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 2019 AND CHANGE IN SENIOR MANAGEMENT

"Growing with You for a Better Life"

2019 ANNUAL RESULTS FINANCIAL SUMMARY

	2019	2018	Change
	RMB'000	*RMB'000*	*%*
Revenue	**22,492,845**	20,513,881	9.6%
Operating Profit	**5,680,296**	5,429,224	4.6%
Profit attributable to shareholders	**3,907,723**	3,799,805	2.8%
Gross Profit margin (%)	**38.6%**	38.2%	
Earnings per share			
— Basic	**RMB3.285**	RMB3.151	4.3%
— Diluted	**RMB3.285**	RMB3.146	4.4%
Dividends			
— Interim (paid)	**RMB1.00**	RMB1.00	
— Final (proposed/paid)	**RMB1.25**	RMB1.20	
Accounts receivable turnover (days)	**53**	46	
Finished goods turnover (days)	**43**	41	
Current ratio (times)	**1.3**	1.3	
Rate of return (%)	**21.9%**	22.7%	

* *For identification purposes only*

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 2019, together with the comparative figures for the previous year, as follows:

Consolidated statement of profit or loss

		Year ended 31 December	
	Note	**2019**	2018
		RMB'000	*RMB'000*
Revenue	*2*	**22,492,845**	20,513,881
Cost of goods sold		**(13,803,888)**	(12,678,128)
Gross profit		**8,688,957**	7,835,753
Selling and distribution costs		**(3,202,780)**	(2,269,713)
Administrative expenses		**(1,284,556)**	(1,199,406)
Net impairment losses on financial assets		**(7,614)**	(10,890)
Other income and other gains – net		**1,486,289**	1,073,480
Operating profit		**5,680,296**	5,429,224
Finance income		**140,069**	115,024
Finance costs		**(773,478)**	(639,854)
Finance costs – net		**(633,409)**	(524,830)
Profit before income tax	*3*	**5,046,887**	4,904,394
Income tax expense	*4*	**(1,129,784)**	(1,097,261)
Profit for the year		**3,917,103**	3,807,133
Profit attributable to:			
Shareholders of the Company		**3,907,723**	3,799,805
Non-controlling interests		**9,380**	7,328
		3,917,103	3,807,133
Earnings per share for profit attributable to shareholders of the Company			
— Basic	*5*	**RMB 3.285**	RMB3.151
— Diluted	*5*	**RMB 3.285**	RMB3.146

Consolidated statement of comprehensive income

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit for the year	**3,917,103**	3,807,133
Other comprehensive income		
Items that may be reclassified to profit or loss		
— Currency translation differences	**(39,511)**	69,525
Total comprehensive income for the year	**3,877,592**	3,876,658
Attributable to:		
Shareholders of the Company	**3,858,224**	3,867,513
Non-controlling interests	**19,368**	9,145
Total comprehensive income for the year	**3,877,592**	3,876,658

Consolidated balance sheet

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
Assets			
Non-current assets			
Property, plant and equipment		**7,822,457**	8,095,356
Right-of-use assets		**988,245**	–
Construction-in-progress		**543,534**	580,790
Investment properties		**226,233**	225,036
Land use rights		**–**	844,532
Intangible assets		**724,620**	686,558
Prepayments for non-current assets		**120,293**	124,187
Deferred income tax assets		**213,211**	132,344
Investments in associates		**101,670**	101,670
Long-term bank time deposits		**2,430,082**	4,338,000
		13,170,345	15,128,473
Current assets			
Inventories		**3,802,496**	4,285,483
Trade and bills receivables	*7*	**3,651,224**	2,843,532
Other receivables, prepayments and deposits		**1,956,862**	1,701,097
Current income tax recoverable		**97,511**	109,145
Derivative financial instruments		**12,858**	2,922
Restricted bank deposits		**7,209**	4,670
Cash and bank balances		**20,540,270**	21,576,830
		30,068,430	30,523,679
Total assets		**43,238,775**	45,652,152
Equity			
Equity attributable to shareholders of the Company			
Share capital		**125,654**	127,092
Other reserves		**3,203,594**	2,614,789
Retained earnings		**14,543,693**	13,983,279
		17,872,941	16,725,160
Non-controlling interests		**278,937**	273,519
Total equity		**18,151,878**	16,998,679

	Note	As at 31 December 2019 RMB'000	2018 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	*9*	**1,246,992**	4,240,286
Lease liabilities		**4,365**	–
Finance lease payables		**–**	107
Deferred income tax liabilities		**171,467**	160,170
		1,422,824	4,400,563
Current liabilities			
Trade and bills payables	*8*	**2,223,894**	2,900,641
Other payables and accrued charges		**907,752**	1,192,264
Contract liabilities		**145,230**	118,276
Derivative financial instruments		**19,788**	18,603
Lease liabilities		**5,960**	–
Current income tax liabilities		**–**	890
Borrowings	*9*	**20,361,449**	20,022,078
Finance lease payables		**–**	158
		23,664,073	24,252,910
Total liabilities		**25,086,897**	28,653,473
Total equity and liabilities		**43,238,775**	45,652,152

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.

(i) 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 2019:

- HKFRS 16 Leases[(a)],
- Amendments to HKFRS 9 Prepayment Features with Negative Compensation,
- Amendments to HKAS 28 Long-term Interests in Associates and Joint Ventures,
- Amendments to HKAS 19 Plan Amendment, Curtailment or Settlement,
- HK(IFRIC) 23 Uncertainty over Income Tax Treatments, and
- Annual Improvements to HKFRS Standards 2015–2017 Cycle.

The Group changed its accounting policies as a result of adopting HKFRS 16 and the related impact is disclosed below. The other newly adopted standards or amendments listed above did not have material impact on these financial statements.

(a) HKFRS 16 Leases

The Group has adopted HKFRS 16 since 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated balance sheet on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The lessee's weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.67%.

a) Measurement of lease liabilities

	2019
	RMB'000
Operating lease commitments disclosed as at 31 December 2018	**44,066**
Less:	
Short-term leases not recognised as a liability	**(40,340)**
Low-value leases not recognised as a liability	**(91)**
	3,635
Discounted using the lessee's weighted average incremental borrowing rate at the date of initial application, lease liability recognised as at 1 January 2019	**3,481**
Add:	
Finance lease payables recognised as at 1 January 2019	**265**
Lease liability recognised as at 1 January 2019	**3,746**

b) Measurement of right-of-use assets

The right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any rental prepayments relating to that lease recognised in the balance sheet as at 1 January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

	2019
	RMB'000
Discounted using the lessee's weighted average incremental borrowing rate at the date of initial application, right-of-use assets recognised as at 1 January 2019	**3,481**
Add:	
Rental prepayments recognised as at 1 January 2019	**494**
Reclassification of land use rights	**971,802**
Reclassification of property, plant and equipment	**419**
Right-of-use assets recognised as at 1 January 2019	**976,196**

c) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the consolidated balance sheet on 1 January 2019:

- Property, plant and equipment – decreased by RMB127,689,000
- Land use rights – decreased by RMB844,532,000
- Other receivables, prepayments and deposits – decreased by RMB494,000
- Right-of-use assets – increased by RMB976,196,000
- Finance lease payables – decreased by RMB265,000
- Lease liabilities – increased by RMB3,746,000

There was no impact on retained earnings on 1 January 2019.

(ii) New and amended standards not yet adopted

Certain new and amended standards and interpretations are effective for annual periods beginning after 1 January 2019 and have not been early adopted in preparing these consolidated financial statements. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Standards and amendments		Effective for annual periods beginning on or after
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
Amendments to HKFRS 9,HKAS 39 and HKFRS 7	Interbank interest rate benchmark reform	1 January 2020
HKFRS 17	Insurance contracts	1 January 2021

2. Revenue and segment information

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

	2019				
	Sanitary napkins products *RMB'000*	**Disposable diapers products** *RMB'000*	**Tissue paper products** *RMB'000*	**Others** *RMB'000*	**Group** *RMB'000*
Segment revenue	**6,546,424**	**1,470,212**	**11,984,079**	**3,910,114**	**23,910,829**
Inter-segment sales	**(59,421)**	**(31,125)**	**(497,541)**	**(829,897)**	**(1,417,984)**
Revenue of the Group	**6,487,003**	**1,439,087**	**11,486,538**	**3,080,217**	**22,492,845**
Segment profit	**3,104,858**	**151,365**	**843,218**	**123,943**	**4,223,384**
Unallocated costs					**(29,377)**
Other income and other gains – net					**1,486,289**
Operating profit					**5,680,296**
Finance income					**140,069**
Finance costs					**(773,478)**
Profit before income tax					**5,046,887**
Income tax expense					**(1,129,784)**
Profit for the year					**3,917,103**
Non-controlling interests					**(9,380)**
Profit attributable to shareholders of the Company					**3,907,723**
Other items for the year ended 31 December 2019					
Additions to non-current assets	**252,343**	**91,724**	**291,726**	**93,570**	**729,363**
Initial recognition of right-of-use assets related to buildings	**1,988**	**208**	**1,663**	**116**	**3,975**
Depreciation of property, plant and equipment and investment properties	**174,768**	**38,762**	**491,760**	**45,759**	**751,049**
Depreciation of right-of-use assets	**10,414**	**4,174**	**18,950**	**4,940**	**38,478**
Amortisation charge	**15,782**	**–**	**382**	**10,443**	**26,607**

	2019				
	Sanitary napkins products	Disposable diapers products	Tissue paper products	Others	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2019					
Segment assets	**7,371,874**	**5,009,723**	**14,576,696**	**3,641,818**	**30,600,111**
Deferred income tax assets					**213,211**
Current income tax recoverable					**97,511**
Investments in associates					**101,670**
Unallocated assets					**12,226,272**
Total assets					**43,238,775**
Segment liabilities	**2,392,831**	**1,457,052**	**5,235,705**	**832,438**	**9,918,026**
Deferred income tax liabilities					**171,467**
Unallocated liabilities					**14,997,404**
Total liabilities					**25,086,897**

	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

3. Profit before income tax

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

	2019	2018
	RMB'000	*RMB'000*
Crediting		
Government grants income *(Note)*	**692,420**	517,450
Interest income from cash and cash equivalents	**132,302**	98,374
Interests income from long-term and short-term bank time deposits	**833,343**	636,790
Realised fair value gains on derivative financial instruments	**15,711**	–
Reversal of inventories write-down	**–**	29,185
Exchange gains from financing activities – net	**7,767**	16,650
Charging		
Depreciation of property, plant and equipment	**745,188**	721,393
Depreciation of right-of-use assets	**38,478**	–
Amortisation of land use rights	**–**	24,465
Amortisation of intangible assets	**26,607**	17,987
Employee benefit expense, including Directors' emoluments	**1,823,062**	1,601,043
Marketing and advertising expenses	**1,136,555**	411,327
Repairs and maintenance expenses	**149,104**	145,936
Losses on disposal of property, plant and equipment and land use rights	**32,549**	35,025
Utilities and various office expenses	**851,848**	1,262,947
Transportation and packaging expenses	**816,591**	774,977
Short-term and low-value lease expenses	**86,306**	–
Operating lease expenses	**–**	89,708
Net impairment losses on financial assets	**7,614**	10,890
Provision for inventories write-down	**4,747**	–
Exchange losses from operating activities – net	**89,331**	31,978
Realised fair value losses on derivative financial instruments	**–**	20,705
Unrealised fair value losses on derivative financial instruments	**6,808**	15,147
Interest expenses on convertible bonds	**–**	6,874
Interest expenses on borrowing after deducting interest expenses of RMB15,630,000 (2018: RMB10,444,000) capitalised in construction-in-progress	**772,987**	612,935

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:

	2019	2018
	RMB'000	*RMB'000*
Current income tax		
— Current tax on profits for the year	**1,042,369**	904,150
— PRC withholding income tax	**157,094**	133,078
Deferred income tax, net	**(69,679)**	60,033
Income tax expense	**1,129,784**	1,097,261

(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 subsidiaries 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" (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") issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, 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 foresaid preferential tax rate.

(b) Hong Kong and overseas profits tax has been calculated at the rates of taxation prevailing in the countries 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 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.

	2019	2018
Profit attributable to shareholders of the Company (RMB'000)	**3,907,723**	3,799,805
Weighted average number of shares outstanding (thousands)	**1,189,697**	1,205,832
Basic earnings per share (RMB)	**3.285**	3.151

(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. For the year ended 31 December 2018, the Company has two categories of dilutive potential ordinary shares: convertible bonds and share options, both are regarded as dilutive potential ordinary shares. The profit attributed to shareholders of the Company was adjusted for the interest of 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.

For the year ended 31 December 2019, share options is the only category of dilutive potential ordinary shares of the Company. The diluted earnings per share is the same as the basic earnings per share as the potential ordinary shares in respect of outstanding share options is anti-dilutive.

	2019	2018
Profit attributable to shareholders of the Company (RMB'000)	**3,907,723**	3,799,805
Adjusted for convertible bonds (RMB'000)	**–**	6,875
Profit attributable to shareholders of the Company for diluted earnings (RMB'000)	**3,907,723**	3,806,680
Weighted average number of shares outstanding (thousands)	**1,189,697**	1,205,832
Adjusted for share options (thousands)	**–**	72
Adjusted for convertible bonds (thousands)	**–**	4,172
Weighted average number of shares outstanding (thousands)	**1,189,697**	1,210,076
Diluted earnings per share (RMB)	**3.285**	3.146

6. Dividends

	2019	2018
	RMB'000	*RMB'000*
Interim, paid, RMB1.00 (2018: RMB1.00) per ordinary share *(Note (a))*	**1,189,677**	1,206,068
Final, proposed/paid, RMB1.25 (2018: RMB1.20) per ordinary share *(Note (b))*	**1,487,097**	1,427,613
	2,676,774	2,633,681

(a) The dividends paid in 2019 amounted to RMB2,617,290,000 (2019 interim: RMB1.00 per share, 2018 final: RMB1.20 per share). The dividends paid in 2018 amounted to RMB2,593,258,000 (2018 interim: RMB1.00 per share, 2017 final: RMB1.15 per share). A final dividend in respect of the year ended 31 December 2019 of RMB1.25 per share, amounting to a total dividend of RMB1,487,097,000, was proposed by the Board of Directors at a meeting held on 26 March 2020, subject to the final approval by the shareholders of the Company at the Annual General Meeting to be held on 21 May 2020. These financial statements do not reflect this dividend payable.

(b) A final dividend in respect of the year ended 31 December 2019 of RMB1.25 per share (equivalent to HK$1.369968 per share) (2018: RMB1.20 per share (equivalent to HK$1.404051 per share)) was proposed by the Board of Directors. Dividends payable to shareholders will be paid in HK$. 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 25 March 2020 is 0.91243.

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 2019 and 2018, the ageing analysis of the trade and bills receivables based on invoice date was as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 30 days	**1,483,539**	1,323,082
31–180 days	**2,017,526**	1,396,744
181–365 days	**119,287**	82,109
Over 365 days	**96,036**	109,091
	3,716,388	2,911,026
Less: provision for impairment	**(65,164)**	(67,494)
Trade and bills receivables – net	**3,651,224**	2,843,532

8. Trade and bills payables

At 31 December 2019 and 2018, the ageing analysis of trade and bills payables based on invoice date was as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 30 days	**1,094,302**	1,241,453
31–180 days	**1,073,147**	1,599,637
181–365 days	**19,387**	29,446
Over 365 days	**37,058**	30,105
	2,223,894	2,900,641

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

9. Borrowings

	2019	2018
	RMB'000	*RMB'000*
Non-current		
Long-term bank loans – unsecured	**249,760**	252,343
Corporate bonds *(a)*	**997,232**	3,987,943
	1,246,992	4,240,286
Current		
Trust receipt bank loans	**401,419**	472,743
Short-term bank loans – unsecured	**16,962,788**	13,538,454
Corporate bonds *(a)*	**2,997,242**	–
Medium-term notes *(b)*	**–**	1,998,881
Short-term bank loans – secured	**–**	12,000
Super short-term commercial papers *(c)*	**–**	4,000,000
	20,361,449	20,022,078
Total borrowings	**21,608,441**	24,262,364

(a) 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 bonds 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 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 2019.

(b) 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 medium-term notes were matured on 6 September 2019.

(c) Super short-term commercial papers

During 2019, following super short-term commercial papers were matured:

	Interest rate	**Expiration term**	**Mature date**	**Amount**
				RMB'000
18 恒安中投 SCP001	4.15%	270 days	2019-05-27	1,000,000
18 恒安中投 SCP003	4.07%	270 days	2019-07-28	1,000,000
18 恒安中投 SCP004	3.99%	270 days	2019-08-30	1,000,000
18 恒安中投 SCP005	3.90%	270 days	2019-09-02	1,000,000

BUSINESS REVIEW

In 2019, China-US trade tensions and geopolitical turbulence dragged down growth in the world economy. China's gross domestic product increased by 6.1% year-on-year, the slowest economic growth rate in nearly 30 years. Against the backdrop of macro uncertainties, the domestic consumption demand continued to grow with the per capita consumption expenditure of national residents in the daily necessities and services category increased by 4.8% compared with 2018. The growth in household consumption contributed 57.8% to the growth of the gross domestic product in 2019, becoming the mainspring of China's economy. During the year, despite the challenging operating environment, Hengan, with its scale advantage and leading brand strength, has maintained steady growth amid fierce competition in the fast-moving consumer goods market in China, and has continued to consolidate the Group's leadership in the personal and household hygiene products market in China.

During the year under review, Hengan Group further enhanced and strengthened implementation of the platform rules of "Fair and Transparent" and continuously reinforced the "small sales team" operating model (also known as "Hengan's Amoeba model") and developed effective sales strategies and adjusted product portfolios that are more suitable for regional markets in order to improve sales and operational efficiency. During the year, the Group stepped up efforts to reform sales channels, strengthened the construction and expansion of point-of-sales, and enhanced its capability to conduct precision marketing, thereby increasing product penetration and market share. Benefitting from the rapid sales growth of tissue business and growth in incomes from other businesses, during 2019, the Group's revenue increased by approximately 9.6% to approximately RMB22,492,845,000 year-on-year (2018: RMB20,513,881,000).

In 2019, the overall prices of wood pulp gradually declined from the peak level, thus helping to reduce the production cost of tissue business of the Group and offsetting the impact of increase in selling and distribution costs during the year and mitigating the pressure on gross profit margin. However, as the proportion of revenue generated from other businesses increased to approximately 13.7% (2018: 10.5%), and its respective gross profit margin was lower comparing with the three major business segments, offsetting some of the growth, therefore the Group's gross profit margin increased only slightly to approximately 38.6% (2018: 38.2%). It is expected that the favourable effect of weaker pulp prices will continue into the first half of 2020, coupled with the Group's continued efforts to optimise its product mix, focus on high margin products and expand its scale advantage in order to mitigate the negative effects of intensified market competition. The Group expects to continue to improve gross profit margin in the first half of 2020. During the year, in the light of the launch of high-end and new products, the Group stepped up brand promotion, resulting in the increase in selling and distribution costs and administrative expenses by approximately 29.4% compared to the same period of last year. In terms of the percentage of total revenue, the proportion of selling and distribution costs and administrative expenses increased to approximately 20.0% (2018: 16.9%).

In 2019, operating profit increased by approximately 4.6% to approximately RMB5,680,296,000 (2018: RMB5,429,224,000). Profit attributable to shareholders of the Company amounted to approximately RMB3,907,723,000 (2018: RMB3,799,805,000). The Board of Directors declared a final dividend of RMB1.25 per share for the year ended 31 December 2019 (2018: RMB1.20).

Sanitary Napkin

The development of China's sanitary napkin market is becoming more mature, and the market penetration rate is comparable to that of developed countries. The market has entered the stage of saturation and the market competition is fierce. Thus, product upgrade and innovation will become the key growth drivers of the market in the future. During the year, the Group increased its efforts to transform the sales channels and required "small sales teams" to strengthen the construction and maintenance of point-of-sales in order to enhance the capabilities of precision marketing and be more responsive to consumer needs. Furthermore, the Group continued to launch upgrades and premium products so as to further expand the high-end and high-quality market. Despite the reform of sales channels brought a period of transition and adjustment in the first half of the year which affected sales growth, the positive effects of a series of optimisation measures became increasingly evident in the second half of the year, driving the recovery of sanitary napkin sales. Sales of sanitary napkins returned to low single-digit growth in the second half and even achieved high single-digit growth in the fourth quarter, above the industry average. Therefore, despite the sales of sanitary napkins decreased by approximately 4.6% in the first half of the year, the sales decline of the sanitary napkin business narrowed to approximately 1.6% to approximately RMB6,487,003,000 during the year under review, which accounted for approximately 28.8% of the Group's revenue (2018: 32.1%). In 2020, the Group will capitalise on consumer demand by launching well-crafted upgraded and new premium products while complementing with effective marketing strategies and diversified sales channels. It is expected that the sanitary napkin business will resume steady growth.

During the year under review, the Group flexibly adapted to changes in spending power and consumption patterns and continued to vigorously optimise its product portfolio with upgraded functions, materials and packaging of products. During the year, the Group upgraded the popular Sweet Sleeping Panty to Ultra-Thin Adorable Sleeping Panty (超薄萌睡褲), offering carefree and comfortable user experience to the consumers. Meanwhile, the premium Space 7 series continued to expand store network and consumer groups. Upgraded products effectively increased the average selling price, coupled with the Group's continued increase in the proportion of high-end products in its product portfolio. In addition, the cost of petrochemical raw materials decreased during the year. As a result, the Group still managed to increase profitability of the sanitary napkins business in spite of the intensified market competition. In 2019, the gross profit margin of the sanitary napkins business increased to approximately 70.3% (2018: 69.4%).

While upgrading the products, the Group grasped the consumption upgrade trend and continued to optimise the sales model during the year, increasing the proportion of direct sales and strengthening the collaborations with New Retail platforms (i.e. Retail Integrated ("零售通"), New Channel ("新通路") etc.) sales models so as to expand the coverage of retail stores. The Group continued to bring the best quality and upgraded products to the market and improve sales efficiency, thereby maintaining its leading position in the market for feminine hygiene products. In addition, with a view to increasing its appeal to the young consumers and capitalising on the strong consumer demand, Space 7 sponsored the music variety show "The Big Band" ("樂隊的夏天") which is in line with the brand positioning and is popular among the younger generation, and signed brand ambassador contract with Yang Chaoyue, a member of “Rocket Girl 101”. The effective marketing strategy has greatly enhanced the brand image and made the brand more fashionable and younger. In terms of product development, the Group stepped up efforts to research and upgrade the functions, materials and packaging of high-margin products with production efficiency in order to gain higher market share in a near-saturated market and further strengthen the brand’s leading position.

Regarding the development of other feminine care products, during the year under review, the Group launched a new feminine care brand, “Origin and Prime” (若顏初), and launched products such as cotton towels, makeup removers, moisturising facial masks and other feminine care products. In 2020, the Group will continue to actively research and develop other feminine care products beyond sanitary napkins, steadily developing the “feminine care industry” to open up new growth opportunities.

Tissue Paper

China’s tissue paper market continues to grow steadily, but the per capita consumption of tissue paper in China is still lower than those in mature overseas markets. In addition, with the continuous domestic consumption upgrade and increasing national health awareness, consumer demand for tissue products have seen constant improvement in diversity and quality. The overall market still has huge untapped potential.

In 2019, the Group’s core tissue products achieved satisfactory sales performance. Upgraded products such as wet tissue series, as well as the key promoted products such as “Tea Classical” series and “Bamboo π” series, were widely welcomed by the market, and achieved significant sales growth, coupled with strong growth in e-commerce sales, resulting in a near double-digit growth in sales of tissue products, thus being one of the driving forces for the Group’s overall sales growth. During the year, revenue from the Group’s tissue paper segment increased by about 12.3% to approximately RMB11,486,538,000, accounting for approximately 51.1% (2018: 49.9%) of the Group’s total revenue. On the other hand, the sales of Group’s wet wipe products (including “Super Mini” wet wipes) maintained significant growth. The revenue of wet wipes amounted to approximately RMB606,663,000 (2018: RMB500,372,000), increased by approximately 21.2% year on year. During the year, wood pulp prices decreased from the first half of 2019, the benefits brought by the decline in raw material costs were gradually reflected in the second half of 2019, resulting in a significant improvement in gross profit margin. The gross profit margin of tissue product remarkably improved from about 25.0% in first half of 2019 to about 30.1% in second half of 2019. During the year, the gross margin rebounded to about 27.7% (2018: 22.5%). The Group expects the price of wood pulp will continue to remain at a low level and the gross profit margin of tissue paper will continue to improve in the first half of 2020.

In addition, in order to cater to modern people’s pursuit of green life, the Group incorporates environmental protection concepts in the process of product development and innovation. During the year, the Group focused on promoting the “Bamboo π” series which features fast-growing natural bamboo fibers, expanding its product portfolio to include toilet rolls and kitchen paper to grasp the eco-friendly trend and meet the needs of consumers. At the same time, the Group further strengthened its mid-to-high-end positioning of Hengan brand paper towels such as upgrading the “Tea Classical” series by introducing the new packaging in the form of cassette tapes. In terms of wet tissue business, the Group not only focused on the promotion of the highly popular “Super Mini” wet wipes, but also launched wet toilet paper and baby wipes to continuously expand its market share in domestic wet tissue market and maintain its leading market position.

In order to meet the increasingly sophisticated and diversified consumer needs, in 2020, the Group will focus on the promotion of the new series of "Cloudy Soft Skin" (雲感柔膚) to improve the consumer experience by using new double-sided stereoscopic embossed high quality tissue paper with cotton soft skin like. The Group will also launch more high-quality products in new packaging and continue to upgrade and optimise the popular star products, in order to increase the Group's market share in the mid to high-end product market. Driven by the optimisation of the product mix, the Group is confident that the sales of tissue paper can maintain growth and continue to improve its gross profit margin.

The Group's production capacity was approximately 1,420,000 tons. The Group will consider expanding its production capacity according to the market conditions and sales performance in the future.

Disposable Diapers

With rising level of national education and health awareness, and continuous ageing trend, coupled with the current China's diaper market penetration rate is still lower than developed countries, baby and adult diapers market is a promoting market. On the other hand, national consumption upgrade supports the market expansion of high-quality and high-margin products. The overall diapers market still has huge untapped potential. During the year, the Group continued to strengthen its sales distribution of disposable diapers through e-commerce channel and it has continued to make good progress with the strategy. In addition, the Group upgraded high-end products "Q • MO" and "Soft and Thin" which achieved satisfactory sales performance and gradually increased the market penetration rate, thus effectively narrowing the decline in sales of disposable diapers.

Benefiting from the increase in e-commerce penetration and the increase in the proportion of sales of high-end product "Q • MO", the sales decline of the diaper business narrowed from about 7.4% in the first half of 2019 to about 5.1% in the second half of 2019. For the year ended 31 December 2019, revenue from the Group's disposable diapers segment was approximately RMB1,439,087,000, narrowing the decline to about 6.3% (2018: 14.4%) which accounted for approximately 6.4% of the Group's revenue (2018: 7.5%). During the year under review, the sales distribution of e-commerce channel effectively drove sales growth and the proportion of the Group's disposable diapers sales through e-commerce channel increased to more than 40% of the overall sales of disposable diapers, and the sales of e-commerce channels increased by more than 10% year-on-year, which helped to alleviate the decline in the overall sales of the Group's disposable diapers business.

In the light of national consumption upgrades and the consumers' increasing pursuit of high-end products, the Group seized the opportunities to deeply develop the high-end product market and focused resources and product development on high-quality premium products and constantly upgraded high-end diaper series such as "Q • MO" and "Soft and Thin", the upgraded product of Anerle. During the year under review, the sales of "Q • MO" and "Soft and Thin" reported more than 70% and 10% growth respectively, accounting for approximately 10.8% and 20.0% of the overall sales of disposable diapers. On the other hand, the Group's revenue of adult diapers amounted to approximately RMB222,532,000 (2018: RMB174,963,000), which accounted for approximately 15.5% of the total revenue of disposable diapers (2018: 11.4%). Sales increased by approximately 27.2% year-on-year. During the year, adult diaper products have consistently its market share in the PRC market and also entered the Malaysian market successfully, laying a good foundation for the Group's future development in the Malaysian and the Southeast Asian markets. Benefitting from the decreased petrochemical raw material costs during the year and the increase in the proportion of high-margin products, the gross profit margin of the disposable diapers segment increased to 40.5% during the period (2018: 39.2%).

Looking ahead, the Group will continue to leverage on its understanding of the market and swift response through the "small sales team" to improve the sales performance of disposable diapers in the e-commerce channel, and sell other baby care products in the "Q • MO" online flagship store, while integrating online store with offline maternity stores to attract families to make one-stop consumption in the "Q • MO" online flagship store. The Group will also continue to consider premium high-end market as a long-term development goal in order to alleviate the impact on traditional channels and improve the sales performance of traditional channels. In addition, with the substantial growth in the elderly care demand, the Group will continue to cooperate with nursing homes and hospitals and supply adult disposable diapers and mattresses and other care products so as to develop the elderly care products business in the long run. It believed that the development of the elderly care industry will become the long-term growth driver of the disposable diapers business.

Household products

Revenue from the Group's household products segment amounted to approximately RMB376,874,000 (2018: RMB230,423,000), including revenue from Sunway Kordis Holding Limited ("Sunway Kordis") amounted to approximately RMB243,962,000 (2018: RMB201,343,000). The business accounted for approximately 1.7% (2018: 1.1%) of the Group's revenue. Sales of first-aid products under the brands of "Banitore" and "Bandi" amounted to approximately RMB27,575,000 (2018: RMB32,717,000). The business accounted for approximately 0.1% (2018: 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. The revenue of the Group's household products segment increased significantly by 63.6%. The increase was mainly attributable to the Group's acquisition of the entire issued share capital of the Sunway Kordis and its subsidiaries in April 2018. The acquisition greatly expanded the product diversification, production technology and sales network of the Group's household products. 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 2020, the Group will further utilise the extensive experiences of Sunway Kordis in household product industry to vigorously develop its strategic footholds of household products in China. The Group will also seek to leverage on its overseas sales network to bring Hengan's products to the overseas market.

Other Incomes

The Group's other incomes mainly included the revenue of Wang-Zheng in Malaysia, the revenue of Sunway Kordis and the revenue of raw materials trading business. For the year ended 31 December 2019, revenue of Wang-Zheng Group amounted to RMB446,551,000 (2018: RMB425,080,000), increased by about 5.1% year-on-year. The increase was mainly attributable to the efforts made by Hengan Group to actively reinvigorate the sales momentum of Wang-Zheng in Malaysia and expand its e-commerce sales. In addition, the newly launched "Super Mini" wet wipes and Banitore adult diapers and other Hengan Group's products received overwhelming responses from the local market, which helped boost the sales. For the year ended 31 December 2019, revenue of Sunway Kordis amounted to approximately RMB243,962,000 (2018: RMB201,343,000), increased by about 21.2% year-on-year. On the other hand, the revenue of the Group's raw materials sales business, increased by approximately 58.7% compared to the year ended 31 December 2018. Therefore, other incomes increased by about 42.8% year-on-year.

E-commerce

In 2019, the national online retail sales of physical products increased by approximately 16.5% year-on-year. Its contribution to the total retail sales of social consumer goods amounted to approximately 20.7%, representing an increase of 2.3 percentage points from 18.4% of 2018, indicating that continuous expansion of the domestic online shopping market. Online shopping, as a convenient shopping channel, has been integrated into the daily lives of Chinese consumers. Since the Group launched its e-commerce business, the e-commerce channel has become one of the Group's high-growth direct sales channels.

The Group's core brands such as Space 7, Hearttex and "Q • MO" have opened official flagship online stores which are operated directly by the Group, enabling the Group to unify its sales strategy and flexibly adjust its product portfolio. In addition, the Group also collected and analysed the shopping and browsing habits and preferences of consumers through strategic cooperation with well-known large-scale e-commerce platforms in China, which helped products planning and development, and improved efficiency of sales, to meet customer needs. Through the Retail Integrated and New Channel platforms, the Group expanded the customer base of B2B business, enhanced the logistics system, and increased the coverage of its offline sales network.

In response to the current macroeconomic environment, the Group launched a number of online exclusive products including online exclusive packaging and combo packages to attract consumers to make purchases through e-commerce channel and to persistently boost the rapid sales growth of the channel. Apart from that, in the light of the growing number of young e-commerce users with strong purchasing power, the Group implemented youth marketing strategy. For example, Space 7 cooperated with the World University Cyber Games (WUCG) to increase its appeal to young consumer groups.

During the year, the Group's sales of e-commerce recorded rapid growth. The e-commerce sales of the core business such as sanitary napkins, tissue papers, disposable diapers maintained a good growth momentum. The Group's market share in e-commerce channels continued to increase. During the year revenue from e-commerce (including Retail Integrated platform and WeChat sales) exceeded approximately RMB4.4 billion, up by more than 50% year-on-year. E-commerce's contribution to the total sales revenue also rose to approximately 19.8% (2018: 14.4%).

Looking ahead, the "small sales team" of the Group's e-commerce department will leverage on big data technology to analyse consumer data obtained from interaction with the market so as to better understand market demand and consumer preferences, formulate effective strategic marketing timely, and continue to expand the coverage of e-commerce channels. The Group will also continue to make good use of the promotion season of the e-commerce platform to promote the brand, continue to launch high-margin and different combinations of exclusive themed products to further garner market share in the e-commerce channel. e-commerce will remain the driving force of the overall sales growth.

Hengan's Amoeba Model

To cater to the rapidly evolving demand of consumers, Hengan Group began to implement the "small sales team" operating model at 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 suitable sales strategy according to the needs of consumers in various markets and launch products and services for different targeted consumer groups.

The "small sales team" operating model has been implemented for more than two years and achieved full coverage with all divisions of the Group implementing the model. The extensive establishment of controlled sales model through the "small sales team" model has helped the Group to swiftly implement decisions, increase the sales proportion of new products and high-margin products while better serving the needs of customers, thereby benefiting the Group's long-term development. As a result, the Group maintained steady progress and achieved a near double-digit growth in overall sales in 2019. The Group will continue to fully authorise the "small sales team" while optimising the operational rules and strengthening the control of operating expenses, to increase the support and supervision of the "small sales team" by the regional operation centers. Meanwhile, the Group is striving to increase the proportion of direct sales to consumers and analyse the consumer data gathered from the interactions at the point-of-sales, in order to achieve precision marketing by understanding the consumer needs more precisely.

In July 2019, the Group promulgated the refined rules for the "small sales team" operating model at the mid-year sales review meeting held at the headquarter of the Group, in order to further strengthen the supervision and promote the operating efficiency of the "small sales team". Going forward, the Group believes that benefits of the "small sales team" operating model will become increasingly evident at all the business divisions. The Group will continue to enhance the supply chain efficiency and the operational efficiency of "small sales team", thereby further improving the Group's overall flexibility and market responsiveness to take full advantage of the strategy.

International Business Development

The Group has actively expanded to overseas markets. Currently, the Group sells its products in 51 countries and regions, with 74 direct partnerships with major clients or distributors.

In April 2017, the Group acquired an aggregate of 80,003,000 shares of Wang-Zheng Berhad (St ock code: 7203), a company listed on the Main Market of Bursa Malaysia Securities Berhad. The acquired shares 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 2019, the innovative "Super Mini" wet wipes series launched by Hengan in Malaysia continued to sell like hot cakes, while the disposable adult diapers also achieved good sales and received great word-of-mouth reviews. Besides, Hengan assisted Wang-Zheng to develop the e-commerce business, laying the foundation for expansion into the Malaysian and Southeast Asian markets. The Group will continue to utilise the sales network of Wang-Zheng in Southeast Asia (including supermarkets and personal hygiene products chain stores), in order to promote Hengan products to the Malaysian and Southeast Asian markets.

During the year, the revenue and net profit of Wang-Zheng amounted to approximately RMB446,551,000 (2018: RMB425,080,000) and RMB16,902,000 (2018: RMB14,975,000) respectively, accounting for approximately 2.0% (2018: 2.1%) and 0.4% (2018: 0.4%) of the Group's total revenue and net profit respectively.

Looking to 2020, Wang-Zheng will continue to vigorously promote Hengan's products to the Southeast Asian market 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 the existing Wang-Zheng products and develop high-end products. In addition, as part of its strategic plan for the Southeast Asian market, the Group has established a sales office in Indonesia to promote and sell Hengan branded products.

In addition, the Russian plant invested by the Group has started production of diapers in June 2019, thereby expanding its diaper business to the Russian market. In 2020, the Group will continue to promote Hengan products in the Russian market in order to gradually establish its brand reputation in the local market.

Regarding the Group's investment in Finnpulp made in April 2018, the Supreme Administrative Court (KHO) rejected the environmental permit for Finnpulp on 19 December 2019. The decision was based on uncertainty of long-term effects of the Pulp Mill Project to the Kallavesi lake which is very close to the planned location of the mill. The decision is final and is not subject to appeal. To the best of knowledge of the Group, the said environmental permit is crucial to the construction of the Pulp Mill Project. As such, the Group is engaging in discussions with Finnpulp and the existing shareholders of Finnpulp in relation to the next course of action, including the continuity of obligations under the initial investment agreement and the shareholders' agreement and the possibility of alternative investment options. Since the subsequent arrangement is still being discussed, as of now, there is no clear indication of impairment factor for the investment, thus the Group has not made any provision for impairment in relation to the investment during the reporting year. The Group will review and evaluate the investment annually.

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 RMB89,331,000 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 2019, 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 2019, the Group's cash and bank balances, long-term bank time deposits and restricted bank deposits totally amounted to approximately RMB22,977,561,000 (31 December 2018: RMB25,919,500,000); Corporate bonds amounted to RMB3,994,474,000 (31 December 2018: RMB3,987,943,000); medium-term notes (panda bonds) and super short-term commercial papers totally amounted to approximately RMB Nil (31 December 2018: RMB5,998,881,000), and bank borrowings amounted to approximately RMB17,613,967,000 (31 December 2018: RMB14,275,540,000).

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. During the year, the Group has fully repaid the panda bonds of RMB2 billion.

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 of RMB4.5 billion, 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. During the year, the Group has fully repaid the RMB4.0 billion super short-term commercial paper.

The bank borrowings were subject to floating annual interest rates ranging from approximately 1.97% to 4.80% (2018: from 1.4% to 7.0%).

As at 31 December 2019, the Group's gross gearing ratio fell to approximately 120.9% (31 December 2018: 145.1%), which was calculated on the basis of the total amount of borrowings as a percentage of the total shareholders' equity (not including non-controlling interests). The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances and long-term time deposits as a percentage of the shareholders' equity (not including non-controlling interests), was negative 7.6% (31 December 2018: negative 9.9%) as the Group was in a net cash position.

During the year, the Group's capital expenditure amounted to approximately RMB729,363,000. As at 31 December 2019, the Group had no material contingent liabilities.

In December 2019, the Group successfully registered for the proposed issue of RMB3 billion super short-term commercial papers on the National Association of Financial Market Institutional Investors. In February and March 2020, the Group issued super short-term commercial papers in four batches of RMB3 billion, with a coupon rate from 2.60% to 2.85% per annum respectively. The super short-term commercial papers will mature in 270 days from the respective issue date.

Latest awards

In 2019, awards and honors won by the Group were as follows:

Awards/Honors	Organisation
Hearttex was honored in the 'Top 100 Most Popular China Brands 2019'	The Organising Committee of China Brand Day
Ranked 441st in China's Top 500 Chinese Private Enterprises	All-China Federation of Industry and Commerce
China's Best Managed Companies 2019 Award	Deloitte China, the Business School of Hong Kong University of Science and Technology, 'Harvard Business Review China' and other organisations
Mr. Hui Lin Chit was granted the Outstanding Industry Leadership Award	The Professional Commission of China National Household Paper Industry Association
Ranked 5th on the List of Corporate Brands – Light Industry 2019	China Brand Development Summit
Top 10 Leading Brands in China's Paper Manufacturing Industry 2019	The 14th Asia Brand Ceremony
Hengan Group named in the Top 70 Brands for the 70th Founding Anniversary of New China	National Development and Reform Commission, Ministry of Industry and Information Technology, Chinese Academy of Sciences and other national ministries
Ranked 8th in the Top 50 Private Fujian Provincial Manufacturing Enterprises 2019	Fujian Provincial Federation of Enterprises and Entrepreneurs
Chinese Enterprise ESG 2019 – 'Gold Corporate Social Responsibility Award'	Sina Finance
Strategic Transformation	'Harvard Business Review China'

Awards/Honors	Organisation
Top 100 Chinese Enterprises with the Best CSR Reputation 2019	The Discussion Committee of China International Charity Foundation
Hong Kong Outstanding Enterprises Parade 2019 Award	Economic Digest

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 environment-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 2019, the Group employed approximately 25,000 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 2020, the global economic environment remains complicated and volatile. In the light of lingering uncertainties over the China-US trade friction, softening Chinese yuan and coronavirus epidemic, the Group will closely monitor the impact of external factors on the prices of imported wood pulp and petrochemical products. As China has been accelerating its efforts to drive industrial upgrading and consumption upgrading, personal hygiene awareness of citizens has continued to increase, thereby promoting the high-quality and sophisticated development of the personal hygiene product market in the long run.

The worldwide outbreak of coronavirus began in 2020. China has continued to implement epidemic control mechanism across the country, including countrywide extension of Chinese New Year Holidays, delaying post-holiday return to work in some regions, control of people's movement and traffic, quarantine of specific groups, raising the sanitary and anti-epidemic requirements for the factories and offices, as well as a series of measures to increase social distance. The Group will closely monitor the progress of the health crisis and evaluate the impacts of epidemic on the Group's financial position and operational performance. As of the publication date of the financial report, the Group has not identified any significant adverse impact.

Facing the challenges of coronavirus, Hengan, as a personal and household hygiene product enterprise rooted in China, is committed to its mission of "Growing with You for a Better Life", caring for the people and the society while fully supporting the disease control and prevention works across the nation. As of the reporting date, the Group has donated over RMB10 million worth of supplies and swiftly arranged the delivery of supplies of personal hygiene products including Hearttex high-quality tissue paper, disinfectant wet wipes, hand sanitizers, adult disposable diapers and female sanitary panties to disease control centers and hospitals at various locations. To further support the female medical staff who devoted themselves to the battle against the epidemic in Xiaogan city, Hubei province, the Group has committed to making monthly donations of 2.6 million pieces of Space 7 sanitary napkins and 200,000 pieces of Space 7 Adorable Sleeping Panties through Hubei Women's Federation until the end of the epidemic. In addition, the Group has donated RMB1 million in cash to southern district of Xiaogan city, Hubei province. All in all, as of the reporting date, the Group has donated an aggregate of RMB20.0 million worth of cash and supplies.

Meanwhile, the Group has vigorously responded to the government's call for support by procuring surgical mask production equipment at home and aboard, starting production of surgical masks and other preventive supplies in February. With the production equipment gradually put in place, the production capacity of surgical mask could be further increased. The surgical masks produced by the Group have obtained the production license and inspection certificate issued by the government. The Group will continue to exploit its advantages and integrate resources, endeavouring to ensure the production and supply of preventive supplies in order to meet the needs of national public health.

The Group expects the wood pulp prices to stay at the low levels in the first half of 2020, which will ease the cost pressure on the company and help further improve the gross profit margin. At the same time, the Group will continue to deepen implementation of "small sales team" operating model strategy, strive to achieve benefit maximization and efficiency optimisation, and improve the flexibility and market responsiveness of the sales team in order to swiftly respond to the ever-evolving market demands. To seize the market opportunities arising from the consumption upgrade in China, the Group will continue to adhere to its consumer-centered business philosophy, satisfy the needs of consumers through constant innovation, product upgrade and optimisation of product portfolio, and provide consumers with high-quality and healthy products.

On the other hand, the Group will step up its efforts to develop the omni-channel retail strategy, with a view to meeting the needs of integrated customer experience through increasing e-commerce penetration and precision marketing. The Group will also provide consumers with more comprehensive, convenient and diversified online-to-offline new retail experience, thereby enhancing customer stickiness and loyalty. As the leading company of personal and household hygiene products in China, Hengan will extend its long-standing success and continue to forge ahead with industrial expansion as the long-term development target, expanding into high growth potential industries namely feminine care industry, infant child care industry and elderly care industry, while gradually exporting Hengan's brand to the overseas market. The Group will also continue to enhance its overall profitability in order to maximise values for shareholders.

PROPOSED FINAL DIVIDEND

The directors have resolved to recommend the payment of a dividend of RMB1.25 (2018: RMB1.20) per share to shareholders, whose names appear in the register of members of the Company on Thursday, 28 May 2020 (the "Proposed Final Dividend"). Subject to the passing of the necessary resolution at the forthcoming annual general meeting to be held on Thursday, 21 May 2020 (the "2020 AGM"), the Proposed Final Dividend will be payable on Friday, 5 June 2020.

CLOSURE OF THE REGISTER OF MEMBERS

(a) For determining the entitlement to attend and vote at the 2020 AGM

The 2020 AGM is scheduled to be held on Thursday, 21 May 2020. For determining the entitlement to attend and vote at 2020 AGM, the register of members of the Company will be closed from Monday, 18 May 2020 to Thursday, 21 May 2020, 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 2020 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 15 May 2020.

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

The Proposed Final Dividend is subject to the approval of shareholders at the 2020 AGM. For determining the entitlement to the Proposed Final Dividend for the year ended 31 December 2019, the register of members of the Company will also be closed from Wednesday, 27 May 2020 to Thursday, 28 May 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 26 May 2020.

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 2019. The figures contained in the financial statements set out in page 2 to 18 of this announcement of the Group's results for the year ended 31 December 2020 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 2019, the Company repurchased a total of 2,146,000 ordinary shares on the Stock Exchange at an aggregate consideration of approximately HK$121,977,700 (excluding expenses) for enhancing its per share net asset value and earnings. 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$*
2 January 2019	546,500	57.00	55.90
3 January 2019	1,059,000	57.00	56.20
10 January 2019	540,500	56.80	56.15
	2,146,000		

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 2019.

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 2019 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, the independent non-executive director of the Company, was unable to attend the annual general meeting of the Company held on 17 May 2019 because she had other urgent business engagement.

CHANGE IN SENIOR MANAGEMENT

The board of directors of the Company is pleased to announce that, with effect from 26 March 2020, the following changes in the senior management of the Company will take place:

Mr. Xu Da Zuo will be appointed as the Chief Executive Officer of the Capital Operation and Investment Management Department of the Group and will cease to act as the Chief Financial Officer of the Group and the Chief Executive Officer of Services Share Centre (in charge of Finance Department, Asset and Property Management Department and Information System Department); and

Mr. Li Wai Leung will be appointed as the Chief Financial Officer of the Group and will cease to act as the Deputy Chief Financial Officer of the Group.

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.

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. Theil Paul Marin, 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, 26 March, 2020