-Zheng in South East Asia (including supermarkets and personal hygiene products chain stores), in order to promote Hengan products to Malaysian and South East Asian market.

During the year, the revenue and net profit of Wang-Zheng amounted to RMB425,080,000 and RMB14,975,000 respectively, accounting for approximately 2.1% and 0.4% of the Group's total revenue and net profit respectively.

In 2019, Wang-Zheng will vigorously promote Hengan's products in Malaysia through various sales channels (such as convenient store and e-commerce channels), comprehensively establish brand image and high-quality product philosophy. The Group will continue to upgrade existing Wang-Zheng products and develop high-end products. The new production line (including adult pull-on pants) will commence operation in 2019 in order to enhance the product competitiveness. In addition, as part of its strategic plan for the South East Asian market, the Group has established a sales office in Indonesia to promote and sell Hengan branded products.

In addition, the Group completed the investment in a Russian factory, with plans to start producing diapers in 2019, thereby expanding its diaper business to the Russian market.

In April 2018, the company invested in Finnpulp Oy ("Finnpulp") which is currently engaged in planning and aiming to build a large-scale bio-product mill in Kuopio, Finland. The planned mill is in the pre-engineering phase and construction is expected to commence in 2020. Upon completion of the construction work, the planned mill targets to produce approximately 1,200,000 tonnes of northern bleached softwood sulphate kraft pulp per year for the global market, as well as other bio-products. The Group will expand its business to upstream wood pulp, enabling the Group to secure stable supply of wood pulp in the long term, and therefore reinforce the long-term stable development of the Group's tissue business.

Exchange loss and 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. During the year, the Group recorded an operating exchange loss of approximately RMB31,978,000 as a result from the purchases of raw materials from oversea suppliers. The Group has not experienced 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 2018, apart from certain foreign currency swap 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 31 December 2018, the Group's cash and bank balances, long-term bank time deposits and restricted bank deposits totally amounted to approximately RMB25,919,500,000 (31 December 2017: RMB20,932,456,000); medium-term notes (panda bonds), corporate bonds and super short-term commercial papers totally amounted to approximately RMB9,986,824,000 (31 December 2017: RMB2,991,175,000), and bank borrowings amounted to approximately RMB14,275,540,000 (31 December 2017: RMB15,631,443,000). The principal amount of the convertible bonds issued in June 2013 was approximately RMB4,328,000,000. The convertible bonds were fully redeemed on 27 June 2018 (31 December 2017: RMB455,537,000).

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 corporate bonds of RMB1 billion in September 2016, with a coupon rate of 3.24% and 3.30% per annum respectively. The Group finished the second tranche 3-year domestic bonds of RMB3 billion, with a coupon rate of 4.58% per annum on 30 July 2018.

In addition, the Group successfully registered for the proposed issue of RMB5.0 billion super short-term commercial paper on April 2017. The Group issued commercial paper in five batches, with a coupon rate from 3.78% to 4.15% per annum respectively. Apart from one of the tranches having an effective period of 97 days and was fully repaid during the year 2018, the rest of these super short-term commercial paper tranches are 270 days.

The bank borrowings were subject to floating annual interest rates ranging from approximately 1.4% to 7.0% (2017: from 1.0% to 5.6%).

As at 31 December 2018, the Group's gross gearing ratio was approximately 145.1% (31 December 2017: 118.5%), which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including non-controlling interests). The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term time deposits as a percentage of the shareholders' equity (not including non-controlling interests), was negative 9.9% (31 December 2017: negative 11.5%) as the Group was in a net cash position.

During the year, the Group's capital expenditure for continuing operations amounted to approximately RMB845,755,000. As at 31 December 2018, the Group had no material contingent liabilities.

Changes in Accounting Rule

Starting form 2018, the Group adopted Hong Kong Financial Reporting Standard 9 and 15. The adoption of Hong Kong Financial Reporting Standard 9 did not result in any significant impact on the amounts reported in the opening balance sheet on 1 January 2018 and the consolidated financial statements for the year ended 31 December 2018. According to Hong Kong Financial Reporting Standard 15, the reporting promotional and sales campaign expense was changed. The Group's revenue is offset by the expenses in promotional and sales campaign. Therefore, the Group's revenue, gross profit, and expense level on the book had been presented in according to Hong Kong Financial Reporting Standard 15 for the year ended 31 December 2018. The financial statement for the last year has been restated. For the year ended 31 December 2018 and 2017, the expenses offset against revenue were RMB1,882,350,000 and RMB1,745,471,000 respectively.

Latest awards

In 2018, the Group awards and honors won by the Group are as follows:

Award	**Organisation**
Top 100 Hong Kong Stocks. The Group has received this award for six consecutive years.	Finet Group Limited
QuamIR Awards – The Most Remarkable Investor Relations Recognition 2017	Oceanwide IR Limited
The 13th "Capital China" Outstanding Enterprise Award	Hong Kong Capital Magazine
Global 2000: The World's Largest Public Companies, 2018	Forbes
Listed Enterprises of the Year 2018	Bloomberg Businessweek/Chinese Edition
Hong Kong Outstanding Enterprises Parade 2018 Award	Economic Digest
Listed Company Awards of Excellence 2018	Hong Kong Economic Journal
40th Anniversary of China's reform and opening-up: Top 40 Brands	China Central Television

Product and Raw Material Research and Development

Hengan has stayed committed to its corporate vision of "becoming the top household product enterprise in China through sustainable innovation and provision of high-quality products and services". Adhering to the "consumer-oriented" market principle, the Group will vigorously upgrade its products portfolio, facilitate the long-term and sustainable business development and provide the public with high-quality personal and household hygiene products.

In response to China's increasingly stringent environmental policies, Hengan will exploit its production scale and technical strength, strive to develop green products and sustainable environmental friendly production technologies.

Human Resources and Management

Benefitting from the "small sales team operating model" strategy, the Group effectively enhanced the efficiency of human resources. As at 31 December 2018, the Group employed approximately 23,000 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 2019, uncertainties over China-US trade frictions and the volatile movement of Renminbi exchange rate linger. US President Trump's economic policies and the upcoming Brexit process also bring uncertainties to the market. The Group will closely monitor the impact of external factors on the prices of imported wood pulp and petrochemical products. With accelerating urbanisation in China, the national income level continues to increase. The Chinese government has been promoting high-quality development of the society, which would drive up the demand for high-quality products in the personal hygiene products market in the long run.

The Group expects the wood pulp prices to fall in 2019, which will ease the cost pressure on the company and help improving gross profit margin. At the same time, the Group will continue to execute the "small sales team operating model" strategy to the greatest effect, focusing on consumers and satisfying their needs through high-quality products and services. The Group is also actively implementing the omni-channel strategy, as well as exploring new potential channels, to seize the tremendous market opportunities.

Leveraging its production scale, brand influence, perseverance to product quality and strength in constant progression, the Group will consider industrial expansion as the long-term development target, leveraging on its existing resources and business foundation, to focus on female care industry, baby care industry and elderly care industry, as well as to launch brand new products and upgraded products, so as to cater for the needs of different consumers. Also, leveraging its scale advantages to continue to decrease the expenses percentage against total revenue, the Group's overall profits will be improved. The Group will continue to promote the Hengan brand to the overseas markets and create higher value for shareholders.

PROPOSED FINAL DIVIDEND

The directors have resolved to recommend the payment of a dividend of RMB1.20 (2017: RMB1.15) per share to shareholders, whose names appear in the register of members of the Company on Friday, 24 May 2019 (the "Proposed Final Dividend"). Subject to the passing of the necessary resolution at the forthcoming annual general meeting to be held on Friday, 17 May 2019 (the "2019 AGM"), the Proposed Final Dividend will be payable on Thursday, 30 May 2019.

CLOSURE OF THE REGISTER OF MEMBERS

(a) For determining the entitlement to attend and vote at the 2019 AGM

The 2019 AGM is scheduled to be held on Friday, 17 May 2019. For determining the entitlement to attend and vote at 2019 AGM, the register of members of the Company will be closed from Tuesday, 14 May 2019 to Friday, 17 May 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at 2019 AGM, unregistered holders of shares of the Company should ensure that all the share transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 10 May 2019.

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

The Proposed Final Dividend is subject to the approval of shareholders at the 2019 AGM. For determining the entitlement to the Proposed Final Dividend for the year ended 31 December 2018, the register of members of the Company will also be closed from Thursday, 23 May 2019 to Friday, 24 May 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the Proposed Final Dividend, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 22 May 2019.

REVIEW OF ACCOUNTS

The Audit Committee, which is chaired by an independent non-executive director and currently has a membership comprising another four independent non-executive directors, has discussed with management and reviewed the consolidated financial statements for the year ended 31 December 2018. The figures contained in the financial statements set out in page 2 to 22 of this announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year as approved by the Board. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

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

During the year ended 31 December 2018, the Company repurchased a total of 14,477,000 ordinary shares on the Stock Exchange at an aggregate consideration of approximately HK$797,123,000 (excluding expenses) for enhancing its per share net asset value and earnings. 227,500 ordinary shares had been cancelled before 31 December 2018. On 28 January 2019, the remaining 14,249,500 shares have been cancelled by the Group. Details of the repurchase of shares are summarized as follows:

Date of repurchase	**Number of shares repurchased**	**Highest price paid**	**Lowest price paid**
		HK$	*HK$*
23 August 2018	227,500	64.60	64.20
17 December 2018	647,000	55.90	54.90
18 December 2018	1,322,500	54.65	53.60
19 December 2018	2,284,000	53.00	51.90
20 December 2018	2,659,500	53.50	52.00
21 December 2018	167,500	54.60	54.40
24 December 2018	1,487,000	55.80	57.00
27 December 2018	3,129,000	57.05	56.50
28 December 2018	1,009,500	56.80	56.05
31 December 2018	1,543,500	57.00	56.10
	14,477,000		

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2018.

CORPORATE GOVERNANCE

The Board is committed to maintaining high standards of corporate governance. The Company has complied with the applicable code provisions in the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the year ended 31 December 2018 except that: under Code Provision A.6.7 stipulates Independent non-executive directors and other non-executive directors, should also attend general meetings and develop a balanced understanding of the views of shareholders. Ms. Ada Ying Kay Wong and Mr. Wang Ming Fu and Mr. Zhou Fang Sheng, the independent non-executive directors of the Company, were unable to attend the annual general meeting of the Company held on 17 May 2018 because they had other urgent business engagement.

ACKNOWLEDGEMENT

The directors would like to take this opportunity to express our sincere thanks to our shareholders for their support and to our staff for their commitment and diligence during the year.

CLARIFICATION OF THE COMPANY'S RESPONSE IN THE COMPANY'S CLARIFICATION ANNOUNCEMENT DATED 13 DECEMBER 2018

Reference is made to the clarification announcement of the Company dated 13 December 2018 (the "**Clarification Announcement**") and the voluntary announcement of the Company dated 13 December 2018 (the "**Voluntary Announcement**") in relation to clarification of certain allegations made in negative reports issued by Bonitas Research LLC ("**Bonitas**") on or about 11 December 2018 and 13 December 2018.

Save as expressly provided, capitalised terms in this section of this announcement shall have the same meanings as those defined in the Clarification Announcement and Voluntary Announcement.

The Company wishes to, while maintaining what was stated in the Clarification Announcement, supplement information in relation to and further elaborate on the Company's response under the section headed "2. *Inexplicable difference in segment profitability between Hengan China and Hengan*" in the Clarification Announcement as follows.

As mentioned in the Clarification Announcement, certain subsidiaries of the Group which are not subsidiaries of and not within the Hengan China Group are used to purchase raw materials (please see below for further details) and for production. Indeed, some of the subsidiaries of Hengan China also sell processed raw materials to subsidiaries of the Group which are not subsidiaries of Hengan China. These subsidiaries of the Company (excluding the Hengan China Group) transact with the Hengan China Group for sale and purchase of raw materials and finished products in the ordinary course of business. In general, all subsidiaries of the Company price their products and services to earn a commercially reasonable profit for their own business operations even in intra-group transactions. On consolidation of the Group's accounts at the Company level, all intra-group transactions and relevant balances would be eliminated in accordance with the applicable accounting standards. For the Group, all preparation basis and presentation of the financial statements of the Hengan China subsidiaries have been aligned with the Group on consolidation. Such alignment process in particular requires reclassification of certain balance sheet and income statement items.

The reconciliation of financial figures between a particular company of the Group and a particular sub-group and the difference in the operating margins between the Hengan China Group and the Group is not as straightforward as simple addition. In addition, due to the elimination of intra-group transactions and profits upon consolidation, a simple addition of profit margin (and margin percentage) of individual subsidiaries would not equal the consolidated Group profit margin (and margin percentage).

Against this background, there are two main factors contributing to the difference in the profit margins of the Group and the Hengan China Group.

Firstly, the Additional Subsidiaries, namely, Fujian Hengan Holding Co., Ltd. and Fujian Hengan Homecare Products Co., Ltd., which are not part of the Hengan China Group and principally engaged in the manufacturing of sanitary napkin products (mainly the "Space 7" branded sanitary napkin products), sold their finished products to the Hengan China Group at a profit. As a result and since the Additional subsidiaries belong to the Group (excluding the Hengan China Group) and not the Hengan China Group, profit from such production and internal sale stays with the Additional Subsidiaries and the Group (excluding the Hengan China Group), but are not passed on to or shared with the Hengan China Group.

Secondly, Hengan Mega Jumbo Investments Ltd. and Anhai (Macao Commercial Offshore) Ltd. (the "**Overseas Procurement Subsidiaries**"), subsidiaries of the Company which are not in the Hengan China Group, are responsible for the purchase of raw materials for sanitary napkins (being principally fluff pulps and petrochemical raw materials (including super absorbent polymer)) in Hong Kong and Macau from overseas and such raw materials are subsequently sold to the Hengan China Group. These Overseas Procurement Subsidiaries generate profit from such sales and such profits are not included in the Hengan China Group operating profits.

As a result of such composition of group structure (which is legitimate) and business arrangements (which are genuine commercial transactions), that, in each case, is in the interest of the Company and its shareholders as a whole, the aforesaid profits of the Additional Subsidiaries and the Overseas Procurement Subsidiaries are included in the Group after properly eliminating the internal unrealised profits but such profits are not included in the Hengan China Group. This business arrangement of the Hengan China Group and the Group (excluding the Hengan China Group) also meant that different nominators and denominators should be used in calculating the profit margin percentages of the Hengan China Group and the Group, which would result in different profit margin percentages.

These contribute to the significant difference in the sanitary napkins related profit margins of the Group (excluding the Hengan China Group) and that of the Hengan China Group.

Shareholders and potential investors of the Company are advised to pay attention to investment risks and exercise caution when they deal or contemplate dealing in the securities of the Company.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises Mr. Sze Man Bok, Mr. Hui Lin Chit, Mr. Hung Ching Shan, Mr. Xu Shui Shen, Mr. Xu Da Zuo, Mr. Xu Chun Man, Mr. Sze Wong Kim, Mr. Hui Ching Chi and Mr. 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.

By order of the Board
Sze Man Bok
Chairman

Hong Kong, 19 March, 2019